Student Debt In New York State

A Compendium of Work by the Rockefeller Institute of Government

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Nearly 43 million college student borrowers across the United States owe more than $1.56 trillion in outstanding federal student loans.[1] The number of student borrowers in the country has increased by 1.3 million, or 3.1 percent, over the past five years, while the amount of outstanding student debt in the country has increased by a whopping $ 353.9 billion or 29.2 percent, more than nine times the rate of the increase in borrowers.[2]

With more than 300 public and private colleges and universities in New York State[3] that enroll nearly 1.3 million students,[4] measuring, monitoring, and addressing the burdens associated with financing a college education in New York have become critical policy issues. With the third highest college enrollment of any state in the nation (6.4 percent of the US total[5]), New York is also an important bellwether of national policy.

This report compiles, updates, and significantly builds upon much of the work done by the Rockefeller Institute of Government on student loan debt. These analyses and commentaries are a supplement to additional work done by the Institute on the related issue of college access and affordability, notably *For Many, Is College Out of Reach?*[6] and *Reducing the Cost of College* (August 2018), an analysis prepared by the Institute for the New York State Higher Education Services Corporation.

Student Debt in New York State at a Glance

POLICY BRIEF

BLOGS

POLICY FORUM

Student Debt in New York State at a Glance

2.4M
TOTAL STUDENT LOAN BORROWERS

$90.3B
TOTAL STUDENT LOAN DEBT OUTSTANDING

$1B+
TOTAL NEED-BASED COLLEGE AID AWARDED BY NEW YORK STATE

58%
STUDENT LOAN BORROWERS AGE 34 OR YOUNGER

$37,600
AVERAGE STUDENT LOAN BALANCE

$19,000
MEDIAN STUDENT LOAN BALANCE

SUNY / CUNY AVERAGE STUDENT LOAN DEBT AT GRADUATION		SUNY / CUNY GRADUATES WITHOUT FEDERAL STUDENT LOAN DEBT
	SUNY	
	Overall	47.5%
$27,000	Baccalaureate	37.0%
$13,400	Associate	59.0%
	CUNY	
	Overall	79.2%
$16,300	Baccalaureate	74.4%
$10,800	Associate	86.1%

The State of Student Debt in New York State

This policy brief examines various aspects of student debt in New York State, offering a detailed picture of college loan debt incurred by graduates of the state and New York City university systems (SUNY and CUNY). It expands upon and updates earlier work appearing in "A Deeper Look at Student Loan Debt in New York State" published in November 2018.[7]

Nearly 43 million college student borrowers across the United States owe more than $1.56 trillion in outstanding federal student loans.[8] The number of student borrowers in the country has increased by 1.3 million, or 3.1 percent, over the past five years, while the amount of outstanding student debt in the country has increased by a whopping $353.9 billion or 29.2 percent, more than nine times the rate of the increase in borrowers.[9]

With more than 300 public and private colleges and universities in New York State[10] that enroll nearly 1.3 million students,[11] measuring, monitoring, and addressing the burdens associated with financing a college education in New York have become critical policy issues. With the third highest college enrollment of any state in the nation (6.4 percent of the US total[12]), New York also is an important bellwether of national policy.

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Introduction

New York State is among the national leaders in awarding need-based financial assistance to college students. Ranked #2 nationally on need-based assistance programs, behind only California, New York currently offers more than one billion dollars in need-based financial aid for college through such programs as the Excelsior Scholarship Program, the Tuition Assistance Program, and Education Opportunity Programs.[13] Also, New York's college investment program for parents and students, the NYSaves 529 Plan, is a top-performer: it is one of only two state plans in the nation (along with Ohio) that receives top ratings for both in-state and out-of-state investors for both highest performance and lowest fees.[14]

New York currently offers more than one billion dollars in need-based financial aid for college.

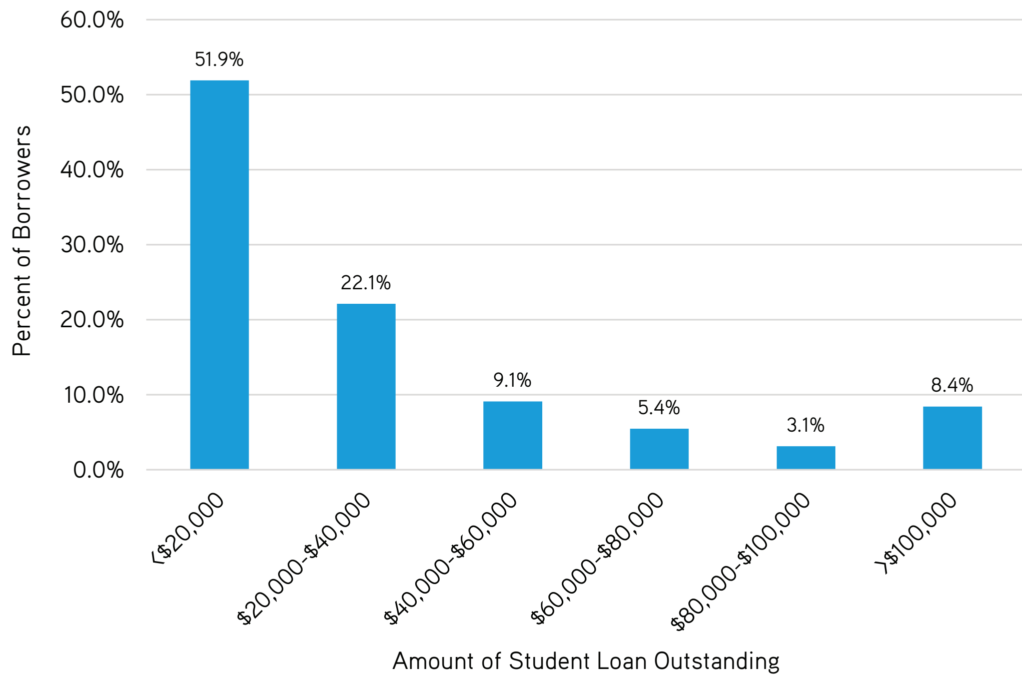
The state's intentional dedication to making college more affordable has made higher education more accessible for tens of thousands of students from lower- and middle-income New York families. (For more on college accessibility and affordability initiatives, see a previous analysis by the Rockefeller Institute, *For Many, Is College Out of Reach?*.[15]) It also has allowed a significant proportion of individuals to graduate college without the impending burden of repaying student loans: 41 percent graduate from college free from student loan debt.[16]

Still, that means 59 percent of students graduate New York colleges and universities with debt.[17] For these individuals, a more complete understanding of the growing and looming burden of student loan debt can help inform appropriate and more effective policy responses.

A Picture of Student Debt in New York State

- **Magnitude of the Issue.** As of September 2020, New York had nearly 2.4 million federal student loan borrowers, with a total outstanding loan balance of $90.3 billion. This translates to an average student loan balance of more than $37,600 per borrower, 9.1 percent higher than the national average per borrower of approximately $34,500.[18] The total amount of outstanding student debt in New York has risen 10.0 percent over the past five years, from $82.0 billion in 2015, while the number of borrowers has decreased by 14.3 percent from 2.8 million.[19] The result is that the average balance owed per borrower has risen dramatically, by 27.1 percent from its 2015 level of about $29,600.[20] It is important to understand, however, that the average amount owed—the mathematical mean—is inflated by a small percentage of borrowers with very high debt balances; as seen immediately below, the median balance is less than $20,000.
- **Size of Debt Load.** Indeed, more than half of all borrowers (51.9 percent) have less than $20,000 in total outstanding debt (see Figure 1).

FIGURE 1. **Distribution of New York State Borrowers by Outstanding Loan Balance**



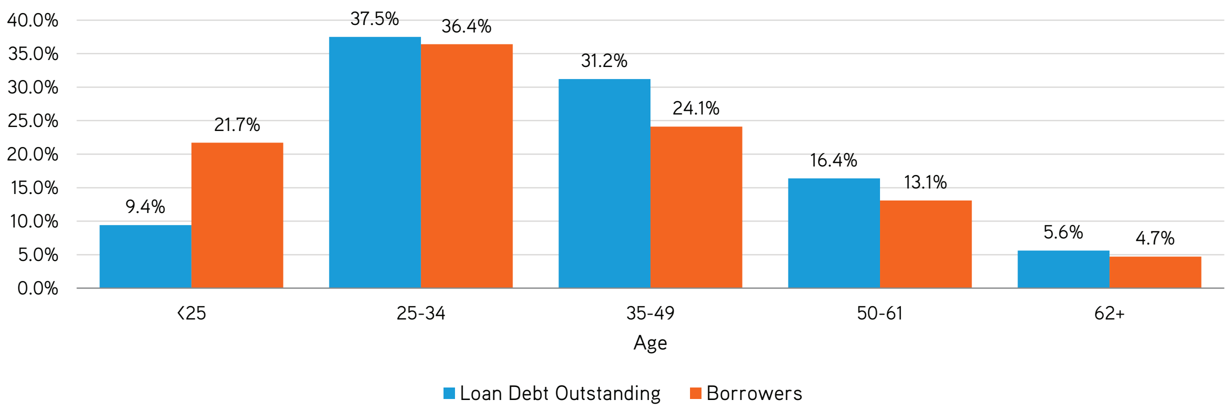
SOURCE: "Federal Student Loan Portfolio, US Department of Education, Office of Federal Student Aid, https://studentaid.gov/data-center/student/portfolio. Portfolio by Borrower Location and Debt Size. Data as of September 30, 2020.

The 8.4 percent of borrowers with more than $100,000 in outstanding debt disproportionately sways the mean upward. These high-debt borrowers typically are students taking out loans for graduate school and often for high-paying professions, such as medicine and law. For example, nationally, the average debt for medical school graduates upon graduation is more than $196,000; for dental school graduates it's more than $285,000; and for pharmacy school graduates it's more than $166,000.[21] And while 43 percent of student loan debt is held by graduate students, they represent only 15 percent of total college enrollment. Indeed, for undergraduates, loans typically make up one-third of their total financial aid package, while loans make up two-thirds of the total aid used by graduate students.[22] (Additional discussion of this topic appears in the outline of the presentation for the Albany Law School Anderson Breakfast Forum later in this compendium).

