The Torch

May 23, 2014

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

COHEAO News

- **Special Attachment: Draft Agenda for the COHEAO Mid-Year Conference—August 3-5, Denver**
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Congress

- **Senate Democrats to Push Refinance Legislation in June**
  At a press event last week, Senate Democrats outlined their plans for Sen. Elizabeth Warren's "Bank on Students Emergency Loan Refinancing Act."
- **CBO: Direct Student Loans 10-Yr Cost Projections = $88 Billion under Fair-Value Accounting**
  This week, the Congressional Budget Office (CBO) released projected budgetary costs of federal credit programs, including the student loan programs, using two different approaches.
- **HELP Committee Examines Support for Veterans and Servicemembers in Higher Ed**
  On Thursday, the Senate HELP Committee convened a hearing, "Examining Access and Supports for Servicemembers and Veterans in Higher Education."
- **HELP Committee Examines MSIs, Hagan Plans to Introduce Legislation to Create HBCU Innovation Fund**
  On Tuesday, May 20, the Senate HELP Committee convened a hearing, "Strengthening Minority Serving Institutions—Best Practices and Innovations for Student Success."
- **IRS Use of Private Collectors Included in Senate Tax Extenders Legislation**
  Tucked away among the numerous tax extenders, which include certain higher education tax credits, is a provision calling for the IRS to use private collection agencies for inactive tax receivables.

White House & Administration

- **Negotiated Rulemaking on Cash Management, PLUS, Distance Ed Concludes Without Final Agreement**
- **CFPB Issues Report On Problems in Payday, Debt Collection and Consumer Reporting**
- **NCLC Sues ED for Collector Performance, Compensation Data**

This week, the National Consumer Law Center (NCLC) filed a lawsuit seeking to force the Department of Education to provide information on how it evaluates and rewards collection contractors.

- **Federal Government and Sallie Mae/Navient Reach Settlement on SCRA**
  Last week, the Department of Justice filed a complaint alleging that three defendants, Sallie Mae and its successor companies violated SCRA and the parties have agreed to a settlement.
- **Department to Delay Release of Initial PIRS Proposal**
  The Department of Education announced a delay in releasing plans for its Postsecondary Institutions Ratings System (PIRS).

Industry

- **Reports Add to Student Loans as "Drag" on Economy/Housing Narrative**
  Two recent reports this week provide more evidence for the argument that student debt is having an impact on the overall economy, particularly the housing market.

Attachments

- **COHEAO Commercial Members**
- **COHEAO Board of Directors**

Special Attachment: Draft Agenda for the COHEAO Mid-Year Conference—August 3-5, Denver

The COHEAO Mid-Year Conference is a unique event that offers deep insights on the most pressing legislative and regulatory issues facing campus professionals as well as training on the basics of program administration. In addition to updates on the Congress, the CFPB, and the Department of Education, sessions at the COHEAO Mid-Year will address financial literacy and higher education, the use of debit cards on campus, UDAAP enforcement, and much more. A speaker from Great Lakes Higher Education has just confirmed to discuss loan consolidation issues, a topic that has changed recently thanks to new Department of Education regulations.

COHEAO is also trying something a little bit different for us at this year's Mid-Year—concurrent sessions. This year's Mid-Year agenda will include both concurrent and general sessions for conference attendees. A preview of the conference program is included with today's edition as a special attachment.

Online registration is now open for the COHEAO Mid-Year Conference. Register today! Set for August 3-5 in Denver, the COHEAO Mid-Year Conference is the premier summertime event for campus loan administrators and student financial services professionals.

The COHEAO Mid-Year will be held at the Grand Hyatt Denver, a modern, comfortable hotel located in the heart of the city. COHEAO has negotiated a fabulous rate of $169 for conference attendees. Whether it is catching a game at nearby Coors Field, a visit to the Rocky Mountains, or any of the other fun activities Denver has to offer, the Grand Hyatt Denver is a perfect location for tacking a summer vacation onto a business trip.

Go ahead and sign up today. This is a conference you won't want to miss.

