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EXAMINING STUDENT LOAN SERVICERS AND THEIR IMPACT ON WORKERS

HEARING BEFORE THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE ONE HUNDRED SEVENTEENTH CONGRESS SECOND SESSION ON

EXAMINING STUDENT LOAN SERVICERS, INCOME-DRIVEN REPAYMENT,
AND OTHER LOAN REPAYMENT PROGRAMS, AND HOW STUDENT
DEBT IMPACTS BORROWERS, HOW PROPER OVERSIGHT CAN ENSURE
BORROWERS ARE PROTECTED, AND THE BROAD ECONOMIC IMPACT
OF STUDENT LOAN DEBT

MAY 5, 2022

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EXAMINING STUDENT LOAN SERVICERS AND THEIR IMPACT ON WORKERS

THURSDAY, MAY 5, 2022

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

The Committee met at 10 a.m., via Webex and in room 538, Dirksen Senate Office Building, Hon. Sherrod Brown, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN SHERROD BROWN

Chairman BROWN. The Senate Committee on Banking, Housing, and Urban Affairs will come to order.

Thanks to the three witnesses, some traveling long distances to be here in person. We do these hearings pretty much—I would assume we'll continue for at least a while to do them hybrid. So witnesses sometimes call in from Seattle or Philadelphia or somewhere else. And Members still can—and can cover more hearings this way, we'll ask questions from their offices. Many will be here, and we will see how that goes.

Forty-three million Americans are drowning in 1.75 trillion, that's, a thousand billion, dollars in student debt. That debt prevents generations of Americans from pursuing their dreams, seeing their hard work pay off. It holds people back from buying a home, starting a business, getting married and starting a family.

Earlier this week, this Committee held a listening session to hear from workers about how student loan debt has impacted their lives and how it has undermined the dignity of work. We heard about how borrowers face impossible choices between doing the work they care about and trying to pay off mounds of student debt.

Megan Bailey, a social worker in rural Montana, realized that to afford college either she would be saddled with enormous debt or her parents would be saddled with enormous debt, therefore, jeopardizing their retirement. She took on the debt herself. She now owes more than \$200,000. She sacrificed her financial future in order to make sure her parents could retire. That's a choice no one should have to make.

It really wasn't supposed to be like this. Taking on debt to pay for college is an investment in your future, they tell us, an investment that pays off in the long run with a higher paying job and a promise perhaps of middle-class stability. It is what we tell people about the American dream: Work hard, play by the rules, you will get ahead in life.

It's what Rae from Toledo, in my State, believes. She thought if you took on debt to go to college, if she worked hard, if she dedicated herself to public service, she would get ahead. Instead, she has paid \$96,000 on \$75,000 in student debt she owed. She is nowhere near being done with these loans despite having a job and working hard every day.

The overwhelming number of borrowers do play by the rules. They do work hard. Go to college, check. Get a job, check. Work hard every day, check. But instead of achieving the American dream, borrowers are trapped in debt and economic instability.

The debt trap, as we know, is even worse for Black and Brown Americans; 90 percent of Black students, 72 percent of Latino students borrow to attend college, 66 percent of White students do.

It is not an accident this cycle of debt is a direct result of bad Federal and State policy. We have not invested in public education the way we used to, pushing tuition higher and higher, pushing students to take on more and more debt. In 2020, more than half of all bachelor's degree recipients from public and private 4-year institutions graduated with student debt and owed an average of \$28,000. The days that some of us remember are long gone, when hard work at a part-time job could put you through school.

Too many of the debt forgiveness programs that students are told they will be able to count on are mismanaged, in some ways, not really even managed at all, by student loan services. The income-driven repayment programs supposed to erase eligible borrowers' debt after making enough payments, it's canceled the debt of 32 out of 4.4 million Americans who are eligible. That is not 32 percent. It is not 32,000. It is not 3,200. It is 32 people out of 4.4 million. Many of these borrowers have been enrolled in making payments for 20 or 25 years. According to a recent NPR report, loan servicers fail to properly count qualified payments and did not accurately track borrowers' progress toward cancellation for millions of people. These are some pretty big mistakes.

We created this program to protect people from being trapped forever in debt. It's not working.

Congress created another program designed to forgive student loan debt, the Public Service Loan Forgiveness Program. We promised these students if they dedicated 10 years to public service, generally at modest compensation, we know—teachers, nurses, firefighters—their loans would be forgiven. Yet, because of poor servicing—and there is no other way to describe it—98 percent of eligible borrowers are rejected for Public Service Loan Forgiveness. Ninety-eight percent. And the great majority of them thought they were doing things right. They paid every month for 10 years.

One of these who was rejected was Deborah Harburger, from Maryland. She has been a social worker for the State of Maryland for more than 18 years. She should have had her debt forgiven 5 years ago, yet she was rejected for Public Service Loan Forgiveness in 2017. Five years of monthly payments that could have gone to her savings or retirement or her college savings. Service mismanagement particularly of these two programs has led to borrowers having larger debt for longer periods of time.

The Biden administration recently implemented a temporary PSLF waiver to allow rejected borrowers to reapply for forgiveness.

That allowed Emily Robinson, a teacher from Georgia, to finally have the remaining \$22,000 of her student loan debt forgiven. She taught 17 years. She was rejected once before for loan forgiveness.

She told us she finally received her Thanksgiving miracle when all her student loans were forgiven. She said when she saw the remaining balance on her loans at zero, she started to cry. Imagine how she thought then. She says she can now start saving for retirement after 17 years serving the public.

That was an important first step by the Biden administration, but it is not enough. The Biden administration has the power to change the financial lives and future of millions of borrowers by forgiving meaningful portions of student debt.

CFPB has a role here as well. Student loan servicers need to be closely supervised to ensure that borrowers receive the forgiveness they have earned through the programs that Congress established. Under the Trump administration, CFPB was not concerned with the average worker. We know that. We saw that. We have seen that in reality at the time, and we have seen it proven since. But under the leader of Director Chopra, CFPB is finally working to hold these servicers accountable.

Americans shouldn't be trapped by a system that was supposed to be an opportunity to work their way into the middle class and really understand the dignity of work. I call on the Administration to think about Emily and Rae and Megan and Deborah, who worked hard their entire lives, still drowning in debt. You have the power to reform this broken system, to give people power and agency in their lives, and to unleash the potential of future generations in this great country.

Senator Toomey.

OPENING STATEMENT OF SENATOR PATRICK J. TOOMEY

Senator TOOMEY. Thank you, Mr. Chairman, and welcome to our witnesses today.

When Congress created the universal student loan programs, it did not call them student grant programs. In fact, there are separate grant programs, like Pell, for low-income students. But Congress created the student loan program with the same expectation as any other loan program, that the loans would be paid back.

Now some of my Democratic colleagues clearly want the President, despite his lacking the legal authority, to cancel many of these outstanding loans, effectively converting them into grants, of potentially tens of thousands of dollars per borrower. So let us be clear about what canceling student loan debt means. It is a massive wealth transfer from taxpayers to a small subset of mostly wealthy individuals.

First of all, fewer than one in five adults, American adults, even have Federal student loan debt. That means that 210 million American adults have no Federal loan debt. So why do 80 percent of American adults have no student loan debt? Well, many of them never went to college. Or, they went to college, but they did not take out student loans; they just paid as they progressed. Or, they took out student loans to pay for college, and they paid them back.

Second, individuals with a bachelor's degree or higher overwhelmingly make more money than people who do not have those

degrees. The vast majority of them are perfectly able to repay their loans. They have significantly lower unemployment rate, and on average, they earn a million dollars more over their lifetime than non-college graduates.

Third, student loan debt is primarily owed by wealthy families and graduate students. Even the *Washington Post's* left-leaning editorial board has blasted the President's plan as a transfer to the wealthy. They wrote, "A broad cancellation would offer huge undeserved benefits" to individuals in high paying fields, and they corrected pointed out that "The vast number of American taxpayers lacking university degrees would subsidize well-heeled, white-collar professionals."

Now all student debt is obviously voluntarily incurred. Over half of all student debt is taken by graduate students, many of whom happily incur the debt because they are entering high paying fields, like business and medicine and law. Of course, some graduate students that are not highly valued by the labor market, as the *Wall Street Journal* wrote, "Doctorate recipients in the humanities in 2019 earned \$53,000 on average. Machinists make more." Now this begs the question. Why should a machinist ever have to pay off the loans of an art history Ph.D., let alone a medical doctor?

Beyond being a massive wealth transfer to the well-off and well-credentialed, student debt cancellation is grossly unfair to every other American. Frankly, it is a slap in the face to the machinist, to the taxpayer, to anyone who did not go to college, and to anyone who works for a living, making financial sacrifices so they can pay their own or their kids' college bills that they saved instead of going on vacation or splurging on gadgets. Those people do not have student loans, but they have got other debt.

Should the Government cancel their mortgages, their car loans, their credit card bills? Of course not. It is almost never acceptable for the taxpayers to be forced to be responsible for someone else's voluntarily incurred private debt.

Cancellation of student debt obscures the root cause of the problem here, and the root cause of this problem is the outrageously high cost of higher education. For decades, the Government showered students with cheap debt and grants to go to college. With Government paying so much of the costs, students were largely indifferent to the price. Understanding that price did not matter to their customers, colleges responded by raising tuition. According to a study by the New York Fed economists, anytime there is an increase in the amount that a student can take out for a Federal-subsidized loan, 60 percent of that increase is passed through as a tuition hike.

The solution is obvious here, less Government subsidization and more personal responsibility, but it seems some have forgotten these immutable economic truths.

Colleges have little incentive to keep prices reasonable if they believe Government will cancel the debt used to pay for the tuition. They have already demonstrated that they are willing to raise prices at multiples of the rate of inflation because they can. If Government starts canceling everyone's debt, then we can expect another surge of higher education inflation. With the Government expected to issue roughly a trillion dollars in new student loan debt

over the next decade, we will soon be right back in the same position.

Let me conclude by dispelling an argument that you may hear today, that student debt cancellation will somehow ease inflation. The opposite is clearly true.

Through May 1st of this year, the nonpartisan Committee for a Responsible Federal Budget, or CRFB, estimated that the COVID student loan repayment pause has already effectively canceled \$5,500 per borrower on average and thereby pumped roughly \$5 billion of excess stimulus into the economy each month with no corresponding increase in the supply of goods and services. The CRFB estimates that full debt cancellation could raise inflation from the already outrageously high levels by between a-third and a-half additional percentage point. So in addition to being egregiously unfair and bad policy, Americans simply cannot afford it.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Toomey.

I will introduce today's witnesses. Mike Pierce is the Executive Director and cofounder of the Student Borrower Protection Center. He served at CFPB as Deputy Assistant to the Bureau, advising the Bureau's work related to student lending and servicing. Mr. Pierce holds a bachelor's degree from George Washington University in public policy, a law degree from the College of William and Mary.

Welcome, Mr. Pierce.

Dr. Neal McCluskey is the Director of the Center for Educational Freedom at the Cato Institute, coeditor of the book *Unprofitable Schooling: Examining Causes of, and Fixes for, America's Broken Ivory Tower*. He is on the editorial board of the *Journal of School Choice*. He holds a master's in political science from Rutgers-Newark and a Ph.D. in public policy from George Mason.

Welcome, Dr. McCluskey.

Dr. Jalil Mustafa Bishop is an assistant professor at Villanova University, cofounder of the Equity Research Cooperative, and a native of Twinsburg, Ohio. His latest paper, "Jim Crow Debt: How Black Borrowers Experience Student Loans", studied the impact of the student debt crisis on Black Americans. He received his bachelor's in history from Dartmouth and his master's and Ph.D., in higher ed from UCLA.

Dr. Bishop, welcome.

And, Mr. Pierce, if you would begin your testimony and please keep it close to 5 minutes. Thank you, all of you.

STATEMENT OF MIKE PIERCE, EXECUTIVE DIRECTOR, STUDENT BORROWER PROTECTION CENTER

Mr. PIERCE. Thank you, Chairman Brown, Ranking Member Toomey, Members of the Committee. Thank you for the opportunity to testify today.

My name is Mike Pierce, and I am the Executive Director of the Student Borrower Protection Center and a former Federal regulator for the student loan industry.

The story of the student debt crisis is one marked by widespread economic distress, Government inaction, corruption, and shocking abuses by some of the largest financial companies in the world.

Today, even with the momentary pause in student loan payments, borrowers experience hardship as rising debt produces fewer homeowners and more credit card debt, jeopardizes secure retirements, and drives intergenerational debt. Worse, Administrations of both parties have failed to confront the disparate effects this crisis has on people of color, widening the racial wealth gaps caused by centuries of systemic racism. The stark reality is that the student debt crisis is principally a failure of public policy and not merely a symptom of runaway college costs, a crisis made far worse by the student loan industry running roughshod over people with student debt.

The ongoing payment pause has a bulwark for borrowers against rising inflation, protecting millions from choosing between loan payments and necessities, like food, clothing, or shelter. This expansive effort to help people with student debt represents a remarkable break with history.

For more than half a century, lawmakers repeatedly used debt to expand access to college under the mistaken convention that student debt is “good debt.” This conventional wisdom has set up a generation of students to fail. Underlying all of this, the Department of Education has historically behaved more like Wells Fargo than a branch of the U.S. Government. The Education Department’s indifference to widespread lawbreaking by student loan companies over the past three decades has driven a widening gap between borrowers’ rights and borrowers’ experiences.

When millions of families lost their homes to foreclosure more than a decade ago, housing advocates warned of a similar gap between homeowners’ rights and their experiences. This sad history is repeating itself.

The law makes bold promises to borrowers, including that student loan payments will always be affordable and never be a life-long burden. Yet, before the pandemic, more than one million borrowers defaulted each year. Officials of both parties routinely call this broken, a mess, and corrupt.

The Administration has made meaningful efforts to remedy the failures plaguing student loan system, but these changes are not enough. Two weeks ago, a Government audit found that for nearly a decade officials knew that the student loan industry was not taking the necessary steps to deliver cancellation to the lowest-income people and engaged in a shocking cover-up.

Consider the 30-year struggle of one low-income borrower who started with less than \$9,000 in debt. Her debt has now topped \$100,000. Along her way, the loan servicer routinely misled her about her options that would have led to debt cancellation. Abuses like this have caused millions of borrowers to needlessly spend decades trapped in debt.

Beyond the Federal student loan market, private sector firms backed by Wall Street and Silicon Valley have constructed a minefield of risky, expensive, and predatory debt and credit. As I explained in my written testimony, over the past decade, the biggest banks and fintech companies have competed to fleece American students.

I want to close by returning to the concept of student debt as a trap. Across the financial marketplace, laws prohibit lenders from

offering loans that let borrowers pay less than the interest charged every month, loans that allow debt burdens to actually grow over time. Regulators call this a “debt trap.”

Yet, this is routinely the case for people with student debt, and this debt trap snaps shut more often for people of color, particularly Black borrowers. For every 1 Black borrower who repays a Federal student loan after 12 years, 6 more owe more debt than they originally borrowed. Fully two-thirds of Black borrowers are caught in a debt trap today. This would be illegal if the lender was any actor other than the United States of America.

President Biden did not break the system, but he has promised to fix it. It is up to him to wield the awesome power vested in the Secretary of Education and cancel student debt for every student loan borrower.

According to critics, families and the broader economy will somehow be worse off when Joe Biden keeps his promise to cancel student debt, claiming that this is a giveaway to the college educated and ignoring the roughly 4 in 10 people who have debt and no degree. This may play well on Wall Street, but it rings hollow on Main Street where poll after poll shows a large majority want the President to cancel student debt, including most who did not go to college and most who have no debt at all.

With the stroke of pen, Joe Biden can improve the lives of tens of millions of people. Our economy is stronger when those who have faced financial precarity have the opportunity to build wealth. Canceling student debt is just, it is equitable, it is legal, and it is the only appropriate response to decades of Government mismanagement and industry abuse.

Thank you again for the opportunity to provide testimony, and I look forward to your questions.

Chairman BROWN. Thank you, Mr. Pierce.

Dr. McCluskey, you are recognized for around five minutes. Thank you.

STATEMENT OF NEAL MCCLUSKEY, DIRECTOR, CENTER FOR EDUCATIONAL FREEDOM AT THE CATO INSTITUTE

Mr. MCCLUSKEY. Chairman Brown, Ranking Member Toomey, distinguished Senators, thank you for inviting me to speak with you.

My name is Neal McCluskey, and I am the Director of the Center for Educational Freedom at the Cato Institute, a nonprofit, non-partisan, public policy research organization. My comments are my own and do not represent any position of the Institute.

Federal student loan programs are problematic, and it is important to address both their current impacts and fix them in the long term. Included in this is servicing, but problems there are just a symptom of a dysfunctional system. That said, loan problems do not justify drastic action such as sweeping cancellation, which would create bigger problems, from helping the well-to-do to exacerbating tuition inflation and workforce distortions.

Now complaints about loan servicers are well documented, but they are hired by the Department of Education, and if they do their job poorly it is incumbent on Ed to get the problems fixed. The Department, however, has long failed to do so. This is not simply a

failure of bureaucracy. The system created by Congress is often inscrutable to borrowers, servicers, and quite possibly, Ed itself, featuring a dizzying array of loans and repayment plans that interact in confusing ways. Given this, it is no surprise that many complaints about servicers are actually about the programs. A 2019 analysis found that only 44 percent of complaints about servicers to the Consumer Financial Protection Bureau concerned things under servicers' control while 35 percent were really about Federal rules.

Beyond the direct problem, Federal student loans have major unintended consequences. First, they fuel skyrocketing college prices. One recent analysis found that for every dollar increase in subsidized loan maximums prices rose 60 cents.

Second, while they may have enabled greater college attendance, degrees have become increasingly hollow, with big increases in both the time students—or, decreases in both the time students spend studying and literacy among degree holders.

Third, boosted enrollment has likely fueled credential inflation, employers seeking degrees for jobs that did not previously require them. Relatedly, about a third of nonrecent graduates who are 4-year degree holders are in long-term jobs that do not require the credential.

Finally, aid does not appear to have coincided with an increasing share of 4-year degree holders who are low-income. The share of all bachelor's degrees held by dependent members ages 18 to 24 of families in the lowest income quartile has hovered around 10 percent since 1970 and dropped a bit from the beginning to the end.

Now the ideal solution to this, to the student aid problem, is phasing out Federal lending. But, what to do about the current situation?

First, do nothing extreme, including mass debt cancellation. Despite many problems, college is still typically a good investment, with the average 4-year degree holder earning approximately 1.2 million more dollars over their lifetime than someone with just a high school diploma. Graduate degree holders earn even more. Taxpayers, roughly two-third of whom do not have 4-year degrees, should not fund cancellation for those who will see major financial payoffs.

Repaying student debt is also not especially burdensome for most borrowers. Four-year degree graduates who borrow typically have monthly payments well within their ability to pay.

Debt is also disproportionately incurred by wealthier people. Households in the highest income quartile hold 34 percent of all student debt while the lowest quartile holds only 12 percent.

Absent student lending reform, mass cancellation would also encourage more borrowing and price inflation, exacerbate credential inflation, de facto penalize Americans who economize on their education or, after graduation, economize to pay off loans, and it would be illegal, or at the very least a gross violation of separation of power, if done by Executive order.

Now there are things that Congress can do to improve the situation that are short of mass cancellation. Income-driven repayment is intended to help struggling borrowers. The Department must correct all borrower records, and Congress should simplify IDR

going forward, perhaps consolidating it into one program which borrowers are automatically enrolled into unless they choose standard repayment. Congress should also eliminate probably the highly problematic parent and grad PLUS loans. Congress could make discharging Federal student loans in bankruptcy easier, though, important to remember is that taxpayers would bear the cost of that. Congress could also institute skin in the game, in which colleges pay a share of their defaults.

Servicers are not the root lending problem. That is the Federal system itself. However, it has not created so terrible a problem that it justifies mass cancellation. What it requires is fixing the existing programs to help struggling borrowers and to ultimately shrink Federal lending.

Thank you again for the opportunity to testify, and I look forward to your questions.

Chairman BROWN. Thank you, Dr. McCluskey.

Dr. Bishop, you are recognized for 5 minutes. Thank you.

STATEMENT OF JALIL MUSTAFFA BISHOP, COFOUNDER AND ASSISTANT PROFESSOR, EQUITY RESEARCH COOPERATIVE, VILLANOVA UNIVERSITY

Mr. BISHOP. I want to thank the Chairman, Ranking Member, and the rest of the Committee for inviting me here today.

My name is Dr. Jalil Mustaffa Bishop. I grew up in Twinsburg, as the Chairman shared, but Twinsburg Heights in particular, a nearly 100-year-old Black community that taught me most of what I know about justice work and also what I needed to survive Government-created debt traps, as an unincorporated Black neighborhood in Twinsburg City.

I bring those lessons here today as a professor of education and as an activist for Black freedom projects. My goal is to make clear that we are in a student debt crisis, a Black student debt crisis in particular, and that canceling all student debt, again, all student debt, is the best solution for a decades-long policy failure, that is, student loans.

So let us just use some common sense. Student loans is basically the Federal Government looking at families and saying, you do not have enough to pay for college, but here is a loan, though, we know you do not have enough to pay for college, let alone enough to make these loan payments.

We then say, do not worry. You are going to make enough money to repay those loans in 10 years.

We then had decades of evidence that borrowers were not able to make enough money, so we moved them to 20- to 25-year repayment plans.

We have not developed to hold colleges, loan servicers, accreditation agencies, the Department of Ed, or a low-paying labor market accountable. We still have only punished one group, ensured one group has consequences every time, and that is the borrower, the borrower who has failed way before they ever sign a loan in the first place.

We are in a student debt crisis and, arguably, have been in one for the last 20 years. In that time, we have watched the total outstanding student loans increase by over 107 percent, from less than

\$400 billion in the early 2000s, hitting \$1 trillion in 2012, and now on the fast track to hit \$2 trillion.

The crisis should be understood primarily through two issues, default and endless years of payment. First, we have a growing number of defaults for struggling borrowers. Before the pandemic, we had 10 million borrowers in default. Default means debt collection fees on top of your student loan balance but also that borrowers can be sued or have their incomes or tax returns garnished.

And this brings us to the second part of the crisis, endless years of payment. People are making payments only to see their balance increase due to interest. When we look back at loans issued each year since 2009, the majority of those balances are increasing instead of being paid down.

Under the Trump administration, the Department of Education released a report that estimated that \$500 billion worth of student loans will not be repaid, and again, this was pre pandemic. During the pandemic, the Government has not received payments for the last 2 years due to the pause, and both the borrowers and the Government have been fine. Evidence simply is showing that increasingly student loans will not be repaid. People simply do not have the money to repay because they have not found high paying jobs that allow them to earn incomes both to afford a high quality of life and to repay their student debt. People on a payment path to nowhere.

It did not have to be this way. We once had a grant-driven higher ed system in the late 70s in the early 1980s. Now when it comes to low-income students, the Pell Grant covers less than 33 percent of college costs when it used to cover the majority.

Every year, we burden students and their parents with 80 to 100 billion dollars of student loans. This is unnecessary. For example, if we just increased the Pell Grant by \$6,000 a year, it would eliminate parent PLUS loans for 75 percent of all low income parents and 85 percent of all low-income Black parents. Six thousand dollars. But instead, we give it all as a loan, throw families into a financial crisis, and the only one who wins are the debt collectors, loan servicers, and law firms who go after borrowers for repayment.

For the rich, we are willing to spend in the trillions. For working-class people aiming to earn education, we give them a lifetime debt sentence.

In addition, the student debt crisis must be understood as a racial justice issue. It is eradicating any chance at wealth for communities of color, especially Black communities. When we look at Black households with student debt, 52 percent have zero or negative wealth. When we look at Black households with no student debt, the percentage drops to 25 percent.

Black people are not just without wealth. We are being pushed deeper into the negative wealth hole. In this way, student loans are not just a racial justice issue. They are a racist tool.

I coauthored a report with Dr. Jonathan Davis in the Education Trust called Jim Crow Debt. We heard from nearly 1,300 Black borrowers around about how student loans are a debt trap. Debt traps that we have seen in history, like sharecropping, contract

mortgages, most recently subprime mortgages and payday loans that limits Black people's ability to build generational freedom.

Student loans do not belong in a conversation about opportunity. They only belong in a conversation about how come again this country created a debt trap that is so vicious that it captures and holds Black students, their parents, and wider communities of color in debt for a lifetime.

So I opened up with common sense, and I want to close with common sense about why student debt cancellation will not help the rich unless all of a sudden a rich person in this country is someone who is on a payment plan, has zero in assets, has more debt than income, is a person of color, and lives in a census tract that is working-class because this describes the face of a student loan borrower.

So let us make it clear: \$10,000 is not enough. Even \$50,000 is not enough, for economic and racial justice. Black people, my family, my community are more likely to owe over \$50,000 just for undergrad, have parents who borrow into the 6 figures, rely on private student loans, and if we ever make a 6-figure income we often have 6-figure loan debt.

So you cannot limit student debt cancellation and also claim to care about racial justice. The data are not on your side, people's life stories are not on your side, and history will not be on your side. We need full debt cancellation, and we need it yesterday.

Thank you to the Committee, and I look forward to your questions.

Chairman BROWN. Thank you, Dr. Bishop.

I want to start with the last 2 minutes or so of your testimony, when you stated that 52 percent of Black households with student debt have zero or negative wealth, and that number is 25 percent for those without student debt. What happens when—you are essentially arguing it is worse for Black Americans to take out debt to go to college in order to build wealth than to not do it. What happens in the next 5 years if we or the President do not do something about this?

Mr. BISHOP. So as we know, there is a student debt crisis for borrowers overall, but when we look at what is happening with Black students, we are seeing a growing kind of median debt balance that is sometimes tripling when compared to their White counterparts. So if we do not cancel student debt, if we do not move toward a path of providing higher education as a public good, you are going to continue to see Black borrowers, Black families, Black communities have the highest student loan balances, have the highest concentration of student loan delinquencies, and not just struggle to build wealth but struggle to get out of the hole that is getting deeper and deeper around negative wealth.

Chairman BROWN. Thank you. Good explanation. When I took the chairmanship 14, 15 months ago, this Committee was just called the Senate Banking Committee to most people, colloquially and almost efficiently. Its full name is Banking, Housing, and Urban Affairs, and we focused really on housing and all that comes with that perhaps more than anything else. Housing is just universally understood as the best way to build intergenerational wealth. In the race gap there, Black home ownership has not much

changed since Dr. King's assassination, which sort of preempted Congress finally to pass Fair Housing.

So can you explore for a moment how student debt is exacerbating the racial wealth gap? And I would think a major component of that is if you face major student debt you don't have a downpayment for a home, you are not able to get a loan, or you simply cannot afford a home.

Mr. BISHOP. So what we have to understand is that the racial wealth gap was built through systemic racism, that student loans did not create the racial wealth gap, but it is absolutely increasing and intensifying that gap. When we look at home ownership rates for Black college grads, they have a lower home ownership rate than White college dropouts, and this is important for us to understand because the best way to guarantee that you build wealth is being able to start with wealth. And most wealth in this country comes through inheritance. It comes through being able to build equity in your home, and that is something that has not been available to Black people fairly, inclusively, or equitably.

So it is something that we have to understand, that student debt is digging that hole deeper. But it is also not a silver bullet, canceling student debt, but it allows that hole to stop growing deeper for Black families and communities.

Chairman BROWN. Thank you, Dr. Bishop. Could you submit to the Committee later the data on your statement, which was an extraordinary statement, that home ownership is higher among White dropouts than Black graduates?

Mr. BISHOP. Absolutely.

Chairman BROWN. If you would do that, that could be very, very useful to us.

Mr. PIERCE, student loan servicer mismanagement contributed to borrowers having—explain how student—I am sorry. Explain how student loan servicer mismanagement contributed to borrowers having larger debt for longer periods of time. It is quite a phenomenon that people think they are paying and living up to their end of the bargain on two of the big programs and they find out at the end of 10 years that some mistake was made and they have lost any ability to get forgiveness. So talk about that and talk about what CFPB can do to ensure student loan servicers are properly servicing these loans and that borrowers are protected.

Mr. PIERCE. Absolutely. So taking a step back and thinking about how we got here, the Government has depended on these private sector companies called student loan servicers to give people advice about how to repay their student loans going back decades. Sometimes these are private sector companies that own federally backed loans; sometimes they are contractors for the Government. But in both cases, law enforcement officials of both parties going back multiple Administrations have alleged that these companies routinely provide bad advice to people.

And in particular, there is one scheme called forbearance steering, where a company tries to rush a borrower off the phone because it costs more money to provide them counseling and, in doing so, puts them in a repayment option that adds more cost to the debt and knocks them off track for loan forgiveness.

And I do want to cite in particular one company, Navient. Navient was alleged by the Consumer Financial Protection Bureau to have added \$4 billion in unnecessary interest charges on the backs of more than 1.5 million of its customers over the course of the better part of a decade. That litigation by the Consumer Financial Protection Bureau is still ongoing, but earlier this year Navient did enter into a settlement with a bipartisan coalition of attorneys general led by attorneys general from both of your States, the Republican Attorney General of Ohio and the Democratic Attorney General of Pennsylvania. And in that settlement, these bipartisan attorneys general alleged that Navient engaged not only in this forbearance steering scheme but knocked borrowers off track as they tried to maintain affordable loan payments under income-driven repayment over the long term.

Chairman BROWN. Thank you, Mr. Pierce.

Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman.

Dr. McCluskey, let us consider for a minute the case of two similarly situated families with children who are in college. Let us say that they are about the same size. They have got about the same income. They have very limited assets in both cases.

But one of the families spent 18 years of their children's lives scrimping and saving to pay for their kids' college education. The other family lived more comfortable. Maybe they took some more vacations. Maybe they bought newer cars.

The first family then writes a check, series of checks, to pay the tuition for their kids' college, and the second family has no college savings, so they take out a student loan.

Tell me what you think about the fairness of saying to the family that worked hard and sacrificed, "It is nice that you did that, but now your taxes are going to go to pay for the tuition of the family that chose to live more comfortably instead of saving for college." How is that fair?

Mr. MCCLUSKEY. Yeah, it is highly problematic to say to people who did their best to minimize the cost of higher education for themselves that you will now pay for people who did not, and this is a problem in that people who take out student loans are not all necessarily low-income or even middle income. We see that higher-income families have taken out loans often to go to college.

The real danger, I think, to any sort of sweeping cancellation is what does that say then in the future. The future then is, well, we should just expect that if we take out debt it will be forgiven because how could you forgive debt in the past and not do it again. So we are making it even worse in incentivizing people to say, you know, we really should not economize as best we can because we will expect these loans to be forgiven.

Senator TOOMEY. Doesn't the logic of the argument that we should wipe out this debt, doesn't it kind of require that it becomes a permanent thing? And I think Dr. Bishop even alluded to the idea that these should be grant programs.

And if we said, well, anybody who happened to graduate prior to, I do not know, 2022 gets all their debt forgiven, how do you not forgive the debt of someone who graduates in 2024 or 2025? So it

is sort of embedded in the logic and inevitability that this is meant to be a permanent feature.

Mr. McCLUSKEY. You would sort of logically have to conclude that. I have not actually seen something that said we or a lot of discussion about eliminating student loan programs. I have just seen primarily discussion of cancellation. And if you do cancellation without reform, at the very least, of existing programs, you are absolutely creating incentives for much more borrowing in the future with the assumption that it will be forgiven.

Senator TOOMEY. Totally. That would be the expectation.

From 1998 through 2018, which I think is the most recent year for which we have data, inflation in general—now we have data more recent than that for inflation, but you will see the point I am getting to. Inflation increased by 56 percent, in general, during that period of time. College tuition increased by 183 percent, 3 times the general elevation of the price level of the economy.

So how strong is the evidence that this massive excess inflation is related to increases in Government contributions, and what would the effect on college tuition be if we did a broad cancellation?

Mr. McCLUSKEY. Yeah, so there is very strong evidence that the student aid programs have enabled price inflation in college. We both actually cited the Fed report. That is just one among many studies that have found an inflationary effect of aid. If you look at sort of the historical sweep of prices where you see a big increase, a big kink, in how much we increase prices, it was the late 1970s, early 1980s when student loans were greatly expanded to who could access them. So the evidence is very clear, I think, that aid fuels price inflation; it enables it.

And if we say that we are going to cancel debt now, you have sort of automatically put even more powerful incentives to borrow as much as you can and for colleges to raise prices as much as they can because really a third party, taxpayers, will be the ones who pay for it.

Senator TOOMEY. So, just my last point. So the logical conclusion of this, as we have discussed, is just make it all free. Just give the money away. Just make it grants. Just make college free.

In my State, there are quite a number of skilled, blue collar jobs that pay more than the average college graduate earns upon graduation. There is welders and plumbers and people with all kinds of skills that are very valuable. But if you said, well, we will just make the taxpayers pay for all of college, what kind of distortions would we get as a result of that policy?

Mr. McCLUSKEY. We would see a lot more people who would be going to college, and we would see what we have seen now for several years, which is employers are increasingly requiring degrees for jobs that did not previously require them, where there is not evidence that the skills needed to actually do that job have changed. So we create a credential inflation problem. For those jobs where it is much more valuable to have on-the-job training, we will incentivize employers to say, “and also have a degree” because there are more degrees out there. It is a very basic screening we could do, to say, well, you may be able to give us an idea you can finish something you started if you have a degree, and it is just easier to ask for those things.

But that credential inflation is incredibly inefficient, and it hurts people in the workforce, saying, now go to 4 years of school that you could be working and learning valuable skills.

Senator TOOMEY. Thank you very much.

Thanks, Mr. Chairman.

Chairman BROWN. Thank you, Senator Toomey.

Senator Menendez from New Jersey is recognized.

Senator MENENDEZ. Thank you, Mr. Chairman.

For years, I have watched and listened as my constituents and their families have suffered irreparable financial harm at the hands of their student loan servicers. Year after year, millions of borrowers are mistreated by the student loan servicers, who routinely provide inaccurate information, fail to disclose and explain fees that are charged to borrowers, and ultimately make it harder for borrowers to pay off their loans. This is especially true for our nation's public servants who have often served as frontline workers during the COVID-19 pandemic. Cumulatively, these missteps cost borrowers millions of dollars in interest and additional payments, and in some cases borrowers have no choice but to remain in the workforce beyond their preferred retirement timeline just to pay off the loans.

What is upsetting to me is that this current mess was preventable. The Department of Education has known about these systemic issues for years. Its own Inspector General found in 2019 that despite regularly identifying instances of servicers' noncompliance with the terms and conditions of the loans the Education Department did not track or analyze these failures nor did they hold servicers accountable for their poor performance, especially servicers of loans in the Public Service Loan Forgiveness Program. That failure to act means added financial pain for the borrowers we are talking about here today.

Beginning in at least 2009, when the first Federal student loan servicer, Affiliated Computer Services, better known as ACS, began servicing student loans, there is a documented history of the company's endless errors, especially related to its handling PSLF-qualified loans.

So, Mr. Pierce, your organization released a report in 2020 detailing ACS's repeated failures. How specifically did ACS mishandle borrowers' accounts, and what kind of impact did that have on borrowers, especially on the PSLF borrowers?

Mr. PIERCE. Thank you, Senator Menendez, and thank you for all of your leadership on these important issues over the course of more than a decade.

ACS was a very important market participant going back to the earliest days of the student loan program as the sole student loan servicer for the Federal Government in Public Service Loan Forgiveness's first years but also as a major market participant servicing Federal student loans that were then owned by big banks, like Wells Fargo and JPMorgan. This company committed more than five million individual errors on borrowers' accounts over its time as a Government contractor, and it was the target of enforcement actions for its private sector servicing by attorneys general in New York and in Massachusetts and the Consumer Financial Protection Bureau. All told, ACS is responsible for many of the under-

lying problems that resulted in 98 out of every 100 public service workers applying for PSLF ultimately being rejected.

Senator MENENDEZ. Ninety-eight out of a hundred. Now will the limited PSLF waiver that expires in October, as well as Ed's most recent forbearance waiver announced last month, rectify all of ACS's egregious missteps, especially those related to the PSLF borrowers?

Mr. PIERCE. It is a start. More than 100,000 public service workers have had their debts canceled since October. That is about 7 times more debt relief than the prior 14 years of the program, but it is not enough. There are certainly public service workers who are going to miss out on this limited opportunity because they do not know about it or because they have been provided bad information even now by their student loan company about what their rights or options are.

Senator MENENDEZ. Well, the Pennsylvania Higher Education Assistance Agency, known as PHEAA or by its other names of FedLoan or American Education Services, replaced ACS as the largest servicer of PSLF loans in 2014. So, Mr. Pierce, Massachusetts and New York recently reached settlements with PHEAA about its student loans servicing, especially its PSLF servicing. How did PHEAA, acting as FedLoan, mishandle borrower accounts?

Mr. PIERCE. A whole range of different abuses by this company, which, to be clear, is a private sector company but was created by the Commonwealth of Pennsylvania and has existed with the implicit backing of Pennsylvania taxpayers despite this record of abusing its customers. It routinely mishandled borrowers' paperwork, provided bad information, steered borrowers into forbearance, the same scheme that Navient was accused of by a different group of attorneys general, and taken together, these abuses resulted in the collapse of the Public Service Loan Forgiveness Program before Joe Biden stepped in to make things right.

Senator MENENDEZ. So will the limited PSLF waiver and the most recent forbearance announcement rectify all of PHEAA's missteps?

Mr. PIERCE. Once again, it is not enough. Joe Biden needs to cancel student debt for everybody because these piecemeal actions are important and necessary in their own right but they won't reach every borrower that has been wronged by this legacy of mismanagement and abuse.

Senator MENENDEZ. OK. Thank you so much for your responses.

Mr. PIERCE. Thank you, Senator.

Chairman BROWN. Thank you, Senator Menendez.

Senator Smith from Minnesota is recognized from her office.

Senator SMITH. Good morning. Sorry, Chair Brown. I was not expecting to be on so quickly, but I am glad to be with you.

Let me just start out, if I could, with Mr. Bishop, and I would like to actually follow up on the line of questions that Ranking Member Toomey was asking. So Ranking Member Toomey was essentially, if I understand it, suggesting that the loan forgiveness essentially creates a moral hazard, that it actually encourages irresponsible behavior. That is not his word, but it encourages people who haven't saved, who haven't maybe done all the right things,

to continue in that behavior to the detriment of families that have scrimped and saved, as Senator Toomey said.

I am wondering, Dr. Bishop, if you could just respond to that and help us understand how that fits with what you see as the underlying challenges with student loan debt.

Mr. BISHOP. Thank you. So in my research and my time working with student loan borrowers, I really have not seen evidence of borrowers being reckless or that those who are borrowing student loans are just because they failed to save. As was noted, college costs have increased rapidly, and we should not conflate the need to hold colleges accountable to get costs under control the same as students or borrowers somehow having a failure in personal responsibility.

One thing I like to remind people is that in this country we subsidize or give a tax break to families who put money into college savings accounts, but usually those are families who have the additional income to be able to put money up each year into those college savings accounts. We spend \$55 billion a year subsidizing those accounts. That is more money than we spend on Pell Grants for low-income students.

So it is important to think about what is in our policy structure that incentivizes those who already have additional income and additional wealth to be able to afford college and then what is in our policy infrastructure that disadvantages those who do not have that extra money because you can't save if you do not have the additional income or the ability to put that money into savings.

So this is not a matter of personal responsibility. It is a matter of college costs that have grown rapidly, as was noted, but also not having a free college option to make clear that allows families to access higher ed without going into a debt sentence for not just a decade but now we have many borrowers who have been carrying this debt for nearly 20 years.

Senator SMITH. Thank you. Thank you. I appreciate that.

You also talked about how the declining value of Pell Grants and how—I hear about this from Minnesota all the time as we have one of the highest student debt concentrations in Minnesota than really almost any place in the country.

And there has been this dramatic shift in the buying power of the Pell Grant to student loans, shifting from grants to loans. I guess you can call that free college, but I mean, I think that that is sort of benefit, as you said, of higher education being a public good. Could you just describe kind of what you think has—from your research, what has sort of driven that shift, and what would be the impact of changing policy so that we put more emphasis on grants versus loans especially for Black and Brown people, people who are already living with the challenges, the systemic challenges, with racism that we have in our communities?

Mr. BISHOP. Thank you. So what's important to make clear is that, again, we had a grant-driven system in higher education, and in the moment when Black and Brown and low-income students started to enroll in higher number is where we saw this major shift to student loans as a way we are financing college opportunity. And that is important to understand in that, again, there was a dif-

ferent type of financing system that we had just in the 1970s and 1980s.

So what this means is that now Black and Latino students, who the majority of these students are Pell-eligible, do not have access to a Pell Grant that actually covers the cost of college attendance, and the consequence of that is that these communities of color have to rely on student loans at higher rates, that nearly 90 percent of Black students are relying on student debt.

And this is an issue not only when we are thinking about higher education as a public good, but it is an issue when you think about the impact of that student debt as borrowers have to carry it throughout their lifetime and are limited as they are trying to do other life planning around labor market, family planning, saving for retirement, having something as simple as a savings account for a healthy emergency or a car repair. So it is not just what happens to students in those early years when they are trying to decide how to pay for higher ed, but it follows them as they go through their lifetime, as adults and increasingly as older adults.

Senator SMITH. Well, I think this is why we call this debt trap. I have talked to people in Minnesota who said it feels like a big bait and switch. You know, I am told that what I need to do in order to better my economic opportunity, to lift myself and my family up is to get a higher education, and then it ends up being actually a weight that loads me down as I am trying to figure out how to buy a house, how to buy a car, how to maybe take a job that much more fits my interests and my long-term goals, but I can't do that.

And I think it also—you know, we have to remember that these are college students often who are working two, sometimes three jobs while they are trying to be in college, do the very best that they can, and also catch up on those student loans.

And we have also not talked a lot today about how many people take on these student loan debts and then they never finish because they cannot afford to finish, something—and so then they have the debt without the benefit of the degree.

Thank you, Mr. Chair.

Chairman BROWN. Thank you, Senator Smith.

Senator Warren from Massachusetts is recognized in person.

Senator WARREN. Thank you, Mr. Chairman. Right now, President Biden is considering canceling debt for the 43 million Americans who have student loans. Now this policy is incredibly popular with the American public, no matter who you ask, and that includes people with student loans and people without student loans. Big majorities support cancellation, and I think the reason for that is that there is scarcely a working person in America who does not have a friend, a family member, a co worker who is weighed down by student loan debt.

But if you are listening to the talking heads with fancy degrees who oppose this policy, you might be under the impression that the borrowers who the President wants to help are all wealthy. They are all wealthy Harvard grads who do not need any help with their loans.

So what I would like to do is just look deeper into the data. Dr. Bishop, you are an expert on student borrowers and their experi-

ence in the student loan system. What does the data say about who borrows money to attend college? Are they generally very wealthy?

Mr. BISHOP. I think the data is quite clear that those who borrow student loans are not wealthy, that they are not people who have high levels of assets, that more than half of borrowers with student loans—or, more than half of student debt is held by families with zero or negative household wealth, and especially when we are looking at communities of color, where again we see almost 90 percent of Black students borrowing student loans compared to 68 percent of White students. So the idea that student loans are carried by wealthy families, I think, is something that does not show up in the data and also is something that, again, goes against what we understand as rich people or wealthy.

Senator WARREN. OK. So these people who are borrowing are people with, at best, very modest means.

Let us take a look then about the kinds of schools they attend. Do most borrowers take out loans so they can attend elite schools or business schools, Dr. Bishop?

Mr. BISHOP. No. And as someone who went—as someone who was a low-income student who went to one of these elite schools, we know that the vast majority of borrowers are not coming from the Ivy League, that when we look at those selective schools we see around 0.3 percent of all borrowers come from the Ivy Leagues.

Senator WARREN. Wait a minute, Dr. Bishop. Can you say that in the other way? What proportion of student loan borrowers are not coming from the Ivy Leagues?

Mr. BISHOP. So 99 percent come from institutions that are not the Ivy Leagues.

Senator WARREN. So 99.7, according to your data, right?

Mr. BISHOP. Yes.

Senator WARREN. OK. So they are not coming from the Ivy League.

So let us do one more. Critics argue that canceling student loans would mean helping out people who are earning good money with their college degrees and will be able to pay off their loans without the Government stepping in. Dr. Bishop, are those valid criticisms? Are student loan borrowers all earning college graduate wages and in a good position to pay off their loans?

Mr. BISHOP. No. So we know that 40 percent of student loan borrowers have student debt but do not have a college degree. We know that increasingly many student loan borrowers are parents who do not have the so-called lifetime earning trajectory ahead of them, that when we look at Black students we know that they owe more than they originally borrowed a decade out and that 20 years out they have only paid down, on average, 95 percent—or, they still owe 95 percent of their original student loan balance.

Senator WARREN. So, Dr. Bishop, could I ask you just to unpack that just a little bit? So students go into college, right, and they borrow while they are in school. And you said what proportion of them never graduate from college?

Mr. BISHOP. Forty percent of student loan borrowers.

Senator WARREN. Forty percent, so four out of every ten of the students who is carrying student loan debt.

Do they make college grad wages?

Mr. BISHOP. Absolutely, not.

Senator WARREN. No. So here they are; they are earning like high school grads, but they are managing college loan debt.

And then you also said people do not think of it this way. You borrow money, but—for what proportion of Black students did you say 12 years out from when they started borrowing money are actually deeper in debt?

Mr. BISHOP. So we know 66 percent of Black student loan borrowers over a decade out are deeper in debt, owe more than they originally borrowed.

Senator WARREN. And why do they owe more than they originally borrowed?

Mr. BISHOP. Because we understand that Black students not only borrow more but they access higher institutions that are more likely to be for-profits and predatory, to be institutions that are already underresourced themselves, and that they are navigating a higher ed system that is very different than their White counterparts as far as opportunities and accessibility.

Senator WARREN. Yeah. And I assume also we are talking about what kind of wages they earn.

Mr. BISHOP. Absolutely. So entering the labor market, which often does not get as much attention in these conversations, we still have persistent employment gaps, racial income gaps, that even as Black people earn more degrees we see our wages not reflecting that.

