NCSL 2020 Higher Education Virtual Meeting Series: Addressing the COVID-19 Pandemic

Solutions to the Student Debt Crisis in a Time of Economic Distress

OCTOBER 16, 2020
CHATTER IN THE CHAT BOX

Answer the following in the chat box:

- What state are you from?
- Do you know which state’s capitol is in this picture?
AGENDA FOR TODAY’S MEETING

- Welcome and introduction of speakers
- Overview of student loan debt crisis
- Discussion of state policy options
- Questions
Don Baylor Jr., Senior Associate, The Annie E. Casey Foundation

https://www.aecf.org/topics/assets-and-savings/
Whitney Barkley-Denney, Senior Policy Counsel, Center for Responsible Lending

https://www.responsiblelending.org/research-policy/
Solutions to the Student Debt Crisis in a Time of Economic Distress
What We Know

Outstanding student loan debt = $1.5 trillion.

55% of U.S. undergrads who borrowed unable to pay down any debt for first three years.

In 2016, almost 70% of graduating seniors borrowed to cover the cost of college, at an average amount of almost $30,000.

Native Hawaiians and other Pacific Islanders borrow in almost 90% of cases, and African American graduates borrow in 85% of cases.

Since the 1990s, in-state tuition and fees at public universities have increased 237%.

According to a 2016 paper by the Center on Budget and Policy Priorities, nearly a decade of divestment from educational institutions has left a $10 billion hole in the budgets of institutions of higher education.
Three Key Drivers of Rapid Increase in Borrowing

1. More students are taking out loans
   - Enrollment growth (3 million students between 2006-2016, with particularly strong growth in for-profit enrollment in the first 5 years)
   - Expanded eligibility for Federal Loans
   - Shift from grant to loan aid at Federal, State and Institutional Levels

2. Loans are for larger amounts
   - Rising tuition and fees
   - Longer times to completion
   - Reductions in per-capita state funding at publics

3. Students are making less progress repaying
   - Higher balances more burdensome
   - Higher default (although stabilized since 2013)
   - Income-based repayment may be contributing, although also shown to lower default
Student loan debt has a disproportionate affect on economically vulnerable populations – veterans, seniors, female heads of household, communities of color.

According to a recent study by the American Association of University Women, 2/3rds of outstanding student loan debt is held by women.

People of color are also more likely to carry long term student loan debt.

- A 2015 study by Demos found that over half (54%) of young Black households have student debt, compared to 39% of all young white households.
- African American borrowers default at 2.5X the rate of White borrowers (12 years after enrollment), the comparable statistic for Latinos is 1.7X.
- About half of all African American borrowers with Bachelor’s degrees owe more than they borrowed 4 years after graduation, compared to 23% of Latinos and 17% of Whites.

According to reports by the GAO and CFPB, older borrowers are the fastest growing demographic sector of student loan borrowers, borrowing both for themselves and their spouses and children.

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Median Family Wealth by Race/Ethnicity, 1963–2013


Notes: 2013 dollars. No comparable data are available between 1963 and 1983. African American/Hispanic distinction within nonwhite population available only in 1983 and later.
Black Borrowers are in Crisis….

Black students **borrow more** than other students for the same degrees, and black borrowers are more likely than white borrowers to **drop or stop out** without receiving a degree.

Debt and default among black college students is at crisis levels, and even **a bachelor’s degree is no guarantee of security**: black BA graduates default at **five times** the rate of white BA graduates (21% versus 4%), and are more likely to default than white dropouts.

Black students represent the only group that is **more likely to stop out or discontinue enrollment** than to complete a credential within six years (total completion rate of 39.5%, compared to the no longer enrolled rate of 42.8%).

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Brookings Institute found that African American borrowers owe nearly twice as much as their white counterparts.

Nearly 3x as many African Americans owe more than they initially borrowed.

Figure 1. Racial Disparities in Student Loan Debt Four Years After Graduation, By Graduation Cohort

Source: Authors’ calculations using restricted 88/93/97 and 08/12 data, using survey weights and restricting samples to U.S. citizens. Due to small sample size, we exclude self-reported American Indian/Alaskan Native, Native Hawaiian/Pacific Islander, multi-race, and unreported race from this analysis. All amounts expressed in 2012 dollars. Average amounts and percentages include zeros for non-borrowers except in Panel B. To enable the most consistent comparisons cross-cohort, Panel D examines growth in federal undergraduate loan debt only.
More than four-in-ten adults say they or someone in their household has lost a job or taken a pay cut due to COVID-19

% saying this has happened to them or someone in their household because of the coronavirus outbreak

