EFC | Education Finance Council™

Helping Families Plan & Pay for College℠

September 21, 2023

The Honorable Bernie Sanders
Chair
Committee on Health, Education, Labor, & Pensions
428 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Bill Cassidy
Ranking Member
Committee on Health, Education, Labor, & Pensions
428 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Virginia Foxx
Chair
Committee on Education and the Workforce
2176 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Bobby Scott
Ranking Member
Committee on Education and the Workforce
2101 Rayburn House Office Building
Washington, D.C. 20515

Dear Chair Sanders, Chair Foxx, Ranking Member Cassidy, and Ranking Member Scott:

On behalf of Education Finance Council (EFC), I write to congratulate you on introducing legislation to reauthorize the *Higher Education Act of 1965* (HEA) and offer comments on the necessity of passing postsecondary education reform in the 118th Congress.

EFC is the national trade association representing nonprofit and state-based higher education finance organizations. EFC members work to increase postsecondary education access, affordability, and success by providing a wide range of resources and services to students and families. Every year our members support millions of individuals as they seek to grow their skillset and improve their lives.[1]

Congress last reauthorized the HEA in 2008. Since then, our nation suffered through a deep economic recession and a once-in-a-century pandemic. Collectively, borrowers now owe over $1 trillion more in federal student loan debt than they did 15 years ago. Advances in technology, communication, and workplace innovation over the last 15 years have left the current federal student aid system ill-suited to meet the needs of today's students.

Absent congressional action on the HEA, the executive branch under multiple administrations has used its authority to adapt to the changing times. It created income-driven repayment plans, reversed policies of prior administrations, and issued waivers and executive orders creating new procedures. Instead of simplifying processes for borrowers, some of the regulatory changes added complexity, produced uncertainty, and made it difficult for students, institutions of higher education, and partner organizations to navigate the postsecondary education system.

The *College for All Act*, *Federal Assistance to Initiate Repayment* (FAIR) *Act*, *Lowering Education Costs and Debt Act*, and *Lowering Obstacles to Achievement Now* (LOAN) *Act*, all recognize the federal student loan status quo is unsustainable. EFC commends your offices for advancing the HEA reform conversation by introducing these and other related bills. The stakes are too high to let another year pass without a comprehensive HEA reauthorization. By acting together and with a sense of urgency, you can design a more efficient, cost-effective, equitable, and sustainable federal student aid system for existing and future college students.

We look forward to working with you to advance a bipartisan, bicameral HEA reform bill, and we offer the following ideas for your consideration:

[1] https://www.efc.org/page/national_report

Concepts Supported by EFC

Leverage the Expertise of State-Based and Nonprofit Higher Education Financing Organizations

Guided by a public purpose mission, state-based and nonprofit higher education financing organizations have participated in the federal student aid system for over four decades. They administer federal college access program grants, help millions of families complete the Free Application for Federal Student Aid, and service federal student loans. Additionally, they administer college savings accounts and state grant aid programs, provide financial literacy education, offer free college planning services, and give scholarships to students with need. Many nonprofits also disburse affordable low-cost in-school or refinancing student loans that follow guiding principles encouraging responsible borrowing.[2] As state-based and nonprofit organizations, their interests are inherently aligned with the best interest of the families they serve. Given their long track record of providing exemplary service to both federal student aid recipients and the Department of Education, EFC recommends Congress leverage the experience of nonprofit entities by amending the Preferred Lender List rules to make it easier for these organizations to supplement financial literacy resources on college campuses and offer students wraparound supports. Congress should also define state-based and nonprofit organizations as qualifying entities for purposes of federal student loan servicers' small business set-aside requirements, which will ensure borrowers receive support from professionals with decades of federal student loan experience.

Improve Transparency of Student Outcomes

EFC recommends Congress codify the College Scorecard and make more program-level student outcome data available to the public to encourage a more functional marketplace. For years, students have overwhelmingly told pollsters that they pursue postsecondary education to improve their job prospects.[3] Until recently, the federal government failed to empower families with information showing how students fare at specific programs at an institution. Giving consumers relevant program-level data points such as federal student loan debt levels, time to degree completion, and estimated monthly debt payments can help individuals make the right enrollment decision for their circumstances.

Clarify Federal Terms Used in Financial Aid Notifications

Congress should reform college financial aid notifications by requiring institutions to use standard definitions for and representations of federal student aid programs. College is among the most expensive credit purchases a person will make in life, which is why it is important for policymakers to make the net price of college more understandable for families. The inconsistencies between financial aid notifications make comparisons impossible and obscures real costs. Reducing or removing these inconsistencies will help prospective students accurately compare their options and understand their future obligations.

Strengthen Counseling Requirements

Congress should require federal student loan recipients to undergo annual, interactive counseling that provides them with important information like accumulated debt levels, anticipated monthly payments under standard and income-driven repayment (IDR) plans, and projected monthly earnings based on programs of study. A recent survey found that 51 percent of borrowers in school in the fall of 2022 claimed to either not know or not remember receiving loan counseling.[4] The HEA ensures borrowers receive entrance and exit counseling, but the current approach does not adequately prepare students to make fully informed financial decisions.[5] At their best, preventative interventions like counseling can stop borrowers from accumulating excessive debt levels and diminish the chances of facing difficulties during repayment.

