DEALING with DEBT

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In the United States, dealing with debt has become a part of our cultural conversation. It's no mystery as to why once you consider our formidable National Debt, credit cards, mortgage foreclosures, and growing concerns surrounding the student loan debt crisis. In fact, according to Federal Student Aid's FY 2014 Annual Report, there was a total of $1.1 *trillion* in outstanding federal education loans.[1]

There's no question the rising levels of student debt require comprehensive debt management and support services. But, there is good news – most borrowers are taking the responsibility to pay back student loans seriously. Though the common root cause of default is financial instability, every borrower has a unique situation and specific issues to be dealt with; which is why more than ever, it's important to cater to people, not numbers or categories, when guiding students to financial well-being and independence.

Inceptia, a division of National Student Loan Program (NSLP), is committed to supporting schools as they arm student borrowers with the knowledge to achieve financial success. It is our number one goal to educate students on how to pay for college, resolve their delinquency issues and successfully repay their student loan obligations. By using practical tools and personal attention, Inceptia educates students on responsible personal finances and loan repayment, thereby working together with colleges and universities across the nation to create a stronger community. We're here to help all borrowers repay loans without feeling overwhelmed or powerless.

To further fulfill our commitment to you, we've collaborated with *Inside Higher Ed* to provide this comprehensive guide around how to deal with debt. From guiding colleges as they help students borrow sensibly, to concerns about high debt levels, the new default data, and everything in between, this guide will bring you numerous articles filled with insight and best practices.

Whether you're in the financial aid office, a president, vice president or faculty member, we at Inceptia commend you for the dedication you show day in and day out as you serve students. Your work is pivotal in helping student borrowers build long-lasting financial foundations for their future success. I hope these articles and essays provide you with some insightful points as you advise student borrowers on how to manage their academic and financial goals.

Sincerely,

Randy Heesacker
President and CEO
Inceptia/NSLP

For more information on Inceptia, please visit **www.inceptia.org.**

[1] *U.S. Department of Education, Federal Student Aid. Annual Report FY 2014. Washington, D.C., 2014.*

INTRODUCTION

Student loans are essential for millions of American students. The reality is that many colleges charge more than students can afford, even taking into account federal, state and institutional grants. But many experts (not to mention borrowers) see many flaws in the system. They worry that too many students are borrowing more than is wise, that many students don't understand their obligations, are ignorant of the differences between federal and private loans, and that default rates remain too high at some institutions.

As a result of these concerns, government officials and educators are debating how to improve the student loan system. The articles in this compilation explore some of the new data and some of the new ideas about student loans and student debt.

Inside Higher Ed will continue to cover these issues, and welcomes your reactions to this booklet and your ideas for future coverage.

--The Editors

editor@insidehighered.com

Tired of paying monthly fees for your Default Prevention program and seeing few results?

If you are paying a monthly fee regardless of the number of resolved delinquencies, you might want to consider a new partner. At Inceptia, we believe it is only fair to charge you after we resolve delinquencies.

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NEWS

A selection of articles by *Inside Higher Ed* reporters

YOUNG FAMILIES AND STUDENT DEBT

By Doug Lederman

Federal report shows families' student loan burden grows while other forms of debt decline, but suggests a slight slowing of the rate of increase in families' college-related debt.

Studies that show student loan debt increasing are a dime a dozen these days. But while a report issued in September 2014 from the Federal Reserve Board reinforces the idea that more Americans are taking on more debt to finance their postsecondary education, it also suggests a slowing of that trend in the last three years.

The Fed's 2013 **Survey of Consumer Finances**, a version of which is released every three years, also offers an in-depth look at the student loan debt accumulated by young Americans (those families headed by someone under 40), revealing that both the proportion of such families with student debt and the amount they've incurred have nearly doubled since 2001.

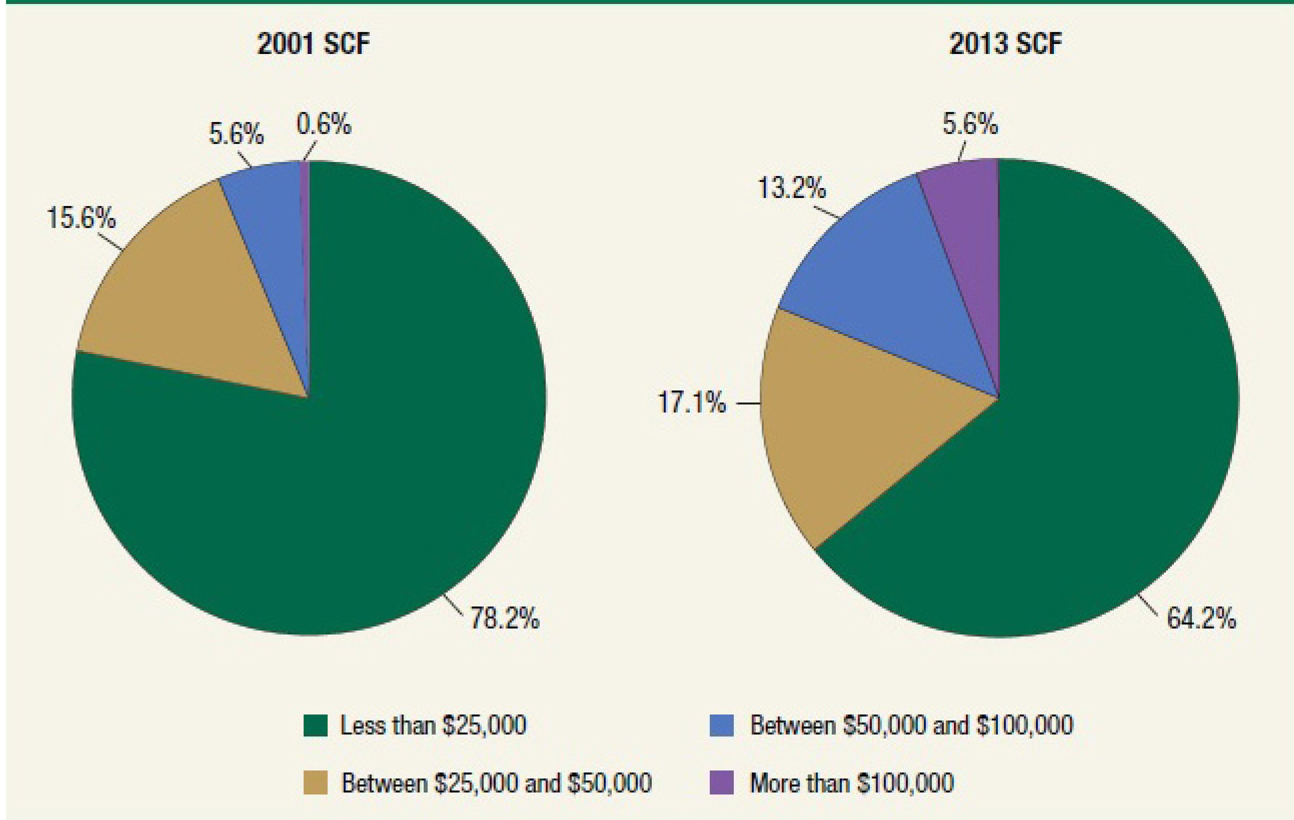
Most forms of debt are in decline. The board's survey showed that for all families, the median debt declined by 20 percent, and the mean debt of those families with debt fell by 13 percent. The dip was driven mostly by a drop in the proportion of families with home-secured debt, and a nearly 20 percent decrease in families' median and mean credit card balances from 2010 to 2013.

