The Future of Student Loans

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Outstanding student loan debt from federal and private loans continues to climb. In fact, student loans now comprise the second largest form of consumer debt behind home mortgages, reaching nearly $1.2 trillion.[1] With the average student loan debt at $29,400 for borrowers in the class of 2012 (up 57 percent from the class of 2004), there are no signs of the student borrowing trend declining.[2] Another rising trend is the number of students with student loan debt in default. More than seven million student loan borrowers are in default and that number is growing annually.

Inceptia, a division of National Student Loan Program (NSLP) and leader in default prevention and financial education solutions, is committed to supporting you as you arm students with the knowledge needed to become financially responsible adults. That's why we've collaborated with *Inside Higher Ed* to bring you articles and essays covering many of the multifaceted issues surrounding student loans.

For nearly 30 years, we've been in the trenches, helping institutions of all types and sizes raise the financial knowledge levels of their students, resolving borrowers' delinquency issues, and guiding borrowers to successfully repay their student loan obligations. We've made great strides working directly with students on their quest to fulfill their educational dreams.

Insight, knowledge, communication, and confidence. These are the main elements we believe lead to student loan success. Plus, we realize there is no one-size-fits-all solution that educates and motivates borrowers to pay their student loans. So we've designed a broad scope of tools, resources, and solutions to help you become more connected with your students, all while considering your borrowers' specific needs and situations.

We at Inceptia thank you for doing what you do. Whether you're in the financial aid office or business office, a president, vice president or faculty member, we commend you on the role you're playing with our future generations. I hope these articles and essays provide you with some insight into the future of student loans, and more importantly, uncover a variety of ideas to further support student success.

Sincerely,

Randy Heesacker
President and CEO
Inceptia/NSLP

[1] *Source: Student Debt Swells, Federal Loans Now Top a Trillion, Consumer Financial Protection Bureau, July 17, 2013.*
[2] *Source: 10 Colleges Where Grads Have the Most Student Loan Debt, U.S. News & World Report, December 17, 2013.*

INTRODUCTION

The growth in student borrowing has become a top issue for colleges, policy makers and -- perhaps most crucially -- for those borrowing more and more money to afford a higher education, as cuts in state appropriations have forced students and families to pick up a bigger share of students' educational costs.

To some, student loans represent a sound investment in earning credentials that will be a path to future economic status. To others, student loans have become the restraint on graduates' ability to prosper and to follow the careers of their dreams.

A further complication is the lack of understanding of many students and their families of just what kind of student loan they are seeking – and the implications of their choices.

These and other issues have members of Congress, college administrators and the public debating why borrowing has gone up, just how serious a problem that growth represents and what to do about it.

The articles and essays from *Inside Higher Ed* on the pages that follow explore some of the top issues facing all of the players in the debate. *Inside Higher Ed* will continue to track these issues, and welcomes your feedback and suggestions.

--The Editors

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GOVERNMENT POLICIES AND THEIR IMPACT

Collateral Damage

By Paul Fain

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

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

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

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

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

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

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

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

Sanctions will kick in with the 2014 release of three-year rates. (No penalties applied to the results of the first two years of data.)

Colleges will lose eligibility for all federal aid, including the Pell Grant program, if their rates top 30 percent for three consecutive years or 40 percent for a single year.

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

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

SLIDING SCALE FOR PENALTIES

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

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

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

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

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

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

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

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

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

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

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

Frank Phillips isn't the only rural community college that is struggling with relatively high default rates, several experts said. That's because rural areas are less likely to have bounced back from the recession.

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

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

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

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

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

PREEMPTIVE JUMP

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

For example, less than half of North Carolina's community colleges are participating in federal loan programs. Central Piedmont Community College made the decision to drop loans in March 2014.

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

The Education Department has urged colleges not to jump. In a February 2014 "Dear Colleague" letter the department explained the rules on default rates and appeals, and also noted the "importance of institutions providing continued student access to the Title IV student loan programs."

TICAS has blasted colleges for deciding to pull out of lending. The advocacy group says some, such as Victor Valley College, which is located in California, made the decision without apparently being aware of participation-rate appeals and protections.

The department deserves some of the blame, according to TICAS, which says the agency can do more to explain options to institutions.

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

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

The two community college associations have been pushing hard in Washington for more flexibility on default rates among their members.

For example, the American Association of Community Colleges wants Congress to decouple eligibility for Pell Grants from that of federal loans when it renews the Higher Education Act.

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

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

Grants vs. Loans

By Scott Jaschik

Study finds that government grants have a positive impact on the graduation rates of low-income students, but unsubsidized loans counter that impact.

PHILADELPHIA -- Much of the debate about encouraging college completion has focused on academic requirements, advising or the curriculum. Many experts commonly say that completion rates are about much more than money. But a study released at the 2014 annual meeting of the American Educational Research Association suggests that money, and different kinds of money, matter a lot in the graduation of low-income students.

Specifically, the study found a direct positive relationship between government aid and the graduation rates of low-income students from four-year colleges. And the study found a negative relationship between obtaining unsubsidized student loans and graduation rates.

Ray Franke, the author, is an assistant professor of education at the University of Massachusetts at Boston, and he used two databases from the National Center for Education Statistics to track low-income students, and to control for various experiences.

Among his findings:

• For every $1,000 in additional aid received, federal grants increase the chances of a low-income student graduating within six years by 2.42 percent to 2.82 percent.

• State need-based aid has a similar impact, with each $1,000 increasing the chances of graduation by 2.4 percent to 2.59 percent.

- Institutional need-based grants have a similar, but smaller, impact, with each $1,000 increasing graduation odds by 1.31 percent to 1.62 percent.
- Each additional $1,000 in unsubsidized federal loans, however, makes low-income students 5.66 percent less likely to graduate in six years.

Franke also found that non-need-based aid -- increasingly popular with states and individual colleges and universities -- does not have a significant impact on the graduation rates.

In the paper's conclusion, Franke argues that his findings should be considered by policy makers. "[F]inancial aid effects found in this study provide further evidence that need-based grant programs are effective in fostering low-income student success, and respective programs at the federal and state level weigh the long-term effects on the state's economy when reducing funding for crucial need-based aid programs," Franke writes.

"[T]he large negative effect found for unsubsidized federal loans on degree attainment is important for the discussion on loan programs and interest rates, and provides evidence that rates should be kept low. Given the results in this study, unsubsidized loans seem not only detrimental for low-income students' chances to graduate, they also appear to be inefficient as they counteract positive effects found for need-based grants." ▪

Automatic Income-Based Repayment?

By Michael Stratford

Policy makers and higher education researchers grapple with how to reform and overhaul federal repayment programs for student loan borrowers.