[2] https://www.efc.org/page/guiding_principles
[3] https://www.newamerica.org/education-policy/edcentral/collegedecisions/#:~:text=According%20to%20an%20online%20survey,percent)%3B%202)%20To%20make
[4] https://www.trelliscompany.org/wp-content/uploads/2023/05/SFWS-Aggregate-Report_FALL-2022.pdf
[5] https://cdn.ymaws.com/www.efc.org/resource/resmgr/research_briefs/brief_efc_knowledgegap_final.pdf

Incorporate High-Quality Career Pathways Into Federal Student Aid

EFC recommends Congress create a short-term Pell Grant program, promote stackable credentials, and bolster student support services. Increasingly, available jobs require additional education beyond high school but not necessarily a bachelor's degree. Workforce-focused Pell Grants can close skills gaps, reduce the cost of education, increase academic freedom, and help millions of Americans afford the path to a high-quality career of their choice.

Subsidize Education With Grants to Students With Demonstrated Need Instead of Loans

EFC recommends Congress invest savings from changes to the federal loan and forgiveness programs into the Pell Grant program, the cornerstone of federal student aid. More generous assistance to students on the front end can reduce their need to borrow in the first place and make enrolling in college a less risky proposition. Giving students the peace of mind that stems from knowing a college education is financially possible will increase college access and encourage these students to continue their pursuit of learning. The Government Accountability Office released an analysis in 2022 showing that outstanding federal student loans will cost the government nearly $200 billion, in large part due to the increasing generosity of available IDR plans.[6] In essence, the Direct Loan program functions more like a deferred grant program than a loan program. Current federal policy does not help those with the greatest need to borrow less. In fact, it burdens them with the decades long federal student loan debt, which for some borrowers leads to mental health issues and the delay of life milestones like family formation, home purchases, and business creation. Instead of perpetuating a system that subsidizes students on the backend, Congress must recalibrate the federal student loan program and invest those savings in the Pell Grant program to benefit students with demonstrated need and reduce reliance on the federal loan program.

Recalibrate Parent PLUS Loan Credit Criteria and Provide Families Alternative College Financing Options

The federal government's PLUS program has saddled too many parent borrowers with high levels of debt they may not be able to repay. Compared to other federal student loan programs, the PLUS program carries a much higher origination fee and an inflated interest rate.[7] Congress should consider instituting stricter PLUS credit criteria for parent borrowers while still allowing dependent children whose parents fail the new standard to borrow up to independent student loan limits. As mentioned previously, EFC recommends Congress subsidize students with more grant aid in lieu of untargeted loan subsidies. Neither students nor their parents should have to take on more debt than they can afford, which is why EFC calls on Congress to reinvest any savings from loan program reforms into increasing the maximum Pell Grant.

Additionally, EFC encourages Congress to require institutions to differentiate Parent PLUS loans from all other student aid when informing families of how they can pay for the cost of attendance. Parent PLUS loans fundamentally differ from student aid in many ways; they have different recipients, different terms and conditions, and different credit requirements. As such, colleges and universities should make it clear to families in aid notifications that Parent PLUS loans are the responsibility of the parent, require credit approval, and are optional to cover unmet need. Congress can improve college affordability by allowing institutions to inform families of state-based and nonprofit private loan programs that offer terms as or more generous than the PLUS program.

Allow Schools to Proactively Prevent Overborrowing

Congress should allow institutions to set lower loan limits for students enrolled in certain programs. Current law prohibits colleges and universities from limiting how much federal education debt their students can borrow. At the same time, the federal government holds institutions accountable when significant numbers of borrowers enter default after withdrawing or graduating from school. Both students and institutions would benefit from a realignment of policy goals.

[6] https://www.gao.gov/assets/730/722043.pdf
[7] https://tcf.org/content/report/parent-plus-borrowers-the-hidden-casualties-of-the-student-debt-crisis/

<u>Simplify the Student Loan Repayment System</u>

Congress should simplify and reduce the number of student loan repayment plans to one standard and one IDR plan that features terms and conditions agreed upon by Congress. The current repayment process is far too complex for even the most well-informed student. There are over eight repayment plans and more than 30 deferment and forbearance options available to federal student loan borrowers. A single statutory IDR plan will decrease confusion and make it easier for borrowers to understand their choices and successfully repay their debts.

<u>Treat Borrowers With Commercially-Held Federal Family Education Loans Equitably</u>

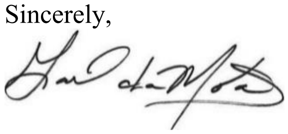
The Federal Family Education Loan (FFEL) Program made its last disbursement in 2010. Today, there are over three million borrowers with $90 billion in commercially-held student loan debt.[8] Unfortunately, these borrowers are often overlooked when Congress provides relief to their Direct Loan peers. Should Congress create a new forgiveness benefit, EFC firmly believes Congress must offer these FFEL Program borrowers the same benefits it provides Direct Loan borrowers without requiring FFEL Program borrowers to take additional actions such as consolidating into the Direct Loan program. In doing so, Congress must also faithfully uphold its commitment to participants that made the FFEL Program possible and ensure they are made whole.

Conclusion

Once again, EFC applauds you for introducing legislation that promotes college access and affordability. The American people deserve a federal student aid system that carefully balances the needs of students and taxpayers, and Congress cannot let another year pass without addressing the untenable status quo.

We look forward to working with you and the other members of your respective committees to revitalize federal postsecondary education policy. Thank you for your attention to this critical issue.

Sincerely,



Gail daMota
President
Education Finance Council

[8] https://studentaid.gov/data-center/student/portfolio