Student loan debt goes against that trend. Exactly 20 percent of all families had an education loan in 2013, up from 19.2 in 2010. The median value of the loans held by those families was $16,000 in 2013, up from $13,900 in 2010. The mean debt rose by 5 percent, to $28,900 from $27,500.

The report also takes a deeper look specifically at the impact of debt over a longer period of time on families headed by someone 40 or younger. It finds that the fraction of such families with education debt grew to 38.8 percent in 2013 from 22.4 percent in 2001, and that the mean debt amount for those families that had debt grew to $29,800 from $16,900 (the median debt grew by a similar proportion, to $16,800 from $10,500).

While the 2013 report shows student loan debt levels increasing, a slight bit of countervailing news is that the rate of growth appears to be slowing, a Brookings Institution report on the Federal Reserve study points out.

The Brookings report by Elizabeth J. Akers and Matthew M. Chingos shows that the mean debt for young families grew by 14 percent from 2010 to 2013, whereas it increased "by 42



Source: Federal Reserve Board Survey of Consumer Finances

percent between 2007 and 2010, by 35 percent between 2004 and 2007, and by 18 percent between 2001 and 2004."

The Federal Reserve report notes that despite the growth in debt levels, "the majority of young families with education debt owed less than $25,000 in both 2001 and in 2013, and the share of families with large balances ... is still relatively small."

While that may be true, the proportions of young families with debt over $50,000 and over $100,000 have increased significantly.

As seen in the chart above, 13.2 percent of families have loan debt between $50,000 and $100,000 (up from 5.6 percent in 2001), and 5.6 percent have student loan debt over $100,000, up from 0.6 percent in 2001.

The Federal Reserve Board report notes that many of the families that have student loan debt have incomes that should allow them to repay the debt comfortably.

But the share of loan debt held by families with incomes under $30,000 is rising.

"About 24 percent of young families' education debt is held by those making less than $30,000, nearly double the share that these families held in 2001," the report states. ■

» https://www.insidehighered.com/news/2014/09/08/families-student-loan-debt-grows-rate-increase-slows

IN FAFSA SIMPLIFICATION, COMPLEXITY

By Michael Stratford

How many questions are really needed? And how many just confuse?

It seems, all of a sudden, that there's a rush among policy makers in Washington to chop off questions from the 108-question Free Application for Federal Student Aid, known as the FAFSA.

Senator Lamar Alexander, who has been beating the FAFSA simplification drum for several years, has said that the Senate education committee he chairs will take up his bipartisan bill for a two-question aid application this spring.

And in January 2015 President Obama put out his own proposal for cutting 30 questions from the form, reviving a **2009 proposal** by his administration to eliminate complicated questions relating to families' business assets and investments, among other things. The agreement on FAFSA simplification reflects a consensus among many that the complex questionnaire scares some families off -- and that a simple form would boost enrollments of low-income students.

But many colleges and states want to put the brakes on the race to eliminate as many FAFSA questions as possible. Although they support the goal of making it easier for students to apply for aid, they're concerned that cutting off too many questions from the form would make it harder to determine which students are actually in need of student aid.

They argue that FAFSA simplification that goes too far wouldn't result in any net reduction in burden on families and students. Even if the federal government doesn't ask some questions about a family's financial circumstances, colleges and state grant agencies say they still need to collect that information to dole out institutional and state aid.

Justin Draeger, president of the National Association of Student Financial Aid Administrators, said that colleges worry that eliminating too many questions on the FAFSA will give them a less precise understanding of their students' financial capacity.

"We have a limited pool of funds, and you're taking a pool of applicants and trying to figure out the relative financial strengths to each other," Draeger said. "The less information you gather, the more everybody looks needy on paper."

Colleges, especially those that award large sums of institutional aid, generally want to know about a family's financial assets as well as their true income, Draeger said. For example, relying only on adjusted gross income, as the simplification proposals would do, could significantly understate a family's actual ability to pay for college if they wrote down large amounts of offsetting capital losses. The fear, in short, is that some families of means could appear needy on paper and therefore qualify for aid.

Alexander, a former U.S. secretary of education, and Obama personally discussed simplifying the FAFSA form on Air Force One en route to a Tennessee event announcing the administration's free community college proposal. Both have cited aid simplification as an area on which they want to work together.

The Obama administration, in its first few months in office, called for a complete elimination of the FAFSA, to be replaced by a single

STUDENT AID SHORT FORM

STUDENT INFORMATION:

Last name, First name, MI — Last Name / First Name / MI

Street address

City/State/ZIP code — City / State / ZIP code

Date of birth — Month / Day / Year

Social Security Number

FINANCIAL AID QUESTIONS:

FAMILY SIZE

INCOME IN 2012 $

check-mark box on federal tax forms.

It hasn't gone that far, but over the past several years the Education Department has taken some steps to make it easier to fill out the form, allowing applicants to automatically skip certain questions that are irrelevant for them and import their existing tax information that the Internal Revenue Service already has.

Obama's current proposal, a version of which his administration previously proposed, would cut about 30 questions from the FAFSA. Alexander's plan would ask students to report only their income and family size.

For Alexander, the push to make the FAFSA as simple as a two-question "postcard" is part of a broader higher education agenda aimed at rooting out regulations and red tape that he says are burdening colleges and students.

But the FAFSA form might be a case study in how challenging it is -- practically and politically -- to roll back regulations in higher education. Each federal requirement or question on the form is often backed by a constituency that pushed for it in the first place and doesn't want to part with it.

Like colleges, state grant agencies are also concerned about getting rid of key data points they use to determine eligibility for state awards.

"If you oversimplify too much, you aren't really simplifying that much, because families will have to fill out a state form as well," said Frank Ballmann, who directs the Washington office of the National Association of State Student Grant and Aid Programs.

Among the FAFSA data points that nearly all state grant agencies want to keep are: length of residency in the state, length of program, degree or program for which a student is applying and which colleges a student lists on the form (so they can anticipate whether a student might be eligible for a grant).

Most states, nearly 90 percent of them, rely on the estimated family contribution that the federal government calculates based on the FAFSA form, according to Ballmann.

About one-third of states rely on asset-related questions, and 25 percent of states use the data collected about business income, he said.

Prior-Prior Year Push

Rather than cutting down the number of questions on the current Fafsa form, some colleges and advocacy groups want the Obama administration to focus on another simplification effort.

A wide-ranging **coalition of groups** representing colleges, think tanks and advocacy groups is pushing the Obama administration to adopt "prior-prior year" on the FAFSA.

Students and families are currently required to use the previous year's tax information when filling out the FAFSA, which can create timing obstacles when aid applications are due in January or February but families haven't yet filled out their annual income

taxes.

Under Secretary of Education Ted Mitchell said in a brief interview that he supports changing the FAFSA to allow for prior-prior year data.

Mitchell said he thinks it's "not a matter of whether to do it but when" the department would be able to make the change.

Although the department has the ability to switch to "prior-prior year" data without Congressional approval, it needs to resolve the policy's impact on the budget, Mitchell said.

The administration's budget request released does not propose or contemplate such a change.

Mitchell also said that the department is looking at ways it can pare back some questions on the FAFSA form even without new legislation to overhaul it. ■

» https://www.insidehighered.com/news/2015/02/09/policy-makers-push-fafsa-simplification-colleges-and-states-worry-about-lost-data

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COLLATERAL DAMAGE

By Paul Fain

Congress expanded federal student loan default metrics to scrutinize for-profits, but community colleges are worried, too, at least one with good reason.

Students at a community college in rural Texas may lose access to federal aid because of a student-loan default measure Congress expanded mostly to keep an eye on for-profit institutions.