Senator WARREN. I appreciate this. You know, it is clear that the opponents of student loan cancellation are living in a bubble of privilege that is completely disconnected from the reality of the people who borrow money to get an education. As you said, 99.7 percent of borrowers did not get an Ivy League degree. Heck, 40 percent of them did not get any degree at all. The majority of these loans are held by people with zero wealth. And Black borrowers are not just treading water trying to keep up with your payments; they are actually falling behind.

Meaningful student loan debt cancellation is the single most powerful thing the President of the United States could do on his own to help narrow the racial wealth gap among borrowers, to help families that are struggling with rising costs, and to expand opportunities for millions of people.

You know, we need to stop listening to out-of-touch pundits and politicians whose biggest worry is that we might be helping working people too much.

Thank you, Dr. Bishop.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Warren.

Senator Warner from Virginia is recognized from his office.

Senator WARNER. Thank you, Mr. Chairman. I appreciate also the opportunity to go in front of my friend, Jon Tester.

You know, I will just ask one question that I wanted to highlight, and this is for Mr. Pierce. You know, if we go back and it is an issue I have been working on for some time—to 1982, I think Congress created in the student loan program the ability for a couple to consolidate their loans together and at a slightly lower rate pay on it in a single payment. The pitch made, I think, made some good

macro sense. But at that point, the Congress never allowed, even if the couple were to then separate or get divorced, any ability to separate this consolidated loan, and consequently, one party or the other, oftentimes the female spouse, got stuck with that burden.

Do you know, Mr. Pierce, any other student loan product that does not allow borrowers to separately—if they took on the debt separately, to somehow not separate again if they have some kind of an event like an divorce to take place?

Mr. PIERCE. No, I do not.

Senator WARNER. I appreciate that. Matter of fact, this was so egregious that Congress stopped issuing this type of loan consolidation with this restriction on being able to separate the payments downstream if the couple comes apart in 2006.

This came to my attention from a woman named Sarah, who was a single mom and teacher in McLean. She and her ex-husband separated. The ex-husband, frankly, did not pay his share of the bills, and Sarah, single mom, as a teacher got stuck paying that joint consolidation effort literally for months. She ended up having even some of her wages garnished.

Mr. Pierce, the Education Department has told me there are approximately—remember, these were all loans pre-2006—14,000 plus outstanding joint consolidation loans held by the Department with a total outstanding balance of about \$800 million. Can you talk a little bit about this issue? I know you are familiar with it, what kind of burden it puts on these individuals oftentimes who may have been in an abusive relationship, oftentimes their former partner being willing to, basically: Screw it. I am going to leave all this obligation on you.

You know, I have got a bill with Senator Rubio and Senator Smith and Senator Cornyn that would allow this kind of breakup to take place. Could you weigh in on that and give me your views?

Mr. PIERCE. Absolutely. So you mentioned a number of the problems with these loans, particularly in cases of domestic violence or marriages where one spouse is taking advantage of the other and it causes financial ruptures in families, where one spouse may end up assuming responsibility for the debt owed jointly.

Your bill would help dissolve these loans but not just to help provide a fairer outcome for borrowers but to actually restore access to key parts of the student loan safety net that are denied to borrowers that have these so-called spousal consolidation loans, including access to Public Service Loan Forgiveness and the ability to get an income-driven repayment that actually matches their financial circumstances. Right now, the student loan safety net is failing people with these so called spousal consolidation loans, and your legislation would fix this mess.

Senator WARNER. Well, I appreciate that, Mr. Pierce.

And I would point out, Mr. Chairman and Ranking Member, this is something that we got virtual unanimity. There is one Senator who still has a hold, and we are trying to work through this. But this is bipartisan, not going to solve all the problems. But for 14,000 Americans who are caught up in these joint consolidation loans, many of them having circumstances again, as Mr. Pierce just said, was spousal abuse, we could provide some much needed relief.

My hope is that we can get that one Senator's hold removed. And I will yield back the balance of my time and really do hope you go to Senator Ossoff next week and keep Senator Tester in that box waiting for, you know, hours and hours to come. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Warner.

Senator Van Hollen of Maryland is recognized in person.

Senator VAN HOLLEN. Thank you, Mr. Chairman, Ranking Member Toomey. Thank all of the witnesses here today.

I want to start by talking about some of my constituents who have also been victims of this very broken process.

And, Mr. Pierce, thank you for your testimony, all of you. Grateful for your contributions here. As you point out, a sort of bipartisan failure in policy has been made worse by widespread lawlessness across the student loan industry.

I have a constituent. Her name is Ms. Regina Showalter. She is a 12-year Federal Government employee at the Department of Defense. She reached out to us because payments that she had made to her loan servicer had not been counted toward the Public Service Loan Forgiveness eligibility, and that happened when her loan was transferred from one servicer to another servicer. Fortunately, because the Biden administration put in place this temporary waiver, we had a little breathing room, and we have been able to resolve that particular case.

But as you know, there are millions of others who are not getting the relief they need, including another constituent, Deborah Harburger, who shared her testimony before this Committee just earlier this week. She is a social worker. Her employment is covered by the Public Service Loan Forgiveness Program, the type of employment she is engaged in, but her application for forgiveness was denied in 2017 after 10 years of regular payments, 120 payments, because her student loan servicer never informed her that her FFEL loan was not eligible under the requirements of the PSLF. So we are working with her right now.

My question to you is the Biden administration is reviewing this process. We are in the process of bringing on new student loan servicers. What is your level of confidence that we are going to be able to address the issues where we have seen failings in the past, and are the new contracts putting in place affirmative obligations on the loan servicers to make sure that their borrowers are fully informed of where they stand?

Mr. PIERCE. Thank you for the question, Senator, and I want to start by saying the Biden administration has taken major steps to hold these student loan companies, including appointing my former boss, former CFPB Director Cordray, to lead the Government's Office of Federal Student Aid, which is a big step forward. It is the first time that an Administration has ever made a meaningful effort to try to hold these companies accountable and to try to do better by people with student debt, but it is not enough.

And we are in a place where companies like Navient and FedLoan Servicing that were responsible for messing this up in the first place have parted ways with the Government, and that is a good thing on its own terms. But the companies that are coming in behind them, firms like Maximus which operates at Aidvantage,

are also showing evidence of the same sorts of sloppy service and potentially illegal practices that left us in this place.

Senator VAN HOLLEN. Well, thank you. That is why, as you say, we have both the good news and the bad news. The good news is progress under the Biden administration. The bad news is we got a long way to go.

And I agree with Senator Warren that there is an important place here for loan forgiveness, at least up to certain amounts. And I think as the last round of questioning with you, Dr. Bishop, indicated, we can address the issues which are primarily, in my view, very much exaggerated about providing sort of windfalls to wealthy families, as you already indicated.

You know, one of the roots of the challenges here is the Pell Grant, which, when it was first devised back in the 1970s, covered about 80 percent of the cost of a 4-year college education whereas today that is under 30 percent, which means that students who cannot afford to go to college, you know, have to borrow at least enough to make up the difference.

Dr. Bishop, you have talked about in your testimony a Pew Trust report that shows that from 2019 a national sample of Federal loan borrowers—the report was 2019, showed that borrowers from 2003 to 2004 found 12 years—after 12 years of initial borrowing, over half of them experienced negative amortization. Can you just in the remaining time talk about the fact that folks are totally underwater, and what are the only available remedies at this point?

Mr. BISHOP. So what is important to understand is that, you know, not only are Black borrowers underwater when we look at their repayment progress, we also are seeing increasingly, really since 2009, that loans each year, if we look back at their origination, that the balances are increasing, are not being paid down, the majority of those loans.

So when we think about kind of the student debt crisis, yes, we are seeing it intensify for Black borrowers. We are seeing it intensify for borrowers who are in default. But when we look at borrowers overall, even when they are on income-based repayment plans, those balances are not being paid down. They are being extended out to 20, to 25 years. And really, there is no evidence or no real sign that the Government is going to be able to have this money repaid, that borrowers are going to be able to make these payments.

And the question that we have to ask ourselves is, if we are saying in 20 to 25 years we are going to potentially cancel this debt, and we have all this evidence now that these loans are not going to be repaid, why make people go through 20 to 25 years of harmful payments?

Why continue to pay hundreds of millions of dollars to loan servicers and debt collection agencies and private law firms to go after borrowers who simply do not have the money when we could use debt cancellation now to provide harm reduction right now in real time.

Senator VAN HOLLEN. Thank you.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Van Hollen.

Senator Tester is recognized from his office, Senator Tester of Montana.

Senator TESTER. I want to thank you, Mr. Chairman, and I appreciate the recognition. And I want to thank you for including a constituent of mine in your roundtable on Tuesday, Megan Bailey, who is a veteran social worker serving her fellow Montanans but is struggling with the process for accessing the Public Service Loan Forgiveness that she has earned, and so far that has occurred way too often.

Before I get to my questions, I just want to say one thing. There has been a lot of great points that have been made during this hearing, but there is one thing that is a fact, and that is this generation of folks who are going to college are getting layered with too much debt. College costs too much.

I go back to my family. I have got two older brothers. When they went to college in the late 60s, my oldest brother drove a truck for the summer and paid for his college with that 3 months of work. That is simply impossible today. And my folks were able to pay for my college when I went to work—when I went to college.

On that say farm that my wife and I operate, when my kids went to college, we could not afford to pay for the tuition for my kids. They had to take out loans. And why is that? I can tell you why that it is. That is because the public support, the public dollars, the tax dollars that go into these institutions has dried up, and the student has seen increased tuition because of that, and it has made college unaffordable.

So what is the big deal? Who cares? You know? The fact is if we are going to maintain ourselves as the leading democracy in this world public education is critically important; K-12 public education is. So those folks that want to privatize public education I do not know what your end game is, but it is not going to be for the country.

And if you want an economy that moves forward, higher education is the key. If we want to be the biggest, greatest country in the world, higher education and getting the next generation of leaders educated is very important. And you cannot saddle them with tens of thousands of dollars in debt, or they will choose not to go to school, and that's a bad thing.

I graduated with a degree in music. I use that degree seldom, but what that degree tells potential employers is that I can apply myself and I can accomplish a job. So that degree is very, very important even if it is not used in your major subject area.

We have got a lot of work to do here. A lot of work. And I do not believe that students should have no skin in the game. They should have some in the game because I think skin in the game counts. But this is too much skin, and it just is not working.

So my question is for you, Mr. Pierce. We have seen significant improvements in recent months in folks being able to finally use the Public Service Loan Forgiveness Program. It is a program that I am strong supporter of, but it is also a program that I have been very frustrated with. It has improved, but it still is not perfect. So, Mr. Pierce, what else needs to be done to keep improving this program so that the folks who have kept up their end of the deal,

working and serving their communities, get that benefit that they have earned?

Mr. PIERCE. Thank you, Senator Tester. The short answer is the Biden administration needs to use all of the tools that it already has to write stronger rules, to be able to provide this promise to borrowers that if they work in public service, whether that is as a teacher or a health care worker or a firefighter, that they are able to actually get their debts canceled after a decade of service. For the better part of 15 years, the rules for this program have been full of tricks and traps and have knocked a generation of public service workers off track.

The Biden administration has taken great steps to try to open the door to debt relief for those public service workers, but it is not enough, and it is not permanent. As you rightly explained, at the end of October, this limited waiver for public service workers is set to expire, and the Biden administration needs to extend that waiver right now, provide public service workers with certainty, and then also rewrite the rules of this program so that it works moving forward.

Senator TESTER. So, Mr. Pierce, your Student Borrower Protection Center has published research on the challenges that rural borrowers face in repaying student loans compared to those folks that move to metropolitan areas, including the impact that it has on young farmers. But what has SBPC seen as causes for that difference, and are there things that we as policymakers can do to address that gap?

Mr. PIERCE. I want to cite some research done by the Federal Reserve Board of Governors actually that found that student debt is driving rural so-called brain drain, that people that grew up in rural communities may even go to school in rural communities, but they are not staying there. They are moving to cities that have more vibrant labor markets, and that is causing rural communities to struggle.

We hosted an event with the Young Farmers Association a bit more than a year ago, and we heard from farmers working in rural communities about how much advanced knowledge it takes to run a modern farm in 2022 and that that requires a higher education. But the crushing weight of student debt prevents people from staying on the farm and makes them leave their communities, and it is producing less vibrant, less resilient, less robust rural communities.

Senator TESTER. Well, I want to thank you. I want to thank all the folks who testified. I want to thank you, the Chairman and Ranking Member.

Look, this is a huge problem, and it does not go away unless we are proactive and looking for ways to solve the student debt problem, and I think by working together we can do some good stuff.

Thank you, Mr. Chairman.

Chairman BROWN. Thanks, Senator Tester.

Senator Warnock from Georgia is recognized, if you are ready.

Senator WARNOCK. Thank you so very much, Chairman Brown. It is good to be here, and I am so glad that we are having this hearing on "Examining Student Loan Servicers and Their Impact on Workers".

It is clear to me that the number one thing that the President of the United States can do right now to lower costs for Georgians and help close the racial wealth gap is to cancel student debt. Here is an opportunity to do something truly transformational, and that is why I have been pushing President Biden to cancel up to \$50,000 in Federal student debt, which research shows will boost our economy, create jobs, spur small business creation and home ownership, and free an entire generation from the crushing economic burden of student debt.

I say this as someone who was the first in my family to graduate from college, and I would not be here without low interest loans at a time when you could actually pay them off and Pell Grants.

Dr. Bishop, I am concerned that too many folks in Washington do not understand who actually has student debt and who does not. What are some misconceptions about who has student debt, and what does the research say about who actually carries this debt burden?

Mr. BISHOP. So we have seen a lot of narratives and research and framing that those who carry student debt are the wealthy because they have, you know, so-called high incomes, and I think first we have to be clear that there is a difference between wealth and income. When we look at the assets that student loan borrowers have, we see that student debt is overwhelmingly concentrated amongst borrowers who have zero or negative wealth. So again, this is not the common-sense way that we would describe someone who is wealthy.

When we think about who is actually struggling, sometimes we hear this number only cancel \$10,000 because that is the number of people who are really struggling. And we know particularly for Black borrowers that if we cancel 10,000 today that will still leave 83 percent of Black borrowers who not only still have student debt, but they have student debt where they owe more than they originally borrow.

So a part of this is understanding that when we are talking about debt cancellation—

Senator WARNOCK. So I hate to interrupt you, but I want to be clear. If you cancel \$10,000?

Mr. BISHOP. Eighty-three percent of Black borrowers would not only still owe student debt, but they will owe more than they originally—still owe more than they originally borrow because Black borrowers, we know, are more likely to borrow \$50,000 to \$100,000 of student debt. So \$10,000 absolutely would provide some relief but really will not do what is possible to really close those gaps for Black borrowers.

Senator WARNOCK. Thank you. And that makes sense because if you have a student loan, by definition, your family does not have wealth in the first place. I know that when I entered college my family's income was equal to the tuition, room, and board at Morehouse. That is why the majority of loans are held by those with no household wealth at all. It is also why 86 percent of Black students take out Federal student loans to attend college compared to 68 percent of White students. Twenty years down the road, you see the huge difference.

Mr. Pierce, I have also heard criticisms that there would be a massive backlash to debt cancellation from folks who paid off their loans and folks who didn't go to college. Have you seen evidence to support this claim that there would be this huge backlash?

Mr. PIERCE. No, Senator, and in fact, polling that we released just this morning with Data for Progress finds the opposite is true. Large majorities, by a nearly 2:1 margin, support action by Joe Biden to cancel student debt, including 53 percent of people without debt and 57 percent of people that did not go to college.

Senator WARNOCK. And would folks who do not need student debt cancellation or who did not attend college, would they also benefit from student debt cancellations?

Mr. PIERCE. Absolutely. We would have a more robust and more vibrant economy. People would be able to buy goods and services, buy homes, move up in the world, and everybody benefits when people that have student debt now finally have financial freedom.

Senator WARNOCK. Well, thank you so much. I think that student debt cancellation is the right thing to do right now, and it is the smart thing to do, and it is just good public policy. Too many of our children have a mortgage before they have a mortgage.

And it is a scar on the conscience of our country, and I think it is actually holding our economy back. We need to increase home ownership, the entrepreneurial vision. And one thing we can do right now is cancel student debt in a way that will actually be significant and transformational, and I hope we can get this done sooner rather than later.

Thank you so very much.

Chairman BROWN. Thank you, Senator Warnock.

Senator Daines from Montana is recognized.

Senator DAINES. Chairman, thank you. I am going to cut to the chase. I believe President Biden's misguided student loan policies are simply unfair. Let us think about somebody who decided not to go to college. In fact, we are seeing more Americans deciding not to go to college, perhaps to go to trade schools to find a trade that they can enjoy and immediately get a good paying job.

What about those who worked around the clock to pay off their debts? Should these individuals be responsible for paying off the student loans for a lawyer or a lobbyist? The answer is, no, they should not.

In fact, those who would actually benefit the most from Biden's and the Democrats' student loan policy are those who choose to pursue advanced degrees and are often making a high income already.

What Biden and the Democrats are trying to do is push yet another one of these socialist schemes, cooked up by the far left, that will expand the Government, balloon the deficit, worsen the already out of control inflation crisis that is hitting the pocketbooks of the American people and Montanans. It does nothing to address the root issue of ballooning tuition costs.

Listen, I got a student loan. I got a chemical engineering degree at Montana State University. I got a student loan. I paid it off.

In fact, this may actually encourage colleges and universities to increase costs because, I mean, at some point they have got to be

thinking to themselves, why not? The Federal Government will come right back and do it again.

So I turn to my questions. Dr. McCluskey, it is a big deal with someone makes their final student loan payment, especially years after hard work. Is it fair for them, and to them, for the Federal Government to bail out somebody who knowingly took out student loans and accepted an obligation to repay them?

Mr. MCCLUSKEY. It is important to understand that the basic parameter, basic understanding of a loan is you will pay—

Senator TOOMEY. Turn on your mike.

Mr. MCCLUSKEY. The baseline is when you take a loan the expectation is you will pay it off, and we have to remember that it is taxpayers who will end up paying the cost if these are not repaid because having these debts repaid is built into the Federal budget. There is an expectation that money will come in. And it is a major disincentive for people to look for the most efficient way to get the education, the skills, and knowledge that they need if they think I can take a loan, I can buy more things at college that I like, and I will not be repaying it because the expectation is there will be forgiveness.

And it is important to understand there is actually research that shows—came out around 2015, I believe. It is called College as Country Club—that other than people at the very top of academic levels, when they choose schools, choose it based on amenities. So it is not the academics. It is often the stuff, you know, the social life and things like that that go with college.

So it is a very major concern when we do not have the people who are consuming the education be the ones who are primarily paying and if we tell them we are going to forgive debt going forward that is a great disincentive to think hard about what you are purchasing.

Senator DAINES. So let us think about somebody who chooses not to go to college. What does a universal action like this mean for people who choose not to go to college?

Mr. MCCLUSKEY. Well, so it incentivizes more and more people to go to college, and that fuels the credential inflation problem we have had, where increasingly we see employers requiring degrees for jobs that did not previously require them. There is no evidence the job has changed in the demand. But you have this sort of very basic signal that may say somebody was able to finish what they started, but it is an extremely expensive way to get that signaled. Go to college for 4 years to pay for it or to have taxpayers pay for it.

And so it puts somebody who could more efficiently get those skills in a terrible bind, where they end up feeling I have got to go to college even though it will be expensive, even though it will be 4 years that are not productively spent earning, and says, go do that. And it is very bad for them and the economy.

Senator DAINES. One of the single greatest challenges we face right now in this economy is we cannot find enough people to fill the jobs that are currently available. Through the years I was going to college, I actively pursued finding summer work so I could pay to go to college. I could not quite get it all. I had to get a small student loan to make it all work.

But I think this is yet one more incentive that keeps people from getting out there and getting back in the workplace, by forgiving these loans. I think it is a fundamental fairness question as well.

Dr. McCluskey, have you studied the long-term impacts of student loan servicers exiting the Federal loan servicing program since the payment pause was enacted during the pandemic?

Mr. McCLUSKEY. I have not studied that.

Senator DAINES. What do you think the economic indicators need to be in order for the White House to end this moratorium? Any thoughts on that?

Mr. McCLUSKEY. Well, I think it is now time to end it. The idea of the moratorium was that when we were entering the pandemic, we were entering economic lockdowns, it made sense to say: We are heading for a very bad time economically. It makes sense to pause repayment on these loans.

We exited that at the beginning—the first quarter of 2021, and still we have this freeze. This should have been ended a long time ago.

Senator DAINES. All right. Thank you.

Chairman BROWN. Senator Daines, thank you.

Senator Cortez Masto is recognized, from Nevada.

Senator CORTEZ MASTO. Thank you, Mr. Chair. Thank you to the panel members for being here.

Mr. Pierce, as your testimony notes, a recent Government Accountability Office report indicated approximately 94 percent of servicemembers and civilian employees of the U.S. Department of Defense who previously applied for relief through the Public Service Loan Forgiveness Program have been denied. And then back in November of 2021, I, because of this, wrote a letter to the Department of Education about their proposed changes to the PSLF Program and the need for them to work to match data from the Defense Department to automatically count our military members' years in service toward the PSLF.

I know you are tracking this data closely and the changes that are being made to the PSLF. What type of progress are we seeing on this, and do you have any concerns with what is happening so far?

Mr. PIERCE. Thank you for raising this really important issue, Senator. We have been watching closely to see how our men and women in uniform benefit from this initiative the Biden administration has rolled out. It does make the simple promise not just to teachers and nurses but also to servicemembers that if they serve in the military or work in other public service for a decade they have a right under Federal law to have their debt canceled, and just 124 servicemembers in the first decade in change of this program ever had their debts canceled.

And the Biden administration has made some progress. A recent *Washington Post* report uncovered that about 1,500 servicemembers have had their debt canceled, but that is out of hundreds of thousands of people that are potentially eligible. And as best as we can tell, based on what is public, the Government has yet to actually deliver on that promise to match data with the Department of Defense and to automatically cancel debt for every eligible servicemember.

Senator CORTEZ MASTO. Well, yeah, and the same GAO report notes that the Defense Department says that the poor public perception around the PSLF's implementation issues have led the Department to not market it for recruitment and retention purposes. It really speaks to the importance of fixing this program, and thank you again for highlighting this and continuing with me and others to address these concerns.

Let me jump to the panel in general on income-driven repayment communication. In March of this year, the GAO released a report that looked at the gaps in income-driven repayment plans. IDR plans offer the promise of forgiveness to eligible borrowers with student loan debt after 20 to 25 years of repayment based on income. But the report found that major gaps in communication from the Department and its loan servicers regarding communication to borrowers about progress toward forgiveness and payment tracking.

So I understand the Administration has recently taken some positive steps in this area, but is there anything Congress should be doing to provide a statutory requirement about proper communication to borrowers? And, Mr. Bishop, let me start with you.

Mr. BISHOP. So I think when we think about the income based repayment plans we should understand that we are at the point now where we have tried several different types of plans. We are—currently, as we speak, the Department of Ed is preparing to roll out another plan.

And we have to really learn from the mistakes around not only miscommunication but making plans that are just simply paperwork-ridden and complicated. So as we are thinking about communication and how to make sure borrowers understand the options that are there, we have to also make sure that the plans are actually designed in a way that are streamlined for borrowers to get the benefits that they deserve.

So instead of waiting till the end of 10 or 20 to 25 years to offer benefits, that is something that can happen as borrowers are making progress, particularly our borrowers in the public service program. I think there is also an opportunity here for us to think about what stronger accountability policies can we have for loan servicers so that we are not waiting years and having to go through lawsuits to actually get any level of accountability for loan servicers who just simply are not doing accurate information because it takes more time and time for them is more money.

Senator CORTEZ MASTO. Mr. McCluskey.

Mr. MCCLUSKEY. Yeah, I think that the most important thing going forward is to simplify income-driven repayment. There are multiple ways to enter income-driven repayment. It is very confusing what all the different programs are because you have PAYE, REPAYE, IDR, IBR, lots of different acronyms that people are told, and it is because it has been an evolution simply over decades of always adding new programs instead of saying: Wait a minute. This has become sort of an inscrutable mess to most people. Let us go to one income-driven repayment plan and make very clear what it is and who it applies to.

The good news is we have moved away largely from FFEL. There are a still few FFEL debts left. The difference between FFEL and

direct loans confused a lot of people with repayment, and so making it as simple as possible is key.

Senator CORTEZ MASTO. Thank you.

Mr. Pierce.

Mr. PIERCE. I agree with everything that my colleagues both just said, but I would add one other point. It should not require an act of Congress to fix this mess. Joe Biden has the ability to cancel student debt for everybody, but he can also rewrite the rules for these income-driven repayment plans so that we are just making a better deal for folks. If one option is the best option and the best option for everybody, we have simplified the student loan system, and we have managed to do that in a way that actually does uplift people's financial lives.

Senator CORTEZ MASTO. Thank you.

Thank you, Mr. Chair.

Chairman BROWN. Thank you, Senator Cortez Masto.

We will begin a second round. I will ask a couple of questions. Maybe not the whole 5 minutes, we will see.

This question is for both Dr. Bishop and Mr. Pierce. The Administration's changes to IDR and the temporary PSLF waiver are good first steps to ensuring more borrowers get the forgiveness that Congress has promised. However, two borrowers at our Dignity of Work listening session on Tuesday discussed the application process is still hard to navigate, cancellation is not guaranteed.

So, Professor Bishop, if you would start, and then Mr. Pierce. What would the economic impact of meaningful debt cancellation be on low-income and minority borrowers?

Mr. BISHOP. So I think that this is an opportunity at least in my lifetime, but maybe really the first time in history, for the Federal Government to see what is a debt trap, a race-driven debt trap, and eradicate for communities of color. So this is an opportunity not to wait till decades later, not wait until we can really document the devastation and give an apology, but actually do something material right now, with action steps that can bring about justice. So I think this is a historic moment, a moment to think about working-class people and communities of color.

And we have abilities and legal authority to do things now through the executive branch that, again, gives us a moment not to wait later on, where we have to apologize and tell communities of color we got it wrong when we have right now the opportunity to get it right.

Chairman BROWN. Thank you.

Mr. Pierce, answer that, but I want to throw another question on top of it and do that together. How does CFPB ensure the servicers follow these recent changes to the program so that borrowers are able to actually access the debt cancellation that they have earned?

Mr. PIERCE. So to answer your first question, I am also going to point to the polling we released this morning with Data for Progress that shows that if we don't act now, if payments do start again at the end of August, 40 percent of people are going to struggle to make—to afford basic needs, like shelter and food, and 6 in 10 people are going to make major changes to saving and spending. So I think it is important to recognize the financial freedom that canceling student debt will provide people but also the enormous

negative effects on households from throwing them back into this deeply broken student loan system.

And the CFPB is a really important part of the solution here. So these big, private sector student loan companies that choose to bid for Government contracts and choose to do this work on behalf of taxpayers routinely break the law, and the CFPB is there to provide regular, routine oversight. Student loan servicing should be boring. You should not have to know who your student loan servicer is. You should not care what they do every day. It should just work. And the CFPB providing regular oversight is the key to making that happen for people.

Chairman BROWN. So this is the CFPB communicating with the Department of Education, making sure they coordinate, notifying borrowers who may have been high-risk or been misled.

Mr. PIERCE. Absolutely.

Chairman BROWN. Correct?

Mr. PIERCE. Yeah.

Chairman BROWN. OK. Thank you.

Senator Toomey.

Senator TOOMEY. Thanks, Mr. Chairman. Senator Tester made the point that college is just too expensive, and I have to say I agree with that, but I think we ought to be looking at one of the major drivers that we discussed a little bit earlier, Government subsidy. This is not even controversial among economists, that the level of Government subsidy is a big driver of the fact that higher education prices have escalated much faster than the general price level throughout the economy.

Dr. Bishop made, I think, a valid point, which was that we subsidize college education through our tax code because we allow people to save for college and the growth and the value of their savings is not taxed. That is true. Frankly, I would support eliminating that if we took the savings and used it to lower marginal tax rates across the board. That would be more fair. That would be nondiscriminatory. That would be pro growth.

But, the current policy is regressive in that sense, but what is amazing is loan cancellation is much more regressive.

So let me ask a couple of questions of Dr. McCluskey. First of all, let us just state the obvious here. What percentage of people who take on student debt are forced to do so versus what percentage voluntarily choose to borrow the money to pay for college?

Mr. McCLUSKEY. Well, it is difficult to say forced versus voluntary because some people may feel forced because student aid has fueled price increases. So it is, I think, legitimate to say we have a problem with student loans and lots of the other programs, like you mentioned, that put the thumb on the scale to consume higher education.

Senator TOOMEY. I have to disagree that it is hard to make this—of course, it is voluntary. Nobody is compelled to take out a student loan. People do it because they think it is in their interest to do so.

Mr. McCLUSKEY. Right.

Senator TOOMEY. And it is a completely voluntary transaction. But to go to this question of how regressive this is, the data that

I have suggests that over half of all student loan debt is held by graduate students. Is that your understanding?

Mr. McCLUSKEY. Yes. So the skew of student debt is absolutely right. Nobody is required to take on student debt, and people take it on because it greatly increases your chances of much higher lifetime earnings. And graduate school in particular does that, especially professional school.

Senator TOOMEY. Right. So the data that I have seen is that, on average, Americans with a college degree earn a million dollars more over their lifetime than people without a college degree.

So my last question is tell me if this—if you are aware of any data that contradicts this. According to the University of Chicago economists' studies, they estimate that two-thirds of the benefits of full debt cancellation would be captured by the top 50 percent of income earners. The top 50 percent of income earners. They are not—those, by definition, are not extremely poor people, but that is where this benefit would go. How is this not extremely regressive?

Mr. McCLUSKEY. Right. I have not seen evidence that says that that is not accurate. The top decile in income earners have \$46,700 for those who borrowed. The lowest quartile is \$26,000.

So what we are looking at certainly there are a lot of low-income people who would get a fair amount from forgiveness, but most of it is skewed toward people who have done things like gone to medical school, become doctors, and those professional degrees, you get about 3.1 million more dollars over your lifetime than someone who has not gone to college, that finished in high school. Of course, if you are going to get that payoff, you should be responsible for paying it, not taxpayers.

Senator TOOMEY. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Toomey.

Senator Warren is recognized.

Senator WARREN. Thank you, Mr. Chairman. I appreciate an opportunity to keep asking some more questions about this.

So President Biden is considering canceling student loan debt for tens of millions of Americans, and Republicans are attacking the idea because they do not want the President to get credit for helping working families that need help. So one of the arguments they have been making is that canceling student loan debt will somehow make inflation worse. So that is the question I want to pursue in this round.

Republicans' arguments, I think here, are completing out of step with reality. When the pandemic hit 2 years ago, President Trump halted all student loan payments, and they have been paused ever since then. In other words, the Federal Government has already been effectively canceling every month of student loan payments for more than 2 years.

Now, Mr. Pierce, you are an expert on student debt and its impact on borrowers and the economy, so let me ask you. What does the data show about how 2 years of student loan cancellation has impacted inflation?

Mr. PIERCE. Thank you for the question, Senator Warren, and I actually want to cite the same conservative think tank, the Committee for a Responsible Federal Budget, that Senator Toomey

cited in his opening remarks, noting that it is putting billions of dollars back in borrowers' pockets, but that is just a few billion dollars in a many trillion-dollar economy.

It has not—the same analysis shows that it has not contributed substantially to inflation, and in fact, it is just driving 0.02 percent of inflation. That is one-quarter of one tenth of all inflation in America. The White House actually puts that estimate even lower. And 97 percent of all inflation is due to other causes, like the war in Ukraine, problems with the supply chain, and most importantly, greed by mega corporations that are profiteering off of the pandemic.

Senator WARREN. OK. So even the most conservative think tanks say about—is it two-tenths of 1 percent of inflation may have been affected?

Mr. PIERCE. That is right.

Senator WARREN. Let us unpack that a little bit because according to the New York Fed the payment pause has saved borrowers \$84 billion a year. \$84 billion for 2 years sounds like a lot of money to most people, including me. And you are saying that, even so, it only contributed two tenths of 1 percentage point to the rate of inflation. So why is it that \$84 billion a year is not adding more inflation?

Mr. PIERCE. That is because—and again, I am citing a conservative think tank here.

Senator WARREN. Got it.

Mr. PIERCE. That is because we have a multitrillion dollar economy that is driven by consumer spending. And this billions of dollars in relief, it is life changing for the families that benefit from it, but it is just a drop in the bucket for the economy.

Senator WARREN. OK. So let me see if I have got this straight. Republicans' so-called solution to rising prices is to tell hard-working families that they need to start writing checks for hundreds or thousands of dollars a month to the Federal Government. You know, that is not just a slap in the face to borrowers who are barely getting by right now. It also would have virtually no impact on inflation.

But let us talk about what cancellation of student loan debt would do for the economy. Mr. Pierce, what impact would meaningful student debt cancellation have on families' pocketbooks and the broader economy?

Mr. PIERCE. So as you mentioned, we have canceled student loan payments for 2 years.

Senator WARREN. Yeah.

Mr. PIERCE. And research that we published with the California Policy Lab and our Student Loan Law Initiative at University of California-Irvine found that the average family saves 200 bucks a month, 43 percent of those borrowers have used that to pay down high-cost credit card debt, and the borrowers with the worst credit, with the weakest credit going into the pandemic, have experienced the biggest gains. So this is progressive policy, and it is a breath of fresh air for people that have struggled for too long.

Senator WARREN. Right. And for people who are now getting rid of the long-term principal, what does this mean for their lives? What can they now do?

Mr. PIERCE. This will expand opportunities for home ownership. It will make a generation of renters turn into a generation of homeowners. It will help people save for retirement. And, it will help fight the plague of intergenerational student debt. It will free up people's money to help the next generation pay for college.

Senator WARREN. So, a lot of opportunity, a lot of long term stability for families. You know, this would be real money in the pockets of American families who are struggling to pay their bills right now.

And let's be clear about what is happening here. Republicans are desperate to stop the President from doing something that would help working families, so desperate that they are peddling lies about how student loans debt cancellation would impact our economy.

Here are the facts: Canceling student debt would unlock opportunities for Americans across the country. It is a crucial step in reforming the broken student loan system. And, it would not inflate the economy; it would make it stronger for years to come.

The President needs to provide meaningful student debt cancellation for hardworking families, and he needs to do it now.

Thank you for being with us.

Chairman BROWN. Thank you, Senator Warren.

Senator Reed from Rhode Island is recognized.

Senator REED. Thank you very much, Mr. Chairman. Secretary Cardona, when he assumed office, described the preceding years as administrative failures in terms of the programs, and one of them was the failure of the Department's servicers to perform the most basic function, keeping track of borrowers' payments. So, Mr. Pierce, what steps should Congress take to reform just the administrative aspects of the student loan program?

Mr. PIERCE. There are a number of steps that Congress can take. Congress can restore bankruptcy rights to student loan borrowers, Congress can help clean up big pieces of the student loan system, and Congress could make college free.

But the good news for student loan borrowers is that Congress does not need to act to rein in abuses by predatory student loan companies. The Biden administration has all the tools and all the legal authority it needs, working both with the Department of Education and the Consumer Financial Protection Bureau, to clean up this mess.

Senator REED. Thank you. Another aspect, as we emerge from COVID, as we are moving forward, is providing sort of incentives to the lenders so that they are much more sensitive to the students they are teaching, the courses they are teaching. I mean, I have been proposing for many years a risk sharing provision, that institutions of learning that have very high default rates should share the default with the U.S. Government, and I think that will have several effects. One is to ensure that their courses are preparing people adequately for work and repayment, and also that they do not simply use the loan program as a money machine. How do you feel about that, Mr. Pierce?

Mr. PIERCE. That would be an enormous step forward. There are unaccountable schools, particularly, but not exclusively, for profit colleges that have profiteered off of the Federal student loan sys-

tem for decades and have driven student loan defaults. Enrollment in those for-profit colleges are roughly 1 in 10 of America's students, but it is 1 in 5 borrowers and more than a third of all student loan defaults, and taxpayers are left holding the bag.

Senator REED. So that seems to be a very simple market driven approach to fixing a problem that is quite obvious. Is that your opinion?

Mr. PIERCE. I would agree with that.

Senator REED. The final question is that we are looking at cutting back on Federal lending and Federal support, which may in fact just drive people into the private sector, and as we have just talked about, there are some activities in the private sector that are not particularly consumer-friendly.

Could we be creating a bigger problem, i.e., the need to borrow money for school will not go away; if the Federal Government leaves, now you are at the hands of private operators, some whom are very credible and very thoughtful but many others who are looking at it strictly as a way to make money, not to enhance the productivity and the life of American people?

Mr. PIERCE. Absolutely. And as I note in my written testimony, there has been a number of scandals between Wall Street and Silicon Valley over the course of decades that show when students depend on the private sector as their sole source of financing, in particular, things often go off the rails because these loans are designed to fail.

We saw a decade ago with some of the collapses of the large for-profit colleges that they had designed their own private lending scheme and told investors that they expected 6 out of every 10 borrowers that took a private student loan to fail but that that was OK because as long as they could use those private loans to be able to get access to Federal student loans everyone would come out ahead, everyone but their students.

Senator REED. Thank you very much.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Reed.

Senator Cortez Masto.

Senator CORTEZ MASTO. Thank you. First of all, let me just say thank you for this great conversation today. This is the same debate that is happening in my State right now. And I think every question that has been asked by the Senators and the comments, thank you. This is indicative of what we are dealing with.

But to the panel members—and let me start with Mr. Pierce. I was listening to Senator Daines' comments because this is something I do here in my State. I paid for my student loans. I worked hard. I worked a second job. Mr. McCluskey said people should be responsible. You take out a loan. You should be responsible. I did it. Why shouldn't everybody else have to do it and not get that forgiveness?

What is your response to that? If you are talking to people in my State and across the country that feel the same way, what is the response to that and why there should be some sort of forgiveness?

Mr. PIERCE. Thank you, Senator. I think, to start, student loans are not like car loans and mortgages, and for millions of people that have these loans the rules were rewritten after they took on

these debts. For many people who have low incomes, they were told to raise their hand and take advantage of the options that their student loan servicer would tell them about. And when they picked up the phone and they called for help, they were misled, and as a result, their loan balances grew. The debts they owe now are far greater than when they first attended college. That is particularly true for Black borrowers.

This is not just an issue about people getting free stuff from the Government. This is about justice, and it is about equity. And I do not think any place in America people believe that predatory lenders should be able to get off scot-free. In this case, the Government is a predatory lender.

Senator CORTEZ MASTO. Mr. Bishop.

Mr. BISHOP. And I would second all that Mike Pierce shared. And I think that the other way for us to think about this is that when students come to borrow student loans, because of the lack of information, the constant change in rules, the constant change in price for a college education, it is impossible to come into your first year and really determine how much you are going to borrow for the cost of that college, that by the time you get to your third or fourth year your cost of attendance may have increased dramatically.

And even with your best personal responsibility, your best personal budgeting, it was nothing you could do to anticipate or prepare for that increase. But you are in your third or fourth year, and you have to continue to borrow or you will not get that college degree and be in a worse spot where you have student debt and no degree.

So a part of this, too, is understanding that there is a larger system at play here outside of just personal responsibility that is often leading to the debt situations and the crisis that we are seeing right now.

Senator CORTEZ MASTO. Thank you.

And, Mr. McCluskey, do you believe it is true there are predatory lenders out there?

Mr. MCCLUSKEY. Well, at this point, the overwhelming lender is the Federal Government. There has been a problem in which Federal loans will—if you want a Federal loan, there is essentially no assessment of what is it you want to study, where you want to go study it. If this were a private loan, you probably would not see that because there is risk to that lender. For the Federal Government, it is really risk to the taxpayer.

So you might say that the Federal Government has been predatory except that is not the goal. The goal has been to give people the money to go to college, but we have not looked at all the unintended consequences of that, which include massive tuition inflation, it includes massive credential inflation.

But what we have to remember, I think, is that ultimately left holding the bag are taxpayers, who did not have a say in any of those given loans. And as bad as the situation is with Federal student aid—and student loan which, I think, needs to be reformed—the reality is about two-thirds of American taxpayers do not have a bachelor's degree.

And people who do have a bachelor's degree, on average, earn 1.2 million more dollars over their lifetime than someone with just a high school diploma. If you go to professional school, you make 3.1 million more dollars. Those people, the baseline should be they repay those taxpayers who had really no say in any given loan and really did not have any direct say in how the system was set up.

Senator CORTEZ MASTO. Let me tell you about an unintended consequence that I have concerns about. In the State of Nevada, we lack general practitioners, physicians. One of the things, as I have done my roundtable discussion with our doctors throughout the years, I have learned is that because the student loans are so high as a doctor many graduate, don't become a general practitioner because it doesn't pay enough to be able to pay your student loans, so they go into specialty care.

And so now we are seeing choices being made by individuals. Particularly this is true, listen, for attorneys and others. And I am not defending it. I am only telling you what I am hearing. Choices are being made when in actuality it would be better in my State to have more general practitioners, including in our rural communities, and we have incentivized in Congress the ability to get more doctors in our rural communities by waiving their debt.

So I do think there are unintended consequences that we have to be dealing with when we are talking about services to taxpayers that need it, particularly around health care and other needs. And I think this is a complex issue, but we should be thinking about all of the above as well.

So I thank you again for the conversation.

Chairman BROWN. Thank you, Senator Cortez Masto.

Thanks to the witnesses, all three of you, for providing testimony.

I would like to submit for the record testimony of Jonathan Hammond of Massachusetts, who took on student debt to attend a for-profit coding boot camp. Instead of learning useful skills, he got just stuck with a \$10,000 loan. Without objection, so ordered.

I would also like to submit for the record the testimonies of Rae Picken, Megan Bailey, Emily Robinson, and Deborah Harburger. They were in our Dignity of Work listening session on Tuesday. Without objection.

Their stories describing their struggle with student debt while raising families, going to school, serving the public are exactly the reason the Administration should cancel a meaningful amount of student debt. They should be part of the official record of today's hearing.

For Senators who wish to submit questions to the three of you, those questions are due 1 week from today, Thursday, the 12th.

To the witnesses, please submit your answers to these questions for the record within 45 days of receipt.

Thank you again.

The Committee is adjourned.

[Whereupon, at 11:55 a.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF CHAIRMAN SHERROD BROWN

Today, 43 million Americans are drowning in \$1.75 trillion in student debt.

That debt is preventing generations of Americans from pursuing their dreams and seeing their hard work pay off.

It holds people back from buying a house, starting a business, getting married, starting a family.

Earlier this week, this Committee held a listening session to hear from workers about how student loan debt has impacted their lives and undermined the dignity of their work.

We heard about how borrowers face impossible choices between doing the work they care about and trying to pay off mountains of student debt.

Megan Bailey, a social worker in rural Montana, realized that to afford college, either she would be saddled with enormous debt, or her parents would be—jeopardizing their retirement.

Megan took on the debt herself and now owes more than \$200,000. She sacrificed her financial future in order to make sure her parents could retire.

That's a choice no one should have to make.

It wasn't supposed to be like this.

Taking on debt to pay for college is supposed to be an investment in your future—an investment that pays off in the long run with a higher-paying job and a promise of middle-class stability.

It's what we tell people about the American Dream: work hard, play by the rules, and you'll get ahead in life.

It's what Rae from Toledo, Ohio, believed.

She thought that if she took on debt to go to college, if she worked hard, if she dedicated herself to public service, she would get ahead.

Instead, Rae has paid \$96,000 on \$75,000 in student debt she owed, and is nowhere near being done with these loans, despite having a job and working hard every day.

The overwhelming number of borrowers do play by the rules, they do work hard.

Go to college? Check. Get a job? Check. Work hard? Check.

But instead of achieving the American Dream, borrowers are trapped in debt and economic instability.

The debt trap is even worse for borrowers of color.

Ninety percent of Black students and 72 percent of Latino students borrow to attend college, in comparison to 66 percent of White students.

This isn't an accident. This cycle of debt is a direct result of bad policies.

We haven't invested in public education the way we used to—pushing tuition higher and higher, and pushing students to take on more and more debt.

In 2020, more than half of all bachelor's degree recipients from public and private 4-year institutions graduated with student loan debt, and owed an average of \$28,000.

The days that some of us remember are long gone, when hard work at a part time job could put you through school.

Too many of the debt-forgiveness programs that students are told they'll be able to count on are mismanaged—or not really managed at all—by student loan servicers.

The Income-Driven Repayment program is supposed to erase eligible borrowers' debt after making enough payments. Yet it has only canceled the student debt of 32 out of 4.4 million Americans who are eligible.

Not 32 thousand. Not 32 hundred. Just 32 people, out of 4.4 million.

Many of these borrowers have been enrolled and making payments for 20 or 25 years.

According to a recent NPR report, loan servicers failed to properly count qualifying payments and did not accurately track borrowers' progress towards cancellation for millions of people.

Those are some pretty big mistakes.

We created this program to protect people from being trapped in debt forever.

Clearly it isn't working.

Congress also created another program designed to forgive student loan debt: the Public Service Loan Forgiveness program.

We promised these students that if they dedicated 10 years to public service, their loans would be forgiven.

Yet, because of poor servicing, 98 percent of eligible borrowers are rejected for public service loan forgiveness. 98 percent.

One of those rejected was Deborah Harburger from Maryland. Deborah has been a social worker for the State of Maryland more than 18 years.

She should have had her debt forgiven 5 years ago, yet she was rejected for public service loan forgiveness in 2017.

That's 5 years of monthly payments that could have gone to her savings, her retirement, her college savings for her two children.

Servicer mismanagement, particularly of these two programs, has led to borrowers having larger debt for longer periods of time.

The Biden administration recently implemented a temporary PSLF waiver to allow rejected borrowers to re-apply for forgiveness.

That allowed Emily Robinson, a teacher from Georgia, to finally have the remaining \$22,000 of her student loan debt forgiven.