<table>
<thead>
<tr>
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<th>Been laid off/lost job</th>
<th>Had to take a cut in pay</th>
<th>Net either/both</th>
</tr>
</thead>
<tbody>
<tr>
<td>All adults</td>
<td>28</td>
<td>33</td>
<td>43</td>
</tr>
<tr>
<td>White</td>
<td>24</td>
<td>29</td>
<td>38</td>
</tr>
<tr>
<td>Black</td>
<td>32</td>
<td>34</td>
<td>44</td>
</tr>
<tr>
<td>Hispanic</td>
<td>41</td>
<td>51</td>
<td>61</td>
</tr>
<tr>
<td>Ages 18-29</td>
<td>35</td>
<td>45</td>
<td>54</td>
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<tr>
<td>30-49</td>
<td>30</td>
<td>39</td>
<td>49</td>
</tr>
<tr>
<td>50-64</td>
<td>28</td>
<td>32</td>
<td>42</td>
</tr>
<tr>
<td>65+</td>
<td>17</td>
<td>18</td>
<td>25</td>
</tr>
<tr>
<td>Bachelor's+</td>
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<td>29</td>
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</tr>
<tr>
<td>Some college</td>
<td>30</td>
<td>37</td>
<td>46</td>
</tr>
<tr>
<td>HS or less</td>
<td>32</td>
<td>35</td>
<td>45</td>
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<tr>
<td>Upper income</td>
<td>18</td>
<td>26</td>
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<td>Middle income</td>
<td>26</td>
<td>32</td>
<td>42</td>
</tr>
<tr>
<td>Lower income</td>
<td>39</td>
<td>41</td>
<td>52</td>
</tr>
</tbody>
</table>

Note: White and black adults include those who report being only one race and are non-Hispanic. Hispanics are of any race. “Some college” includes those with an associate degree and those who attended college but did not obtain a degree. Family income tiers are based on adjusted 2018 earnings.

Source: Survey of U.S. adults conducted April 7-12, 2020.

“About Half of Lower-Income Americans Report Household Job or Wage Loss Due to COVID-19”

PEW RESEARCH CENTER

People of Color More Likely to Report Job Loss or Pay Cuts Due to COVID-19 Crisis

According to a Pew survey conducted April 7-12, 2020, Black and Latino adults are more likely than White Americans to say that they or someone in their household was laid off, lost their job, or had to take a cut in pay.
College Costs Comprise a Larger Proportion of Latinx Families’ Incomes
COVID-19 Impact on the Latino Community

• In 2017, the Latino unemployment rate was 5.1%, the first return to pre-recession levels in a decade but still higher than the national average of 3.9%

• Latino Unemployment Rate Spiked from 4.4.% to 6% from February to March 2020.

• In a recent nationwide poll, half of Hispanic adults (49%) reported their household already lost wages or employment due to the crisis, compared to 33% for all respondents.
Real relief is needed: Cancellation for all borrowers

• Most immediately, the approximately 29 million borrowers currently in repayment on their federal loans would experience substantial relief.

• 57% of delinquent Direct loan borrowers owe $20,000 or less (Department of Education Portfolio data).

• There are substantial macroeconomic offsets to these fiscal costs. In a recent analysis of the economic and fiscal impact of complete student loan cancellation (federal and private), the Levy Economics Institute simulated significant positive economic benefits in the form of increased GDP in the range of $86 billion to $108 billion per year over a 10-year period and increased employment.
  • Moody’s Investors Service:“In the near term, we would expect student loan debt cancellation to yield a tax-cut-like stimulus to economic activity.”
  • National Bureau of Economic Research: Federal student debt cancellation increases borrowers’ incomes by about $3,000 over a three-year period.

• Studies have also shown that student loan cancellation could have significant social benefits including jumpstarting family formation, additional training, improved health status, increased entrepreneurial activity, and more.

• Debt relief is about more than easing the burden of payments.

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$20,000 student loan forgiveness provides total relief for nearly half of student borrowers

<table>
<thead>
<tr>
<th>Outstanding Balance</th>
<th>Weighted Count</th>
<th>Percent</th>
<th>Cumulative Percent</th>
<th>Amount of Forgiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $9,999</td>
<td>8,212,536</td>
<td>28.1%</td>
<td>28.1% receive total forgiveness</td>
<td>$10k</td>
</tr>
<tr>
<td>$10,000 to $19,999</td>
<td>5,688,457</td>
<td>19.5%</td>
<td>47.6% receive total forgiveness</td>
<td>$20k</td>
</tr>
<tr>
<td>$20,000 to $29,999</td>
<td>3,731,703</td>
<td>12.8%</td>
<td>60.3% receive total forgiveness</td>
<td>$30k</td>
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<tr>
<td>$30,000 or greater</td>
<td>11,601,627</td>
<td>39.7%</td>
<td></td>
<td></td>
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<tr>
<td>Total</td>
<td>29,234,323</td>
<td>100.0%</td>
<td></td>
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</table>