Frank Phillips College is among several two-year colleges whose leaders are worried about how their institutions will fare with the fall 2014 release of the first batch of sanction-bearing numbers under the revised federal-loan default rate.

"We've done everything we can," said Jud Hicks, the president of Frank Phillips, which is located in the Texas panhandle. "We understand the consequences."

The U.S. Department of Education now tracks defaults among federal loan recipients for three years after they leave college. Two-year rates had previously been the standard. But the U.S. Congress **inserted** the expanded "cohort default rates" into the 2008 reauthorization of the Higher Education Act, which is the law that governs federal financial aid.

Student advocates had pushed for the three-year rates. They argued that the new measure would do a better job of gauging students' indebtedness and the value of the education they received.

Default rates are higher under the expanded rates, particularly among for-profits.

For example, the 2013 **release**, which was based on loan repayments that were due in 2011, **showed an average** default rate of 21.8 percent in the for-profit sector, compared to 13.6 under the two-year metric. The three-year rate was 13 percent at all public institutions (including four-year institutions) and 8.3 percent at private nonprofit institutions. Two-year rates were 9.6 at publics and 5.2 percent at privates.

Sanctions will kick in with the next release of three-year rates. (No penalties applied to the results of the first two years of data.)

Colleges will lose eligibility for all federal aid, including the Pell

Grant Program, if their rates top 30 percent for three consecutive years or 40 percent for a single year.

Relatively few institutions would fail under these rates, said Jacob P.K. Gross, an assistant professor of education at the University of Louisville, who **has written** about default rates. According to an analysis he conducted of data from the first two releases, 218 institutions went above 30 percent at one point and 37 -- or 4.3 percent of all institutions participating in federal aid programs -- failed to stay below 40 percent.

The rates set "very low thresholds," Gross said. "We're not really talking about so many institutions."

Sliding Scale for Penalties

High default rates are a concern in all sectors, according to lawmakers, student advocates and college leaders. But most thought community colleges would be in the clear thanks to their relatively affordable tuition, which results in small numbers of student borrowers. That confidence appears to be somewhat misplaced, at least in the case of Frank Phillips.

Some community college officials said default rates penalize colleges for factors beyond their control, such as the local economy or the life circumstances of students. And colleges can do little to encourage students not to take on unnecessary debt.

The law includes a protection for institutions that face default-rate sanctions. Colleges can file an appeal with the department based on the proportion of students who take out federal loans. The appeal was built into the law to prevent colleges from being punished based on a small number of borrowers.

The federal "**participation rate index challenge**" creates a sliding scale. Put simply, it sets a standard for sanctions that is more lenient if a smaller percentage of an institution's students take out loans.

For example, the baseline default rate of 30 percent carries penalties only at institutions where at least 21 percent (roughly) of students participate in federal loan programs. But if a college has a higher default rate, it could trigger sanctions even if fewer students participate; a college would face penalties for a default rate of 35 percent if its participation rate was at least 18 percent, for instance.

Since only 19 percent of all community college students borrow, according to data from the American Association of Community Colleges, the sectorwide three-year default rate of 21 percent means few would fail under the appeal process.

But while most community colleges with failing rates will prevail with their appeals, experts said, they will still take a public-relations hit when the statistics are released.

To help correct this problem, the Institute for College Access and Success (TICAS) **has pushed** the department to publish borrowing rates along with default rates. Debbie Cochrane, the institute's research director, said the feds could also send a clearer message by allowing colleges to appeal on an annual basis, rather than just after failing for three consecutive years.

Jee Hang Lee, vice president for public policy and external relations at the Association of Community College Trustees, agreed that an annual challenge process makes sense. He also said the department could do more to help colleges get the word out about income-based repayment options.

Frank Phillips College, however, likely will be unable to succeed in an appeal, Hicks said. Colleges received a draft version of their fall rate in February. And the small Frank Phillips, which enrolls 1,200 students, faces a third straight year of topping 30 percent in defaults.

That's not for a lack of trying, said Hicks. The college brought in a default management consultant and has worked with students to help them repay their loans, such as through informing them of repayment, deferment or forbearance options. But the sagging local economy is a major factor.

Frank Phillips isn't the only rural community college that is struggling with relatively high default rates,

several experts said. That's because rural areas are less likely to have bounced back from the recession.

A few more loan-repaying students could have put Frank Phillips over the hump. The college would not be facing sanctions if just four defaulters had been able to repay their loans in a recent year.

Frank Phillips College

In a **December 2013 letter** Hicks sent to Arne Duncan, the secretary of education, he said the college was facing "unintended consequences" from the loan default policy. Hicks also said the process did not give the college an adequate opportunity to reduce its rates.

Far more students at Frank Phillips receive Pell Grants (461 in 2014) than take out federal loans (193), according to Hicks. Only 38 students participate in both programs. Yet it appears likely that all federal aid will be out of reach for the college's many lower-income students.

"It seems somewhat punitive for an institution to lose Pell because of a loan default issue," Hicks said via email. "From a student participation perspective, these are unrelated."

Hicks said the college is working with department officials to double-check its default numbers.

Preemptive Jump

Several community colleges around the country have pulled out of federal lending programs voluntarily. They cite the risk of default-rate penalties and a desire to preserve student access to other forms of federal aid.

For example, less than half of North Carolina's community colleges are participating in federal loan programs. Central Piedmont Community College **made the decision** to drop loans.

Roughly 9 percent of community college students nationwide are not able to access federal loans, according to **2011 data**; the number has likely gone up since then.

The Education Department has urged colleges not to jump. In a February "Dear Colleague" **letter** the department explained the rules on default rates and appeals, and also noted the "importance of institutions providing continued student access to the Title IV student loan programs."

TICAS has **blasted colleges** for deciding to pull out of lending. They **say some**, such as Victor Valley College, which is located in California, made the decision without apparently being aware of participation-rate appeals and protections. The department **deserves** some of the blame, according to TICAS, which says the agency can do more to explain options to institutions.

However, Cochrane said some community colleges appear unwilling to accept that their rising tuition rates are not as affordable as they once were.

"There's still somewhat of a tepid embrace of federal loans" among community college leaders, she said.

The two community college associations have been pushing hard in Washington for more flexibility on default rates among their members. For example, the community college association wants Congress to decouple eligibility for Pell Grants from that of federal loans when it reconsiders the Higher Education Act.

"It's bad public policy for community colleges to lose their Pell Grant eligibility because former students have not repaid their loans," said David Baime, the association's senior vice president for government relations and research.

Cochrane, however, wasn't sold. She said such a move "does nothing but accept colleges' ability to evade accountability." ■

» https://www.insidehighered.com/news/2014/04/02/new-default-rates-trip-community-college

‘BILL OF RIGHTS’ FOR STUDENT BORROWERS

By Michael Stratford

President Obama announced a series of executive actions aimed at improving and centralizing the customer service experience of borrowers with federal student loans.

WASHINGTON -- The Obama administration announced in March 2015 that it plans to create a centralized complaint system for federal student loan borrowers as well as a single website where they can manage their loan payments.

In remarks at the Georgia Institute of Technology, President Obama discussed what White House officials have dubbed a **Student Aid Bill of Rights** that includes a series of executive actions aimed at helping the growing share of Americans who owe student loans held by the federal government.

Obama directed the U.S. Department of Education to create a new online feedback system by next July that allows students and borrowers to file complaints about federal student loan lenders, servicers, collection agencies and colleges and universities.