WASHINGTON -- There is relatively broad consensus among policy makers and advocates that income-based repayment is, in most cases, a useful tool for helping borrowers manage their monthly student loan payments.

But should the federal government automatically enroll borrowers in the program as they leave school?

That's a debate that is increasingly playing out among higher education researchers, advocates and policy makers as Congress moves toward reauthorization of the Higher Education Act.

Senator Tom Harkin, who chairs the Senate education committee, said at a hearing in March 2014 that he plans to explore the issue, after two witnesses -- a student aid administrator and an advocate for low-income students -- disagreed about the approach.

Elsewhere, some researchers have called for a single federal income-based repayment program that automatically deducts payments from borrowers' paychecks, a model that has been used in other countries, such as Australia, New Zealand and the United Kingdom. Representative Tom Petri, a Wisconsin Republican, has introduced legislation to that effect.

And in April 2014, several papers funded by the Lumina Foundation and discussed at an event here added to that debate.

Underlying nearly all of the papers was a consensus that the government's existing array of income-based repayment programs -- there are seven -- need to be simplified and streamlined to make it easier for borrowers to enroll.

Brent Evans, a professor of higher education and public policy at Vanderbilt University, and his co-authors Angela Boatman, also of Vanderbilt, and Adela Soliz of Harvard University, sought to apply lessons of behavioral economics to the programs.

Evans said that the government should consolidate the programs into one since consumers tend to make suboptimal decisions when they are presented with too many choices.

Lauren Asher, president of the Institute for College Access & Success, which helped develop the framework for the Obama administration's expansion

Brent Evans, Lauren Asher and Senator Tom Harkin

of income-based repayment, said her group had concluded that automatic enrollment in the programs would not be a good policy.

However, she said, TICAS has proposed that the government place all federal borrowers who are six months delinquent on their loans -- three months away from defaulting -- in an income-driven plan.

"Income-driven repayment is not the optimal choice for everyone," Asher said, noting that borrowers end up paying more in the longer term when their monthly payments are reduced.

Asher also said she was concerned that automatically enrolling borrowers in income-based repayment could remove incentives for states and institutions to keep down college costs, thus "creating a safe haven for schools that are not serving students well."

TICAS also has concerns about an automatic-payment scheme in which employers act as middlemen in loan repayment, Asher said. Such a system would raise privacy and accountability concerns since a borrower would have to explain his or her repayment situation to an employer, she said.

Several researchers on Monday also questioned whether income-based repayment programs were properly structured as they exist now.

Beth Akers of the Brookings Institution and her colleague, Matthew Chingos, sought to estimate the long-term costs of the programs for borrowers and taxpayers. They found that the cost to taxpayers of allowing borrowers to pay off their loans over the 20- or 25-year periods accounts for about one-quarter to one-third of the programs' cost. The loan forgiveness provisions, meanwhile, account for half of the costs. Under the programs, the government forgives any remaining balance after 20 or 25 years.

The loan forgiveness aspects of income-based repayment, they argue, are not critical to providing a safety net that protects borrowers and, in fact, produce perverse incentives for students to take on more debt.

That is a concern that has been raised before. The Obama administration last month called for some changes to income-based repayment programs. Its fiscal year 2015 budget proposes trimming some of the benefits that accrue to borrowers under the income-driven plans, including caps on the amount of debt that is forgiven and extending the payment period for some borrowers with high debt loads.

The House Republican budget released by Representative Paul Ryan of Wisconsin in April 2014 similarly calls for cuts in the benefits for income-based repayment plans.

The Obama administration has sought to better publicize and boost enrollment in the existing federal income-based repayment programs. About 11 percent of all federal borrowers are currently enrolled in such repayment plans.

Education Department officials have streamlined some aspects of the online application for income-based repayment and last fall sent emails to about 3 million borrowers to notify them about income-based repayment options.

James Runcie, the department official who oversees federal student aid, told Congressional lawmakers that the email campaign had resulted in almost 150,000 new applications for the programs. ▪

Progressive Push on Debt

By Michael Stratford

A new campaign is focused on refinancing existing student debt, pushing states to reinvest in higher education, and seeking to hold colleges more accountable for tuition costs.

A coalition of progressive groups in March 2104 formally began a new campaign aimed at curbing rising student debt and reducing the price of college.

The group of think tanks, student organizations, consumer advocates, and unions is targeting the country's "increasingly dysfunctional system of higher education," said Anne Johnson, executive director of Generation Progress, the youth division of the Center for American Progress, which is an organizer of the campaign.

Speaking at the launch event, Senator Elizabeth Warren of Massachusetts, a Democrat, said the $1.2 trillion in outstanding student debt was unfairly "penalizing young people for getting an education."

"The federal student loan program makes this problem worse," she said, citing the billions of dollars in profit that the government makes on student loans, though the extent of that profit margin is disputed.

Warren outlined new legislation she plans to introduce that would allow all federal student loan borrowers to refinance their debt at a 3.86 percent interest rate. She proposed paying for the refinancing program by raising taxes on wealthy Americans under the so-called Buffett Rule, which would impose a new minimum tax rate on personal incomes higher than $1 million.

The refinancing effort, Warren said, would effectively cut in half the interest rate on many existing federal student loans and save borrowers with the maximum federal loan for undergraduate education about $1,000 each year.

"This is real money back in the pockets of students who invested in their education," she said.

Aside from pushing policies that help existing student loan borrowers, the campaign -- dubbed "Higher Ed, Not Debt" -- also plans to mobilize efforts to reduce the price of college.

One part of that strategy is to persuade state legislatures to reverse the hefty cuts they have made to public higher education over the past several years. A report published by Demos, a liberal think tank that is also part of the coalition, found that 49 states are now spending less per student on higher education than they did before the 2008 recession. The cuts in 28 of those states were greater than 25 percent, the report said.

Another aspect of the agenda is to seek more accountability for colleges and universities.

"We need to push schools to keep costs down and spend more on education and instruction and less on amenities and administration," said Johnson, the Generation Progress leader.

Warren said the federal government should leverage the billions of dollars in grants and loans it doles out each year to "align school incentives" and promote "skin in the game."

She cited the legislation she is co-sponsoring with fellow Democratic

Senators Jack Reed of Rhode Island and Richard Durbin of Illinois that would require colleges with high loan default rates to repay some of the federal student aid money they receive.

That's a concept that's increasingly gaining traction in Washington, but also generating its fair share of controversy. College and university presidents, for instance, have widely criticized the Obama administration's effort to promote more institutional accountability through its national ratings system.

Faculty unions, such as the American Federation of Teachers, which is part of the coalition of progressive groups pushing for student loan changes and greater state investment in higher ed, have also been critical of the Obama ratings plan.

David Bergeron, vice president for postsecondary education at the Center for American Progress, which has proposed its own version of an accountability scheme, said that while interest in accountability systems for colleges is far from universal, he thinks "it's growing in the right direction."