- **Age Distribution.** Fifty-eight percent of federal student loan borrowers in New York are age 34 or younger and they hold 47 percent of the outstanding debt. Meanwhile, a little more than one-third of student debt holders (37 percent) are between the ages of 35 and 61, and this group holds nearly half (48 percent) of the outstanding student debt.[23] (see Figure 2).

  This does not mean, however, that college students who take on debt are often repaying these loans into their 60s. Rather, there has been a sociological and economic shift recently, with approximately one-fourth of all federal lending distributed as PLUS loans that parents take out for their children.[24]

FIGURE 2. **Age Distribution of the Burden: New York State Student Loan Borrowers by Age and Debt Outstanding**



SOURCE: "Federal Student Loan Portfolio, US Department of Education, Office of Federal Student Aid, https://studentaid.gov/data-center/student/portfolio. Portfolio by Borrower Location and Age. Data as of September 2020.

- **Student Loans as a Share of Total Debt.** Data from the Federal Reserve Bank of New York show that student loan debt is making up a greater proportion of total consumer debt in New York State than at any point in the past 10 years. In 2010, student loans comprised 8.8 percent of consumer debt (the combined total of auto loans, mortgages and home equity lines of credit, and credit card debt). By the end of 2020, the student debt share had risen to 15.6 percent.[25]

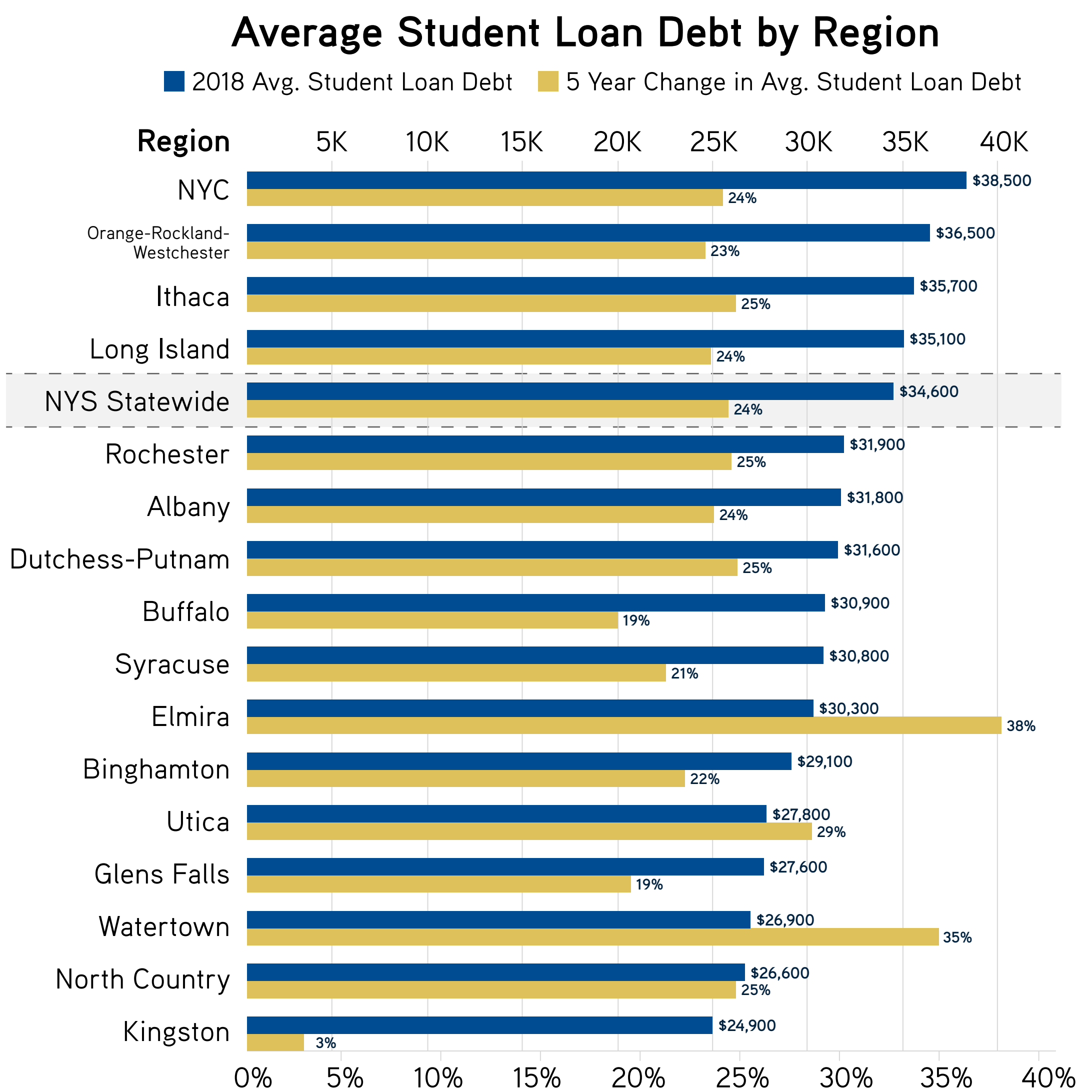
- **Per Capita.** On per capita basis, total outstanding student debt in New York has grown by 47.1 percent over the past 10 years (end of 2010 to end of 2020), increasing from $4,200 to $6,180.[26] Measured in this manner, the rate of growth has significantly slowed in recent years: in the five-year period from 2010 to 2015, total student debt per capita increased by 26.9 percent, while from 2015 to 2020 it increased by 15.6 percent.[27] Indeed, from 2019 to 2020, the per capita student debt level in New York actually *decreased* by 0.3 percent.

  While a per capita measure is impacted by population trends, too—more people annually leaving New York on a net basis will increase the figure—it offers yet another helpful perspective of the burden of student debt when examining statewide trends.

- **Regional Debt Burden.** The burden of average student debt in New York varies by region, too, with downstate borrowers reporting higher average outstanding balances than borrowers in almost every upstate region.[28] (see Figure 3).

  While most regions have seen a five-year increase in debt burden between 20 and 25 percent, borrowers in the Elmira and Watertown regions, where below-average debt totals are posted, are rapidly catching up with five-year increases well above 30 percent. Borrowers in the Kingston region posts both the lowest debt totals and the lowest five-year increase.

FIGURE 3. **Average Student Debt by Region**



NOTE: Data sources for regional information differ from other statewide and federal comparative data and is from an earlier year. Regional debt figures here should be used for comparison to each other only.

2. New York Student Debt in a National Context

- **National Rank.** As noted above, 59 percent of students in New York graduate with debt. This ranks the state a modest 17th nationally.[29] While the percent of students incurring loan debt by the time they graduate has remained fairly constant over the past five years in New York, the average amount borrowed has increased substantially—by 18 percent—even more than the five-year average increase in the total cost of college attendance of 14 percent.[30] Five years ago, New York ranked 25th in the country in the average amount of debt per borrower,[31] but since then the state has climbed to the 15th highest nationally.[32]

TABLE 1. **Percent of Students Graduating with Debt and Average Debt Amount**
Northeastern States—Class of 2019

State	% of Students Graduating with Debt	US Rank	Average Amount for Those Graduating with Debt	US Rank
New Hampshire	74%	1	$39,410	1
Pennsylvania	65%	6	$39,027	2
Connecticut	56%	27	$38,546	3
Rhode Island	59%	18	$37,614	4
Maine	67%	3	$33,591	6
New Jersey	64%	7	$33,566	7
Massachusetts	55%	30	$33,256	8
NEW YORK	59%	22	$31,155	16

SOURCE: Student Debt and the Class of 2019, Institute for College Access & Success, September 2020, https://ticas.org/wp-content/uploads/2020/10/classof2019.pdf.

- **Neighboring States.** New York compares favorably to its neighbors in the northeastern US when examining average student debt per borrower. Using data for the graduating class of 2019, the Institute for College Access and Success finds that New Hampshire, Pennsylvania, and Connecticut have the highest average debt student burden in the nation, with Rhode Island, Maine, New Jersey, and Massachusetts also all topping New York.[33] (see Table 1).
- **Size of Debt Load.** New York's pattern of having more than half of all borrowers carrying less than $20,000 in total student loan debt (see Figure 1) closely tracks the national pattern. More than one-half (54.2 percent) of all student loan borrowers in the US have a current balance of less than $20,000. In contrast, less than one in ten (9.9 percent) hold at least $80,000 in debt (see Figure 4).
- **Per Capita.** Relative to the national average, New York's student debt burden on a per capita basis has decreased slightly over the past five years. While still 10 percent higher than the national per capita average for student loan debt at the end of 2020, this level is the culmination of a slow but steady decrease from 25 percent higher than the national average 10 years ago and 14 percent higher five years ago.[34]