Under Secretary of Education Ted Mitchell told reporters that students and borrowers would have the ability to track what is happening with the status of a complaint. He also said that the department would use aggregate data from the complaint system to judge the performance of its loan servicers, in addition to the current metrics it uses.

The department will also study how it should collect and resolve complaints it receives about colleges and universities, such as poor educational quality or misleading claims. Department officials will explore ways to improve how the department refers “possible violations of laws and regulations to other enforcement,” the White House said.

Some of the other executive actions are designed, officials said, to improve and standardize the customer service experience of federal student loan borrowers.

For example, the Department of Education will establish a single website where all federal loan borrowers can access their account and payment information. Borrowers currently have to visit the Web site of whichever of the dozen federal loan servicers has been assigned to manage their account.

The department also plans to direct its contracted loan servicers to provide “enhanced disclosures” when their loans are transferred between servicers and to more aggressively reach out when borrowers fall behind in their payments or need help changing repayment plans.

In addition, the department will instruct its loan servicers to apply “prepayments” -- money a borrower pays in excess of his or her monthly minimum -- to the loans with the highest interest rate, unless a borrower requests otherwise.

The Treasury Department will also play a role in the efforts to boost loan servicing.

It plans to launch a two-year pilot program in which the federal government will directly collect the defaulted debt of a small number of loan borrowers. The Department of Education currently contracts with private collection companies to pursue borrowers who haven’t

made a payment on their federal loans in more than a year.

The pilot program is aimed at gathering information to help improve the collections process for federal student loans. The administration is not considering replacing its contracted debt collection agencies with debt collection directly by the government in the program, according to Deputy Treasury Secretary Sarah Bloom Raskin.

“What we are looking to do is to put our toe in the water here to acclimate ourselves to see what is involved in student loan debt collection,” Raskin told reporters.

Mitchell said that having that “experimental pool” of defaulted loans collected directly by the government would allow the administration to test out new ways to work with struggling borrowers.

He said that the department’s Federal Student Aid office, which oversees the direct student loan program, “is a learning organization and sees this as an enormous opportunity.”

In addition, the Treasury Department is looking at ways to let borrowers provide multiyear authorization for the Internal Revenue Service to release the

Ted Mitchell, Under Secretary of Education

income information needed to apply for federal income-based repayment programs. Borrowers now have to fill out a form each year to receive such benefits.

Beyond the executive actions, the administration said it will convene an interagency task force to develop regulatory and legislative proposals to help struggling borrowers with both federal and private student loans.

Mitchell said that possible changes to bankruptcy law are among the proposals the administration will explore. Current law makes student loans more difficult to discharge than most other types of consumer debt.

The administration’s efforts to improve the experience of federal student loan borrowers comes as it has received criticism from a coalition of Congressional Democrats, consumer groups, unions and student advocates.

Those critics, many of whom supported the switch from bank-based to direct federal student lending in 2010, have said they’re concerned that the Department of Education isn’t administering the federal direct lending program -- which relies on a web of dozens of private contractors -- in a way that helps borrowers.

Responding to that pressure, the Education Department said that it would terminate its contracts with five debt collection agencies it said had provided misleading information to borrowers.

James Kvaal, deputy director of the White House’s Domestic Policy Council, said that the administration’s announcement of new actions “demonstrates another reason why student loan reform was a good idea.”

The overhaul, he told reporters, put the administration “in a position where we are able to continually improve our management of the program to better serve borrowers as a result.” ■

» https://www.insidehighered.com/news/2015/03/10/obama-administration-will-create-student-loan-complaint-system-centralized-payments

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SENIOR (CITIZEN) STUDENT DEBT RISING

By Michael Stratford

Older Americans are increasingly burdened by federal student loans -- and they struggle to repay the debt at much higher rates than their younger counterparts, a new government report finds.

WASHINGTON -- The number of Americans who are nearing or past retirement age and still have student loan debt has ballooned in recent years, as has the amount of money the government is seizing from their Social Security checks to recoup defaulted federal loans, Congressional researchers have found.

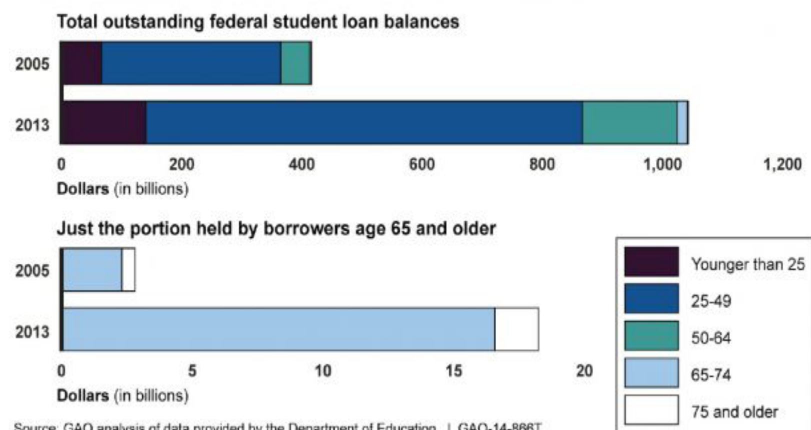
More than 700,000 households headed by Americans 65 or older now carry student debt, according to a **report** released in September 2014 by the U.S. Government Accountability Office. And the amount of debt owed by borrowers 65 and older jumped from $2.8 billion in 2005 to $18.2 billion in 2013.

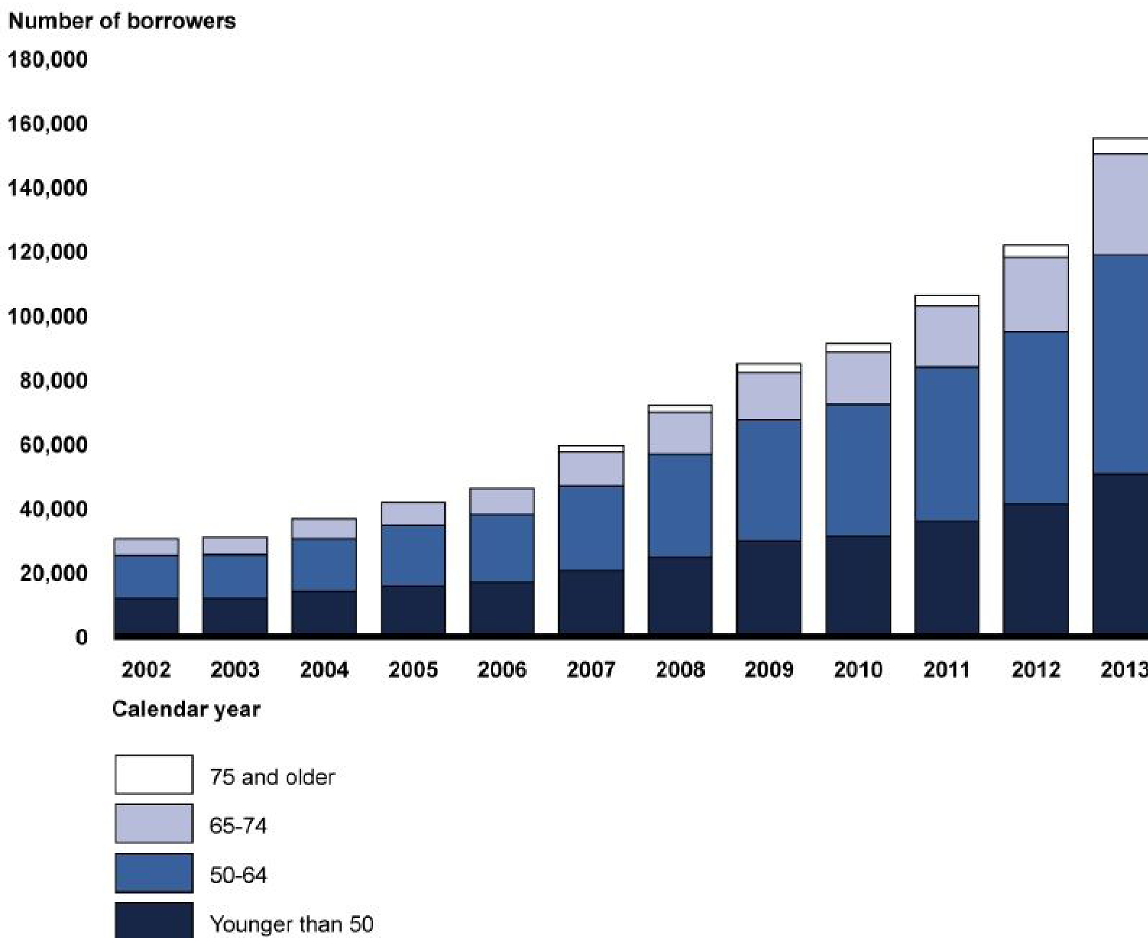
While older Americans' outstanding student loan debt accounts for a small slice of the more than $1 trillion in outstanding federal debt, they are becoming indebted and struggling to repay their loans at much higher rates than their younger counterparts.