COHEAO Mid-Year Conference at a Glance

When:	**August 3-5, 2014 (Conference Programming August 4 & 5)**
Where:	**Grand Hyatt Denver**
Registration:	**http://goo.gl/hE1mVy**
Additional Info:	**http://goo.gl/ZjfljU**
Costs:	**$460 for all COHEAO members ($510 after July 11)** **$560 for institutional & organizational non-members ($610 after July 11)** **$1,610 for commercial non-members ($1,660 after July 11)**
Conference Hotel:	**Grand Hyatt Denver**
Hotel Registration:	**Click here for online registration** **Call (402) 592-6464 and mention COHEAO.**
Hotel Rate	**$169 (Market rates after July 11)**

Congress

Senate Democrats to Push Refinance Legislation in June

At a press event last week, Senate Democrats outlined their plans for Sen. Elizabeth Warren's "Bank on Students Emergency Loan Refinancing Act," S. 2292. Democrats plan to bring the legislation, which

would create a new program to refinance existing federal and private student loans, to the Floor upon return from the Memorial Day Recess.

The bill is likely to be the first on the Floor after the recess, though Sen. Charles Schumer (D-NY) did acknowledge that Senate Democrats were still awaiting a score from CBO. There have been reports that Senate Democrats are working to modify the bill to find the best way for to score "budget neutral." Currently, the bill is designed to achieve budget neutrality through use of the "Buffett Rule" surtax on millionaires, and other methods.

COHEAO has learned this week that Senate Democrats are now planning to expand the scope of the bill to include a number of other issues, making it in essence a look at their proposals for Higher Education Act reauthorization. It is not clear if Perkins Loan proposals will be included, however, as the final bill is not completed.

Senate Republicans have voiced opposition to the proposal, and they probably have the ability to block it from passing if they choose. However, this is exactly what Democrats want heading into campaign season for the upcoming Congressional elections. The "Bank on Students Emergency Loan Refinancing Act" is openly described as a "messaging bill" designed to contrast a tax hike on the wealthy against the plight of student loan borrowers.

House Republicans are planning to introduce their own bill this summer, which may be able to pass the House, but not the Senate. Thus, it is highly unlikely that a final HEA reauthorization bill will pass the Congress this year.

CBO: Direct Student Loans 10-Yr Cost Projections = $88 Billion under Fair-Value Accounting

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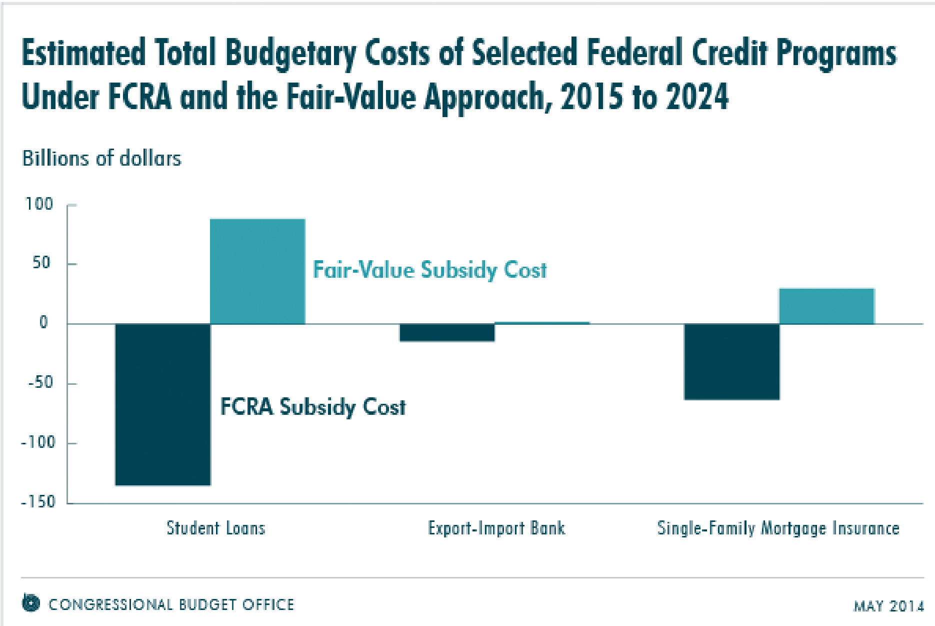
This week, the Congressional Budget Office (CBO) released projected budgetary costs of federal credit programs, including the student loan programs, using two different approaches. In one, cost is based on an estimate of the market value of the federal government's obligations, termed a fair-value approach. Those estimates are compared with ones reflecting the procedures currently used in the federal budget as prescribed by the Federal Credit Reform Act of 1990 (FCRA).

