The Torch

September 12, 2014

A bi-weekly report from the Coalition of Higher Education Assistance Organizations

Congress

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- **Special Attachment: Joint House Subcommittee Examines ED Oversight**
  Two House Education and the Workforce Committee's Subcommittees held a joint hearing, "Improving Department of Education Policies and Programs through Independent Oversight."
- **Senate Special Committee on Aging Examines Student Loans and Older Americans, Warren Grills FSA Official on Renegotiated Contracts**
  The Senate Special Committee on Aging convened a hearing on older Americans and student debt.
- **Senate Moderates Tout Student Loan Reform Plans**
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  The Department of Education announced plans to convene a negotiated rulemaking panel on the President's plans to expand Pay as You Earn loan repayment to all borrowers.
- **ED Announces Additional FAFSA Processing Errors**
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- **New America Foundation Warns of "Zero Marginal Cost" with GradSchool Borrowing and PSLF**
  The New America Foundation issued a report warning of the unintended consequences of unlimited borrowing, income-driven repayment, and Public Service Loan Forgiveness (PSLF).
- **NCLC Releases Report with "Misleading and Inflammatory" Rhetoric for ED Collectors**
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Congress

Congress Returns, Plans to Recess on September 23

Congress returned from recess this week and promptly announced plans to leave Washington rather quickly. Faced with an international crisis with seemingly no good answers, both the House and Senate plan to recess until after the Mid-Term Elections by September 23, just before Rosh Hashanah holiday.

With so few legislative days left, Senate Republicans used a few procedural tricks to extend debate before ultimately voting not to proceed with a Constitutional amendment on campaign finance reform. Before the elections, Senate Democrats are hopeful of holding votes on their Fair Shot Agenda, which includes Sen. Elizabeth Warren's Bank on Students Emergency Loan Refinancing Act, S. 2432.

With so few legislative days left, and Republicans employing strategies to extend to debate, it remains to be seen how many of the Fair Shot bills Democrats can again bring to the Floor. The next in line is the Paycheck Fairness Act, which raises the minimum wage, and it is unclear whether Sen. Warren's refinance legislation will receive a vote.

All of the Fair Shot bills have been considered in the past and none have received the requisite 60 votes to proceed with debate and a final vote on the bill. When they are brought up again, the results are not expected to change, but do present another opportunity for debates on messaging bills heading into the elections.

Special Attachment: Joint House Subcommittee Examines ED Oversight

On Wednesday, September 10, the House Education and the Workforce Committee's Subcommittee on Higher Education and Workforce Training and the Subcommittee on Early Childhood, Elementary, and Secondary Education held a joint hearing, "Improving Department of Education Policies and Programs through Independent Oversight." The hearing focused on the importance of independent oversight through the Office of the Inspector General (OIG) and the Government Accountability Office (GAO) in addition to the U.S. Department of Education's (ED) record of implementing the GAO and OIG's recommendations.