Source: CRL analysis of the Survey of Household Economics and Decisionmaking (SHED), 2018. Board of Governors of the Federal Reserve System. Available at https://www.federalreserve.gov/consumerscommunities/shed_data.htm. Analysis uses weighted totals and excludes students who are currently enrolled in school, borrowers who used student loans to pay for someone else’s education (e.g. Parent PLUS borrowers), and all respondents who refused to answer the question, left the question blank, or answered “don’t know.” The question (SL3) asked: “Thinking specifically about the money that you owe for your own education, please tell us the total amount that you currently owe on these loans.”
More voters of both parties support $20,000 in student debt reduction in the next pandemic relief package than oppose

<table>
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<tr>
<th></th>
<th>Support strongly</th>
<th>Oppose somewhat</th>
<th>Oppose strongly</th>
<th>Oppose somewhat</th>
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<tr>
<td>Total</td>
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<td>24</td>
<td>65</td>
<td>12</td>
</tr>
<tr>
<td>Democrat</td>
<td>56</td>
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<td>80</td>
<td>9</td>
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<tr>
<td>Independent / DK</td>
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<td>29</td>
<td>64</td>
<td>20</td>
</tr>
<tr>
<td>Republican</td>
<td>28</td>
<td>21</td>
<td>49</td>
<td>12</td>
</tr>
</tbody>
</table>

Lake Research Partners and Chesapeake Beach Consulting designed and Engine Group CARAVAN fielded an online survey of 1,004 adults on behalf of Americans for Financial Reform and the Center for Responsible Lending. The national survey was conducted from April 15-17, 2020 and has a margin of error of +/- 3.1. Percentages may not total 100 due to rounding.

G. As you may have heard, student loan debt has been part of the government’s pandemic relief efforts, and payments are currently being paused during the national emergency. Some people say short-term payment relief is not sufficient and have proposed reducing student loan debt by at least $20,000 for all borrowers to help jump start the economy in the next relief package. Other people say we can’t afford to cancel that much debt and should use the money in other ways. Do you support or oppose the reduction of at least $20,000 in student loan debt for all borrowers? This question was split sampled.
TODAY’S SPEAKERS

Tim Shaw, Senior Policy Manager for the Financial Security Program, Aspen Institute

State Solutions to Student Loan Debt

Tim Shaw, Senior Policy Manager

October 16, 2020
OUR MISSION

The Aspen Institute Financial Security Program (FSP) mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity.

We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical financial challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans.
U.S. household financial security was at risk even before the pandemic

- Only about 1 in 3 Americans was financially healthy (FHN and CFPB’s Financial Well-Being in America survey)

- 40% of households got by on $33,000 or less (Survey of Consumer Finances)

- 39% of Americans could not come up with $400 without borrowing or selling something (Federal Reserve)

- 23% of households had no emergency savings at all (Bankrate)
Student loan debt is now the largest source of nonmortgage consumer debt
Agenda

- Principles for student loan solutions
- Framework for state solutions to student debt
- State solutions overview
- Spotlights on state solutions to student debt
Principles for Student Debt Solutions

Solutions to the student debt crisis should:

- Focus on financial security outcomes
- Build in data collection, evaluation, and publication
- Help those with low balances
- Address the true circumstances of today’s students
- Prioritize equity
- Provide options for noncompleters
Three types of solutions align to the student debt cycle

1. Reduce out-of-pocket cost of attendance

2. Protect students as they navigate existing debt

3. Decrease existing student debt burdens

Solutions should focus on low-income borrowers and borrowers of color
How states can reduce out-of-pocket need for student debt

- **Need-Based Aid and Grant Programs** offset the cost of attendance for students
- **Free College Programs** reduce the need to incur debt to attend school
- **Dual Enrollment Programs** allow high school students to obtain postsecondary credits at no or low-cost
- **4-year Community College Programs** allow students to obtain 4-year degrees at community colleges, often at lower cost
- **Mandatory FAFSA Initiatives** increase FAFSA completion, increasing access to federal student aid
- **College Savings Account Investments** help future students save for postsecondary programs by investing state funds in individual 529 accounts
Spotlight: Need-Based Aid and Grant Programs

Need-based aid and grant programs directly reduce the need to borrow by providing students with funds to put towards tuition and sometimes cost-of-living expenses.

- State examples:
  - Washington College Grant offers tiered, targeted need-based aid to students from low- and middle-income households.
  - California “Cal Grant” included funds specifically earmarked for students with dependents.

- Design considerations:
  - Focus on low-income households, particularly with state funding challenges
  - Guarantee long-term funding for programs to ensure access for the most vulnerable
  - Include emergency grants for students suddenly facing emergency expenses
  - Think hard about the possible ramifications of eligibility requirements
How states can help borrowers navigate student debt

Student Loan Servicing Legislation and Regulation could protect student loan borrowers from poor servicing or predatory behavior.