She has taught for 17 years, and was rejected for loan forgiveness once before. Emily told us that she finally received her "Thanksgiving miracle" when all her student loans were forgiven. She said when she saw the remaining balance on her loans at zero dollars, she started crying.

Now that her loans are forgiven, Emily says she can start saving for retirement. That's after 17 years as a public servant.

This was an important first step by the Biden administration.

But it's not enough. The Biden administration has the power to change the financial lives and future of millions of borrowers by forgiving meaningful portions of student debt.

The CFPB has a role here as well.

Student loan servicers need to be closely supervised to ensure borrowers receive the forgiveness they earned, through the programs that Congress established.

Under the Trump administration, the CFPB was not concerned with the average worker. But under the leadership of Director Chopra, the CFPB is finally working to hold these student loan servicers accountable.

Americans should not be trapped by a system that was supposed to be their opportunity to work their way into the middle class.

I'm calling on the Biden administration to think about borrowers like Emily, Rae, Megan, and Deborah who have worked hard their entire lives and are still drowning in debt.

You have the power to reform this broken system, to give people power and agency in their lives again, and to unleash the potential of a generation of Americans.

PREPARED STATEMENT OF SENATOR PATRICK J. TOOMEY

Thank you, Mr. Chairman.

When Congress created universal student loan programs, it didn't call them student grant programs. In fact, there are separate grant programs, like Pell, for low-income students. Congress created the student loan program with the same expectations as any other loan program: the loans would be paid back.

Now some of my Democrat colleagues want the President, despite his lacking the authority, to cancel many of these outstanding loans—effectively converting them into grants of potentially tens of thousands of dollars per borrower.

Let's be clear about what "canceling" student loan debt means. It's a massive wealth transfer from taxpayers to a small subset of mostly wealthy individuals.

First, fewer than one in five adults even have Federal student loan debt. That means that 210 million American adults have no Federal student loan debt. Why do 80 percent of American adults have no student loan debt? Because many of them never went to college, or they went to college without taking on student loans and just paid as they progressed, or they took out student loans and paid them back.

Second, individuals with a bachelor's degree or higher overwhelmingly make more money than people who don't. The vast majority of them are perfectly able to repay their loans. They have significantly lower unemployment rates. And on average, earn a million dollars more over their lifetimes than non-college graduates.

Third, student loan debt is primarily owed by wealthy families and graduate students. Even the *Washington Post's* left-leaning editorial board has blasted the President's plan as a transfer to the wealthy, writing that "a broad cancellation would offer huge, undeserved benefits" to individuals in high-paying fields, and correctly pointed out that "the vast number of American taxpayers lacking university degrees would subsidize well-heeled, white-collar professionals."

All student debt is obviously voluntarily incurred. Over half of all student debt is taken by graduate students, many of whom happily incur the debt because they are entering high-paying fields like business, medicine, and law. Of course, some grad students have degrees that are not highly valued by the labor market.

As the *Wall Street Journal* wrote, "doctorate recipients in the humanities in 2019 earned \$53,000 on average. Machinists make more." This begs the question, why

should a machinist ever have to pay off the loans of an art history Ph.D. let alone a medical doctor?

Beyond being a massive wealth transfer to the well-off and well-credentialed, student debt cancellation is grossly unfair to every other American. Frankly, it's a slap in the face to the machinist, to the taxpayer, to anyone who didn't go to college, and to anyone who works for a living, making financial sacrifices so they can pay their own or their kids' college bills—they saved instead of going on vacation or splurging on gadgets.

Those people don't have student loans, but they have other debt. Should the Government "cancel" their mortgages, car loans, and credit card bills? Of course not. It's almost never acceptable for the taxpayer to be responsible for someone else's voluntarily-incurred private debt.

Cancellation of student debt obscures the root cause of the problem: the rising cost of higher education. For decades, the Government showered students with cheap debt and grants to go to college. With Government paying so much of the cost, students are largely indifferent to the price.

Understanding that price didn't matter to their customers, colleges responded by raising tuition. According to a study by New York Fed economists, anytime there's an increase in the amount that a student can take out for a Federal subsidized loan, 60 percent of that increase is passed through as a tuition hike.

The solution is obvious—less Government subsidization and more personal responsibility. But it seems some have forgotten these immutable economic truths.

Colleges have little incentive to keep prices reasonable if they believe Government will "cancel" debt. They have already demonstrated that they are willing to raise prices at multiples of the rate of inflation because they can.

If Government starts canceling everyone's debt, then we can expect another surge of higher ed inflation. With the Government expected to issue roughly \$1 trillion in new student loan debt over the next decade, we will soon be back in this same position.

I'll conclude by dispelling an argument you may hear today: that student debt cancellation will ease inflation. The opposite is true.

Through May 1 of this year, the nonpartisan Committee for a Responsible Federal Budget, or CRFB, estimated that the COVID student loan repayment pause has already effectively canceled \$5,500 per borrower, and thereby pumped roughly \$5 billion of excess stimulus into the economy each month with no corresponding increase in the supply of goods and services.

The CRFB estimates that full debt cancellation could raise inflation by between one-third and one-half a percent. In addition to being egregiously bad and unfair policy, Americans simply can't afford it.

PREPARED STATEMENT OF MIKE PIERCE
EXECUTIVE DIRECTOR, STUDENT BORROWER PROTECTION CENTER
MAY 5, 2022

Testimony of Mike Pierce

Executive Director of the Student Borrower Protection Center
 Before the Senate Committee on Banking, Housing and Urban Affairs
 May 5, 2022

Chairman Brown, Ranking Member Toomey, Members of the Committee, thank you for the opportunity to testify today. I would also like to thank and acknowledge the heart wrenching testimony of the borrowers who bravely spoke on Tuesday.

My name is Mike Pierce and I am the executive director of the nonprofit Student Borrower Protection Center (SBPC) and co-founder of the Student Loan Law Initiative at the University of California, Irvine School of Law. SBPC is a national nonprofit organization engaged in advocacy, policymaking, and litigation strategy to protect borrowers' rights, rein in industry abuses, and advance economic opportunity for the next generation of students. Before I helped start our organization in 2018, I spent seven years as a regulator for the student financial services industry at the Consumer Financial Protection Bureau.

In just a few weeks, it will be ten years since the Senate Banking Committee held the first Congressional hearing focused solely on student debt. Since that time, much remains the same—but for many, the situation is far worse.

The story of the student debt crisis in the years prior to the pandemic is one marked by widespread economic distress, government inaction, endemic corruption, and a shocking range of abuses by some of the largest financial companies in the world. Today, policymakers have paused much of the student loan system in the face of this profoundly broken status quo—a critical, if temporary, lifeline for tens of millions of people.¹

But even with this momentary room to breathe, student loan borrowers across the country remain exposed to the ballooning burden of student loan debt and its severe economic fallout. For the past decade, rising levels of student debt produced fewer homeowners² and more

¹ Fed. Student Aid, U.S. Dep't of Educ., *COVID-19 Emergency Relief and Federal Student Aid*, <https://studentaid.gov/announcements-events/covid-19> (last visited May 2, 2022); California Policy Lab and Student Loan Law Initiative, *Who Benefits from the Student Loan Payment Pause* (March 2022); <https://www.capolicylab.org/who-benefits-from-the-student-loan-payment-pause-and-what-will-happen-when-it-ends/>.

² See, e.g., Meta Brown & Sydnee Caldwell, *Young Student Loan Borrowers Retreat from Housing and Auto Markets*, Fed. Res. Bank of N.Y. (Apr. 17, 2013), <http://libertystreeteconomics.newyorkfed.org/2013/04/young-student-loan-borrowers-retreat-from-housing-and-auto-markets.html> (finding that homeownership rates of 30-year-old student loan borrowers decreased by more than 5 percent compared with homeownership rates of 30-year-old non-borrowers, and finding that over the analyzed time period student borrowers were less likely to hold auto debt than nonborrowers).

renters,³ brittle household balance sheets⁴ burdened by less savings⁵ and more credit card debt,⁶ the dwindling hope of a secure retirement,⁷ and the growing threat of intergenerational student borrowing.⁸

³ Fed. Res. Bank of N.Y., *Press Briefing On Household Debt, With Focus On Student Debt* 36–47 (Apr. 3, 2017), <https://www.newyorkfed.org/medialibrary/media/press/PressBriefing-Household-Student-Debt-April32017.pdf#page=39> (finding that college attendees with student debt have lower homeownership rates than college attendees without student debt and that higher debt balances are associated with lower home ownership rates).

⁴ See, e.g., Justin Weidner, *Does Student Debt Reduce Earnings?*, Princeton U. (Nov. 2016), https://scholar.princeton.edu/sites/default/files/jweidner/files/Weidner_JMP.pdf (finding that “student debt is permanently scarring, as graduates with debt experience no faster income growth than their unburdened peers. Debt induces graduates to enter employment faster and select jobs in unrelated fields, leading to lower income levels and growth rates.”).

⁵ See, e.g., Daniel Cooper & J. Christina Wang, *Student Loan Debt and Economic Outcomes*, Fed. Res. Bank of Bos., *Current Pol’y Persp.* No. 14-7 (Oct. 2014), <https://www.bostonfed.org/-/media/Documents/Workingpapers/PDF/economic/cpp1407.pdf> (“In addition, the distribution of total wealth excluding student debt liabilities is lower for homeowners with student debt than for homeowners without student loan debt (again conditional on at least some college attendance). This wealth disparity remains even after controlling for a wide range of demographic and other factors.”).

⁶ See, e.g. Consumer Fin. Prot. Bureau, *New research report on student loan repayment and broader household borrowing* (June 29, 2018), <https://www.consumerfinance.gov/about-us/blog/new-research-report-student-loan-repayment-and-broader-household-borrowing/>.

⁷ See, e.g., Consumer Fin. Prot. Bureau, *Snapshot of older consumers and student loan debt* 14 (Jan. 2017), http://files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf (finding that borrowers nearing retirement “had a lower median amount in their employer-based retirement account or an Individual Retirement Account (IRA) than consumers without student loan debt”); Joe Valenti, *A Look at College Costs Across Generations*, AARP (May 2019), <https://www.aarp.org/content/dam/aarp/ppi/2019/05/a-look-at-college-costs-across-generations.doi.10.26419-2Fppi.00063.001.pdf> (finding that student loan borrowers may need to work two to seven years longer than non-borrowers to achieve the same retirement savings); Joseph Egoian, *73 Will Be the Retirement Norm for Millennials*, NerdWallet (Oct. 23, 2013), <https://www.nerdwallet.com/blog/investing/73-retirement-norm-millennials/> (finding that a 4 year college graduate with median student loan debt of \$23,000 has about \$115,000 less in retirement savings than a 4 year college graduate with no student loans by the time they reach age 73); Mikhail Zinshteyn, *Saddled With Debt, Recent Grads Can’t Save*, AARP (May 29, 2019), <https://www.aarp.org/money/credit-loans-debt/info-2019/recent-grads-delay-saving.html>.

⁸ See, e.g., William Elliot & Melinda Lewis, *Student Debt Effects on Financial Well-Being: Research and Policy Implications*, 29 J. Econ. Surveys 614 (2015), <http://onlinelibrary.wiley.com/doi/10.1111/joes.12124/full> (finding that student loan debt can delay asset accumulation for years and can decrease a family’s net worth by 63 percent); Daniela Kraiem, *The Cost of Opportunity: Student Debt and Social Mobility*, 48 Suffolk U. L. Rev. 689, 699 (2015) (“Students with unmanageable debt are more likely to be low-income, female, black, and have dependent members such as children or elderly parents.”); William Elliot & Melinda Lewis, *Student Loans Are Widening The Wealth Gap: Time To Focus On Equity*, Assets & Educ. Initiative, Univ. Of Kan. 7 (2013), <https://aedi.ssw.umich.edu/sites/default/files/publications/publication-cd-reports-r1.pdf> (“However, despite our collective belief in an American dream of equitable opportunities for all, higher education today increasingly reinforces patterns of relative privilege, particularly as students rely more and more on student loans to finance college access.”).

Worse, administrations of both parties over decades have failed to confront the disparate effects of this crisis.⁹ A conclusive and growing body of evidence confirms that rising levels of student debt and distress disproportionately deny access to the American Dream for people of color,¹⁰ in particular Black women.¹¹ The extent of this inequity is catastrophic, widening the racial wealth gaps caused by centuries of systemic racism.¹²

Administrations of both parties have ignored the stark reality that the student debt crisis is principally a failure of public policy—one made far worse by widespread lawlessness across the student loan industry.¹³ For decades, the largest student loan companies have run roughshod over people with student debt, deceiving borrowers about their rights to loan forgiveness¹⁴ and affordable payments,¹⁵ driving borrowers into default¹⁶ and financial devastation.¹⁷

⁹ See, e.g., Student Borrower Prot. Ctr., *Disparate Debts: How Student Loans Drive Racial Inequality Across Cities* (2020), <https://protectborrowers.org/dysparate-debts/>; see also, Welbeck, Katherine, *Race: Examining Legal Remedies for Disparate Student Debt Outcomes*, Consumer Fin. L. Q. Rep. (2020); <https://ssrn.com/abstract=3712516>.

¹⁰ See, e.g., The Education Trust, *Jim Crow Debt: How Black Borrowers Experience Student Loans* (Oct. 2021); https://edtrust.org/wp-content/uploads/2014/09/Jim-Crow-Debt_How-Black-Borrowers-Experience-Student-Loans_October-2021.pdf; see also Dalié Jiménez & Jonathan Glater, *Student Debt Is a Civil Rights Issue: The Case for Debt Relief and Higher Education Reform*, 55 Harv. C.R.-C.L. L. Rev. 131, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3475224&dgcid=ejournal_htmlmail_education:law:ejournal_abstractlink; Ashley Harrington & Mark Huelsman, *Introduction to Delivering on Debt Relief* (December 2020), <https://protectborrowers.org/wp-content/uploads/2021/02/Delivering-on-Debt-Relief-Final.pdf>.

¹¹ See, e.g., The Education Trust, *How Black Women Experience Student Debt* (2022); <https://edtrust.org/resource/how-black-women-experience-student-debt/>.

¹² See, e.g., *Stalling Dreams: How Student Debt is Disrupting Life Chances and Widening the Racial Wealth Gap*, Inst. on Assets and Social Policy (Sept. 2019) <https://heller.brandeis.edu/iasp/pdfs/racial-wealth-equity/racial-wealth-gap/stallingdreams-how-student-debt-is-disruptinglifechances.pdf>; see, generally, Abbye Atkinson, *Borrowing Equality*, 120 Colum. L. Rev. 1403 (2020).

¹³ See, e.g., Consumer Fin. Prot. Bureau v. Navient Corp., 2017 WL 3380530 (M.D. Pa. Aug. 4, 2017); Lawson-Ross v. Great Lakes Higher Education Corp., No. 18-14490 (11th Cir. 2020); Grewal v. Navient Corp., No. ESX-C-172-2020 (N.J. Super. Ct. Ch. Div. Oct. 20, 2020); ; Consent Order, Vullo v. Conduent Educ. Services (Jan. 4, 2019), available at www.dfs.ny.gov; Nelson v. Great Lakes Higher Education Corp., No. 18-1531 (7th Cir. 2019); First Amended Complaint, People v. Navient Corp., No. CGC-18-567732 (Cal. Super. Ct. Nov. 1, 2018); Mississippi v. Navient Corp., No. 25CH1:18-CV-00982 (Miss. Ch. Ct. Hinds Cty. July 17, 2018); Commonwealth v. Navient Corp., No. 19-2116 (M.D. Pa. Oct. 5, 2017); Marek v. Navient Corp., 2017 WL 2881606 (N.D. Ohio July 6, 2017); Complaint, People v. Navient Corp., No. 17CH761 (Ill. Cir. Ct. Cook Cty. Jan. 18, 2017).

¹⁴ See, e.g., People v. Pa. Higher Educ. Assistance Agency, No. 1:2019cv09155 (S.D.N.Y. Oct. 3, 2019).

¹⁵ See, e.g., Consumer Fin. Prot. Bureau v. Navient Corp., 2017 WL 3380530 (M.D. Pa. Aug. 4, 2017).

¹⁶ See, e.g., Consumer Fin. Prot. Bureau, *2014 Annual Report of the CFPB Student Loan Ombudsman* 11-12 (Oct. 2014), https://files.consumerfinance.gov/f/201410_cfpb_report_annual-report-of-the-student-loan-ombudsman.pdf ("No Clear Path to Avoid Default...Options Are Too Little Too Late.").

¹⁷ Consumer Fin. Prot. Bureau, *Stressed out by student debt* (May 15, 2015), <https://www.consumerfinance.gov/about-us/newsroom/stressed-out-by-student-debt/> ("Breakdowns in student loan servicing can be a huge impediment to staying current on student loans. For those borrowers who are struggling to make ends meet, high quality student loan servicing can be the difference between getting by and going broke.").

Taken together, the past decade teaches us that student debt is an economic crisis in its own right, not merely a symptom of runaway college costs.

Student Debt & COVID-19

This moment demands immediate and sweeping changes to ensure families with student debt can prosper and to finally deliver on the promise of higher education as a gateway to the American Dream. Failing to meet this moment will deepen economic inequality, widen the racial wealth gap, and lead to a new epidemic of student loan defaults.

In the first weeks after COVID-19 became a national emergency, Congress enacted what has proven to be the broadest effort to assist people with student debt in American history.¹⁸ This student loan “payment pause” has temporarily freed the majority of people with student debt from the burden of monthly payments, interest charges, and the ever-present threat of wage garnishment.

Three different studies released earlier this year make it clear that the pause on student loan payments has been wildly successful. The first, from the University of California’s California Policy Lab and Student Loan Law Initiative, showed that the payment pause saved a typical borrower hundreds of dollars a month and allowed borrowers who entered the pandemic with the weakest credit to emerge with the largest gains.¹⁹ Rather than leading to a boom in frivolous spending, the payment pause allowed 43 percent of borrowers to pay down high-cost credit card debt.²⁰ The second study, from the Federal Reserve Bank of New York, showed that those people with student debt not covered by the payment pause struggled to stay afloat during the pandemic’s darkest days—and continue to struggle today.²¹ The third, from the Consumer Financial Protection Bureau (CFPB), showed that 15 million people exhibit risk factors indicating heightened likelihood of difficulty making payments when the pause ends, underscoring that the risk of widespread student debt distress persists into the pandemic’s third year.²²

The pause on student loan payments has also proven wildly popular: nearly two-thirds of Americans, including majorities of Democrats, Republicans, and independents, continue to support the pause in student loan payments more than two years later.²³

¹⁸ Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116-136.

¹⁹ *Who Benefits from the Student Loan Payment Pause*, *supra* note 1.

²⁰ *Id.*

²¹ Fed. Res. Bank of N.Y., *Student Loan Repayment During the Pandemic Forbearance* (March 2022); <https://libertystreeteconomics.newyorkfed.org/2022/03/student-loan-repayment-during-the-pandemic-forbearance/>.

²² Consumer Fin. Prot. Bureau, *Student Loan Borrowers Potentially At-Risk as Payment Suspension Ends* (Apr. 14, 2022); <https://www.consumerfinance.gov/data-research/research-reports/student-loan-borrowers-potentially-at-risk-payment-suspension-ends/>.

²³ Data for Progress & Student Borrower Prot. Ctr., *Student Debt Tracking Poll: March 17 to March 21, 2022* (Mar. 2022), <https://www.filesforprogress.org/datasets/2022/3/dfp-sbpc-student-loan-march-tabs.pdf>.

Moreover, contrary to emerging conventional wisdom among certain economic pundits, the payment pause has been a key bulwark for borrowers against rising inflation. The savings attributable to the extended moratorium have protected millions of people from choosing between student loan payments and necessities like food, clothing, or shelter—decisions we know that financially strained borrowers, particularly Black and Latino borrowers, would likely have been forced to make if payments had restarted.²⁴ In fact, this policy has delivered relief for borrowers without itself adding meaningfully to rising prices. Research shows that of the 8.5 percent annualized inflation visible in the most recent data, only 0.2 percentage points—that is, less than one-quarter of one-tenth of the inflation we’ve seen over the past year—is even attributable to the payment pause.²⁵

Setting the Debt Trap

This expansive effort to help people with student debt by pausing student loan payments represents a remarkable break with history. For more than half a century, lawmakers have raised concerns about the cost of college and the barriers those high costs present to students and families who cannot afford it.²⁶ Beginning in the 1950s—and in its current form with the passage of the Higher Education Act of 1965—student debt has been a creature of the federal government.²⁷

Lawmakers repeatedly sought to use debt—rather than increasing grant aid to borrowers or delivering direct support to public colleges—to expand access to college under the mistaken belief that the economic gains offered by higher education would offset any financial costs. A dangerous conventional wisdom formed as a result: the adage that student debt is “good debt.”²⁸

A decade ago, when this committee first met to explore the effects of rising student debt on the economy and our society, it was already clear that this conventional wisdom was dangerously wrong and had, instead, set up a generation of students to fail.²⁹ The rise of global for-profit

²⁴ *Id.*

²⁵ Ben Kaufman, *No, The Student Loan Pause is Not Driving Inflation*, Student Borrower Prot. Ctr. (Apr. 21 2022), <https://protectborrowers.org/no-the-student-loan-pause-is-not-driving-inflation/>.

²⁶ Nat’l Def. Educ. Act of 1958, Pub. L. No. 85-864.

²⁷ Higher Educ. Act of 1965, Pub. L. No. 89-329.

²⁸ Obama White House Archives, *Transcript of April 20, 2012 White House Press Briefing* (accessed May 2, 2022); (“[U.S. Education Secretary Arne] DUNCAN: So again, I think the most important thing we can do is to have young people go to college and graduate. And that’s the best investment we can make. And when that debt is manageable—obviously if you have no debt that’s maybe the best situation, but this is not bad debt to have. In fact, it’s very good debt to have. And we have all kinds of data not just around jobs but around how much your earning potential throughout your lifetime goes up from high school graduate to two-years degree to four-year degree. So this is the best long-term investment we can make.”)

²⁹ Consumer Financial Protection Bureau, *Testimony of Rohit Chopra Before the Senate Committee on Housing, Banking, and Urban Affairs* (July 24, 2012); <https://www.consumerfinance.gov/about-us/newsroom/written-testimony-of-rohit-chopra-before-the-senate-committee-on-banking-housing-and-urban-affairs/>

colleges in the years surrounding the 2008 financial crisis created what some have described as “misery factories”—saddling millions of economically vulnerable people with debt based on false promises of financial rewards.³⁰ Pumped-up job placement rates and false salary projections assuaged students’ concerns about high costs, as ready access to student debt greased the wheels. By the time the largest of these schools began to collapse in the middle of the last decade, the scam was laid bare and law enforcement started closing in.³¹

A decade of research and lived experience shows us that the impacts of the student debt crisis are not limited to a few bad apples, or even the entirety of the predatory for-profit college sector. Borrowers across the country and across all of American higher education take on and struggle under historic and ever-increasing debt burdens. The consequences of this runaway debt are most visible for those who come from historically disenfranchised communities. For example, over a quarter of Black borrowers at public and private non-profit colleges experience default on their student loans,³² and overall wage growth among Black college graduates actually declined in the years leading up to the pandemic.³³

Ending the student debt crisis is a matter of equity and a matter of justice. Borrowers of color take on more debt, struggle to repay these debts at higher rates, disproportionately default on federal student loans, and—as a consequence of both government mismanagement and abusive industry practices—are disproportionately crushed by the government’s predatory debt collection machine.³⁴

A 2019 study by researchers at Brandeis found that “twenty years after starting college, the median debt of [white borrowers] has been reduced by 94 percent—with almost half holding no student debt—whereas Black borrowers at the median still owe 95 percent of their cumulative borrowing total.”³⁵ And, according to a study by researchers at the Jain Family Institute, over

³⁰ Arnold Ventures, ‘Misery Factories’: At For-Profit Colleges, a Web of Predatory Behavior (August 20, 2020); <https://www.arnoldventures.org/stories/misery-factories-at-for-profit-colleges-a-web-of-predatory-behavior>

³¹ CFPB, CFPB Sues For-Profit College Chain ITT For Predatory Lending (Feb. 26, 2014), <https://www.consumerfinance.gov/about-us/newsroom/cfpb-sues-for-profit-college-chain-itt-for-predatory-lending/> (“[T]he costs of the private student loans included 10 percent origination fees and interest rates as high as 16.25 percent.”); CFPB, CFPB Sues For-Profit Corinthian Colleges for Predatory Lending Scheme (Sept. 16, 2014), <https://www.consumerfinance.gov/about-us/newsroom/cfpb-sues-for-profit-corinthian-colleges-for-predatory-lending-scheme/> (“In July 2011, the Genesis loan interest rate was about 15 percent with an origination fee of 6 percent.”).

³² Center for American Progress, The Continued Student Loan Crisis for Black Borrowers (December 2019); <https://www.americanprogress.org/article/continued-student-loan-crisis-black-borrowers>

³³ Economic Policy Institute, *Wage growth is weak for a tight labor market—and the pace of wage growth is uneven across race and gender* (August 2019); <https://www.epi.org/publication/labor-day-2019-wage-growth-gaps/>

³⁴ Judith Scott-Clayton, “Shrinking Racial Gaps in Student Debt and Default: Recommendations to Congress” (Mar. 6, 2019), <https://ccrc.tc.columbia.edu/easyblog/shrinking-racial-gaps-student-debt-default-congress.html>.

³⁵ Sullivan, et. al., Stalling Dreams: How Student Debt is Disrupting Life Chances and Widening the Racial Wealth Gap (2019); <https://heller.brandeis.edu/iassp/pdfs/racial-wealth-equity/racial-wealth-gap/stallingdreams-how-student-debt-is-disrupting-lifechances.pdf>

three quarters of student loans in majority-minority zip codes have a higher balance than what was originally borrowed.³⁶

These deeply unequal outcomes are just one symptom of the central policy failure undergirding America's \$1.7 trillion student loan system—the massive expansion and catastrophic collapse of the student loan safety net.

Beginning as far back as 1992, some people with student debt had the right to make payments based on their income and to eventually receive debt cancellation after up to 25 years of repayment—a right that was expanded in a piecemeal fashion over the succeeding decades.³⁷

In 2007 and again and again throughout the Obama Administration, policymakers sought to assuage growing concerns about rising levels of student debt by pointing to the so-called safety of the debt itself. For example, in his 2010 State of the Union address, President Obama shared this promise with the nation, telling America's college students that "when they graduate, they will be required to pay only 10 percent of their income on student loans, and all of their debt will be forgiven after 20 years—and forgiven after 10 years if they choose a career in public service, because in the United States of America, no one should go broke because they chose to go to college."³⁸

Economic Freedom is Just Another Word for Nothing Left to Lose

Despite lofty pledges by elected leaders, the U.S. Department of Education has historically behaved more like Wells Fargo than a branch of the United States government. The federal government's indifference to widespread lawbreaking by student loan companies over the past three decades has driven a widening gap between borrowers' rights under federal and state law and borrowers' experiences.³⁹

When millions of families lost their homes to foreclosure more than a decade ago, housing advocates warned of a startlingly similar gap between homeowners' rights and their lived experiences.⁴⁰ As this Committee knows well, a decade ago policy makers made broad claims about Americans' rights to mortgage modification and foreclosure mitigation—promises that

³⁶ Jain Family Institute, *Student Debt and Young America* (February 2021);

<https://www.jainfamilyinstitute.org/assets/student-debt-and-young-america-jfi-feb-2021.pdf#page=23>

³⁷ Student Borrower Prot. Ctr., *Driving Down Distress? The Principles and Incomplete History of Income Driven Repayment* (2021); <https://protectborrowers.org/wp-content/uploads/2021/09/Driving-Down-Distress.pdf>

³⁸ Politico, *TRANSCRIPT: 2010 State of the Union Address* (2010);

<https://www.politico.com/story/2010/01/obamas-state-of-the-union-address-032111>

³⁹ See, e.g., Consumer Financial Protection Bureau, *Student Loan Servicing* (2015);

https://files.consumerfinance.gov/f/201509_cfpb_student-loan-servicing-report.pdf

⁴⁰ See, e.g., National Consumer Law Center, *Testimony of Diane Thompson before the Senate Committee on Banking, Housing, and Urban Affairs* (2010);

https://www.nclc.org/images/pdf/foreclosure_mortgage/mortgage_servicing/testimony-senate-banking.pdf

proved empty, as the biggest creditors in the mortgage industry ramped up the foreclosure machine and kicked millions of families out of their homes.⁴¹

This sad history is repeating itself in the student loan market. The Higher Education Act makes bold promises to Americans with student debt, including that:

- Monthly student loan payments will never be “unaffordable,”⁴²
- Public service workers who serve for a decade will receive loan forgiveness,⁴³
- Those whose disabilities prevent them from working will get debt cancellation,⁴⁴
- Student loan payments will never be a life-long burden for low-income people,⁴⁵ and
- The government will discharge debts for those who have been defrauded by a predatory school and those who have faced a school closure.⁴⁶

Yet despite these promises, before the pandemic more than one million student loan borrowers defaulted each year—the equivalent of a new default every 26 seconds.⁴⁷ Officials of both parties routinely call the state of the student loan system “broken,”⁴⁸ a “mess,”⁴⁹ and “corrupt.”⁵⁰

When President Biden took office, he inherited a student loan system that was failing each of these student loan borrowers. By the middle of 2021:

- The Government Accountability Office (GAO) found that the Public Service Loan Forgiveness (PSLF) program, which was established nearly 14 years ago, has only canceled the loans of 124 members of the military, even as hundreds of thousands of borrowers have served.⁵¹ Today, even after sweeping reforms by the Biden

⁴¹ For further discussion, see National Consumer Law Center, *HAMP Policy Analysis* (accessed May 2, 2022); <https://www.nclc.org/loan-servicing-and-modifications-and-foreclosure-assistance-programs/home-affordable-modification-program-hamp/hamp-policy-analysis-2.html>

⁴² See, e.g., 20 U.S.C. 1098e

⁴³ 20 U.S.C. 1087e(m)

⁴⁴ 20 U.S.C. 1087

⁴⁵ See, e.g., 20 U.S.C. 1087e(d)(D)

⁴⁶ 20 USC 1087e

⁴⁷ Student Borrower Prot. Ctr., *New Data Show Student Loan Defaults Spiked in 2019 – A Warning to Industry and DeVos Amid Economic Fallout* (2019), <https://protectborrowers.org/every-26-seconds>.

⁴⁸ CBS News, *Secretary of Education Miguel Cardona on why “fixing a broken” student loan system is a priority for Biden administration* (2021); <https://www.cbsnews.com/news/secretary-of-education-miguel-cardona-student-loan-system/>

⁴⁹ National Public Radio, *Exclusive: How the most affordable student loan program failed low-income borrowers* (2022); <https://www.npr.org/2022/04/01/1089750113/student-loan-debt-investigation>

⁵⁰ Office of Senator Elizabeth Warren, *Warren Statement on Department of Education’s Decision to Collect \$22.3 Million from Student Loan Giant Navient After Years of Predatory Behavior* (2021); <https://www.warren.senate.gov/newsroom/press-releases/warren-statement-on-department-of-educations-decision-to-collect-223-million-from-student-loan-giant-navient-after-years-of-predatory-behavior>

⁵¹ See Government Accountability Office, *Public Service Loan Forgiveness* (2021); https://www.gao.gov/products/gao-21-65?utm_medium=social. See also Consumer Financial Protection Bureau, *Remarks of CFPB Student Loan Ombudsman Seth Frotman before the Judge Advocate General*

Administration, just 1,500 military borrowers have had their debts canceled.⁵²

- The National Consumer Law Center published data under the Freedom of Information Act showing that, as of January 2021, only 32 borrowers had successfully navigated the income-driven repayment (IDR) plans and received cancellation.⁵³ Eighteen months later, that number has barely budged—the Government Accountability Office found that just 132 people have had debts canceled, out of more than 4 million with decades-old debts.⁵⁴
- The government identified more than 500,000 people with disabilities who are eligible to have their debts immediately canceled based on data provided by the Social Security Administration to the Department.⁵⁵ Here, the Biden Administration pledged to take decisive action and cancel more than 350,000 borrowers' debts,⁵⁶ though hundreds of thousands more remain on the hook.
- Even with recent, badly-needed actions to keep the government's promise to public service workers,⁵⁷ these borrowers continue to face hurdles that block them from relief. With the ongoing PSLF waiver period set to expire in October, there is evidence that borrowers continue to receive unreliable or incorrect information regarding how to

School (2017); https://files.consumerfinance.gov/f/documents/201710_cfbp_Frotman-Remarks-JAG-School.pdf. ("...more than 200,000 servicemembers collectively owe more than \$2.9 billion in student debt.")

⁵² Washington Post, *Student loan forgiveness program for military borrowers slowly improves* (April 2022); <https://www.washingtonpost.com/education/2022/04/22/student-loan-forgiveness-military-borrowers/>

⁵³ NCLC & SBPC, *Education Department's Decades-Old Debt Trap: How the Mismanagement of Income-Driven Repayment Locked Millions in Debt* (March 2021), <https://www.nclc.org/uncategorized/new-government-data-exposes-complete-failure-of-education-departments-income-driven-repayment-program.html>.

⁵⁴ Government Accountability Office, *Education Needs to Take Steps to Ensure Eligible Loans Receive Income Driven Repayment Forgiveness* (April 2022), <https://www.gao.gov/assets/gao-22-103720.pdf>; U.S. Senator Elizabeth Warren of Mass., *Education Department Responses to Data Request by Senator Warren* (2021), <https://www.warren.senate.gov/imo/media/doc/Education%20Department%20Response%20to%20Sen%20Warren%20-%204-8-21.pdf>.

⁵⁵ National Consumer Law Center and Student Defense et. al, *Letter to Secretary Cardona on Total and Permanent Disability Discharge* (2021), https://www.nclc.org/images/pdf/student_loans/TPD_Regs_Ltr.pdf. See also Social Security Administration Office of the Inspector General, *Social Security Administration Beneficiaries Eligible for Total and Permanent Disability Federal Student Loan Discharge* (November 2020), <https://oig.ssa.gov/sites/default/files/audit/summary/pdf/A-06-17-50281Summary.pdf>.

⁵⁶ U.S. Department of Education Office of Federal Student Aid, "Good News" Social Media Graphic (accessed May 2, 2022); <https://twitter.com/FSACOO/status/1514981946371227649>

⁵⁷ U.S. Department of Education Office of Federal Student Aid, *PSLF Waiver Offers Way to Get Closer to Loan Forgiveness* (accessed May 2, 2022); <https://studentaid.gov/announcements-events/pslf-limited-waiver>.

access relief.⁵⁸ Further, the Department of Education acknowledged a backlog of nearly 170,000 applications for PSLF—borrowers who may be forced to pay a student loan bill as they remain stuck in the government’s red tape.⁵⁹

- The Department of Education also acknowledged a backlog of more than 100,000 applications for Borrower Defense discharges—the number of unprocessed claims for debt relief due to fraud by a school climbed by more than 20,000 during the first months of the Biden Administration.⁶⁰

The Biden Administration has made a meaningful effort to remedy these and many other failures plaguing the student loan system, using emergency powers granted to the Secretary of Education to temporarily overhaul pieces of the student loan safety net.⁶¹

These steps are important and can be life changing for those individuals who benefit. For example, one public service worker who benefited from debt cancellation since the Biden Administration temporarily loosened program rules in October described debt relief as life-changing: “No more student debt. I only have a car payment, that’s all I owe in the whole world. That is incredible.”⁶² Another said “everything is close to the bone and so often the savings account is empty...[for public school educators, debt cancellation is] like a validation: I am important, and you do want us to stick around!”⁶³

Yet these changes remain limited and temporary, and each day, we are met with new evidence that the student loan system is unable to function properly. Just two weeks ago, the Government Accountability Office released a scathing audit of the broadest student loan safety net program, IDR, finding that for nearly a decade, government officials knew that the student loan industry was not taking the necessary steps to deliver debt cancellation to the lowest income people.⁶⁴ Instead of taking needed action to ensure these economically vulnerable borrowers could benefit from their rights under the law, the Department of Education under both

⁵⁸ Student Borrower Prot. Ctr., *Warning and Demand Letter to the Pennsylvania Higher Education Assistance Agency Regarding PSLF* (December 2021); <https://protectborrowers.org/letter-to-pheaa-warning-of-potential-consumer-protection-violations-related-to-pslf-implementation/>.

⁵⁹ U.S. Department of Education Office of Federal Student Aid, *Electronic Announcement on Public Service Loan Forgiveness Waiver* (2021); <https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2021-06-14/federal-student-aid-posts-two-new-quarterly-portfolio-reports-fsa-data-center-and-highlights-recent-changes-public-service-loan-forgiveness-ea-id-general-21-40>.

⁶⁰ U.S. Department of Education Office of Federal Student Aid, *Borrower Defense Data* (accessed May 2, 2022); <https://studentaid.gov/data-center/student/loan-forgiveness/borrower-defense-data>.

⁶¹ U.S. Department of Education, *Press Release: Department of Education Announces Actions to Fix Longstanding Failures in the Student Loan Programs* (April 2022); <https://www.ed.gov/news/press-releases/departments-education-announces-actions-fix-longstanding-failures-student-loan-programs>.

⁶² *Student debt: One happy ending*, Am. Fed’n of Teachers (December 22, 2022); <https://aftvoices.org/student-debt-one-happy-ending-a7b931526f6b>

⁶³ *Meet The Educators Whose Student Debt Has Been Forgiven*, National Education Ass’n (January 20, 2022); <https://www.nea.org/advocating-for-change/new-from-nea/meet-educators-whose-student-debt-has-been-forgiven>

⁶⁴ Government Accountability Office, *Education Needs to Take Steps to Ensure Eligible Loans Receive Income Driven Repayment Forgiveness* (April 2022); <https://www.gao.gov/assets/gao-22-103720.pdf>

the Obama and Trump Administrations engaged in a shocking cover-up, ignoring evidence of mismanagement and sweeping the issues under the rug.⁶⁵

This is alarming on its own terms, but it also evidences and furthers the belief shared by many with student debt that America's system of higher education financing is itself illegitimate. In important ways, the national conversation surrounding the cancellation of student debt has only recently caught up with a reality that millions of people with student loan debt experience each day.

Student Loan Servicers Turned a Policy Failure into a Generational Crisis

Over the past decade, federal and state regulators and law enforcement officials have meticulously documented a shocking range of abuses by student loan companies. As Consumer Financial Protection Bureau Director Rohit Chopra explained to this committee just last week, misrepresentations by student loan servicers have “long been a concern” given the “incentive mismatch” between servicers, whose costs are reduced if they can limit interaction with borrowers, even where borrowers are entitled under the law to be fully informed about their rights.⁶⁶ According to Director Chopra, this incentive mismatch is reflected in reports from servicer employees that “their job was to get the borrower off the phone as quick as possible,” even if that meant directing borrowers into costly [repayment arrangements] when that was not necessarily their best option.⁶⁷

These illegal acts and practices have affected every type of borrower, with every type of loan, at every stage of repayment.⁶⁸ For example, over the past decade, student loan servicers have been caught by regulators:

- Illegally denying or failing to approve applications for affordable loan payments under IDR, forcing borrowers to pay more than they owe and increasing interest charges.⁶⁹

⁶⁵ National Public Radio, Exclusive: How the most affordable student loan program failed low-income borrowers (2022); <https://www.npr.org/2022/04/01/1089750113/student-loan-debt-investigation>

⁶⁶ Youtube, *Menendez Questions CFPB Director Chopra At Banking Committee Hearing* (April 2022); <https://www.youtube.com/watch?v=MTJh8ldV6k>.

⁶⁷ *Id.*

⁶⁸ See, e.g., *Consumer Fin. Prot. Bureau v. Navient Corp.*, 2017 WL 3380530 (M.D. Pa. Aug. 4, 2017); *Lawson-Ross v. Great Lakes Higher Education Corp.*, No. 18-14490 (11th Cir. 2020); *Grewal v. Navient Corp.*, No. ESX-C-172-2020 (N.J. Super. Ct. Ch. Div. Oct. 20, 2020); *People v. Pa. Higher Educ. Assistance Agency*, No. 1:2019cv09155 (S.D.N.Y. Oct. 3, 2019); *Vullo v. Conduent Educ. Services* (Jan. 4, 2019) (consent order), available at www.dfs.ny.gov; *Nelson v. Great Lakes Higher Education Corp.*, No. 18-1531 (7th Cir. 2019); *People v. Navient Corp.*, No. CGC-18-567732 (Cal. Super. Ct. Nov. 1, 2018) (first amended complaint); *Mississippi v. Navient Corp.*, No. 25CH1:18-CV-00982 (Miss. Ch. Ct. Hinds Cty. July 17, 2018); *Commonwealth v. Navient Corp.*, No. 19-2116 (M.D. Pa. Oct. 5, 2017); *Marek v. Navient Corp.*, 2017 WL 2881606 (N.D. Ohio July 6, 2017); *People v. Navient Corp.*, No. 17CH761 (Ill. Cir. Ct. Cook Cty. Jan. 18, 2017) (complaint).

⁶⁹ See Consumer Financial Protection Bureau, *Supervisory Highlights* (Fall 2016), https://www.consumerfinance.gov/documents/1389/Supervisory_Highlights_Issue_13_Final_10.31.16.pdf.

- Harvesting late fees from borrowers by engaging in a scheme to maximize the number of payments counted as late payments.⁷⁰
- Deceiving borrowers who have made extra payments on their loans about how interest would be charged.⁷¹
- Covering up improper loan deferments and illegally failing to address the increased interest charges these errors imposed on people with student debt.⁷²
- Engineering a scheme to deceive borrowers and maximize interest charges when borrowers used multiple deferments or forbearances over extended periods of time.⁷³
- Lying to borrowers about whether late fees may be charged on loans held by the U.S. Department of Education.⁷⁴
- Failing to inform borrowers with private student loans that pausing loan payments will forfeit other consumer protections, including the right to release a co-signer.⁷⁵
- Illegally increasing borrowers' interest rates when one creditor sold student loans to a different investor, resulting in a botched servicing transfer.⁷⁶
- Illegally "auto-defaulting" student loan borrowers when a loan's cosigner filed for bankruptcy, regardless of whether the borrower was current on all payments.⁷⁷

In addition, federal and state law enforcement officials have taken enforcement actions and filed lawsuits against servicers, including, for example:

- In 2014, the Federal Deposit Insurance Corporation and the U.S. Department of Justice each took an enforcement action against Sallie Mae and Navient for a range of abuses, including violations of the Servicemember Civil Relief Act that resulted in \$60 million being returned to nearly 78,000 military borrowers.⁷⁸

⁷⁰ See *id.*

⁷¹ See *id.*

⁷² See Consumer Fin. Prot. Bureau, *Supervisory Highlights* (April 2017), https://www.consumerfinance.gov/documents/4608/201704_cfpb_Supervisory-Highlights_Issue-15.pdf.

⁷³ See *id.*

⁷⁴ See Consumer Fin. Prot. Bureau, *Supervisory Highlights* (Fall 2015), http://files.consumerfinance.gov/f/201510_cfpb_supervisory-highlights.pdf.

⁷⁵ See Consumer Fin. Prot. Bureau, *Supervisory Highlights* (Winter 2016), http://files.consumerfinance.gov/f/201603_cfpb_supervisory-highlights.pdf.

⁷⁶ See *id.*

⁷⁷ See *id.*

⁷⁸ See, e.g., Press Release, U.S. Dep't of Justice, *Nearly 78,000 Service Members to Begin Receiving \$60 Million Under Department of Justice Settlement with Navient for Overcharging on Student Loans* (May 28, 2015), <https://www.justice.gov/opa/pr/nearly-78000-service-members-begin-receiving-60-million-under-department-justice-settlement>. Further, state attorneys general have increased the volume of enforcement actions in this market, bringing high profile cases against a range of actors.

- In 2015, the CFPB took action against Discover Bank for deceiving borrowers about how much they owed each month and making illegal debt collection calls to borrowers early in the morning and late at night.⁷⁹
- In 2016, the CFPB found that Wells Fargo was illegally harvesting late fees from student loan borrowers who paid less than the amount due each month.⁸⁰
- In 2017, the CFPB took action against Navient, along with state attorneys general in Washington and Illinois for illegally steering borrowers into forbearance—a repayment option designed to assist borrowers experiencing short-term financial hardship—when borrowers have a right under federal law to enroll in repayment plans that allow for lower monthly payments over the long-term and that entitle them to eventual loan forgiveness.⁸¹
- Enforcement officials' investigation into Navient also found that:
 - Navient failed to properly inform borrowers of the need to renew their income-driven repayment plans and failed to properly process those renewals, resulting in interest capitalization on borrowers' loans.⁸²
 - Navient was misreporting to credit bureaus that loans were defaulted when they were in fact discharged under total and permanent disability discharge, including loans owed by servicemembers with service-connected disabilities.⁸³
 - Navient falsely represented to borrowers with cosigned loans the criteria for cosigner release and denied borrowers with the stated criteria.⁸⁴
- In late 2017, the Bureau took action against Citibank for deceiving borrowers about tax-deduction benefits, incorrectly charging late fees, and, like in the Discover case, overstating the minimum amount owed.⁸⁵

⁷⁹ *In Re Discover Bank, The Student Loan Corporation, and Discover Products, Inc.*, Administrative Proceeding File No. 2015-CFPB-0016, Dkt. 1, (July 22, 2015), https://files.consumerfinance.gov/f/201507_cfpb_consens_order-in-the-matter-of-discover-bank-student-loan-corporation.pdf.

⁸⁰ *In Re Wells Fargo Bank, N.A.*, Administrative Proceeding File No. 2016-CFPB-0013, Dkt. 1, (Aug. 22, 2016), https://files.consumerfinance.gov/f/documents/2016-CFPB-0013Wells_Fargo_Bank_NA--Consent_Order.pdf.