"We know institutions can do things to improve their performance, but what a ratings system does is it gets people out of neutral and into a direction of improving their outcomes," Bergeron said. He noted that the on-time graduation rate for four-year public universities -- which hovers around 21 percent -- hasn't ticked upward in a decade.

Most of the proposals the campaign is pushing face significant odds in Congress and are likely to be taken up in reauthorization of the Higher Education Act, which may not happen for several years.

Though Warren's plan to refinance student loan debt may be considered independently of the Higher Education Act, Bergeron said there is other low-hanging fruit that Congress should tackle in the meantime, such as allowing private student loan borrowers to refinance their debt with federal loans. ▪

Default Rates Rise Again

By Michael Stratford

The latest snapshot of defaults on federal student loans shows that 1 in 10 borrowers are defaulting within two years and nearly 15 percent are defaulting within three years.

The rate at which borrowers of federal student loans default on their debt within two years after beginning repayment rose for the sixth consecutive year, reaching its highest level since 1995, according to data released in September 2013 by the Education Department.

One in ten borrowers across the country, 475,000 people, who entered repayment during the fiscal year ending in September 2011 had defaulted by the following September, the data showed. That's up from 9.1 percent of a similar cohort of borrowers last year.

Even more borrowers are struggling in delinquency when the period of measurement is extended to three years. The percentage of borrowers defaulting within three years after beginning repayment has also risen from 13.4 percent to 14.7 percent for the most recent cohort of borrowers available (those who entered repayment from October 1, 2009 to September 30, 2010 and had defaulted by September 2012). The 14.7 percent default rate represents 600,000 borrowers.

The default rate is used by the Education Department to potentially cut funding to institutions that have large proportions of borrowers defaulting on their loans. Colleges are currently barred from receiving federal student aid money if their default rates are 25 percent or higher for three consecutive years or if they exceed 40 percent in a single year.

The Education Department is in the process of transitioning to using only the three-year default rates. Next year will be the first year for which institutions will face penalties based on their three-year rates, which student advocates say is a welcome change since the measurement will be more expansive. Still, though, some argue that the cohort default rates don't reflect the full burden of debt that students accrue.

"Even at schools where lots of students borrow, [default rates] don't tell you how many students are behind on payments, overloaded with debt or defaulting after more than three years," Debbie Cochrane, research director at the Institute for College Access & Success, known as TICAS, said in a prepared statement.

TICAS has also issued reports about how colleges are manipulating their default rates to be lower than they actually are by combining programs or pushing students into unnecessary forbearances.

DIFFERENCES BETWEEN SECTORS

The average two-year default rate for all public institutions was 9.6 percent, compared with 5.2 percent for all private institutions. For-profit institutions as a sector had an average two-year default rate of 13.6 percent.

But at 15 percent, community colleges appeared to have the highest two-year default rate of any type of postsecondary institution.

Justin Draeger, president of the National Association of Student Financial Aid Administrators, said that the community college rate reflected significant problems with repayment rather than debt loads, since community colleges tend to be less expensive and have lower rates of loan borrowing.

"Given that 15 out of 100 borrowers (who presumably have small cumulative loan amounts) from the community colleges are defaulting, I think the data continues to tell us that we have a repayment crisis, not a student debt crisis," Draeger said in an e-mail. "Borrowers have many ways of avoiding default; we have a lot of work to help them to those alternatives."

As a result of the data released this year, eight institutions now face sanctions for having default rates that are too high. That's the highest number of institutions since 1998.

The affected schools are: John Wesley International Barber & Beauty College in Long Beach, Calif.; Pacific Coast Trade School, in Oxnard, Calif.; Palladium Technical Academy, in El Monte, Calif.; New Age Training, in New York City; Huntington School of Beauty Culture, in Huntington, W.V.; Tidewater Tech in Norfolk, Va.; Florida Barber Academy, in Pompano Beach, Fla., and Henri's School of Hair Design, in Fitchburg, Mass. ▪

Default Data on PLUS Loans

By Michael Stratford

For first time, the Education Department has released default rate data about the program, as debate continues about how strict eligibility requirements should be.

The national default rate for Parent PLUS loans has nearly tripled in recent years, but it remains well below the default rates for other federal student loans, according to data released for the first time in March 2014 by the U.S. Department of Education.

Of all parent borrowers whose PLUS loans entered repayment in the 2010 fiscal year, the data show, 5.1 percent were in default three years later. That figure has risen steadily from the 1.8 percent default rate for the cohort of borrowers in the 2006 fiscal year.

Breaking down the 2010 figure by type of institution, for-profit colleges had the highest default rate, at 13.3 percent, compared with 3.4 percent and 3.1 percent, respectively, at private nonprofit and public institutions. The data do not distinguish between two- and four-year institutions or types of degree.

The release of new information about the performance of PLUS loans comes as the department is considering changes to the eligibility criteria for such loans. In 2011, the Education Department touched off a wave of controversy when it tightened the standards for those loans, which led to large numbers of students and their families being denied PLUS loans.

The new data confirm that the department's changes to the PLUS loan credit check, which involved taking a more expansive look at a prospective borrower's credit history,

fueled those loan rejections. In the past two years, the reason for the majority of PLUS loan rejections has been that a borrower either has an account in collection or has had a recent charge-off. Before the department started including those measures, prospective borrowers were most frequently rejected for having an account that is greater than 90 days delinquent.

Under pressure from the presidents of historically black colleges and universities, who said their students were disproportionately affected by the changes, the department said it would reconsider loan applications on an individual basis.

Many presidents of black colleges and several members of Congress have said that the appeals process is insufficient and have called on the Education Department to roll back the 2011 changes and loosen the eligibility criteria for Parent PLUS loans. The UNCF has issued a report calling the PLUS loan problem a "crisis" that is limiting students' access to higher education.

Some consumer advocates and think tanks, meanwhile, are pushing the department to keep the credit standards -- or even tighten them further -- so that parents aren't saddled with large amounts of debt that they cannot possibly repay.

The Education Department has not indicated what types of credit standards it wants to include into the new PLUS loan rules that a rule-making panel is considering this spring.

But David H. Swinton, the president of Benedict College, said that the default rate data vindicate the position of black college leaders who are seeking the looser PLUS loan standards.