For fiscal years 2015 to 2024, CBO found that the Department of Education's four largest student loan programs would yield budgetary savings of roughly $135 billion under FCRA accounting but cost roughly $88 billion on a fair-value basis. There are several federal credit programs, but the variation in costs is most acute in the student loan programs. A chart below highlights the disparities between FCRA and fair-value:



The release of the report has important implications for the pending student loan debate. A bill sponsored by Sen. Elizabeth Warren (D-MA), is set to hit the Floor the week of June 9. For some time, Warren and several of her Democratic colleagues have pointed to "obscene" profits as evidence for the need for a new refinancing program and lower rates across the board. However, this report questions the actual profitability of the loan programs.

Under FCRA accounting, subsidized Stafford Loans are the only loans projected to carry a subsidy, or cost, for the government next year. However, all Stafford Loans are projected to carry costs under fair-value accounting.

According to the report, CBO projects the Department to originate roughly $1.175 trillion in Direct Loans over the next ten years. A table of CBO's projected subsidy costs for 2015-2024 is included below. Please note a negative subsidy indicates a return for the government and a positive subsidy indicates a cost.

Loan Type	**FCRA Subsidy Rate**	**Fair Value Subsidy Rate**
Subsidized Stafford	8.3	25.4
Unsubsidized Stafford (Undergrad and Grad)	-13.2	6.2
Grad PLUS	-35.3	-12.4
Parent PLUS	-35.6	-17.5
Totals	-11.8	7.5

CBO is non-partisan, and economists of various ideologies have called for the use of fair-value accounting. However, some progressive think tanks point to the unique nature of the government and say it is not appropriate to account for market risk.

The government's collection powers are certainly different from those of a private company. However, CBO notes the recovery rates associated with federal loans are accounted for in both the FCRA and fair-value estimates.

In a footnote, CBO says the collection powers are accounted for, but Stafford loans will continue to score as a cost under fair-value accounting because of lower interest rates and Stafford borrowers "are less likely to fully repay their loans than PLUS borrowers."

The full CBO report is available online: http://www.cbo.gov/publication/45383

HELP Committee Examines Support for Veterans and Servicemembers in Higher Ed

On Thursday, the Senate Health, Education, Labor and Pensions (HELP) Committee convened a hearing, "Examining Access and Supports for Servicemembers and Veterans in Higher Education." The hearing focused on broad issues. Representatives from the Department of Education, Department of Defense, Student Veterans of America, the University of Vermont, and the University of North Carolina testified. In general, there was much agreement among the panelists and Senators on the need to support veteran students. There was also much discussion on granting academic credit for previous military experience.

Senator Warren used almost all of her allotted time to discuss the importance of tracking complaints, stating her belief that there should be a similar mechanism to the inter-agency system developed for veterans and servicemembers to file complaints related to higher education. Dr. Thomas Langdon, the DoD witness, indicated his agency had received a total of 146 complaints since the system went live in January. Langdon said every complaint was important, but also noted that it was a very small number of complaints compared to the number veterans.

When Kimrey Rhinehart, a lobbyist for the University of North Carolina, suggested that reporting to multiple agencies required additional employees and thus added to the cost of college, Warren was dismissive. She asked Rhinehart if she believed DoD should simply ignore such complaints.

Senator Richard Burr (R-NC), who served as ranking Republican member for the hearing, asked Lauren Starks, the Department of Education's, witness about communications from the Department to student loan servicers and lenders on Servicemembers Civil Relief Act (SCRA) requirements. Stark indicated she was not aware of the letter. She did say the Department was "working closely with (the Department of) Justice" on forthcoming guidance which would instruct federal loan servicers to make use of a DoD database of those serving in the military to help determine SCRA eligibility. The SCRA says that active duty servicemembers can be charged no more than 6 percent interest and are eligible for special deferments and other benefits. There are apparently differences in what documentation ED requires servicemembers to produce and what the SCRA says is necessary.

