LegisBrief

A QUICK LOOK INTO IMPORTANT ISSUES OF THE DAY

APRIL 2020 | VOL. 28, NO. 13

Tackling Record Student Loan Debt

BY ANDREW SMALLEY

Total student loan debt held by borrowers climbed to over $1.6 trillion as of late 2019. A recent report from Moody's Investors Service found that slow repayments have become the most important factor in rising student loan balances. The report found that just 51% of borrowers whose loan repayment began between 2010 and 2012 had made progress in reducing their student loan debt five years later.

This debt creates significant burdens on individuals and the broader economy. A recent report from the Federal Reserve found that student loan debt is having a significant effect on declining homeownership among young adults. A 2018 survey found that 80% of respondents with student loan debt have delayed saving for retirement because of that debt.

Large student loan balances also increase the likelihood of default. The Federal Reserve Bank of New York found that student loan delinquency rates are increasing and remain at high levels relative to other types of debt. Analysis by the Brookings Institution found that nearly 40% of borrowers may default on their student loans by 2023.

State Action

With these record levels of debt, states are looking for ways to help student loan borrowers. Some states have adopted additional consumer protections to strengthen student loan servicing oversight. Other states have developed loan forgiveness or repayment programs to help borrowers reduce their debt while offering incentives for talented, in-demand students and recent graduates to live, work and stay in their states.

Did You Know?

- The average student loan borrower pays between $200 and $300 per month.
- Student loan debt increased by 107% between 2009 and 2019.
- In 2019 alone, legislators in 38 states introduced 150 bills related to student loan forgiveness and repayment.

Student loan forgiveness programs provide borrowers with debt relief or payment support in exchange for work or service in specific professions or fields for a period of time. Occupations vary by state, but commonly include health care professionals such as nurses, doctors or veterinarians, as well as teachers and educators. States are also exploring creating loan forgiveness programs as part of broader talent-retention programs, especially in high-needs places such as rural areas. While program design and implementation vary by state, nearly all bills provide gradual relief over time and most bills cap the amount of forgiveness a single borrower can receive.

In 2019, legislators in 18 states enacted more than 30 bills relating to student loan forgiveness programs. It is important to note that many of these bills do not provide an appropriation or multi-year funding for these programs.

A common area of loan forgiveness programs focuses on educators. For example, Colorado passed SB 3, which expands a loan forgiveness pilot program for teachers in high-poverty schools in rural areas, or in positions in math, science, special education or linguistically diverse education. The program was created nearly two decades ago but received additional funding in 2019 to provide up to 100 educators with up to $5,000 per year for five years.

Bills also often address forgiveness programs for health care workers. Hawaii passed SB 1404, which provides $150,000 for the Healthcare Provider Loan Repayment Program, as long as the funds are matched dollar for dollar by a private or another public source. Other professions have also been identified for loan forgiveness programs. Texas SB 16 created a repayment assistance program for peace officers that provides up to $4,000 per year for up to five years.

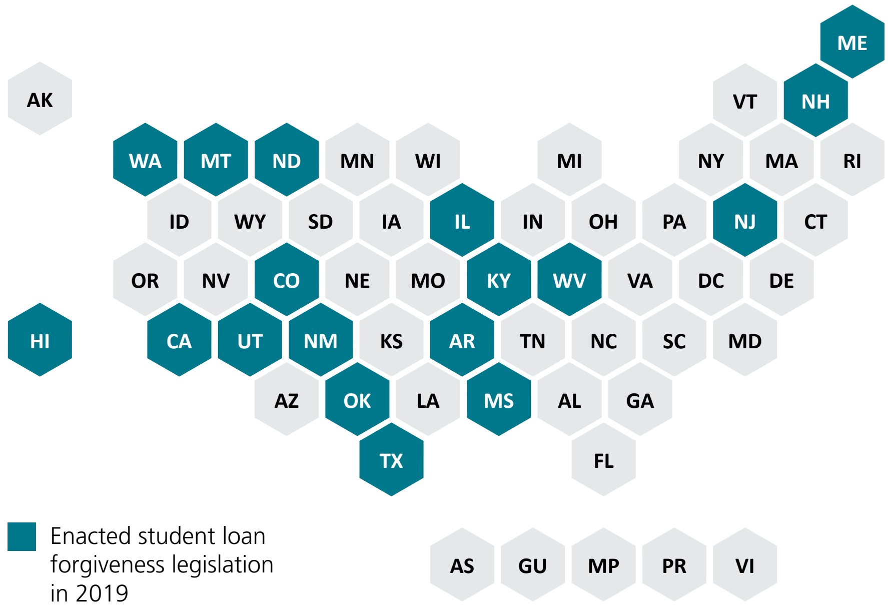
Some states have begun exploring loan forgiveness as a tool to attract and retain residents. New Hampshire passed SB 12, which creates the Graduate Retention Incentive Partnership (GRIP) program to provide incentives for graduates to work in New Hampshire upon graduation. The program, however, was funded with only $1 after the bill became law without the governor's signature. Legislators in Utah created the Talent Development Incentive Loan Program with $2.5 million in funding for graduates in certain tech professions who stay in the state after graduation.

In 2020, 31 states have introduced 108 bills related to student loan forgiveness.

Federal Action

According to the Congressional Research Service, more than 30 federal loan forgiveness programs

2019 Student Loan Forgiveness Legislation



Source: NCSL, 2019

were active as of 2017. These programs vary drastically in terms of design, scope and funding. One notable example is the Public Service Loan Forgiveness Program (PSLF). Established by Congress in 2007, this program provides relief to direct loan borrowers who work in certain public service jobs for 10 years and make 120 qualifying monthly payments. Borrowers who work for government organizations and not-for-profit organizations that are tax exempt under Section 501(c)(3) of the Internal Revenue Code are eligible for forgiveness under this program. However, when borrowers began to apply for forgiveness in late 2017, more than 99% of them were denied, most often for failing to meet the program requirements related to their type of loan.

In response, the Department of Education created the Temporary Expanded Public Service Loan Forgiveness process to allow borrowers who had been denied forgiveness the ability to request reconsideration. However, a 2019 report from the Government Accountability Office found that out of more than 54,000 applications to the new program, just 661 were approved.

Borrowers may also be eligible for income-driven repayment plans, which tie payments to a set percentage of a borrower's income and offer forgiveness after 20 to 25 years of payments, depending on the terms of the plan. According to a recent report from the Congressional Budget Office, the number of loans in income-driven plans has grown rapidly over the past decade.

Additional Resources

- NCSL's Postsecondary Bill Tracking Database
- "U.S. Student Loans and Debt Levels Set Record: What's a Legislature to Do?" NCSL report
- NCSL's Higher Education Responses to Coronavirus webpage

NCSL Contact

Andrew Smalley
303-856-1558