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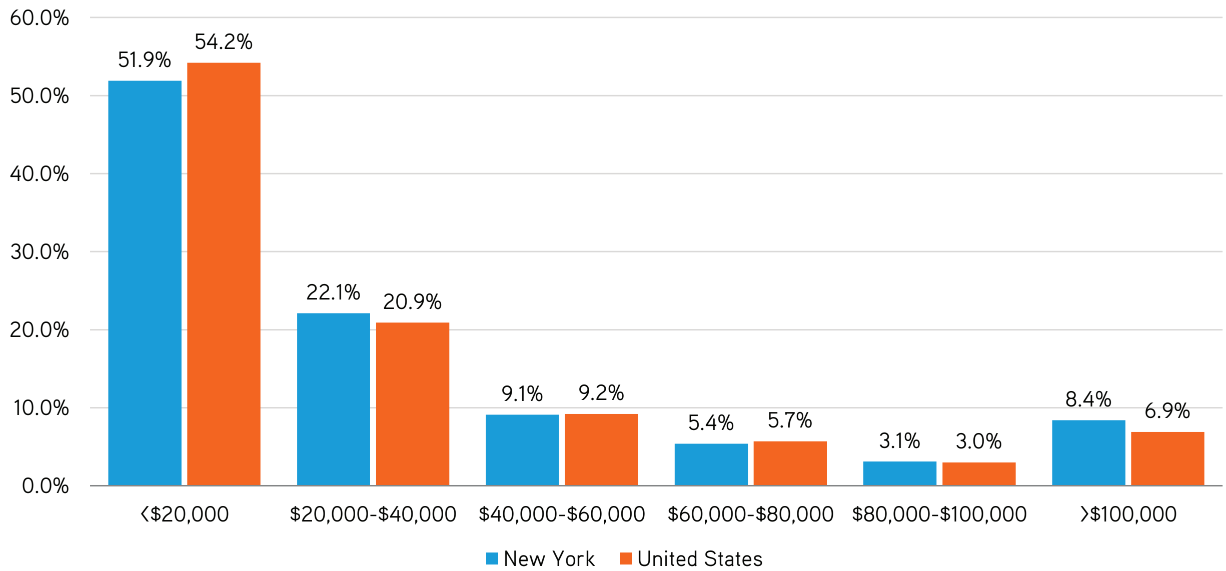
FIGURE 4. **New York and United States Student Debt by Size of Loan Burden, 2020**



SOURCE: "Federal Student Loan Portfolio, US Department of Education, Office of Federal Student Aid, https://studentaid.gov/data-center/student/portfolio. Portfolio by Borrower Location and Debt Size. Data as of September 30, 2020.

3. Student Debt at SUNY and CUNY

The State University of New York (SUNY) serves nearly 400,000 undergraduate students each year, and spanning 64 campuses is the largest comprehensive system of public universities, colleges, and community colleges in the nation.[35] The City University of New York (CUNY) is a system of 11 senior colleges, seven community colleges, and seven graduate, honors, and professional schools in and around the New York City metro area.

- In 2019, similar to each of the past several years, nearly half—47.5 percent—of all SUNY undergraduate students, both two-year and four-year degree recipients combined, graduated with no college loan debt. Put another way, only slightly more than half—52.5 percent—of all graduating SUNY students leave college with student loan debt.[36]
- For baccalaureate degree graduates alone, less than two-thirds (63 percent) graduate from SUNY with loan debt.[37] For those SUNY students who do graduate with debt, they have a loan burden of just less than $27,000 on average.
- A much lower 41 percent of associate's degree graduates from SUNY leave college with student loan debt, and they have an average debt load of less than half of bachelor's degree recipients, or about $13,400.[38]
- Approximately 20.8 percent of individuals graduating from CUNY do so with student loan debt; meaning nearly eight in ten students graduate from CUNY without any debt from college loans. This is less than half the proportion of students that graduate from SUNY schools with college loan debt.[39]

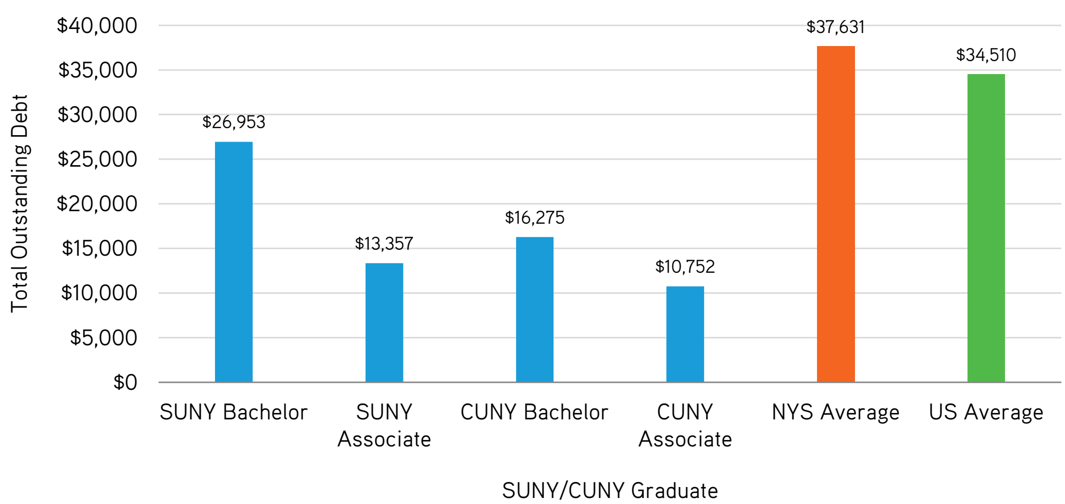
TABLE 2. **Student Debt of SUNY and CUNY Graduates**

All SUNY Colleges and Universities and All CUNY Campuses, 2019

	% Graduating with Student Debt	Average Student Debt Load at Graduation
SUNY—Baccalaureate	63%	$26,953
SUNY—Associate's	41%	$13,357
SUNY Total	**52%**	**$21,880**
CUNY—Baccalaureate	26%	$16,275
CUNY—Associate's	14%	$10,752
CUNY Total	**21%**	**$14,756**

SOURCE: SUNY Office of Institutional Research & Data Analytics and CUNY Office of Institutional Research, September 2020.

FIGURE 5. **Average Student Loan Debt, SUNY and CUNY vs. New York State and United States Average**



NOTE: NYS Average and US Average include all student borrowers (including graduate students).

SOURCE: SUNY & CUNY Offices of Institutional Research & Data Analytics, September 2020, and "**Federal Student Loan Portfolio,** US Department of Education, Office of Federal Student Aid, https://studentaid.gov/data-center/student/portfolio. Portfolio by Borrower Location and Debt Size. Data as of September 30, 2020.

- At CUNY, 25.6 percent of baccalaureate degree graduates leave with student loan debt, averaging approximately $16,300 per borrower; 13.9 percent of associate's degree graduates have loan debt, averaging less than $10,800 per borrower.
- For those students graduating from CUNY in 2019-20 with college loans, the average debt load is $14,756 overall. This average debt load has actually decreased by 4.6 percent from five years prior (in contrast to SUNY's average per borrower debt load, which increased 6.4 percent over the past five years).[40]

In 2019-20 alone, more than $475 million in subsidized, unsubsidized, and other federal student loans were disbursed to SUNY graduates, combining both baccalaureate and associate's degree recipients (see Table 3).

TABLE 3. **Federal Loans Disbursed to SUNY Undergraduates, 2019-20**

All SUNY Colleges and Universities

	Number of Student Loans	% Graduates with Loans	Total Amount Disbursed	Average Loan Amount
Associate's Degree Graduates	8,105	41%	$108.3M	$13,357
Baccalaureate Degree Graduates	13,618	63%	$367.0M	$26,953
Total	**21,723**	**52%**	**$475.3M**	**$21,880**

SOURCE: SUNY Office of Institutional Research & Data Analytics, September 2020.

4. College Affordability

That nearly half of SUNY graduates and almost 80 percent of CUNY graduates graduating loan debt-free does not happen by accident. New York has been a leader in keeping the overall cost of college low and providing substantial financial assistance to students, policies that have not just increased access to college for tens of thousands of students but have helped graduates of the state's public colleges and universities avoid unmanageable levels of student debt as they enter the workforce.

SUNY's base annual tuition is approximately $1,000 lower than tuition at any surrounding state university system, and nontuition costs are lower than any other state in the region.[41] New York also ranks in the top-ten states nationally for having the lowest tuition at its four-year public universities with average annual tuition and mandatory fees more than 20 percent lower than the national average.[42] And with the adoption in 2011 of the SUNY and CUNY Rational Tuition program, unpredictable and burdensome spikes in tuition have been replaced with modest and known annual increases. Since the fall of 2017, tuition increases have been capped at a maximum of $200 per year.

These cost-controlling initiatives make going to college at New York's public colleges and universities one of the easiest ways for students to avoid the need to take on the burden of student loans. And it does not stop there. New York ranks second-highest of all states in terms of total grant aid awarded to its college students.[43]

New York's most significant aid programs include the following:

- **Excelsior Scholarship.** Started in 2017, the Excelsior Scholarship program offers free tuition to any full-time resident undergraduate student from a family with an annual income of $125,000 or less who attends a college in the SUNY or CUNY system.[44] For the average four-year SUNY student, the Excelsior Scholarship reduces the overall cost of college by approximately $27,000, equivalent to the average amount of student loan debt for those graduating with debt.

- **Tuition Assistance Program (TAP).** New York State awards nearly $900 million annually in grant aid to working-class students through the TAP program.[45] About 256,000 students who meet the program's basic eligibility criteria currently receive some level of TAP award—including 99,500 recipients at SUNY schools, 81,300 at CUNY schools, and 53,100 at independent colleges—and the average annual award is more than $3,300 per student, with a maximum of $5,165.[46]

- **Opportunity Programs.**[47] The burden of student debt on at-risk and lower-income students can be particularly onerous, and for many simply the prospect of incurring student debt could cause them to decide to avoid college altogether. New York State is actively addressing these concerns, providing an array of programs and tens of millions of dollars in annual financial assistance through the state's Higher Education Opportunity Program; CUNY's College Discovery program; Search for Education, Elevation, and Knowledge program; and CUNY's Accelerated Study in Associate Program. (For further discussion of these college access and financial assistance programs, see the Rockefeller Institute's report *For Many Is College Out of Reach?*.[48])

New York offers several other grant, scholarship, and award programs that help college students avoid the need to incur debt. These include several designed for part-time students (Part-time TAP, Aid for Part-time Study, Part-time Scholarship Award), general grant and scholarship programs (NYS Scholarships for Academic Excellence, Enhanced Tuition Awards, Veterans Tuition Awards), and grants for specialized study (NYS Child Welfare Worker Incentive Scholarship Program, NYS STEM Incentive Program).[49]

5. Student Loan Defaults

When examined, relative to making the scheduled loan repayments on time and in full, student borrowers in New York seem to be handling the pressures of their debt burdens relatively well.