Burr continued to press the issue, asking which law is in effect, the Higher Education act or SCRA. In the end, Stark said, "I'll take it back to the Department and get back to you on that." Burr said it is "absolutely critical" for agencies to provide sound guidance and resolve inter-agency conflicts.

Additional information, including witness testimony and an archived webcast, from the hearing is available online: http://www.help.senate.gov/hearings/hearing/?id=020149ff-5056-a032-524a-1ca4c238bcac

HELP Committee Examines MSIs, Hagan Plans to Introduce Legislation to Create HBCU Innovation Fund

On Tuesday, May 20, the Senate HELP Committee convened a hearing, "Strengthening Minority Serving Institutions—Best Practices and Innovations for Student Success." The hearing was chaired by Sen. Kay Hagan (D-NC), and Sen. Rand Paul (R-KY) served as Ranking Member. At the conclusion of the hearing, Hagan announced plans for legislation to create an "HBCU Innovation Fund." The witnesses for the hearing were as follows:

- **Dr. Marybeth Gasman**, Professor of Higher Education and Director of the Center for Minority-Serving Institutions at the University of Pennsylvania, Philadelphia, PA
- **Dr. Michael L. Lomax** , President and CEO of the United Negro College Fund, Washington, D.C.
- **Mr. Eloy Ortiz Oakley** , President of Long Beach City College, Long Beach, CA
- **Dr. D. Jason DeSousa** , Assistant Vice Chancellor of Student Retention, Fayetteville State University, Fayetteville, NC
- **Dr. John Bassett** , President of Heritage University, Toppenish, WA

As it was a springboard for Hagan's new legislation, a great deal of the hearing was focused on HBCUs. Gasman provided an overview of all minority serving institutions (MSIs), and each of the witnesses discussed individual efforts at their institution and organization that had produced results or showed great promise.

Student loans came up on several occasions at this hearing. Lomax called for relaxed standards for defining "adverse credit" in PLUS loans, lowering federal interest rates, and IBR with wage withholding. Lomax suggested auto-IBR with wage withholding would effectively end defaults.

In arguing for lower rates, Lowmax suggested PLUS loan rates are more than 10 percent, adding the 4.2 percent origination fee to the current rate of 6.41 percent. Sen. Elizabeth Warren seized on these comments to suggest her "Bank on Students Emergency Loan Refinancing Act" was desperately needed. An origination fee is added to the principal balance. It increases the APR on PLUS loans, but not to the degree which Lowmax suggested. Unlike applications for loans made by the private sector, the Direct Loan application does not include a disclosure of APR, which takes into account the interest rate and any fees associated with a loan.

Additional information on the hearing, including witness testimony and an archived webcast, is available online: **http://www.help.senate.gov/hearings/hearing/?id=334cc656-5056-a032-5256-b5956209ca64**
Additional information on Hagan's yet to be introduced legislation is available online: **http://www.hagan.senate.gov/?p=press_release&id=2687**

IRS Use of Private Collectors Included in Senate Tax Extenders Legislation

Senate Republicans blocked legislation this week to renew annual tax credits, known as the "extenders" bill. Senator Mark Kirk (R-IL) joined the Democrats in voting to proceed on the bill, but a dispute over amendments prevented the bill from coming up in the full Senate.

Tucked away among the numerous extenders, which include certain higher education tax credits, is a provision calling for the IRS to use private collection agencies for inactive tax receivables. *InsideARM* has more on the legislation:

Wyden's bill directs the Treasury Secretary to: (1) enter into qualified tax collection contracts to collect outstanding inactive tax receivables; and (2) establish a program to hire, train, and employ special compliance personnel to collect taxes using the automated collection system.
The text of the bill specifically authorizes the IRS to contract with a private third party to help collect "Inactive tax receivables," which under the definitions means any receivable that is:

1. *at any time after assessment, the IRS removes such receivable from the active inventory for lack of resources or inability to locate the taxpayer,*
2. *more than 1/3 of the period of the applicable statute of limitation has lapsed and such receivable has not been assigned for collection to any employee of the IRS, or*
3. *in the case of a receivable which has been assigned for collection, more than 365 days have passed without interaction with the taxpayer or a third party for purposes of furthering the collection of such receivable.*

If and when the Senate gets through this amendment dispute, which is not related to IRS collections, the "extenders" legislation should pass. The bill could undergo some changes prior to hitting the Floor, but there are no reports of amendments addressing this language.