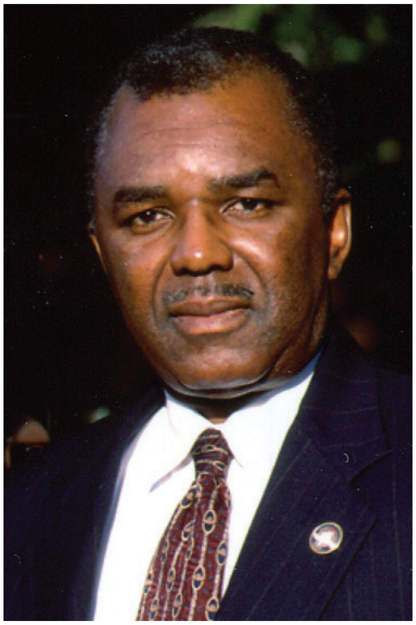
"From my point of view, the data made it clear that there is no need to tighten any criteria," said Swinton, who is also representing minority-serving institutions on the department's negotiating panel. "It makes clear that there is no significant default problem with the PLUS loan program."

The most recent Parent PLUS default rates released by the department are lower than the default rates on other federal student loans -- a figure the department releases annually. The national three-year default rate for the 2010 fiscal year was 14.7 percent. The Parent PLUS loan rate for the same period of time was 5.1 percent.

Swinton said that the 2011 changes to the PLUS loan program had "a major impact" on his campus, with an initial 75 percent reduction in approvals. While that decline improved somewhat through the department's appeals process, he said, it still led to overall enrollment drops at his institution in the past two years.

The goal of the Parent PLUS loan program, Swinton said, is to provide access and freedom of choice to students. He added that it was "patronizing" for people to suggest that families seeking those loans cannot judge for themselves whether it's appropriate to take on such debt.

Advocates of tighter eligibility requirements for PLUS loans, on the other hand, say there are real problems with the program that need to be addressed.



David Swinton

"We absolutely should be concerned about defaults in the PLUS loan program," said Rachel Fishman, a policy analyst at the New America Foundation who has criticized institutions for using PLUS loans to mask their prices and skirt accountability measures.

"The rates in aggregate don't look so bad," she said. "But they're not telling the whole story."

Because PLUS loans are subject to some credit screening, Fishman said, it makes sense that the entire pool of PLUS loan borrowers might perform better than those of other federal college loan programs that are open to everyone regardless of credit history.

Fishman said the federal government needs to be more careful about which families it allows to take on Parent PLUS loan debt, particularly since the loans are so difficult to discharge in bankruptcy, do not qualify for income-based repayment (unlike most other federal loans for college), and can trigger garnishment of Social Security checks.

Another problem, Fishman said, is that the PLUS default rates at any individual college may be egregiously high without any consequences for that institution.

Unlike the default rates on other federal student loans, the Education Department does not publish campus-level default rates for PLUS loans or punish colleges at which large proportions or numbers of PLUS loan borrowers default.

The data released by the department break down PLUS loan defaults only by three types of institutions: for-profit, private nonprofit, and public. But the department has said that institution-level information is not available for PLUS loans.

The department does not publish such information about PLUS loans because there is no process for institutions to review or appeal that data, a department official said. The department feels relatively confident about the sector-by-sector analysis it produced, though, because the errors in the PLUS loan default data at any one institution are likely to be canceled out, from a statistical standpoint, by errors in the data at another institution, the official said.

Further, the department official added, the federal agency is in ongoing discussions about whether it should provide such information in the future, even if it is not mandated by Congress. ■

Institutional Policies

Killing Off a Success

By Ry Rivard

Why is the University of Virginia backing away from a student aid policy that succeeded in attracting more low-income students? And why is UNC standing by a similar policy?

Instead of guaranteeing that poor undergraduates can get through college debt-free, the University of Virginia decided it's going to make low-income students borrow up to $28,000. That's still a good deal, university officials say, for four years at one of American's top public universities.

The changes, which take effect for incoming students in fall 2014, have caused uproar on campus and raise questions about whether any good deed can stay funded.

By shifting burdens onto low-income students, the university can save $10.3 million a year in new costs by 2018. That's real money at a time when U.Va, like most public colleges, knows that state support is limited. But at about the same time the change was announced, it had just finished a $12 million squash court and planned to beef up its marketing budget by nearly $18 million -- raising questions for critics about whether the university really needed to change its aid policies.

A decade ago, U.Va. looked to shuck what its own consultant recently called its “elitist, preppy and homogeneous” culture and enroll more low-income students by offering them a full ride. The move came as elite private colleges were trying a similar approach, finding that telling low-income students they qualified for generous aid packages didn't have nearly the impact as saying simply that if their family incomes were below certain levels, they could come without paying or borrowing.

The Virginia policy worked: applications from low-income students quickly rose from 702 in 2004 to more than 2,500 in 2012, and the program, known as AccessUVa, took off. But instead of keeping it up, the public university is scaling back AccessUVa because, the university says, it has become too expensive.

Internally, at least one board member has sharply questioned the university's priorities.

In an email to members of the university's Board of Visitors, a board member (and former chairwoman), Helen Dragas, said that after looking over a draft of the university's long-term spending priorities, she found a new $17.5 million line item for advertising and communications but the same plan was "sadly" silent on new university money to aid low-income students through AccessUVa.

"What does this say about our priorities?" Dragas wrote in an email obtained by *Inside Higher Ed* (which was among documents first reported on by *The Daily Progress*).

Likewise, the student newspaper noted that while the university is cutting AccessUVa, officials had other priorities – "most damningly, a $12.4 million squash court."

OUTSIDE (PAID) ADVICE

Even the university's own consultants -- while urging change -- noted that the impact of such a change could be negative. The university paid for a consultant's report that warns U.Va. it will lose qualified and diverse out-of-state students if it made significant cuts to its financial aid package.

"If U.Va. were less generous with needy students, it would lose significant numbers of them," Art & Science Group told the university in April. The consultant advised Virginia to create a new mix of aid packages so it could "conduct careful experiments" on price points for needy students.

In August, the university announced it would force new AccessUVa students to take out up to $28,000 in loans starting this fall.

In response to questions about the role of the Art & Science Group's recommendations, a university spokesman, McGregor McCance, said in an email,"You should know as well that the program changes are not part of ongoing 'careful experiments' on low-income students."

Though the university has recently portrayed cuts to AccessUVa as somewhat inevitable changes to a program that's grown from an $11 million item to a $40 million item, documents obtained from the university show that U.Va. officials have talked for more than a year and a half about cutting AccessUVa as part of a larger effort to reshape the university's admissions and financial aid practices.

At a board retreat in 2012, the dean of admissions, Greg Roberts, gave a presentation that suggested the university could move away from its approach to need-based aid – which he called "clear, clean and equitable" — to a policy that would "leverage our aid dollars while adopting the most strategic and institutionally advantageous admission policies."

"Nationally, peers are pursuing admission and aid policies that target our best applicants," he wrote. "During a period of economic decline, our institutional aid budget is strained with more students requesting need-based aid."