Between 2004 and 2010, for instance, the number of households headed by individuals 65 to 74 with student loan debt more than quadrupled, going from 1 percent to 4 percent of all such families. During that same period, the rate of borrowing among Americans under 44 years old increased between 40 and 80 percent, even though borrowing among that age group is far more prevalent than it is among senior citizens.

The default rates among older Americans are much higher, too. More than one-quarter of federal student loans held by individuals 65 to 74 years old are in default, compared with only 12 percent of loans held by borrowers 25 to 49 years old, the GAO found. Among the oldest borrowers, those over 75 years old, the default rate is even higher, with more than 50 percent of those loans in default.

While some of the debt reflects loans taken out by parents on behalf of their children, the vast majority -- roughly 70 to 80 percent of the outstanding debt -- is attributable to the borrowers' own education. Parent PLUS loans accounted for only about





27 percent of the student debt held by borrowers 50 to 64 years old, and an even smaller share for borrowers over 65.

The problems facing older student loan borrowers was the subject of a September 2014 hearing before the Senate Special Committee on Aging, at which several lawmakers said the issue has been under the radar but needs to be addressed.

Senator Bill Nelson, the Florida Democrat who chairs the panel, said that the issue was an "unusual subject" but one that needs more attention.

"While many may think of student loan debt for just a young person, increasingly that's not the case," he said.

It's unclear whether the student loan debt that is increasingly burdening older Americans is most attributable to decades-old loans from traditionally aged students that were never repaid or more recent borrowing, to finance adult education, for instance. The Education Department was unable to provide GAO researchers with the borrower-level detail needed to make such a distinction, the

agency said.

The number of borrowers, especially older borrowers, whose Social Security benefits are seized by the government because they have defaulted on their student loans is also increasing.

Between 2012 and 2013, Social Security garnishments for defaulted student loan debt increased five-fold across all ages.

During that same period, the number of borrowers 65 and older who saw their monthly social security checks reduced jumped roughly 500 percent, from 6,000 to 36,000 borrowers.

The GAO report also notes that while Congress in 1998 capped the amount of a person's monthly Social Security benefit that may be reduced to recover defaulted student loan debt, that threshold has not kept pace with inflation. As a result, the report says, older student loan borrowers can now be left with Social Security payments that are as little as $750 each month, which is below the federal poverty line.

Senator Susan Collins of Maine, the top Republican on the Senate Aging Committee, said at Wednesday's hearing that she would soon introduce legislation to adjust that cap for inflation over the past 15 years and index it to inflation going forward.

Critics of the federal government's power to garnish the Social Security benefits point out that most Social Security recipients who are still trying to pay off student loans are likely in such financial stress to begin with that further curbing their fixed income is unduly burdensome.

Sandy Baum, a higher education economist at the Urban Institute, argued in a **blog post** that "the practice does more harm than good."

"Garnishing Social Security payments to collect on student loans really isn't worth it," Baum said.

"It doesn't put much of a dent in the outstanding debt, but it can create serious problems for the individuals affected." ■

» https://www.insidehighered.com/news/2014/09/11/student-debt-increasingly-trails-americans-retirement-us-report-says

VIEWS

A selection of essays and op-eds

THE WRONG POSITION ON FAFSA POSITION

By Ali Lincoln

Colleges have no business using information students provide on the federal aid form about institutions they are interested in to make decisions that will hurt students, writes Ali Lincoln.

College admissions is already a high-stakes, daunting process. There are so many moving parts students have to deal with: essays, letters of recommendation, financial aid, interviews, standardized testing -- not to mention keeping up with high school classes and activities.

Step Six (Student): Indicate which colleges you want to receive your FAFSA information.

Enter the six-digit federal school code and your housing plans. You can find the school codes at **www.fafsa.gov** or by calling 1-800-4-FED-AID. If you cannot get the code, write in the complete name, address, city and state of the college. For state aid, you may wish to list your preferred college first. To find out how to have more colleges receive your FAFSA information, read ***What is the FAFSA?*** on page 10.

101.a 1ST FEDERAL SCHOOL CODE OR NAME OF COLLEGE ADDRESS AND CITY STATE HOUSING PLANS 101.b on campus 1 with parent 2 off campus 3

101.c 2ND FEDERAL SCHOOL CODE OR NAME OF COLLEGE ADDRESS AND CITY STATE 101.d on campus 1 with parent 2 off campus 3

101.e 3RD FEDERAL SCHOOL CODE NAME OF STATE 101.f on campus 1

So the recent news that **some colleges would convolute the process even more by using the "FAFSA position" as a tool** without students' knowledge or consent deeply disappointed and saddened me. The issue is that on the federal financial aid application form, students are asked to list colleges to which they may apply, unaware that some institutions use that information to make admissions or financial aid decisions.

In my previous role as a college counselor for **Bottom Line** (a college access and success program for first-generation, low-income students), I worked with a cohort of high school students from start to finish in their application process.

I was there to answer questions, give responsible advice, help make college accessible, and ease the stress of the process. My students were often worried about making mistakes -- as evidenced by the countless frantic phone calls and emails I would receive -- and now I have to wonder if their biggest mistake was trusting that their applications would be reviewed fairly.

I asked several of the students I worked with what they made of the situation.

For Kimberlee Cruz, a student I counseled in high school and college, having to worry about the FAFSA position would have been a huge concern. "It would have stressed me out, to worry that my fifth choice could have given me terrible aid just because I didn't list them first. What if I didn't get into my first choice? Would that mean I would have no options with good aid?"

Financial aid was the most important part of the application process for Cruz, a junior at Worcester State University, as well as the part that was most confusing. "Regardless of the position, you're interested in the school; otherwise, it wouldn't be on your FAFSA."

Most of the students I have worked with wouldn't think twice about the order they listed colleges on the FAFSA. For some, sure, it was probably in the order of their preference, but for others, maybe the order was alphabetical, geographical, FAFSA code numerical (O.K., probably not that last one, but you get the idea).

And why should they think twice? There's not any indication on FAFSA that the order matters or that it will be shared.

Daniel Figueiredo, another former student, was shocked to find out that some colleges use information in this manner. "I think it's completely unethical. To infer something like preference based on a list, it's sneaky and can really mess up someone's future -- it shouldn't be evaluated."