⁸¹ *Consumer Fin. Protect. Bureau v. Navient Corp. et al.*, Case No. 3:17-cv-00101-RDM, Dkt. 1 at ¶1-6, (M.D. PA. Jan. 18, 2017), https://files.consumerfinance.gov/f/documents/201701_cfpb_Navient-Pioneer-Credit-Recovery-complaint.pdf; AG Ferguson Files Suit Against Sallie Mae Offshoot Navient Corp., *Announces Student Loan Bill of Rights Legislation*, Wash. State Off. of the Att'y Gen. (Jan. 18, 2017), <https://www.atg.wa.gov/news/news-releases/ag-ferguson-files-suit-against-sallie-mae-offshoot-navient-corp-announces-student>.

⁸² *Id.*

⁸³ *Id.*

⁸⁴ *Id.*

⁸⁵ *CFPB Takes Action Against Citibank For Student Loan Servicing Failures That Harmed Borrowers*, Consumer Fin. Protect. Bureau (Nov. 21, 2017), <https://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-citibank-student-loan-servicing-failures-harmed-borrowers/>.

- In 2018, the Commonwealth of Massachusetts brought an enforcement action against the Pennsylvania Higher Education Assistance Agency, finding that the company cheated teachers and other public service workers out of their rights to have debts canceled under the Public Service Loan Forgiveness program.⁸⁶
- In 2019, New York law enforcement officials took action against the student loan servicer Conduent, formerly known as ACS, for steering borrowers into forbearance and other illegal servicing practices.⁸⁷
- In 2020, the Bureau, then under the leadership of a Republican agency head, took another action against Discover Bank for violating the terms of its prior settlement with the agency and continuing to cheat borrowers out of their rights.⁸⁸
- In 2022, following nearly three years of litigation, the Pennsylvania Higher Education Assistance Agency settled charges brought by the New York Attorney General that it cheated public service workers out of their rights to loan forgiveness and affordable loan payments.⁸⁹

Consider the story of one borrower who reached out to SBPC for help after decades of struggle. "Marie" consolidated her loans in 1995 with a loan balance of less than \$9,000. More than 25 years later, her loan balance is now over \$105,000. Her servicer, American Education Services (AES) never informed her of income-driven repayment options and steered her into costly forbearances and deferments, which exacerbated the exponential growth of her loan balance.

During this time, Marie was earning an average of \$20,000 gross for a household of two and would have qualified for \$0 or very low payments under IDR. But for the underhanded practices of her loan servicer and the Education Department's indifference to the culture of corruption that enabled them, Marie might now be eligible for debt cancellation.

⁸⁶ *Commonwealth v. Pennsylvania Higher Educ. Assistance Agency*, No. 1784CV02682-BLS2, 2018 WL 1137520, Dkt. 1., (Mass. Super. Mar. 1, 2018).

⁸⁷ *Attorney General James And Superintendent Vullo Announce \$9 Million Settlement Of Federal Student Loan Servicing Claims With Acs Education Services*, N.Y. Att'y Gen. (Jan. 4, 2019), <https://ag.ny.gov/press-release/attorney-general-james-and-superintendent-vullo-announce-9-million-settlement-federal>.

⁸⁸ *Consumer Financial Protection Bureau Settles with Student Loan Servicers Discover Bank, The Student Loan Corporation, and Discover Products, Inc. for Violating a Bureau Consent Order and Other Unlawful Practices*, Consumer Fin. Protect. Bureau (Dec. 22, 2020); <https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-settles-with-student-loan-servicers-discover-bank-the-student-loan-corporation-and-discover-products-inc-for-violating-a-bureau-consent-order-and-other-unlawful-practices/>.

⁸⁹ *Attorney General James Secures Student Debt Relief for Thousands of New Yorkers*, N.Y. Att'y Gen., (April 28, 2022), <https://ag.ny.gov/press-release/2022/attorney-general-james-secures-student-debt-relief-thousands-new-yorkers>.

The impact of abuses like those encountered by Marie have caused millions of student loan borrowers to needlessly spend additional years, and in some cases, decades trapped in unaffordable student loan debt.

Private Student Loans, “Shadow Student Debt,” Wall Street, and Silicon Valley

Beyond the trillion-dollar-plus federal student loan market, private-sector financial firms have constructed a minefield of additional risky, expensive, and predatory debt and credit that they use to target economically vulnerable students and borrowers. While the federal government’s heft in the student loan market allows it to draw the lion’s share of policymakers’ attention, a wide range of private-sector entrants backed by the money and ambition of Wall Street and Silicon Valley presage the future of the student debt crisis.

Private Student Loans

Estimates indicate that there are roughly \$140 billion in private student loans in the U.S. originated by banks, credit unions, and other mainstream private lenders.⁹⁰ These loans are notable for their lack of consumer protections relative to other products, particularly federal student loans.⁹¹ For example, the CFPB has found that private student loan borrowers have limited options to modify their payments during periods of financial distress,⁹² and that co-signers (which are generally required) struggle to access promised release from these debts even after years of repayment.⁹³ Moreover, while other areas of consumer finance such as the mortgage and credit card markets have robust data transparency regimes, the absence of a catch-all data reporting requirement in the private student loan space means that borrowers, policymakers, and advocates know vanishingly little in real time about what is going on in this market.⁹⁴

But even in the absence of comprehensive data, it is clear that the private student loan market is a unique locus for borrower harm, particularly for groups who have historically been marginalized.⁹⁵ For example, almost one-in-five Black borrowers with private student loans reports falling behind on at least one private student loan payment due to economic hardship,

⁹⁰ SBPC calculations, based on data released by the Federal Reserve Board of Governors and the U.S. Department of Education. Federal Reserve Board of Governors, *Consumer Credit G.19* (accessed May 3, 2022), https://www.federalreserve.gov/releases/g19/HIST/cc_hist_memo_levels.html; U.S. Dept’t of Education Off. of Fed. Student Aid, *Portfolio Summary* (accessed May 3, 2022), <https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/PortfolioSummary.xls>.

⁹¹ Prentiss Cox, Judith Fox, & Stacey Tutt, *Forgotten Borrowers: Protecting Private Student Loan Borrowers Through State Law*, 11 U.C. Irvine L. Rev. 43, 47 (2020).

⁹² 2017 Annual Report of the CFPB Student Loan Ombudsman, Consumer Fin. Prot. Bureau (Oct. 2017), https://files.consumerfinance.gov/f/documents/cfpb_annual-report_student-loan-ombudsman_2017.pdf.

⁹³ Mid-Year Update on Student Loan Complaints, Consumer Fin. Prot. Bureau (June 2015) https://files.consumerfinance.gov/f/201506_cfpb_mid-year-update-on-student-loan-complaints.pdf.

⁹⁴ Student Borrower Prot. Ctr., *Private Student Lending* (2020); https://protectborrowers.org/wp-content/uploads/2020/04/PSL-Report_042020.pdf#page=15.

⁹⁵ Student Borrower Prot. Ctr., *Private Student Loans* (2020); <https://protectborrowers.org/130-billion-psl-market/>.

nearly four times higher than the proportion of white borrowers.⁹⁶ When considering only Black borrowers with Bachelor's degrees, that rate rises to almost *half* of Black borrowers with private student loans, and the disparity in hardship rises to almost *ten times* higher than the proportion for white borrowers with Bachelor's degrees.⁹⁷

To make matters worse, private student loan borrowers who struggle have few avenues for relief or recourse. Private student loans generally contain pre-dispute arbitration clauses and class waiver provisions which limit borrowers' ability to take lenders to court for issues pertaining to their private student loans.⁹⁸ Many private student loans cannot be discharged in bankruptcy.⁹⁹

The dangers of these products matter in part because growth in this market is accelerating just as the pace of federal student loan debt's onward march is finally slowing.¹⁰⁰ The private student loan market grew 71 percent over the last decade, outpacing the mortgage, auto, and credit card markets over the same period in terms of annualized expansion.¹⁰¹ As a result, the private student loan market is now larger than the payday loan market and the balance of outstanding past-due medical debt.¹⁰² Further, over the second half of the past decade, new annual private student loan issuance grew 42 percent while the amount of new yearly federal student lending shrunk by more than 16 percent.¹⁰³ While federal student loans remain a major burden, this divergence points to an emerging reality wherein private credit and its dangers are playing a growing role in students' financial lives. Meanwhile, it has been almost a decade since the main federal regulator of private student loans, the CFPB, exhaustively studied and reported on this market.¹⁰⁴

Shadow Student Debt

Hiding in the penumbra of America's \$1.75 trillion mountain of federal and mainstream private student loan debt sits a massive, opaque, and lightly regulated market for so-called "shadow student debt"—an umbrella term for the wide variety of dangerous loans and specialty credit often used as the linchpin of predatory college business models.¹⁰⁵ Shadow student debt

⁹⁶ Student Borrower Prot. Ctr., *New Data Show Dramatic Disparities for Borrowers of Color with Private Student Loans* (2020); <https://protectborrowers.org/new-data-show-dramatic-disparities-for-borrowers-of-color-with-private-student-loans/>.

⁹⁷ *Id.*

⁹⁸ Consumer Financial Protection Bureau, *Arbitration Study* (2015);

https://files.consumerfinance.gov/f/201503_cfpb_arbitration-study-report-to-congress-2015.pdf#page=31

⁹⁹ 11 U.S.C. § 523.

¹⁰⁰ Student Borrower Prot. Ctr., *Private Student Loans* (2020); <https://protectborrowers.org/130-billion-psl-market/>

¹⁰¹ *Id.*

¹⁰² *Id.*

¹⁰³ *Id.*

¹⁰⁴ Consumer Financial Protection Bureau, *Private Student Loans* (2012);

<https://www.consumerfinance.gov/data-research/research-reports/private-student-loans-report/>

¹⁰⁵ Student Borrower Prot. Ctr., *Shadow Student Debt* (2020) <https://protectborrowers.org/wp-content/uploads/2020/12/Shadow-Student-Debt.pdf>

consists of personal loans, lines of open-ended revolving credit, “Buy Now, Pay Later” debt, unpaid balances owed directly to schools, and several other products. A series of high-profile investigations and lawsuits revealed that this debt and credit exposes borrowers to high fees, harsh contractual terms, and abusive collections strategies that empower profiteers and facilitate harmful practices.¹⁰⁶ Shadow student debt keeps disgraced colleges afloat, ranging from questionable for-profit vocational bootcamps¹⁰⁷ to massive for-profit school chains whose scandals were guideposts to the last decade of the student debt crisis.¹⁰⁸

Illustrations of shadow student debt in action and the harm it generates include the following:

- The company **Climb Credit**, which acts as a lender and lead generator for for-profit vocational training programs, including coding bootcamps, has been caught making extensive misrepresentations to borrowers and possibly engaging in illegal discrimination, in violation of federal fair lending laws.¹⁰⁹

¹⁰⁶ See, e.g., Student Borrower Prot. Ctr., *Income Share Agreement Company and For-Profit School Sued for Deceptive Practices and Illegal Lending* (2021); <https://protectborrowers.org/income-share-agreement-company-and-for-profit-school-sued-for-deceptivepractices-and-illegal-lending/>; Student Borrower Prot. Ctr., *Income Share Agreement Provider, For-Profit School Operator Sued by Dozens of Former Students for Illegal Lending and Deceptive Practices* (2021); <https://protectborrowers.org/make-school-vemo-lawsuit/>; *Pushing Predatory Products: How Public Universities are Partnering with Unaccountable Contractors to Drive Students Toward Risky Private Debt and Credit*, Student Borrower Prot. Ctr. (June 11, 2021), <https://protectborrowers.org/pushing-predatory-products-how-public-universities-are-partnering-with-unaccountable-contractors-to-drive-students-toward-risky-private-debt-and-credit/>; *PayPal’s Partnerships With Over 150 For-Profit Schools Drive Students to Take on High-Cost Education Debt, Advocates Warn*, Student Borrower Prot. Ctr. (Aug 21, 2021), <https://protectborrowers.org/150-2/>; *The CFPB Must Investigate Climb Credit and Protect Borrowers Across the Dangerous, High-Cost Shadow Student Debt Market*, Student Borrower Prot. Ctr. (Oct. 21, 2021), <https://protectborrowers.org/the-cfpb-must-investigate-climb-credit-and-protect-borrowers-across-the-dangerous-high-cost-shadow-student-debt-market/>; *Point of Sale Fail: How a Flood of “Buy Now, Pay Later” Student Debt is Putting Millions at Risk* (Mar. 3, 2022) <https://protectborrowers.org/point-of-fail-how-a-flood-of-buy-now-pay-later-student-debt-is-putting-millions-at-risk/>; Ben Kaufman, *A Predatory School is Dragging 290 Defrauded Students into Court in the Latest Example of the Exploitative State of the Income Share Agreement Market*, Student Borrower Prot. Ctr. (Feb. 28, 2022), <https://protectborrowers.org/a-predatory-school-is-dragging-290-defrauded-students-into-court-in-the-latest-example-of-the-exploitative-state-of-the-income-share-agreement-market/>.

¹⁰⁷ Id.

¹⁰⁸ See, e.g., Consumer Fin. Prot. Bureau, *Enforcement Action: Student CU Connect CUSO, LLC*, <https://www.consumerfinance.gov/enforcement/actions/student-cu-connect-cuso-llc/> (last visited May 4, 2022); Consumer Fin. Prot. Bureau, *Enforcement Action: PEAKS Trust 2009-1 et al.*, <https://www.consumerfinance.gov/enforcement/actions/peaks-trust/> (last visited May 4, 2022); Press Release, Consumer Fin. Prot. Bureau, *CFPB Takes Action Against Aequitas Capital Management for Aiding Corinthian Colleges’ Predatory Lending Scheme* (Aug. 17, 2017), <https://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-aequitas-capital-management-aiding-corinthian-colleges-predatory-lending-scheme/>; Press Release, Consumer Fin. Prot. Bureau, *CFPB Sues For-Profit Corinthian Colleges for Predatory Lending Scheme* (Sept. 16, 2014), <https://www.consumerfinance.gov/about-us/newsroom/cfpb-sues-for-profit-corinthian-colleges-for-predatory-lending-scheme/>.

¹⁰⁹ *The CFPB Must Investigate Climb Credit and Protect Borrowers Across the Dangerous, High-Cost Shadow Student Debt Market*, *supra* note 106.

- The technology giant Paypal has made its high-cost digital revolving credit product, **PayPal Credit**, available as a form of student financing at a startling range of dubious for-profit schools, all while exposing borrowers to hefty fees and nearly endless contractual traps.¹¹⁰
- For-profit education services companies known as “online program managers (OPM)” — private companies like **2U, Zovio, Promineo, Chegg, and Wiley** — are collaborating with shadow student debt companies like **Climb Credit, Meritize, and Ascent**, OPMs to drive students into unaffordable debt to finance attendance at flashy but often low-quality job training “bootcamps” housed within Title IV schools.¹¹¹
- Emerging point-of-sale lending firms, particularly those in the rapidly growing “Buy Now, Pay Later” (BNPL) space such as **Affirm, Afterpay, Klarna, PayPal, Sezzle, Shop Pay, Uplift, and Zip** have recently flooded the shadow student debt market, exposing borrowers to a product that lacks key consumer protections, has high hidden fees, and can hurt borrowers’ credit.¹¹²
- Established private student lenders such as **Sallie Mae and Navient** robbed a generation of borrowers in the shadow student debt market of their right to bankruptcy through a campaign of lies and misdirection, forcing as many as 2.6 million borrowers to struggle unfairly under as much as \$50 billion in shadow student debt that can be discharged through a traditional bankruptcy.¹¹³
- Companies peddling **income share agreements (ISA)** have proven central to a seemingly unending line of fly-by-night bootcamp frauds and scams,¹¹⁴ all while

¹¹⁰ *PayPal’s Partnerships With Over 150 For-Profit Schools Drive Students to Take on High-Cost Education Debt, Advocates Warn*, *supra* note 106.

¹¹¹ *Pushing Predatory Products: How Public Universities are Partnering with Unaccountable Contractors to Drive Students Toward Risky Private Debt and Credit*, *supra* note 106.

¹¹² *Point of Sale Fail: How a Flood of “Buy Now, Pay Later” Student Debt is Putting Millions at Risk*, *supra* note 106.

¹¹³ Student Borrower Prot. Ctr., *Morally Bankrupt: How the Student Loan Industry Stole a Generation’s Right to Debt Relief* (Jan. 2022), https://protectborrowers.org/wp-content/uploads/2022/01/SBPC_Morally-Bankrupt.pdf.

¹¹⁴ See, e.g., Zoe Schiffer & Megan Farokhmanesh, *The High Cost of a Free Coding Bootcamp*, *The Verge* (Feb. 11, 2020), <https://www.theverge.com/2020/2/11/21131848/lambda-school-coding-bootcamp-isa-tuition-cost-free>; Vincent Woo, *Lambda School’s Misleading Promises*, *N.Y. Mag.* (Feb. 19, 2020), <https://nymag.com/intelligencer/2020/02/lambda-schools-job-placement-rate-is-lower-than-claimed.html>; Tomio Geron, *Tech Bootcamp students are suing over income-share agreements*, *Protocol* (Dec. 17, 2021), <https://www.protocol.com/fintech/leif-elevate-lawsuit>; Press Release, Student Borrower Prot. Ctr., *Income Share Agreement Provider, For-Profit School Operator Sued by Dozens of Former Students for Illegal Lending and Deceptive Practices* (July 1, 2021), <https://protectborrowers.org/make-school-vero-lawsuit/>; Aarthi Swaminathan, *For-profit coding school sued over allegedly ‘predatory’ student contracts* (July 1, 2021), <https://news.yahoo.com/make-school-pbc-coding-sued-over-allegedly-predatory-student-contracts-161009450.html>; Ben Kaufman, *A Predatory School is Dragging 290 Defrauded Students into Court in the Latest Example of the Exploitative State of the Income Share Agreement Market*, *Student Borrower Prot. Ctr.* (Feb. 28, 2022), <https://protectborrowers.org/a-predatory-school-is-dragging-290-defrauded-students-into-court-in-the-latest-example-of-the-exploitative-state-of-the-income-share->

deploying discriminatory pricing models,¹¹⁵ making deceptive marketing claims,¹¹⁶ loading contracts with harmful and illegal trap terms and fees,¹¹⁷ unduly servicing unenforceable debt,¹¹⁸ and denying in the first place that their product is even a form of debt or credit.¹¹⁹

Underlying all of these shameful practices is the tendency by companies in the shadow student debt market to target and profit off of Black and Latino/a students, low-income students, and women, just like the predatory colleges these lenders prop up.¹²⁰ This pattern is embodied in the history of the National Collegiate Student Loan Trusts (NCSLT), a set of trusts holding billions of dollars of both traditional private student loans and an exotic type of shadow student debt called a "Direct to Consumer" student loan—loans often made without regard to students' ability to pay and without certification of financial need by college financial aid officials.¹²¹ As borrowers across the country have defaulted on these loans, NCSLT has been caught levying a shocking range of illegal tactics to prey on borrowers of color, including deploying the harmful "robo-signing" techniques made famous in the mortgage crisis.¹²² In Maryland, for example, nearly 60 percent of the more than 1,300 debt collection lawsuits that NCSLT filed over a roughly five-year

agreement-market; Benjamin Roesch, *Coding Bootcamps Offering ISAs May Be Unlawfully Depriving Students of the Ability to Protect Themselves from Fraud*, Student Borrower Prot. Ctr. (Mar. 11, 2021), <https://protectborrowers.org/coding-bootcamps-offering-isas-may-be-unlawfully-depriving-students-of-the-ability-to-protect-themselves-from-fraud/>; Maria Cid Medina, *San Francisco-Based Holberton Coding School Facing Fraud Accusations from Former Students*, CBS SF Bay Area (Feb. 26, 2020), <https://sanfrancisco.cbslocal.com/2020/02/26/san-francisco-based-holberton-coding-school-facing-fraud-accusations-from-former-students/>.

¹¹⁵ Student Borrower Prot. Ctr., *Inequitable Student Aid: A Case Study of Disparate Lending Practices and Educational Redlining Tactics in the Market for Income Share Agreements* (Mar. 2021), https://protectborrowers.org/wp-content/uploads/2021/03/SBPC_Inequitable-Student-Aid.pdf.

¹¹⁶ Press Release, Student Borrower Prot. Ctr., *Advocates File Complaint with Federal Trade Commission, Urge Enforcement Action Against Vemo Education for Its Deceptive Marketing of Income-Share Agreements to Students* (June 1, 2020), <https://protectborrowers.org/vemo-release/>.

¹¹⁷ Mike Pierce and Tamara Cesaretti, *Income Share Agreements and TILA's Ban on Prepayment Penalties*, Student Borrower Prot. Ctr. (Mar. 30, 2020), <https://protectborrowers.org/isas-and-tilas-ban-on-prepayment-penalties/>; Ben Roesch and Ben Kaufman, *Income Share Agreements and the FTC's Holder Rule*, Student Borrower Prot. Ctr. (Mar. 11, 2021), <https://protectborrowers.org/isa-holder-memo/>.

¹¹⁸ Ben Roesch and Ben Kaufman, *The Companies Enabling ISA Providers' Illicit Activities Could Also Face Steep Legal Liability*, Student Borrower Prot. Ctr. (June 14, 2021), <https://protectborrowers.org/the-companies-enabling-isa-providers-illicit-activities-could-also-face-steep-legal-liability/>.

¹¹⁹ Joanna Pearl and Brian Shearer, *Credit by any Other Name: How Federal Consumer Financial Law Governs Income Share Agreements*, Student Borrower Prot. Ctr. (July 21, 2020), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3661989.

¹²⁰ Student Borrower Prot. Ctr., *Letter to the Consumer Fin. Prot. Bureau Re: Prioritizing the Student Debt Crisis as a Civil Rights Crisis*, (Feb. 8, 2021), https://protectborrowers.org/wp-content/uploads/2021/02/SBPC_Students-loans-and-racial-equity.pdf#page=4.

¹²¹ For further discussion of direct-to-consumer private student lending, see Consumer Fin. Prot. Bureau, *Private Student Loans* (Aug. 29, 2012), https://files.consumerfinance.gov/f/201207_cfpb_Reports_Private-Student-Loans.pdf.

¹²² Stacy Cowley and Jessica Silver-Greenberg, *Behind the Lucrative Assembly Line of Student Debt Lawsuits*, N.Y. Times (Nov. 13, 2017), <https://www.nytimes.com/2017/11/13/business/dealbook/student-debt-lawsuits.html>.

span were levied against borrowers in majority-minority zip codes, and 26 percent of cases were filed in majority-Black Prince George's County.¹²³

At the heart of the shadow student debt market is a simple truth: an ever-growing set of actors offering increasingly exotic forms of credit see students as a path to riches. For as long and as much as policymakers let them, they will continue to engineer increasingly extractive plots to profit at students' expense.

The Path Ahead for Students, Borrowers, and Workers is Lined with More Debt and Distress

Over the past decade, financial firms, colleges, and the U.S. government have worked to exploit students and people with student debt. Unfortunately, the path ahead for students, borrowers, and workers is lined with more debt and will lead to widespread financial distress. The following are just a few of the emerging firms and practices standing just on the horizon of the student debt crisis:

- **Employers are increasingly using shadow student debt as a twisted new form of non-compete clauses.** Companies in low-wage industries from trucking to nursing have recently accelerated their use of provisions in employment contracts that require workers who receive on-the-job training—often of dubious quality or necessity—to pay back the “cost” of this training to their employer if they try to leave their job.¹²⁴ Dubbed “Training Repayment Agreement Provisions” (TRAPs), these predatory contract terms allow employers to use the threat of massive interest and hugely inflated fees that are poorly disclosed at the time of sign-on to diminish working peoples’ negotiating power
- **Colleges are leveraging debt collection tools to prey on students in a growing role as creditors.** The phenomenon of students owing debts directly to their schools for unpaid balances, fees, and other expenses is not new,¹²⁵ but it exploded during COVID as a wave of withdrawals led to a return of Title IV funds that was passed on to former students in the form of debt.¹²⁶ Borrowers owing on institutional debt face the threat of extraordinary debt collection measures such as the withholding of their diploma, transcript, or grades, which can in turn make them unable to secure the work necessary to pay off these debts.

¹²³ *The Long Legacy of Predatory Private Student Loans*, Student Borrower Prot. Ctr and Md. Consumer Rights Coal. and Service Employees Int’l Union (Jan. 2021), <https://protectborrowers.org/wp-content/uploads/2021/12/Maryland-NCSLT.pdf#page=11>.

¹²⁴ *Memorandum re Training Repayment Agreements*, Student Borrower Prot. Ctr (Jan. 19, 2022), https://protectborrowers.org/wp-content/uploads/2022/01/SBPC_TRAs_ABRIDGED.pdf

¹²⁵ *Withholding Dreams*, Student Borrower Prot. Ctr (Jan. 2021), https://protectborrowers.org/wp-content/uploads/2021/01/Withholding_Dreams_SBPC.pdf

¹²⁶ Charlie Eaton et al, *COVID-19 Drove Nearly 750,000 Low-Income Students to Owe \$350 million in Debt to California Public Colleges*, Student Borrower Prot. Ctr and NextGen Pol’y (Mar. 2022), <https://protectborrowers.org/new-report-covid-19-drove-nearly-750000-low-income-students-to-owe-350-million-in-debt-to-california-public-colleges/>.

- **Campus card providers continue to levy predatory fees to upcharge students.**

Federal student loan borrowers are eligible to have surplus Title IV funds disbursed through school-sponsored prepaid and debit cards linked to deposit accounts, referred to as “campus cards.” But these products continue to be marked by back-room deals between financial institutions and schools that have buried students under mountains of hidden, exploitative, and unavoidable fees.¹²⁷ For students, the imposition of these fees can make the difference for if they can afford their textbooks or even pay for food and other basic needs.¹²⁸

As the student debt crisis lurches forward into yet another decade, there is no shortage of new and evolving developments that badly need the Committee’s attention and action.

This is the Moment to Break the Wheel of Student Debt Distress

The well-documented, widespread abuses of federal student loan servicers, private creditors, and even the U.S. Department of Education should serve as a wake-up call for lawmakers. The student loan system remains catastrophically reliant on the giant student loan companies responsible for creating the student debt crisis. At the same time, predatory schools and lenders have seized on the disruption caused by the pandemic to prey on the most economically vulnerable students and families across the country.

Underpinning these challenges are a higher education and a financial system dangerously dependent on household debt. Everywhere from Wall Street to Silicon Valley to Washington, D.C. students and their families have been transformed into dollar signs on a balance sheet, as the promise of broad prosperity is packaged and sold in the pursuit of private profit.

I want to close by returning to the concept of student debt as a trap. Across the marketplace for financial products and services, federal and state laws prohibit lenders from offering loans with balances that grow over time, even as borrowers make monthly payments. When a payday lender builds a loan with these terms, regulators call this a “debt trap.”¹²⁹ Yet, according to an analysis published by the SBPC last fall, this is routinely the case for people with student debt—for every borrower with a federal student loan who repays that debt within 12 years, two more people owe more money than they took out and are even deeper in debt 12 years later.¹³⁰

This is a debt trap.

¹²⁷ See, e.g., Consumer Fin. Prot. Bureau, *Letter to Wayne Johnson on Campus Banking* (Feb. 5, 2018), https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/bcftp_foia_letter-to-department-education_record_2018-02.pdf.

¹²⁸ *Id.*

¹²⁹ See, e.g., Consumer Fin. Prot. Bureau, *Director Richard Cordray Remarks at Payday Lending Field Hearing* (Mar. 25, 2014), <https://www.consumerfinance.gov/about-us/newsroom/director-richard-cordray-remarks-at-the-payday-field-hearing/>.

¹³⁰ Student Borrower Prot. Ctr., *Driving Runaway Debt* (September 2021), https://protectborrowers.org/wp-content/uploads/2021/09/SBPC_Driving_Runaway_Debt.pdf

As is true in nearly every corner of our broken student loan system, the debt trap snaps shut more often for people of color, particularly Black borrowers. For every one Black borrower who manages to repay a federal student loan after 12 years, six owe more debt than they originally borrowed.¹³¹ For Black borrowers, this is the expected outcome in the student loan system. Fully two-thirds of Black borrowers are caught in a debt trap today—a trap that would be illegal if the lender was any actor other than the United States of America.¹³²

Over the past decade, regulators,¹³³ law enforcement officials,¹³⁴ lawmakers,¹³⁵ scholars,¹³⁶ and consumer advocates¹³⁷ have all documented how student loan borrowers have fewer rights and

¹³¹ Id.

¹³² Id. For further discussion, see Eaton et. al. *Letter to Senator Warren on Student Debt* (May 2022), https://www.warren.senate.gov/download/eaton-et-al-analysis_050322

¹³³ See, e.g., Consumer Fin. Prot. Bureau, *Student Loan Servicing* (Sept. 2015), https://files.consumerfinance.gov/f/201509_cfpb_student-loan-servicing-report.pdf (“[P]olicymakers have undertaken broad-based legislative and regulatory efforts to strengthen applicable federal consumer financial laws protecting consumers in the servicing of mortgages and credit cards. However, for student loan borrowers, there is no existing, comprehensive federal statutory or regulatory framework providing consistent standards for the servicing of all student loans.”); Letter from Conn. Dep’t of Banking Counsel Bruce H. Adams to the CFPB in response to a Request for Information Regarding Student Loan Servicing, CFPB-2015-0021-0381 (July 13, 2015), <https://www.regulations.gov/contentStreamer?documentId=CFPB-2015-0021-0381&attachmentNumber=1&contentType=pdf>.

¹³⁴ See, e.g., Letter from Ill. Att’y Gen. Lisa Madigan, et al. to the CFPB in response to a Request for Information Regarding Student Loan Servicing, CFPB-2015-0021-0376 (July 14, 2015), <https://www.regulations.gov/contentStreamer?documentId=CFPB-2015-0021-0376&attachmentNumber=1&contentType=pdf> (“Unlike in similar financial service industries, there is little regulation of specific student loan servicer conduct, such as the handling and application of payments.”).
¹³⁵ See, e.g., Letter from Congresswoman Susan Davis to Director Cordray in response to a Request for Information Regarding Student Loan Servicing, CFPB-2015-0021-0379 (July 13, 2015), <https://www.regulations.gov/contentStreamer?documentId=CFPB-2015-0021-0379&attachmentNumber=1&contentType=pdf> (“[I]t is important the Bureau also put in place strong rules for all borrowers, regardless of loan type or who owns their loans. As a prime example, the Bureau should look to our work in the CARD Act to help inform how they should best protect borrowers. . . .”); Steve Fenberg and Faith Winter, *Opinion: Colorado will lead the effort to end the student crisis*, The Colo. Sun (Apr. 11, 2019), <https://coloradosun.com/2019/04/11/student-debt-steve-fenberg-faith-winter/>.

¹³⁶ See, e.g., Letter from Professor Alan White et al. to the CFPB in response to a Request for Information Regarding Student Loan Servicing, CFPB-2015-0021-6929 (July 23, 2015), <https://www.regulations.gov/document?D=CFPB-2015-0021-6929>.

¹³⁷ See, e.g., Letter from Nat’l Consumer L. Ctr to the CFPB in response to a Request for Information Regarding Student Loan Servicing, CFPB-2015-0021-6840 (Sept. 29, 2015), <https://www.regulations.gov/contentStreamer?documentId=CFPB-2015-0021-6840&attachmentNumber=1&contentType=pdf> (“The absence of clear borrower protections contrasts with other consumer credit areas such as credit cards and mortgages.”); Letter from Consumers Union to the CFPB in response to a Request for Information Regarding Student Loan Servicing, CFPB-2015-0021-7592 (Oct. 20, 2015), <https://www.regulations.gov/contentStreamer?documentId=CFPB-2015-0021-7592&attachmentNumber=4&contentType=pdf> (“The Bureau rightly notes that other kinds of consumer debt come with protections related to repayment and servicing. By contrast, for people who took out loans to get an education, there are fewer protections and the system is often tough to navigate – as a result, these borrowers may be at the mercy of their servicers.”); see also Seth Frotman, *Broken Promises: How*

fewer protections than exist in other markets. The piecemeal policies put in place to protect borrowers and address unaffordable student debt are inadequate to the challenge before this Committee today.

Decades of an abusive student loan system have left 43 million student loan borrowers suffocating under the weight of more than \$1.7 trillion of student loan debt. President Biden did not break this system but he has promised to fix it. It is up to him to wield the awesome power vested in the U.S. Secretary of Education as the largest holder of consumer debt in the world, and provide widespread student debt cancellation for every federal student loan borrower.

Yet, some economic pundits are trying to tell a different story. According to these critics, American families and the broader economy are somehow worse off should Joe Biden keep his promise to cancel student debt.

These long-time opponents of student debt relief have cycled through conflicting arguments to meet the politics of the moment. Debt relief was not needed before because it is a “poor economic stimulus,”¹³⁸ and debt relief is now “inappropriate at a time when the economy is overheated.”¹³⁹ Before, debt relief was overbroad and poorly targeted¹⁴⁰ (never mind the demonstrated connection between broad debt cancellation and narrowing racial inequality).¹⁴¹ Now debt relief is wasteful because “the median American has \$0 in outstanding student loan debt.”¹⁴²

To make matters worse, many critics, including the Washington Post’s editorial board just last week,¹⁴³ have advanced baseless claims that this is a giveaway to the college educated, ignoring the roughly 4-in-10 people with student debt who have no degree.¹⁴⁴

This dishonesty and divisiveness may play well to readers on Wall Street, but it rings hollow on Main Street, where Americans by a two-to-one margin want Joe Biden to cancel student debt—

Debt-financed Higher Education Rewrote America’s Social Contract and Fueled a Quiet Crisis, 2018 Utah L. Rev. 4 811-846 (July 2018), <https://dc.law.utah.edu/cgi/viewcontent.cgi?article=1172&context=ulr>.

¹³⁸ Ctr. for a Responsible Fed. Budget, *Student Loan Debt is Poor Economic Stimulus* (2020), <https://www.crfb.org/blogs/canceling-student-loan-debt-poor-economic-stimulus>.

¹³⁹ @LHSummers, Twitter (Apr. 5, 2022, 3:24 pm), <https://twitter.com/LHSummers/status/1511424479611826179>.

¹⁴⁰ Matt Yglesias, *The Case for Student Debt Relief is Getting Weaker*, Slow Boring (Feb. 22, 2021), <https://www.slowboring.com/p/student-loans?s=r>.

¹⁴¹ Naomi Zewde and Darrick Hamilton, *What Canceling Student Debt Would Do for the Racial Wealth Gap*, N.Y. Times (Feb. 1, 2021), <https://www.nytimes.com/2021/02/01/opinion/student-debt-cancellation-biden.html>.

¹⁴² Archive.org, *Archive of @mattyglesias Tweet on Student Debt* (accessed May 3, 2022); <https://web.archive.org/web/20220407115931/https://twitter.com/mattyglesias/status/1511472044852092937>.

¹⁴³ *Editorial: Biden should resist canceling student debt. Here’s a better policy*, Wash. Post (April 28, 2022), <https://www.washingtonpost.com/opinions/2022/04/28/biden-should-resist-canceling-student-debt/>.

¹⁴⁴ Paul Specht, *Almost 40% of borrowers with student loan debt didn’t finish their degree*, Politifact (Feb. 12, 2021); <https://www.politifact.com/factchecks/2021/feb/12/alma-adams/democrats-say-40-people-college-debt-didnt-get-deg/>.

including a majority of voters who did not go to college and a majority of voters who have no student debt at all.

With the stroke of a pen, Joe Biden can improve the material welfare of tens of millions of people. Offering borrowers a reprieve after a devastating pandemic and economic crisis is undoubtedly good for borrowers and the economy as a whole. When tens of millions of people around the country—especially those who have faced the most financial precarity—can feed their families and have the opportunity to build wealth, our economy is put on stronger footing for the path ahead.

Canceling student debt is just, it is equitable, it is legal, and it is the only appropriate response to decades of government mismanagement and widespread industry abuses.

Thank you for the opportunity to provide this testimony. I look forward to your questions.

PREPARED STATEMENT OF NEAL MCCLUSKEY
 DIRECTOR, CENTER FOR EDUCATIONAL FREEDOM AT THE CATO INSTITUTE
 MAY 5, 2022

Chairman Brown, Ranking Member Toomey, and distinguished Senators:

Thank you for inviting me to speak with you today. My name is Neal McCluskey and I am the director of the Center for Educational Freedom at the Cato Institute, a nonprofit, non-partisan public policy research organization. My comments are my own, and do not represent any position of the institute.

Introduction

The federal student loan programs are highly problematic, and it is crucial to address both their current impacts and to fix them in the long term. They are, indeed, inflicting pain on too many borrowers and on society. But we must also look at the situation with clear eyes, recognizing that student debt is often very manageable because higher education typically brings access to greatly enhanced lifetime earnings, and because efforts to make things easier on current debtors can have major, negative, unintended consequences.

Constitutionality

Before tackling possible reforms of federal student loans, it is important to note that, constitutionally, they should not exist. The federal government has only specific, enumerated powers, primarily found in Article 1, Section 8 of the Constitution, and authority to spend money on education outside of federal lands or territories is not among them. Importantly, the “general welfare” clause does not authorize such expenditures. As James Madison explained in *Federalist* no. 41:

For what purpose could the enumeration of particular powers be inserted, if these and all others were meant to be included in the preceding general power? Nothing is more natural nor common than first to use a general phrase, and then to explain and qualify it by a recital of particulars.

Similarly, Alexander Hamilton, writing about the taxation and “necessary and proper” clauses in *Federalist* no. 33, noted that the federal government is only given specific powers:

[I]t may be affirmed with perfect confidence that the constitutional operation of the intended government would be precisely the same, if the clauses were entirely obliterated, as if they were repeated in every article. They are only declaratory of a truth which would have resulted by necessary and unavoidable implication from the very act of constituting a federal government, and vesting it with *certain specified powers* [italics added]. This is so clear a proposition, that moderation itself can scarcely listen to the railings which have been so copiously vented against this part of the plan, without emotions that disturb its equanimity.

Finally, records of the 1787 constitutional convention include almost no mention of education save for some discussion of authorizing creation of a national university. Of course, the authority to create a national university has never been among the enumerated

powers, but not due to an assumption that it would fall under the “general welfare” clause. No, because a different *enumerated power* could cover it. As James Madison recorded Gouverneur Morris of Pennsylvania explaining, enumerating a power to create a national university “is not necessary. The exclusive power at the Seat of Government, will reach the object.”¹

Student Loan Servicing is a Symptom, Not the Disease

Complaints about the failures of loan servicers hired by the U.S. Department of Education (ED) are many and well documented, both by government entities such as the Consumer Financial Protection Bureau (CFPB)² and media outlets such as National Public Radio (NPR).³ There have been, no doubt, errors committed by servicers over time, instances of poor customer service, and other problems. But the servicers are not the root problem in student lending. They are symptoms of the root problem: federal student lending itself.

Servicers are, of course, hired by ED to do a job, and if they do it poorly it is incumbent on ED to get the problems fixed. But it has been widely reported, and acknowledged by ED, that the department has long failed to do that adequately. As an ED spokesperson told NPR concerning widespread repayment tracking failures in Income-Driven Repayment (IDR), “Borrowers place their trust in us to make sure these plans work the way they were intended to, and we intend to honor that trust. We are aware of historical issues with prior processes that had undermined accurate tracking of eligible payments. The current situation is unacceptable and we are committed to addressing those issues.”⁴ The Government Accountability Office (GAO) reported last month that ED does not require servicers to do many valuable things for borrowers in IDR, such as provide sufficient

¹ *The Records of the Federal Convention of 1787*, Vol. II, Max Farrand, ed. (New Haven, CT: Yale University Press, 1966), p. 616.

² “CFPB Steps Up Scrutiny of Student Loan Servicers That Deceive Borrowers About Public Service Loan Forgiveness,” Consumer Financial Protection Bureau, February 18, 2022, [https://www.consumerfinance.gov/about-us/newsroom/cfpb-steps-up-scrutiny-of-student-loan-servicers-who-deceive-borrowers-about-public-service-loan-forgiveness/#:~:text=Consumers%20having%20an%20issue%20resolving,411%2DCFPB%20\(2372\)](https://www.consumerfinance.gov/about-us/newsroom/cfpb-steps-up-scrutiny-of-student-loan-servicers-who-deceive-borrowers-about-public-service-loan-forgiveness/#:~:text=Consumers%20having%20an%20issue%20resolving,411%2DCFPB%20(2372).).

³ Cory Turner, “Exclusive: How the most affordable student loan program failed low-income borrowers,” National Public Radio, April 1, 2022, <https://www.npr.org/2022/04/01/1089750113/student-loan-debt-investigation>.

⁴ Turner, 2022.

information about how one qualifies for loan forgiveness, or regular updates of where borrowers are on their payment schedule toward forgiveness.⁵

ED, however, has not just failed to ensure efficient and accurate work by servicers. It has failed to conduct proper tracking itself of data that is crucial for the workings of IDR. Reported the GAO:

Education approved IDR forgiveness for 157 loans under IDR plans as of June 1, 2021, the most recent data available at the time of our review. These loans were held by 132 borrowers who collectively received forgiveness of about \$4.4 million in loan balances, an average of about \$34,000 per borrower. However, Education's data do not provide enough information to definitively determine why thousands of additional loans were not forgiven. We found that about 7,700 loans (approximately 11 percent of loans analyzed) potentially had enough qualifying payments to qualify for forgiveness as of September 1, 2020, after subtracting months in nonqualifying statuses, such as delinquency, default, certain deferments, and forbearance...

Given gaps in Education's data, we were not able to determine whether any of the 7,700 loans we identified are eligible for IDR forgiveness. According to Education officials, prior to 2014, NSLDS did not contain complete and reliable data on delinquencies or information on repayment plans, which is needed to determine whether a loan is on a plan that could qualify for IDR forgiveness. Education took steps to address these data limitations starting in 2014; however, the changes do not retroactively apply to older data according to Education officials. Further, while NSLDS also includes cumulative counts of qualifying payments toward IDR forgiveness, officials advised against using them in our analysis because they are not sufficiently accurate to determine when a loan is eligible for forgiveness. These data limitations make it difficult for Education and loan servicers to systematically track the number of qualifying payments made by borrowers, raising the risk that some of the approximately 7,700 loans we identified were eligible for but did not receive forgiveness as of September 1, 2020.⁶

The GAO also reported major errors in repayment tracking when accounts moved from one servicer to another, but wrote, "Despite the known issues with older qualifying payments, Education advises servicers to consider previous servicers' counts as accurate."⁷

⁵ "Education Needs to Take Steps to Ensure Eligible Loans Receive Income-Driven Repayment Forgiveness," GAO-22-103720, United States Government Accountability Office, March 2022, pp. 17-22, <https://www.gao.gov/assets/gao-22-103720.pdf>.

⁶ GAO, pp. 10-12.

⁷ Ibid, 13.

ED is in charge of administering the student loan system, and appears to have performed poorly at the basics, and to have done so for a long time. But this should not be a surprise. The federal government has for decades been the dominant force in student lending, first through guaranteed loans, then through Direct Lending. In the period the College Board has tracked student aid, including non-federal loans – the 1995-96 to 2020-21 academic years – federal loans have never accounted for less than 75 percent of total student loan volume, and has averaged 88 percent.⁸ Essentially, ED is running the country's entire student loan industry, and a federal department is likely not capable of efficiently handling such a huge and complex task.

But this is not simply a failure of bureaucracy or the entities it hires. The student loan system itself, created by Congress in a long evolution of well-intended but poorly thought-out programs and patches, is a byzantine mess that is inscrutable to borrowers, servicers, and quite possibly ED itself. It features a dizzying array of loans and repayment plans, often festooned in arcane lending terms, the sheer volume of which alone is a great deal to wrap one's head around. There are "direct" loans, "guaranteed" loans, "subsidized" loans, "unsubsidized" loans, "consolidation" loans, "Grad PLUS" loans and "Parent PLUS" loans. For repayment there is "standard" repayment but also "graduated," "Pay As You Earn (PAYE)," "Revised Pay As You Earn (REPAYE)," "Income-Based Repayment Plan (IBR)," "Income-Contingent Repayment Plan (ICR)," "Income-Sensitive Repayment," and "Public Service Loan Forgiveness," not to mention "deferment," "forbearance," and "default." And the loan and repayment programs interact with each other in myriad ways, creating a dizzying array of possibilities.

Given this extreme complexity, and all the rules and regulations that go with all of these programs, it is not a surprise that many complaints about servicers are actually complaints about the workings of federal student aid itself. As Jason Delisle and Lexi West at the American Enterprise Institute found in a 2019 analysis of 1,200 randomly selected complaints about servicers in the CFPB complaint database, only 44 percent of complaints that included explicating narratives concerned things under servicers' control, while 35 percent were about the rules of federal programs, such as how payments are applied to interest or principle, the size of monthly payments, and the workings of graduated repayment.⁹ PSLF has been similarly plagued by confusion about what types of loans qualified, what employers were sufficiently focused on public service, and more.¹⁰

⁸ Calculation by Neal McCluskey using College Board, "Trends in Student Aid 2021," Downloadable data, Table 2, <https://research.collegeboard.org/trends/student-aid>.

⁹ Jason D. Delisle and Lexi West, "Student Loan Servicers: Scammer so Scapegoats," American Enterprise Institute, October 2019, <https://www.aei.org/research-products/report/student-loan-servicers-scammers-or-scapegoats-an-analysis-of-the-consumer-financial-protection-bureau-complaint-database/>.

¹⁰ Danielle Douglas-Gabriel, "For student borrowers, confusion anew in the public-service loan-forgiveness program," *Washington Post*, February 20, 2020,

Federal Student Aid, Especially Lending, Has Massive, Negative, Unintended Consequences

Well beyond the direct problems with federal student loans, they, along with other aid programs, fuel major problems that may, in fact, render them self-defeating, or even negative in their overall impact.