In an interview in January 2014, Roberts said his comments were meant as a primer for the board on "enrollment management," the set of practices universities have used to tweak their admissions and aid policies to bring in what they – or magazines such as *U.S. News & World Report* – consider desirable classes of students.

"The hope was that U.Va. would maintain the strong financial aid program we had in place, and it was not an effort to shift around resources to move away from need-based in order to move in favor of, say, more merit," Roberts said.

But when the board approved cuts to AccessUVa in 2013, it said it could lessen the rising costs by $10.3 million per year by 2018. Of that avoided cost, officials wanted to use $2 million to award merit aid to "offset the impact on socioeconomic diversity" from the AccessUVa changes. Merit aid, in contrast to need-based aid, does not necessarily go to the lowest-income students.

McCance said the cuts to AccessUVa – which he pointed out don't cut funding for need-based aid but rather curbs its "rapidly escalating" costs – is not tied to any strategy to raise rankings or to increase merit aid.

"U.Va. offers very little merit aid and is committed to providing 100 percent of demonstrated need for students," he said.

Despite Roberts's presentation to the board and some modeling by Art & Science Group, which point to a broad rethinking of U.Va.'s pricing and aid strategy, McCance said the university isn't trying to reshuffle its priorities for aid away from low-income students.

"The AccessUVa changes are

a response to the dramatically escalating program costs, and an interest in putting the program on a more sustainable path for the future, while still permitting the University to operate admission on a need-blind basis and still meeting 100 percent of demonstrated student financial need," McCance said. "What the university is doing more of today is emphasizing philanthropy for financial aid. The top three priorities for our fund-raising efforts are financial aid, the faculty and preservation of the Jeffersonian Grounds, including the Rotunda."

The *Cavalier Daily* questioned that line of thinking, arguing donors might not want to pay for scholarships, and accused the university of sending AccessUVa to an uncertain future.

"Financial aid is too important to be left to donors," the paper wrote. "The responsibility for student access lies with the institution — not with the whims of the wealthy."

The expense for AccessUVa has grown quickly, particularly since the recession. In 2008, the program cost $59 million – of that, about $21 million came straight from U.Va.'s operating budget. By 2012, the program cost $92 million a year, with $40 million coming from the university's budget. Part of the growth is due to the economic downturn, which created more low-income families in general, and part of it is the success that AccessUVa has had attracting low-income students in particular.

"In some cases you become the victim of your own success if you think about it that way," Roberts, the admissions dean, said.

When it was created in 2004, AccessUVa provided loan-free educations for low-income students. After the changes take effect this fall, low-income students from Virginia will need to take out loans of up to $3,500 a year, or $14,000 for four years. Low-income students from out of state will have to borrow twice that.

Roberts, the dean of admissions, said his greatest concern is the potential loss of low-income students from outside of Virginia.

"We believe it has been and continues to be one of the most robust financial aid programs in America," McCance said, noting that wealthy private colleges but few publics have anything like it. "Through this program, the university is dedicating more institutional funds than at any time in its history for student financial assistance, and we are assisting more students today than at any time." The university has need-blind admissions.

UNC ISN'T BACKING AWAY FROM NO-LOANS

But the University of North Carolina at Chapel Hill – Virginia's recent top competitor for out-of-state students – has a loan-free program for low-income students that it plans to keep, despite the strains it's placing on the university budget. That aid program is as generous as AccessUVa has been, but North Carolina officials are committed to keeping the program intact and see a far greater benefit than just numbers.

The Carolina Covenant was created a decade ago to send a clear message to high-achieving low-income students: if you can get in, you can come, debt-free.

Some students feel U.Va. has turned its back on them by curbing a program to help low-income students.

"We knew that low-income families would understand what we meant when we say, 'no loan,' or 'debt free,'" said Shirley Ort, UNC-Chapel Hill's associate provost and director of scholarship and student aid.

The program has, like AccessUVa, grown. It costs about $50 million a year, about half of which comes from the university or private grants. Demand can be unpredictable. In the fall of 2013, for instance, 100 more students qualified for the Covenant than the year before. All told, some 2,200 Chapel Hill students are covered by the program and can graduate debt-free, although they are asked to do work study.

"It is a stretch and it is hard and it requires some hard decisions at the university to decide to keep going," Ort said.

Despite the cost, Ort said the institution is committed to keeping what she called an easy and positive symbol of something enduring: an accessible education for everyone. Any change to the program, she said, would harm that message.

Ronald Ehrenberg, the director of the Cornell Higher Education Research Institute, said other institutions that have backed away from generous aid packages have generally tried to protect the lowest income students.

Virginia has not done this because even the poorest of AccessUVa students might have to take out up to $28,000 in loans – which will cost them about $290 a month over 10 years to repay after they graduate. U.Va. points out its graduates earn good paychecks.

"Public relations-wise, I think this is a very costly decision for probably not saving a lot of money," Ehrenberg said.

In North Carolina, Ort said Carolina Covenant costs only about 15 percent more than a typical mix of need-based aid.

Students at Virginia who received AccessUVa's loan-free deal are deeply troubled by their administration's decisions to begin making students go into debt.

Already, according to a consultant's report paid for by Virginia, the university has a "polarizing" campus culture that can "turn off many desirable prospects."

Stephanie Liana Montenegro Nunez, a U.Va. student who expects to graduate later this year, said some students are worried that changes to AccessUVa will turn the university back into a "very elite" and "non-inclusive" place. "The fear is that AccessUVa was the little light in the sky that was working toward making things better, and it was making things better slowly, but it was the right approach," Montenegro Nunez said. ■

Student Loan Lifestyles

By Scott Jaschik

Researchers identify two broad categories of those who borrow to pay for college -- each distinct from the norms of those who don't borrow. Both miss out on what has been considered the classic college experience.

NEW YORK -- Student loan debt is much in the news of late, with a steady stream of articles about how borrowing decisions may limit graduates' ability to take certain jobs, live in certain areas, or even own a home. But what about the impact of borrowing during the college years?

A study released in August 2013 at the annual meeting of the American Sociological Association suggests that students who borrow are likely to have notably different experiences while in college from those who are able to enroll debt-free. And there are two distinct patterns for student borrowers, one with many more negative associations.

The study was based on surveys of students that asked them how much time each week they spend on certain activities. The data come from the National Longitudinal Survey of Freshmen, which tracked students from nine liberal arts colleges, 14 private research universities, four public research universities and one historically black college. The authors -- Daniel Rudel and Natasha Yurk, both graduate students at Indiana University -- note that this sample may skew in favor of well-prepared, academically oriented students. But that may make the findings all the more striking.

The students were asked about hours spent in both academic and non-academic activities: studying, attending class, lab work, work for pay, watching television, listening to music, athletics (both participating and watching), attending parties, socializing and sleep, among others. When comparing just those who do and don't borrow, the results aren't shocking -- those who borrow are more likely to hold jobs for pay and work longer hours at them, for example. But as the researchers examined patterns, they found three patterns among students, with those borrowing ending up in two of them:

• "Serious Student" (about 38 percent) is one of the groups of student borrowers. These students focus on

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academic and work-related activities, and are less involved in other activities than are those in the other two categories.

• "Disengaged" (about 29 percent) is the other group of student borrowers. These students are the least likely, on average, to be spending time on either academics or student organizations. They spend more time than do others on media (television and music) and on sleep.

• "Play Hard" (about 32 percent) is the category that is much less likely to include those who borrow. This group prioritizes time on athletics, student activities and partying, with lots of time also devoted to music. They spend less time on academics than do serious students, but appear to spend enough time "to get by," just not enough to excel.

The authors write that the analysis of three groups (instead of simply looking at borrowers vs. non-borrowers) yields different findings. For instance, looking simply at borrowers vs. non-borrowers doesn't suggest a significant difference in time on academics. The reality is that, for a large subset of borrowers, academics are not a priority, and this is masked in the other comparison because so many debt-free students also fail to prioritize academics.

Among students with debt, the greater the level of student debt, the more likely borrowers were to be in the "serious student" category and not the "disengaged" category -- a finding that surprised the researchers.

Asked in an interview if their findings might suggest that some debt could be good for students, both authors demurred. Rudel said he would be "pretty cautious" before endorsing that idea. "It does seem logical that students in debt are conscious of making the most of college," he said. "But what we are measuring is only the amount of time students spend on studying and other things, and we don't know what that translates into."

Yurk (who borrowed $15,000 to finance her undergraduate education at Northwestern University) said that that "we're not saying that debt is good. We would never say people should have to take out debt." The key fact, she said, is that students who borrow "are different," and that when they have less time or inclination to participate in student activities, "they are missing some of the quintessential college experience."

College leaders need to remember, she said, that debt doesn't just allow people to enroll in college, but changes their experience there. "Debt polarizes people," Yurk said. "There is a chance students will gain responsibility. But there is a risk students get disengaged." ▪

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Views

Student Loans: Yes, Something Is Wrong

By Karen Gross

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

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

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

Start with these key facts about student loans:

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

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

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

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

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

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

Second, looking at loan default rates as a measure of the success of a college misses that many colleges welcome students from lower income quartiles, and these students have less collegiate success – understandably, although obviously many are working to improve these statistics. The fact that some of these students do not progress to a degree is not a sign of institutional failure any more than student success at elite institutions is a guarantee of those institutions' quality. One approach to consider is linking default rates with the types of students being served by an institution.

Cal Poly Pomona

But one thing that should not change, to the dismay of some: many of the government student loans should not be based on credit worthiness.

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

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

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

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

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

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

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

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

(2) Improve the accreditation process

"Students and their families are woefully unaware of the myriad repayment options, and therefore forgo existing benefits or are taken advantage of by loan servicers. This occurs because we de-link conversations of front-end costs of higher education from 'back-end' repayment options and opportunities."

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

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

(4) Incentivize colleges and universities to work on post-graduation default rates (and repayment options) by establishing programs where they (the educational institutions) proactively reach out to their graduates to address repayment options, an initiative we will be trying on our own campus. Improvement in institutional default rates could be structured to enable increased institutional access to federal monies for work-study or SEOG, the greater the improvement, the greater the increase.

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

(5) Create a new financial product for parents/guardians/family members/friends who want to borrow to assist their children (or those whom they are raising or supporting even if not biological or step children) in progressing through higher education, replacing the current Parent Plus Loan.

The current Parent Plus Loan product is too expensive (both at initiation and in terms of interest rates) and more recently too keyed to credit worthiness. The individuals who most need this product are those who are more vulnerable. And the definition of "parent" is vastly too narrow given the contours of American families today.

Home ownership and education are both part of the American dream. Both benefit the individuals and larger society.

How we foster both is, however, vastly different. We need to stop shouting about the shared crisis and see how we can truly help students and their families access higher education rather than making them run for the proverbial hills. ▪

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

Student Loans II: How Much Default?

By Jacob P.K. Gross and Nicholas Hillman

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

What is an acceptable level of loan default?

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

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

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

ANOTHER VIEW ON LOANS

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

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

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

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

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

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

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

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

These are important questions for at least two reasons. First, loans are intended to serve as policy tools to help students obtain an education. In light of a public policy shift toward the preference of loans over grants and the continued decline of public investment in postsecondary education, it is important to frame the default debate in terms of educational outcomes. Second, a key predictor of repayment hardship and even default is whether or not a student completed their program of study and earned a credential. If we hope to help struggling borrowers repay loans, it seems clear that the best policy solution is to help students graduate.

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

opportunity and social mobility.

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

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

In debating potential changes to financial aid policies, institutions should consider the relevance of public perception and the reaction of elected or appointed policy makers. It may be tempting to cynically evaluate proposals from ill-informed politicians whose solutions are loosely (if at all) coupled to the problem of student loan debt. However, it is important to take seriously the underlying concerns that drive the current rhetoric. In crafting an institutional plan, acknowledge these concerns as much as possible among the various constituents (e.g., students, parents, politicians, news media). Ultimately, political and policy questions are about the perceptions of the community that the institution calls home. It is vital that higher education leaders engage these perceptions.

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

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

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

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

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

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

Jacob P.K. Gross is an assistant professor of higher education at the University of Louisville. Nicholas Hillman is assistant professor in the department of educational leadership & policy analysis at the University of Wisconsin at Madison.

The Real College Barrier for the Working Poor

By Sara Goldrick-Rab

Focusing on no-loan policies or Pell Grant rules on courseloads misses the reality about access and completion for needy students: the buying power of federal aid hasn't kept up, writes Sara Goldrick-Rab.

A November 2013 *New York Times* op-ed blames the rules and regulations of the federal Pell Grant program for many of our nation's higher education access and completion problems. In short, the authors contend that the rule that defines a full-time course load as 12 or more credits per term hinders students from graduating early or even on time.

The emphasis on that relatively small technical issue distracts from a much more important point: the Pell Grant – which currently maxes out at $5,645 for the 2013-14 academic year – is not nearly enough to cover college costs for any of its recipients. That is the key issue legislators must grapple with when thinking about how to raise graduation rates.

While public investment in the Pell Grant has expanded over time, its purchasing power has dropped dramatically. Forty years ago, a needy student could use the Pell Grant to cover more than 75 percent of the costs of attending a public four-year college or university. Today, it covers barely 30 percent. There is little other grant award or work-study funding available to students at public institutions, so even students borrowing the maximum available subsidized loans are left with unmet financial need and thus must work as well.

