

Higher Education Finance Reform: Accomplishments + Multi-Solution Approach to Truly Tackling the Student Lending Crisis

I. Accomplishments

1. Elimination of FFELP

First, I want to applaud the administration's decision to eliminate FFELP. It is a victory for prospective students and their families; taxpayers will also benefit. Companies, like Sallie Mae, Nelnet, and PHEAA, should not be subsidized by the Federal Government in this way. Obviously, at one point it made sense and worked, but it no longer does. But there is still a problem – these companies (and others) are *still* benefitting from having outstanding student loan debt on their books. That is something we need to discuss, because they have no incentive to work with distressed borrowers. After all, the money is already guaranteed by the Federal Government, so that has caused, and is still causing, a lot of financial wreckage!

2. IBR Program

I also want to give credit to the architects of IBR. I am not an expert when it comes to offering advice on how to pay back student loans. However, I have directed a number of people to this program (I sent them directly to the .gov site for information). For those who have recently signed up – after I told them about IBR – they have informed me that they are (a) benefitting from it, and (b) managing to juggle other bills more easily. However, IBR has not been promoted – in my view – enough by the department.¹ Moreover, and even more troubling, I have learned of cases in which borrowers have been grossly misinformed by

¹ I brought this concern up in an email to Pauline Abernathy at TICAS. She seemed to disagree, and told me that the department has sent out announcements via email and so forth. I respect Pauline and TICAS. Perhaps she is correct. However, I work with thousands and thousands of debtors, and most of them – when I tell them about IBR – have no idea what it is. I'd say I have a good sampling of borrowers, so perhaps Ms. Abernathy is incorrect? It's a theory I have, and I don't mean that in a disrespectful way.

lenders about the program.² Again, I don't think the department has done an adequate job of informing borrowers about the program. (I don't have firm data for this claim, but I am happy to collect – *someone* or *some* entity [read: *the* department] should be investigating). Let's say the lenders have been misinforming borrowers and it's widespread. That to me smells of corruption, and it's unethical. Moreover, think of all the labor and effort that TICAS.org, other high education policymakers, federal employees, etc. put into IBR. If the lenders aren't disseminating this information properly, isn't that a waste of money? I mean, if borrowers aren't aware of the program, then what's the point of its existence and all the money that has been put into its creation? We need to ensure that good, federal programs like IBR are working, especially when it comes to borrowers *and* to taxpayers. Also, why can't the department ensure that lenders inform their borrowers about the program? If they don't comply, couldn't there be penalties of some sort?

Finally, IBR *must* be expanded to include private loans.

II. PROPOSED LEGISLATION

1. **Senator Sherrod Brown's Student Loan Simplification and Opportunity Act of 2011** – this bill would help solve the problem of borrowers who are still under the FFEL program. In addition, the bill is a saver! (According to CBO scoring, and over a period of 10 years, this legislation will save \$1.8 billion).

Sources:

http://brown.senate.gov/newsroom/press_releases/release/?id=c8a0427d-9e0d-4b8d-a56a-3d7854ecec23

<http://alleducationmatters.blogspot.com/2011/08/re-launching-conversations-with.html>

2. **Fairness for Struggling Students Act of 2011**

Restoring bankruptcy protections is critical. It won't solve the problem, but Congress need to reinstate it. As I said, it will not end the crisis, and it still leaves the borrower with the burden – as we all know, declaring bankruptcy can be ruinous. Nevertheless, I support this act.

Sources:

http://durbin.senate.gov/public/index.cfm/files/serve?File_id=ef4fb687-f176-47b3-a449-03e438ee65c0

<http://durbin.senate.gov/public/index.cfm/pressreleases?ID=f7c84e6c-f2ac-4ee5-b466-f461b0f0de8a>

III. NEWER PROPOSALS

*We need to think about how the CBO would rate some of the proposals below that aren't in the process

² "Borrower Receives Misinformation about IBR from Sallie Mae," AEM (July 17, 2011) - <http://alleducationmatters.blogspot.com/2011/06/borrower-receives-misinformation-about.html>

of being turned into legislation. Obviously, we want to push bills that are savers. In my view, a bold call for loan forgiveness poses the biggest challenge if it is to be a saver. Chances are, it won't be, but a compelling argument for why it should be passed is possible.

1. **Debt Swap Proposal** - Senator Sherrod Brown introduced this proposal a few sessions ago. It should be revived. The debt swap proposal works like this: the federal government would take ownership of private loans. That would make repayment plans more flexible. According to that office, the proposal is a saver. (Preliminary scoring suggests this will save \$9.5 billion).

Source:

http://studentlendinganalytics.typepad.com/student_lending_analytics/2009/07/senator-brown-demohio-proposes-debtswap-plan-to-refinance-private-student-loans.html

2. **Loan Forgiveness**

There should be a broader, bolder loan forgiveness plan. Obviously there are such programs, IBR offers loan forgiveness, but only to a degree and after 25 years of repayment. Private loans, which borrowers have turned to even more over the past 5 years, should be included in a plan to forgive loans. The challenge? This will be a coster, but the benefits of such legislation for American society as a whole are vast. Having studied the relationship between indentured bonds and the global market, implementing something of this nature will be challenging. However, that doesn't mean it isn't possible and can't be achieved.

- Congressman Hansen Clarke has already introduced H. Res. 365, which calls for loan forgiveness

Sources:

<http://www.govtrack.us/congress/bill.xpd?bill=hr112-365>

<http://alleducationmatters.blogspot.com/2011/08/rep-hansen-clarkes-bold-proposal.html>

<http://alleducationmatters.blogspot.com/2011/07/rep-hansen-clarkes-call-for-loan.html>

3. **Refinancing Options** – if a homeowner is dissatisfied with their mortgage plan, they have the option of refinancing. When borrowers, on the other hand, consolidate their loans with a specific lender, they are locked in for life. Why is that the case? Why couldn't we devise a plan that would allow borrowers to refinance? Perhaps this would give lenders the incentive to work more with borrowers. This should be applied to borrowers who have loans through FFELP as well as to borrowers with private loan.
 4. **Other Proposals** – these ideas came from conversations with a successful, small business owner named Kevin O'Neill and Bob Krause. Mr. O'Neill started his business, The Conference Exchange, in his garage, and he now has over 15 full-time employees (as well as two office locations), and Bob Krause. Mr. Krause has had a long and successful political career in Iowa. He ran for U.S. Senate 2010, and has expressed an interest in helping solve the student lending crisis.
- To reduce indebtedness among the college educated we should be:

-Doing more to help finance college education -- both through student aid and through more federal and state funding of universities

-Favoring schools that find creative ways to keep students' expenses down. For example, at Confex they used to be able to hire more co-ops from Northeastern; and students like Stephanie Marseglia could buy an education for less, because they would commute from their family home instead of living in dorms. NEU spent millions on dorms so more would stay on campus, thus raising students' expenses and reducing our hiring pool.

-Stimulating job growth so that graduates can more easily find decent jobs, and helping those overwhelmed with debt work out from under it

- Tripling debt credit for public service in Vista?

Source:

<http://www.americorps.gov/about/programs/vista.asp>

5. **Helping the defaulters NOW**

These people need the most help! We all know that the number of defaulters is getting worse. We need to work on rehabilitating these people and getting them back on the societal grid. Why are there such terrible penalties that are piled on top of accrued interest? If a person is already struggling, how can they possibly pay back penalties, let alone accrued interest? It's unethical. It's un-American. There used to be usury laws in this country, why not return to something that is a similar model?

President Obama signed the Dodd-Frank Wall Street Reform and Consumer Act into law in July 2010. (I won't go into the problems with this bill, how it was watered down, etc.). One of the glaring problems with this act? There is no *interest rate limit*.

Why can't Congress create a *federal usury statute*, limiting the maximum allowable interest rate?