The first negative effect, which has been well established at this point, is fueling skyrocketing college prices. Colleges using federal loan dollars as funding streams to pay for things that benefit them, such as higher professor salaries, was feared in the earliest days of federal funding of student loans under the National Defense Education Act in 1958.¹¹ In 1987, U.S. Secretary of Education William Bennett argued in the *New York Times* that federal student aid enabled colleges “blithely to raise their tuitions, confident that Federal loan subsidies would help cushion the increase.”¹² And in 2015, in addition to numerous other studies finding student aid programs having inflationary effects, a Federal Reserve Bank of New York report found that for every one-dollar increase in federal subsidized loan maximums, prices rose 60 cents.¹³

Fueling price inflation, of course, greatly diminishes the value of aid to students, though it is of significant value to the institutions that enroll the students. The schools get the money and bear no risk in doing so. Nonetheless, if the goal of federal student lending is to increase enrollment in higher education, it appears to have succeeded. In 1910, only 2.7 percent of Americans ages 25 and above had a bachelor’s degree or higher. 50 years later that number was only up to 7.7 percent. But by 1980 – major expansion of federal lending

<https://www.washingtonpost.com/education/2020/02/20/student-borrowers-confusion-anew-public-service-loan-forgiveness-program/>.

¹¹ Josh Mitchell, *The Debt Trap: How Student Loans Became a National Catastrophe* (New York: Simon and Schuster, 2021), 21.

¹² William Bennett, “Our Greedy Colleges,” *New York Times*, February 18, 1987, <https://www.nytimes.com/1987/02/18/opinion/our-greedy-colleges.html>.

¹³ David O. Lucca, Taylor Nadauld, and Karen Shen, “Credit Supply and the Rise in College Tuition: Evidence from the Expansion in Federal Student Aid Programs,” Staff Report No. 733, July 2015, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr733.pdf; For a summary of studies, see Jenna A. Robinson, “The Bennett Hypothesis Turns 30,” The James G. Martin Center for Academic Renewal, December 26, 2017, <https://www.jamesgmartin.center/2017/12/the-bennett-hypothesis-turns-30/#:~:text=%E2%80%9CThe%20Bennett%20Hypothesis%20Turns%2030,up%20the%20cost%20of%20tuition.>

happened between 1965 and 1980 – that number was up to 17.7 percent, and by 1990 it was 21.3 percent. Today it sits at almost 38 percent.¹⁴

Of course, the ultimate goal of funding education is not to get more people into places called “college” or “university,” but to increase skills and knowledge. And no doubt there has been increased amounts of skills and knowledge in society since the 1960s, much of it gained by people attending college. But the evidence suggests that there have been greatly diminishing returns when it has come to learning as enrollment has grown.

We do not have comprehensive data for learning in college as there is no widely agreed upon, national measure of the “right” amount of postsecondary learning, but what we do have is troubling. First, looking at what students actually do in college, sociologists Richard Arum and Josipa Roksa, in their book *Academically Adrift*, report major decreases in the time college students have spent engaged in academic work. In 1961, full-time students spent 25 hours per-week studying, in 1980 it was 20 hours, and by 2003 it had fallen to 13 hours.¹⁵

Assessments of literacy, both reading and computational, also show declines over time for adults with degrees. The first assessment is the National Assessment of Adult Literacy (NAAL), which tested adults’ ability to comprehend prose such as newspaper articles or brochures, documents such as tax forms, and quantitative literacy.¹⁶ It was administered in 1992 and 2003, during which time the share of Americans ages 25 and above with bachelor’s degrees rose from 21.4 percent to 27.2 percent.¹⁷ The share of adults who ended their formal education with a bachelor’s degree who were proficient prose readers dropped from 40 percent to 31 percent between 1992 and 2003. For document literacy the shares dropped from 37 percent to 25 percent. In quantitative, results were unchanged. The direction for adults with advanced degrees was also negative, with those who were prose proficient dropping from 51 percent to 41 percent, document from 45 percent to 31

¹⁴ “Table 104.10. Rates of high school completion and bachelor’s degree attainment among persons age 25 and over, by race/ethnicity and sex: Selected years, 1910 through 2020,” *Digest of Education Statistics*, National Center for Education Statistics, https://nces.ed.gov/ipeds/data/digest/d20/tables/dt20_104.10.asp?current=yes.

¹⁵ Richard Arum and Josipa Roksa, *Academically Adrift, Limited Learning on College Campuses* (Chicago: University of Chicago Press, 2011), p. 3.

¹⁶ “National Assessment of Adult Literacy (NAAL): A First Look at the Literacy of America’s Adults in the 21st Century,” U.S. Department of Education, Institute of Education Sciences, NCES 2006-470, December 2015.

¹⁷ “Table 104.10. Rates of high school completion and bachelor’s degree attainment among persons age 25 and over, by race/ethnicity and sex: Selected years, 1910 through 2020,” *Digest of Education Statistics*, National Center for Education Statistics, August 2020, https://nces.ed.gov/ipeds/data/digest/d20/tables/dt20_104.10.asp?current=yes.

percent, and quantitative from 39 to 36 percent, though the latter was not statistically significant.

The second exam, which has essentially replaced the NAAL, is the Program for the International Assessment of Adult Competencies (PIAAC), which was administered in 2012/14 and 2017. It is not directly comparable to NAAL, including that it does not designate “proficiency,” but it does report performance levels.

In terms of enrollment, between 2012 and 2017 the share of Americans 25 and older with a bachelor’s degree rose from 30.9 percent to 34.2 percent. The literacy trend moved in the opposite direction. For U.S. households with members ages 16 to 65 years old, in the 2012/14 administration 68 percent of people with more than a high school education scored in the third literacy level or above. In 2017 only 64 percent did.¹⁸ In numeracy the drop was from 57 to 53 percent. More movement in the wrong direction, though the PIAAC drops fell short of statistical significance.

A likely major reason we are seeing decreasing skills for the average degree holder is that employers are increasingly seeking degrees for jobs that did not previously require them. Why? Because the more degrees there are, often funded by federal loans, the more that employers can easily demand such signals of basic perseverance and maybe intelligence, and the more not having one makes an applicant look deficient. But if the demands of the job are unchanged, that basically puts workers on a progressively speeding up credential treadmill – they have to run faster educationally just to stay in one place.

This was illustrated in 2014 by the job market data firm Burning Glass Technologies,¹⁹ and was analyzed in 2017 by researchers at the Harvard Business School. Analyzing more than 26 million job openings and current occupants of “middle-skill” jobs, the latter researchers found massive credential inflation, which they called “degree inflation.”²⁰ The most striking example was supervisors of production workers, with 67 percent of job postings calling for at least a bachelor’s degree, but only 16 percent of current occupants possessing such a credential, a 51 percent gap. Other large gaps in job categories with many people employed in them were 47 percent for executive secretaries and executive administrative assistants, and 44 percent for supervisors of construction trades and extraction workers.

¹⁸ “PIAAC Results: Explore how U.S. adults compare to their international peers and see the latest 2017 U.S. results,” National Center for Education Statistics, https://nces.ed.gov/surveys/piaac/current_results.asp.

¹⁹ “Moving the Goalposts: How Demand for a Bachelor’s Degree Is Reshaping the Workforce,” Burning Glass, September 2014, https://www.burning-glass.com/wp-content/uploads/Moving_the_Goalposts.pdf.

²⁰ Joseph B. Fuller and Manjari Raman, “Dismissed by Degrees How degree inflation is undermining U.S. competitiveness and hurting America’s middle class,” Harvard Business School, December 13, 2017, <https://www.hbs.edu/managing-the-future-of-work/Documents/dismissed-by-degrees.pdf>.

Even as we have seen credential inflation enabled by greatly increased college enrollment, we have seen a persistent glut in degrees, at least as measured by individuals with degrees who are in not just jobs, but career tracks, that do not require them. According to data from the Federal Reserve Bank of New York, roughly a third of non-recent graduate, four-year degree holders are in jobs that do not require their credential.²¹

Finally, aid does not appear to have coincided with an increase in the share of four-year degree holders who are low-income. Data from the Pell Institute at the University of Pennsylvania going back to 1970 show that the share of all bachelor's degrees held by dependent family members ages 18 to 24 from families in the lowest income quartile has hovered around 10 percent throughout the period, and actually dropped a bit from beginning to end.²² Obviously, this is not all people, but at the very least there has been no increase in people from the lowest-income families getting degrees in "traditional" timeframes.

To summarize, while student aid, including loans, may have helped to increase college enrollment – we do not know how enrollment would have looked in the absence of federal aid – the data on learning, and unintended consequences, suggest the effect of aid may well be a net negative. We have seen college prices skyrocket, declines in human capital per degree, more demand for those degrees, an overabundance of graduates, and no relative increase in degree attainment by the lowest-income Americans – presumably the people most in need of help. And, of course, we have seen a huge increase in federal student debt, from \$516 billion in 2007 to \$1.6 trillion today.²³

Fixes

The ideal solution to the student aid problem going forward, one which is consistent with the Constitution and that would eliminate the sundry negative effects of student loans, is to phase out the federal loan programs. The federal government does not have constitutional authority to run such programs, and the results we have seen are testament to the Founders' wisdom. But what to do about the current situation?

²¹ "The Labor Market for Recent College Graduates: Underemployment," Federal Reserve Bank of New York, February 12, 2021, <https://www.newyorkfed.org/research/college-labor-market/college-labor-market-underemployment-rates.html>.

²² Margaret W. Cahalan, Marisha Addison, Nicole Brunt, Pooja R. Patel, and Laura W. Perna, "Indicators of Higher Education Equity in the United States: 2021 Historical Trend Report," Equity Indicator 5a(f), <http://pellinstitute.org/downloads/publications-indicators-of-higher-education-equity-in-the-us-2021-historical-trend-report.pdf>.

²³ Federal Student Aid, Federal Student Aid Portfolio Summary, accessed May 3, 2022, <https://studentaid.gov/data-center/student/portfolio>.

First, it is time to end the freezing of student debt repayments started in the early days of the COVID-19 pandemic. That was intended to be a short-term response to the very dramatic economic uncertainty created by the pandemic and lockdowns to slow it, and that economic shock was overcome by the first quarter of 2021.²⁴ During that time, college graduates tended to suffer the least in the workforce, often occupying jobs that could be done remotely.²⁵ Freeze extensions have been coupled with seemingly ad hoc changes to student loan repayment such as IDR and PSLF, including retroactively changing rules to qualify for relief.²⁶ This has been a very unstable and expensive state of affairs, likely costing taxpayers more than \$100 billion²⁷ and yo-yoing borrowers and student loan servicers.

The second answer is to do nothing extreme, especially massive debt cancellation.

First and foremost, mass cancellation is a poor idea because despite all of the major problems aid has created, getting a degree is still, on average, a good investment. Data from the Georgetown University Center on Education and the Workforce show that the average person possessing a four-year degree will earn approximately \$1.2 million more over their lifetime than someone with just a high school diploma. Someone with a professional degree such as in law or medicine – the top earners – will make about \$3.1 million more.²⁸ As a baseline, taxpayers – roughly two-thirds of whom do not have four-year degrees²⁹ – should

²⁴ Federal Reserve Bank of Saint Louis, “Gross Domestic Product,” accessed May 3, 2022, <https://fred.stlouisfed.org/series/GDP#0>.

²⁵ U.S. Bureau of Labor Statistics, “Education pays, 2020,” June 2021, <https://www.bls.gov/careeroutlook/2021/data-on-display/education-pays.htm#:~:text=For%20example%2C%20workers%20with%20a,was%20a%20high%20school%20diploma.>

²⁶ For instance, applying to IDR and PSLF past payments in loan programs that did not count toward them at the time. See U.S. Department of Education, “Department of Education Announces Actions to Fix Longstanding Failures in the Student Loan Programs,” April 19, 2022, <https://www.ed.gov/news/press-releases/departments-education-announces-actions-fix-longstanding-failures-student-loan-programs>; and U.S. Department of Education, “U.S. Department of Education Announces Transformational Changes to the Public Service Loan Forgiveness Program, Will Put Over 550,000 Public Service Workers Closer to Loan Forgiveness,” October 6, 2021, <https://www.ed.gov/news/press-releases/us-department-education-announces-transformational-changes-public-service-loan-forgiveness-program-will-put-over-550000-public-service-workers-closer-loan-forgiveness>

²⁷ Committee for a Responsible Federal Budget, “How Much Student Debt Has Already Been Cancelled?” March 17, 2022, https://www.crfb.org/blogs/how-much-student-debt-has-already-been-cancelled#_ftnref2.

²⁸ Anthony P. Carnevale, Ban Cheah, and Emma Wenzinger, “The College Payoff: More Education Does Not Always Mean More Earnings,” Georgetown University Center on Education and the Workforce, 2021, Figure 1, <https://cew.georgetown.edu/cew-reports/collegepayoff2021/>.

²⁹ “Table 104.10. Rates of high school completion and bachelor’s degree attainment among persons age 25 and over, by race/ethnicity and sex: Selected years, 1910 through 2020,” Digest of Education Statistics, National Center

not be forced to fund loan cancellation for people who will, on average, see major financial payoffs.

Because of this large lifetime earnings increase, paying off student debt is not especially burdensome for most borrowers. In 2019, economist Beth Akers noted that, “Typical four-year-degree graduates who borrow will accumulate \$28,500 in debt over the course of their enrollment. That can be paid back with monthly payments of less than \$200, which is a relatively small share (4%) of the average monthly earnings for this population (\$4,717).”³⁰

Looking at repayment of federal direct student loans in the fourth quarter of 2019 – before the COVID-19 repayment freeze – 70 percent of loans were either being repaid or were for students still in school or in their grace period.³¹ The remaining 29 percent – 1 percent is for “other” – represent borrowers who might be struggling to repay. Nine percent were in deferment, in which borrowers can pause repayment, and those with “subsidized” loans can do so without accruing interest. Qualifications include “economic hardship,” but also undergoing cancer treatments, entering military service, and more.³² Seven percent were in forbearance, which accumulates interest, and can be granted for many things, including serving in AmeriCorps, being in the National Guard and activated by a governor, and more.³³ Servicers also put lenders seeking to enter IDR into “administrative forbearance” as they transition, which is supposed to end after 60 days.³⁴ Finally, 14 percent were in default, meaning they were not repaying and were incurring penalties. So while some debt-holders may truly struggle – which must be more than simply saying one feels their loan repayment is a burden – most likely do not, at least on a lasting basis.

for Education Statistics, August 2020,
https://nces.ed.gov/programs/digest/d20/tables/dt20_104.10.asp?current=yes.

³⁰ Beth Akers, “Issues 2020: Millennials Aren’t Drowning in Student Debt,” Manhattan Institute, October 10, 2019,
<https://www.manhattan-institute.org/issues2020-millennials-arent-drowning-in-student-debt>.

³¹ Federal Student Aid, “Portfolio by Loan Status (DL, FFEL, ED-Held FFEL, ED-Owned),” accessed May 3, 2022,
<https://studentaid.gov/data-center/student/portfolio>.

³² Federal Student Aid, “Student loan deferment allows you to temporarily stop making payments,” accessed May 3, 2022, <https://studentaid.gov/manage-loans/lower-payments/get-temporary-relief/deferment>.

³³ Federal Student Aid, “Student loan forbearance allows you to temporarily stop making payments,” accessed May 3, 2022, <https://studentaid.gov/manage-loans/lower-payments/get-temporary-relief/forbearance>.

³⁴ Seth Frotman, “Trying to enroll in an income-driven repayment plan? Avoid #ApplicationAbyss with our student loan tips and resources,” Consumer Financial Protection Bureau, August 18, 2016,
<https://www.consumerfinance.gov/about-us/blog/trying-enroll-income-driven-repayment-plan-avoid-applicationabyss-our-student-loan-tips-and-resources/>.

Importantly, debt is disproportionately incurred by wealthier people. The Urban Institute found that in 2016, households ages 25 and older in the highest income quartile held 34 percent of all student debt, and the highest decile held the highest average level of student debt at \$46,700. The lowest quartile held only 12 percent of all debt, with an average debt load of \$26,000.³⁵

This appreciable skew of degrees and debt to wealthier Americans is why numerous analyses of debt forgiveness proposal have found they would typically be regressive, or at least poorly targeted to those most in need. Analysts at the New York Fed, for instance, estimated that \$50,000 of federal loan forgiveness with no income cap would deliver 30.1 percent of the benefits to people living in neighborhoods in the top-third of income and only 24.2 percent to the lowest third.³⁶ \$10,000 of forgiveness and a \$75,000 income cap – the most restrictive scenario – would still see 17.4 percent of the benefits accrue to people in the income top-third. Economists Sylvain Catherine and Constantine Yannelis estimate that cancelling \$50,000 per borrower would result in \$4,223 in forgiveness for people in the top income decile and only \$866 in the bottom. Cancelling \$10,000 would result in \$1,391 for people in the top decile and only \$386 in the bottom.³⁷

Analyses of distribution by race find a skew toward white people, not African Americans who have particularly high debt levels thanks to low wealth accumulation at least partially attributable to centuries of slavery and discrimination. The Fed analysis found that \$50,000 with no income cap would provide 66.5 percent of the benefit to people in majority white neighborhoods and only 32.9 percent to majority-minority neighborhoods. \$10,000 with a \$75,000 income cap would deliver 61.9 percent of the benefit to majority white neighborhoods and 37.3 percent to majority-minority. With \$50,000 in forgiveness Catherine and Yannelis find lower average forgiveness for Black than White borrowers, but it is roughly even at \$10,000.

Importantly, the relative impact of forgiveness on a low-income person or racial minority might be greater than someone with higher income or wealth. \$10,000 for someone struggling to repay \$15,000 in debt is more meaningful for that person than for someone comfortably handling \$50,000. But that does not necessarily justify special cancellation for

³⁵ Sandy Baum, Victoria Lee, and Alexandra Tinsley, "Which Households Hold the Most Student Debt?" Urban Institute, May 2, 2019, <https://www.urban.org/urban-wire/which-households-hold-most-student-debt>.

³⁶ Jacob Goss, Daniel Mangrum, and Joelle Scally, "Who Are the Federal Student Loan Borrowers and Who Benefits from Forgiveness?" Liberty Street Economics, Federal Reserve Bank of New York, April 21, 2022, <https://libertystreeteconomics.newyorkfed.org/2022/04/who-are-the-federal-student-loan-borrowers-and-who-benefits-from-forgiveness/>.

³⁷ Sylvain Catherine and Constantine Yannelis, "The Distributional Effects of Student Loan Forgiveness," Working Paper 28175, National Bureau of Economic Research, April 2021, <https://www.nber.org/papers/w28175>.

any borrower who agreed to repay money received from taxpayers, and it certainly does not justify also sending huge amounts of money to those who are not struggling.

Of course, mass cancellation of loans would have many other major problems than giving taxpayer money to people who do not need it.

Barring major reforms of the student loan system, it would encourage more borrowing and even worse price inflation than we have seen for the last several decades, as neither borrowers nor schools would expect loans to *really* have to be repaid. That would also exacerbate already painful credential inflation. And it would be a de facto penalty against the many Americans who economized on their education in order to avoid debt, or who economized after graduation to pay it off. And if mass cancellation were initiated by executive action, it would be both illegal – there is no compelling argument that the president has power to execute mass cancellation, as President Biden has himself acknowledged³⁸ – and even if mass executive cancellation were somehow interpreted as in accordance with law, it would still truly violate the separation of powers: Congress, not the President, has the power of the purse, which surely applies to the disposition of \$1.6 trillion in federal student loans, which is more than twice the size of the Department of Defense's budget.³⁹

While the ultimate solution to the student lending problem is for Washington to remove itself from student loans, there are things it can do to improve the situation for current debtors and future borrowers without using the very blunt and perhaps unfair instrument of mass cancellation:

1. **Income-Driven Repayment:** The federal student loan system already has a way to help people struggling with repayment: income-driven repayment. The problem has been that it is too complicated for many borrowers, servicers, and the U.S. Department of Education. As quickly as possible, the department needs to correct all borrower records, and anyone who has qualified for IDR must be put on an accurate path and given the forgiveness to which they are entitled. Terms should not be changed, as it appears the current department will do for IDR and PSLF, but borrowers must be treated consistently with the original terms of the program. Going forward, IDR should be simplified, perhaps consolidating it into just one program in which borrowers are automatically enrolled unless they choose a standard payment. For terms, Congress might consider, say, a standard IDR of 15

³⁸ Caitlin O'Kane, "Biden says he will not support Democrats' call to eliminate \$50,000 in student loan debt," CNN.com, February 17, 2021, <https://www.cbsnews.com/news/biden-student-debt-50k-not-support/>.

³⁹ U.S. Department of Defense, "The Department of Defense Releases the President's Fiscal Year 2023 Defense Budget," March 28, 2022, <https://www.defense.gov/News/Releases/Release/Article/2980014/the-department-of-defense-releases-the-presidents-fiscal-year-2023-defense-budget/#:~:text=The%20FY%202023%20DoD%20Budget.service%20members%20and%20their%20families>.

- percent of income above 150 percent of poverty and forgiveness after 20 years for undergraduate borrowers, and after 30 years for graduate borrowers.⁴⁰
2. **End PLUS:** Both parent and graduate PLUS loans should be immediately eliminated. Parents are often saddled with debt they cannot repay under PLUS, which unlike “normal” undergraduate loans are not capped, while graduates in programs that train for well-paying jobs should not need taxpayer assistance. Those pursuing other studies have become cash-cows for many colleges and universities.⁴¹
 3. **Bankruptcy:** It has become more difficult over the last few decades to declare bankruptcy and have debts discharged, and student loans are even more difficult to discharge for fear of borrowers graduating and then quickly declaring bankruptcy to clear their debts. It is worth examining making it easier to discharge federal student loans in bankruptcy, but with an important reminder that taxpayers had no say in any given student loan but would bear the cost of whatever amount is discharged. It may be that the “undue hardship” standard currently in place to discharge student debt is sufficient.
 4. **“Skin in the game”:** Colleges are not primarily at fault for excessive debt and noncompletion. Washington, which created student loans despite highly predictable negative effects, is. It created the incentives for schools to charge high prices and enroll many students with poor likelihoods of completing programs in adequately paying fields when it decided to give out bundles of taxpayer money with little assessment of prospective borrowers’ ability to complete programs in in-demand fields. That said, the no-risk beneficiaries of that aid have been colleges, which win financially whether their students succeed or not. In light of this, holding institutions responsible for a share of loan defaults by students they enroll may be a wise policy even if it distracts from the true source of the problem: the federal government. Schools might be required to pay for 20 percent of default costs after, say, 10 percent of their enrollees have defaulted.⁴²

Conclusion

Federal loan servicers are not the problem in student lending. The problem is the massively distorting, incredibly complex, student loan labyrinth that the federal government has

⁴⁰ This sort of simplification has been proposed in Congress. See, for instance, Committee on Education and Labor Republicans, “PROSPER Act Introduced in the House,” December 1, 2017, <https://republicans-edlabor.house.gov/news/documentsingle.aspx?DocumentID=402157>.

⁴¹ See, for instance, James Benedict, Andrea Fuller, and Lindsay Huth, “Is a Graduate Degree Worth the Debt? Check It Here,” WSJ.com, July 15, 2021, <https://www.wsj.com/articles/is-a-graduate-degree-worth-the-debt-check-it-here-11626355788>.

⁴² Sen. Josh Hawley submitted legislation encompassing this general idea. See Josh Hawley, “Sen. Hawley: Break Up Higher Education Monopoly, Provide More Options for Career Training,” July 16, 2019, <https://www.hawley.senate.gov/sen-hawley-break-higher-education-monopoly-provide-more-options-career-training>.

created over the last roughly 60 years. It has not created so terrible a problem that it justifies extreme acts such as mass loan cancellation – higher education is still a major benefit to most people who complete it – but it is urgent to fix the existing programs intended to help struggling borrowers, and in the long run to shrink federal lending to a much smaller size, including eliminating it completely.

Thank you again for this opportunity to testify. I look forward to addressing your questions.

PREPARED STATEMENT OF JALIL MUSTAFFA BISHOP
 COFOUNDER AND ASSISTANT PROFESSOR, EQUITY RESEARCH COOPERATIVE,
 VILLANOVA UNIVERSITY
 MAY 5, 2022



Dr. Jalil Mustafa Bishop
 Co-Founder and Assistant Professor
 Equity Research Cooperative & Villanova University

*Congressional Testimony regarding Banking, Housing, and Urban Affairs (BHUA)
 Committee hearing:
 "Examining Student Loan Servicers and Their Impact on Workers"*

Executive Summary:

I want to thank the Chairman, Ranking Member, and the rest of the committee for inviting me here today.

My goal is to make it clear that we are in a student debt crisis, a Black student debt crisis in particular, and that cancelling all student debt is the best solution for a decades-long policy failure that is student loans.

First, I want to explain the crisis in simple terms. Student loan policy is basically the federal government telling families you do not have enough money to pay for college and then still offering them a loan instead of a grant. The government already knows that the families do not have enough money to pay for college, let alone enough to pay for a loan. The government insist this is not an issue—borrowers will earn enough income to repay these loans in 10 years. We then accumulated decades of evidence that borrowers could not make enough money so we moved them to 20-25 year income-based repayment plans, though we promised them the loans would be able to be repaid in 10 years.¹ We have not developed a comprehensive way to hold colleges, loan servicers, accreditation agencies, the Department of Education, or a low-paying labor market accountable.² We still have only punished one group in this process and ensured one group has consequences every time and that is the borrower. The borrower who was failed way before they ever signed for their first student loan.

¹ Revisiting debt relief: Scoring Biden Administration Actions to Cancel Student Debt on Day One and Beyond, https://protectborrowers.org/wp-content/uploads/2021/12/final_Revisiting_Debt_Relief_12_16_2021.pdf#page=46.

² The Looming Student Loan Servicing Crisis, <https://www.americanprogress.org/article/looming-student-loan-servicing-crisis/>; Fact Sheet: Fixing Federal Accountability for Higher Education, <https://www.americanprogress.org/article/fact-sheet-fixing-federal-accountability-for-higher-education/>; Creating Accountability for College Access and Success: Recommendations for the Higher Education Act and Beyond, <https://edtrust.org/resource/creating-accountability-for-college-access-and-success-recommendations-for-the-higher-education-act-and-beyond/#:~:text=ed%20trust%20recommends%20that%20Congress,of%20opportunity%20value%20and%20outcomes>.

We are in a student debt crisis and arguably have been in one for the last 20 years. In that time, we watched the total outstanding student loans increased by over 107% from less than \$400 billion in the early 2000s, hitting one trillion in 2012, and now on the fast track to soon hit \$2 trillion.³ The crisis should be understood primarily through two issues: default and endless years of payments.

First, we have a growing number of defaults for struggling borrowers with 1 million estimated new defaults each year and a total of 10 million borrowers in default pre-pandemic. Default means debt collection fees added on top of your balance and that borrowers can be sued or have their income garnished.⁴

The second part of the crisis is endless years of payment. People are making payments only to see their balance increase due to interest. When we look back at loans issued each year since 2009, the majority of loan balances are increasing instead of being paid down.⁵ Under the Trump administration, a Department of Education report estimated that \$500 billion worth of student loans will not be repaid.⁶ This was pre-pandemic. In the end, the evidence shows that student loans increasingly will not be repaid. People simply do not have the money to repay because they have not found the high paying jobs that were promised when they went to college.⁷ People are on a payment path to nowhere.

It did not have to be this way; the United States had a grant-driven higher education system until the 1980s.⁸ Now when it comes to low-income students, the Pell grant covers less than 33% of their college costs when in the past it covered the majority of costs.⁹ Every year we burden students and their parents with \$80-\$100 billions of student loans.¹⁰ It is unnecessary. For example, if the Pell Grant was increased by about \$6000 a year, it would eliminate Parent Plus loans for 75% of all low-income parents, and 85% of all low-income Black parents.¹¹ But instead, the government provides funding as a loan, push families into financial

³ The Volume and Repayment of Federal Student Loans: 1995 to 2017, <https://www.cbo.gov/publication/56754>; Student debt increased by 107% this decade, Federal Reserve data shows, <https://www.cnbc.com/2019/12/30/student-debt-totals-increased-by-107-percent-this-decade.html#:~:text=According%20to%20the%20Federal%20Reserve,an%20increase%20of%20roughly%20107%25.>

⁴ Student Loan Default Has Serious Financial Consequences, <https://www.pewtrusts.org/-/media/assets/2020/04/studentloandefaulthasseriousfinancialconsequences.pdf>; Education Department Responses to Data Request by Senator Warren, April 2, 2021, <https://www.warren.senate.gov/imo/media/doc/Education%20Department%20Response%20to%20Sen%20Warren%20-%204-8-21.pdf>

⁵ The Student Debt Crisis is a Crisis of Non-Repayment, <https://www.phenomenalworld.org/analysis/crisis-of-non-repayment/>

⁶ Is the U.S. Student Loan Program Facing a \$500 Billion Hole? One Banker Thinks So, <https://www.wsj.com/articles/is-the-u-s-student-loan-program-in-a-deep-hole-one-banker-thinks-so-11619707091>

⁷ The Student Debt Crisis, Labor Market Credentialization, and Racial Inequality: How the Current Student Debt Debate Gets the Economics Wrong, <https://rooseveltinstitute.org/publications/student-debt-crisis-labor-market-credentialization-racial-inequality/>

⁸ Opening the Doors to Higher Education: Perspectives on the Higher Education Act 40 Years Later, <https://files.eric.ed.gov/fulltext/ED542500.pdf>

⁹ TICAS Double Pell Letter, <https://ticas.org/wp-content/uploads/2021/03/Double-Pell-Letter-March-2021.pdf>

¹⁰ The Volume and Repayment of Federal Student Loans: 1995 to 2017, <https://www.cbo.gov/publication/56754>

¹¹ Forgiving PLUS Debt for Low-Income Parent Borrowers, <https://www.urban.org/urban-wire/forgiving-plus-debt-low-income-parent-borrowers>

crisis, and the only one who wins are the debt collectors, loan servicers, and law firms who go after borrowers for repayment.¹² For the rich, Congress is willing to spend in the trillions; for working-class people aiming to earn an education, they are offered a lifetime debt sentence.¹³

In addition, the student debt crisis is a racial justice issue. It is eradicating any chance at wealth for communities of color, especially Black communities.

When we look at Black households with student debt, 52% have zero or negative wealth. When we look at Black households with *no* student debt that percentage drops to 25%.¹⁴ Black people are not just without wealth, we are being pushed deeper into the negative wealth hole. In this way, student loans are not just a racial justice issue, but they are a racist tool.¹⁵

I co-authored a report with Dr. Jonathan Davis and The Education Trust called Jim Crow Debt.¹⁶ We heard from nearly 1300 Black borrowers during the pandemic, and they made it clear that student loans repeat racist debt traps across history. Debt traps like sharecropping, contract mortgages, more recently subprime mortgages, and payday loans—that limit Black people’s ability to build generational freedom.¹⁷ Student loans do not belong in a conversation about opportunity, they only belong in the conversation about how this country once again created a debt trap that is so vicious that it captures and holds Black students, their parents, and wider communities of color in debt for a lifetime.

I opened this up with commonsense about why student loans have failed and now I must close with commonsense about why student debt cancellation will not go to help the rich.

Unless the face of a rich person in this country is now someone who is on a payment plan, has zero in assets, has more debt than income, is a person of color,

¹² The Looming Student Loan Servicing Crisis, <https://www.americanprogress.org/article/looming-student-loan-servicing-crisis/>; Getting Private Collection Agencies Out of Federal Student Loans, <https://www.americanprogress.org/article/getting-private-collection-agencies-federal-student-loans/>; Changing the Student Loan Dischargeability Framework: How the Department of Education Can Ease the Path for Borrowers in Bankruptcy, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3865693

¹³ Jim Crow Debt: How Black borrowers experience student loans, <https://edtrust.org/wp-content/uploads/2014/09/Jim-Crow-Debt-How-Black-Borrowers-Experience-Student-Loans-October-2021.pdf>; Revisiting debt relief: Scoring Biden Administration Actions to Cancel Student Debt on Day One and Beyond, https://protectborrowers.org/wp-content/uploads/2021/12/final_Revisiting_Debt_Relief_12_16_2021.pdf#page=46

¹⁴ Student debt cancellation should consider wealth, not income, <https://www.brookings.edu/essay/student-debt-cancellation-should-consider-wealth-not-income/>

¹⁵ Racial Capitalism and the Black Student Loan Debt Crisis, https://journals.sagepub.com/doi/abs/10.1177/016146812112300601?casa_token=Y0MPUzoemq/AAAA:emSYNQWrbPm1A0K7YrT45YhZuIQWEla5zR0dGIVr0VY5E0vm3E7zlm44Umic5IEPcPVVz2vAmlu

¹⁶ Jim Crow Debt: How Black borrowers experience student loans, <https://edtrust.org/wp-content/uploads/2014/09/Jim-Crow-Debt-How-Black-Borrowers-Experience-Student-Loans-October-2021.pdf>

¹⁷ What We Get Wrong About Closing the Racial Wealth Gap, <https://socialinequity.duke.edu/wp-content/uploads/2019/10/what-we-get-wrong.pdf>

and lives in a working-class census tract.¹⁸ Because this describes the face of a student loan borrower.

In closing, if the federal government limits debt cancellation under the guise they are keeping money from the rich, it is allowing student loans to continue as a racist tool. \$10,000 is not enough. Even \$50,000 is not enough for racial and economic justice.¹⁹

Black people, my family—my community, are more likely to owe over \$50,000 just for undergraduate, have parents who borrow into the six figures, rely on private student loans, and if we ever make six figure income, we often have six figure student loan debt.²⁰ You cannot limit the amount of student debt cancellation and also claim you care about racial justice. The data is clear. People's life stories are clear. And history is clear. We need full debt cancellation and we needed it yesterday.

Thank you to the committee for your time.

¹⁸ Student debt cancellation is progressive: Correcting empirical and conceptual errors, https://rooseveltinstitute.org/wp-content/uploads/2021/06/RI_StudentDebtCancellation_IssueBrief_202106.pdf

¹⁹ Student loans, the racial wealth divide, and why we need full student debt cancellation, <https://www.brookings.edu/research/student-loans-the-racial-wealth-divide-and-why-we-need-full-student-debt-cancellation/>

²⁰ Legislation, policy, and the Black student debt crisis, <https://naacp.org/resources/legislation-policy-and-black-student-debt-crisis> Black-white disparity in student loan debt more than triples after graduation, <https://www.brookings.edu/research/black-white-disparity-in-student-loan-debt-more-than-triples-after-graduation/>

JIM CROW DEBT: HOW BLACK BORROWERS EXPERIENCE STUDENT LOANS

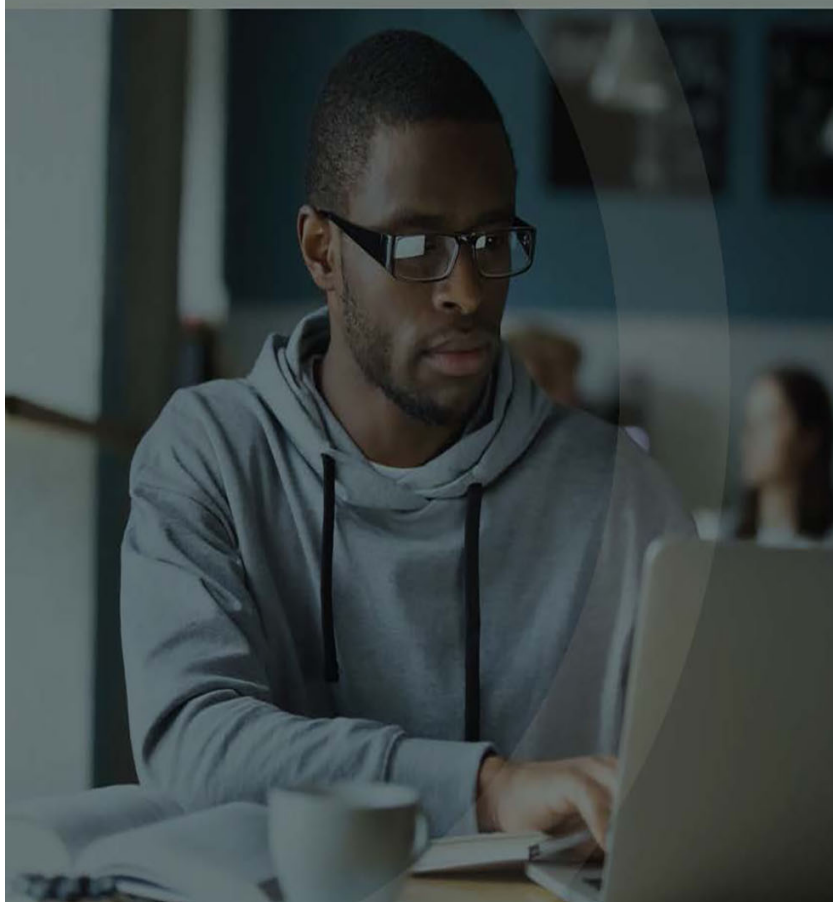


#BlackStudentDebt


The Education Trust

"FOR YEARS NOW, I HAVE HEARD THE WORD 'WAIT!' IT RINGS IN THE EAR OF EVERY NEGRO WITH PIERCING FAMILIARITY. THIS 'WAIT' HAS ALMOST ALWAYS MEANT 'NEVER.' WE MUST COME TO SEE ... THAT 'JUSTICE TOO LONG DELAYED IS JUSTICE DENIED.'"

— DR. MARTIN LUTHER KING JR.



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About This Report

The focus on data about Black student debt outcomes often overlooks the perspectives and lived experiences of Black borrowers, who are most affected by the student debt crisis. We believe that any solution to this crisis should center the voices of these borrowers, so we surveyed nearly 1,300 Black borrowers and conducted in-depth interviews with 100 of them. **Here's what they told us:**

FINDING

1

Student loans are not "good debt"

FINDING

2

Income-driven repayment (IDR) plans feel like a lifetime debt sentence

FINDING

3

Limiting student debt cancellation would harm Black borrowers the most

FINDING

4

The federal government should cancel all student debt

We unpack each of these top-level findings in this report.

JIM CROW DEBT: HOW BLACK BORROWERS EXPERIENCE STUDENT LOANS

AUTHORS:

Jalil B. Mustafa, Ph.D., is the Principal Investigator on the National Black Student Loan Debt Study, an Assistant Professor at Villanova University, and a Co-Founder of the Equity Research Cooperative.

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STUDENT DEBT HAS BEEN A CRISIS FOR YEARS and, for many borrowers, the pandemic has only exacerbated matters. This is especially true for [Black borrowers](#), who are among those most negatively affected by student loans — due, in large part, to systemic racism, the [inequitable distribution of wealth](#) in this country, a stratified labor market, and rising college costs.¹ And whether by willful intent or gross negligence, many of those engaged in this policy debate overlook the compounding effect of racism and how it specifically impacts Black borrowers. Put simply, student debt is a racial and economic justice issue, and any proposed solution to the student debt crisis must center the perspectives, lived realities, and voices of Black borrowers, rather than solely use their data to frame the problem.

That is why The Education Trust, in partnership with Jalil B. Mustafa, Ph.D., launched the [National Black Student Loan Debt Study](#).² This study includes a nationwide survey of nearly 1,300 Black borrowers and in-depth interviews with 100 Black borrowers across various life points. At participants' request, we replaced their names with pseudonyms. Rather than reporting student loan outcomes, we focus on borrowers' perspectives and life experiences with student loans. Most of the participants in our sample hold a degree, identify as Black women, and earn more than \$50,000 a year. Others are parents who assumed student loans for their children, are currently in income-driven repayment plans, or are facing (or have faced) a host of financial challenges as a result of their student debt. The stories these Black borrowers share, as well as the solutions they raise, shine a light on the full weight of student debt while also offering a way forward. In solidarity with the Black borrowers from this study, The Education Trust is encouraging Congress and the Biden administration to [cancel student debt, double the Pell Grant](#) and create federal-state partnerships to address affordability in a comprehensive way.

³ A recent [report](#) estimates that increasing Pell Grants for students from low-income backgrounds would help many families avoid having to take out loans: "An extra \$6,000 a year in Pell grants for four years would entirely replace the PLUS loans of about three-quarters of parents who borrowed with incomes below the poverty level (including 85 percent of low-income Black PLUS borrowers)."⁴



STUDENT LOAN DEBT IS WIDELY CONSIDERED “GOOD DEBT” in that it offers a pathway to obtaining credentials that can lead to higher incomes, greater wealth, and social mobility. For Black borrowers, however, these gains have never been equal and are continuously *undercut*.⁶ The median annual earnings of *White* bachelor’s degree holders were \$50,000 for women and \$62,000 for men in 2018, versus \$47,800 and \$42,100 for their Black counterparts (in other words, the wages of White men and women with bachelor’s degrees were a stunning 30% and 19% higher than those of Black men and women with similar degrees).⁶ This is the result of state disinvestment in higher education, systemic racism, and a racially stratified labor market across both hiring and *earnings*.⁷ The framing of student loans as “good debt” ignores the experiences of Black borrowers, who have less household wealth than their White counterparts and often have no option but to take out student loans to pay for college and the associated costs of attendance.

In our study, Black borrowers, even those with higher incomes and graduate degrees, challenged the assumption that student loans pay off. Black student loan borrowing is driven by a desire for higher-paying *jobs* and a better life.⁸ But since a costly higher education is a prerequisite for those jobs, borrowers often find themselves in a catch-22, according to many of those we interviewed. In one interview, a participant we’ll call Lisa (who borrowed \$115,000) said she had no other alternative to pay for college and emphasized that the only option was not necessarily a good option, much less a choice:

"I knew that we did not have money in my household. I knew that we struggled to make ends meet. I knew that it was totally bizarre for someone my age [I was 19 years old at the time] to sign a check for an amount of money that I had never held in my hand, and for it to go to the school." Other study participants said they have yet to see positive returns on their student loans (51%) and/or regret having taken out education loans (66%) that now seem "unpayable," "not worth it," and ultimately like an inescapable burden.

In other interviews, borrowers often highlighted the irony of Black people having to borrow to gain entrée to institutions that promise educational opportunity but have racially excluded them for generations. More than half of the Black borrowers in our study said they do **not** believe that student loans advance racial equality for Black borrowers (58%) or increase Black borrowers' ability to build wealth (61%). (See Figure 1.) In fact, only 33% of respondents believe student loans improve life opportunities for Black borrowers. Many of them noted the ways in which student loans reproduce and heighten inequality: "I understand, this is about financing an education. But there's a lot that compounds with Black people. So, for me, it was the health incident. It was the job insecurity. It was dealing with police. And then, I'm still not paying on my own student loans," said Xavier, a respondent who borrowed \$40,000. The current student debt cancellation debate grossly ignores stories like Xavier's, which highlights how student loans perpetuate and are perpetuated by structural racism. While most of the Black borrowers we interviewed felt like they had made wise educational choices (and did not regret going to college), few of them look on student debt as "good debt," much less a real choice.

FIGURE 1: STATEMENTS RELATED TO WHETHER STUDENT LOANS ARE GOOD DEBT

STATEMENT	AGREE	NEUTRAL	DISAGREE
Student loans improve the life opportunities of Black student borrowers.	33%	20%	47%
Student loans contribute to racial equality for Black student borrowers.	26%	16%	58%
Student loans increase Black student borrowers' ability to build wealth.	26%	12%	61%
My student loan balance compels me to work in a line of work I would have otherwise avoided if not for my student loans.	39%	15%	46%

FIGURE 2: VIEWS ON STUDENT LOANS

QUESTION	YES	NO
In retrospect, do you feel you've experienced positive returns on your student loans?	49%	51%
In retrospect, do you regret having taken out student loans to fund your education?	68%	34%





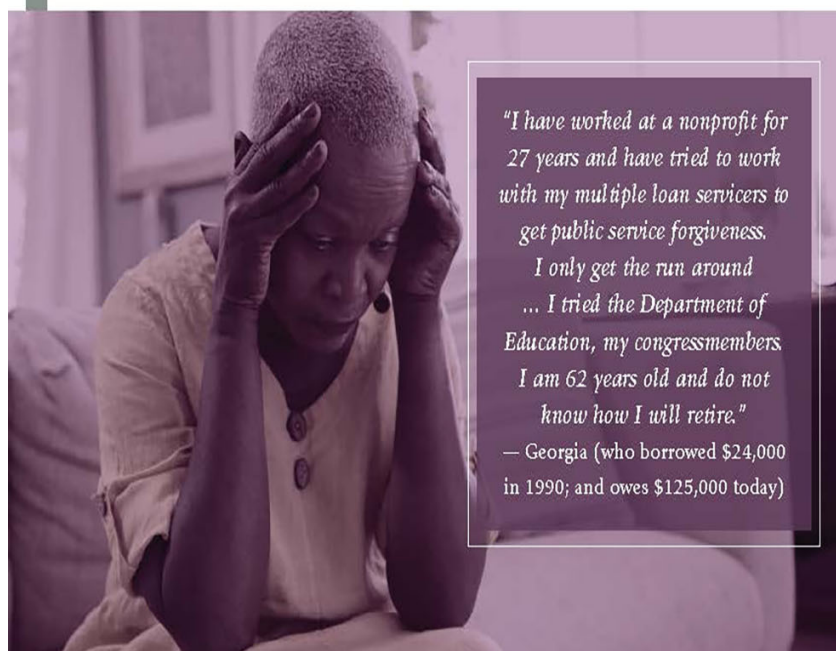
IN THE POLICY ARENA, A SOLUTION THAT IS ROUTINELY OFFERED as an alternative to large-scale student debt cancellation is reforming income-driven repayment (IDR) plans. About 27 years ago, Congress [created](#) IDR plans to provide relief to student loan borrowers who could not afford the 10-year standard repayment plan.⁸ The plans work as follows: Borrowers apply to enroll and, if they qualify, their monthly student debt payment is adjusted based on their discretionary income, and the standard 10-year repayment period is extended over 20-25 years — at which point, they can apply to have their outstanding student loan balance cancelled. While many borrowers who enroll in IDR plans have lower monthly payments based on their income, they have growing student loan balances because their payments do not cover both interest and principal. One [expert](#) put forward this scenario: “Imagine a low-income borrower with \$10,000 of debt who is not required to make any payments. This person will have to recertify their income 20 times, and by the time the debt is forgiven, the \$10,000 initial debt will have grown to more than \$17,000 at current interest rates.”⁹

The latest proposed reforms to IDR would make enrolling in these plans easier and adjust the length of time that borrowers must make payments before being eligible for cancellation. But while those reforms sound promising, readers should note that IDR plans have already been changed various times over the last two decades, purportedly making enrollment easier, payments more affordable, service better, and information clearer. Yet [8 out of 10 borrowers](#) who have enrolled in these plans (of which there are [six](#) main types) fail to re-enroll on account of how burdensome and confusing the process and paperwork can be — not realizing that when a borrower does not re-enroll, their unpaid interest may be capitalized, i.e., added to their current principal.¹⁰ And that means interest will now accrue on that new (and bigger) balance.