Figueiredo, a senior at Worcester State, said that he applied to a few reach colleges at the last minute, institutions he wasn't sure he could get into but wanted to try. "I thought, what the heck, I'll do it. Maybe I had a chance, but I put them farther down on my FAFSA list since I added them to my list later than some more attainable schools. I did get waitlisted for two of them, and now I'm wondering if the FAFSA position played a role."

What students should focus on with the FAFSA is having accurate information, having all their colleges added, and meeting all of the priority deadlines. Financial aid can be confusing enough for students and their families, and for many, the weight of their future completely rests on the aid packages that schools offer.

Throwing FAFSA position in the mix is another step for applicants to remember, another potential barrier to access.

And I wonder, would an alphabetical or random order even make a difference, or would schools interpret the list as preferential anyway?

Maybe it's just me, but a college taking its FAFSA position into consideration for admissions and aid decisions seems like a popularity contest.

I know that colleges want to fill their classes, that admissions recruiters have goals to meet, that everyone wants the best and the brightest to want to attend their institution.

But holding a FAFSA position against a student -- especially since many students don't realize that something so arbitrary could greatly affect them -- seems in direct opposition to the ultimate goal of getting students to attend and graduate from college.

If federal officials continue to share FAFSA information, colleges engaging in this practice really need to reconsider their position on student access and success. And students thinking about applying to these institutions might want to reconsider as well.

Ali Lincoln is a project director for TVP Communications, a national public relations agency with expertise in higher education. ■

» https://www.insidehighered.com/views/2014/10/16/esssay-criticizes-some-colleges-how-they-use-one-part-fafsa

STUDENT LOANS: YES, SOMETHING IS WRONG

By Karen Gross

Student loan debt and defaults are real problems -- but let's impose solutions that improve access for low-income students rather than scare them off, Karen Gross argues.

The student loan problem seems clear enough on the surface: students are incurring **oversized** student debt, and they are **defaulting** on that debt and threatening their ability to access future credit. The approaches to student loan debt collection are fraught with problems, including **improper recovery tactics** and informational asymmetry regarding repayment options.

But the current public policy conversations miss key issues that contribute to the debt mess, leading to proffered solutions that also miss their mark.

Start with these key facts about student loans:

The reported student debt loans represent averages, yet the amounts owed can differ dramatically from student to student. That is why solutions like the mandated debt calculator on college websites or the current **College Scorecard** do not resolve the issues; the disclosure of generic information does not impact student choice meaningfully.

Many of the problematic student loans are held by individuals who **left college before graduation**, meaning they have incurred "debt without diploma." This reality distorts default statistics, making their indicia of school quality misleading. The cost of education is not necessarily commensurate with the quality of the education received, meaning some students **pay more and get less**, and we do not have an adequate system for measuring educational quality

> **“ FOR STUDENT LOANS, THE BUBBLE HAS NOT BURST. ”**

other than accreditation, which is a deeply flawed process.

Finally, students and their families are **woefully unaware** of the myriad repayment options, and therefore forgo existing benefits or are taken advantage of by loan servicers. This occurs because we de-link conversations of “front-end” costs of higher education from “back-end” repayment options and opportunities; students and their families are scared off by the front end without knowing that there is meaningful back-end relief.

Given these facts, it becomes clearer why some of the current government reform suggestions are misguided. Two illustrations:

First, evaluating colleges on a rating system based on the **earning levels** of their graduates assumes the overwhelming majority of students graduate and that the employment chosen will be high-paying. But we know that not to be true, and for good reason: some students proudly enter public service or other low-paying but publicly beneficial employment. And, in today’s economy, not all students can find employment directly correlated to their field of study.

We also know that those from high-income families have greater networking opportunities, given family connections. Yes, some schools offer degrees with little or no value, but the solution to student loan indebtedness does not rest on an earnings threshold.

Second, looking at loan default rates as a measure of the success of a college misses that many colleges welcome students from lower income quartiles, and these students have **less collegiate success** -- understandably, although obviously many are working to improve these statistics. The fact that some of these students do not progress to a degree is not a sign of institutional failure any more than student success at elite institutions is a guarantee of those institutions’ quality. One approach to consider is linking default rates with the types of students being served by an institution. But one thing that should not change, to the **dismay of some**: many of the government student loans should not be based on credit worthiness.

Not that many years ago, private lenders dominated both the student lending and home mortgage markets. This created obvious parallels between lending in these two spheres. Lenders overpriced for risk, provided monies to borrowers who were **not credit-worthy**, and had loan products with troubling features like sizable front-end fees, high default interest rates and aggressive debt collection practices.

In both markets, there was an embedded assumption: real estate values would continue to rise and well-paying employment opportunities would be **plentiful** for college graduates.

Then several things happened. The federal government took over the student loan market, cutting out the private lender as the middleman on government loans on both the front and back end. The economy took a nosedive that led to diminished home values and lower employment opportunities. And, when the proverbial bubble burst in the home lending markets, lenders sought to foreclose, only to find that their collateral had

diminished in value.

For student loans, the bubble has not burst and, despite hyperbole to the contrary, it is **unlikely to burst** because the government -- not the private sector -- is the lender. Indeed, this market is intentionally not focused on credit worthiness; if anything, it awards more dollars to those who have weak credit, specifically to enable educational opportunity.

And while Congress can debate the interest rates charged on student loans, the size of Pell Grants and the growing default rates, it is highly improbable that the student loan market will be privatized any time soon.

But, for the record, there are already signs that **private lenders** and venture capitalists have re-entered or are ready to re-enter this market, for better or worse. And if the government's financial aid offerings are or become less beneficial than those in the open market, we will see a resurgence of private lending offered to students and their families. One caution: history tells us that the risks of the **private student loan market** are substantial; all one has to do is look at lending improprieties before and since the government became the lender-in-chief and the non-student loan **predatory lending** that targets our least financially stable borrowers.

There are things that can and should be done to improve the government-run student-lending market to encourage our most vulnerable students to pursue higher education at institutions that will serve them well. Here are five timely and doable suggestions worth considering now:

(1) Lower the interest rates on government-issued subsidized Stafford loans. The government is making **considerable profit** on student loans, and we need to encourage quality, market-sensitive, fiscally wise borrowing, most particularly among vulnerable students. Student loans to our most financially risky students should remain without regard to credit worthiness (the worthiness of the academic institution is point 2). Otherwise, we will be left with educational opportunity available