- The overall student loan delinquency rate in New York is 8.5 percent, compared to the average delinquency rates of all other states of 14.0 percent. The delinquency rate of New York's student borrowers also has gotten better, decreasing from 9.2 percent five years ago.[50] Still, the default rate fare exceeds that for mortgages (1.9 percent) and automobile loans (4.9 percent), and approximates the default rate for credit card payments (9.0 percent).

- According to the New York State Higher Education Services Corporation, the state has experienced at least a 10 percent annual decrease over the past five years in the amount of guaranteed student loan balances outstanding.[51]

6. New York Student Loan Forgiveness and Debt Relief Programs and Participation

For students who graduate from college with debt, New York State has enacted numerous loan forgiveness and debt relief programs to assist them.

Of particular significance is the Get on Your Feet Loan Forgiveness Program, the only statewide program to pay off the full student loan balance for eligible students,[52] and one of the few state-level student debt-relief programs in the nation.[53] Under this program, the state will pay 24 monthly installments of a qualifying student's federal loan after graduation if the individual is employed in New York State, has a gross adjusted income of under $50,000, and is participating in one of the available federal income-based student loan repayment plans.[54] This remarkable program offers substantial direct debt relief to qualifying lower-income students, most of them newly entering the job market after graduation when such assistance can be particularly impactful.

Some student debt relief programs also are designed to provide an incentive to encourage recent college graduates to enter careers in public service, agriculture, social work, and selected other fields. Student debt-relief programs in New York State are summarized in Table 4.[55]

The New York State Higher Education Services Corporation (HESC) also assists student borrowers avoid default through its Default Aversion Assistance Request (DAAR) programs. Lenders ask HESC to help resolve problems when borrowers are having difficulties making their student loan payments, and in 2019-20 HESC received and resolved 105,000 DAARs involving more than $1.3 billion in loan amounts. HESC also manages a Rehabilitation Loan Program, which allows previously defaulted borrowers who have made nine consecutive on-time in-full payments to have their loans removed from default. In 2019-20, HESC rehabilitated more than $103 million in loans for more than 3,400 borrowers.[56]

Finally, the New York State Department of Financial Services champions a Step Up for Students initiative that established a Student Loan Borrower Bill of Rights to help ensure that student borrowers receive the appropriate loan repayment servicing, and provides access to a number of resources for financing one's college education and repaying student loans.[57]

TABLE 4. **New York's Student Loan Forgiveness Programs of the Higher Education Services Corporation, 2019-20**

NYS Student Loan Forgiveness Program	Description	Number of Participants	Total $ Forgiven	Average $ Forgiven
District Attorney Loan Forgiveness Program	Provides loan forgiveness for graduates working in district attorney offices around the state. Awards are six payments of $3,400 each or the total actual eligible student loan balance amount when graduates first apply, whichever is less.	775	$2,600,000	$3,355
Get on Your Feet Loan Forgiveness Program	Provides two years of federal student loan debt relief. To be eligible, New York student debtors must be participating in an income-based federal debt-relief program that caps payments at 10 percent of a borrower's discretionary income.	1,098	$1,000,000	$911
Licensed Social Worker Loan Forgiveness Program	Provides loan forgiveness for licensed social workers. Awards are either four payments of $6,500 each or the total actual eligible student loan amount, whichever is less.	66	$413,000	$6,258
Regents Physician Loan Forgiveness Program	Provides loan forgiveness for physicians practicing in shortage areas within the state.	119	$1,200,000	$10,084
Nursing Faculty Loan Forgiveness Program	Provides loan forgiveness for nurses. Awards are either five payments of $8,000 or the total actual eligible student loan amount, whichever is less.	176	$1,355,000	$7,699
Teacher Loan Forgiveness Program	Loan forgiveness for teachers serving in high-needs districts or in subjects areas for which a critical shortage exists.	50	$235,000	$4,700
Young Farmers Loan Forgiveness Program	Provides loan forgiveness for graduates from select colleges in the state who agree to operate a farm in New York, full-time, for at least five years.	8	$78,000	$9,750
Child Welfare Worker Loan Forgiveness Program	Provides loan forgiveness for graduates who are employed in New York State child welfare agencies. Recipients are eligible for up to $10,000 per year for up to five years.	5	$50,000	$10,000
	Total:	**2,297**	**$6,931,000**	**$3,017**

SOURCE: Higher Education Services Corporation, *2019-20 Annual Report*.

Avoiding Student Loans: Investing in Prepaid Tuition Plans

The following analysis examines prepaid college tuition programs offered in various states. It first appeared as a blog post on the Rockefeller Institute's website December 20, 2018, and has been updated here to incorporate more recent data and information.[58]

More and more parents are borrowing more and more money to cover the cost of their children going to college. A November 2018 report by the Brookings Institution found:[59]

- the average size of parents' Direct PLUS student loans,[60] which allows parents of dependent children to borrow money to cover up to the full cost of college for their children (minus any financial aid received), has tripled in the last 25 years;
- parents who accumulated six-figure loan debt totals on behalf of their children make up a record-high share of borrowers;
- default rates on parent PLUS loans, while still fairly low overall, have increased by half in the last 10-year period measured.

The day before the Brookings report's release, US Department of Education Secretary at that time, Betsy DeVos, said that rising student loan debt is creating a "crisis in higher education."[61] Secretary DeVos noted that 70 percent of the recent increase in student loan borrowing was attributable to a higher dollar value of loans taken out, compared to 30 percent of the increase due to expanded number of loans.

To help parents and students avoid student loan debt, many states offer programs through which families can prepay college expenses at current tuition rates, so when it comes time for students to enroll in college, the financial burden will be less and the need to take out any student loan could even disappear entirely. For families who have the desire and ability to plan ahead and invest now, prepaying college tuition could be one of the smarter financial moves to make.

Following only California, New York ranks second in the nation for need-based aid awarded to students, establishing itself a clear leader in making college affordable and accessible (see also the Rockefeller Institute's piece "The State of Student Loan Debt in New York" earlier in this compendium).[62] The state's Excelsior Scholarship program, begun in 2017 and phased in over three years, allows resident students from families with annual incomes less than $125,000 to attend any State University of New York or City University of New York school tuition-free. A prepaid tuition program for SUNY and CUNY schools, an option not currently available in New York State, would be an avenue for students and their families not eligible for an Excelsior Scholarship to also avoid the prospect of incurring loan debt. In addition to increasing access to schools in the SUNY and CUNY systems overall, such a program could entice many students—people who surveys show are increasingly questioning the value of paying the increasing costs of a higher education—to consider enrolling in a SUNY or CUNY school.[63] Prepaid tuition programs of other states offer examples and models for programs and legislation that could be enacted in the Empire State.

Prepaid Tuition Plans

All 50 states and the District of Columbia offer some form of a 529 Plan education savings and investment program. 529 Plans, officially called "qualified tuition plans" and nicknamed for the section of the IRS Code that established them, offer tax-advantaged investments designed to encourage families to save for the future education costs of their children. Investments in 529 Plan education savings plans grow tax-free, and funds can be withdrawn tax-free for qualifying higher education expenses, including tuition and fees, room and board (or even off-campus housing), required textbooks, student laptop computers, and more. These plans are sponsored by states, state agencies, or state educational institutions, and several states have tapped the potential of these plans to innovate with prepaid tuition programs.

Eleven states currently use their 529 Plan structure (or something similar) to offer a prepaid college tuition plan. These initiatives, most of which offer the opportunity for parents to lock-in tuition costs at state schools at their current rates, are summarized below.

University of Alaska College Savings Plan[64]: Among Alaska's 529 Plan options is the University of Alaska Portfolio, which offers a "Tuition-Value Guarantee" that allows investors to purchase college credits now for future use with the guarantee that the cost of credits at any school in the University of Alaska (UA) system will be covered whenever redeemed regardless of future tuition increases. Essentially, families can lock in a proportionate percentage of UA tuition at its current level.

Florida Prepaid College Plan[65]: Florida's Prepaid College Plan is the largest in the nation and one of the oldest, operating for more than 30 years. More than one million Florida families have participated in the program, helping them "save and lock in the future cost of attending Florida's public institutions."[66] Families have the ability to set up a monthly payment plan that guarantees full coverage of tuition and most fees at any of the state colleges and universities. At current rates, $177 per month starting from when a child is born is guaranteed to cover tuition and fees for 120 credits, the typical amount for a bachelor's degree, at any of the state's 162 premiere four-year state universities.[67] Similarly, $53 per month is guaranteed to cover the tuition and fee charges for enough credit hours to earn an associate's degree at a community college. Multiple variations of plans are available, such as two years at a community college and two years at a university, and an option to prepay for four years of dormitory fees are also available for less than $50 per month additional.

College Illinois![68]: Illinois's recently reopened prepaid tuition program offers a variety of options to purchase up to nine semesters of college at current prices for future use. Families can choose from plans that cover tuition at community colleges, state universities, or a combination of the two. The program has a one-year residency requirement that can be fulfilled by either the purchaser or the beneficiary. This is a reboot of Illinois's original attempt at a prepaid tuition plan; the first program was closed in 2017-18 as political leaders considered how to address unfunded liabilities, and may be facing financial and political difficulties again.[69]

Maryland Prepaid College Trust[70]: Families have the option of prepurchasing anywhere from one semester to four years at a state university, one or two years at a state community college, or two years at a community college plus another two years at a state university. Payment plans can be structured as equal annual payments, monthly payments over a five-year period, a one-time lump-sum deposit, or other options.

Massachusetts: The U.Plan Prepaid Tuition Program[71]: Run by the Massachusetts Education Finance Authority, this program allows students to purchase tuition certificates, with the value of the investment locking-in the proportion of tuition it would buy today for any future year. Thus, if tuition at a state university is $10,000 today, buying a $5,000 tuition certificate is guaranteed to cover 50 percent of tuition no matter how much tuition increases in the future.

