PRACTICAL ALTERNATIVES TO REDUCE STUDENT DEBT

A. Debt Reduction Plans

Proposal: Provide An Alternative Consequence For Programs With High D/E Rates

That Facilitates Lower Borrowing.¹

We suggest that the Department allow institutions with failing programs to take steps to reduce or eliminate student debt for incoming and continuing students in those programs. Institutions would be able to continue these measures for the period of time that reflects the credential level of the program. For example, for a two-year associate program, the institution would have to restructure the program and charges so that new students would not borrow Title IV or private loans for a period of two years.²

Institutions that take these steps to benefit students would be able to continue those programs with other sources of funding, including other Title IV funds. Rather than forcing a loss of eligibility and the closure of the programs, this would encourage institutions to adopt practices which assure that students do not take on unmanageable debt while they make changes and monitor earnings. In addition, since the regulation exempts programs with low earnings and zero median debt, allowing a program with good earnings to lower its student debt provides a measure of fairness in the application of the GE Rule.

Similarly, for lower cost programs, this proposal will reduce the likelihood of unintended consequences such as encouraging private loans.

Our suggested changes to the text of the regulation are presented in red below:

NEW Section 668.XXX

(d) (1) In addition, if an educational program would be a failing program based on final D/E rates calculated in accordance with 668.404 and if the institution wishes to preserve the eligibility of that program for other non-loan Title IV, HEA programs, the Secretary shall require the institution to take the following "debt reduction measures": reduce its tuition and fees or take other steps to limit the educational debt (including any

¹ This proposals shares similarities with our transition period proposal and is intended to facilitate discussion regarding potential debt reduction plans and appropriate consequences.

² This formula would assure that the program had a zero median debt at the end of the period.

form of debt under the Title IV, HEA loan programs, private loans and institutional financing) of each new and continuing student enrolled in that program to an amount that would reduce (i) the annual debt to earnings rate to 12 percent or less or (ii) the discretionary income rate to 30 percent or less based on the higher of the mean or median annual earnings for that program in the award year in which the program was a failing program.

- (2) In implementing the debt reduction measures, the institution shall continue to comply with all Title IV, HEA requirements to make Title IV, HEA loan funds available, in adjusted amounts, to qualifying students.
- (3) An institution that commits to these debt reduction measures for any program shall notify the Secretary of its commitment within 30 days of the date that it receives the Secretary's determination that such program is a failing program under Section 668.407.
- (4) An institution that notifies the Secretary of its commitment to these debt reduction measures for any program shall provide the Secretary with an interim report describing the steps it is taking to implement the debt reduction measures within six months of the date that it provides such notice to the Secretary, and shall provide the Secretary with additional information on this subject as requested.
- (5) An institution that commits to these debt reduction measures for any program shall not be required to provide the student warnings or comply with the enrollment limits under Section 668.407.
- (6) These debt reduction measures shall only be available for a failing program for the period that corresponds to the time necessary for a regular student to complete the program in 100% of normal time for students enrolling in the program after the date that the Secretary issues the notice that the program was a failing program under Section 668.407.

B. Loan Forgiveness Programs

Proposal: Provide Institutions Flexibility To Reduce Student Debt By Permitting Loan Forgiveness Programs For Students Who Withdraw Early In Their Program.

"Ensuring That Student Debt Remains Affordable" is one of the President's top three priorities for higher education. One of the criticisms of the draft GE Rule is that it only addresses students who completed their program, while not considering the consequences for students who withdraw, are dismissed, or otherwise do not complete.

In addition, the research on student debt demonstrates that **students who drop out are four times more likely to default than students who graduate**.³ These students often default after spending only a short period of time at an institution and after borrowing only a small amount. In fact, according to a study done by financial aid consultant Mark Kantrowitz, students who dropped out who borrow less than \$5,000 default at 12.7%.

Despite this data, the Department has been reluctant to bless any loan forgiveness program that eliminates the debt for whole groups of students. This is the case even though we are all seeing stories of traditional colleges that are launching programs to forgive or reduce their students' loan burden through assistance with repayment.⁴

We respectfully ask that the Department permit student loan forgiveness programs that ensure defined cohorts of students are left debt-free with no adverse consequences.⁵

http://chronicle.com/blogs/ticker/default-rates-worsen-among-dropouts-report-says/40802

³ Specifically, 16.4% of those who dropped out were in default status compared to 4% for the larger population of borrowers. At for-profit colleges, 24.4% of those who dropped defaulted on their loans, compared to 14.2% for all borrowers.

⁴ In Michigan, Adrian College recently announced it would make student loan payments for low-earning grads. See http://www.freep.com/article/20130918/NEWS06/309180024/adrian-college-loan-repayment-alma-college-student-loans-debt-college-affordability. September 18, 2013

⁵ We believe that the Department has been reluctant to expressly approve these programs for fear that they can be used to manipulate cohort default rates. This proposal envisions the return and cancellation of Title IV loans rather than making payment on such loans. The result is that the loan would be removed from the numerator and denominator of the CDR.

We believe some institutions would be prepared to implement such a loan forgiveness program for all students who do not successfully complete the first portion of their program, such as the first semester (or equivalent). Some institutions might elect to implement such a program for students in certain educational programs.

For purposes of the GE Rule, there would be no apparent effect since these students did not complete (unless the Department revives the Loan Repayment Rate). The loan forgiveness would have to be included in the institutional reporting under Section 668.409. However, we believe the key issue for the Department is to ensure that any such loan forgiveness program is clearly disclosed and applied on a consistent basis, so we have proposed language for the disclosures in Section 668.410.

Our suggested changes to the text of the regulation are presented in red below:

NEW Section 668.410(h)

- (1) An institution that has implemented a loan forgiveness program shall disclose such program in a format and manner similar to the information required to be disclosed under Section 668.410. To implement a qualified loan forgiveness program, the institution shall be required to take the following steps:
 - (i) forgive the Title IV HEA loans and private loans of any student who withdraws or is dismissed from the program in the first [semester (or equivalent)] that the student is enrolled and attending the program by returning all funds advanced under such loans to the Department or private lending source;
 - (ii) forgive the student of any obligation to make any payments to the institution or any other person under such loans (including any interest, penalties or fees of any kind);
 - (iii) forgive the student of any obligations to make any payments to the institution or any other person under any institutional financing plans (including any interest, penalties or fees of any kind); and
 - (iv) determine a student's date of withdrawal under the methodology for determining a student's last date of attendance under Section 668.22.

- (2) Students who receive such Title IV, HEA or private loans that are returned under this section shall be excluded from any repayment rate metric and the D/E Rates calculated for that program for any award year.
- (3) An institution that commits to such a loan forgiveness program shall notify the Secretary of its commitment 60 days prior to implementing such program.
- (4) An institution that notifies the Secretary of its commitment to such a loan forgiveness program shall provide the Secretary with an interim report describing the steps it has taken to implement the provision within six months of the date that it provides such notice to the Secretary, and shall provide the Secretary with additional information on this subject, including lists and details as to the loans that are forgiven, as requested.
- (5) Nothing in this Section 668.410(h) shall relieve the institution of the requirement to provide the student warnings or comply with the enrollment limits as otherwise required under Section 668.407.
- (6) Any Title IV, HEA loan that is forgiven under this provision shall not be considered a loan for which the institution (or any of its owners, agents, contractors, employees or other affiliated entities or individuals) made a payment to prevent a borrower's default under 34 CFR Section 668.183(c)(iii).