This is a sharp change from the past, when students could optimize their focus on school by borrowing instead of working. Now, the vast majority of students must work long hours and borrow heavily in order to make ends meet. On top of that, students from working poor families also tend to carry elder and child care obligations, are more likely to have expensive struggles with their health, and often need to contribute their parents' household expenses even while finding resources for their books and supplies. These "opportunity costs" of attending college greatly exceed the meager financial aid we provide.

The headlines focus on elite colleges with no-loans policies. But the latest federal data show that at public colleges and universities, where most Americans attend college, students from families in the bottom 25 percent of the family income distribution -- earning an average of just $15,870 a year -- must pay almost $12,000 a year for college.

That's right: after taking all grant aid into account, those families are expected to live on about $4,000 a year if they want their child to get a bachelor's degree. In that situation, borrowing is hardly optional (but quite risky for families with such little financial slack) but with current loan limits it is also insufficient. Making ends meet on financial aid alone -- even for America's poorest -- is thus far more difficult than public perception currently holds.

Of course, community colleges are available to these families as well. In a recent U.S. Senate testimony, the researcher Judith Scott-Clayton stated that more students ought to recognize just how affordable these colleges really are. To do this, she pointed out that the Pell Grant often covers tuition and fees, and that its recipients get money back to live on.

That's true, but even with those dollars in hand those same low-income families must come up with an additional $7,000 a year for their child to attend those lower-priced alternatives. Leaving the rest of the family to live on $8,000 a year isn't often possible.

The hard truth is that college is the least affordable for America's working poor families. If you are lucky enough to have earnings in the top 50 percent of family income (making more than around $85,000), your child can get a bachelor's degree at an expense of about 20 percent of your annual income.

But if you reside in or below the middle class, securing access to the bachelor's degree at a public institution for your children demands one-third to three-fourths of your annual income (even a community college education eats 21 to 46 percent of annual income).

Increasing the college completion rates of financial aid recipients requires actually making college affordable. We should start by restoring the value of the Pell Grant by bringing states and institutions to the table and driving down college costs.

We must provide incentives for states to move toward providing two years of community or technical college at no cost to families. Let's dramatically expand the federal work-study program, especially at community colleges. Ensure that every Pell Grant recipient has access to a minimum of 20 hours per week of on-campus employment.

Require colleges to provide all students with supportive staff to help them construct realistic schedules and financial plans, and ensure that they are screened for eligibility for all forms of financial aid and public benefits each year to support their college attendance.

Finally, adjust the calculation of need so that it is possible for the expected family contribution to drop below $0 for the most severely poor students; this will allow them to accept as much financial aid (and subsidized loans) as they need to ensure their college costs are covered.

The American dream holds that individual merit rather than family background determines educational opportunities. Unfortunately, spending money on federal financial aid has given us a false sense of satisfaction that we are all living that dream.

We have not done enough to ensure all students have more than a foot in the door of higher education. Opening their pathways to degrees requires more than platitudes -- it requires accountability for states and institutions and also serious money. ■

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Don't Pay It Forward

By Kati Haycock

An idea gaining support in some states has a catchy sales pitch, but is actually a bad deal for students, writes Kati Haycock.

The sales pitch is enticing: Let students go to college for "free" and ask them to pay later by taxing a percentage of their incomes once they have jobs. The money coming in from graduates, then pays "forward," covering college costs for current students and alleviating the fear of debt that keeps many college-qualified students from even applying and that discourages college graduates from pursuing careers that may not have high salaries.

That's the seductive premise behind Pay It Forward, billed as a "debt-free" approach to higher education, that in 2013 was under consideration in Oregon. But like many sales pitches meant to lure consumers, Pay It Forward provides a superficial "fix" that has more downsides than up, thereby masking the real problems in higher education financing.

There is no disputing that higher education is facing a crisis of affordability. State funding per student has dropped to its lowest level in 25 years, shifting much of the financial responsibility for college costs to students and their families. The result? Too many students have to choose between avoiding college altogether or taking on overwhelming amounts of debt to pay for a degree.

We applaud state policymakers who are working to identify ways to rein in college costs. The United States needs more college-educated workers, and we won't have them unless we make college more affordable. But we have to make sure that the solutions we put into place don't work against students and taxpayers by inflating college costs even more, especially for the families

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who can least afford them.

Because Pay It Forward proposes to tax graduates' income at a certain rate every year (say 4 percent) for up to 25 years, graduates will end up paying very different amounts for their education — often more than what that education actually cost. An analysis from the Oregon Center for Public Policy estimates that an average student could overpay more than $7,000 under Pay It Forward. Worse, the neediest students — those currently receiving federal or state financial aid — could be hit the hardest, potentially paying thousands more over their lifetimes than they would have under the current system.

Let's not forget, either, that Pay It Forward only addresses tuition, which makes up just part of total college costs; room and board, books and supplies, and miscellaneous fees aren't covered. At the University of Oregon, for example, those additional fees amount to almost 60 percent of a student's total costs. Of the $23,370 total estimated cost of a year at Oregon for a resident of the state, about $9,300 is consumed by tuition. Under Pay It Forward, the average student would have to cover the remaining $14,000 out of pocket or through loans, creating a double whammy for students: They'd have to pay off student loan debt in addition to having their income taxed to "pay it forward."

Some of these concerns could be addressed in any final package. Our biggest concern with Pay It Forward, though, is that it doesn't address the root issue: rapidly escalating college costs. By positioning higher education less as a public good than as an individual transaction, Pay It Forward absolves both state policymakers and institutional leaders of any responsibility for doing what it takes to slow the rapid increases in the cost of a college education.

Instead of demanding cost-consciousness among college presidents and an ongoing commitment from states to maintain or increase higher education funding, Pay It Forward simply puts a big Band-Aid over the current trend of state disinvestment and the transfer of financial burden from the state to students and their families.

Ironically, although trying to ensure progressively that each graduating class opens the door for ones to follow, Pay It Forward could actually just open the door to more privatization of public education.

States should develop innovative solutions to the rising cost of college, but they should be transparent about them. If they're going to sell students on debt-free college, they should offer debt-free college. Loan debt simply repackaged as delayed tuition payments may be a catchy sales pitch, but it's a bad bargain for students. ▪

Kati Haycock is president of the Education Trust, a nonprofit research and advocacy organization.

The Language of Financial Aid

By C. Anthony Broh

The way higher education officials talk about paying for college confuses families. Let's communicate with them in ways they understand, C. Anthony Broh argues.

Parents: We can't possibly afford $60,000 per year for our daughter to go to Medallion University.

College representative: But Medallion University provides financial aid based upon your family's financial need.

Parents: Oh, that is interesting. Someone told me that Medallion University was need-blind, so I just figured you didn't care if we couldn't pay that much.