In addition, borrowers enrolled in these plans — including many of those who have been making payments for over 20 years — have not received student loan cancellation. Of the 2 million borrowers who became eligible in 2019 for student debt cancellation under IDR plans, only 32 have so far been granted student loan relief, according to data from the U.S. Department of Education.¹⁴ Likewise, less than 2% of borrowers have received cancellation under the Public Service Loan Forgiveness Program (PSLF) (which is not an IDR plan, but requires borrowers to use IDR).¹⁵ So, despite the promise and hope of these plans and efforts to reform them, enrolled borrowers are not [reducing their student debt](#) balances, and many more borrowers will soon be eligible for cancellation. In fact, it is estimated that nearly [\\$500 billion](#) in student debt will never be collected, and that estimate predates the pandemic.¹⁶

Of the Black borrowers in our study who were in repayment, 72% were enrolled in an IDR plan. In interviews, many of them described their student loans as a “trap” or “scam” or drew comparisons between their experiences in these plans and historic examples of racial oppression. Many also described student loans as a lifetime sentence, in which they “do their time,” re-enroll in IDR every year, but have no “hope of paying off their balance.” They described their growing balances under IDR plans as “shackles on their ankle” or “like Jim Crow,” where the debt ensures that they will never have full freedom.

The majority of the respondents enrolled in an IDR plan (58%) estimated that it would take them 16 or more years to repay their debt, though many doubted they would ever be able to repay it. While a 16-year-plus timeline is typical of IDR plans, it is much longer than the standard student loan repayment timeline of 10 years. Several interviewees worried about making seemingly endless minimum payments — and noted that their payments did



not cover principal and interest, and that their overall balance was growing as a result. They feared that their loan would be with them for the rest of their life and that the only way to be rid of it would be “taking it to my grave” or “when I die.”

Without IDR plans, many Black borrowers would face higher monthly payments (and potentially higher default rates), but borrowers in IDR plans face the constant financial and mental stress that comes with having student debt payments that extract a cut of their income — potentially, for a lifetime. Georgia, who has carried student debt for 31 years (she borrowed \$24,000 in 1990; and owes \$125,000 today), is the perfect illustration of what a life sentence of student debt looks like. She is 62 years old and was devastated when she found out she did not qualify for public service loan forgiveness, despite being enrolled in an IDR plan: “I have worked at a nonprofit for 27 years and have tried to work with my multiple loan servicers to get public service forgiveness. I only get the run around ... I tried the Department of Education, my congressmembers. I am 62 years old and do not know how I will retire.”

FIGURE 3: IMPACT OF LOANS ON MENTAL HEALTH, QUALITY OF LIFE, AND FINANCIAL STRESS

(BY INCOME-DRIVEN ENROLLMENT PLAN STATUS)

STATEMENT	OVERALL	NO	YES
Loans Have Negative Impact on Quality of Life			
Agree	69%	66%	71%
Disagree	7%	21%	15%
Neither agree/disagree	14%	13%	15%
Loans Primary Source of Financial Stress			
Agree	76%	71%	78%
Disagree	17%	22%	15%
Neither agree/disagree	7%	7%	7%
Loans Have Negative Impact on Mental Health			
Agree	64%	55%	67%
Disagree	21%	27%	8%
Neither agree/disagree	15%	8%	14%

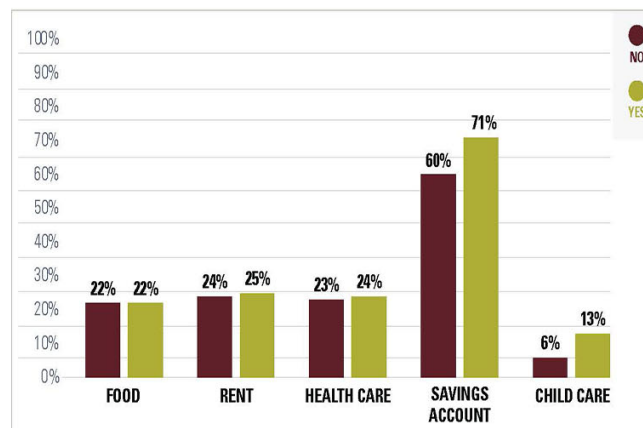
Please note that “NO” corresponds to those borrowers who have entered repayment and are not enrolled in an IDR plan; “YES” corresponds to those who have both entered repayment and are enrolled in an IDR plan.

Georgia, like some other interviewees, said she received inaccurate information from her loan servicer about which student loans qualified for IDR plans, which past payments counted toward PSLF, and how to certify that payments qualified. Many Black borrowers cited confusing repayment plan rules as a constant source of stress or a “dark cloud” over their heads that had led them to experience depression and/or suicidal thoughts. Figure 3 shows how many study participants enrolled in IDR plans noted that student debt is a primary source of financial stress and has negatively impacted their mental health. Figure 4 highlights the proportion of participants who said their monthly payments limit their ability to meet basic needs. Many of those enrolled in IDR plans said they have a hard time affording a savings account (71%), health care expenses (24%), rent (25%), child care (13%), and food (22%). Black borrowers in our study have an average monthly payment of \$502. For Black borrowers, IDR plans are not easing the student debt crisis; indicators like increasing balances and decreasing repayments suggest they may be exacerbating or prolonging it, even default rates remain high, despite the [availability](#) of these plans.¹⁵

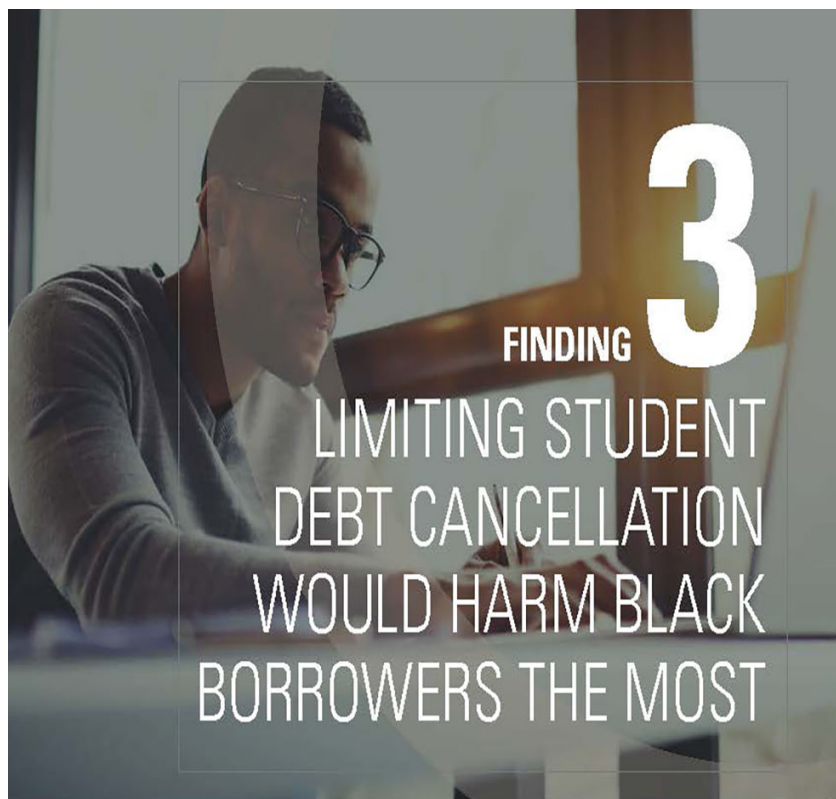
The existence of IDR plans suggests that there is agreement that cancellation is a legitimate policy solution for student loans. Yet, the design of IDR plans makes harmed borrowers, including many Black people, wait 20-plus years for cancellation (which has not, for the most part, happened). In our conversations with Black borrowers, many doubted that cancellation through IDR plans would ever occur. They wondered why they are being made to wait, given that they, like millions of borrowers, are in desperate and immediate need of relief and that large sums of student loan debt will never, ultimately, be collected. Why kick the can down the road and waste millions of tax dollars trying to collect outstanding debts that are already highly unlikely to be repaid or will be eligible for cancellation at a later date? Canceling student debt now would be beneficial for countless Americans. Not only would Black borrowers and other struggling borrowers get relief from the financial and mental stresses associated with outstanding debt, but they would have more money in their pocket to put toward basic needs—which would help them *and* the economy. What’s more, IDR plans effectively make Black borrowers wait for justice, despite widespread agreement that student loans are driving racial inequality in the here and now and that a race-conscious policy solution is needed.

FIGURE 4: PERCENTAGE OF BLACK BORROWERS WHO ARE UNABLE TO AFFORD BASIC NECESSITIES

(BY INCOME-DRIVEN ENROLLMENT PLAN STATUS)



Note that “NO” corresponds to those borrowers who have entered repayment and are not enrolled in an IDR plan; “YES” corresponds to those who have both entered repayment and are enrolled in an IDR plan.



FINDING

3

LIMITING STUDENT DEBT CANCELLATION WOULD HARM BLACK BORROWERS THE MOST

MUCH OF THE STUDENT DEBT CANCELLATION DEBATE HAS FOCUSED ON WHO SHOULD AND SHOULD NOT RECEIVE CANCELLATION, with many policy proposals calling for limiting (i.e., means-testing) cancellation by income, graduate school debt, and/or amount borrowed. The leading student debt cancellation proposals cap or gradually phase out the cancellation amount for borrowers making over \$100,000.¹⁶ One proposal would cap student debt cancellation at \$10,000; another would cap it at \$50,000. Recently, President Joe Biden said that he is reluctant to support broad-based cancellation, lest it unfairly benefit Ivy League students. This characterization egregiously misrepresents the student debt crisis and ignores racial inequities. (It also ignores the fact that [very few student loan borrowers go to Ivy League colleges](#).)¹⁷ And these limits would disproportionately exclude Black borrowers, who are (1) more likely to have balances over \$50,000, let alone \$10,000; (2) more likely to enroll in graduate school and take on high debt levels out of necessity (i.e., as a hedge against discrimination in the labor market), not privilege; and, (3) less likely to amass wealth, even when earning a higher income.

Our findings challenge the idea that student debt cancellation should be means-tested. Figure 5 shows the median debt loads of Black borrowers in our sample across income levels. At every income level, the debt load was near or above the \$50,000 cancellation mark, which is the threshold in the most generous policy proposal. In addition, most of our sample had graduate degrees (87%); 42% had incomes over \$68,000. Prior [research](#) suggests that borrowers with a graduate degree and incomes above \$68,000 are well off and undeserving of cancellation, but Figure 5 shows that even borrowers assumed to be well off are postponing key life events.¹⁸

Many borrowers earning more than \$25,000 said they had postponed purchasing a home. Nid who (borrowed \$90,000), for one, explained how her debt-to-income ratio has impacted her life, despite having a low monthly payment under an IDR plan: “So, I continue to be incredibly frustrated on simple things like financing a vehicle, refinancing my vehicle, refinancing my home ... because of my [student] debt-to-income ratio. At this point, I’m doing everything that I can for it and I have a high credit score.” Using income and graduate degrees as markers of economic wellness assumes that all racial groups have access to the same financial means and opportunities, but decades of research shows that Black people have vastly different economic experiences, due to structural racism that has limited and stolen wealth from Black families. A previous Ed Trust [report](#), for example, found “that Black students from high-income families [with incomes over \$129,000] are nearly seven times as likely to default on their student loans as their White peers from families of similar incomes.”¹⁸

FIGURE 5: LIFE ACTIVITIES POSTPONED DUE TO STUDENT LOAN DEBT

(GRADUATE-DEGREE-HOLDER STATUS)

INCOME/ GRADUATE DEGREE	MEDIAN DEBT BALANCE	CONTRIBUTING TO RETIREMENT	PURCHASING A HOME	HAVING A CHILD	PAYING OTHER DEBT	SWITCHING JOBS	MARRIAGE
Less than \$25,000	\$46,000	39%	42%	24%	33%	20%	20%
\$25,000 – \$50,000	\$63,000	46%	62%	32%	38%	27%	21%
\$50,000 – \$75,000	\$80,000	50%	60%	35%	45%	34%	25%
\$75,000 – \$100,000	\$94,500	55%	67%	36%	46%	25%	18%
Above \$100,000	\$102,000	56%	55%	27%	44%	26%	16%
Graduate- Degree Holders	\$98,000	51%	61%	32%	44%	28%	20%

There is an old adage: Black people have to work twice as hard to get half as far. When it comes to credentials and the job market, that adage holds true. Many of those we interviewed felt they needed higher levels of education than their White peers to get comparable jobs and wages: 95% felt that to be hired, their credentials had to be better than those of their non-Black counterparts, and 72% of the Black borrowers who participated in our study said they had faced discrimination in the labor market due to their race. Researchers [reviewed](#) hiring discrimination studies of the past 30 years and found that, even when controlling for education levels and occupation types, people of color face consistent employment discrimination.¹⁹ Perversely, a majority of the Black borrowers we spoke with (65%) also said that they had pursued additional credentials in order to earn enough money to repay their student loans. For others, going to graduate school offered a temporary reprieve, allowing them to defer their loans while earning more credentials that would, they assumed, lead to higher wages and more manageable payments; but, unfortunately, the effect was often a higher overall debt balance.

While our study shows that Black borrowers with graduate degrees tend to earn higher incomes than those without advanced degrees, it also shows that the former often incur more debt to achieve those earnings. According to our analysis, Black borrowers with graduate degrees who earned over \$100,000 a year had a median debt balance of \$115,000, while those who earned less than \$100,000 a year had a median student debt balance of \$94,000.

So much for manageable student loan debt. Black borrowers described their graduate school experience as a time of poverty, and many of them graduated or left with six-figure loan balances. In our study, the median student debt balance for those who attended graduate school was \$98,000. Dae, who borrowed \$35,000 and was a student-parent like several Black women in our study, explained that being enrolled in graduate school full time often meant that one was limited from earning money for basic needs: "I wish something would be different ... that students are not punished for not wanting to live in poverty. I say that because it's like when you're in grad school, they want you to get these experiences through internships, through real world practice, but then when you do it and [want] somebody to pay you for it, it's like you're punished."

Graduate programs usually prohibit students with scholarships and fellowships from working full time or require them to take on unpaid internships, field work, and course loads that make full-time employment a non-option. As a result, many borrowers have to borrow, not just for tuition and fees, but also to cover necessary living expenses. Contrary to popular belief, having a graduate degree and a higher income did not mean these Black borrowers were off to the races. It got them a delayed start behind those with degrees and no debt, and left them with little hope of ever catching up. Our research findings, along with other studies, show that Black people [disproportionately benefit](#) when student loan cancellation levels are \$75,000 or above.²¹

"So, I continue to be incredibly frustrated on simple things like financing a vehicle, refinancing my vehicle, refinancing my home ... because of my [student] debt-to-income ratio. At this point, I'm doing everything that I can for it and I have a high credit score."

— Nid (who borrowed \$90,000)





INDEED, FOR MANY OF THE BLACK BORROWERS WITH WHOM WE SPOKE

THROUGHOUT 2020, the deleterious and multifaceted impact of the pandemic (which deepened racial and ethnic inequities in education, health, housing, and economic well-being) only set them back further on repaying their student loans and highlighted the urgency of enacting debt cancellation. Between February and April 2020, for example, Black people faced unemployment at higher rates than their White counterparts (17% vs. 14% respectively); the former were also more likely to be front-line workers (1 in 6 Black workers were considered essential), and, as such, they were disproportionately more likely to get COVID-19 and die. Black people comprise just 13% of the U.S. population, but 22% of COVID-19 deaths in the U.S.⁴² Since Black borrowers are most heavily impacted by the student debt crisis, their views on solutions must be a central consideration in any conversation or proposal on how to address the crisis. If policymakers and advocates hope to understand the full depth of the crisis and identify a path forward that will right ongoing racial wrongs, they must listen to and lead with Black people's voices.

Black borrowers in our study understand that Black people carry more student debt, repay their loans at a lower rate, and default at a higher rate than their non-Black peers (see Figure 6).⁴³ Black respondents correctly identified indicators of the Black student debt crisis that many policy experts consistently ignore when discussing or proposing solutions.⁴⁴ In interviews, Black borrowers described student loans as a deliberate policy failure that was never intended to address

racial realities. Leonard who (borrowed \$205,000) said: “I mean, realistically, I think the [student loan] system is working exactly as we expect it to. Like, it was designed for this very outcome and so no one’s surprised that we somehow built a financial aid process and policy and set that up to only consider your annual salary, as if [Black people] all have the same net assets.” Black borrowers noted that a system that encourages the use of student loans and ignores racial and economic evidence of inequality is designed to reproduce inequality. They also insisted that there are potential solutions that reflect alternative policy frames for racial justice.

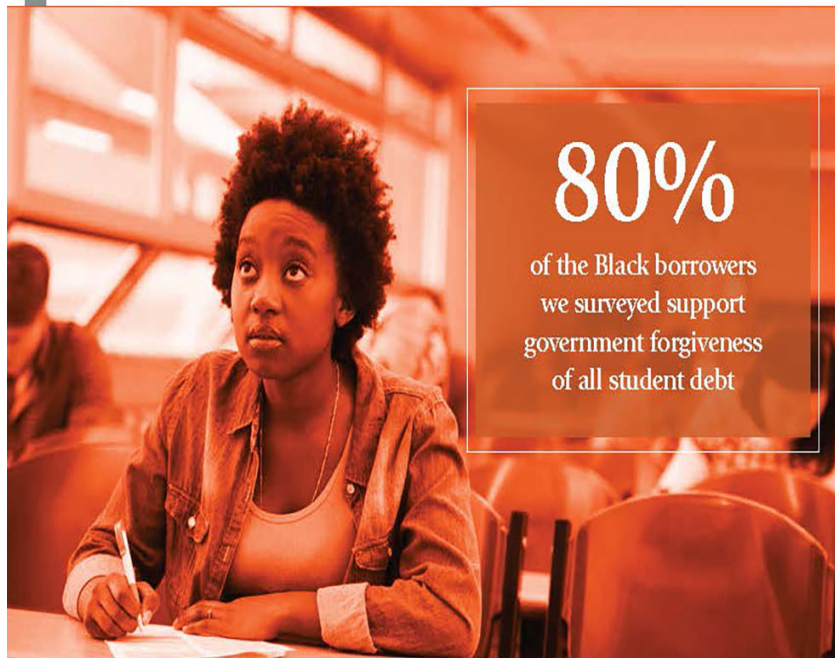
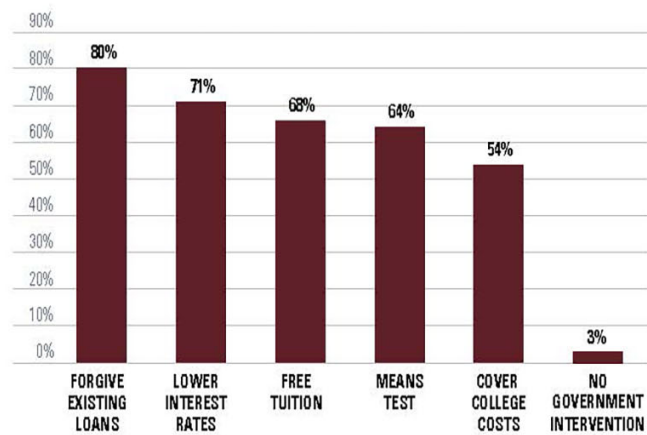
For instance, 80% of the Black borrowers we surveyed support government forgiveness of all student debt — in fact, participants backed this solution more than any other (see Figure 7). In contrast, only 3% of them *oppose* government intervention in student debt repayment. For many of those surveyed, debt cancellation was a matter of racial justice. Elijah who (borrowed \$20,000) suggested that canceling the student debt of Black borrowers could be a form of restitution and help narrow the racial wealth gap: “I mean, cancel student debt [to] have reparations. A part of reparations is that people who are African American descendants of slaves directly get money because of our ancestors building the country. Yeah, I mean, it has to deal with redressing racism and wealth inequality.”

Others acknowledged that debt cancellation won’t lower the cost of college but still believe immediate relief is needed to right this ongoing racial wrong. For many Black borrowers, cancellation is about the present student debt burden they are enduring, the generational burden they watched their parents carry or worry their own children will have to carry, and the historic burden that systematically placed Black people at a disadvantage.

FIGURE 6: BORROWERS’ UNDERSTANDINGS OF THE BLACK STUDENT DEBT CRISIS

Black students borrow...	
A similar amount of money	8%
Less money	3%
More money	89%
Black students default...	
At a higher rate	71%
At a lower rate	3%
At a similar rate	26%
Black students repay their loans...	
At a higher rate	13%
At a lower rate	58%
At a similar rate	29%

FIGURE 7. BLACK BORROWERS' SOLUTIONS TO DEBT CRISIS



Conclusion

It is heartening that the Black student loan crisis has moved from the margins to the national policy debate stage. But highlighting data on Black student debt outcomes is not the same as centering Black people's views and experiences when discussing the debt crisis and designing solutions to it. Preliminary findings from our study show that many Black borrowers view student loan policy as a matter of racial justice and full cancellation as the best solution, as well as an important step toward levelling the playing field and reversing historic racism. Our study also shows that Black borrowers understand the sources and scope of this crisis in a way that those who didn't struggle to pay for college do not. Policymakers just need to listen to them.

To learn more about Black borrowers' experiences, the Black student debt crisis, and the college affordability crisis, sign up for updates at edtrust.org.

Methods

In this study, we employed a sequential, equal status mixed-method design with a non-random sampling scheme. We designed and created a survey instrument that elicited Black borrowers' perspectives on student loans and their experiences with them—paying particular attention to their mental health, the quality and sources of information, the impact of the COVID-19 pandemic, borrowers' return on investment, debt as a contributor to inequality, and Black borrowers' solutions to the current debt crisis.

To recruit participants, we used free and paid ads on social media (e.g., Twitter, Facebook, LinkedIn), email alerts, and word of mouth. Participants completed the survey and were then invited to volunteer for an in-depth interview. Interviewees were selected from a list of volunteers based on particular demographic characteristics. Using the constant comparative method, we identified key themes from the qualitative data.

In total, 1,272 Black borrowers completed our survey. Our survey sample consists largely of four-year and graduate-degree holders, women, borrowers aged 25 and older, and borrowers earning \$50,000 or more annually. Respondents attended an assortment of institutional types, including HBCUs, for-profit institutions, and public and private colleges and universities. Names listed throughout this brief are selected pseudonyms.

Survey data was cleaned, recoded, and analyzed using frequencies and descriptive statistics. Missing data for key grouping (e.g., income, gender, age) and independent variables was flagged and removed using pairwise deletion as missingness was not greater than 2% for any one item.

This study was approved by the Institutional Review Board (IRB) of the University of Pennsylvania.

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ABOUT THE EDUCATION TRUST

The Education Trust is a national nonprofit that works to close opportunity gaps that disproportionately affect students of color and students from low-income families. Through our research and advocacy, Ed Trust supports efforts that expand excellence and equity in education from preschool through college; increase college access and completion, particularly for historically underserved students; engage diverse communities dedicated to education equity; and increase political and public will to act on equity issues.

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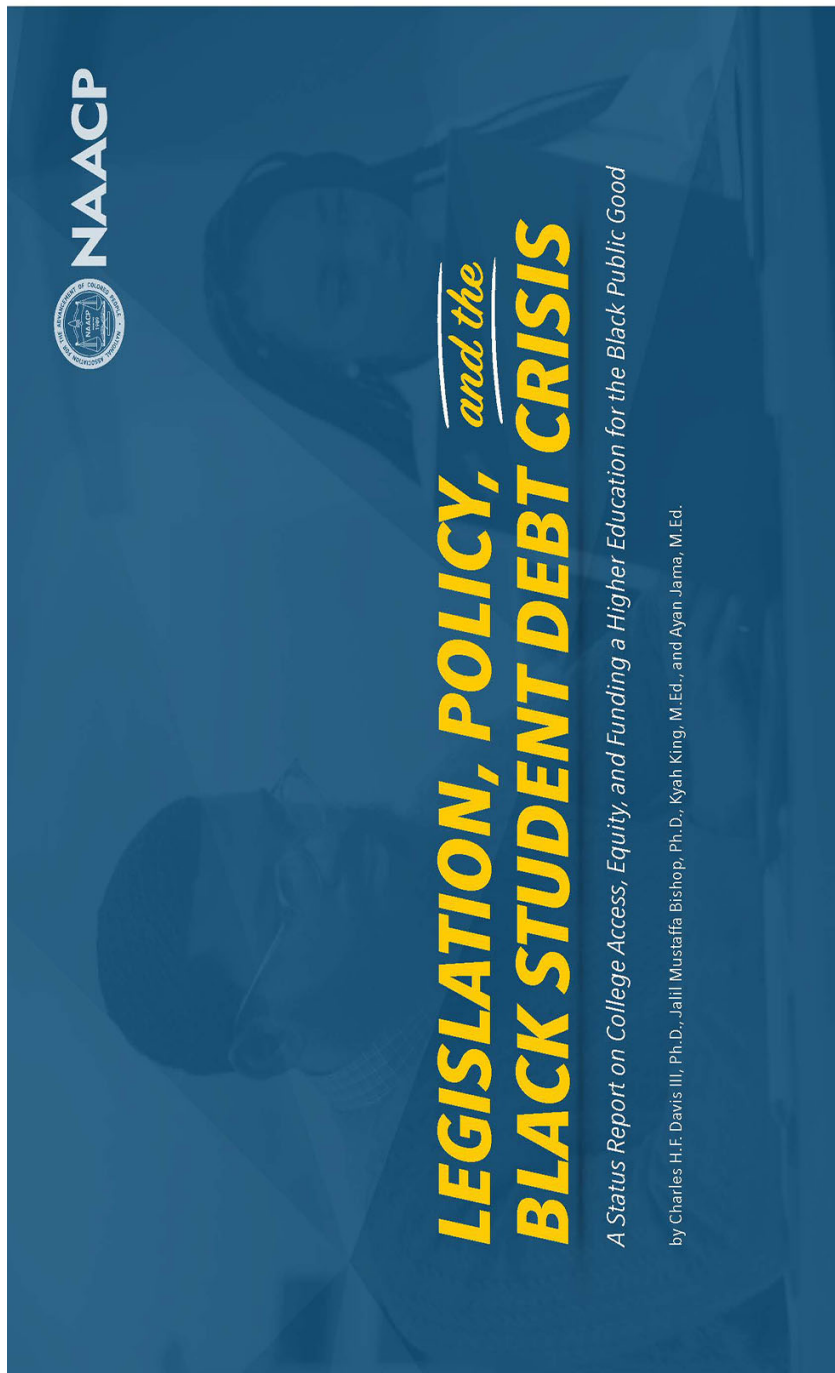


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LEGISLATION, POLICY, and the BLACK STUDENT DEBT CRISIS

A Status Report on College Access, Equity, and Funding a Higher Education for the Black Public Good

by Charles H.F. Davis III, Ph.D., Jalil Mustafa Bishop, Ph.D., Kyah King, M.Ed., and Ayan Jama, M.Ed.



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LEGISLATION, POLICY, AND THE BLACK STUDENT DEBT CRISIS

EXECUTIVE SUMMARY

The student debt crisis has a disproportionate impact on Black borrowers and their families. Across all racial groups, Black borrowers hold the most student loan debt despite also being consistently underserved by postsecondary institutions – especially for-profit and private non-profit colleges – toward persistence and degree-completion. This is also true for Black students pursuing master's and doctoral degrees, whereby 81% borrowed for graduate school. Additionally, although Black women are outpacing Black men in terms of college enrollment, they are also especially burdened in terms of the amount of student debt they acquire. By comparison, Black women hold 47% more student debt than White men and 27% more than White women. Altogether, the disparities in debt acquisition are compounded by the racial and gender pay gaps in which Black graduates – on average – earn 15% less than their White counterparts and are underemployed at two-thirds the rate of bachelor degree holders ages 25-34. These debt realities are set against the backdrop of Black families with college-aged children having a median income 70% of the overall median income in the United States. This signals that many Black students enter college with considerably fewer financial resources, which results in increased borrowing in addition to working while enrolled. Furthermore, Black students attending predominantly White institutions continue to experience various forms of racial and educational violence on campus prior to entering an inequitable labor market for Black degree-earners. For Black students attending Historically Black Colleges and Universities (HBCUs), despite experiencing welcoming environments and greater rates of academic success overall, their institutions remain woefully underfunded by comparison to PWIs. Therefore, serious interventions are needed toward the end of funding a higher education for the Black public good. This includes, but is not limited to, increased funding for HBCUs and predominantly Black institutions as well as the cancellation of current student debt and providing pathways to significantly reduce if not eliminate potential debt traps for Black students in the future.

MESSAGE FROM DIRECTOR TIFFANY DENA LOFTIN NATIONAL DIRECTOR, NAACP YOUTH & COLLEGE DIVISION

Ms. Loftin was formerly the Senior Program Specialist in Community Advocacy and Partnership Engagement, Center for Social Justice at the National Education Association. Her responsibilities focused around aligning NEA priorities with partners within the African American and progressive communities and creating opportunities for critical dialogue and action addressing the racial and economic disparities that impact educators, students, and communities across the country.



The fight for an affordable and quality higher education started for me in high school. Because I did not have the same resources as many others to attend college, I benefitted from a preparatory program for low-income students. Then, when I arrived on campus, the Board of Regents raised tuition 32%. I quickly realized how onerous paying for college was and had no choice but to fight back. Higher education was a privilege afforded to a select few when it needed to be a right for all. That is why I advocated for the Student Loan Forgiveness and Repayment Assistance Act as a student government leader and, a few years later, as the Vice President of the United States Student Association, continued organizing for student debt relief. When I accepted the role as NAACP National Director in 2018, I knew we could empower the voices of young Black leaders to be more influential, powerful, and robust, over the last 12 months we have done just that.

Through convening a national policy writing institute, a series of focus groups, hosting nationwide town halls on the issue of debt cancellation, publishing essays to share Black students' stories, and facilitating advocacy days with elected officials, we pivoted from producing educational programming to organizing impactful campaigns. To support our work, we have partnered with national experts on Black students' experiences in college to produce timely and necessary research for our membership, educators, and policymakers. We believe the information contained in this report is a valuable resource for debunking the fears and strengthening confidence in our collective ability to cancel student debt. In no uncertain terms, addressing the Black student debt crisis is imperative to this country's future and, with this report, the young Black leaders in the NAACP are further empowered to help us win.

As a global pandemic has caused millions of people to file for unemployment, many graduates have no way of paying off their student loans. And, although the CARES Act temporarily halted student loan repayments, the movement led by young people to cancel student loan debt and save higher education as a public good continues. Through our partnership with the Lumina Foundation and Dr. Charles H. E. Davis III, we have been able to further build Black political power. This report is critical to advancing the conversation about the need for policies that explicitly relieve Black borrowers and communities disproportionately affected by the growing debt crisis. We know that any conversation about higher education without young Black folks at the table lacks the grounding for real solutions. That is why the NAACP Youth & College Division has been working to change the national discussion around the possibilities of student debt cancellation and the right to quality higher education for the Black community. Not just because student loan debt impacts us intensely, but because we are the largest and oldest vehicle for Black youth leadership and can strengthen the movement for a future with debt-free college.



MESSAGE FROM DR. TIFFANY JONES DIRECTOR OF HIGHER EDUCATION POLICY, THE EDUCATION TRUST

Before joining Ed Trust, Dr. Jones led the higher education portfolio at the Southern Education Foundation, where she partnered with Historically Black Colleges and Universities and Hispanic Serving Institutions to advance student success and engage in analysis of federal and state policies (such as performance- and outcomes-based funding) using an equity lens.

The release of this report on Black student debt from the NAACP comes at a crucial and difficult time in our country. The COVID-19 pandemic is highlighting the economic fragility that the current generation is experiencing and is bringing the student debt crisis into the national conversation. And while the \$1.6 trillion in student debt affects many Americans, the student loan data illustrates that borrowing while Black is a disproportionately different experience. We have a crisis in which Black students are more likely than any other racial/ethnic group to borrow, borrow more, struggle with repayment, and still have higher default rates among those who earn a college degree and come from high-income families.

This disproportionate impact on Black students is not due to "bad" decisions by borrowers; nor is it a random occurrence; it is the result of racism and inequity manifesting themselves in systemic injustices such as income and wealth gaps, separate and unequal segregation, inequitable funding in education, and ineffective federal and state policy that student debt then compounds to make college unaffordable for Black students. Unfortunately, in today's knowledge economy where the majority of the jobs require some sort of post-secondary education, the most expensive education is the one *not* earned because borrowers have debt without receiving the earning boost from having a degree. Frankly, our current higher education funding and financial aid system is broken, and an equitable transformation will not be achieved by ignoring racial discrimination, or avoiding race-conscious policies.

The Education Trust also recognizes this, and has responded by collaborating with Dr. Jali Bishop at the University of Pennsylvania to launch the National Study on Black Student Loan Debt to better understand the experience of Black borrowers. Gathering the voices and experiences of Black borrowers is one step, but this report from the NAACP can inform the existing research and advocacy on Black student debt as it provides the necessary context, analysis, and recommendations policymakers need to help build a future where Black students do not have to mortgage their futures to pay for college.



MESSAGE FROM REP. AYANNA PRESSLEY U.S. REPRESENTATIVE, MASSACHUSETTS 7TH CONGRESSIONAL DISTRICT

Congresswoman Ayanna Pressley is an advocate, a policy-maker, an activist, and a survivor. On November 6, 2018, Rep. Pressley was elected as the first woman of color to be elected to Congress from the Commonwealth of Massachusetts. In March, Rep. Pressley co-introduced legislation for the immediate debt cancellation of thousands of dollars per borrower with Rep. Ilhan Omar (D-MN) to provide meaningful relief.

Our nation is in the midst of concurrent crises, a public health crisis and an economic crisis disproportionately ravaging our Black communities and threatening the livelihoods of Black workers and families. The COVID-19 pandemic has laid bare many of our nation's deeply entrenched inequities and disparities—including the ways in which our student loan debt crisis has disproportionately impacted the financial resiliency of the Black community and hindered our ability to build wealth and prosper.

In this moment of national reckoning, we must be unapologetic in our efforts to dismantle policies and systems that perpetuate and exacerbate racial inequities in our country. The NAACP's *Black Borrowers Report* comes at a critical moment and it underscores the ways in which our system of financing a higher education reinforces the racial wealth gap, exacerbates racial inequality and pushes the dreams of a higher education and economic mobility further out of reach for Black families.

The Black community has been forced to disproportionately shoulder the burden of our nation's \$1.6 trillion student debt crisis due to our nation's long history of racist public policy. From redlining to the lingering effects of the Great Recession, when Black families saw their net worth cut in half, Black families have been disadvantaged by generational wealth disparities that require them to take on higher levels of student debt for the chance to earn the same degree as their white counterparts. Not only do Black borrowers have to take on higher debt loads, they face higher default rates due to discrimination in the workplace and persistent race and gender wage gaps.

Only with bold, systemic reform and racially-conscious policy—such as the immediate cancellation of \$30,000 in student debt per borrower to help jumpstart the economy—will we be able to begin the work of alleviating the generational harm that has been inflicted. Congress must work to treat and address the crushing student debt crisis as the racial and economic justice issue that it is.

HIGHER EDUCATION FOR THE BLACK PUBLIC GOOD

"[Higher education] is one of the greatest hopes for intellectual and civic progress in this country. Yet for many Americans, however, it has been seen as part of the problem rather than the solution."

Dr. Ernest L. Boyer, Former President of Carnegie Foundation for the Advancement of Teaching, 1979-1995

Politicians, policy makers, and researchers have long debated the merits of higher education as both a public and private good, from which both individuals and society at large benefit. When framed as a public good, access to education after high school by a widespread number of people benefits the general public, which is better off with more people having the benefit than without. Privately, however, the benefits of college or university training are largely attributed to individuals rather than society as a whole. As scholars of higher education and authors of this report, the public versus private debate raises questions of who, in the United States, constitutes the public and who is able to privately benefit from attending and graduating college. These questions are also centered around whether access to colleges and universities is equitable for everyone in the public and, if not, who in the public is considered deserving to enroll.

In many areas within the public domain, cost-benefit analyses have led to state and federal governments offering and/or funding other public goods such as Medicare, primary and secondary education, and interstate highway construction. However, all public goods depend heavily on White taxpayers' and policymakers' perceptions of who (or

what) incurs the costs and, more importantly, who accrues the benefits. For example, many argue against the benefits of affirmative action when the cost/benefit is framed as poor Black people receiving a handout, but offer full support for tax-free college savings accounts when framed as middle-class (White) people receiving a wealth-building tool. Both are programs where the government transfers resources back to people, but how those transfers and the beneficiaries are framed deeply influence whether investing in the public good is considered worthwhile and would be of greater benefit to society overall.

Higher education, in particular, is framed as a race-neutral public good. Nevertheless, colleges and universities have and continue to operate racially by including White people through the exclusion of Black people. That is to say, higher education as a public good has led to large-scale investments in public community colleges and four-year institutions, and even private non-profit and for-profit institutions. These investments are race-neutral on their surface, but critical racial analyses have shown that Black people are concentrated in institutions that historically and currently receive less government funding and have



A Black Public Good consists of institutions, policies, and funding structures that are race-conscious rather than race-neutral as well as protections that ensure Black people are included. To be sure, we believe inclusion is not defined by its rhetoric, predation, or universal appeal, but equity-driven results that improve the educational and material conditions of everyday Black people.

lower operating budgets, all of which contributes to institutions failing Black students and their ability to persist and ultimately graduate (Carnevale, Van Der Werf, Quinn, Strohl, & Repnikov, 2018). Like other public goods, higher education operates in ways that make evident the public being served is not Black people. More specifically, Black graduates are routinely relegated to a collective, subordinate socioeconomic position that benefits White institutions, organizations, and enterprises with limited benefit to themselves or their communities. This is especially true of the current student debt crisis from which Black borrowers and their families remain disproportionately impacted.

Therefore, there is a need for reimagining higher education for the Black Public Good. A Black Public Good consists of institutions, policies,

and funding structures that are race-conscious rather than race-neutral as well as protections that ensure Black people are included as a forethought rather than a secondary concern. To be sure, we believe inclusion is not defined by its rhetoric or universal appeal nor its deference to the predatory inclusion of Black people into otherwise White normative standards. Instead, inclusion is determined by equitable results that consistently demonstrate a sustainable improvement in the educational outcomes and material conditions of everyday Black people. For this to be possible, immediate and critical attention must be given to understanding the current public good of higher education as predatory and racially-exclusive, particularly through a network of inequities exacerbated by race-neutral policy, funding structures, and the student loan industrial complex.

COLLEGE ENROLLMENT TRENDS FOR BLACK STUDENTS

Overall, the percentage of enrolled students who are identified as racially minoritized in the United States has increased since the mid-1970s. Specifically, Hispanic and Asian/Pacific Islander¹ student enrollments have increased 15 and 5 percent respectively. Across all institutions, public and private, Black students represented 13.4 percent of all U.S. college students according to national enrollment data (United States Department of Education, 2019), an increase from 10 percent in 1976 and a slight decrease from 15 percent in 2011 (see Table 1). Additionally, the overall enrollment of Native and Indigenous students has remained stagnant at less than 1 percent (0.7 percent) during the same period. To the contrary, White students have decreasingly occupied less of a share for overall enrollments having declined from 84 percent to just 56 percent, although they

remain the overwhelming majority of those enrolled at our Nation's private, highly-selective institutions (e.g., Ivy League colleges and universities and technical institutes). In undergraduate enrollment specifically, greater shares of student diversity primarily reflect the previously-mentioned increase in Hispanic student enrollment within the last 25 years (Espinosa, Turk, Taylor, & Chessman, 2019). Within the broad category of Black students, several distinctions are important to help clarify which Black students are enrolled, when and where they enroll, and the rates at which they successfully complete college. For instance, in 2017, although overall year-to-year trends moved upward for all students, Black students were least likely to enroll in college immediately after graduating high school (or equivalent) at a rate of 58 percent, 13 percentage points

below Hispanics (see Figure 1). And, despite an overall increase in Black student enrollments between 1996 and 2016, the total share (or proportion) of Black students ages 16-24 enrolling in college after high school steadily decreased since 2010 and 4.4 percentage points between 2015 and 2016. This decrease helps shed light on the persistent myth that most college students are between the ages of 18 and 24. In particular, 53 percent of Black students enrolled were considered non-traditional at ages 24 and older in 2016 (United States Department of Education, 2016). Additional differences across gender show a persistent gap between Black women and men in terms of overall enrollment². Specifically, more than 60 percent of all Black students at degree-granting colleges and universities nationally were represented by those identified as women while less

¹ Current national datasets are collected using pre-existing racial/ethnic categories that neither reflect the complexity nor nuance of racial and ethnic identities of those respondents surveyed. This limitation both reinforces incomplete or inaccurate representations of particular groups, to include but not limited to, the use of Hispanic instead of Latina/o/x and the grouping of Asian and Asian Americans into a singular category (although Pacific Islanders were treated separately after 2003). These categories are used throughout the report to be consistent with the available data.

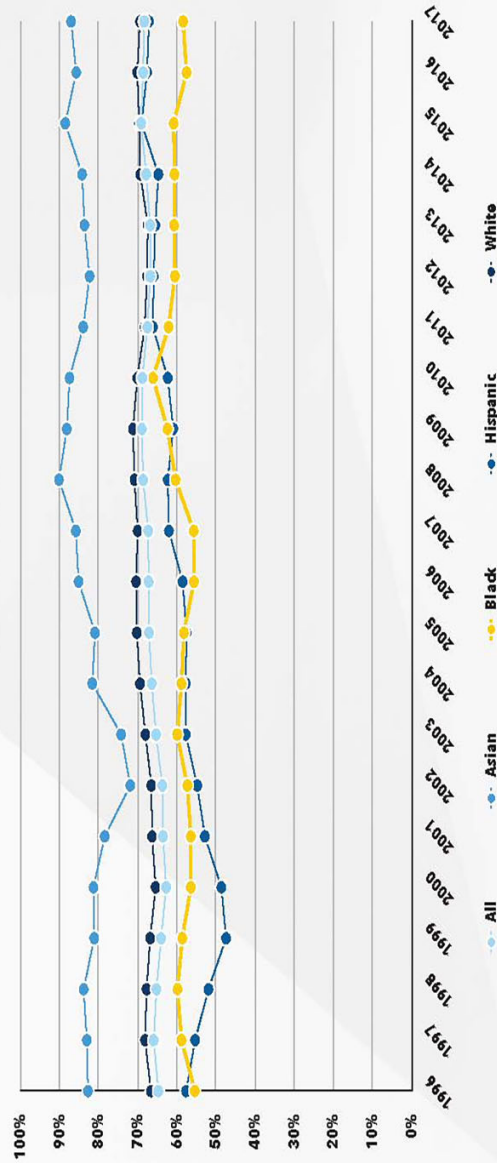
² As authors, we find it important to preface these data gaps as limited given existing national data sources on enrollments remain restricted to the gender binary between men and women. Therefore, current data on enrollments – such as those reported here – cannot fully reflect the full fluidity of gender identities or presentations of Black college students. Future data on postsecondary enrollments must include broader categories of genders not represented to understand additional gaps.

TABLE 1. TOTAL FALL ENROLLMENT IN DEGREE-GRANTING POSTSECONDARY INSTITUTIONS, BY LEVEL AND CONTROL OF INSTITUTION AND RACE/ETHNICITY OR NONRESIDENT ALIEN STATUS OF STUDENT: SELECTED YEARS, 1976 THROUGH 2018

Level and control of institution and race/ ethnicity or nonresident alien status of student	Percentage distribution of U.S. resident students (excludes nonresident aliens)										
	1976	1980	1990	2000	2010	2013	2014	2015	2016	2017	2018
White	84.3	83.5	79.9	70.8	62.6	59.3	58.3	57.6	56.9	56.0	55.2
Total, Selected Race/Ethnicities	15.7	16.5	20.1	29.2	37.4	40.7	41.7	42.4	43.1	44.0	44.8
Black	9.6	9.4	9.3	11.7	15.0	14.7	14.5	14.1	13.7	13.6	13.4
Hispanic	3.6	4.0	5.8	9.9	13.5	15.8	16.5	17.4	18.2	18.9	19.5
Asian/Pacific Islander, Total	1.8	2.4	4.3	6.6	6.3	6.4	6.6	6.8	6.9	7.1	7.3
Asian	---	---	---	---	6.0	6.1	6.3	6.5	6.7	6.8	7.0
Pacific Islander	---	---	---	---	0.3	0.3	0.3	0.3	0.3	0.3	0.3
American Indian/Alaska Native	0.7	0.7	0.8	1.0	1.0	0.8	0.8	0.8	0.8	0.7	0.7
Bi/Multiracial	---	---	---	---	1.6	2.9	3.3	3.5	3.5	3.7	3.9

SOURCE: U.S. Department of Education, Digest of Education Statistics, 2018, Table 306.20; National Center for Education Statistics, Higher Education General Information Survey (HEGIS), "Fall Enrollment in Colleges and Universities" surveys, 1976 and 1980; Integrated Postsecondary Education Data System (IPEDS), "Fall Enrollment Survey" (IPEDS-EE:90), and IPEDS Spring 2001 through Spring 2019, Fall Enrollment component (This table was prepared September 2019).