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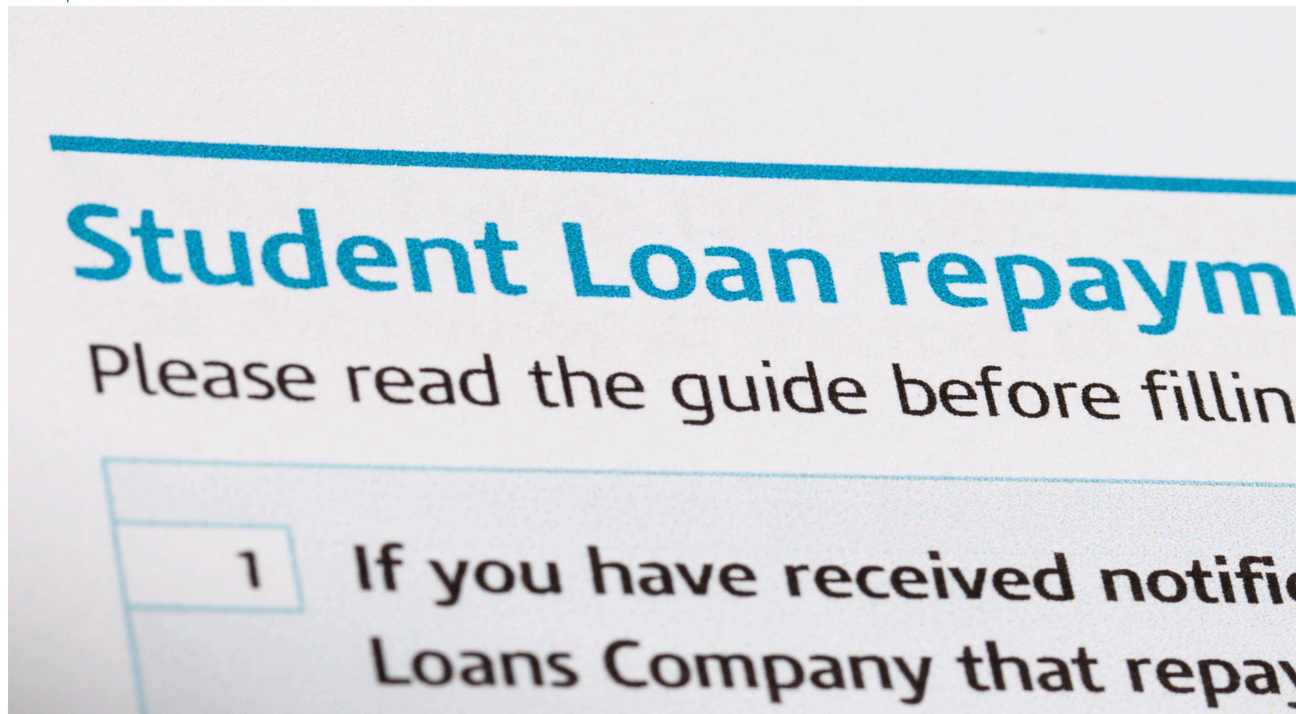

only for the rich.

(2) Improve the accreditation process so that accreditors assess more thoughtfully and fairly the institutions they govern, whether that accreditation is regional or national. Currently, there are vastly too many idiosyncrasies in the process, including favoritism, violation of due process and fair dealing, and questionable competency of some of the accreditors. And the government has not been sufficiently proactive in recognizing accreditors, **despite clear authority** to do so.

(3) Simplify (as was done successfully with the FAFSA) the repayment options. There are **too many options** and too many opportunities for students to err in their selection. We know that income-based repayment is under-utilized, and students become ostriches rather than unraveling and working through the options actually available. Mandated exit interviews are not a "teachable moment" for this information; we need to inform students more smartly. Consideration should be given to information at the time repayment kicks in -- usually six months post-graduation.

(4) Incentivize college and universities to work on post-graduation default rates (and repayment options) by establishing programs where they (the educational institutions) proactively reach out to their graduates to address repayment options, an initiative we will be trying on our own campus.

Improvement in institutional default rates could be structured to enable increased institutional access to federal monies for work-study or SEOG, the greater the improvement, the greater the increase.

The suggestion, then, is contrary to the proffered government approach: **taking away benefits**. The suggestion proffered here uses a carrot, not a stick – offering more aid rather than threatening to take away aid. Importantly, we cannot mandate a meaningful minimum default rate because default rates are clearly correlated to the vulnerability of the student population, and we do not want to disincentivize institutions from serving first-generation, underrepresented minority and low-income students.

(5) Create a new financial product for parents/guardians/family members/friends who want to borrow to assist their children (or those whom they are raising or supporting even if not biological or step children) in progressing through higher education, replacing the current Parent Plus Loan. The current Parent Plus loan product is too expensive (both at initiation and in terms of interest rates) and more recently too keyed to **credit worthiness**.

The individuals who most need this product are those who are more vulnerable. And the definition of "parent" is vastly too narrow given the contours of American families today.

Home ownership and education are both part of the American dream. Both benefit the individuals and larger society. How we foster both is, however, vastly different. We need to stop shouting about the shared crisis and see how we can truly help students and their families access higher education rather than making them run for the proverbial hills.

Karen Gross is former president of Southern Vermont College and a former policy adviser to the U.S. under secretary of education. ■

» https://www.insidehighered.com/views/2014/03/21/we-need-right-solutions-student-debt-problem-essay

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STUDENT LOANS: HOW MUCH DEFAULT?

By Jacob P.K. Gross and Nicholas Hillman

The appropriate level of student loan debt and default for a college's graduates depends heavily on an institution's students and mission, write Jacob Gross and Nicholas Hillman.

hat is an acceptable level of loan default? College and university leaders will be increasingly called to answer this question. That's partly because the law will demand it: the newly embraced three-year cohort default rate measurement could result in penalties for more colleges and universities, and recent Congressional proposals could make institutions where significant numbers of students borrow and default on those loans responsible for paying back a sliding-scale amount of the defaulted debt to the federal government.

But the federal government's current mechanism for holding institutions accountable for default rates has significant shortcomings.

The federal bar for monitoring loan default is necessary, but not sufficient for a number of reasons.

First, the cohort default rate does not account for institutions with high numbers of risky borrowers. To address this, the Institute for College Access & Success has proposed a Student Default Risk Index, which takes into account the proportion of students who borrow at an institution (unlike traditional cohort default rate calculations) in determining an acceptable risk of default.

Second, the threat of federal sanctions may create disincentives for institutions to provide their students with access to federal loans. Recent headlines provide anecdotal evidence that some community colleges prefer to limit access to loans in order to preserve Pell eligibility for students.

Third, federal sanctions do not address private student loan default. According to a report released by the Consumer Financial Protection Bureau, the agency **estimated private student loan debt** to stand at $165 billion at the end of 2011.

Finally, the threshold for sanctions is relatively low and it remains to be seen how many institutions will actually be sanctioned.

For those reasons, we think it is important for those of us in higher education to extend our discourse about default above the bar set by federal policy.

Given these limitations, we recommend institutional leaders approach debates about default from the following three perspectives.

(1) Institutions might approach the question from a mission-focused perspective. If we assume that the core mission of any educational institution is to maximize the educational attainment of its students, then questions about loan default should be tied to understanding how the prospect of borrowing, indebtedness and repayment affect important outcomes like learning, academic achievement, persistence, and completing a credential.

These are important questions for at least two reasons. First, loans are intended to serve as policy tools to help students obtain an education. In light of a public policy shift toward the preference of loans over grants and the continued

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decline of public investment in postsecondary education, it is important to frame the default debate in terms of educational outcomes. Second, a key predictor of repayment hardship and even default is whether or not a student completed their program of study and earned a credential. If we hope to help struggling borrowers repay loans, it seems clear that the best policy solution is to help students graduate.

(2) Institutions should consider the question from a political perspective in terms of public stewardship (more so than politicking). Default has clearly captured media and public attention. From our perspective, this is because debt is part of broader social debates about college affordability, economic opportunity and social mobility.

Perhaps it is no accident that this current debate (it is cyclical) comes on the heels of the greatest period of economic turmoil and insecurity since the Great Depression. Following on the heels of the Great Recession, debt has increased because more people went back to school and because income has fallen. Politicians and policy makers are seeking to assuage the concerns of constituents through a number of proposals.

The Wisconsin state legislature proposed the "Higher Education, Lower Debt" bill that would have created a new state agency to refinance student loans. **Oregon's "Pay It Forward" pilot program** would use a graduate tax rather than loans to finance college, while Senator Marco Rubio (R-Fla.) **proposed a plan** that would have investors pay students' tuition in exchange for a share of their future earnings.