Michigan Education Trust (MET)[72]: MET-participating families can purchase tuition credits by the semester, the year, or the credit hour at current tuition rates and use them at any time over the next 15 years. Tuition credits are transferrable, portable, and refundable, and can be used at any point within 15 years of expected high school graduation.

Mississippi Prepaid Affordable College Tuition Program (MPACT)[73]: Families can purchase credit hours at current tuition rates for use by students at later dates. For 2020-21, the costs are approximately $278 per credit hour for semester-based state universities and about $106 per credit hour for the state's community and junior colleges. Credits purchased are transferrable and portable.

Nevada Prepaid Tuition Program[74]: Families have the option of purchasing one, two, or four years at a state university, two years at a state community college, or two years at a community college plus another two years at a state university. Payment plans can be structured as equal monthly payments over a five-year period or a one-time lump-sum deposit. Students have six years after high school graduation to use their benefits, and the tuition benefits are transferable to any qualified higher education institution in the country.

Pennsylvania 529 Guaranteed Savings Plan (GSP)[75]: The GSP program allows families to purchase "GSP credits" at various rates, each tied to the current tuition charged for different types of colleges and universities (state community colleges, state and state-related colleges and universities, private colleges, in-state tuition or nonresident tuition, etc.). The credits purchased at current rates can be used in the future no matter the tuition increase that has occurred. For most four-year colleges, 96 GSP credits cover four years of tuition and 60 GSP credits cover the tuition cost for an associate's degree. GSP accounts also can be used to pay for tuition up to $10,000 at elementary and secondary public, private, or religious schools.

Texas Tuition Promise Fund[76]: This fund lets families and individuals prepay for all or some future tuition and fees at any two- or four-year Texas public college or university. Texans may purchase "tuition units," which represents fixed amount of undergraduate resident tuition. The number of units needed varies depending on the school, but generally 100 units represents 30 semester hours, currently considered to be one academic year. Purchases may be made in lump-sum blocks of 25 or more tuition units, or monthly or annual payment plans over five or 10 years. Assets in a Tuition Promise Fund are not considered when determining eligibility for state-funded financial aid and beneficiaries using Tuition Promise Fund credits are treated as state residents for the portion of tuition covered regardless of whether they live in-state or out-of-state.

Washington Guaranteed Education Tuition (GET)[77]: Under Washington's plan, the cost of one year of resident undergraduate tuition and fees at the state's most expensive public university is set at 100 "units," and families may purchase as many units as they want. Each unit retains the value of 1/100th of the price of tuition at Washington's most expensive public university no matter how much tuition increases in the future (projected annual increases in tuition range from 2.2 percent to 5.5 percent). Benefits are portable, with the monetary value of each unit able to be applied to almost any other in-state or out-of-state college or university in the country. If the student receives a scholarship that covers tuition, the GET benefits can be used to cover the costs for room and board or other expenses. Benefits can be used up to 10 years after the selected benefit use year (usually the school year after high school graduation) and typically are transferrable to other family members. From the program's inception in 1998 to the spring of 2020, approximately 55,000 students used this prepaid tuition program.

Four of these state-run tuition prepayment programs—Florida, Massachusetts, Mississippi, and Washington—are statutorily backed by the full faith and credit of the state, and thus the state is legally obligated to make good on the prepaid tuition arrangement. The Texas Tuition Promise Fund, that state's newest prepaid tuition plan, is guaranteed by the state's public colleges. And the program in Maryland is backed with a "legislative guarantee," but while this serves as a public statement of support and commitment to the program, it is not necessarily a firm guarantee because it does not bind the legislature to maintain sufficient or continue funding of the program.

In May 2019, Virginia became the latest state to close a previously offered prepaid tuition program, joining a dozen or so other states—including Alabama, Colorado, Illinois, Kentucky, New Mexico, Ohio, South Carolina, Tennessee, Texas, West Virginia, Wisconsin, and Wyoming—that shuttered an original initiative for a variety of reasons.[78]

Prepaid Tuition Plans for Private Colleges

Nearly 300 private colleges and universities offer prepaid tuition plans where students can lock in tuition at current rates and protect themselves from any future tuition hikes the colleges may institute. The Private College 529 Plan, the only 529 Plan not run by a state government, offers families the ability to avoid all future tuition increases for their child by paying that tuition now and buying "tuition certificates."[79] All contributions made to the program on behalf of a student between July 1 and June 30 locks in the tuition rate at all participating schools of that year, with amounts contributed by families calculated as a percentage of each participating school's tuition.

Given the typically much-higher tuition at private higher education institutions than public colleges and universities, substantial costs—and thus potential substantial student debt—can be avoided by participating in this program.

For example, say tuition at the fictional private Herbert University is $35,000. The Smith family has a 10-year-old son, and they buy a tuition certificate from the Private College 529 Plan for $17,500. The plan locks-in the value of that tuition certificate at 50 percent of Herbert University's tuition. Over the next nine years, tuition at Herbert University goes up by an average of 5 percent per year and is now nearly $54,300. The Smiths' 19-year-old child now applies to Herbert University and is admitted, and the Smiths redeem their certificate, which is valued at 50 percent of tuition or $27,150, and they pay the balance. The Smiths just avoided incurring student debt of nearly $10,000 for this first year of college alone.

Schools participating in the Private College 529 Plan are contractually obligated to honor the tuition certificates, and certificates are redeemable at any of the participating schools or school that choose to participate in the program in the future. And while participating in the program and purchasing tuition certificates does not guarantee admission to any school (it does not affect the admission process at all, in fact), students who choose to attend a nonparticipating school can have the certificate funds rolled into a standard 529 Plan college savings account (see above) and are free to withdraw funds to cover costs at any eligible college or university they choose.

A Prepaid Tuition Plan for New York?

Parents and students looking to avoid crushing levels of student debt are turning more and more toward prepaid tuition plans. In New York, a state-sponsored prepaid tuition plan for its public colleges and universities could expand access to SUNY and CUNY for tens of thousands of students while creating a new pathway around student debt.

Nearly a dozen states are offering innovative variations on prepaid tuition plans, and those with a track record of substantial activity offer a sense of program design and features that are particularly appealing to parents and students. The importance of structuring these programs with some form of guarantee, whether state- or institution-backed, also is evident when examining the history and evolution of these plans in other states.

While a prepaid tuition plan for New York's public colleges and universities has not yet been advanced, at least one bill was introduced in the State Senate in 2020 that would freeze tuition for four years at all SUNY and CUNY schools and refund to students any tuition paid over $5,000 in the 2019-20 academic year (S.7615-A[80]).

One of the best strategies to deal with the burden of student loan debt is to avoid it in the first place. Creating a prepaid tuition plan in New York for CUNY and SUNY schools built upon the best elements of the plans in other states could help hundreds of thousands of college students do just that.

Are Student Loan Refinancing Options Too Good to Be True? Truth in Advertising and *Caveat Emptor*

The following blog explores issues in student loan refinancing. It was first posted to Rockefeller Institute's website March 17, 2019. The version presented here has been updated to incorporate more recent data and information.[81]

We've all seen the television ads.

> *A woman gets locked inside her car, unable to meet the real estate agent standing right there because student debt is keeping her from buying the house of her dreams.*

> *A bride-to-be gets stuck in the aisle, unable to continue the ceremony because of her student debt load.*

This marketing campaign may come with a bit of hype. In reality, half of current student borrowers took out a total of $17,000 or less in student loans, the national median monthly student loan payment is $222.[82] and among the class of 2019 almost one-third (31 percent) did not take out any student loans.[83] Still, there is no denying that people with student loan debt keenly feel the financial burdens of these loans. A recent survey by *U.S. News & World Report*, for example, found that "97 percent of respondents said student loan debt has affected their ability to meet goals, including increasing disposable income, saving for retirement or a home down payment, and affording marriage or starting a family."[84]

Slick ads, such as the examples above, cater to those student borrowers who are feeling this financial pressure, trying to convince them to refinance their student loans. Borrowers would do well to first understand one thing that student loan refinancing companies have in common: *they intend to make money off of servicing student loans*. These are not benevolent services, but profit-making ventures for these companies and their offers may not always be in the best interest of student loan borrowers.

Managing student loan debt can be difficult, and tools such as loan consolidation and refinancing student loan debt through private finance companies may indeed be helpful in lessening the burden some borrowers feel. But the details of such arrangements are critical elements in determining whether they are financially beneficial to student borrowers.

Getting Lower Interest Rates Typically Requires Good Credit Scores

Many private loan refinancers only target borrowers with existing strong credit histories and high incomes, and the most beneficial interest rates and payment plans offered by private loan refinancers typically are available only to a select few: the most credit-worthy applicants, borrowers willing to bring on a cosigner of stable income, those who have graduated college, others who have earned advanced post-graduate degrees, or graduates with large amounts of outstanding debt, for example. Sometimes the most preferential interest rates are available only if borrowers are willing to take on additional costs, like stretching out the number of years required to repay the loan, taking on higher monthly payments and shortening the length of the loan, or those willing to pay an "origination fee."

Many new graduates have not had sufficient time in the workforce earning and spending independently to accumulate a high credit score and this problem has been exacerbated by federal policy. The federal Credit CARD Act, enacted in 2009, made it significantly harder for people 18 to 21 years old to open a credit card account and thus begin working on their credit history. Since then, more and more recent college graduates are not only first entering the full-time workforce but also just beginning their credit histories.[85]

A recent analysis of private student loan refinancers said of one of the country's largest private student loan refinancers, "[it] prefers to lend to creditworthy borrowers with at least a 650 FICO credit score and consistent income. If you don't meet the criteria, you may not qualify for a loan or low rates."[86] Of the top five refinancing lenders analyzed, minimum qualifying credit scores ranged from 650 to 700—the average FICO score in America across all ages is 695, and 38 percent of people under age 30 have a credit score lower than 621.[87]

Private Loan Refinancing May Increase the Amount Borrowers Owe

Maybe most importantly, student loan borrowers should understand that refinancing arrangements easily may add to, not lessen, the total amount they owe—and that they must pay back.