FIGURE 1. IMMEDIATE COLLEGE ENROLLMENT OF RECENT HIGH SCHOOL OR EQUIVALENT GRADUATES AGES 16 TO 24, BY RACE AND ETHNICITY: 1996 TO 2017



Source: U.S. Department of Education, Digest of Education Statistics, 2018, Table 302.20

Notes: This figure uses a three-year moving average, which is a weighted average of the year indicated, the year immediately preceding, and the year immediately following. For the final year, a two-year moving average is used. Moving averages are used to produce more stable estimates. "All racial and ethnic groups" includes persons of other racial and ethnic groups not separately shown. Prior to 2003, Asian included Pacific Islanders. After 2002, White, Black, and Asian data exclude persons of more than one race.

than 40 percent were identified as men in 2016 (Espinosa, et al., 2019), a gap consistent whether at Predominantly (and historically) White Institutions (PWIs) or Historically Black Colleges and Universities (HBCUs). In comparison to overall enrollment gaps between women and men, the national gap is roughly 13 percent according to data from the Integrated Postsecondary Education Data System (IPEDS) from the 2016-2017 academic year (see Figure 2). While this difference is necessary to acknowledge, we caution readers of this report not to misinterpret this data point as an indication of gender-based discrimination against Black men in favor of Black women. Again, across all racial groups, including White students, enrollment gaps between women and men exist. Furthermore, both Black men and women remain systematically disadvantaged by anti-Black racism that contributes to the under-enrollment of Black students by colleges and universities overall.

Nevertheless, it is important to point out that although double-digit enrollment gaps persist, those gaps shrink dramatically in terms of degree completion between Black men and women students. In 1997, just 9.5 percent of Black adults 25 and older were bachelor's degree holders compared to 15.3 percent in 2017. However, the percentage difference between Black women and men bachelor degree earners in 2017 was only 2 percent, which suggests clear and present challenges³ uniquely experienced by Black women after entering college. Additionally, within gender groups, Black women are still systematically disadvantaged and represent fewer enrollees overall and a lesser percentage of degree holders when compared to White and Asian American women by 11.5 percent and 26.8 percent respectively (DuMontier, Childers, & Milli, 2017). Lastly, which we discuss further below, Black women hold a greater proportion of Black student debt while also seeing less financial return in terms of the race-gender wage gap upon employment after college. As a result, Black women borrowers spend more of their income on repayment than any other race or gender subgroup (Hegewisch, Hayes, Milli, Shaw, & Hartmann, 2015). Still, we are limited in understanding how all of these issues are compounded for Black people outside the gender binary.

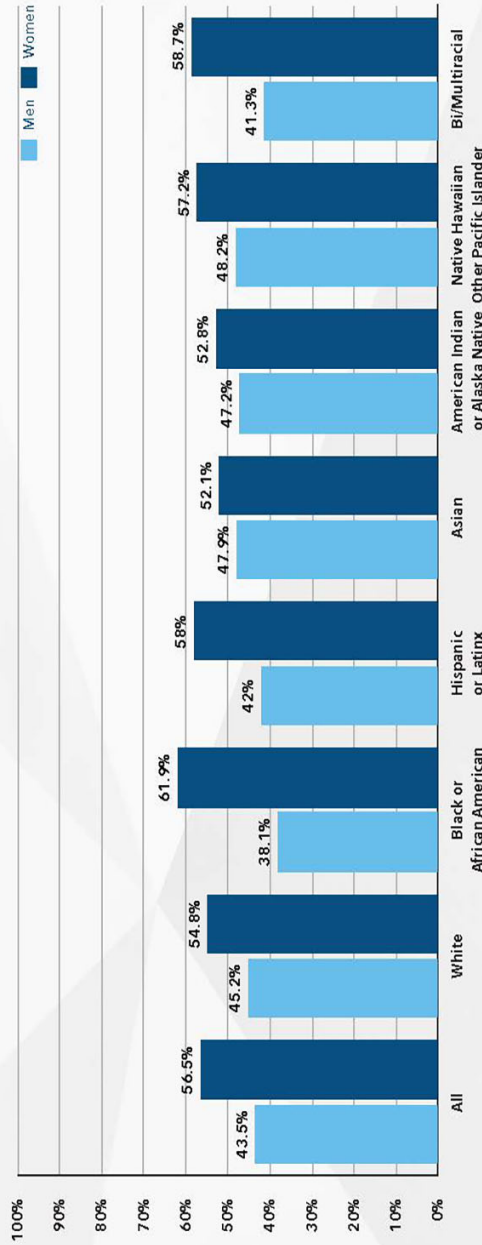
With regard to where Black students are enrolled in college, data reported in the 2016 National Postsecondary Student Aid Study show 44 percent of Black undergraduates were likely to be enrolled in 2-year colleges (United States Department of Education, 2016). An additional 16 percent of Black students were enrolled at for-profit institutions, most of which were also Black women, and were the largest racial group of all students represented in this sector. This is especially important given the associated costs of attending for-profit universities as well as the overall lack of efficacy related to degree completion, post-graduation job

³ For example, although only 26 percent of all students enrolled have a dependent, 71 percent of students with dependents are women (AOLW, 2017). Students with dependents routinely borrow more to pay for their education (and additional costs of attendance) as well as work while in school. Across all racial groups, Black students are more likely to be parents and Black women – 2 in 5 that are mothers – are more likely to have dependents than women from other racial groups (Cruse, Holtzman, Gault, Croon, & Polk, 2019).

placement, and increased likelihood of defaulting on loan payments. The remaining 40 percent of Black undergraduates were enrolled in 4-year public and private non-profit colleges and universities. At Historically Black Colleges and Universities, of which there are 102 federally designated institutions (including graduate-only institutions), Black student enrollment has increased 17 percent between 1976 and 2018. However, Black students now comprise just 76.5 percent of all students enrolled at HBCUs, slightly down from 81.1 percent in 2010 (United States Department of Education, 2019). Additionally, while HBCUs accounted for 3.5 percent of bachelor's degree and 21 percent of master's degree conferrals in 1976, today account for only 13 percent and 6 percent, respectively. Still, HBCUs produced 26 percent of all baccalaureate degrees conferred upon Black graduates despite representing just 9 percent of U.S. postsecondary institutions in 2016 (Center for Responsible Lending, 2020). Additionally, HBCUs confer roughly 40 percent of all science, technology, engineering and mathematics (STEM) degrees as well as 60 percent of all engineering degrees specifically to Black graduates. In 2011, Xavier University (Louisiana) and Howard University (Washington, D.C.) in particular accounted for the baccalaureate training of 92 Black graduates from U.S. medical schools, a number greater than the top four PWIs combined (Capers & Way, 2015). These shifts in enrollment and degree conferral indicate 1) an overall increase of Black student access to colleges and universities from which they were previously excluded, and 2) the increasing role that some HBCUs serve in educating other populations who have also been historically excluded (i.e., low-income, first-generation, and/or Latin/a/x) from access to postsecondary learning. At Gadsden State Community College (formerly Gadsden State Technical Institute) in Alabama, for example, Black students represent only 18 percent of all students enrolled following its mergers with several other area junior and technical colleges over

the years. Similarly, and according to current data from the IPEDS, West Virginia State University, founded in 1891 following the Second Morrill Act, now has only 8.2 percent Black students enrolled. In the cases of smaller, lesser-known HBCUs, these demographic shifts are also reflective of changes in labor markets as mines and factories closed in the early 20th century, which forced migration of many Black families and resulted in expanding campuses to include enrolling mostly White commuter students.

FIGURE 2. UNDERGRADUATE ENROLLMENT, BY RACE/ETHNICITY AND GENDER 2016-2017



Source: SOURCE: U.S. Department of Education, National Center for Education Statistics, 2015–16 National Postsecondary Student Aid Study (NPSAS:16).
 Note: Detail may not sum to totals due to rounding. Rounding may result in identical labels for bars with different underlying estimates. See Estimates and Standard Errors table for underlying estimates used in chart.
 Computation by NCES QuickStats on 7/23/2020

LEGISLATION, HIGHER EDUCATION POLICY, AND BLACK COLLEGE ACCESS AND AFFORDABILITY

In the United States, broad access to higher education for Black people has always depended on the advancement of policy at the institutional, state, and federal levels. Although a few individual Black students attended colleges as early as the 1820s in New England, it was not until after emancipation that Oberlin College in Ohio became the first postsecondary institution in the U.S. to implement a formal policy to admit Black applicants in 1833 (Bennett, 1986; Brazzell, 1996; Ranborn & Lynch, 1988; Roebuck & Murty, 1993). Still, widespread admission and enrollment of Black students in colleges and universities remained virtually non-existent in policy and practice during the first-half of the 19th Century. Prior to the establishment of Lincoln University in Pennsylvania (originally known as Ashmun Institute) in 1854, the first all-Black postsecondary institution to award bachelor's degrees, U.S. colleges and universities were exclusively led by and for White people.

As more all-Black institutions formed through the 19th and 20th century, a foundation for college access was established through what are affectionately known today as Historically Black Colleges and Universities (HBCUs) (Anderson, 1988). With the passage of the Thirteenth Amendment in 1865, which formally abolished slavery (with the exception as criminal punishment), private colleges and universities for the education of formerly enslaved Black people were established across the South (Roebuck & Murty, 1993). Working with White missionaries, government organizations (e.g., Freedmen's Bureau), and private donations, Black communities were able to organize and build over 200 (private) historically Black colleges prior to any federal

funding appropriations for Black higher education (Brown & Davis, 2001). Thus, HBCUs have been and remain a vital access point to higher education for Black people.

Federal Policy and Black Higher Education Access. The passage of the Morrill Land Grant Act in 1862 expanded public higher education as a white only public good. The act provided funding and land for White agricultural and mechanical colleges and universities. However, it was not until the second Morrill Act of 1890 that Black people were explicitly offered access to legislative provisions and funds for Black public institutions (Brazzell, 1996; Bowles & DeCosta, 1971). The second Morrill Act formalized the legal segregation of postsecondary institutions and limited the curricular focus of public HBCUs to vocational education. As historians of higher education have argued, and with which we agree, this legislation was intended to facilitate the federal subsidy of developing White land-grant institutions, limit the educational opportunity for Black people to vocational training, and further exclude Black people from White colleges and universities. The segregation of schools was reaffirmed in the 1996 *Plessy v. Ferguson* decision that ruled such public goods could remain separate under the presumption they would be equal. Despite the ruling, research has shown even after the *Plessy* decision public land grant HBCUs remained woefully underfunded in comparison to their White institutional counterparts (Sekora, 1968). The second Morrill Act never provided Black colleges with 17.5 million acres of land and the millions of dollars that were allocated to white colleges in the first Morrill Act of 1862 (Cohen & Kisker, 2010; Wheatle, 2019). This disparity in federal

subsidies between financial investments in HBCUs compared to PWIs remains consistent today (Williams & Davis, 2019).

Nevertheless, HBCUs persisted in awarding nearly all baccalaureate degrees earned by Black students through the 1940s (Davis, 1998). In fact, prior to the 1954 desegregation ruling by the Supreme Court of the United States (in the *Brown v. Topeka Board of Education* case), less than one percent of entering freshmen at PWIs were Black (Harper, Patton, and Wooden, 2009). But *Brown*, like *Plessy*, was not immediately adopted in practice. This is especially true in higher education as the realization of desegregated institutions did not begin to take shape until passage of the Civil Rights Act of 1964, Title VI of which restricted the disbursement of federal funding for colleges and universities that remained segregated (Brown, 2001; Malaney, 1987). Immediately following, the Higher Education Act of 1965, and Title III⁴ specifically, made a considerable impact in closing the financial gap for HBCUs. The "developing institutions" provision uniquely qualified HBCUs, especially those facing the threat of closure, to be the primary recipients of federal funding for improving curriculum and instruction, faculty, student services, and exchange programs for students seeking out other educational opportunities at institutions from which they were previously and legally excluded (Roebuck & Murty, 1993). The Civil Rights Movement combined with Black student campus activism served as the transformative source for legislation to contribute to advancing equity, not just in theory, but in results. Black students gained access to White colleges and universities in sizable numbers along with the

increased growth of HBCUs. As a result, overall Black enrollment in higher education from 1967 to 1975 – across two- and four-year institutions – increased from 13 to 20.4% (NCES, 2013).

Race-Neutrality, Student Loans, and Higher Education Policy. While the Higher Education Act of 1965 increased college enrollment and funding for HBCUs, the legislation also created the Guaranteed Student Loan Program (later renamed the Stafford Loan Program). For context, it is important to remember the HEA was created at the high point of Civil Rights legislation being passed, but fierce debates about racial integration in education and wider society shaped earlier legislation with similar provisions. In fact, Title III was originally proposed for the Education Defense Act of 1958, but was voted down out of fear it would increase integration. When it was included in the HEA of 1965, it was almost voted down, again, for fear it would *preserve* segregation (allocating funds to HBCUs rather than integrating them) (Cervantes et al., 2005). In just seven years the legislative debate around race in education had shifted, but racism and white supremacy still underpinned both segregation and integration arguments (Ladson-Billings, 2004). Therefore, student loans originally became financial aid policy in this racial-political context. Yet, little research has been done to understand how race shaped the creation of student loan programs. Similar to the passage of the Servicemen's Readjustment Act of 1944 (G.I. Bill), which funded the college enrollment of military servicemen but the benefits of which remained largely inaccessible to Black war veterans (Mustaffa, 2017; Oliver & Shapiro, 2006; Rudolph, 1990), student loans were a race-neutral policy in that Black people *technically*

⁴ To be sure, although HBCUs were uniquely qualified for Title III, it was never written explicitly for HBCUs to receive directed funds. It was not until the late 1980s that the Strengthening Historically Black Colleges and Universities (HBCU) program (i.e., Title III-B) would award grants to eligible Black institutions to assist them in strengthening their academic, administrative, and fiscal capabilities.

had equal access to use them. When President Lyndon B. Johnson proposed student loan programs, his main selling point was “families will finance college education for their children in the same way that they finance the purchase of a home.” Yet, financing home purchases was a possibility only for White families; a legal discriminatory practice until the Fair Housing Act of 1968 and remains a *de facto* racialized practice today (Taylor, 2019). Again, by the time the HEA passed and student loans became policy, racial segregation was no longer legal in federally funded institutions, but for the legislation to pass it could not be seen as expediting racial integration either (a lesson learned from ongoing K-12 integration battles). While beyond the scope of this report, more work is needed to understand how student loans were created within this political tension of illegal segregation and White resistance to integration. Student loan programs provided the option for higher education to be funded, not as a public good, but as a private good to be individually financed. Several scholars have noted how the public good of higher education – defined as open access and fully funded for students – shifted to more of a focus on student loans at the same time Black students and other racially minoritized communities gained access to college (Steinbaum, 2017; Clabaugh, 2004; Bruce, 2013). Student loans likely did not escape the racist policy logics of the 1960s (from redlining to higher education funding) and therefore the race-issue in student loans is not solely a current one, but one with deep historical roots.

Today, higher education policy has responded to persistent racial inequities in student enrollment, financial aid, graduation rates, and

student debt repayments with race-neutrality and universalism. Specifically, most policies are created with the presumption that a policy technically available to all, or those based on socioeconomic class (i.e., income level), will automatically benefit Black people too. Unlike the Civil Rights of 1964 or Title III in the HEA, there has been no recent legislation that offers race-conscious benefits, protections, or opportunity specifically for Black people. In contrast, there has been more restriction, wherein race-conscious policies such as affirmative action have been banned or severely narrowed to the point of being rendered ineffective (Moses & Chang, 2006). Although California's Proposition 209, which banned affirmative action in college admissions in 1996, was recently repealed by the University of California Board of Regents, such reversals are not yet common. In the current political context – where colorblind legislation has priority – most policies discussed rhetorically as beneficial to Black people do little legislatively to protect or ensure those benefits. Examples include all-grant/no-loan programs at private colleges, proposals for free college, and accountability policies. For example, free college programs or proposals like New York Excelsior and Tennessee Promise and Reconnect are designed to be tuition-only and “last dollar” funding programs, meaning that the state or federal government provides aid for the cost of a student's tuition not already covered by other forms of aid. As a result, these new policies can provide no significant source of financial support for students whose tuition is already covered with Pell Grants and need-based aid, which, again, includes the majority of Black college students. These students still have to figure out how to pay for

fees, housing, books, and living expenses while well-off students, less likely to struggle with or borrow for these college costs, have their overall costs lowered (Jones & Berger, 2018). Similarly, universal accountability policies treat all institutions as if they have the same resources to produce similarly high outcomes. For example, these policies use accountability measures such as student withdrawal rates, cohort loan default rates, and post-school gainful employment to determine if institutional performance standards are being met (Miller, 2017). Yet, the racial histories, student populations, and ongoing underfunding of specific institutions (e.g., open-access two-year and four-year public institutions as well as HBCUs) are not taken into consideration when applying such measures. As a result, these institutions face disparate consequences to include being further denied access to federal funding sources. Remember, these institutions have historically provided access to Black students. Still, such policies fail to consider how past policymaking has undermined their inability to perform as well as enfranchised colleges and universities (Carnevale et al., 2018). As Miller (2017) argues, "no part of the federal [higher education accountability] system currently addresses issues directly related to equity" (p. 3). Again, such universal or race-neutral policies only further the ongoing postsecondary shortcomings impacting Black students. Given disparities in access, enrollment, campus experiences, and institutional outcomes continue to be shaped by a history of racial exclusivity, only race-conscious policies in higher education can remedy racial inequities (Jones and Nichols, 2020).

DID YOU KNOW?

Although Historically Black Colleges and Universities represent only 3 percent of all 2-year and 4-year postsecondary institutions in the U.S., HBCUs award 17 percent of all Black bachelor's degrees overall and 24 percent of all Black bachelor's degrees in science, engineering, mathematics, and technology fields. Black students at HBCUs also report an overall greater degree of satisfaction due to supportive campus environments and higher levels of academic challenge.

(Chen, Ingram, & Davis, 2014; Outcalt & Skewes-Cox, 2002; Williams & Davis, 2019)

CAMPUS EXPERIENCES AND INSTITUTIONAL OUTCOMES FOR BLACK COLLEGE STUDENTS

The campus experiences and institutional outcomes for Black college students are many and varied, particularly those across various differences in ability, (socioeconomic) class, gender identity, religion, and sexual orientation. Therefore, it is important for readers to remember that Black students, although sharing a category of racial difference, are not all the same. However, all Black students do encounter similar structures within the higher education system as they attempt to navigate college and university life. In this way, the various experiences and outcomes for Black students reflect broader racial realities consistent with the postsecondary environments' impact on college learners.

Despite the decades of policy implementation, including those directly related to financial aid, progress for Black students within the U.S. higher education system has remained relatively limited. For instance, the various policies discussed in this report notwithstanding, traditional institutional outcomes (e.g., rates of admission/enrollment, persistence, and degree completion) for Black students consistently lag behind those from other racial groups (Ubassi, 2018), some of which we discuss earlier in this report. We frame these outcomes as institutional rather than individual to shift the onus of success away from Black students alone and toward the colleges and universities (and other institutions) responsible for their readiness, preparation, remediation, and ongoing instruction. For example, Harper and Simmons (2019) found that there was consistent institutional failure to achieve equitable outcomes for Black students attending four-year, non-specialized, public predominantly white colleges and universities in the United States.

While there were some individual exceptions, these state institutions on the aggregate overwhelming failed to 1) enroll 18-24 year old Black students at rates consistent with their overall representation in the state population, 2) enroll Black men and women students at rates less than or equal to the national gender enrollment gap, 3) graduate Black students at rates greater than or equal to rates of graduation all students, or 4) sufficiently employ Black faculty to reflect Black student enrollment across various fields and disciplines (Harper & Simmons, 2019). This failure is further evidenced in college completion data, which report U.S. postsecondary institutions graduate Black students at four-year colleges and universities at a rate of just 40 percent within six years, a 20-point difference from the rate for all students (see Figure 3) (de Brey, Musu, McFarland, Wilkinson-Flicker, Diliberti, Zhang, Bransetter, & Wang, 2019). Similarly, community colleges, especially those in which the majority of students enrolled are Black, often fail to grant certificates, degrees, or transfer Black students to four-year institutions (Harris II & Wood, 2013; Moore & Shulock, 2010; Wessmer, Moore & Shulock, 2004; Wellman, 2002). To be sure, there are some exceptions to the aforementioned data realities in which Black students have been meaningfully engaged and supported to achieve postsecondary success. As Nichols and Evans-Bell (2017) note, of the 676 predominantly White, public and private nonprofit institutions that enrolled nearly 60 percent of Black first-time, full-time students in 2014, 22 percent of those institutions had completion gaps of 5 points or less between Black and White students; 55 colleges and universities had less than a 5-point gap or no gap at all. And, among HBCUs serving

FIGURE 3. GRADUATION RATES FROM FIRST INSTITUTION ATTENDED FOR FIRST-TIME, FULL-TIME BACHELOR'S DEGREE-SEEKING STUDENTS AT 4-YEAR POSTSECONDARY INSTITUTIONS, BY RACE/ETHNICITY AND TIME TO COMPLETION: COHORT ENTRY YEAR 2010



SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Winter 2016-17, Graduation Rates component. See *Digest of Education Statistics 2017*, Table 326.10.

Note: Data are for 4-year degree-granting postsecondary institutions participating in Title IV federal financial aid programs. Graduation rates refer to students receiving bachelor's degrees from their initial institutions of attendance only. The total includes data for persons whose race/ethnicity was not reported. Race categories exclude persons of Hispanic ethnicity. Although rounded numbers are displayed, the figures are based on unrounded data.

similar cohorts of first-time, full-time students (i.e., 40-percent to 75-percent Pell-eligible freshman), HBCUs consistently outperformed PWIs in graduating their Black students. These findings suggest institutions are finding ways to use disaggregated data to develop targeted interventions, consistently track Black student progress toward academic/degree-program milestones, and meet Black students where they are to support them in race-conscious and culturally-responsive ways.

For certain, longstanding racial disparities resulting from the use of racially-biased entrance exams, admissions standards, merit-based aid structures, Eurocentric curricular offerings, academic advising, etc. are among the institutional drivers for postsecondary inequities. Additionally, however, racialized experiences of education violence (Mustafa, 2017) – including but not limited to interpersonal microaggressions and overt acts of racism – commonly reported by Black students at PWIs deeply threaten their sense of belonging, safety, and ability to succeed (Chen, Ingram, & Davis, 2014; Jenkins, Tichavakunda, & Coles, 2020). These instances have been especially prevalent in recent years as the anti-Black rhetoric of the 45th Administration has been shown to directly relate to significant increases in the reporting of anti-Black campus racial violence (Stokes, 2020). Furthermore, the racial climates of many postsecondary institutions create hostile environments in which Black students' concerns are routinely ignored, invalidated, diminished, and dismissed by White peers, faculty, staff, and administrators (George Mwangi, Thelamour, Ezeofor, & Carpenter, 2018; Harper & Davis, 2016). While it is beyond the scope of this report to explain the nature and full magnitude of Black students racialized

experiences, suffice it to say as inequities persist we must always consider interpersonal and institutional racism as explanatory factors for racial differences.

Again, while many of the aforementioned experiences and outcomes have previously been used to frame Black students as the problem, we believe models of institutional responsibility are necessary to fully understand and rectify persistent racial inequities. To be clear, and to paraphrase Perry (2020), there is nothing wrong with Black students that dismantling anti-Black racism in higher education cannot solve. While this includes anti-Blackness affecting HBCUs (and other predominantly Black institutions), it is especially relevant to the PWIs who disproportionately enroll and overwhelmingly under-serve the majority of Black students in higher education today. Additionally, notions of student progress, which are relative to a long history of disenfranchisement and injustice, must also consider the material and financial costs when framing the experiences of Black college students. As we describe in greater detail below, attending and even graduating college comes at a significant financial deficit that traps most Black borrowers into debt, which seriously challenges their ability for making a life after college. Put differently, whatever espoused gains associated with access to higher education are significantly diminished by the financial realities following Black student borrowers after college (Jackson & Reynolds, 2013).

REGION V AND REGION VI STUDENT DEBT BY STATE

The emerging work on student debt shows that student loans do not just impact individuals, but, in fact, impact the broader public. To study the geography of student loan debt, Steinbaum and Vagul (2016) utilized credit report data to map student loan delinquency rates by zip codes throughout the country. Throughout the nation, the researchers found that zip codes with high Black and Latina/o/x populations are most likely to have high student loan delinquency and default rates. While most college students are likely to attend an institution less than 50 miles from their home, Black students, in particular, are more place-bound as they are more likely to be non-traditional students. In this way, the place-based reality of student debt follows the place-based ways students enroll in higher education. In addition, place-based dynamics also shape student debt lawsuits from the Department of Education and the Department of Justice. Mattes and Yu's (2019) report on student debt collection lawsuits found:

Zip codes in which the sued student loan borrowers reside tend to have significantly higher percentages of people of color than the rest of the country. Specifically, . . . the zip codes in which sued defaulted student loan borrowers live have Hispanic or Latino populations double the national average and triple the average Black or African American population (p. 5).

As these studies show, student debt delinquencies and resulting litigation are concentrated in racially minoritized communities. Therefore, as we argue with regard to the Black public good, the impact of debt is not primarily individual, but communal and has serious

implications for the economic instability of Black life-making. Similar results on student debt delinquency were found when regional Federal Reserve Banks analyzed student debt data in large cities (e.g., Washington D.C., Philadelphia, and San Francisco). Consistently, the higher the percentage of people of color in a neighborhood the higher the delinquency rate. To be clear, racially minoritized communities themselves are not the risk factor, but the often unfair terms and uneven economic base in which they are uniquely forced to acquire debt. While student loans are presented as a policy tool to increase college opportunity, loans for college have largely served as been an economic barrier for Black communities similar to other place-based debts (e.g., payday loans, car loans, subprime mortgages, and court fees and fines). Each of these debts has historically and continuously been administered to Black people through predatory terms and/or the willful neglect of particular Black communities' geography relative to their collective economic standing. Whether predation or neglect, the result leaves Black borrowers in an often inescapable racialized debt trap.

As a set of examples below, Table 2 highlights key states in Regions V and VI that are the focus of NAACP's advocacy work. Most of the states are near the national average for student loan debt of \$29,309.

However, while borrowing student loans is a widespread experience, the place-based data shows that the experience changes along race and class lines. In particular, despite moderate to low state debt totals nationally, zip codes across these two regions demonstrate higher debt burdens, unemployment rates, and loan default rates among Black and

TABLE 2. PERCENTAGE OF 2018 GRADUATES WITH DEBT AND AVERAGE DEBT OF THOSE WITH LOANS, BY NAACP REGION AND BY STATE

State	CLASS OF 2018			INSTITUTIONS (BA-GRANTING)		GRADUATES	
	Average Debt	National Rank	% with Debt	National Rank	Total Schools	Schools with Usable Data	% at Schools with Usable Data
Alabama	\$29,469	27	51%	13	33	13	75%
Florida	\$24,428	8	44%	3	97	30	69%
Georgia	\$28,824	23	57%	26	59	28	76%
Mississippi	\$30,117	31	58%	30	16	6	74%
North Carolina	\$26,683	14	56%	21	62	26	81%
South Carolina	\$30,838	34	58%	30	33	18	85%
Tennessee	\$26,838	16	55%	19	47	22	73%
Arkansas	\$26,579	13	53%	15	23	8	53%
Louisiana	\$27,151	17	49%	10	28	9	53%
Texas	\$27,293	18	56%	21	97	47	67%
Oklahoma	\$25,221	11	47%	6	28	13	71%
New Mexico	\$21,858	3	49%	10	11	5	91%

SOURCE: The Institute for College Access and Success (TICAS), Student Debt and the Class of 2018 Report, <https://ticas.org/wp-content/uploads/2019/09/classo2018.pdf>.

NOTES: The Class of 2018 national average debt is \$29,309. The rankings in this table were re-calculated by the authors to better demonstrate the inverse relationship between the average debt per state and its numerical ranking across all 50 states (i.e., higher debt average yields lower ranking). TICAS data were not available for disaggregation by race.

THE IMPACT OF STUDENT DEBT ON BLACK BORROWERS

The national debt attributable to student loans is roughly \$1.5 trillion held by more than 44 million individual student loan borrowers (Huelsman, 2019). A greater proportion of that debt is held by first-generation, low-income, and racially minoritized borrowers, including Black students. Based on recent research examining the year-to-year trends in student loan debt acquisition and borrowing patterns across racial differences, serious concern and attention should be given to the specific burden of student debt on Black borrowers (Center for Responsible Lending, 2019; Espinosa et al., 2019; Holt, White, & Terrell, 2017). In particular, Black borrowers have consistently been found to be more likely to receive federal loans (and grants) to pay for their education, with 90 percent of Black students enrolled either full-time or part-time taking out loans for college in 2012 according to analyses of federal borrowing data conducted by the Consumer Federal Protection Bureau (Canchola & Fotman, 2016). During the 2015-2016 school year, 72 percent of Black students enrolled full-time received Pell Grants at an average of \$4,900⁹ (NCES, 2017). Thus, Black students are leaving college with the highest average debt per borrower and per graduate across all racial groups. This is true of both bachelor's and associate's degree holders—who were both more likely to borrow and borrowed more to finance their education—as well as for Black students across all public and private sectors of higher education.

The most common source of borrowing for all students comes from the subsidized and unsubsidized Federal Direct Loan Program, of which

49.8 percent of all borrowers were Black. Additionally, while 86.4 percent of Black bachelor's degree holders borrowed to earn their degree overall, 98 percent of Black students at for-profit institutions borrowed (Espinosa et al., 2019) to cover the costs of expensive, low-quality degree programs. In 2012, the average full tuition and fees associated with attending for-profit institutions were double that of public 4-year non-profit colleges and more than three times the cost of attendance for public 2-year non-profit institutions (Smith & Parish, 2014). In the same year, graduation rates at for-profit colleges were just 32 percent, a rate nearly half that of public and private non-profit institutions. This is particularly alarming given the documented exploitation by for-profit colleges in targeting Black students to enroll as well as the incredibly high rates (52%) of loan default among those entering for-profit institutions within 10 years (Center for Responsible Lending, 2019). What is more, for-profit institutions enroll more than 50 percent of all Black students pursuing doctoral degrees with an average debt of \$128,000 (Espinosa et al., 2019).

Such high proportions of Black borrowers across postsecondary sectors reflect the general lack of financial and other resources when they enter college. This particular challenge is intergenerational as many Black families remain affected by high loan balances and lower wages than other racial groups. In part, this is reflected in the greater proportion of Black degree holders having more debt than other racial groups.

Among 2015-2016 bachelor degree recipients, for example, nearly 40

⁹ For According to the U.S. Department of Education (<https://www2.ed.gov/persgrants/pdf/index.html>), the maximum Pell grant award for the 2015-16 award was \$5,775. The award amount is calculated based on the federal determination of student financial need, costs to attend school, status as a full-time or part-time student, and plans to attend school for a full academic year or less.

TABLE 3. CUMULATIVE DEBT OF 2015-16 BACHELOR'S DEGREE RECIPIENTS BY RACE/ETHNICITY

Race	No Debt	\$1 to \$9,999	\$10,000 to \$19,999	\$20,000 to \$29,999	\$30,000 to \$39,999	\$40,000 to \$49,999	\$50,000 or More
Asian (7%)	41%	11%	14%	16%	9%	3%	6%
Black (12%)	14%	12%	10%	15%	16%	12%	21%
Hispanic (16%)	33%	14%	15%	15%	10%	6%	7%
White (61%)	30%	10%	13%	18%	12%	7%	10%

TABLE 4. PARENTS' TOTAL INCOME FOR DEPENDENT 2015-2016 BACHELOR'S DEGREE RECIPIENTS BY RACE/ETHNICITY

Race	Less Than \$35,000	\$35,000 to \$69,999	\$70,000 to \$119,000	\$120,000 or More
All Students	22%	21%	25%	32%
Asian (7%)	32%	23%	21%	23%
Black (12%)	49%	24%	16%	11%
Hispanic (16%)	37%	29%	17%	17%
White (61%)	13%	18%	29%	40%

SOURCE: National Center for Education Statistics, National Postsecondary Student Aid Study 2016

NOTE: Percentages in parentheses are shares of bachelor's degree recipients in each racial/ethnic group. Includes both federal and nonfederal borrowing for 2015-16 bachelor's degree recipients who were U.S. citizens or permanent residents. Excludes parent PLUS loans. Includes students who transferred as well as students who received their degrees at for-profit and two-year institutions. Percentages may not sum to 100 because of rounding.

percent of Black graduates left college with a \$30,000 or more debt total (see Table 3), the highest amount held by any race of borrowers. According to one study, such resource gaps for Black students are the result of generations of financial disparity compounded by student loan debt, which has been a modern mechanism for widening economic insecurity and the wealth gap between Black people and others (Addo, Houle, & Simon, 2016). For instance, more than half of all families with Black heads of household ages 25 to 40 have student debt (Center for Responsible Lending, 2019). Additionally, despite holding a bachelor's degree, Black borrowers ages 25 to 34 reportedly earned 15 percent less and were vulnerable to unemployment at a rate two-thirds higher than other bachelor degree holders in the same age range (Espinosa, et al., 2019). Among Black families with dependents graduating college in 2015-2016, 49 percent earned less than \$35,000 annually (see Table 4). Put simply, Black borrowers both acquire more debt and, due to wage and employment inequities in the labor market, are in more precarious positions when it comes to their ability to repay.

The result of these converging debt and income realities are longer-term entrapments with student debt that exacerbate the racial wealth gap. As Sullivan, Meschede, Shapiro, and Escobar (2020) note, the median debt of White borrowers has been reduced by 94 percent whereas Black borrowers at the median still owe 95 percent of their borrowing total twenty years after starting college. 50 percent of which defaulted within the same period. More specifically, while the typical Black student borrowed just \$3,000 more in loans than their White peers, the typical Black borrower owed about \$17,500 more than their

White peers within twenty years of beginning college (Sullivan et al., 2020). This detail is critical to challenging the persistent myth that attending and graduating from college is alone a sufficient condition for generational economic and social mobility. To the contrary, for many Black borrowers (and others) the financial costs and lifetime debt sentences of postsecondary education further disenfranchise them from achieving future economic stability. Although the desires for degree attainment, and thus debt acquisition, are closely aligned with the promise of gainful employment in jobs paying livable wages, the labor market realities facing Black borrowers reaffirm longstanding systemic racism in hiring practices, salaries and wages, and professional advancement (Bashay, Bergson-Shilock & Johnson, 2019). Altogether, the trajectories of debt acquisition for Black borrowers and labor market racism exacerbate the racial wealth gap and have significantly contributed to reproduction of a fragile Black middle class (Houle & Addo, 2016).

STUDENT DEBT AND BLACK WOMEN BORROWERS

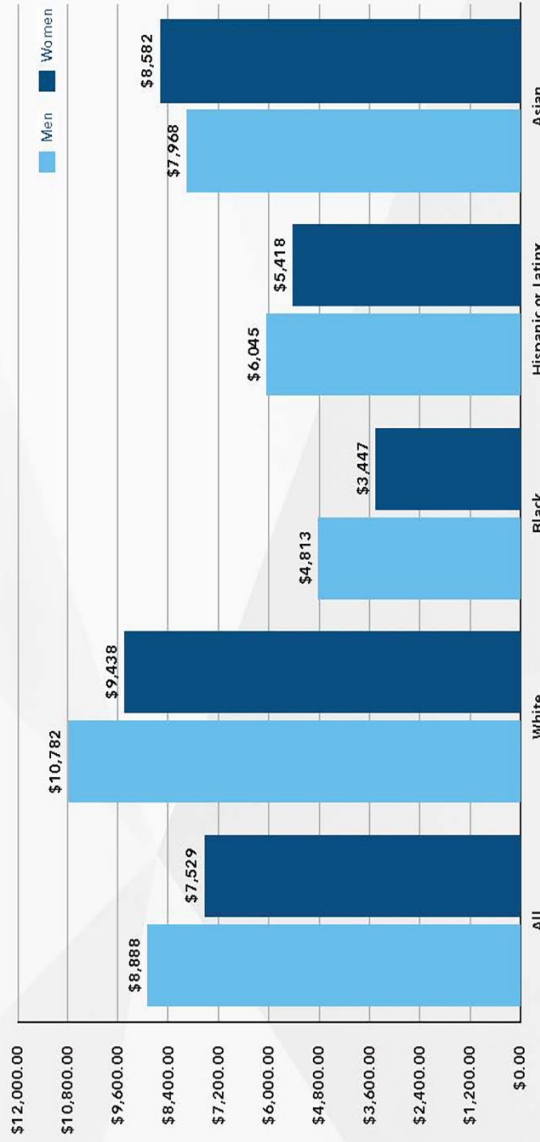
While the current student loan and higher education finance systems work to the detriment of Black students overall, there is an even more acute effect on Black women borrowers. This is attributable to ways both racism and sexism converge to shape the unique experiences of Black women borrowers before, during, and after college. As discussed earlier in the report, although Black women outpace Black men in enrollment and degree attainment, they also are burdened with a great amount of student debt and have higher debt-to-income ratios than all male borrowers, especially White men.

To be sure, gender disparities in total debt are true within and across all racial groups; women borrowers hold \$929 billion in student debt, nearly two-thirds of the nation's debt total. For Black borrowers as a racial group, Black women borrowed an average \$1,893 more in student loans than Black men. However, according to a 2017 report from the American Association of University Women (AAUW), in 2012, Black women with a bachelor's degree reported to have averaged \$884.1 more in total loans compared to White women graduates (see Figure 4). This is accompanied by dramatic race and gender differences in expected family contribution (EFC), which is a measure for calculating financial need (i.e., the lower the EFC the higher the financial need). Across all borrowers, Black women had the lowest EFC at \$3,447 in 2012. Amongst women borrowers, Black women are required to borrow at higher frequencies as well as borrow higher amounts to complete their degrees. For instance, 34 percent of Black women bachelor's degree holders completed college with more than \$40,000 student debt compared to just 16 percent of Latina women, 10 percent of White women, and 8 percent of Asian women in 2012 (AAUW, 2017).

With regard to earnings, Black women are consistently underemployed and underpaid compared to other women and all men degree holders. This trend is consistent with racial and gender wage gaps across educational attainment in which Black people and women are routinely paid less than White men. For example, in 2016, women who worked full-time with bachelor's degrees were paid 26 percent less than men with the same credentials (AAUW, 2017). Overall, this gender wage gap yields men being paid 20 percent more than women, but 39 percent more for White men than for Black women according to U.S. Census Bureau data analyzed by the National Women's Law Center (Tucker, 2020). For Black women, their median income is only 64.4 percent the income of White men and 83.4 percent of Black men (DuMonthier et al., 2017). Just as connected, an Economic Policy Institute report found that "Black male college graduates (both those with just a college degree and those who have gone beyond college) newly entering the workforce started the 1980s with less than a 10 percent disadvantage relative to White college graduates but by 2014 similarly educated new entrants were at a roughly 18 percent deficit" (Wilson & Rodgers III, 2016, p. 1). The race-gender differences in the labor markets uniquely impact Black men and women.

Altogether, the higher amounts of debt acquired in tandem with a sexist-racist labor market widens repayment gaps and increases the likelihood of defaulting on loan payments. As highlighted in DEMOS report earlier this year (Huelsman, 2020), twelve years after college, White men had reportedly paid off 44% of their student loan balance while White women had paid off 28%. For both Black women and men, however, their balances *increased* (by 13 percent and 11 percent respectively), which is attributable to the accruing interest compounding their debt while in tenuous employment and repayment circumstances.

FIGURE 4. MEAN UNDERGRADUATE EXPECTED FAMILY CONTRIBUTION (EFC) BY GENDER AND RACE, 2011-12



SOURCE: AAUW analysis of U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, *National Postsecondary Student Aid Study* 2012 data.

RECOMMENDATIONS

This report has made clear that student loans are predatory given 1) the historic racism and place-based inequities of Black communities, 2) the ongoing racial/gender barriers in the labor market and wealth-generating pathways, and 3) the racist stratification of the higher education system. Again, it does not matter if the predation comes from racism or willful neglect of the Black condition; the result is the same.

With the overwhelming evidence in mind, we recommend a multi-prong approach to end the student loan debt trap for Black people, which includes debt cancellation, an opening of the policy making process, and centering Black voices in future student debt research.

Cancel Student Loan Debt and Eliminate Original Financial Need.

There is growing support to cancel student loan debt. For Black borrowers, the call for cancellation is necessary because the terms of borrowing student loans were unequal. Black people had to borrow student loans with a weaker economic base, use them to attend underfunded colleges and universities, and struggle to repay them in an underpaying and under-employing labor market. These are structural issues that cannot be solved by offering more financial literacy, income-based repayment plans, or college scorecards. Such solutions have been repeatedly utilized, yet the Black debt crisis has continued to grow and its effects recently compounded due to socioeconomic impact of the COVID-19 pandemic. To be clear, *student debt cancellation offers the only solution to erase the racial disparities in student loan debt*. As leading policy experts have argued, cancellation will increase degree completion, boost the economy, and immediately close the racial wealth gap (Jones & Jackson, 2020).

Several student debt cancellation plans have been put forth, especially during the pandemic. Still, the most comprehensive plan is the College for All Act of 2019, introduced in Congress, that cancels all student loan debt and covers all tuition and fees at public higher education institutions. This legislation shows debt cancellation must include cancelling the original need for student loans, which includes the rapidly increasing costs of college for which students and families are responsible. Because increases in college costs and loan acquisition are directly linked, eliminating one without the other would be an insufficient solution.

Race-Specific, Not Race-Neutral Policies. In addition to the universal policy changes proposed by recently introduced legislation, advocacy must go further to specifically protect Black borrowers. The historical lack of efficacy of higher education policy for Black people and current disproportionate impact of student debt on Black borrowers makes evident that student loan policies cannot be framed simply as universal, income-based, or race-neutral. As decades of research on equity-mindedness in higher education has shown us, clear and racially-specific language, goals, and measures are vital to the efficacy of policy implementation (Bensimon, Dowd, & Witham, 2016; Jones & Nichols, 2020). Therefore, any legislation to cancel student debt must be able to explicitly answer how it contributes to a Black Public Good and offers protections to ensure Black borrowers are included. Cancellation is best measured not by the legislation passed, but the measurable evidence that demonstrates Black people benefit in an equitable, material way

Increase Investments in Historically Black Colleges and

Universities. As Williams and Davis (2019) analysis of funding sources details – and this report further highlights – despite HBCUs continuing to serve Black students beyond their otherwise limited representation among all U.S. colleges and universities, they still remain underfunded compared to PWIs. And, although the total dollar amount to Black colleges has increased, with \$325 million this fiscal year in Title III funding, the federal support per full-time enrolled (FTE) student steadily declined between 2003 and 2015, with private HBCUs seeing the sharpest decreases. This decline was coupled by steep cuts to state (and local) appropriations between 2007 and 2012 as well as in competitive grants and contracts awarded to HBCUs (Toldson & Washington, 2015). Because of HBCUs' greater dependence on these types of funding streams to remain operational, economic downturns and budget cuts, including those experienced in the wake of the COVID-19 crisis, have a disparate impact on Black postsecondary institutions. This includes the ability for Black families to support their children, including through Parent PLUS loans, which affects enrollment and, therefore, tuition revenues. While these challenges are not exclusive to HBCUs, their effects remain disproportional as non-HBCUs access to private support (e.g., donations and gifts) and endowments, which are 70 percent larger (Williams & Davis, 2019), help to offset and more quickly recover from decreases in public funding. Therefore, even greater investments at the state, local, and federal levels in HBCUs and the students they support are needed to lessen the impact of year-to-year losses and the impending shortages created by the economic impact of COVID-19.

Engage and Create Space for Movement Workers. Student debt cancellation has not always been a welcomed notion by the broader public and policymakers at the state and federal levels. However, and as evidenced by this and other reports, debt cancellation is at the center of key economic and political discussions across the country. This begs the question: what moved cancellation from the margins when the issue is not new but the public support behind it is? The answer is movement building.

Higher education stakeholders must remember that it was direct action, advocacy, and research that moved cancellation from the margins to the center. Going back as far as the 1980s, both research and advocacy highlighted the impact of student loans as racially inequitable.

Additional work has shown using debt as a tool of inclusion often leads to predation on and inequitable outcomes for Black people.

Nevertheless, the concept of loan cancellation in both broader public and political conversations was slow to gain traction. Even as recent as the 2016 presidential election cycle, no major candidate put forth legislation to cancel student loan debt.

However, with continued efforts put forward by social movement organizations, this year has offered a sizable shift in student debt discourses. For instance, the College for All Act, along with proposals from the former presidential campaigns of Bernie Sanders and Elizabeth Warren and the current campaign of Former Vice President Joe Biden have all yielded policy proposals to address the student debt crisis. Similarly, dozens of Congress members and more than 70 policy

and advocacy organizations have issued public support for varying levels of debt cancellation, although many included class-based rather than race-conscious approaches.

The current mainstream conversation has roots in movement building starting at the grassroots level with coalitions like the Debt Collective and Movement for Black Lives who both issued some of the earliest calls for full debt cancellation (Bishop, 2020). These coalitions helped show the everyday entanglements of student loan debt and reframe student loans as less of a tool of opportunity and more as an iteration of a debt trap. In fact, Debt Collective won some of the earliest forms of debt cancellation for borrowers defrauded by for-profit colleges. This work and victories provided a new vocabulary to discuss student loan issues and solutions.

The federal response to the current economic downturn, unlike the 2008 recession, already has included student debt relief like payment and interest waivers. In this way, a type of debt cancellation has already been secured although temporary. What is more, \$3.6 trillion in COVID-19 relief spending was approved through legislative measures like the CARES Act and other legislation earlier this year (with an additional \$3 trillion already approved by House Democrats) (Lobosco, 2020), which challenges the narrative that federally supported debt relief is not financially possible.

While many stakeholders in higher education policy spaces often make recommendations about better data, information, and policy metrics, it is critical to remember that better movement building is a proven strategy to garner broad political support for debt cancellation. Policymakers and policy organizations must ensure they are not only

engaging analysts, academics, and other traditional stakeholders on this issue. Instead, movement workers and those in closest proximity to the impact of the student debt crisis must be provided greater access to policy generation. Movement building accounts for how we have made progress on student debt relief issues and will determine our ability to continue to do so in the future.