College representative: If your daughter is admitted to Medallion University, we will calculate your expected family contribution.

Parents: Well, we contribute to our church but we have never made a contribution to Medallion University, but someone told me this is expected in order to get in.

Should we laugh or cry about this exchange? While the conversation is written in English, the parents and college recruiter are not speaking the same language. The college representative is speaking the "Language of Financial Aid" while the parents are speaking a language about paying for college.

I call the former "Financial Aid Speak" and the latter "Payment Language." To explain college pricing to the American public, higher education administrators must translate their rhetoric to Payment Language so families can make informed decisions about whether they can afford the price.

Actually, college administrators speak several languages in addition to Financial Aid Speak. Vice presidents for finance, for example, speak "Cost Language." They engage in discussions about balance sheets and expenditures for producing a college education

Like Académie Française for French, Cost Language has regulating boards that dictate the standards for word usage. The Government Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) regulate the meaning of words, phrases and concepts for finance administrators from the public and private sector, respectively. But administrators correctly hold no expectation that the public would know or even care about the wording of, say, FASB Rules 516 or 517 as generally accepted accounting principles.

To balance a budget these same vice presidents for finance also estimate the income side of the ledger. Here the language follows not only GASB and FASB rules, but also the more public vernacular of "Tuition, Fees, Room, Board, Transportation, Books, and Other Expenses." Vice presidents for enrollment management may use additional phrases like the "Cost of Attendance" or a "Comprehensive Fee" to explain the full price of going to college at an institution. They are using Price Language to explain the price of college.

"Ay, there's the rub," as the Bard reminds us. Price Language and Cost Language do not explain how much most families, and certainly not low-income families, will actually pay for college. Families must also understand Financial Aid Speak or be left with the impression that everyone pays $60,000 per year. Perhaps many families narrow their choices of where to apply because they are not multilingual, or maybe they speak Price Language and don't understand Financial Aid Speak.

And why should they? Financial Aid Speak evolved from internal administrative activities at Medallion University -- procedures that now exceed half a century in age. "Expected Family Contribution," for example, became the shorthand jargon of financial aid officers to explain how much a family would pay after the financial aid distribution to a student.

An "award," (not to be confused some kind of "prize") has different components, i.e., the "package" is made up of "gift aid" and "self-help." Ironically, these birthday sounding words reduce the family's financial obligation, not only by the amount of money available to the family but also


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according to the admissions priorities of Medallion.

"Scholarships," or "grants" – the so-called "gift aid" -- reduces the "net price" for a family, while a job or a loan – the so-called "self-help" -- requires labor and repayment. Who is "giving" this gift that requires payment of an unaffordable bill? And is the "help" really for the "self" or a down payment on the school's operating budget? This language so familiar to the financial aid officers ignores the verbiage that an untrained family uses to consider college affordability.

Add the various proper nouns and one begins to think that Financial Aid Speak is a history exam. Pell, Stafford, Perkins, SEOG, Plus at the federal level, or Lindsay, Herter, Adams, Tsongas at the state level where I live in Massachusetts, are generous programs; but families often must find and recognize eligibility, and complete lengthy forms for these named programs, to receive the intended financial help.

"Net Price," is the central concept for knowing how much a family pays for a college education. A consumer buying a car or a television or a computer would recognize the concept as the listed price minus any store discounts and rebates. The "Net Price" for a year of college is the price of attendance minus grants and scholarships from any and all sources.

Savings (past resources), wages (present resources), and loans (future resources) – both of student and parents -- describe the assets that a family will use to pay for all of these academic goods and services over time. This is the vocabulary of Payment Language; it is simple, direct, understandable and essential for general understanding of college prices. The public speaks Payment Language every day.

Recent research has shown that over half of the high-achieving students from low-income families never consider selective public and private colleges even though the price of attendance could actually be lower than the college they select.

Entitled "Boston's Faces of Excellence," the *Boston Globe* published the photographs and future plans for the valedictorian from each of the city's 44 public high schools. The student destinations included selective private universities (Harvard, Boston University, Boston College, Northeastern), flagship state universities (the University of Massachusetts, the University of New Hampshire), state public colleges and universities (Westfield State and Bridgewater State), local colleges (Simmons, Mount Ida), community colleges (Bunker Hill), and undecided.

How many of these students made their choice of college knowing the financial options that were available from all sectors of higher education? Their preferred college could have depended on the best fit for each student, but one suspects that at least some of these students had a conversation that sounded like the one at the beginning of this essay. And for the valedictorians whose surnames are Lopez and Garcia, and who were born outside of the United States, one wonders how Financial Aid Speak translates into the parents' native tongue.

Financial Aid Speak is a precise language; the verbiage describes what enrollment managers do when they decide about price discounts and eligibility for jobs and loans. Becoming articulate requires years of experience and training. When spoken well, it allows financial aid officers to compare pricing among a large number of college applicants from a variety of financial and academic backgrounds. It also produces an illusion of fairness by using standardized criteria applied equally and professionally to all applicants.

Financial Aid Speak, Cost Language, and Price Language, however, do not use words and phrases that provide adequate explanation to those that need pricing information the most – middle and high school students with low-income parents. Many education experiments indicate that simple, straightforward explanation about college pricing increases the college-going rate and available college options to low income families. Meaningful communication is a necessary condition for informed choice.

Payment Language uses words and concepts directed toward that objective. It can enlighten those who may have limited their college choice because they did not understand the available information about paying for college. Colleges must use words with universal meaning for financial transactions that explain the choices about what college to attend and how to pay the bill. We should adopt Payment Language, and follow these principles::

1. Payment Language adopts only words that are used in common financial transactions that are familiar to the public.

2. Payment Language produces comparable concepts about college pricing in all institutions from any sector of higher education, for all types of financial aid programs, and for all amounts of discounting and payment.

3. Payment Language uses "net price" – the amount of money that the family pays for one year of college -- calculated as the price of attendance minus grants and scholarships from all sources.

4. Payment Language separates financial obligation among the institution, student and parents.

5. Payment Language identifies the federal, state, institutional, and other programs and their associated eligibility requirements as a source of funding.

6. Payment Language identifies the expected timing for payment into past (savings), present (wages), and future (loan) financial obligations.

7.Payment Language includes the responsibilities for education loan repayment, including the interest rate, effect of compound interest, the total interest, monthly repayment, the possibilities for reduction and forgiveness as well as the incidence and consequences of default and bankruptcy.

8. Payment Language is as easily understood in Spanish as English and can be translated directly to other foreign languages.

These principles require testing. Conjecture about how people talk, the words they use, and what they understand is not enough to evaluate the benefits and the costs of a college education.

Years of good intentions notwithstanding, our communications with the public about paying for college are confusing and often misunderstood outside of the academy. ▪

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