Consider the following statements found on the website of one company heavily marketing its refinancing services to student loan borrowers:[88]

> "Borrower's overall repayment amount may be higher than the loans they are refinancing even if monthly payments are lower."

And,

> "The borrower's overall interest rate may be higher than the interest rate on the loans they are refinancing even if their monthly payments are lower."

That's right: a refinancing arrangement may lower a borrower's monthly payment, but both the overall amount owed and the interest rate charged may still be higher than under the terms of the original loan!

Other arrangements convert a student loan with a fixed interest rate, and thus stable monthly payments with a fixed repayment period, to a loan now subject to a variable interest rate. One refinancing company's website notes, for example: "The maximum variable rate on the Education Refinance Loan is the greater of 21.00% or Prime Rate plus 9.00%."[89] This is similar to high interest credit cards. Fluctuations in the national economy and the financial markets could drive interest rates up on the outstanding balances of student loans refinanced with variable interest rates, significantly increasing the total cost of these loans to borrowers.

Private Loan Refinancing May Preclude Borrowers from Loan Forgiveness Programs

Using a private refinancing company to repackage their loans may wipe out the eligibility of student borrowers to participate in federal loan forgiveness programs, income-based repayment programs, or other attractive and beneficial options available from public student loan servicers.

The federal government offers a free program for student borrowers to consolidate multiple loans into a single loan with a fixed interest rate, one that is the average of the interest rates of the combined loans. Borrowers won't save any money on interest under this arrangement, but it can make repaying easier by requiring only one monthly payment instead of several. And the ability for eligible borrowers to participate in forgiveness programs and income-based repayment plans is preserved.

New York State Student Loan Borrowers Have Tools at Their Disposal.

In 2012, SUNY launched a free, comprehensive financial literacy education service called Smart Track^{SM} that is targeted to all student borrowers.[90] Courses and information are provided both for high school students exploring college options and evaluating payment options as well as for current college students. The online service is designed "to help SUNY students borrow responsibly. The program encourages students to borrow only what they need, know exactly what they're borrowing, and stay in college."[91]

The New York State Department of Financial Services also has established a Student Lending Resource Center that provides a tremendous amount of valuable information for student borrowers, including general information about financing college education and money management, answers questions about student loan repayment options and forgiveness programs, and a hotline to handle complaints about student lenders.[92] A previous blog and its update included as part of this compilation note other student borrower protections in New York State and initiatives elsewhere that could serve as models for additional action.[93]

Citizens Bank, the financing company running the "stuck in life because of student debt" television commercials offered as an example earlier, has on its website an educational video explaining the difference between loan consolidation and loan refinancing. Also included are important details relevant to its refinancing offerings in various footnotes throughout the website, and useful decisionmaking resources are offered on a page entitled "To Refinance or Not to Refinance Student Loans?"[94] The information is there—if refinancing customers look for it.

Caveat Emptor (Let the Buyer Beware)

Put simply, private student loan refinance companies are doing what they are designed to do: make a profit by convincing people to borrow money from them rather than from someone else, such as the federal government. And it is a fact that there are bad loan-servicing actors out there. For example, Navient, the nation's third-largest student loan company, faced a lawsuit claiming that the company purposefully steered student borrowers toward higher-cost repayment options.[95] In May 2020, Navient settled the lawsuit, agreeing to pay $1.75 million to "fund an independent organization that will educate borrowers who work in public service about the Public Service Loan Forgiveness program," among other penalties.[96]

Yet in the vast majority of cases, all the information student borrowers need to make financially prudent choices is out there. Tools like SUNY's Smart Track and New York State's Student Lending Resource Centers are important truth-in-lending programs and information resources. Student borrowers would be wise to seek out this information, understand it, and fully recognize the financial impact taking on this new form of debt will have.

And read the fine print.

How States Are Protecting Student Loan Borrowers

The following blog explores issues in student loan refinancing. It first appeared as a blog post on the Rockefeller Institute's website December 13, 2018, and has been updated here to incorporate more recent data and information.[97]

A January 2017 lawsuit by the federal Consumer Financial Protection Bureau against Navient, the nation's third-largest student loan company, sparked an audit by the US Department of Education's Student Aid division that reached a disturbing conclusion: the company purposefully steered student borrowers toward higher-cost repayment options, levying an estimated $4 billion in added interest costs on graduates from 2010 to 2015.[98]

Many student loan servicing companies such as Navient offer borrowers an option known as "forbearance," a practice that allows customers facing financial stress the ability to delay payment on their loans for up to three years. The trouble is that interest on the outstanding balance continues to pile up, making the total cost of the loan much more expensive in the long term. Claims made against Navient included that they not only did not make this fact clear to its customers, but that borrowers looking for relief instead were pushed toward higher-cost forbearance plans and steered away from advantageous arrangements such as public service loan forgiveness programs.

Such practices have serious impacts on student borrowers: a study by the federal Government Accountability Office calculated that the typical student carrying $30,000 in debt who uses a three-year forbearance plan adds more than $6,700 in interest to the cost of the loan.[99] To add perspective, this added cost totals nearly one-fourth of the entire average principal balance and more than 13 percent of the average starting salary of a college graduate.

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So what can be done to prevent such predatory lending and student loan repayment practices? The federal Department of Education believes that it has no jurisdiction in this matter or others like it. States, however, are starting to take action.

Several states have enacted laws establishing a student borrower's "bill of rights," attempting to ensure that appropriate and comprehensive consumer protections exist for student borrowers (a previous Rockefeller Institute policy brief noted several states where legislatures had introduced such bills.[100]) These initiatives often institute regulations on the required content, transparency, and distribution of information regarding student loan repayment terms, and some establish a formal state ombudsman office for student loans to help ensure full and clear information is available to all borrowers. Many of these laws also add some teeth to the measure by establishing punitive actions the state can take in instances of violations by lenders. For example:

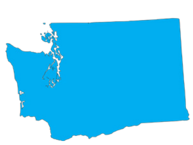
Connecticut: Borrower's Bill of Rights.[101] Connecticut became the first state to pass a borrower's bill of rights in 2015. The bill established a student loan ombudsman in the Connecticut Department of Banking to review, attempt to resolve, and report on student loan complaints. The new ombudsman also was charged with disseminating information to policymakers and the public about problems being realized with student lending and developing a comprehensive "student loan borrower education course." Licensing requirements for student loan servicers were instituted, too, along with a prohibition on misleading or defrauding borrowers.

Illinois: Student Loan Servicing Rights Act.[102] A Student Loan Bill of Rights in Illinois went into effect on December 31, 2018. The law creates a student loan ombudsman in the attorney general's office and requires student loan servicers to obtain a license to operate in the state. Protections for student loan borrowers include that loan servicers are prohibited from making misleading statements and required to properly process payments. Specialists are made available to explain to struggling borrowers all of their repayment options, starting with income-driven plans, and to inform borrowers that they may be eligible to have their loans forgiven due to a disability or a problem with the school they attended.

California: Student Loan Servicing Act.[103] California's Student Loan Servicing Act was first enacted in September 2016 and was overhauled three years later in September 2018. Businesses engaged in servicing student loans in California are subject to licensing requirements and must meet various qualifications. The law also allows applications to be completed through the Nationwide Multistate Licensing System and Registry, providing consistency across all servicers. On September 25, 2020, Gov. Gavin Newsom signed a law to create a new Student Borrower's Ombudsman office and enact a student borrower "bill of rights." Among the policies to be implemented is required customer service training for loan servicer staff and a prohibition on servicers from steering students away from income-based repayment plans and toward higher-cost options such as forbearance.[104]

Michigan: Student Loan Delinquency Counseling Pilot Program.[105] In 2017, Michigan initiated a student loan delinquency counseling one-year pilot program to help borrowers who were delinquent on their federal student loans. The program provided free one-on-one counseling to develop a repayment plan that would return the borrower to good-standing and help with continued successful repayment. In addition, borrowers were provided with financial education to assist in the creation of a budget and to better understand their credit score.

Oklahoma: Private Student Loan Transparency and Improvement Act.[106] This law established regulations on private loan lenders to student borrowers in the state, requiring that prior to issuing a loan the lender must include estimated balances, estimated repayment time, anticipated changing interest rates, and the method for identifying additional charges, among other transparency requirement.



Washington: Student Loan Bill of Rights.[107] Effective June 7, 2018, Washington joined the states recently enacting regulatory and statutory protections for student loan borrowers. The law imposed licensure requirements on student loan servicers and created a state advocate (similar to the ombudsman in other states) to handle student lending complaints, disperse information to stakeholders, and to monitor and analyze student borrowing in the state. The advocate also must establish a comprehensive borrower education course by October 2020.

New York State has not been sitting still on this issue. In his 2018 State of the State Address, Governor Andrew Cuomo proposed a host of protections for student borrowers. Governor Cuomo's proposal included the creation of an ombudsman at the State Department of Financial Services that would be a student borrowers' advocate and "help resolve student complaints, mediate disputes and educate borrowers about student loans," and to provide financial counselling for borrowers in default.[108] The governor delivered: much of this agenda was established by the Department of Financial Services through the Step Up for Students program in its Student Protection Unit.[109]

Also, while 20 states suspend an individual's professional license or driver's license for defaulting on student loan repayments, Governor Cuomo sought to protect student borrowers against such actions and established proactive guidance prohibiting this action in New York.[110]

These accomplishments marked notable progress on the issue, building on less-successful earlier attempts. In 2007, for example, New York enacted the Student Lending, Accountability, Transparency and Enforcement (SLATE) Act, calling for regulations to establish a code of conduct for lending institutions and colleges and universities regarding the marketing of student loans.[111] The State Education Department's Office of Higher Education did not enact the proposed regulations, however, citing a lack of funding accompanying the mandate.[112]

Additional protections for student-borrowers could be enacted. Creating a uniform code of conduct for student debt consultants as well as instituting licensing requirements for student loan servicers, for example, is an area in which New York could take action. Concerns within the lender community about providing consistency in regulations and licensing from state to state is valid, particularly given that many student borrowers move between states, and could be considered by policymakers when establishing these new requirements. An up-to-date, comprehensive registry of student loan servicers also could be established.

