Connecticut Debate Association

March 4, 2017

Darien High School, Farmington High School and Guilford High School

---

Resolved: Student loans should be limited to those students and amounts that are highly likely to be repaid in full.

Editor's Note: A financial analyst would rephrase the resolution in more technical language: "Resolved: Student loans should be underwritten to commercial standards." This is a complicated topic. Be sure to scan the packet before reading in depth, especially the last page for an overview of college funding sources. I will post a longer version with the material that was dropped.

More Than 40% of Student Borrowers Aren't Making Payments

The Wall Street Journal, By JOSH MITCHELL, April 7, 2016

More than 40% of Americans who borrowed from the government's main student-loan program aren't making payments or are behind on more than $200 billion owed, raising worries that millions of them may never repay.

The new figures represent the fallout of a decadelong borrowing boom as record numbers of students enrolled in trade schools, universities and graduate schools.

While most have since left school and joined the workforce, 43% of the roughly 22 million Americans with federal student loans weren't making payments as of Jan. 1, according to a quarterly snapshot of the Education Department's $1.2 trillion student-loan portfolio.

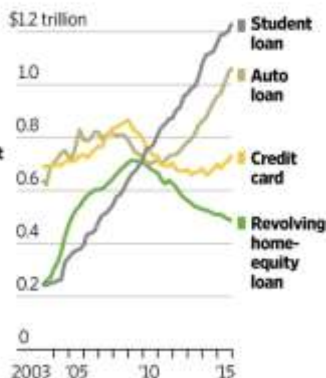
About 1 in 6 borrowers, or 3.6 million, were in default on $56 billion in student debt, meaning they had gone at least a year without making a payment. Three million more owing roughly $66 billion were at least a month behind.

Failing to Repay

Some 43% of the roughly 22 million Americans with federal student loans were either behind or received permission to postpone payments due to economic hardship as of Jan. 1.

Americans who are out of school and owe federal student loans

Debt outstanding by type of consumer loan



*At least 360 days behind on a payment †Between 31 days and 360 days behind on a payment

Sources: Education Department (student loans); Federal Reserve Bank of New York (debt outstanding)

THE WALL STREET JOURNAL.

Meantime, another three million owing almost $110 billion were in "forbearance" or "deferment," meaning they had received permission to temporarily halt payments due to a financial emergency, such as unemployment. The figures exclude borrowers still in school and those with government-guaranteed private loans.

The situation improved slightly from a year earlier, when the nonpayment rate was 46%, but that progress largely reflected a surge in those entering a program for distressed borrowers to lower their payments. Enrollment in those plans, which slash monthly bills by tying them to a small percentage of a borrower's income, jumped 48% over the year to 4.6 million borrowers as of Jan. 1.

Advocacy groups, some members of Congress and the federal Consumer Financial Protection Bureau fault loan servicers—companies the government hires to collect debt—for not doing enough to reach troubled borrowers to offer such payment options.

"The servicers aren't quite promoting them in the way they should be—I think some of it's information failure," said Rachel Goodman, a staff attorney at the American Civil Liberties Union. But the picture seems more complicated.

Navient Corp., which services student loans and offers payment plans tied to income, says it attempts to reach each borrower on average 230 to 300 times—through letters, emails, calls and text messages—in the year leading up to his or her default. Ninety percent of those borrowers, which include federal borrowers as well as those who hold private loans, never respond and more than half never make a single payment before they default, the company says.

The Obama administration—worried about taxpayer costs and the prospect of consumers damaging their credit by defaulting—has stepped up efforts to reach borrowers and offer the income-based repayment plans. In some cases, the

government is garnishing wages and tax refunds of borrowers who refuse to pay.

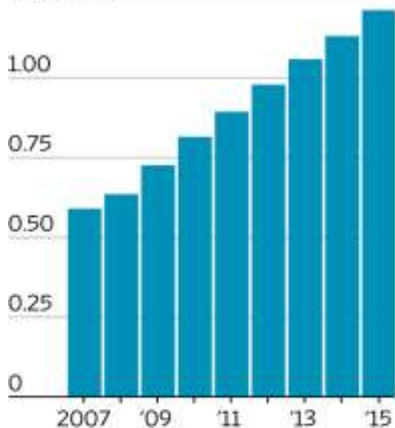
Education Department officials note that some defaulted loans are from prior decades and, unlike private lenders, the government is severely limited in its ability to write them off and remove them from the books. They also point out that the growth in defaults and delinquencies slowed last year, suggesting progress in the administration's efforts to get borrowers current.

But the officials acknowledge that a large pool of borrowers have essentially fallen off the radar. The Education Department has assembled a "behavioral sciences unit" to study the psychology of borrowers and why they don't repay.

"We obviously have not cracked that nut but we want to keep working on it," said Ted Mitchell, the Education Department's under secretary. He said many defaulted borrowers dropped out of school and are underemployed.

Carlo Salerno, an economist who studies higher education and has consulted for the private student-lending industry, noted that the government imposes virtually no credit checks on borrowers, requires no cosigners and doesn't screen people for their preparedness for college-level course work. "On what planet does a financing vehicle with those kinds of terms and those kinds of performance metrics make sense," he said.

Some borrowers aren't repaying even when they can. Research from Navient shows that borrowers prioritize other bills—such as car loans, mortgages and heating bills—over student debt. A borrower who fails to pay down an auto loan might have her car repossessed; with student loans, there is no such threat.



Kristopher Mathews, 38 years old, is in deferment on about $11,900 in federal student loans. During the recession he earned a certificate at a Michigan-based for-profit college that teaches media arts, but he wasn't able to find the well-paying job in radio that he hoped for.

Mr. Mathews now works as a logistical analyst for an auto company, making $46,000 a year. He says he devotes his income to caring for his family—he and his fiancée have three children—and paying off two credit cards and a car loan. "With all the other necessities in life I just don't have" funds to pay student debt, he said.

Once his deferment expires, he isn't sure if he will feel obliged to pay down his loan. "They promised me everything," he said of his for-profit college. "And I honestly have nothing to show for it except a piece of paper that doesn't really do me any good."

Most borrowers who have defaulted owe relatively little—a median $8,900, according to the Education Department.

The administration maintains that the student-loan program, as a whole, will generate a profit over the long term, but the risk is rising that its revenue won't meet the administration's projections.

Even many borrowers who are current on their loans are paying very little. More than a third of borrowers on an income-based repayment plan had monthly payments of zero because their incomes were so low, according to a Navient survey last year.

The Education Department, through private debt-collection agencies, garnished $176 million in Americans' wages in the final three months of last year for student debt, federal data show.

The administration's pursuit of troubled borrowers is drawing criticism from student advocates and their allies in Congress. Last week, the American Civil Liberties Union and the National Consumer Law Center sued the Education Department, accusing it of blocking public access to data on the agency's debt-collection efforts. The groups suggested that the companies collecting debt for the department might be discriminating against black and Hispanic borrowers.

Dorie Nolt, a spokeswoman for Education Secretary John B. King Jr., said the agency is reviewing the groups' public-information requests.

"The singular goal of our student loan program is to help all students get a degree that sets them up for success, and we take the treatment of our borrowers—particularly historically underserved students—very seriously," Ms. Nolt said in an email.

Student Loans Could Use Some Market Discipline

The Wall Street Journal, By GREG IP, Sept. 18, 2015

Misaligned incentives between students, colleges and government fuel bad-debt problem.

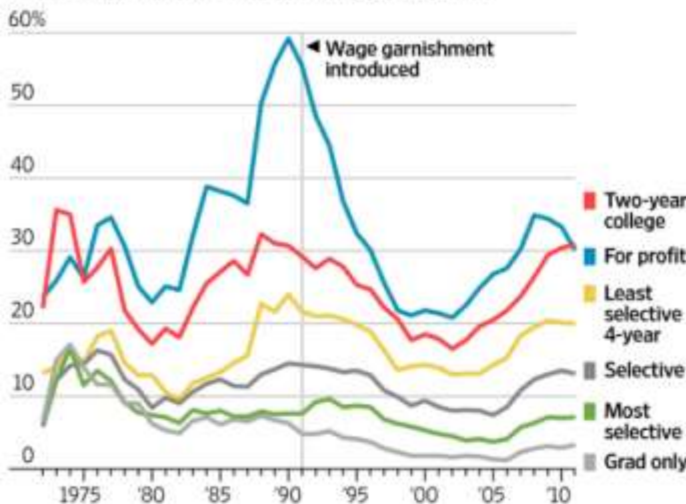
Consider two student borrowers: one at the for-profit University of Phoenix, the other at the well-regarded, public University of Minnesota-Twin Cities. Both start repaying their loans in 2009. Five years later, the first has a 45% probability of having defaulted, the second, just 7%.

Despite those very different borrowing risks, the two paid the same interest rate on their loans. The federal government, which backs $1.2 trillion of student debt, charges the same rate regardless of student, college or program. That is by design: The purpose of the program isn't to make a profit but to ensure as many children as possible benefit from college.

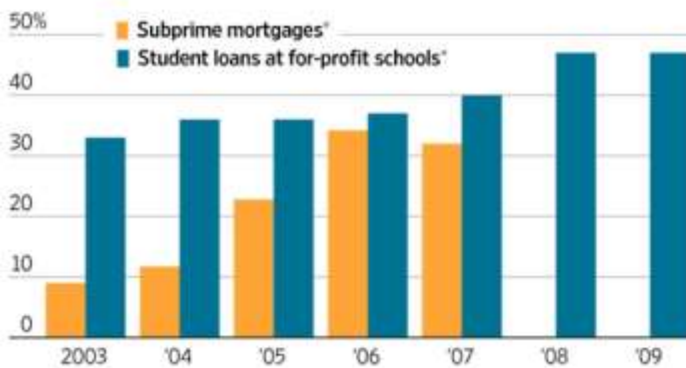
Defaults With a Difference

The likelihood of defaulting on a student loan is closely linked to the type of college the student attended. For-profit default rates exceed subprime mortgage loan defaults.

Percentage of student borrowers who default on their student loans within three years of starting repayment



Default rates within the first five years for subprime mortgages and student loans for those who attend for-profit colleges



*Represents year of origination for mortgages and year of first repayment for student loans; effectively, no subprime mortgages were originated in 2008 and 2009

Sources: Adam Looney and Constantine Yannelis (student loan default rates); Chris Palmer, University of California at Berkeley (subprime loan default rates)

THE WALL STREET JOURNAL.

But because terms and risk of the loan aren't linked, the program also muffles the sorts of price signals that could help students get value for their money. And that plays a little-appreciated role in the surge of student debts and defaults.

In this respect, student loans are different from subprime mortgages, to which they are often compared. Subprime lenders had their own, not the government's, money at stake, and in theory did take risk into account when deciding how much to lend and at what rate; their mistake was failing to realize how risky the loans really were. Even federally guaranteed mortgages consider risk, such as by requiring that a loan not exceed the house's value.

The widely dvergent performance of different sorts of student loans is starkly illustrated by a new study by Adam Looney of the Treasury Department and Constantine Yannelis, a graduate student at Stanford University, and presented at the Brookings Institution last week. They find that the student-loan "crisis" is overwhelmingly a crisis of borrowers who attend for-profit colleges or two-year community colleges.

These "nontraditional" borrowers historically accounted for only a small share of student debt. But that changed in the last decade, particularly during the Great Recession, as unskilled workers with evaporating job prospects flooded back to college. The share of total debt accounted for by students at for-profit colleges soared from 12% in 2000 to 20% in 2014, and the share accounted for by two-year community-college students went from 4% to almost 6%.

Such students default at a far higher rate than borrowers who attend four-year public or nonprofit colleges. In part that is because for-profit and community colleges often don't deliver the hoped-for jobs or pay: Unemployment among nontraditional borrowers is far higher and has risen more than for other students since 2000.

This isn't neessarily the colleges' fault. For-profit colleges have historically enrolled students who are at greater risk of default, because they are older and come from poorer families and poorer communities—precisely the students most deserving of taxpayer support. They served a valuable purpose during the downturn by expanding to meet surging demand when public institutions were constrained by money or capacity.

Messrs Loony and Yannelis believe the worst of the defaults has passed. As the economy has improved and oversight of for-profit colleges intensified, the number of their new borrowers has dropped sharply, and default rates have dipped.

The University of Phoenix says its default rate has improved “significantly” in recent years.

Nonetheless, students do seem to fare worse at for-profit colleges, in great part because these schools have little financial incentive to ensure students take the programs most likely to lead to well-paying jobs, to screen out inadequately prepared students or to hold down tuition.

Caroline Hoxby of Stanford University notes that until about 1990, more expensive colleges were more likely to deliver higher incomes for graduates. With the rise of for-profit colleges, that correlation has weakened. Ms. Hoxby puts the “actuarially fair” student loan interest rate—one that reflects the probability of default—at 5% or less for a bachelor’s degree at a selective nonprofit or public college and more than 35% for a certificate at a for-profit college.

The Obama administration’s response has been to publish more information about colleges’ success in graduating and placing students in well-paying jobs, and threaten to deny student loans to colleges with consistently poor records.

A potentially more effective way to align interests between students and colleges would be to charge higher rates or apply lower borrowing limits to loans that are clearly more likely to default. The federal government isn’t about to charge 35% interest. But it could inject market discipline by requiring the college to share in any loan loss, as some policy makers have proposed. Doug Elliott of the Brookings Institution cites as a model the federally guaranteed small-business loans in which banks bear part of the risk of default.

The main drawback is that while this would penalize poorly performing colleges and programs, it could also penalize students from disadvantaged backgrounds who, given their lack of family wealth, pose a bigger credit risk.

Such students are probably helped more through grants, which can be targeted precisely at those most in need of help. Loans, by contrast, end up subsidizing not just the needy but the affluent and, least deserving of all, the colleges.

Why Is Tuition So High

Slate/Inside Higher Ed, By Ellen Wexler, February 16, 2016

College tuition has risen too quickly, and debt is unmanageable for increasing numbers of students; that much is clear. But to contain college prices, education leaders will need to answer a contentious question: Why does the price keep rising?

Higher education’s critics tend to blame high prices on overpaid professors or fancy climbing walls. At public colleges, lobbyists tend to blame reductions in state support. But a new study places the blame elsewhere: the ready availability of federal student aid.

Student aid accounts for most of the tuition increases between 1987 and 2010, according to a working paper from the National Bureau of Economic Research. The more money students can borrow, the idea goes, the more colleges can charge.

Over the last few decades, the amount of aid available to students has increased dramatically: Subsidized loans were expanded, while an unsubsidized loan program made its debut. But looking at the big picture, does that money always offset the costs to students?

The researchers say no. Instead, colleges increase tuition even more, because they know financial aid can cover the difference. Student aid may cover more of students’ tuition—but if the aid wasn’t available, tuition might not have gone up in the first place.

“You’ve got to somehow tie aid to lowered tuition if you want to give money to students,” said Grey Gordon, an assistant professor at Indiana University and co-author of the paper. “You have to somehow structure it so colleges can’t just increase tuition and capture that money.”

But the idea that increased student aid drives up tuition is contentious, as is the researchers’ model. The paper’s conclusions depend on a model of one hypothetical college, which is based on data from private and public nonprofit institutions.

The more money students can borrow, the more colleges can charge.

“This is an atom bomb mathematical technique on a problem that requires much more nuance,” said David Feldman, economics professor at the College of William and Mary and author of the 2010 book Why Does College Cost So Much?.

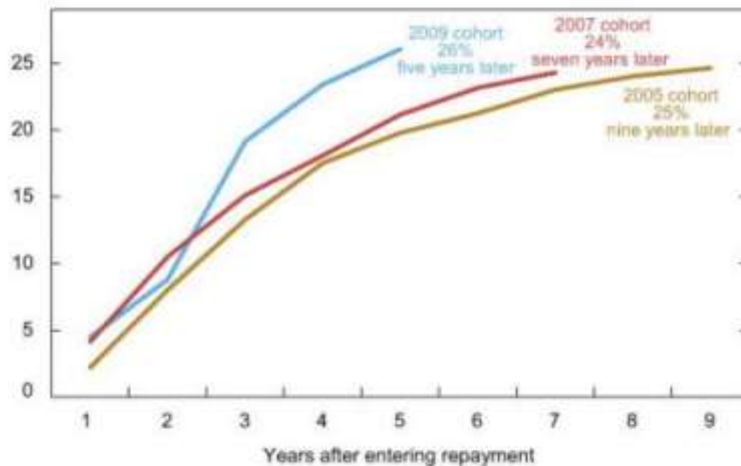
Feldman said increasing federal aid will rarely change how high a college sets its tuition. A college’s sticker price is set by its wealthiest students’ ability to pay—and the wealthiest students never take out loans.

That doesn’t mean colleges never use federal aid to their advantage. Especially at private colleges, Feldman said, federal aid may replace existing scholarships. Take a student who would have gotten $20,000 from a college. If she gets an extra $1,000 in Pell Grants, she may get $19,000 from her college instead. The student pays the same, but the college

pays less….

The Stunning Failure of Our Student Loan System, in Two Charts

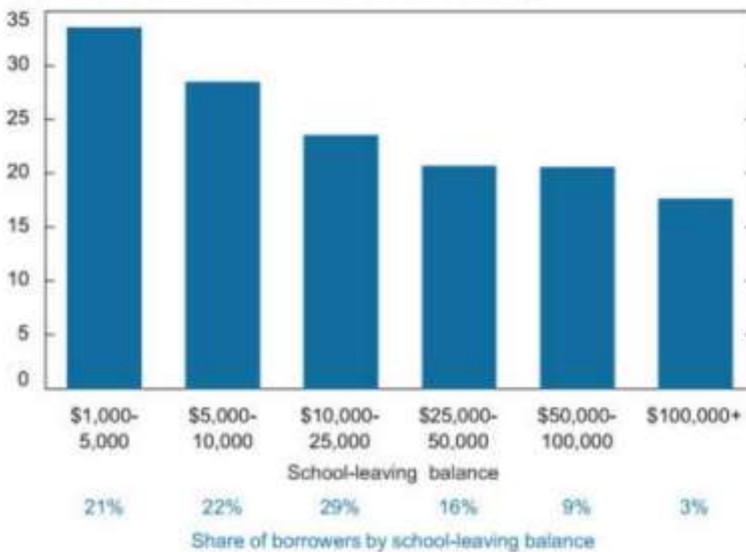
Slate, By Jordan Weissmann, February 19, 2015



How dysfunctional is our student loan system? Consider this: Of borrowers who began repaying their debts in 2009, 26 percent have already defaulted—meaning they fell at least 270 days late on their debt—according to new data from the Federal Reserve Bank of New York. Of those who went into repayment in 2005, when the economy was somewhat decent, 25 percent have defaulted.

How bad are those numbers compared with other sorts of lending? Let's take mortgages during the housing bust as a comparison point. After almost five years, only 18 percent of home loans that were issued in 2006 had fallen into a serious delinquency (meaning the owner was at least 90 days late with a payment), according to CoreLogic.* That should give you a sense of scale for the problem. Student borrowers are getting financially slaughtered.

And it's not just those who are furthest in debt. As the Fed illustrates, students who borrow small amounts for school are far more likely to default than those who borrow six-figures.



Two takeaway points here. First, whenever you read about how young adults with student loans are more likely to live with their parents and less likely to buy a home, remember these default numbers. It's far harder to get a mortgage when your credit rating has been cratered by bad education debt.

Second, this is why Washington needs to focus on both decreasing the amount of debt students take on, and on changing the way it's repayed. As a group, students are inherently risky borrowers.The federal government will lend money to anybody who goes to school, no matter how poor their chances of completing their degree and finding a job that will position them to repay their debt. And when the economy nose-dives, leaving jobs scarce, it exacerbates those issues. But at the same time, there are lots and lots of options for federal loans that should, theoretically, keep just about any borrower from outright defaulting, for instance by hooking monthly payments to income. The problem is that those programs are vastly underused, because people either don't know about them or don't realize how they could help. So we see hordes of young adults with small, potentially manageable debts going into default. That costs them, and costs the government. (Even though you can't discharge student loans in bankruptcy, Washington still has to pay debt collectors to harass troubled borrowers.)

There are lots of good ideas for how to make student lending safer. For instance, as I've written, we could automatically enroll borrowers in income-based plans. We need to make those changes soon.

How Much Graduates Earn Drives More College Rankings

The New York Times, By JAMES B. STEWART OCT. 20, 2016

PayScale introduced its first college salary report in 2008, and the College Scorecard from the federal government followed last year, ushering an elephant into the hallowed halls of college admissions: What do the schools' graduates actually earn?

Despite the hand-wringing of many in academia, who saw the immeasurable richness of a college education crassly reduced to a dollar sign, the data has wrought a sea change in the way students and families evaluate prospective colleges. Earnings data are finding their way into a proliferating number of mainstream college rankings, shifting the competitive landscape of American higher education in often surprising ways.

This fall, The Wall Street Journal and Times Higher Education (a unit of TES Global, and no relation to The New York Times) introduced their first college rankings.

Forty percent of their result is measures of "outcomes" — earnings, graduation rate and loan repayment rate. The other 60 percent rates the school's resources; student engagement, as measured by student responses to a questionnaire; and "learning environment," or diversity.

Last year The Economist released its first college rankings, and it relies even more heavily on earnings data. It took the College Scorecard earnings data and performed a multiple regression analysis to assess how much a school's graduates earn compared with how much they might have made had they attended another school.

The Georgetown University Center on Education and the Workforce has issued another set of rankings, adjusting the College Scorecard salary rankings first for choice of major (since disproportionate numbers of students studying high-paying fields like engineering and business skew the results), and yet another ranking that assesses students' expected earnings, given their characteristics when they entered college, to the actual outcome.

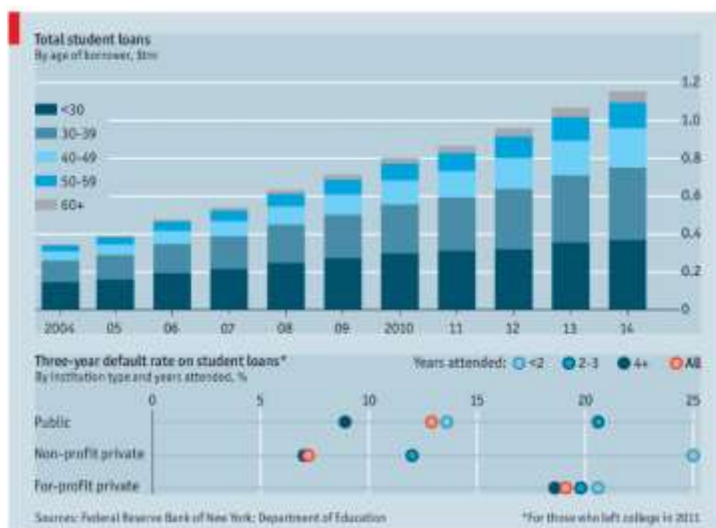
PayScale itself has refined its rankings in response to criticism, by including along with salary data the percentage of students who major in subjects other than high-paying science, technology, engineering and math, as well as the percentage of respondents who found "high meaning" in their work.

Both Forbes and Money magazines, in their rankings, incorporate PayScale data on earnings.

To be sure, the dowager of college rankings, U.S. News & World Report, steadfastly disdains the use of earnings or other outcomes in its rankings. While it continues to tweak its criteria, it relies primarily on measures of reputation and selectivity….

College debt: More is less

The Economist, Aug 15th 2015



Student debt in America now totals $1.2 trillion, up more than threefold over the past decade. On August 10th Hillary Clinton announced a $350 billion plan to reduce this sum. It would increase federal subsidies granted to state-school students, and help existing borrowers refinance their liabilities. New loan originations have decreased every year since 2010, and default rates have stabilised.

Surprisingly, the less students borrow, the more likely they are to struggle with repayments—presumably because debtors with six-figure obligations tend to have postgraduate degrees and steady jobs, whereas those with more modest loans tend to be college dropouts. Non-payment rates also vary by institution. Students at for-profit schools fare the worst: nearly 20% default within three years of leaving college. If Mrs Clinton succeeds in cutting state-school tuition, the for-profit education industry could take a big hit.

Graduate stock

The Economist, Aug 22nd 2015

Funding students with equity rather than debt is appealing. But it is not a cure-all

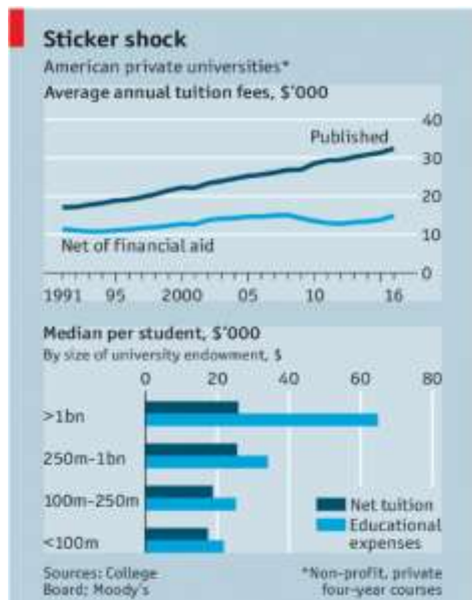
DEBATES over how to fund higher education never lie dormant for long. In Britain, recently, there have been reforms about twice a decade; the last one, which hiked tuition fees, all but killed off the Liberal Democrats, members of the previous coalition government. In America, concerns abound over soaring costs and towering student debts. As a result, presidential candidates have been weighing in with plans to overhaul the system.

Why should the state support students in the first place? One argument is that society benefits from educated citizens, who pay more taxes, generate more jobs and help to advance human knowledge. Typically, such social gains justify subsidies. But the private returns to many degrees are juicy enough to encourage would-be students without a subsidy. The New York Fed reckons that a bachelor's degree provides a 15% return on investment.

A better argument is that a purely private market for funding college would probably struggle. Despite the rosy averages, not all graduates succeed, so borrowing to pay for college is a gamble. Students do not know what job opportunities they will have later on; lenders must guess whether a 20-year-old will become a banker or a busker. Asset-poor youngsters cannot post collateral to compensate lenders for the risk. Unable to raise cash, poor students would be locked out of education without state support.

Governments can help spread these risks around. One option is to fund higher education fully, as many European countries do (the downside being that poor taxpayers subsidise successful graduates). Another is to offer loans on more generous terms than banks. For instance, governments can make repayments conditional on graduates earning a decent income, and collect the money like an additional income tax. Australia pioneered this approach in the early 1990s; Britain has since followed. Today, Hillary Clinton promises to expand America's hodgepodge of "income-based repayment" schemes if she becomes president.

There are two problems with these schemes. First, taxpayers shoulder some risk, bailing out those who never earn enough to repay. Second, the incentives are skewed. Universities can sell dubious courses at a high price to students who do not care that the degree may not boost their earnings—as the taxpayer will foot the bill. When Britain trebled its cap on tuition fees in 2011, the government promised universities would charge the maximum only in "exceptional circumstances". But two-thirds of universities—including many middling ones—immediately priced at the cap.



Can these problems be overcome? Marco Rubio, a Republican candidate for president, wants income-based repayment with a twist. Instead of borrowing to pay for college, students could sell a percentage share of their future income to private investors, and use the proceeds to fund their studies. Students' liabilities would then resemble equity rather than debt.

This idea—which was floated by Milton Friedman in 1955—has several advantages. Students do not face too much risk; if they earn only a pittance, they pay little. But investors will not fund a booze-up; if a course fails to add value, students will be unable to raise enough cash to enroll.

Investors, thugh, would still face uncertainty over a student's ability and career intentions. To resolve this, they would need to invest in a whole cohort of apparently similar students, to be sure of backing both high-rollers and hipsters. That might be easier said than done. Income-contingent financing will appeal most to students who expect low incomes; it is most expensive for the highest earners. If students can choose whether to participate, few wannabe-bankers will sign up (although an upper limit on lifetime payments might mitigate this).

Adverse selection plagued an experiment with equity financing at Yale University. In the 1970s around 3,300 undergraduates there agreed to pay 4% of their annual income for every $1,000 of funding they received until the entire group's fees were paid. But students who expected future riches had no incentive to sign up in the first place to what was in effect an income-redistribution scheme. Worse, those who did take the money could later buy themselves out too cheaply. Alumni were still stumping up a quarter of a century later, and Yale had to terminate the plan.

Select wisely

Unlike the Yale students, investors would see this problem coming, threatening the viability of the contracts from the outset. But they could make their offers more attractive to the best students. For instance, Upstart, a peer-to-peer lending

platform that has dabbled in equity financing, predicts students' future income based on their academic background and area of study. That could enable bright students to agree a more favourable income-sharing agreement, lessening the adverse-selection problem.

To help limit adverse selection, the government might also gradually withdraw subsidised loans, which the best students will usually prefer to equity. The main role for government would then be to help to collect payments through the tax system, as the administrative burden of monitoring incomes would be too great for investors to bear.

That day is a very long way off. In the meantime, a final problem haunts all income-based repayment schemes: moral hazard. With repayments linked to income, graduates are discouraged from working. In Britain, student-loan repayments mean most graduates face a steep marginal tax rate of 41%. Repayments that must be made come-what-may do not create this problem (American student debts persist even through bankruptcy). That means the optimal financing mix for students—as with companies—is probably some mix of discipline-inducing debt and flexible equity. On the path to the perfect scheme, pitfalls abound. But Mr Rubio's idea is a good start.

Losses on Private Student Loans Hit Lowest Level Since 2008

The Wall Street Journal, By ANNAMARIA ANDRIOTIS, Dec. 13, 2016

Private student-loan losses have fallen to new lows

Lenders wrote off an annualized 1.9% of undergraduate and graduate private student-loan balances in the third quarter, down from 2.4% a year prior, according to a new report Tuesday from data firm MeasureOne.

That is the first time this figure has fallen below the 2% mark since at least 2008, the farthest back MeasureOne tracks the data. Losses peaked at 10.1% in the third quarter of 2009.

The private student-loan industry has undergone a major turnaround since the recession, taking a starkly different route than the federal government by tightening lending standards. Almost every private student loan extended to undergraduates also requires a creditworthy parent or other adult cosigner, a process that leaves two borrowers on the hook and lessens chances of lenders writing off bad debts.

Missed payments are also hovering near record lows, a mark they hit earlier this year. Some 1.9% of outstanding private student-loan dollars were at least 90 days past due in the third quarter versus 2.3% a year prior. A peak of 6.1% came in the second quarter of 2009, according to MeasureOne's data, which is based on the six largest student-loan companies, including SLM Corp., or Sallie Mae, and Navient Corp.

Private student loans are a small piece of the student-loan market. Federal student-loan balances account for 92.5% of outstanding student-loan debt. Most of that has been extended without checking borrowers' credit scores. While default rates for federal student loans have been coming down in recent years, they remain high despite the low national unemployment rate.

Wall Street has been bullish on private student-loan companies since Election Day. Expectations of lighter regulation and an opportunity for private companies to play a bigger role in financing college debt has contributed to Sallie Mae's shares rising 53% since Donald Trump's victory. Shares of Navient, the largest student-loan servicer by balances, are up 24%.

Student Debt May Be Contributing to Racial Inequality

Bloomberg News, by Shahien Nasiripour, October 24, 2016,

Black Americans who recently graduated college owe close to twice as much on their student loans as whites, a racial gap that has climbed nearly 14-fold over the past 15 years.

Blacks who graduated with bachelor's degrees in 2008 owed $52,726, on average, on their student debt four years later, compared with $28,006 among whites, according to a new study made public Thursday by a pair of Columbia University researchers. Black graduates, on average, were more likely to fall behind on their education loans.

"Students of color," Judith Scott-Clayton and Jing Li said in their study, "disproportionately bear the burden of student debt."

The new findings add to a growing body of evidence that that higher education might not be the great equalizer. "There is this popular notion that student debt is good," said Mark Huelsman, senior policy analyst at public policy organization Demos. "But it's actually fostering inequality rather than mitigating it."

The federal Consumer Financial Protection Bureau is investigating the issue, with a focus on how debt collectors and loan servicers are treating black borrowers, who default at much higher rates than their white counterparts. Officials also worry that too much student debt among black Americans could be preventing economic mobility.

For example, black graduates' cumulative student loan balances increased 6 percent in the four years after they left school, while whites owed 10 percent less, according to the study by Columbia researchers…

Poorest Students Feel the Bite of Rising College Costs

The Wall Street Journal, By JOSH MITCHELL And ANDREA FULLER, Feb. 19, 2016

Students from the poorest households are shouldering more of the pain from rising college costs, borrowing at far higher levels as a share of family income than ever.

As college costs have increased faster than government grants and scholarship money in the past two decades, poor students have been taking on more debt for tuition as well as for living expenses.

It is now the norm for U.S. students from the lowest income bracket to borrow at least half of their household income to attend most four-year colleges. At 58% of 1,319 four-year colleges with available federal data, students from households earning $30,000 or less a year left those schools during the 2013 and 2014 school years owing a median $15,000 or more in total debt, according to a Wall Street Journal analysis.

Ten years earlier, only 18% of four-year institutions had such high debt burdens among students in the same income bracket.

Debt covered only a small share of college expenses for poor students in previous generations, but it has become the main source of education funding for them, said Stephen Burd, a senior education-policy analyst at the New America Foundation, a left-leaning think tank.

"When the government created the federal student-aid programs back in the '60s and early '70s, student loans were really supposed to go to middle-class students," Mr. Burd said. "It was never really thought that this was going to become the primary way that we support low-income students."…

College Too Expensive? That's a Myth

The Wall Street Journal, By LAMAR ALEXANDER, July 6,2015

Pell grants, state aid, modest loans and scholarships put a four-year public institution within the reach of most.

Paying for college never is easy, but it's easier than most people think. Yet some politicians and pundits say students can't afford a college education. That's wrong. Most of them can.

Public two-year colleges, for example, are free or nearly free for low-income students. Nationally, community college tuition and fees average $3,300 per year, according to the College Board. The annual federal Pell grant for these students—which does not have to be paid back—also averages $3,300.

At public four-year colleges, tuition and fees average about $9,000. At the University of Tennessee, Knoxville, tuition and fees are $11,800. One third of its students have a Pell grant (up to $5,775 depending on financial need), and 98% of instate freshmen have a state Hope Scholarship, providing up to $3,500 annually for freshmen and sophomores and up to $4,500 for juniors or seniors. States run a variety of similar programs—$11.2 billion in financial aid in 2013, 85% in the form of scholarships, according to the National Association of State Student Grant and Aid Programs.

The reality is that, for most students, a four-year public institution is also within financial reach.

What about really expensive private colleges? Across the country 15% of students attend private universities where tuition and fees average $31,000, according to the College Board. Georgetown University costs even more: about $50,000 a year. Its president, John DeGioia, told me how Georgetown—and many other so-called elite colleges—help make a degree affordable.

First, Georgetown determines what a family can afford to pay. It asks the student to borrow $17,000 over four years and work 10-15 hours a week under its work-study program. Georgetown pays the remainder—at a total cost of about $100 million a year.

Apart from grants, work and savings, there are federal student loans. We hear a lot of questions about these loans. Are taxpayers generous enough? Is borrowing for college a good investment? Are students borrowing too much?

An undergraduate today can get a federal loan of up to $5,500 his first year. The annual loan limit rises to $7,500 his junior and senior years. The fixed interest rate for new loans this year is, by law, 4.29%. A recent graduate may pay back the loan using no more than 10% of his disposable income. And if at that rate he doesn't pay it off in 20 years, taxpayers forgive the loan.

Are students borrowing too much? The College Board reports that a student who graduates from a four-year institution carries, on average, a debt of about $27,000. This is about the same amount of the average new car loan, according to the information-services company Experian Automotive. The total amount of outstanding student loans is $1.2 trillion.

The total amount of auto loans outstanding in the U.S. is $950 billion.

But a student loan is a lot better investment. Cars depreciate. College degrees appreciate. The College Board estimates that a four-year degree will increase an individual's lifetime earnings by $1 million, on average.

What about the scary stories of students with $100,000 or more in debt? These represent only 4% of all student loans, and 90% of the borrowers are doctors, lawyers, business school graduates and others who have earned graduate degrees.

About seven million federal student loan borrowers are in default, defined as failing to make a loan payment in at least nine months. That's about one in 10 of all outstanding federal student loans in default—although the Education Department says most of those loans eventually get paid back.

Here are five steps the federal government can take to make it easier for students to finance their college education:

• Allow students to use Pell grants year-round, not only for the traditional fall and spring academic terms, to complete their degrees more rapidly.

• Simplify the confusing 108-question federal student-aid application form and consolidate the nine loan repayment programs to two: a standard repayment program and one based on their income.

• Change the laws and regulations that discourage colleges from counseling students against borrowing too much.

• Require colleges to share in the risk of lending to students. This will ensure that they have some interest in encouraging students to borrow wisely, graduate on time, and be able to pay back what they owe.

• Clear out the federal red tape that soaks up state dollars that could otherwise go to help reduce tuition. The Boston Consulting Group found that in one year Vanderbilt University spent a startling $150 million complying with federal rules and regulations governing higher education, adding more than $11,000 to the cost of each Vanderbilt student's $43,000 in tuition. America's more than 6,000 colleges receive on average one new rule, regulation or guidance letter each workday from the Education Department.

It is vital that more Americans earn their college degrees, for their own benefit and that of the country. A report by Georgetown University's Center on Education in the Workforce tells us that if we don't, we'll fall short by five million workers with postsecondary education in five years.

Mr. Alexander, a Republican from Tennessee, is chairman of the Senate's education committee. He has been secretary of the Education Department, president of the University of Tennessee and governor of Tennessee.

Some useful information

Students fund their college/graduate education from a variety of resources:

- Own funds, i.e. savings, cash from parents, cash from summer or term-time work outside of school.
- Scholarships or grants from various non-school sources.
- Financial aid from the college, which may consist of:
  - Scholarships, grants or fellowships (which may also be a form of employment)
  - Loans, either from the college's funds or from Federal programs
  - Term-time employment
- Federal grants, such as Pell Grants, available to low-income students, and veterans programs.
- Loans
  - Federally guaranteed loans, primarily under the Family Federal Education Loan Program
  - Private student loans from banks and other financial institutions.

This list is not exhaustive but covers most funding sources.

Students typically take out a new loan at the start of each school year. There are various programs to consolidate those loans into a single loan when the student graduates. If this can be done at a lower interest rate, monthly payments could be reduced.

Students are generally not required to make loan payments while in school, though most loans accrue interest (i.e. the amount owed increases) if interest payments are not made. Repayments may also be deferred (though interest accrues and increases the balance) under certain hardship conditions, such as unemployment.

For Federal student loans there is an income-based repayment plan that limits payments to a percentage of discretionary income, with any unpaid balance forgiven after 10 or 20 years. The percentage is lower, the term shorter and the forgiveness greater for those who work in the public sector such as teachers or government employees. Students must sign up and renew annually This program does not apply to private student loans.

Student loans from any source generally may not be discharged (eliminated) through the bankruptcy process, unlike other consumer loans, e.g., home mortgages, auto loans, credit card debt.