In debating potential changes to financial aid policies, institutions should consider the relevance of public perception and the reaction of elected or appointed policy makers. It may be tempting to cynically evaluate proposals from ill-informed politicians whose solutions are loosely (if at all) coupled to the problem of student loan debt. However, it is important to take seriously the underlying concerns that drive the current rhetoric.

In crafting an institutional plan, acknowledge these concerns as much as possible among the various constituents (e.g., students, parents, politicians, news media). Ultimately, political and policy questions are about the perceptions of the community

that the institution calls home. It is vital that higher education leaders engage these perceptions.

(3) Institutions should consider engaging in philosophical reflection. Embedded in the question, "What is a reasonable amount of default (and by extension debt)?" are beliefs about who should pay for the benefits and burdens of education. If we believe education only benefits the individual, then asking students to foot the bill themselves via loans makes sense.

Conversely, if we believe education benefits the public primarily, grants would be the finance mechanism of choice. Over the past 20 years, federal education policy has moved toward viewing education primarily as a private good.

However, higher education in this country is extraordinarily diverse in terms of institutional mission and type. Institutions adopt varied approaches to student financial aid, in part because of different philosophies, missions, and resources. For example, Berea College has its Labor Program in which students contribute to the cost of their education by working, while Amherst College has a no-loan policy for its students and Johnson C. Smith University had 100 percent of its 2011 graduating class borrow to pay for school.

Institutions must be sensitive to their histories, needs and capacity when considering the question of student indebtedness.

From the central administration office of a college to the day-to-day operations of financial aid offices, institutions are on the front line when answering the question, "What is an acceptable level of student loan default?" They are the last source of financial aid for students and it is their aid officers who do the bulk of consultation on borrowing and repaying loans.

Without clear and careful answers to this question, the current discourse around student loan debt and repayment crisis will leave little room for thoughtful solutions. At a minimum, answering this question should account for the academic, political, and philosophical contexts outlined here. But answers should also be clear about the nature of the problem given the institutional context and the profile of students they serve.

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» https://www.insidehighered.com/views/2014/03/21/how-much-student-loan-debt-and-default-appropriate-essay

3 WAYS TO BOOST COLLEGE ACCESS

By Justin Draeger

Amid "big" ideas to reimagine Pell Grants and other federal student aid programs, let's not forget some "easy" changes that could have a big impact, Justin Draeger writes.

Today the Senate is holding a hearing on student aid and college access with a focus on simplification, in advance of the upcoming reauthorization of the Higher Education Act. Focusing on streamlining federal student aid and making the various programs more flexible is a well-

reasoned approach in a fiscal environment where increases in federal funding for the programs appear unlikely. Here are three recommendations policy makers can apply immediately to simplify programs and increase college access:

1. Better align financial aid applications with college admissions by using prior-prior year.

Each year a student is enrolled in postsecondary education, he or she must submit a FAFSA to be considered for federal student aid (grants, loans, work-study). Under the current structure, the FAFSA becomes available Jan. 1 and requires tax information from the prior year (PY). However, most students and families haven't even filed their taxes by then, making it difficult to complete the form in totality. This delay can cause an unfavorable chain reaction: a delay in submitting the FAFSA due to lack of tax information can result in a delayed financial aid award letter, which in some cases could lead to a reduced amount of financial aid, at least when it comes to aid that is awarded on a first-come, first-served basis.

The use of prior-prior year (PPY) income on the FAFSA would have multiple benefits for students and families. These benefits include the ability to: file the FAFSA earlier, often at the time they are applying to college; make better use of the current IRS data retrieval tool, which allows automatic population of a student's tax return data; receive notification of a financial aid package earlier; and streamline the college-going process by applying for financial aid the same time they are applying for admissions.

This would be welcome news for students who need financial aid the most -- who also happen to be the most likely to miss current financial aid deadlines and overestimate college costs, **according to a study** by researchers at the University of Illinois at Chicago and an Illinois financial aid official.

The best part? The U.S. secretary of education was already given the authority to implement PPY over five years ago, so Congressional action is not needed to implement this idea.

While there are some concerns about using PPY as a proxy for current financial strength, it is important to remember that prior year information is also a proxy. The National Association of Student Financial Aid Administrators recently released **a study on the impact of using PPY data** and found that for most of the lowest-income students, using PPY versus PY did not greatly impact the amount of Pell that a student received.

2. Implement an early Pell notification, or "Pell Promise."

Low-income students often decide at an early age that college is too costly and therefore just "not for them." Enrollment data underscore this pattern, with 52 percent of low-income high school graduates enrolling in postsecondary education compared to 82 percent of high-income graduates, according to the National Center for Education Statistics. Even for low-income students who do go on to college, many are self-selecting out of competitive or elite schools that would have been less expensive than where they ultimately attend. (This issue of "undermatching" has recently attracted significant attention from President Obama, as well as the first lady.)

One recent study of a sample of high school valedictorians found that only 50 percent of those from low-income backgrounds even applied to a selective university, compared to roughly 80 percent of the valedictorians from upper-middle and high-income families. Unfortunately, when a student decides early on that higher education is not an option, it impacts their high school coursework choices and college enrollment behaviors.

A "Pell Promise" -- a commitment of funds from the federal government as early as the ninth grade -- would make low-income students aware of their Pell grant eligibility in much the same way that the Social Security Administration disseminates information to citizens about the amount of social security they can expect in retirement.

While not technically a promised income, Social Security statements allow individuals to plan for an eventual retirement. A Pell promise would assure low-income students that a specific amount of funds would be available to them upon successful completion of high school and incentivize early college-going behaviors and patterns.

Early studies from similar state-based programs, such as the 21st Century Scholars Program in Indiana, have shown that when students and parents know there are funds available to them for higher education, there are noticeable increases in college preparatory coursework and college going rates.

Identifying low-income students early would not be difficult given IRS data and other federal and state means-tested benefit programs. This change would also be easy to implement since the Higher Education Opportunity Act (HEOA) already authorized a similar demonstration program, although funds were never appropriated to fulfill the program.

3. Provide flexibility in the Pell Grant program through a "Pell Well" of funds.

The current system of Pell Grant delivery is based on the traditional spring/fall calendar and the traditional student. A student may wish to move through their program at an accelerated pace by taking courses each summer, yet under the current Pell Grant rules, that student would run out of Pell eligibility and be forced into loans to cover academic costs or defer additional enrollment until the next year.

This structure is outdated and confusing to families, particularly as nontraditional students and innovative programs with nonstandard academic calendars proliferate.

To increase flexibility and encourage students to complete at a quicker pace, lawmakers could implement a Pell Well system, whereby a student's lifetime Pell Grant eligibility would be calculated when the student initially applies for aid. The student would then be able to draw funds from their well of Pell Grant at their own pace, not to exceed a certain amount per payment period.

This is different than how Pell eligibility is currently calculated, which is based on telling students annually how much they qualify for in Pell funds and then trying to explain future Pell eligibility as a percentage of full time enrollment. Students and parents understand dollars, not percentages, and they increasingly require predictability and flexibility. Such a change would both simplify and streamline the program, and incentivize continuous enrollment and higher retention and graduation rates.

As Congress considers various proposals through HEA hearings, and as grant makers and college access advocates continue to think of ways to reimagine student aid, we should remember that manageable and realistic changes like these could have a huge impact on college access and success.

Justin Draeger is president and CEO of the National Association of Student Financial Aid Administrators. ■

» https://www.insidehighered.com/views/2013/11/14/how-increase-college-access-3-easy-steps-essay

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