In May 2020, Navient settled the lawsuit filed against the company for policies and practices that hurt student borrowers. In addition to ensuring all service calls provide accurate and standardized information to customers inquiring about public service loan forgiveness, the company will pay $1.75 million to an independent organization to educate borrowers about the Public Service Loan Forgiveness Program.[113]

Carrying student loan debt is burden enough. Borrowers should not have to also worry about predatory lending practices and unscrupulous loan repayment policies.

Student Loan Debt Reform in the Virus's Economic Wake

The following blog, which includes a discussion of three innovative ideas for addressing certain aspects of the student debt crisis, was first posted to Rockefeller Institute's website April 8, 2020. The commentary here has been updated to reflect more recent information.[114]

"What the hell has that got to do with the virus?"

So exclaimed South Carolina Senator Lindsey Graham in describing his battle to keep student loan forgiveness out of the $2 trillion economic stimulus package negotiated by Congress in March 2020.[115] With behind-the-scenes pushes from both parties to load the relief package with items unrelated to the COVID-19 outbreak—including stronger emission standards for airplanes, subsidies for PBS and the National Endowment for the Arts, and more—Senator Graham's plea for policymakers to focus on the immediate problems posed by the coronavirus epidemic was a powerful one.[116]

Still, few people—federal lawmakers included—would deny that the economic consequences in store for the country in the wake of the virus are likely to have a particularly devastating impact on individuals and families who were in financial distress before the outbreak. Included among these people are student borrowers who are struggling to manage the burden of their college loan debt.

The final federal stimulus package adopted by Congress did not include the cancellation of any student loans, but it did give each student borrower a six-month interest-free break on making payments on federal loans.[117] The deferment hit a much-needed pause button: those with federal student loans did not need to make a payment until October 2020; interest and penalties did not accrue during the break; and, the federal government ceased all its collection efforts on delinquent loans. Among the first acts in office taken by President Joe Biden in January 2020 was to extend this period of relief for making student loan payments for an additional nine months, though September 2021. But these actions still did not at all change the structure of the student debt crisis in the country.

The economic devastation of the coronavirus epidemic is likely to last for quite some time even after the threat of infection from this novel virus passes. Focusing on how best to relieve the burden of student loan debt can provide borrowers relief they will need more than ever after this six-month hiatus.

Without the pressure to provide immediate economic stimulation and financial relief to all Americans, policymakers now can focus on developing more creative, thoughtful, and equitable solutions for the millions of individuals facing a student debt crisis. Across-the-board cancellation of loans such as that proposed in early drafts of the stimulus bill raise serious concerns. But other options—including using loan cancellations to increase college completion rates; ensuring students are receiving all the federal aid grants to which they are entitled; and, automatically enrolling student borrowers in simplified income-driven repayment programs—hold tremendous promise of debt relief and hope for a much better financial future for current and future student borrowers.

Concerns about Universal Loan Forgiveness

The proposal included in the first draft of the federal stimulus package that earned Senator Graham's ire was the cancellation of up to $10,000 of any borrower's student loan debt. Besides being unrelated to the coronavirus outbreak, analyses have shown that such policies may have regressive and inequitable effects.

For example, an analysis by Brookings scholar Adam Looney of the loan-cancellation proposal offered by Senator Elizabeth Warren (D-MA) in her presidential campaign platform—one of the highest-profile loan-cancellation proposals yet—calculated that the top 40 percent of households by income would reap two-thirds of the benefits, while "the bottom 20 percent of borrowers by income get only 4 percent of the savings."[118] Other inequities that come with most blanket loan-cancellation plans were highlighted when a frustrated voter confronted Senator Warren at a rally in Iowa noting he had saved and sacrificed to pay for his daughter to complete college debt-free and asking if he would get his money back under her proposal.[119] "Of course not," Senator Warren replied. "So, you're going to pay for people who didn't save any money and those of us that did the right thing get screwed," said the father.

Another recent analysis by Brookings finds that student loans "associated with graduate degrees account for 50 percent of the outstanding student debt."[120] That is, half of the nation's current outstanding student debt is held by individuals who earned postgraduate degrees, those who typically are the highest-earning college graduates.[121] Thus, most loan-cancellation proposals could end up disproportionately favoring these higher-income borrowers.

Matthew Chingos, vice president of education data and policy at the Urban Institute, noted that the loan-cancellation policy originally proposed in the stimulus package would provide only minimal economic relief because it strongly favored those making larger monthly payments, which disproportionately are higher-income households.[122] The proposal, Chingos concluded, would free up only minimal monthly income for lower-income individuals because they typically make much smaller payments.

According to a recent *Inside Higher Ed* article, "left-of-center advocates" raised equity issues with proposed loan-cancellation plans, too.[123] While most adults were (and still are) slated to receive $1,200 each in economic stimulus funds under the economic relief package, only those individuals fortunate enough to already have gone to college would have been given an additional $10,000 in the form of debt cancellation.[124] Those who did not have that opportunity would receive only the stimulus check.

Focusing on the Burden

Even the pause offered in the federal relief package will not put money in the pockets of those borrowers most in trouble: those already in default and not making payments. In New York alone, that's about 200,000 student borrowers. Typically, those in default on their student loans are lower-income borrowers often with an incomplete college career; folks who may suffer the most in an economic downturn and would benefit the most from a thoughtful nationwide programmatic restructuring of student debt.[125]

Student loan reforms can provide real and lasting relief more equitably by focusing on the true economic burdens faced by student borrowers. Consider the following:

Use loan cancellation as an incentive to complete college. The primary purpose of student loans is to make completing college more financially achievable. So why not create a loan cancellation program that has a similar purpose?

Student borrowers who do not finish their college degree are three times more likely to default on their loans than those borrowers who graduate,[126] and 42 percent of households with outstanding student debt are headed by someone without a bachelor's degree.[127] Loan cancellation could be used as an incentive to get defaulters and other noncompleters back to and through college. For borrowers currently in default who did not finish college, the federal government could cancel all outstanding debt related to first-year (and even second-year) expenses immediately upon completion of their college degree. Wiping out these proportionately small loan balances in exchange for increasing college completion rates of lower-income individuals seems like a pretty good deal.

Waiving all interest and penalties that were levied on defaulted loans for those who go back and complete their college degrees is a logical additional incentive that would further advance the student loan program's mission of supporting college completion.

Encourage college financial aid offices to act as student partners. The complexities of completing the FAFSA, the Free Application for Federal Student Aid, required from students to receive financial aid, have been well-documented.[128, 129] In 2018, 37 percent of all high school graduates applying to college did not complete and file a FAFSA. Worse yet, an estimated $2.6 billion in federal Pell Grants was left on the table by more than 660,000 graduating high school seniors who were eligible for these grants but simply failed to fill out and submit the required form. Many of these were first-generation and low-income college prospects; each of them miss out on average tuition assistance and correlated debt avoidance of $3,900 annually.[130] (A recent Rockefeller Institute study examined the daunting financial literacy challenges facing student borrowers.[131]) College admissions and financial aid offices should step up and become the full partners with students they are supposed to be in this process, helping ensure all students eligible for nonloan aid receive it.

Public colleges and universities, at a minimum, could offer all entering students whatever assistance they need to complete and file the FAFSA, including sitting with families to walk them through every step of the process. Filing the FAFSA could be required before a college may admit a student, adding an element of responsibility to college financial aid offices that currently is missing. Requiring college admissions and financial aid offices to help complete each student's FAFSA may generate additional and welcome pressure on the US Department of Education to radically simplify the form, filing, and approval process, too.[132]

Then, before students graduate college (or even by the end of each academic year), college financial aid offices could be charged with reviewing each student's eligibility for assistance. If federal Pell Grants were available but not received, student tuition accounts at the school could be instantly credited and financial aid offices would help the eligible student file a claim with the US Department of Education for retroactive application of these grants. Paired with this practice should be cancellation of an equal amount of loan debt, thus reducing any amount owed even before students start paying off their loans. Federal student aid regulations will need to be changed to allow such a plan to be enacted, of course, but getting promised aid to all eligible students does not seem particularly controversial—it's just not being done.

Automatically enroll all student borrowers in a simplified, income-based automatic repayment plan. The US Department of Education currently offers at least four different income-based student loan repayment options. These programs are designed to address the heart of the student debt problem: the financial burden monthly payments put on individuals. Required monthly repayment amounts are tied to a set proportion of a borrower's monthly income—usually 10 or 15 percent of net discretionary income—for a set number of years, essentially capping the financial burden on the individual for the life of the loan. But, as Brookings notes, "even admirers of the income-driven repayment approach say the current approach in the U.S. is too complicated to work well."[133] The application process is rigid and eligibility requirements are confusing, and as a result, fewer than 30 percent of all borrowers enroll in these programs.[134]

Not surprisingly, these burden-focused repayment plans result in fewer borrowers defaulting on their loans: default rates for those in income-driven repayment plans are less than half of those who are. Enrolling in these plans also helps borrowers who are already in trouble. An analysis by the Consumer Financial Protection Bureau found that student loan borrowers who had previously defaulted had their loans rehabilitated and then enrolled in an income-driven repayment program were five times less likely to re-default as their peers who did not enroll in such a plan.[135]

To ease the complexity of enrolling in an income-driven repayment plan, avoid the requirement for annual recertification, and provide flexibility, particularly in times of a borrower's unemployment, all student loan borrowers could be automatically enrolled in a payroll-based repayment plan, with payments automatically deducted from paychecks just as Social Security Insurance and Medicare taxes are. Just such an idea was notably outlined last year in the *New York Times* by Senator Lamar Alexander, chair of the Senate's Education Committee.[136]

Amounts withheld and used to make loan repayments could be calculated as they are now, designed not to exceed 10 percent of discretionary income. Those who earn more would automatically pay more, but every borrower's burden—the percentage of their discretionary income going to pay off their student loans—would be equal no matter how much or how little someone borrowed. If an individual became unemployed, provisions could be made to temporarily suspend repayment obligations until the borrower secured new employment and once again began receiving regular paychecks. Loan-payment obligations were suspended for six months to accommodate the potential economic stress borrowers may potentially be feeling from the economic toll of COVID-19; suspending loan-payment obligations in the certain economic stress situation of unemployment would seem to make similar sense.