Additional coverage from *InsideARM* available online: **http://www.insidearm.com/daily/debt-collection-news/debt-collection/u-s-senate-bill-would-allow-private-collectors-to-work-for-irs-again/**

White House & Administration

Negotiated Rulemaking on Cash Management, PLUS, Distance Ed Concludes Without Final Agreement

After four months of work and much progress on several fronts, the Department of Education's latest negotiated rulemaking session program integrity issued ended this week at impasse on two of the six topics up for negotiation. Those are campus management of Title IV refunds and state authorization requirements for distance education programs.

Negotiators did reach consensus on new definitions of adverse credit for PLUS Loan applicants, state licensing of foreign campuses of US schools, clock to credit hour conversion changes, and rules on aid for students retaking coursework. Because consensus was not reached on the entire regulatory package, ED can draft regulations without regard to negotiated positions. However, it is expected that the next draft of the regulations on the four areas of consensus will be quite close to what was agreed to.

PLUS loans did draw much time during the negotiations, but in the end ED put compromise positions on the table that satisfied the negotiators. The final draft limited the look-back for PLUS borrower history to two years in the case of loans that were charged off (given up on) or in collection to the previous two years. Debts more than 90 days past due would have to be more than $2,085 to count as adverse credit history. (The ED negotiators said they would later consider ways to raise that amount to account for inflation.) Defaults of Title IV debts will not count if the default has occurred more than five years previously.

The level of responsibility placed on states to oversee out-of-state distance education programs drew long discussions. Fundamental differences occurred between representatives of institutions of higher education and the Department, with negotiators representing consumer interests generally siding with ED but letting ED do most of the negotiating. It seems likely that ED will work to set up a national database for complaints about distance education, as one of the main concerns of ED and consumer representatives was who would be responsible for receiving complaints from students taking classes across state lines.

In the end, the key insurmountable issue was over whether states should be allowed to exempt institutions from licensing requirements just because they are accredited or have been operating for many years and if not, what additional criteria would be required of the states.

The cash management issue took the most time and in the end left most of the negotiators dissatisfied. From the start, differences in perspectives and interests made it seem unlikely that this issue would be completed. In the final negotiating days, the Department proposed new "cash management" language that would be problematic for campus banking relationships, according to lender and servicer representatives. Financial services industry negotiators expressed concern that the Department's proposals would turn any bank account that receives Title IV funds into a "sponsored account" subject to a number of very restrictive regulations and government price controls if the school has any contractual arrangement with the lender or servicer. The result could be an exit for banks from providing financial services on campuses.

Department negotiators said the rules would not apply to bank accounts a student opens before arriving on campus but those accounts would be transformed into sponsored accounts if there is an agreement between the bank and the campus for provision of services, such as using a campus card as an ATM card that could access the student's Title IV refunds. For the financial institutions, the main concern was over what happens to a pre-existing bank account when Title IV funds touch it. Their representatives presented several proposals, including restrictions on fees allowed to be charged.

Consumer representatives and financial institution negotiators met for hours on the last day of the session, but the issue of whether marketing a campus card by a financial institution would be allowed along with other issues prevented agreement. Consumer representatives continued to be concerned that students would be taken advantage of in deals between schools and financial institutions.

A lot of work remains to be done on this controversial regulatory proposal before it's ready to take effect. ED seems likely to revise its last draft, but a large number of comments are expected whenever it publishes a notice of proposed rulemaking. Reports surfaced late in the week that its implementation may be delayed a year, to July 1, 2016.

ED's special web page on the negotiations which includes links to all the documents and drafts can be found here: http://www2.ed.gov/policy/highered/reg/hearulemaking/2012/programintegrity.html .

CFPB Issues Report On Problems in Payday, Debt Collection and Consumer Reporting

The Consumer Financial Protection Bureau (CFPB) this week issued a report "highlighting illegal actions uncovered by the Bureau's supervision of the payday, debt collection, and consumer reporting markets."