Center Black Voices in Future Research. Congressmember Pressley offers a simple but critical framing: “I fundamentally believe that the people closest to the pain should be closest to the power, driving and informing our policymaking.”

It is a necessity for advocates and policymakers to capture Black people’s experiences, perspectives, and knowledge about how student debt has been a source of pain and how they believe policies can fix it. For example, most of the research studies and reports on student debt provide evidence for racial disparities in student loan outcomes, but almost none of the existing projects claim to have spoken directly to Black people. Big data, not Black voices, are currently driving the student debt conversation and this must change. Thankfully, a new study being conducted by Dr. Jail Mustafa Bishop, one of the co-authors of this report and the Education Trust is centering Black voices in their research. The National Study on Black Student Loan Debt (<https://edtrust.org/blackstudentdebtstudy/>) is interviewing and surveying Black parents, graduates, and non-degree earners with student debt. We encourage readers of this report to widely share the project with their network and encourage Black borrowers to take the survey and participate in interviews.

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Ayan Jama, M.Ed. is a recent graduate of the postsecondary administration and student affairs master's program at University of Southern California. While at USC, Ms. Jama served as a research assistant at the USC Race and Equity Center where her research broadly examined institutional policies for equity, diversity and inclusion and their impact on the campus and classroom experiences of multiply marginalized students. Her work supported the production of original research on higher education policy, racial disparities in financial aid, and Black student debt.

ABOUT THE NAACP

The National Association for the Advancement of Colored People (NAACP) was founded in 1909 in response to the ongoing violence against Black people around the country and is the largest and most pre-eminent civil rights organization in the United States. Our membership includes over 2,200 units and branches across the nation and more than 2 million individual members. The mission of the NAACP is to secure the political, educational, social, and economic equality of rights in order to eliminate race-based discrimination and ensure the health and well-being of all persons.



**RESPONSES TO WRITTEN QUESTIONS OF SENATOR ROUNDS
FROM NEAL MCCLUSKEY**

Q.1. Prior to 2010, the majority of students acquired Federal aid through the Federal Family Education Loan (FFEL) program (guaranteed loans). In 2010, the Student Aid and Responsibility Fiscal Act was incorporated into the Affordable Care Act (ACA) and ultimately shifted the responsibility of Federal loans from private lenders to the Federal Government. This was done with the understanding that it would be less costly to taxpayers. Has that been the case?

A.1. The change from FFEL to Direct Loans almost certainly saved money on fees and other costs paid to lenders by the Federal Government, which also guaranteed lenders against loss. FFEL was Federal student lending with an added layer of middle-men making profits on the taxpayer dime. That said, the Federal student loan programs, now all Direct, are estimated to be major money losers for taxpayers. The Biden administration recently estimated that the Federal Government will lose \$68 billion on student loans, due largely to rising college prices (inflation that Federal loans partially fuel) and generous forgiveness programs. An estimate done for the U.S. Department of Education under Sec. Betsy DeVos predicted much bigger losses: Around \$1 trillion.

Moving to Direct Loans likely did save taxpayers some money, but the student loan programs are nonetheless a major drain on American taxpayers.

Q.2. According to Title IV of the Higher Education Act, an Expected Family Contribution is used to determine Federal financial eligibility. The information that students provide on the Free Application for Federal Student Aid (FAFSA) is used in this formula. The complexity of the FAFSA has put a significant strain on students attempting to acquire financial aid. What can be done to simplify this process?

A.2. Many questions on the FAFSA were difficult to answer and the form was hard to complete. But FAFSA was substantially revised in 2020 as part of COVID relief. The legislation reduced the number of questions from 108 to about 40 and allowed automatic importing of many answers from one year's FAFSA to the next. It also replaced Expected Family Contribution with the Student Aid Index, though this was largely a change in name only. That said, I have not studied the FAFSA in great detail, and do not believe its level of complication is a core problem in student lending. The root problem is easy access to taxpayer subsidies itself, especially without any meaningful effort to assess a prospective borrower's demonstrated ability to complete college-level work in a field that likely to enable a borrower to comfortably repay his or her loans.

Q.3. In South Dakota, a number of middle income families have struggled to access Federal subsidized and unsubsidized loans. According to the CollegeBoard research organization, total education borrowing declined for the tenth consecutive year in 2020–21. In 2020–21, total education borrowing declined by \$9.8 billion (9 percent) after adjusting for inflation, the largest 1-year decline after annual borrowing peaked in 2010–11. While some attribute this to

declining enrollment rates, what other factors may contribute to this lack of access?

A.3. I believe the primary drivers of declining borrowing are a strong economy, which typically sees more people working and fewer in college pursuing new credentials; a growing recognition that the price of college, including graduate education, has in some cases been outpacing the value of the degree; and concern that student debt was becoming too high, which encouraged people to economize in education. All these factors are signs that allowing a market to at least somewhat work—subsidies following students instead of going directly to schools—can enable some corrections to past excesses.

There are also potential systemic access problems, especially students in high schools with low college-going having less access to information about enrolling in college than students in other high schools. That, though, does not explain the recent overall enrollment drop. Rather, it helps to explain longstanding socioeconomic gaps in attendance. Also, lower-income students will tend to be more intimidated than higher-income students by high college sticker prices, in many cases inflated because student aid enables colleges to raise prices at rates often well in excess of inflation.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD
STATEMENT SUBMITTED BY DEBORAH HARBURGER

*Testimony to the U.S. Senate Committee on Banking, Housing, and Urban Affairs
 Submitted by Deborah Harburger, MSW, May 3, 2022*

Good morning, Chairman Brown and distinguished Members of the Committee. My name is Deborah Harburger, MSW and I am pleased to appear before you today as a proud social worker and member of the National Association of Social Workers.

My husband and I are both graduates of public universities and hold master's degrees. I attended Penn State University and the University of Maryland, Baltimore and he attended The Ohio State University and the University of Maryland. We attended these schools because of their stellar reputations and commitment to quality education. We also selected these schools because, with scholarships, they became much more affordable.

Today, my husband and I live in Baltimore, Maryland with our two children who are 15 and 12 years old and both attend Baltimore City Public Schools. I have spent the past 18 years as an employee of the State of Maryland. For more than 14 years, I have worked for The Institute for Innovation and Implementation at the University of Maryland. I serve on the faculty and, as the Director of The Institute's Policy, Finance, and Systems Design Division and Director of our Ruth Young Center for Maryland, I work with child welfare, behavioral health, and other public agency leaders in Maryland, Nevada, West Virginia, Michigan and elsewhere to improve access to effective services for children and youth with intensive behavioral health needs.

When I enrolled in the Master's of Social Work program in 2002, I was accepted to participate in the Title IV-E Education for Public Child Welfare program, which is a federal training program. This two-year program provided me with an annual financial stipend in exchange for a two-year work commitment in state child welfare services. Upon graduation with my MSW in May 2004, my mandatory position paid a meager salary of approximately \$34,000. Today, entry level MSW child welfare social workers have a starting salary of \$48,000, which does not even match my low salary when factoring in inflation.

This position had no pathways for promotion or salary increases for me so, less than four years after earning my MSW, I left for the University of Maryland where I could continue to engage in child welfare and social work.

I incurred approximately \$37,000 in debt for my MSW degree: essentially a full year's starting salary. My student loan payments would have been even higher without the Title IV-E program stipend or qualifying for in-state tuition for the second year of my master's degree. 18 years later, I still am paying off my student loan debt. I did not see many other options: a Master of Social Work degree is the terminal degree to practice professional social work. An MSW includes 2 years of a practicum in community-based settings, in addition to other required coursework, which makes working while going to school full-time incredibly challenging.

While our two children were in childcare, we spent an estimated \$157,000 on childcare costs *while* we were paying approximately \$600 per month for our student loan payments. This meant that, despite our two incomes, we incurred debt while covering childcare costs.

In 2007, I was excited to learn of the Public Service Loan Forgiveness (PSLF) program, which promised loan forgiveness in exchange for 10 years of public service and 120 payments. In 2017, after completing 10 years of public service, I was stunned to receive a denial, informing me that, while my payments had been on-time and my employment qualified, my particular federal, student loans were not eligible. They were part of the Family Federal Education Loan Program, which was discontinued in 2010. Furthermore, my loan servicers and the Department of Education never once informed me of this problem. Instead, I was now told I could move my loans into a different program and re-start the 10 year and 120-payment clock. I wrote to my Senator's office and, with nothing further to be done, continued to make my payments.

*Testimony to the U.S. Senate Committee on Banking, Housing, and Urban Affairs
Submitted by Deborah Harburger, MSW, May 3, 2022*

I was grateful when, this past fall, I had the opportunity to become eligible and applied for the PSLF Waiver. I am now waiting for a decision on my application from the Department of Education, including notice about overpayments that I have made.

My husband is employed as a Senior Associate with a Baltimore-based, employee-owned architecture and design firm. His total student loan debt from undergraduate and graduate education totaled more than \$60,000. Due to interest rates on the loans, we anticipate that we will still be paying his student debt after our son, currently a high school freshman, has completed college. We will still be paying *our* student debt, while borrowing student loans to cover our *children's* college tuition expenses.

Social workers provide essential behavioral health services to communities and are employed in hospitals, child welfare settings, behavioral health clinics, and more. Many social workers, like me, are engaged in macro social work, providing public service through policy, training, technical assistance, and workforce development.

Just last week, the U.S. Senate Finance Committee issued a bipartisan report on the behavioral health crisis in our country and which stated, said, "Every American [must be] able to access the mental health and substance use disorder care they and their loved ones need when they need it."¹ That goal is not achievable when social workers so often carry significant student debt: white new graduates have an average debt of \$67,000 while the debt burden is substantially higher for social workers of color: an average of \$79,000 for Hispanic or Latinx graduates and an average of \$92,000 for Black or African American graduates.² The social worker shortage³ is real and will only get worse, and we cannot afford to drive social workers away from the profession because of low salaries coupled with high student debt.

While I appreciate the PSLF Waiver and hope my application will be approved, it is a short-term and temporary fix to a problem that requires an equitable, transparent, and systemic solution. I urge you to make the PSLF waiver permanent, but do not stop there: expand the definition of "public service" to include all social workers and other public service professionals, regardless of the tax status of their employers; broaden the definition of eligible employment within the Title IV-E Education for Public Child Welfare Program; and increase availability of scholarships and no-interest loans to make undergraduate, graduate, and professional degrees more accessible and affordable.

Thank you for your time.

¹ U.S. Senate Finance Committee. (2022). *Mental Health Care in the United States: The Case for Federal Action*. Available from <https://www.finance.senate.gov/chairmans-news/finance-committee-releases-bipartisan-report-on-mental-health-care-in-america>.

² Salsberg, E., Quigley, L., Richwine, C., Sliwa, S., Acquaviva, K., & Wyce, K. (2020). *The Social Work Profession: Findings from Three Years of Surveys of New Social Workers*. Available from <https://www.cswe.org/CSWE/media/Workforce-Study/The-Social-Work-Profession-Findings-from-Three-Years-of-Surveys-of-New-Social-Workers-Dec-2020.pdf>

³ Quality Improvement Center for Workforce Development. (2020). *Social Worker Shortages and the Rise in Competition for a Competent Child Welfare Workforce*. Available from <https://www.qic-wd.org/blog/social-worker-shortages-and-rise-competition-competent-child-welfare-workforce>

STATEMENT SUBMITTED BY JONATHAN HAMMOND

Chairman Brown, Ranking Member Toomey, members and staff of the COmmittee, thank you for the opportunity to share with you my student debt experience.

My name is Jonathan Hammond, and I am a 31 year old native of Salem, Massachusetts. I grew up in a very low-income household, raised by a hard working mother who balanced raising a child while obtaining a Bachelor's degree. At age 22, I followed her footsteps, and at age 27 I completed a Liberal Arts Associate's degree, but had nothing to show for it career-wise. I decided to pursue work in the tech industry as a developer, and clawed my way into the field through odd jobs like selling computers, troubleshooting desktops, fixing 3D-printers and more.

I had been working as a Support Analyst at the cusp of lockdowns in early 2020, and opted to take as many online courses as I could while working remotely. After losing both my grandparents during the pandemic, I decided to pursue an opportunity to continue my education, and I wanted to do so using an educational program that I could attend around full-time work hours and without having a vehicle. I saw ads for a coding bootcamp run at the University of New Hampshire. This program was available online and promised that it would give me the skills to secure a high-paying job in the tech sector, so I enrolled.

Soon after signing on, I found out that this coding bootcamp was not actually run by the University of New Hampshire, but by a for-profit company called Trilogy, which manages the program and pays the University to use its name. I had thought based on the ads for the coding bootcamp that it was provided directly by the school, and I would have been much more skeptical about enrolling if I knew going in that this was a program run by a for-profit company simply using the logo of an accredited institution.

Worse, as my classes began, I quickly realized that this coding bootcamp was of far lower quality than its ad made it seem. The curriculum was rushed and oftentimes shallow and outdated, with mid-program content changes confusing students further. The instructors weren't the ones writing the curriculum code, and they would sometimes have to edit our unit's coding content, mid-class, before teaching it to us. Another time the solution to a difficult homework challenge wasn't correct and had to be fixed by a student, who if not for them, many of us would have struggled even more to understand how to build basic computer applications. Plus, while ads for the boot camp had promised help finding a job, the career services staff at the bootcamp offered very little assistance of substance. They told students like me to message people on LinkedIn to try to find work on our own, and the few job postings I did receive in email were never applicable to me. They were either out-of-state, non-remote jobs, or for entirely different fields unrelated to my cohort.

Frankly, I can't say that I learned more from this bootcamp than I would have by watching free and cheap videos on YouTube and Udemy. This comes from a person who spent several years learning such content on his own prior to the bootcamp, and who continues to do so afterwards as I didn't learn nearly as much about the subject matter I need for work in the field as I would have expected or hoped while enrolled in the bootcamp.

This experience wouldn't have been so hard to swallow if it weren't for how expensive it was. Trilogy's program costs about \$10,000 to attend, and I was advised by the school to finance this cost using a private loan through a company called Climb Credit, which carries a high APR (my loan comes out to totaling around \$13,000 after interest). Trilogy and the University of New Hampshire told me that this was a good option, and I trusted them.

I had to begin paying these loans while I was still in the bootcamp. At the time, the payments weren't so bad, only around \$75 a month in interest. By the time the full payments kicked in earlier this year, they ballooned to over \$330 a month. This is basically the equivalent of a monthly car payment, all for an education that failed to prepare me for even entry level positions. These payments have kept me from having any form of savings, and I definitely can't plan on taking a vacation any time soon either.

I graduated from Trilogy's bootcamp in June 2021. But despite Trilogy and the University of New Hampshire's promises, no job appeared. Instead, I spent 6 months applying unsuccessfully for jobs while having to teach myself the things I was supposed to have learned in the bootcamp I paid for. Ultimately, the current position I have as a Web Solutions Engineer comes from skills in CSS and Content Management Systems that I had known prior to enrolling in the bootcamp. Please note however that I got this role only because I lucked out – I networked with a classmate from the boot camp who introduced me to a recruiter, who helped me find this job. I have been in this role since February 2022.

I want to be totally clear. I did not learn the skills I have or get the job I have because of Trilogy's bootcamp or because of Climb's loans. I feel I got my skills and job *despite* Trilogy's boot camp and Climb's loans. This UNH bootcamp was not accredited. Many course units were wastes of time due to being older and outdated technology. The most important units felt rushed or skimmed over, which is why even today I wouldn't necessarily qualify for roles requiring the skills advertised from this bootcamp. All this coming from somebody who excelled well in the course.

Unfortunately, I am one of the lucky ones. There are plenty of folks like me who were lured into a bootcamp that they trusted because it had a public school's name, who took on a private student loan to attend it because they were told it would all be okay. Bootcamp programs like the one I attended are now under the brands of hundreds of major public and private nonprofit accredited institutions, ranging from local community colleges to flagship state universities. Run by companies that go by the names of Trilogy, Fullstack, Promineo, and more, they target students with flashy branding and big promises, all to make money at student's expense.

Just like me, the students who these companies target have no idea that they are stepping into a web of for-profit educational providers and lenders focused more on revenue than equality of education and career empowerment. Many of my peers have been left with this large debt and with no job or boosted career prospects to show for it. Many reverted to their prior careers just to keep the money flow going.

I am not looking for pity or a loan forgiveness. I just want you to be aware of what is going on with bootcamps and the lenders they rely on, the relationships we are led to believe (such as this being a University accredited bootcamp), and the ones we are deceptively kept unaware of (between Trilogy and Climb Credit). Bootcamps should be a great alternative to unobtainable multi-year in-person education, but right now, people are being misled and taken advantage of.

Thank you for granting this opportunity to share my experience

STATEMENT SUBMITTED BY RAE PICKETT

My name is Rae Pickett. I am 38 years old, a mom, a stepmom, a wife and a worker. I was born and raised in Ohio and moved to Virginia when I graduated from Ohio Northern University in 2007.

Twenty years ago, I borrowed private and federal student loans to help me pay for college. I graduated with my bachelor's degree and \$75,000 in student loan debt. I have re-paid over \$96,000, much of that towards interest, yet I am currently in default and have no idea how much I owe or which servicers currently hold my loans.

I began repaying my loans when my 6-month grace period ended in November of 2007. I was a community organizer, then a paid intern, so I waited tables at night to make ends meet. I didn't have enough money for my loans and rent, so I slept on friends' couches. I paid as much as I could as often as possible for years to Sallie Mae. Like many, my estimated monthly payments were over \$1,000 a month, with a large portion of the payments going towards interest only. During those years when I was establishing my career, I expected to make more than enough money to repay the loans so that the varying interest rates didn't matter. I could go into forbearance if I needed some time to get on my feet, I thought.

It simply never happened.

There was no light at the end of a dark tunnel of repayment and from the astronomical unfixed interest rates on my private loans. I kept working for non-profit organizations for over 13 years.

I was so afraid of my loans that I did not open any credit cards because I did not want to put myself in a position where I could not afford to live, which is exactly the situation I was in.

The shame I felt about how much debt I was saddled with affected every aspect of my life, including limiting romantic relationships.

Towards the end of 2016, I lost my job, and my husband and I made the difficult decision to stop payments on my student loans. I have come to terms with the fact that these student loans will always be with me and never be paid off.

This is not what I had planned for my life or expected.

Airline safety instructions tell you that if your plane is going to crash, you should put your own oxygen mask on first and then those around you. But when it comes to loans and educating others, I feel an obligation to make sure

that while I do not see a way out of my own loans, they don't have to suffer like I have.

My step-daughter did not follow in my footsteps. She went to community college, a four-year university and now is finishing her masters degree in social work. My son's both have 529 accounts so that friends and family can also contribute to their educational funds in the future.

I don't know what the future will hold for them or for me. But, I hope that should legislation come before you that would offer people like me who thought they were doing everything right any type of relief or forgiveness, you will think of my story and of my family and support student loan forgiveness and reforms.

STATEMENT SUBMITTED BY MEGAN BAILEY

Greetings, Chairman Brown and distinguished Members of the Committee.

My name is Megan Bailey, I am licensed clinical social worker, and I appreciate the opportunity to share my education, work, and student loan journey with you today. I am also a veteran of the United States military where I served in the Montana Army National Guard and I am also a registered member of the Fort Peck Assiniboine Sioux Tribe located in North Eastern Montana. I am a mother and have three children.

I am currently employed with Cedar Creek Integrated Health, a community mental health and outpatient addictions treatment center where I provide services in several of our western Montana clinics that are classified as urban rural, and frontier.

I grew up in Billings, Montana in a middle-class family where the importance of education and public service, was instilled in me at an early age.

I graduated from high school in 1999 with high honors and full intention of attending Montana State University, Billings to pursue a degree in nursing or elementary education. Like many young adults I wasn't sure of exactly what I wanted to do for a career. I knew that I wanted to follow in my parents and grandparents' footsteps, which included service in healthcare, and teaching.

I soon realized, as did my parents, that university tuition and fees were significantly higher than they were in the 1970's, when my parents attended college. My family also discovered that I was not eligible for any financial aid or grants due to my parent's combined income.

My parent's combined income really wasn't that much and if they were to pay for my college, that meant jeopardizing their retirement, truly a double-edged sword.

Unwilling to compromise my parent's elderly years, I joined the Montana Army National Guard, with the hopes of being able to attend Montana State University and utilize military benefits to cover college tuition, while I served one weekend a month and two weeks a year.

Unfortunately, I was discharged from the military after two years of service due to a medical condition. I lost my education benefits and the hopes to pay for my college education.

At 21 years of age, I moved to Missoula, Montana to attend the University of Montana and pursue a degree in nursing. Almost immediately, with only one semester, I felt underwater because of private student loans that my parents had to cosign. Private loans were the only available option to me because I was required to claim my parent's income through 24 years of age on the required Free Application for Federal Student Aid or FAFSA application, even though I was working and living independently. I couldn't qualify for any federal student loans, which carried better terms and somewhat reduced interest rates.

Scared of the student debt and feeling my options were limited, I left University of Montana with a plan to take a semester off and work with the intention of saving enough of my earnings to attend the following semester. At the time, rent wasn't as exorbitant as it is now, but with

the *normal* costs of living and my minimum wage jobs I was still unable to save the roughly six thousand dollars I needed to go to school each semester. So, I was relegated to waiting until I was 24, where I could claim my own income and possibly receive financial aid to attend a university.

I continued to pursue nursing, because I wanted to help others. I attended Salish Kootenai College, one of Montana's tribal colleges, that has a nursing program. As a member of the Fort Peck Assiniboine Sioux Tribe, attending a tribal college, even with an hour commute in both directions, was a much more affordable option. After being exposed to psychology courses at Salish Kootenai College and having an opportunity to attend the University of Montana Missoula *Indians into Psychology* program, a scholarship for American Indians, I changed my major and graduated with a bachelor's in psychology from the University of Montana, Missoula.

At the time, I was working as a crisis relief worker for an area nonprofit mental health center making a little over twenty thousand dollars a year, providing stabilization care to adults with severe mental illness—it was difficult work. I knew firsthand that with only a bachelor's degree I would be relegated to very low pay if I continued to work in the same position.

My supervisor at the time recommended that I obtain a master's in social work (MSW) degree, and to be honest, I had no idea what that meant. I soon came to find out that it is the master's level social workers that render a majority of mental and behavioral health services across the nation and can make mental health diagnosis and also bill insurance. I also understood that the MSW degree was necessary for me to continue to work in behavioral healthcare with underserved populations that I want to assist. I was told that I could make about \$20-25 an hour with an MSW, which at the time seemed like a fortune. I now know that even licensed clinical social worker's reimbursement rates and salaries are far too low, given the required education to practice clinical social work.

I applied and was accepted into the MSW program at Walla Walla University, School of Social Work, which operates a campus in Missoula. I was able to utilize the Grad Plus Student Loan Program to cover tuition expenses and I was able to graduate in about two years with my master's degree in social work with a clinical concentration.

Within a month of graduation, I was working as a clinical social worker or therapist as we are more commonly called in community mental health centers, located within the boundaries of the Confederated Salish and Kootenai Tribes in Polson, Montana. My objective was to work as much as I could to obtain the 3000 hours required post-graduate degree so that I could become a Licensed Clinical Social Worker and work independently. Without that license I would not be able to bill insurance for services or qualify for the National Health Service Corps (NHSC) student loan repayment program.

Within a month of my employment, I became pregnant with my first child. Despite that I was working full-time, my wages were so minimal that I had to utilize Montana Medicaid to cover my first child's pre- and post-natal care. Tragically, I was unable to afford my companies' health

insurance. Even more devastating, my first bill for student loan repayment, six months post-MSW graduation, was about \$500 more than I made in total gross income. I was able to achieve an economic hardship deferral (interest still applied, of course). I took about five weeks maternity leave and went back to work. As the primary bread winner in my household, that was my only option.

I commuted a little over an hour in each direction with most of my patients being abused and neglected children. I worked 40+ hours a week not including the commute time, and my take home pay never exceeded 30,000 a year. I worked as much as possible and was able to, in about 2 ½ years obtain my clinical license and because I was working rural (now frontier) I was finally eligible for the NHSC loan repayment program.

I found the NHSC program to be very confusing. I struggled to get the application figured out; to consolidate my loans, which were probably around \$150,000 at the time and comply with all application requirements. About six months after applying, without notice, the NHSC program plunked \$50,000 in my checking account. I instantly opened a new checking account and moved the NHSC money into that account to pay for my loans.

I knew that I had to work full-time for two years at my location in order to apply those funds to my loans, and not willing to risk anything I opted to leave that money where it was until I had completed my work commitment. After requesting an extension related to having to take medical leave due to an extremely difficult pregnancy (my third in four years), I was told that my extension was not accepted and that I owed this program \$2,000 a month in fines. After several breakdowns and countless hours going through telephone tree to telephone tree, I was finally able to sort things out. I did not owe these fines after all, and after roughly 2 ½ years, I paid the full NHSC \$50,000 towards my student loans. The largest check I have ever written in my life. My happiness was short lived, however, when I came to realize that this \$50,000 essentially went to the interest that I had accrued.

My last hope was the Public Service Loan Forgiveness program, I had after all been working for a nonprofit community mental health center for years and had applied soon after I accepted my first job. I worked for the same nonprofit for 9 ½ years, recently having to exit due to office closures related to state mental health budget constraints.

I continued to work in community mental health and substance use disorders, this time with a for-profit entity that does the exact same work as the nonprofit, the only difference is their tax status. The new company employees are not eligible for PSLF because they are for-profit, even though we are still providing the same social work services.

My colleagues and I, work with the sickest of the sick, the most abused and neglected, and I continue to have a heart to provide for the communities in which I work.

Thankfully I had worked in a nonprofit prior to applying for the new PSLF waiver program. Still, my application was denied because, as the email indicated, I had entered an EIN incorrectly. I am applying again, which is an hours long process, but I don't have any other options.

Fingers crossed...

There is no right answer. I have never made more than \$45,000 a year working in community behavioral health. I owed \$177,526.06 in student loans in 2016, I have worked the whole of my adult life, including having served in the military and live a very modest life.

I am very much stuck between wanting to make the community a better place for my children to grow up in and wanting to earn more money to provide a better life for my children at home, and I have considered taking a job outside of my field. With the state of community behavioral health uncertain, I chose to go back to school to obtain a doctorate in integrated behavioral health, an emerging best practice and likely a transformative approach to improving health outcomes. I am currently attending Arizona State University, in their online program and anticipate graduating in December of this year. According to FedLoan Servicing, I currently owe a total balance of \$290,448.83 in student loan debt.

I am proud of my American Indian heritage and love my community and my country.

My biggest fear is not the reality that I will die with student loan debt or have trouble paying for my own children's higher education. I worry about the pipeline into the health and behavioral health professions and whether today's high school students will continue to choose careers in mental health and behavioral healthcare, with such exorbitant tuition, low salaries and difficult working conditions. I cannot imagine encouraging my children to follow in my footsteps.

Panamaya or thank you in Assiniboine for your time and interest today.

STATEMENT SUBMITTED BY EMILY ROBINSON

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May 3, 2022

Testimony from Emily Robinson to the U.S. Senate Committee on Banking, Housing, and Urban Affairs

Good morning, Chairman Brown, Ranking Member Toomey, Georgia Senators Ossoff and Warnock from my home state, and committee members. Thank you for the opportunity to speak with you today regarding student loans and Public Service Loan Forgiveness.

My name is Emily Robinson and I have been teaching English classes, yearbook, and English to Speakers of Other Languages in DeKalb County, Georgia for 17 years. Currently, I work at Druid Hills High School. However, my student loan debt story began 20 years ago when I was a student at the University of Georgia and trying to decide what I wanted my career to be. I had done some temp work with a staffing service during my summer and winter breaks from college and decided through these experiences that the business world did not appeal to me. I knew I wanted to devote myself to a career in which I could help people. My mom was a teacher so I thought I would follow in her footsteps. Unfortunately, my dad lost his job when I was a senior at UGA, so my parents were unable to help me financially with college expenses. Being from a middle-class family, I had no problem working hard to make ends meet. I worked part time at various university jobs during the school year but discovered it was not enough to pay my bills, so I had to get loans. Immediately following undergrad, I enrolled in the Master of Education program at UGA that had a built-in state certification element with it. Graduate school was expensive, but I knew I needed the master's to be able to be competitive. I even added on some classes so I could get my certification to teach gifted students. I wanted to be as prepared as possible to work with young people.

All of my loans were federal loans, no private loans. While I received some forms of student loan forgiveness in grad school such as the Federal Perkins Loan Cancellation program and the HOPE Teacher Scholarship, a merit-based award for Georgia residents, I still accumulated nearly \$40,000 in federal student loans that were not eligible for forgiveness under these programs. I remember when I landed the new job in a high school in 2005 that I found out my annual salary would be \$40,000 and it was daunting to face the prospect of working for free for an entire year to pay back my loans, especially being in a profession in which the possibilities for major pay increases were slim to none. However, I was young and eager, so I pushed it to back of my mind and set forth determined to work with teenagers.

The first few years of my career were financially challenging. I had to get side hustles to afford life as a teacher and I struggled sometimes to balance all my new expenses on a teacher's salary. I never went into forbearance or default on my student loans, but I did get put on an interest-only repayment plan. The loan servicer suggested it. This kept my monthly payments lower than using the standard repayment, but it also meant that when the time for this was up, my monthly payments jumped, and I wasn't prepared for it. I deferred payments into a Roth IRA until I was able to balance the new standard payment schedule with my other expenses. Luckily, after many years of loan payments, I was able to figure out a financial plan that worked for me. I do, however, regret the years in my 20s when I didn't make payments to my Roth IRA because the money was going to pay back student loans.

Meanwhile, I heard about a program called Public Service Loan Forgiveness (PSLF) maybe 13 years ago and when I checked it out, I was excited because I thought I could qualify for it. When my ten years of public service arrived, I started filling out the paperwork but kept getting rejected. I didn't understand the different kinds of repayment plans, why my repayment plan didn't qualify, and why my particular kind of federal loan wasn't eligible for PSLF. I had a hard time getting help with it because the loan servicers were not clear about the terms and conditions. Ten years passed, then 12, then 16. I felt despair every time I would get my monthly bill and see the balance inching down despite so many years of difficult work. I'd meet people who bragged that their company paid for them to get an MBA and I would think why does your company need to pay for you to get an MBA? My school system did not pay for my master's. Is your work more valuable than mine? These elements made me feel insignificant and unappreciated. If a person devotes themselves to public service, I think it makes sense to show we attach importance to their life's work.

A few years ago, the National Education Association (NEA) paid for its union members to get a free membership with a company called Savi that helps students find loan relief. They got my paperwork arranged for me to eventually qualify for PSLF. This meant that I faced the prospect of paying for ten more years and then the balance of my loans would be forgiven. I resigned myself to the fact that I would have to make payments all the way up until my retirement.

However, in November 2021, I got a Thanksgiving miracle! I got a letter in the mail from FedLoan saying that I qualified for total student loan forgiveness under the Limited PSLF Waiver. My jaw dropped open when I saw the \$0 balance. \$22,346.46 was erased. Overcome with emotion, I started screaming and running around crying in the mailroom downstairs! The moment I'd waited 16 years for had arrived. I was able to start putting a lot more money into my Roth IRA, get serious about retirement, and pay off my credit cards as a result. I also felt acknowledged for my 16 years of public service. It is vital that teachers can reach loan forgiveness by year ten if we are to continue having quality teachers in the classroom. Otherwise, more lucrative professions will steal them away.

Certainly, there is much work to be done, and I appreciate your time this morning and your work on these items. Thank you.

-Emily Robinson

“WHY DO BLACK COLLEGE GRADUATES HAVE A LOWER HOMEOWNERSHIP RATE THAN WHITE PEOPLE WHO DROPPED OUT OF HIGH SCHOOL?”, JUNG HYUN CHOI, LAURIE GOODMAN, URBAN INSTITUTE, FEBRUARY 27, 2020

Why Do Black College Graduates Have a Lower Homeownership Rate Than White People Who Dropped Out of High School?

Jung Hyun Choi, Laurie Goodman

February 27, 2020



Our [research](#) on the 30 percentage point gap between Black and white homeownership rates has revealed a concerning finding: Black college graduates have significantly lower homeownership rates than white college graduates and slightly lower rates than white households without a high school diploma.

This gap exists partially because Black households are generally younger than white households. But a closer look at the data reveals four additional reasons young, college-educated Black households have lower homeownership rates than white households who are similarly or less educated:

1. Single women make up a larger share of young, college-educated Black households than white college-educated households and households without a high school diploma. Their single incomes, combined with the gender pay gap, make homeownership harder to achieve.

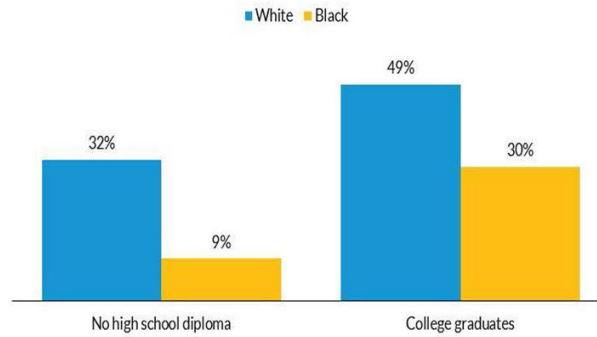
2. Young Black college graduates have lower FICO scores than young white households without a high school diploma. Lower credit scores are a disadvantage when applying for a mortgage.
3. Young Black college graduates have higher incomes but much greater debt than white households without a high school diploma, making their debt-to-income ratios higher and creating an additional barrier to qualifying for a mortgage.
4. The parental wealth and homeownership rates of college-educated, young Black households is significantly lower than that of college-educated, young white households, and parental support significantly increases the likelihood of owning a home.

Black college graduates younger than 35 have lower homeownership rates than white college graduates and those without a high school diploma

The homeownership rate of Black college graduates is higher than white households without a high school diploma for those ages 35 and older. However, for those younger than 35, Black college graduates have significantly lower homeownership rates than white college graduates and a slightly lower homeownership rate than white households without a high school diploma.

This pattern has been persistent. Between 2000 and 2017, the homeownership rate of white households ages 35 years and older without a high school diploma averaged 32 percent, 2 percentage points higher than Black college graduates.

Homeownership Rates for Heads of Household Younger than 35



Source: 2000 Decennial Census and 2005, 2010, 2015, and 2017 American Community Survey.

URBAN INSTITUTE

Note: Data displayed are an average across years.

What is causing the 19 percentage point difference in the homeownership rate between similarly educated Black and white people and the 2 percentage point difference between highly educated Black people and white households without a high school diploma among adults younger than 35?

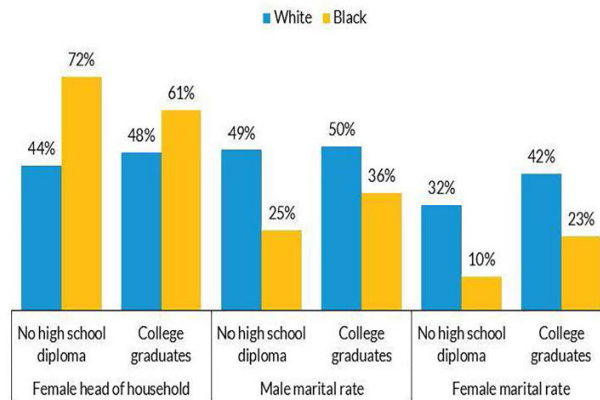
1. Single women head a higher share of black college-educated households

Sixty-one percent of Black college-educated households are headed by single women, compared with 48 percent of white college-educated households and 44 percent of white households without a high school diploma.

Female-headed households have lower marriage rates than male-headed households and therefore, have two income strikes against them: married couples generally have higher incomes because both bring home paychecks, and, because of the persistent [gender pay gap](#), women generally have lower incomes than men.

[Studies](#) find marriage and childbirth trigger homeownership, and just 27 percent of these college-educated young, single Black women have children, considerably fewer than 68 percent of young, single white women without a high school diploma. (our analysis using American Community Survey data in figure 2)

Head of Household Status and Marital Rates



Source: 2000 Decennial Census and 2005, 2010, 2015, and 2017 American Community Survey.

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Note: Data displayed are an average across years.

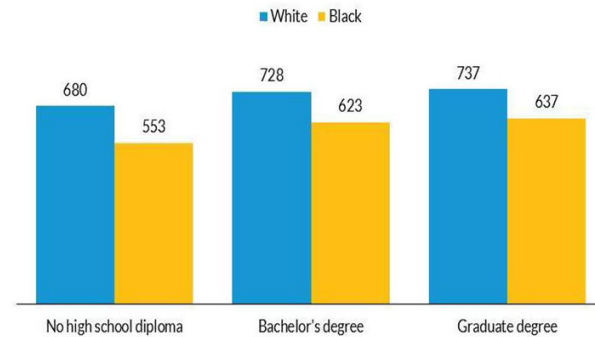
2. Black college graduates have lower credit scores

According to data from Freddie Mac, the median FICO scores of Black households with a bachelor's degree and a graduate degree were 623 and 636, respectively, lower than the median credit score of 680 for white households without a high school diploma. The median FICO scores of similarly educated white households were 728 and 737, respectively.

The Freddie Mac data also show that Black college graduates are less likely to have a FICO score because of infrequent transactions in the credit systems. About 16 percent of Black college graduates in the credit system had missing FICO scores.

Although a similar share of white households without a high school diploma had no FICO scores, FICO scores were missing for only about 7 percent of white college graduates. Since credit scores are a critical variable in the mortgage underwriting process, it is troubling to see that most Black college graduates have lower median credit scores than the least-educated white households.

Median FICO Score for People Younger than 35



Source: Freddie Mac, 2018.

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3. Black college graduates have more debt

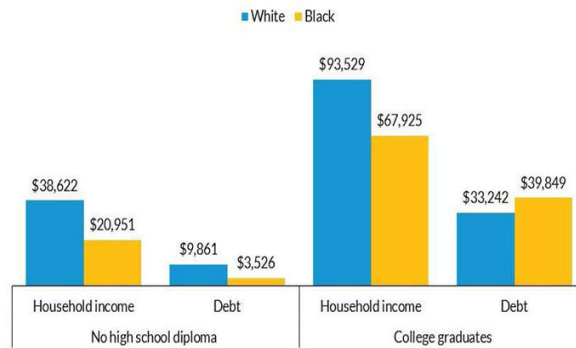
Although Black college graduates have higher household incomes than white households without a high school diploma, their incomes are still significantly lower than white college graduates. The average household income of a Black college graduate is \$68,000, almost \$30,000 more than a white household without a high school diploma, but about \$25,000 less than white college graduates.

Black college graduates [hold more overall debt](#) than white college graduates, despite their lower incomes. The average overall debt of Black college graduates is almost \$40,000, over \$6,000 more than white college graduates and almost \$3,000 more than white households without a high school diploma.

According to our analysis using the Panel Study of Income Dynamics, student debt, on average, accounted for 83 percent of the total debt for Black college graduates and 70 percent of the total debt for white college graduates between 2011 and 2017. Overall, a smaller share of white college graduates (56 percent) have student debt than Black college graduates (77 percent).

Higher debt increases the debt-to-income ratio for Black college graduates, adding another barrier to homeownership.

Average Household Income and Debt for People Younger than 35



Source: 2000 Decennial Census and 2005, 2010, 2015, and 2017 American Community Survey and 1999-2017 Panel Study of Income Dynamics.
 Note: Data displayed are an average across years. Numbers are in 2017 inflation-adjusted dollars.

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4. Parental wealth and homeownership status also disadvantage Black college graduates

Parental wealth and homeownership status are highly correlated with homeownership. Our [research](#) shows these two factors explain about 12 percent of the Black-white homeownership gap for young adults.

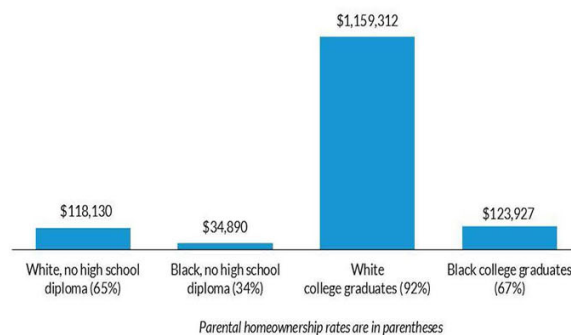
This difference is not the main contributor to the 2 percentage point difference between Black college graduates and white households without a high school diploma. The homeownership rate of the parents of young Black college graduates is similar to that of parents of young white households without a high school diploma, at 67 and 65 percent, respectively. Average parental wealth is slightly higher for young Black college graduates.

But parental wealth could well be a significant contributor to the 19 percentage point gap between Black and white college graduates. The homeownership rate of parents of white college graduates is 92 percent, 25 percentage points higher than their Black counterparts. And the average parental wealth of white college graduates is almost 10 times more than that of Black college graduates.

Fewer parental homeowners and lower parental wealth mean Black college graduates are less likely to receive parental support, such as down payment assistance, and are

more likely to have higher debt-to-income ratios, as they have more student loan debt, both being barriers to homeownership.

Average Parental Wealth



Source: 1999-2017 Panel Study of Income Dynamics.
Note: Wealth is in 2017 inflation-adjusted dollars.

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The data discussed here suggest higher education itself will not close the Black-white homeownership gap. Additional factors, such as differences in location and credit scores, marriage rates, debt levels, income and parental wealth, and homeownership status contribute to the homeownership disparities as well.

Although the homeownership rate of Black college graduates eventually catches up and ultimately exceeds that of white households 35 and older without a high school diploma, delayed homeownership can have a long-term effect on future housing wealth. [Our research shows](#) that those who bought their first homes before age 35 accumulate higher housing wealth near retirement age.

As we [research](#) how the growing gap in Black homeownership threatens to exacerbate racial inequality for decades to come, these new findings shed light on what stands in the way of homeownership for young, college-educated Black Americans. Policymakers can use this information to develop effective solutions to help this population.

“FACT CHECK: THE TRUTH ABOUT MAXIMUS/AIDVANTAGE STUDENT LOAN ACCOUNT SERVICING”

Fact Check: The Truth about Maximus/Aidvantage Student Loan Account Servicing

Maximus appreciates the confidence the Department of Education's Federal Student Aid (FSA) program has placed in us to service student loan borrowers. We look forward to meeting the Department of Education's highest standards for performance, transparency, and accountability by providing the highest quality of service to student borrowers. However, we must call out incorrect and false misinformation about Maximus' work for the Department.

“Maximus is the largest student loan company in the world.”

FALSE

TRUE

Maximus is not, and never has been, a student loan company. Maximus is contracted by the government to provide services on behalf of the U.S. Department of Education student loan holder known as the Federal Student Aid Office (FSA). Under the new FSA borrower service model, the Maximus division known as Aidvantage **helps borrowers take steps to avoid defaulting on their loans**, provides information on how borrowers can best manage their loan obligations, administers payment processing and assists and supports borrowers fulfilling their loan obligations. **Maximus does not collect student loan debt.** **Maximus has no financial interest in the loan obligations, offers no loan products, has no loan portfolio from which it might capitalize, making it free from conflict of interest in servicing the borrower of student loans held by FSA.**

“Over 150 customers have filed complaints with the CFPB related to the quality of servicing provided by the firm.”

FALSE

TRUE

The vast majority of the “complaints” lodged with the CFPB were requests related to matters not associated with the quality of Aidvantage service. Most came from borrowers seeking loan forgiveness, complaining about credit reporting agencies, or the student loan system at large. CFPB is a vital source of borrower feedback on the entire student loan process. In addition, Aidvantage's Office of the Customer Advocate reviews and attempts to resolve all matters raised by borrowers.

“sloppy and potentially unlawful loan servicing”

FALSE

TRUE

The evidence in the report is only four individual Tweets. **In fact, all of the loan servicing is undertaken at the direction, with the approval, and under the supervision of FSA.** Under its contract with FSA, Maximus is held accountable for service performance measures or risks financial and other penalties, ensuring that the work Maximus conducts on FSA's behalf meets or exceeds their expectations.

The ‘source’ which has prompted this rebuttal is the Customer Disservice report published in March 2022 by the Student Borrower Protection Center and the Center for Communications Workers of America. Maximus Education, LLC dba Aidvantage is a subsidiary of Maximus, Inc.

Debunking the Top Seven Maximus Student Loan Falsehoods

"Unfair debt collection practices, alleged by student loan borrowers, systematically is denying borrowers' rights."

 **FALSE**

 **TRUE**

Maximus is not a debt collector. It has a contract with FSA under its "Gen 2" model to provide the system loan processing, consumer notification and consumer help desk to assist borrowers seeking to avoid defaulting on their loans by offering information, counseling on choices available, and related actions. **Maximus does not collect student loan debt.**

"The 'novation' was an agreement...initiated and shaped by these two privately owned companies."

 **FALSE**

 **TRUE**

After the Biden Administration chose FSA leadership, it announced structural and systematic changes to the FSA borrower service role and discussed with Maximus its intent to make changes in the scope and expectations of servicers of the student loans held by FSA. **FSA intended to promote borrower experience and hold servicers to a higher standard and approved this contract change before we proceeded.**

"The company operates in the shadows, accused of unlawfully garnishing wages, violating state debt collection laws, with understaffed call centers."

 **FALSE**

 **TRUE**

To the contrary, Maximus operations with government are highly transparent. **As a public company, Maximus reports their business activities through SEC reporting requirements,** and the contracts it is awarded are public record. Maximus performs at the direction, with the approval, and under the supervision of FSA. As a contractor, Maximus does not make policy; it is responsible for the execution, without discretion, of the policies and programmatic rules of these programs.

"Maximus is a massive government services company that rakes in nearly \$4 billion per year in the name of helping government serve the people."

 **FALSE**

 **TRUE**

Maximus is a publicly-traded government services company that competes for federal contracting opportunities in fair and open competitions. By statute and regulation, government must seek the highest value for the use of taxpayer money, awarding contracts to companies capable of meeting or exceeding performance requirements. **At Maximus, our mission is to help government serve the people. Governments recognize our nearly 50-year track record delivering on that mission by awarding and renewing contracts in fair and open competitions.**