The United Kingdom and Australia automatically enroll all student borrowers in income-driven repayment programs, so there are real-world examples of such systems at work. America can become one of them.

While the coronavirus epidemic may not appear to have a hell of a lot to do with the student loan crisis, the forecasted economic devastation sure does. Equitable, burden-focused reforms can be put in place to help ward off nearly certain financial pain for student loan borrowers.

Student Debt Is a National Crisis. Do We Really Need to Know More Than THAT?

February 2020

In February 2020, Brian Backstrom, Rockefeller Institute's Director of Education Policy Studies, served as a panelist at Albany Law School's Anderson Breakfast Forum, discussing perceptions, realities, and policy solutions for the student debt crisis. Below is an outline of that presentation.

COMMON PERCEPTION: College students graduate with around $30,000 in debt.

REALITIES:

- This is the average ONLY of those students with debt, not all students.
- Nationwide, 35 percent of students graduate with no debt. In New York State, the comparable figure is even greater, at 42 percent. (New York State is the second highest in the nation in offering need-based aid, so lots of these individuals graduating with no debt are the lowest-income students.)
- Nearly half (47 percent) of SUNY graduates earn their bachelor's degree and have NO debt at graduation; at CUNY, nearly 80 percent of graduates leave school with no student debt.

- College graduates earn approximately $32,000 per year MORE than high school grads.
- Largest concentration of student debt balance—about one-third (30 percent)—is between $10,000 and $25,000.
- Public universities: $16,300 on average. Almost 80 percent of public university graduates have less than $30,000 in debt—only 6 percent of public college graduates left with more than $50,000 in debt.

COMMON PERCEPTION: College graduates have so much student debt that they are still paying it off when they are in their 60s.

REALITIES:

- While this sentiment evokes pictures of young adults suffering under life-long debt, the vast majority of the upper-age debtors are actually parents who willingly borrow on behalf of their children, not students who have been paying off for a lifetime.
- About one-fourth of all federal lending is Parent Plus loans (up from 14 percent in 2012-13).
- Sociologists have documented a psychological shift among parents, one that now more than ever has them tending to let their children go to college wherever they want regardless of price and then helping them with the financial burden either directly or indirectly.

COMMON PERCEPTION: So many new college graduates owe so much on their student loans that they are defaulting left and right.

REALITIES:

- Most default cases are for relatively low debt totals, like less than $5,000. Repayment data shows that those individuals with very high debt totals tend to pay off their debt far more regularly. The same is true for ParentPlus borrowers—defaulters have about half the amount of total debt than nondefaulters do.
- A main contributor to this is the fact that individuals who fail to complete college are a major component of defaulters. They are in college for a shorter time and borrowing less, and are less likely to get a well-paying job because they did not graduate.
- Also, the default rate on Parent Plus loans grew from 7 percent (1999 cohort) to 11 percent when borrowing limits removed and credit checks minimized. When financial background checks were eliminated, more parents got loans who already were much less likely to repay those loans in the first place.
- Late-payment rates decrease with increasing levels of education: 30 percent with less than an associate's degree; 25 percent with an associate's degree; 11 percent with a bachelor's degree; and, 5 percent with a graduate degree. Those who use the loans to get more education are more likely to repay them and repay them on time.

- While the number of loan defaults has increased with the dramatic increase in number of loans, the delinquency rate has pretty much held steady over the past seven years.
- In fact, the picture becomes clearer when accounting for increases in salaries paid to college graduates: the share of graduates' income going to pay off student debt has remained pretty much the same over the past 20 years.

COMMON PERCEPTION: We see commercials on TV about students who are so burdened by student loan debt that they cannot buy a house, have to delay marriage, etc.

REALITIES:

- The popular TV ads were run by a student loan refinancing company. It's a sales pitch for the company's services.
- The Council on Economic Advisors did a study finding that by age 26, households with student loan debt are more likely to buy a house than those who did not attend college.
- By people's mid-30s, homeownership rates are very similar between those with and without student debt.

COMMON PERCEPTION: Debt forgiveness—wiping out student loan balances owed—will help struggling kids the most.

REALITIES:

- No, it really would be a massive subsidy to the wealthy and going-to-be wealthy. A recent study found that the most drastic increases in student borrowing—and the greatest proportion of debt owed—is by kids from wealthier families.
- Twenty years ago, 16 percent of borrowers were from families earning $114,000 per year or more versus about 25 percent from families earning under $22,000 per year. That seems reasonable—lower-income families were more likely to borrow. But now, the proportion of borrowers in that upper bracket and the lower bracket is about 30 percent each.
- Higher-income kids are borrowing more. The may be choosing higher-priced schools or just choosing to borrow instead of spending current income.

Grad School is a factor, too:

- Forty percent of student loan debt is held by graduate students, while they represent only 15 percent of total college enrollment. And graduate degree-holders on average will earn $58,000 per year MORE than high school grads.
  - Average debt for medical school grads: $196,000; for dental school grads: $285,000; for pharmacy school grads: $166,000. These huge debt totals—incurred by students most likely to pay them off—skew the averages, and skew the optics.

Shouldn't discussions about policy solutions include at least a little consideration of EQUITY??

COMMON PERCEPTION: Everyone is in the same boat, so relief measures applied across-the-board are fair.

REALITIES:

- The amount of debt incurred can be driven in large part simply by a student's choice of school: if someone chooses to get their engineering degree at SUNY Polytechnic Institute, they will pay around $7,800 in annual tuition; if they choose Rensselaer Polytechnic Institute across the Hudson River, a student who does not receive any financial aid will pay about $50,800.
- University of Southern California charges more than $107,000 for a master's degree in social work. The median wage for that profession is just under $50,000. The same degree can be attained from UCLA for less than $49,000.
- Shouldn't there be some responsibility required for students' fiscal choices?

COMMON PERCEPTION: Under a policy of blanket loan forgiveness by the federal government of some amount, all borrowers will be happy.

REALITIES:

- When campaigning for the presidential nomination, US Senator Elizabeth Warren, who proposed cancelling $50,000 in debt for student borrowers, had a run-in with a parent that highlights an equity issue. The father said he recently finished paying for his child's university education after significant financial sacrifices to his family, and asked if he'd get a $50,000 refund under her plan. (Warren replied: "of course not.")

COMMON PERCEPTION: No one really plans for college costs.

REALITIES:

- More than a million families are participating in a college tuition prepayment program in Florida. Prepaid tuition plans exist in nearly a dozen other states.
- All 50 states offer some form of a 529 Plan college savings account, one of the best investment options around. Yet two-thirds of American's do not know what a 529 Plan is, and less than 30 percent of families who say they are saving for college use them!
- Should those who do not sacrifice or plan be rewarded, while those families who save and sacrifice and invest for the future get no benefits?

Problems and Solutions

There are enormous problems with student debt today, and those who want to call it a crisis have many things to point to in their defense. But facts and data need to drive the discussions about policy responses.

- There are more student loan borrowers than ever before: 43 million to 45 million. And there is more total outstanding debt than ever before: $1.4 trillion to $1.6 trillion. These are staggering figures!
    - Keep in mind that the increase in these totals is driven quite a bit by a significant increase in college enrollment. Millennials are going to and completing college at significantly greater rates: 40 percent of those between 25-37 hold a bachellor's, compared to 25 percent of baby boomers and 30 percent of GenXers.
    - Still, total student loan debt has doubled in the past 10 years while the number of borrowers has increased by only 25 percent or so.
- The burden is real!
    - Ten years ago (2010), education loans accounted for about 6.3 percent of America's total consumer debt; now it is 10.7 percent—a 70 percent increase in its share.
    - The individual debt load has doubled in 20 years (although wages have gone up in those 20 years, too, mitigating a portion of this increase in burden).
- Things seem to be changing—the College Board documents that new loan borrowing has decreased annually for eight straight years. At the same time, however, graduate student borrowing and private borrowing have ticked up.

If policymakers talk in terms of addressing burden when we are looking at solutions to address the problem, things seem to get put into better perspective.

- The best way to mitigate the burden of student loan debt is to AVOID it in the first place. Besides the troubling low participation in the 529 Plan college savings accounts, 37 percent of college-going students don't complete FAFSA! As a result, the average amount of financial aid left on table by Pell Grant-eligible kids is about $3,900 each or $2.6 billion total nationwide.
- Ways policymakers can encourage avoiding student debt includes: stimulating families' investments in 529 Plans; creating a tuition prepayment plan for state schools; and encourage the spread of income-sharing arrangements, where employers pay-off the tuition bills of students in exchange for a small percentage of their income once graduated.

If the government wants to provide student debt relief, there are some creative ways to do so that takes into account the realities of the crisis and equity issues among borrowers:

- Retroactively apply Pell Grants to families who qualify but for whatever reason didn't claim this available financial aid. To help, the enrolling colleges could be required to evaluate eligibility for each student.
- About one-fifth of borrowers owe less than $5,000, and this is the same

population most likely to default. Would forgiving the first couple thousand dollars in debt for these smaller-total borrowers help? Given the rates of default anyway, such a policy becomes relatively low-cost on a net basis. Similarly, because subsidized loans are given to the lowest-income student borrowers, policies that discharged first-year subsidized loans would be a progressive approach to debt relief.

- Students with loan debt who failed to complete college could be incentivized to do so by offering forgiveness of their first year of loans if they go back and complete.
- Almost half (49 percent) of student loan repayers are in income-driven repayment plans, ensuring that the repayment burden is both not too great and also equitable. Why not just enroll EVERYONE automatically in such a plan? Adding a provision allowing automatic paycheck withholding of the calculated amounts is likely to dramatically reduce default rates, too.

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