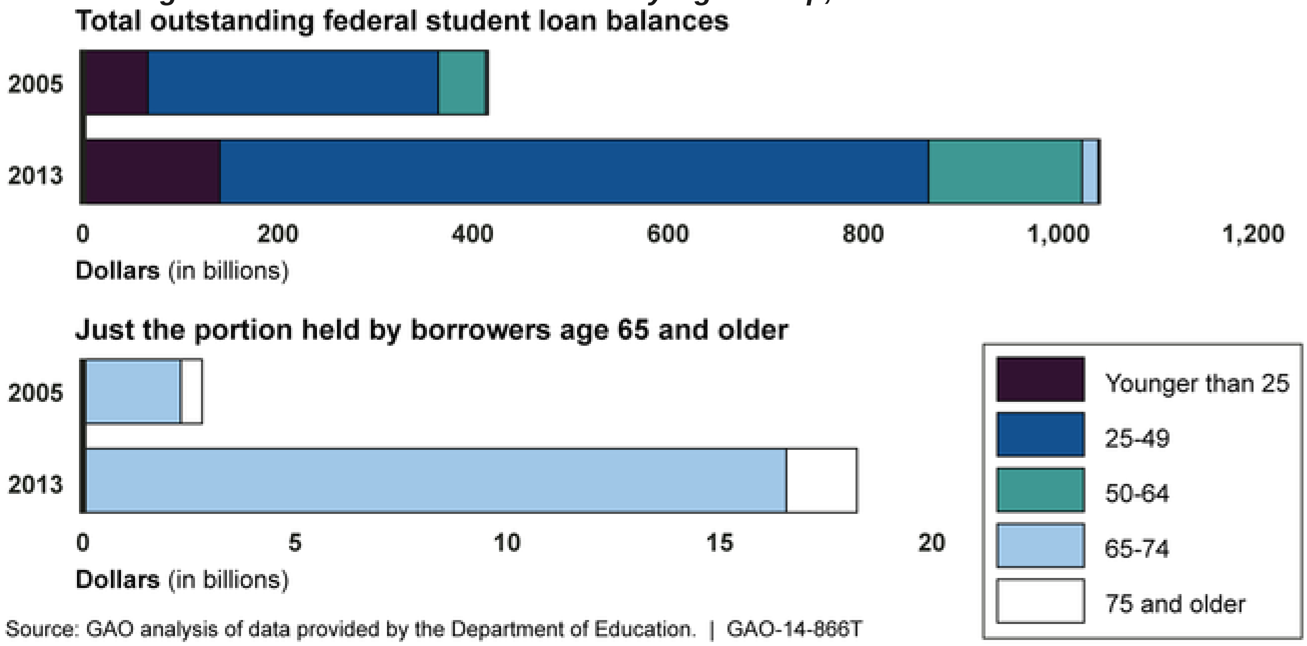
A summary of the hearing is included with today's edition as a special attachment.

Senate Special Committee on Aging Examines Student Loans and Older Americans, Warren Grills FSA Official on Renegotiated Contracts

On Wednesday, the Senate Special Committee on Aging convened a hearing on older Americans and student debt. A new report from the GAO was the highlight of the report. Somewhat surprisingly, much of the debt of older American was related to borrowing for their own education, not Parent PLUS Loans or private loans for their children. The Department of Education was unable to provide GAO with data indicating when the debts were acquired. The summary of GAO's findings, which detailed the use of the Social Security offset program, are listed below:

Comparatively few households headed by older Americans carry student debt compared to other types of debt, such as for mortgages and credit cards. GAO's analysis of the data from the Survey of Consumer Finances reveals that about 3 percent of households headed by those aged 65 or older—about 706,000 households—carry student loan *debt. This compares to about 24 percent of households headed by those aged 64 or younger—22 million households. Compared to student loan debt, those 65 and older are much more likely to carry other types of debt. For example, about 29 percent carry home mortgage debt and 27 percent carry credit card debt. Still, student debt among older American households has grown in recent years. The percentage of households headed by those aged 65 to 74 having student debt grew from about 1 percent in 2004 to about 4 percent in 2010. While those 65 and older account for a small fraction of the total amount of outstanding federal student debt, the outstanding federal student debt for this age group grew from about $2.8 billion in 2005 to about $18.2 billion in 2013.*

Outstanding Federal Student Loan Balances by Age Group, 2005 and 2013



Source: GAO analysis of data provided by the Department of Education. | GAO-14-866T

Available data indicate that borrowers 65 and older hold defaulted federal student loans at a much higher rate, which can leave some retirees with income below the poverty threshold. Although federal student loans can remain unpaid for more than a year before the Department of Education takes aggressive action to recover the funds, once initiated, the actions can have serious consequences. For example, a portion of the borrower's Social Security disability, retirement, or survivor benefits can be claimed to pay off the loan. From 2002 through 2013, the number of individuals whose Social Security benefits were offset to pay student loan debt increased about five-fold from about 31,000 to 155,000. Among those 65 and older, the number of individuals whose benefits were offset grew from about 6,000 to about 36,000 over the same period, roughly a 500 percent increase. In 1998, additional limits on the amount that monthly benefits can be offset were implemented, but since that time the value of the amount protected and retained by the borrower has fallen below the poverty threshold.

William Leith, Chief Business Officer for the Office of Federal Student Aid, was a witness at the hearing. During her questions, Sen. Elizabeth Warren (D-MA) used the opportunity to grill Leith on a largely unrelated matter—recent changes to the Direct Loan servicing contract, specifically referencing Navient. *Inside Higher Ed* offers further details:

The new contracts change the payment structure for loan servicers, increasing the rate at which they are paid for accounts in good standing and reducing the amount of money they are paid for delinquent accounts. The servicers will also receive new bonuses if they keep their borrowers' delinquency rates at certain levels.

At a Senate hearing Wednesday, Warren grilled an Education Department official over the new contracts, asking why the loan servicing companies would be paid more to manage the payments of borrowers in good standing. She cited analysis by Compass Point that showed that Navient, the loan-servicing business that was previously part of Sallie Mae, stood to receive an additional $20 million under the payment structure without making any changes to the health of their portfolio.

Navient has drawn particular scrutiny from Warren and other student and consumer groups. Federal prosecutors earlier this year accused the company of overcharging military service members. It entered into a multimillion-dollar settlement with the Department of Justice, in which it did not admit any wrongdoing.

William Leith, the chief business operations officer for the department's Federal Student Aid office, said that while the department estimated that the servicers, in aggregate, would receive more money to service loans, the contracts were designed to help borrowers. He said that the Education Department was on track to complete a 120-day review of whether any of its loan servicers, including Navient, had illegally overcharged service member borrowers. That review will be completed in the next several weeks, he said.

Additional information on the hearing is available online:
http://www.aging.senate.gov/hearings/indebted-for-life-older-americans-and-student-loan-debt
Additional information on the GAO report is available online: http://www.gao.gov/products/GAO-14-866T

Senate Moderates Tout Student Loan Reform Plans

In the last weeks of the recess, two Senate moderates, Sen. Mark Warner (D-VA) and Sen. Angus King (I-ME), touted student loan reform bills in their home states.

Warner touted his bipartisan efforts, particularly his automated IBR legislation with Sen. Marco Rubio (R-FL), in a tour throughout Virginia.

In Maine, King announced plans to formally introduce a federal loan repayment reform bill. Senator Richard Burr and King have released a discussion draft to consolidate federal loan repayment plans, and it is expected to eventually become the repayment component of Sen. Lamar Alexander (R-TN) and Sen. Michael Bennet's (D-CO) "FAST Act," which would move toward a "one grant/one loan" federal student aid program.

White House & Administration

ED Announces Plans for Neg Reg on PAYE Expansion

The Department of Education announced plans to convene a negotiated rulemaking panel on the President's plans to expand Pay as You Earn loan repayment to all borrowers. In a *Federal Register* announcement, ED said it will hold two public hearings, one in Washingon, DC and another in Anaheim, CA, this fall.

After the hearings, the Department will invite nominations for negotiators. ED anticipates three rounds of negotiations beginning in February.

President Obama announced plans to expand the repayment program to all borrowers earlier this year. In his memo announcing the executive action, Obama directed Treasury and ED to extend the plan to all borrowers by the end of 2015. Republicans criticized the President for circumventing Congress with this move.

The *Federal Register* is available online: https://s3.amazonaws.com/public-inspection.federalregister.gov/2014-20977.pdf

ED Announces Additional FAFSA Processing Errors

The Department of Education recently announced additional FAFSA processing errors. In this second announcement of the aid season, the Department indicated roughly 160,000 students would have their applications reprocessed. *Inside Higher Ed* has additional details:

> *For the second time this year, the U.S. Department of Education will reprocess tens of thousands of federal student aid applications because of a decimal place error, officials announced Thursday.The department said that next week it will reprocess "less than 160,000" applications where officials suspect a student may have incorrectly inserted a decimal place into the online application's income box, artificially boosting his or her wealth in the eyes of the federal formula that determines aid.*
>
> *The misreported adjusted gross income, in some cases, may have led students to be denied for a Pell Grant or have their award reduced from what it should have been had they correctly filled out the Free Application for Federal Student Aid, known as the FAFSA. Some of those errors were caught in July when the department reprocessed 182,155 applications to correct a similar error in the "earned income from work" box, officials said. Most of those applications, however, involved students appearing qualified for more aid than they should have been.*
>
> *In the current batch of reprocessing, department officials said they are targeting applications where a student's adjusted gross income is greater than $100,000 or a parent's adjusted gross income is listed above $500,000. "While meeting these criteria does not mean that an error occurred -- we actually do have students who earn more than $100,000 and parents who earn more than $500,000 -- we believe that it would be prudent for institutions to review these transactions to ensure that the financial information is accurate," the department's announcement said.*

Additional information from the Department is available online: http://ifap.ed.gov/eannouncements/090414SeptemberServicepackPreRelease.html

Industry

New America Foundation Warns of "Zero Marginal Cost" with Graduate School Borrowing and PSLF

This week, the New America Foundation issued a report warning of the unintended consequences of unlimited borrowing, income-driven repayment, and Public Service Loan Forgiveness (PSLF). According to the paper's authors, Jason Delisle and Alex Holt, many students enrolled in graduate schools reach a point of federal loan debt where the amount they will repay has no connection to the amount borrowed.

Delisle and Holt refer to this point as the “zero marginal cost threshold” for graduate school borrowing, and argue it is particularly applicable for PSLF. Their blog post offers further details:

> *We conducted our analysis using income projections in 10 different professions for individuals who hold graduate and professional credentials. While some of these professions are more likely than others to align with qualified employment under PSLF, the definition of qualified employment is very broad and the nature of the job is irrelevant for eligibility. Employment at any 501(c)(3) tax-exempt nonprofit qualifies, as does any government position (state, federal, local, and tribal).*
>
> *We then calculated what borrowers with these income profiles would repay on their federal student loans if they used IBR and PSLF using combined undergraduate and graduate debt levels at low, typical, and high levels as reported in the U.S. Department of Education’s National Postsecondary Student Aid Survey for 2012. Most importantly, we calculated the point at which a borrower with a projected income in a certain profession could borrow more in federal student loans but not have to repay any of it—all remaining debt would all be forgiven. We call this the Zero Marginal Cost Threshold (ZMCT).*
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> *The results suggest that the most recent version of IBR and PSLF provide benefits that are large enough that it could become common for the government to pay for a student’s entire graduate education via loan forgiveness under PSLF, especially in some professions, like K-12 teachers. That is because the debt levels at which borrowers bear no incremental cost in borrowing more when using IBR and PSLF are low relative to what many graduate and professional degrees cost and to what students already borrow in federal loans. Even typical levels of debt will result in substantial amounts of loan forgiveness for borrowers earning more than most of their peers.*
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> *For example, teachers, social workers, and speech pathologists who go on to earn at the 75th percentile of their peer groups reach the ZMCT before they have accumulated $32,000 in federal loans. That is well below the median amount of debt students accumulate when pursuing master’s degrees for those fields (of those who borrow). For most of these borrowers, then, the marginal $5,000 or even $20,000 they borrow beyond a $32,000 balance is effectively grant aid. Similarly, lawyers who earn median wages for their age cease to incur incremental costs in borrowing once their loan balances hit $54,500. Well over three-quarters of today’s law school graduates who borrow accumulate more than $54,500 in federal debt by the time they leave school. More importantly, the ZMCT equates to only about one year’s tuition and living expenses for law school, implying that the remaining two years of costs could be borne completely by the government through loan forgiveness.*

Supporters of PSLF downplayed the analysis, arguing it is not likely to provide many borrowers with this level of relief.

"No one can know for sure what their job or earnings will be in the future," Lauren Asher, President of TICAS, told the *Washington Post*.

Additional information on the New America Foundation report is available online: http://www.edcentral.org/zeromarginalcost/

NCLC Releases Report with “Misleading and Inflammatory” Rhetoric for ED Collectors

Last week, the National Consumer Law Center released a report highly critical of the debt collection practices of the Department of Education and its contractors. The “misleading and inflammatory” rhetoric from NCLC toward the Department’s contractors, as described by the trade publication *InsideARM,* does more harm than good for the national debate, but is not surprising.

As the title of the report, “Pounding Student Borrowers,” might indicate, this publication was certainly more focused on grabbing attention that telling the full story. For instance, it highlights the “billions” in taxpayer funds going to collection agencies, but does not mention anywhere in the report that these funds are small commissions for collecting much larger sums of the government.

The tone of the report illustrates a growing frustration and criticism of the Department of Education from the consumer side of this discussion. Oddly, their answer is to give the Department even more responsibilities by eliminating private contracting.

The report from NCLC is available online: http://www.nclc.org/issues/pounding-student-loan-borrowers.html
A response from Patrick Lunsford at *InsideARM* is available online:
http://www.insidearm.com/opinion/consumer-group-blasts-ed-student-loan-collectors-in-horribly-biased-report/

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