CFPB Director Richard Cordray said, "The CFPB's oversight of banks and nonbanks alike is exposing risky practices and getting results for consumers. We are pleased that our supervision program has been able to return more than $70 million to consumers in recent months."

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the CFPB has authority to supervise certain nonbanks, including mortgage companies, private student lenders, and payday lenders, as well as nonbanks the Bureau defines through rulemaking as "larger participants." For collection agencies, larger participants is defined as having more than $10million in annual accounts serviced.

According to the CFPB, the new report generally covers supervisory activities between November 2013 and February 2014. In the three nonbank markets highlighted, examiners found that many companies had systemic flaws in their compliance management systems, such as consistently failing to have a system in place to track and resolve consumer complaints. The CFPB expects companies to respond to customer complaints and identify major issues and trends that may pose broader risks to their customers. Examiners also identified additional problem areas within each specific market

The report and a summary can be found here: http://www.consumerfinance.gov/newsroom/cfpb-supervision-report-highlights-risky-practices-in-nonbank-markets/

NCLC Sues ED for Collector Performance, Compensation Data

This week, the National Consumer Law Center (NCLC) filed a lawsuit seeking to force the Department of Education to provide information on how it evaluates and rewards collection contractors. According to NCLC, the Department violated the Freedom of Information Act (FOIA) in refusing to provide records on performance and on incentive-based payments for ED collectors.

NCLC has been a longtime critic of collection agencies working in student debt. Deanne Loonin, who heads the organization's student debt work, recently appeared before the Senate HELP Committee alleging widespread mistreatment of borrowers by collection agencies. NCLC relies largely on the anecdotal claims of the delinquent borrowers it serves as the evidence to support its claims. As the Department did not provide the data it is seeking, the organization is now turning to litigation.

InsideARM, the industry trade publication adds:

It's not the first time the federal government has been sued under FOIA for unwillingness to release records related to contracting with debt collection agencies.

In 2012, MyGovWatch.com – a site that helps ARM companies bid on government contracts – sued the Treasury Department to obtain bidder information that the agency refused to release on a recently-

awarded collection contract. The site won its FOIA suit in late 2013 and it was upheld on appeal in January.

The case was prompted by the refusal of Treasury's Financial Management Service (FMS) to release, at request, the names and bids of companies that were unsuccessful in winning a spot on the contract. After spending a year and a half defending the decision, and the corresponding legal fees required to do so, FMS was ultimately compelled to release the information to MyGovWatch.com.

The NCLC complaint is available online:
http://www.insidehighered.com/sites/default/server_files/files/1-main.pdf
Supplemental materials for the complaint are available online:
http://www.insidehighered.com/sites/default/server_files/files/1-1.pdf

Federal Government and Sallie Mae/Navient Reach Settlement on SCRA

Last week, the Department of Justice (DOJ) filed a complaint alleging that three defendants, Sallie Mae and its successor companies, engaged in a nationwide pattern or practice, dating as far back as 2005, of violating the Servicemembers Civil Relief Act (SCRA) by failing to provide members of the military the 6 percent interest rate cap to which they were entitled and improperly obtaining default judgments against some servicemembers.

In addition to the complaint, DOJ filed a proposed settlement of the lawsuit which will require Sallie Mae to pay $60 million to compensate servicemembers for the alleged SCRA violations. DOJ estimates that about 60,000 servicemembers will receive compensation under the settlement.

The proposed settlement covers the entire portfolio of student loans serviced by, or on behalf of, Sallie Mae. This includes private student loans, Department of Education Direct Loans and student loans that were originated under the Federal Family Education Loan Program. The proposed settlement is far-reaching, with certain sevicemembers to be compensated for violations of the SCRA that occurred almost a decade ago. In addition to the $60 million in compensation, the proposed settlement contains several other key provisions aimed to ensure that servicemembers are protected going forward.