Re-Enrollment Programs encourage noncompleters to return to school by offering student debt forgiveness programs by investing state funds in individual 529 accounts.
Spotlight: Re-enrollment Programs

Re-enrollment programs provide pathways to postsecondary completion to noncompleters, often paired with some amount of debt forgiveness to increase incentives for re-enrollment.

● Example:
  ○ Warrior Way Back program enables students who dropped out of Wayne State University with outstanding debt to re-enroll. Additionally, the university writes off up to $1,500—roughly the cost of one class—for all participants of the program.

● Benefits
  ○ Can be a net positive for revenue even while offering debt forgiveness
  ○ Targets critical need population (noncompleters) that face challenges enrolling more “traditional” aid programs
Creating additional protections for student borrowers, such as a borrower bill of rights or a student loan ombudsman, can provide borrowers protections from poor servicing, create additional oversight for student loan servicers, and increase standards for loan servicing.

Example:
- Connecticut was the first state to institute a “student loan borrower bill of rights” in 2015 that required student loan servicer licensing and registration and created a student loan ombudsman.

- **State of Play**
  - As of 2019, 13 states have passed student loan oversight legislation and nearly 20 states had introduced student loan oversight legislation
  - Legislation varies in terms of servicer requirements and level of oversight
How states can reduce out-of-pocket need for student debt

- **Individual Tax Expenditures** reduce the tax liability of borrowers to help offset student loan payments
- **Employer Tax Credits and Deductions** incentivize employers to create student loan repayment benefits for their employees
- **Sector-Specific Loan Forgiveness and Repayment Programs** provide borrowers a path to loan forgiveness and repayment while helping states achieve other policy objectives
- **State-Sponsored Refinancing** allows borrowers to secure a lower interest rate, reducing the overall debt burden, helping save money in short- and long-term
- **Targeted Loan Repayment** repays loans on behalf of student borrowers
- **Housing Assistance Programs** enable borrowers to pay down debt while building assets in the form of homeownership
Spotlight: Individual Tax Expenditures

Individual tax credits and deductions can directly offset the cost of repaying loans for borrowers.

- State action:
  - At least five states have implemented individual tax benefits to help pay for student loans
  - Minnesota’s Student Loan Tax Credit is a nonrefundable credit for student loan payments made on principal amount and interest that allows borrowers to reduce their tax liability by up to $500 ($1,000 maximum for married couples filing jointly).

- Design considerations:
  - Consider refundability in order to include low-income households
  - Balance requirements may cut out borrowers most in need
  - Think hard about the possible ramifications of eligibility requirements, such as graduation requirements
Spotlight: Employer Tax Credits and Deductions

Tax credits and deductions can be provided to employers to incentivize them to provide student loan benefits to their workers.

- **Example**
  - In 2019, Connecticut established a program that allows employers to claim a tax credit for student loan payments made on behalf of their employees—a credit of 50% of a maximum payment of $2,625 per employee per year.

- **State of play:**
  - Student loan benefits are a growing employer benefits as student debt grows among the labor force
  - HR departments are recognizing the impacts that student loan debt has on their other goals, such as retirement security and general financial wellness.
  - This solution would likely focus benefits on workers at large employers first
THANK YOU
NCSL RESOURCES

LEGISBRIEF

Student Loan Oversight
(January 2020)

Student Loan Forgiveness
(April 2020)

Student Loan Tax Incentives
(September 2020)
NCSL RESOURCES

NCSL Student Loan Bill Tracking Database

- Follows all bills related to student loans since 2015
- Sort by state, year, or category
- Available at tinyurl.com/NCSLStudentLoanDB

Student Loan Bill Tracking Database

- Bills: 253
- States: 50

Select a Category:
- Forgiveness
- Licensing
- Other
- Oversight
- Taxes

Apply a Filter:
- Status: Enacted, Failed, Pending

Example: An Act establishing a Student Loan Bill of Rights

This database is made possible through the generous support from The Annie E. Casey Foundation. It contains state legislation since 2015 and is updated monthly. Contact andrew.smiley@ncl.org with questions. UPDATED 9/1/20
NCSL 2020 HIGHER EDUCATION VIRTUAL MEETING SERIES: ADDRESSING THE COVID-19 PANDEMIC

- Higher Education in Crisis  |  May 12
- Higher Education and Distance Learning  |  May 15
- How the Pandemic is Exacerbating Inequities in Higher Ed (and What States Can Do)  |  July 17
- The Role of Community Colleges During and After the Pandemic  |  August 21
- Solutions to the Student Debt Crisis in a Time of Economic Distress  |  October 16

See NCSL’s Higher Education Virtual Meeting Series page for the recording and materials from previous meetings: