Student Loan Cancellation, Fresh Start, and Community Service Loan Forgiveness

Dr. Chris McCaghren

Higher Education Solutions

A little about me…

Dr. Chris McCaghren currently serves as the CEO of Higher Education Solutions, a nationally-recognized, full-service higher education consulting firm. Most recently, Dr. McCaghren served as the acting assistant secretary for postsecondary education, as well as the deputy assistant secretary for higher education, at the US Department of Education, where he oversaw the distribution of more than $40 billion in pandemic relief funding to more than 5,000 institutions of higher education and their students. Prior to this, he served as the executive vice president and provost, as well as professor of higher education leadership and policy, at the University of Mobile. During his three-year tenure at the university, he and his team of entrepreneurs more than tripled the institution's academic offerings (introducing 45 new programs, including the university's first-ever doctorate programs) and introduced several cutting-edge initiatives to increase student access and success (including the four-day academic week and the creation of a 360-degree model for student success).

Chris also served as dean of the College of Education at Anderson University and as assistant to the president for external programs and division head for the division of career and continuing studies at Samford University. In addition, Chris spent two years serving Congressman Spencer Bachus (AL-6, retired) and the great people of the state of Alabama as special assistant to the congressman.

Chris holds a doctorate from Vanderbilt University in higher education leadership and policy, a master of theological studies from Beeson Divinity School, and a double major undergraduate degree in communication studies and classics from Samford University. When not postulating and contemplating policy and practice, he enjoys spending time with his wife Lauren (a fellow higher education sojourner) and his seven-going-on-thirty-year-old daughter Callen.

How did we get here?

- Higher education became a focus of Democrats during the 2020 presidential campaign:
  - Sanders: make all public colleges and universities tuition free; cancel all existing student loan debt
  - Warren: make all public colleges and universities tuition free; cancel all existing student loan debt; after Biden won election, revised to cancelling $50,000 in student loan debt
  - Biden: during Obama presidency, supported America's College Promise for free tuition at all public colleges and universities; as a candidate in 2020, revised to make all two-year colleges and universities free; initially non-committal on student loan cancellation

The Negotiations for a Plan

- Free tuition and fees for two years of public community college incorporated into Build Back Better Plan
- Once Build Back Better failed, Administration reverted to executive order to address student loan cancellation and other aspects of higher education
- On August 24, 2022, the Biden Administration, via the Department of Education, announced sweeping reforms to the Federal Student Aid program
- Progressives were pushing for $50,000 in student loan cancellation

The Results

- The Biden Administration adopted a two-fold cancellation strategy:
  - $10,000 of cancellation for individuals making less than $125,000 ($250,000 for couples)
  - $20,000 for Pell Grant recipients
- New IDR plan that caps undergraduate loan repayments at 5% of discretionary income (raise non-discretionary income threshold and forgive balances under $12,000 after 10 years)
- Broadening of the rules around the Public Service Loan Forgiveness (PSLF) program
- Hold colleges and universities accountable for steep increases in the cost of college

Other Points of Interest for the Biden Administration's Plan

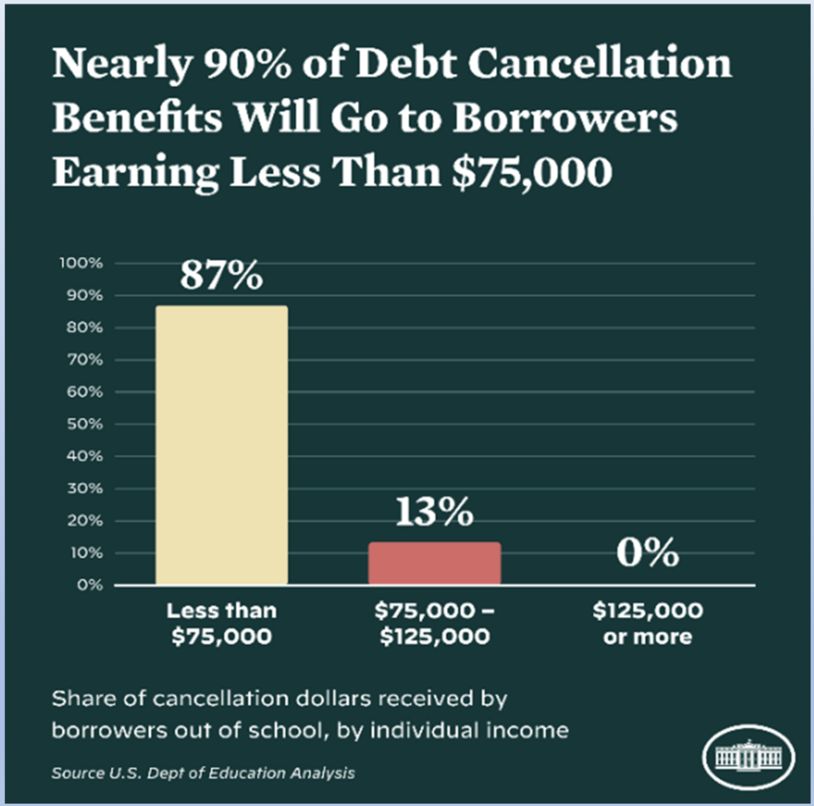
- The Administration is attempting to address a growing sentiment among Americans that the cost of college no longer offers a solid return on investment (ROI).
- There was intense negotiations between Progressives and the White House over the amount of student loans to cancel, in part because early on President Biden questioned whether he had the Constitutional authority for such an action.
- Many on the left, including the NAACP, continue to criticize that the plan does not go far enough for many student loan borrowers.

Other Points of Interest for the Biden Administration's Plan

- Applications for cancellation will be available in October according to the Department of Education
- Borrowers wanting to see cancellation reflected in January 2023 should apply by November 15, 2022.
- However, borrowers have until December 31, 2023 to apply for cancellation.
- You can sign up for updates (including application availability) by going to StudentAid.gov/debtrelief.
- Advise your clients to beware of scams (they are already rampant).

Positives of the Biden Plan

- It is an active attempt to address growing American sentiment around the cost of college.
- It is partially means-tested, which directs the money to students most in need. According to the White House, 87% of the cancellation dollars will go to borrowers earning less than $75,000 per year.
- The proposed IDR plan, Fresh Start, and expanded PSLF should have tangible impacts on borrower budgets and expenses.



Negatives of Biden’s Plan

- The Biden plan addresses a symptom of the higher education financing crisis, but it does nothing to address the heart of the matter.
- Estimates indicate that in 4 years time the total student loan portfolio will rise again to $1.6 to $1.7 trillion dollars.
- There is legitimate concern about contributions to already high inflation, and the possibility of students borrowing more in the future with the hope that the loans will be forgiven again.
- Estimates for the cost of the Biden plan vary widely. Depending on how many borrowers take advantage of the new systems, the plan could cost American taxpayers between $300 billion and $1 trillion dollars.

Contextual Caveats

- This plan is seen by most as a “mid-term handout”, and somewhat surprisingly, Democrats are not doing much of anything to dissuade that notion.
- According to the GAO, the pandemic pause in student loan payments has cost American taxpayers more than $300 billion as of July 2022 and those costs will continue through December 31, 2022.
- According to Insiders, Student Loan Servicers are increasingly agitated with the constant flux of regulations, communications, and timelines, as evidenced by some of the ”big players” existing federal student loan management altogether.

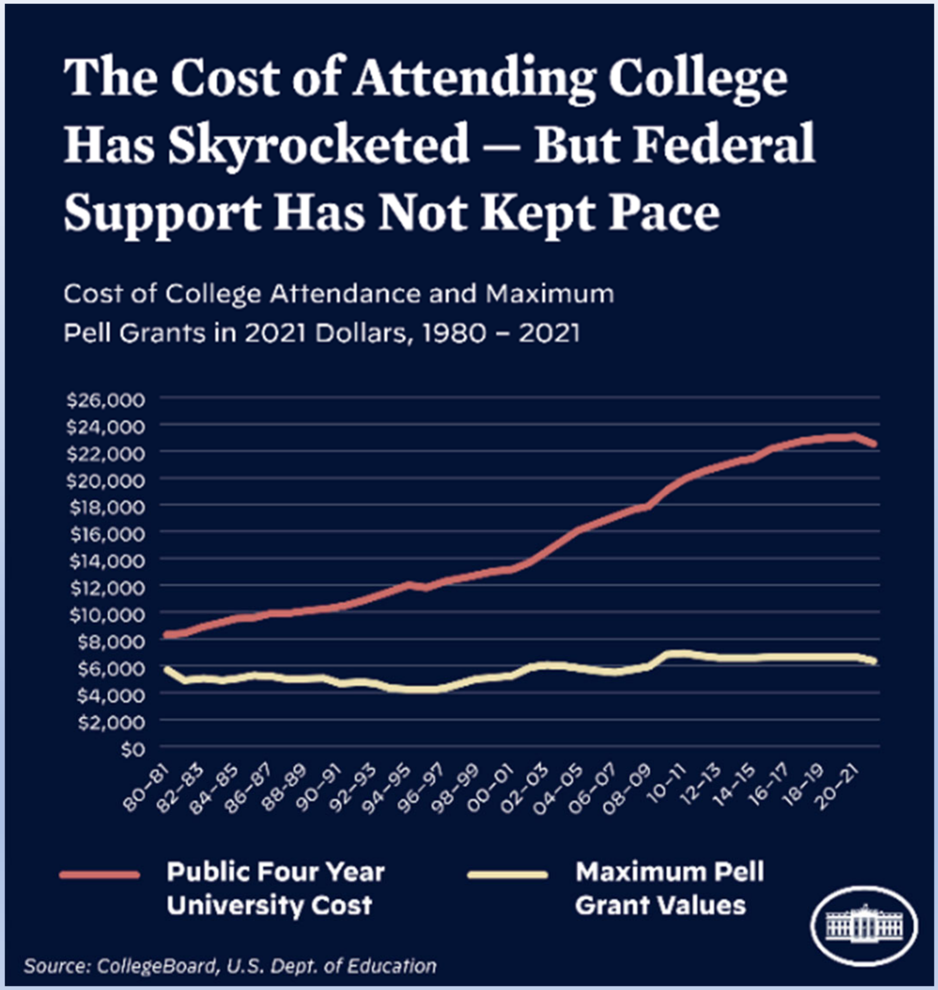
Fresh Start

- While related to the student loan cancellation plans, Fresh Start is actually a separate program that was announced on April 6, 2022.
- The U.S. Department of Education (ED) announced it would eliminate the negative effects of default for borrowers with defaulted federal student loans.
- This will enable approximately 7.5 million borrowers with defaulted federal student loans to return to repayment without any past due balance, just like every other borrower.

What does the data say?

- The cost of college has sky-rocketed over the last few decades.
- According to data from the National Center for Education Statistics and the United States Bureau of Labor Statistics, since 1980 the cost of college has increased almost 1200%, in inflation-adjusted dollars. For comparison, the Consumer Price Index (CPI) for all items included in the measure rose 236% during the same time period.
- Over the last 50 years, the cost of a college education in the United States has risen higher and faster than any other sector measured, save hospital-based healthcare. As a result, the United States holds the unenviable position of having the highest cost of college of any developed country in the world.
- A significant increase in college costs has occurred since the enactment of the Healthcare and Education Reconciliation Act of 2010 under President Obama, by which Congress federalized student loans following the Great Recession of 2008-2009 to help pay for the American Care Act. Due in large part to this influx of guaranteed federal dollars, between 2010 and 2020 college costs almost doubled.

What does the data say?



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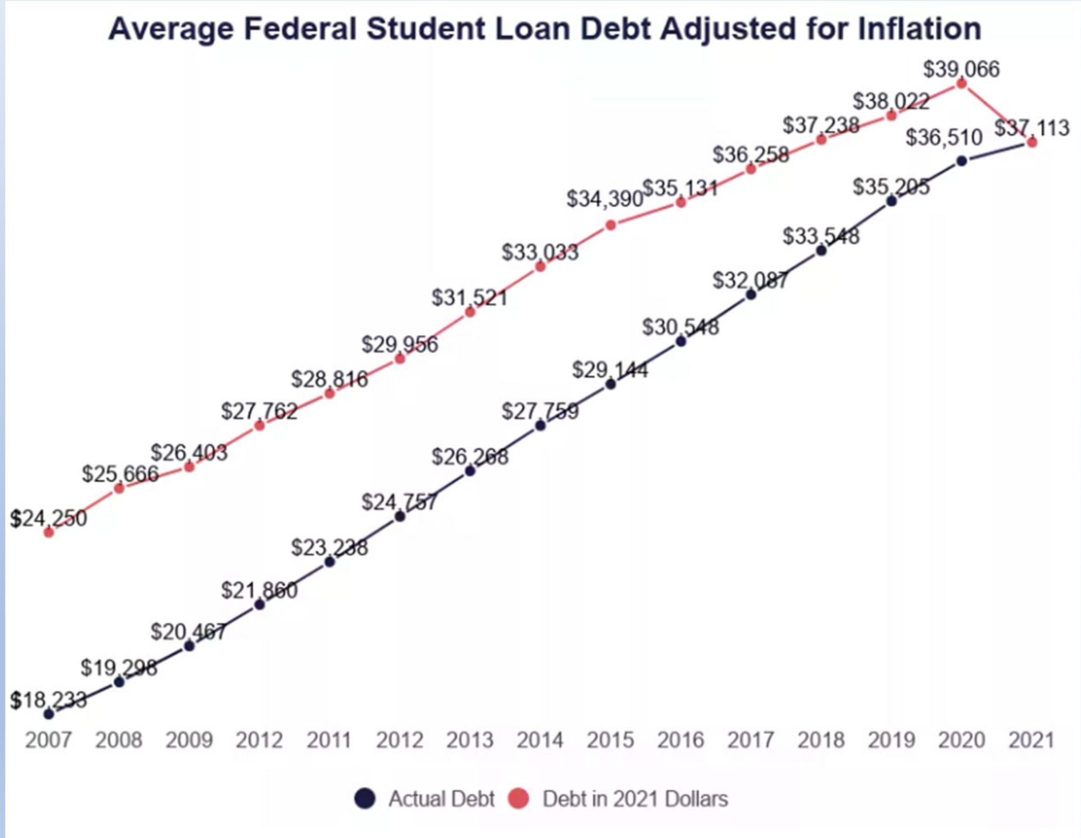

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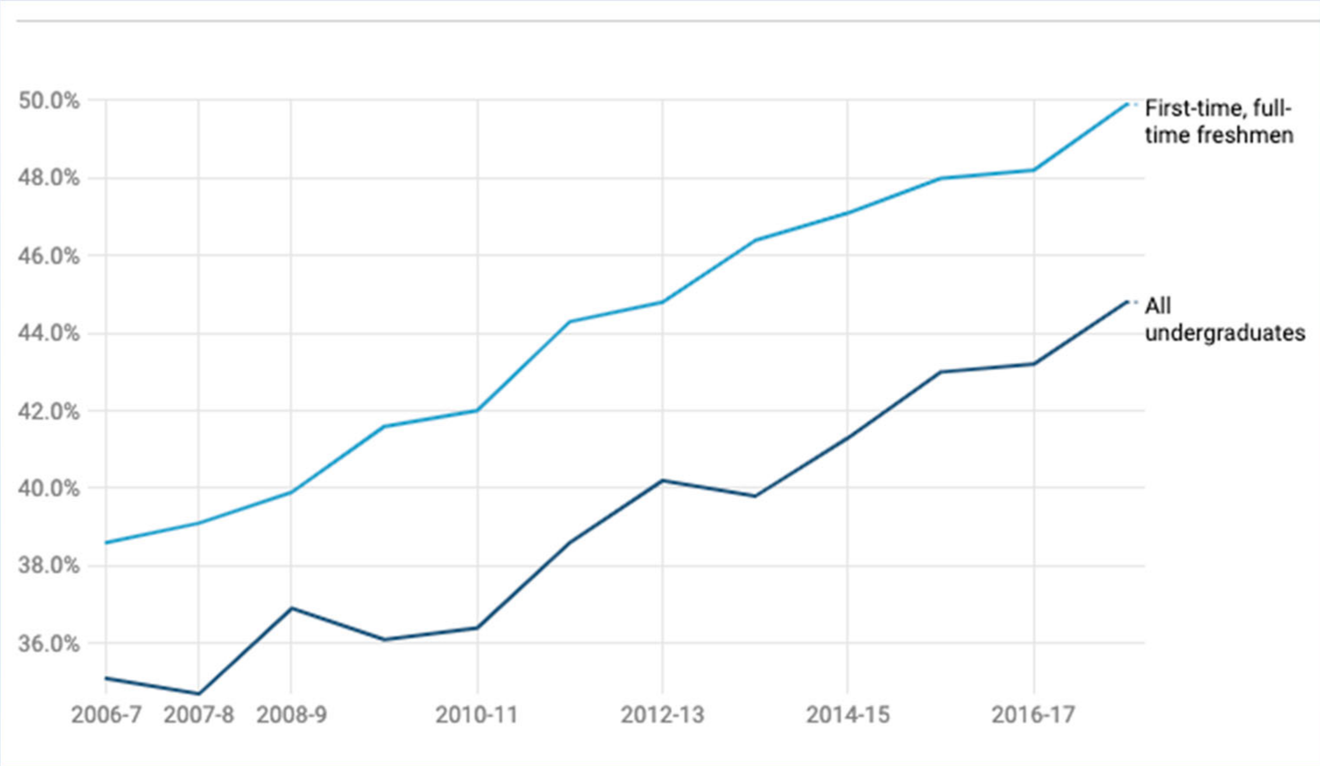
What does the data say?

Average Discount Rate 2006--2021



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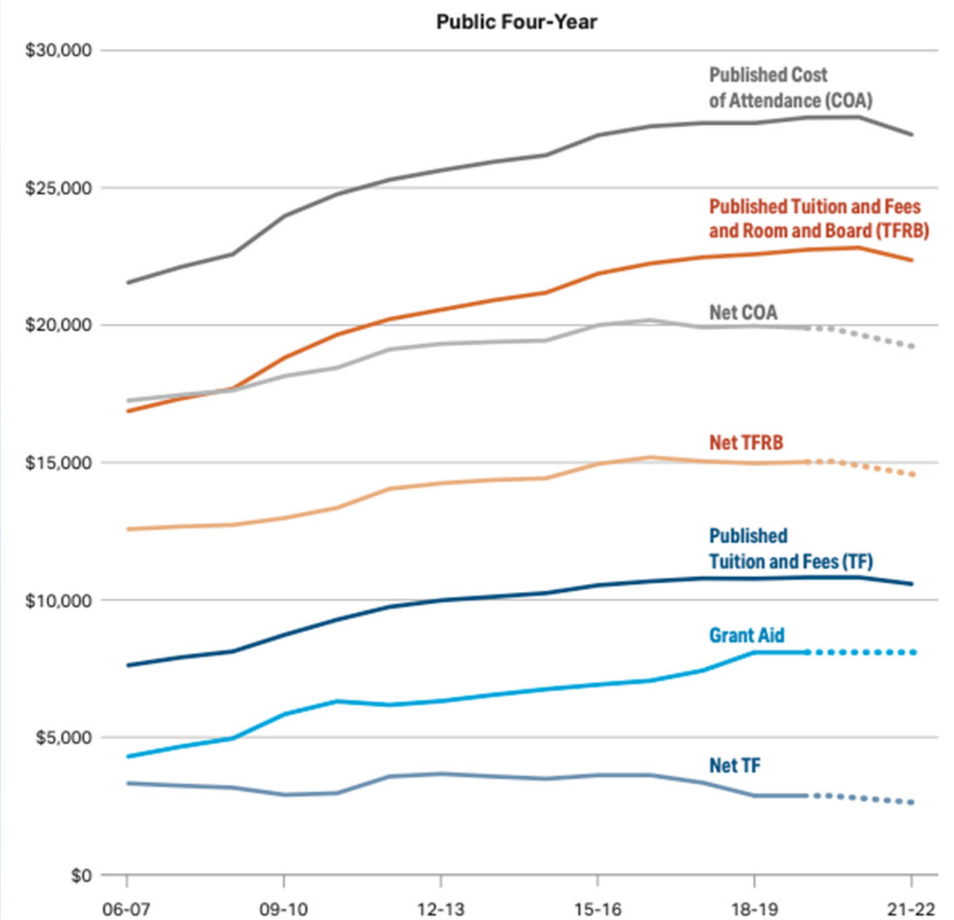
What does the data say?

- The average net tuition and fees have actually decreased at college and universities over the last 15 years.
- As CollegeBoard reports, “Since 2009-10, first-time full-time students at public two-year colleges have been receiving enough grant aid on average to cover their tuition and fees.
- Between 2006-07 and 2021-22, the average net tuition and fee price paid by first-time full-time in-state students enrolled in public four-year institutions is lowest in 2021-22 at an estimated $2,640, after peaking in 2012-13 at $3,720 (in 2021 dollars).
- Between 2006-07 and 2021-22, the average net tuition and fee price paid by first-time full-time students enrolled in private nonprofit four-year institutions is lowest in 2021-22 at an estimated $14,990.

What does the data say?

FIGURE CP-9 Average Published and Net Prices in 2021 Dollars, First-Time Full-Time In-State Undergraduate Students at Public Four-Year Institutions, 2006-07 to 2021-22



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Where is the difference?

- The most important factor to account for net tuition and fees decreasing while the federal student loan portfolio continues to grow: increases in non-tuition-and-fees "living expenses" related to cost of attendance. Students and institutions alike, aided by lax federal policies and oversight, have taken a very broad view in the application of student loans and often utilize the federal funds to support all living expenses, not just those associated with college.

- While cost of attendance calculations are based on legislation, the calculations contain a number of "living expenses" the institution estimates on behalf of the student—this includes categories such a transportation costs, childcare expenses, housing, and food expenses. Institutions are instructed by the federal government to estimate many of these expenses based on surrounding community benchmarks.

Takeaways

- We are at the most pivotal time in American higher education since the end of World War II.
- Our current model for financing higher education in the United States is fundamentally unsustainable, and the results will cause significant disruption and flux in the industry for the next decade or more.
- While college costs are growing at a faster rate than at any time previously, the predominant data used to measure such trends is flawed. Net tuition and fees is a much better indicator of trends than cost of attendance or published tuition and fees.

Questions?

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