In announcing the settlement, Navient (the servicing company recently created when Sallie Mae divided itself in two) indicated it will provide approximately $4.5 million in refunds to customers serviced between 2005 and 2014 who did not receive all of their benefits due to operational errors by the company, as well as additional compensation of approximately $13.5 million to those same borrowers. Navient will also create a $60 million fund that will compensate eligible federal and private loan borrowers. Navient notes that the large majority of the fund will be distributed by the DOJ to customers that the agency believes qualified for the benefit under an interpretation of SCRA that the company believes is inconsistent with prior regulatory requirements and guidance. The terms of the settlement also require the company to pay a $55,000 civil penalty to the DOJ.

Navient president and CEO Jack Remondi commented in prepared statement:

"We offer our sincere apologies to the servicemen and servicewomen who were affected by our processing errors and thus did not receive the full benefits they deserve. . . . . Over the past several years we have implemented changes in our procedures and training programs to prevent these mistakes from happening again. We also appreciate that the regulators agreed on consistent guidance that provides

clarity and thereby enables us to offer SCRA benefits to even more service members back to as early as 2005 as well as going forward."

Notably, the terms of the consent agreement apply only to Sallie Mae and its successor companies. Inconsistent guidance from multiple regulatory agencies on SCRA-required documentation remains a concern for other loan holders and servicers. Industry representatives have long been seeking additional flexibility in assisting borrowers with SCRA documentation for their federal student loans.

The Consumer Bankers Association, Student Loan Servicing Alliance and Education Finance Council this week sent a new letter to Education Secretary Duncan pointing out conflicting policies between federal agencies and asking that the government clarify what documents federal student loan servicers must demand from servicemembers seeking SCRA benefits.

- The DOJ press release is available online: **http://www.justice.gov/opa/pr/2014/May/14-ag-502.html**
- An electronic announcement from ED is available online: **http://ifap.ed.gov/eannouncements/051314LSISallieMaeSCRASettlementwithUSDeptofJustice.html**
- The Navient press release is available online: **http://news.navient.com/releasedetail.cfm?ReleaseID=847600**
- The Sallie Mae press release is available online: **http://news.salliemae.com/press-release/corporate-and-financial/sallie-mae-bank-settles-previously-reported-regulatory-matters**
- Attorney General Holder's remarks from Tuesday's joint press conference with Secretary Duncan are available online: **http://www.justice.gov/iso/opa/ag/speeches/2014/ag-speech-140513.html**
- A statement from Holly Petraeus of the CFPB is available online: **http://www.consumerfinance.gov/newsroom/statement-by-cfpbs-holly-petraeus-on-doj-fdic-enforcement-actions-against-sallie-mae/**

Department to Delay Release of Initial PIRS Proposal

The Department of Education announced a delay in releasing plans for its Postsecondary Institutions Ratings System (PIRS). Jamie Studley, Deputy Under Secretary at the Department of Education, is heading up the project. The offered the following in a blog post on PIRS:

As this conversation has evolved we've sought the help of higher education leaders and experts. In December, we asked technical and subject-matter experts about measures, data sources, and formulas that might be used to generate ratings. We received more than 140 responses, including some fully-developed recommendations for designing an effective system. In February, we convened a technical symposium on ratings systems with people knowledgeable about measures developed by institutions, states, and publications. The scope of responses, complexity of the task, and importance of doing this thoughtfully and usefully led us to decide that it is worth taking more time before publishing a proposal for comment, interchange and improvement. In the meantime we are continuing conversations with educators, families, leaders and researchers. We are on track to come out with a proposal by this fall and a final version of the new ratings system before the 2015-16 school year. I look forward to updating you again on progress in the coming months.

When the Department announced it planned to release an initial proposal this spring, many observers believed it was an incredibly ambitious timetable. However, the further the project is delayed, it further pushes conventional wisdom toward the notion that the federal government implementing this nationalized rating system across thousands of unique institutions is "mission impossible."

Studley's full blog post is available online: http://www.ed.gov/blog/2014/05/making-it-easier-to-pick-and-pay-for-college-through-ratings/

Industry

Reports Add to Student Loans as "Drag" on Economy/Housing Narrative

Two recent reports this week provide more evidence for the argument that student debt is having an impact on the overall economy, particularly the Housing market. However, a deeper look at the data questions this narrative.

Economists with the New York Federal Reserve Bank's "Liberty Street Economics" blog released new data on student debtors and other forms of consumer credit under the headline, "Young Student Borrowers Remained on the Sidelines of the Housing Market in 2013." An excerpt is below:

Further, student borrowers failed to exhibit the differential recovery one might expect in 2013. Prior to the most recent recession, homeownership rates were substantially higher for thirty-year-olds with a history of student debt than for those without. This pre-recession pattern is typically explained by the fact that student debt holders have higher levels of education on average, and hence, higher income potential. Simply put, these more educated, often higher-earning, consumers were more likely to buy homes by the age of thirty.

However, the recession brought a sudden reversal in this relationship. As house prices fell, homeownership rates declined for all types of borrowers, and declined most for those thirty-year-olds with histories of student loan debt. In last year's blog, we reported that 2012 was the first time in at least ten years that thirty-year-olds with no history of student loans were actually more likely to have home-secured debt than those with a history of student loans.

Did student borrowers regain their homeownership advantage in the course of the broader recovery? They did not. Surprisingly, student loan holders were still less likely to invest in houses than non-holders in 2013, despite the marked improvements in the aggregate housing market.

In addition to the report from the New York Fed, the Pew Research Center issued a report, "Young Adults, Student Debt, and Economic Well Being," which noted that households headed by young, college educated student debtors have a much lower net worth than their college-educated peers with no debt. In part, the paper states:

An analysis of the most recent Survey of Consumer Finances finds that households headed by a young, college-educated adult without any student debt obligations have about seven times the typical net worth ($64,700) of households headed by a young, college-educated adult with student debt ($8,700). And the wealth gap is also large for households headed by young adults without a bachelor's degree: Those with no student debt have accumulated roughly nine times as much wealth as debtor households

($10,900 vs. $1,200). This is true despite the fact that debtors and non-debtors have nearly identical household incomes in each group.

While these stark differences in wealth accumulation are accounted for in part by outstanding student debt, that's only part of the story. Since the typical young student debtor household has about $13,000 in outstanding student loan obligations and the overall wealth gap is much larger, clearly other factors are also at work. Specifically, student debtor households are accumulating less wealth, in part, because they tend to owe relatively large amounts of other debt as well, from car loans to credit card debt. Among the young and college educated, the typical total indebtedness (including mortgage debt, vehicle debt and credit cards, as well as student debt) of student debtor households ($137,010) is almost twice the overall debt load of similar households with no student debt ($73,250). Among less-educated households, the total debt load of student debtors ($28,300) is more than ten times that of similar households not owing student debt ($2,500).

While taking on debt to fund a college degree is associated with having a lower net worth, a more complete financial profile suggests a bachelor's degree does pay off in other ways, particularly in terms of household income. The typical household income of college-educated student debtors ($57,941) is nearly twice that of households whose heads do not have a bachelor's degree ($32,528). And as a recent Pew Research report found, the income gap between today's young college graduates and those without a college degree is much wider than it was for previous generations of young adults.

The new reports would seem to provide evidence to support a growing narrative that student loans are causing a real problem as young, college educated borrowers are prevented from fully taking part in the economy. However, a closer look at the data shows the claims of causation appear to be premature. Scholars, such as Beth Akers of the Brookings Institution, and columnists, such as *Slate's* Jordan Weissman and *The Atlantic's* Derek Thompson, suggest a thorough review of the available data refutes this conclusion. Weissman noted that student debtors current on their accounts are more likely to own a home and Akers points to problems with available data.

The report from the NYFRB is available online:
http://libertystreeteconomics.newyorkfed.org/2014/05/just-released-young-student-loan-borrowers-remained-on-the-sidelines-of-the-housing-market-in-2013.html#.U3axvtJdVGc
The Pew report is available online: **http://www.pewsocialtrends.org/2014/05/14/young-adults-student-debt-and-economic-well-being/**
Thompson's recent column from *The Atlantic* is available online:
http://www.theatlantic.com/business/archive/2014/05/are-student-loans-really-holding-back-the-economy/370876
Akers' blog from Brookings is available here: http://www.brookings.edu/blogs/brown-center-chalkboard/posts/2014/05/08-student-loan-debt-and-home-ownership-akers#.U2uSNY0AwHk.twitter

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