Remarks of Deputy Secretary Raskin at the University of Maryland- Baltimore County

4/29/2014

Good afternoon. Thank you, President Hrabowski and UMBC, for inviting me here today. And thank you to the students for joining us. I just had the privilege of being part of a roundtable discussion with different students, and I am blown away by the thoughtfulness and astute insight that the students here are bringing to their educational experience. Today, I want to focus on a complicated, but crucial component of the academic experience: student loans. This is a multi-faceted topic and while I cannot address all of its different dimensions, I would like to specifically highlight the growth of student loan debt, its impacts, and policies and programs to reduce burdens, increase accessibility, and drive economic growth.

But before I start, I want to tell you that I’m particularly excited to be at your wonderful school. UMBC, under the leadership of President Hrabowski, is doing terrific, innovative work. The Meyerhoff Scholars Program is just one example. Because of this program, participation of underrepresented minorities in biomedical PhD programs here has increased dramatically. And it is just one example of President Hrabowski and UMBC’s stellar achievements. Among others are President Hrabowski’s work as chair of the National Academies committee, his work on President Obama’s Advisory Commission on Education Excellence for African Americans, his insightful writings, and his numerous honorary degrees. Of course, as a fellow Marylander, I would be remiss if I didn’t mention his Marylander of the Year honor. Not to mention UMBC’s standing as the nation’s number one “Up and Coming” university for the past five years and its ranking among the nation’s leading institutions for “Best Undergraduate Teaching.” This is truly impressive. U.S. News and World Report may say you’re up and coming, but given what I know about this place, it is clear that you have already arrived.

Your chess team is world famous, and my husband, who is a Maryland State Senator and captain of the Senate’s chess team, told me that he lasted about six minutes playing the 21-year-old captain of your team, who beat him while playing two other senators at the same time!

President Hrabowski, you and your students are an inspiration to us all. I am very excited at the chance to be with you here today.

With that, I’ll turn to the primary focus of my remarks: First, I’m going to describe why completing higher education matters to the economy. Second, I’m going to describe the growth of student loan debt and ask some questions about how to evaluate the extent to which the levels of student loan debt are problematic.

There are many benefits to higher education that we could discuss in detail; better health, higher civic engagement, and intellectual growth.[1] But, the benefit that I want to emphasize today is the benefit to our country’s economic growth and prosperity. The strength of our economy depends on its ability to harness the creative and productive potential of graduating students. People with skills, judgment, fortitude, and insight enhance our economy’s ability to achieve momentum and vitality.

Our economy cannot and will not grow to its full potential without you and your contributions. The United States enjoys one of the highest GDPs per capita in the world, and this is due in large part to the high productivity of American workers. Workers who are more educated are not only more efficient, but also develop innovations that make all workers more productive.[2] We should therefore aim to create policies that make education accessible for all because expanded education is key to enhancing the vitality of our economy and our global competitiveness.

The evidence speaks clearly to the high pay-off individuals receive from a college education: Graduation from a four-year higher education institution increases lifetime earnings by hundreds of thousands of dollars,[3] and college grads are the only educational group that has enjoyed real wage gains over the last several decades. In 2013, those with at least a college degree were approximately half as likely to be unemployed as those with only a high school diploma. Recent work from the Pew Foundation underscores the key role that education plays in promoting mobility.[4] Pew found that without a four-year college degree, children born in the bottom income quintile have a 45 percent chance of remaining there as adults. With a degree, they have an 80 percent chance of being in a higher income quintile than their parents. Education is a major path to upward mobility.[5]

At the same time that the data points to enhanced economic outcomes for students with four-year degrees, we are confronted with the stark reality that middle and lower-income families are less able to afford the cost of a degree. College affordability is a pressing concern because tuition increases at colleges and universities across the nation have been quite dramatic. Though increased grants and scholarships mean that net tuition might rise less than the full tuition price, at a public four-year school, net tuition is still, on average, 50 percent higher today in real terms than it was in 1994.[6] At for profit schools, tuition is often higher than at public universities and completion rates are lower.[7] Furthermore, the challenges associated with paying for higher education have been exacerbated in recent
years by our slow recovery from the worst recession since the Great Depression. Home prices have made only a partial recovery from their lows; long-term unemployment is still more than twice as high as its historical norm; and tightened credit markets make it more difficult to access some types of credit financing. Many middle-class families simply do not have the financial resources that they did prior to the financial crisis.

These considerations have driven the Administration’s efforts both to help students and families pay for college and to rein in the cost increases we have seen in recent decades. The maximum Pell Grant award has been increased by more than $900, and the number of Pell Grant recipients has expanded by more than 3 million since 2008. The American Opportunity Tax Credit was also created to provide up to $2,500 of tax credits per year for four years of college tuition. To further curb cost increases, the Administration’s Race to the Top for College Affordability and Completion seeks to create incentives for states to maintain funding for higher education and pursue reforms that will lower prices.

Even so, at the same time that our economy needs to be nourished and rejuvenated by people who have had a higher education, students are finding it increasingly difficult to finance their studies. Students often foot tuition bills themselves by working through school, drawing down savings, or taking on student debt.

An estimated 60 percent of undergraduates who received four-year degrees in 2012 finished with some student debt,[8] as compared with 30 percent of graduates in 1993.[9] These numbers also are affected by the type of school a student attends, whether it’s a public community college, a private four-year school, or a for-profit school. The vast majority of student loans today are financed by the federal government.[10] At private and for-profit schools, greater percentages of students rely on federal student loans to finance their education than at public colleges.[11] For example, during the 2011-2012 school year, 17 percent of students attending public two-year schools took out federal loans, compared with 61 percent of those attending two-year, for-profit schools.[12] In all, at the end of 2013, there were more than 40 million student loan recipients and approximately $1.1 trillion in debt outstanding associated with federal student loan programs.

These numbers are daunting; to what extent should we be concerned? Or more precisely, is there data and evidence suggesting that these numbers could create potential headwinds to our country’s economic growth? What markers should we be paying attention to? As a steward of the federal government’s finances and of the American economy, the Treasury Department has a strong interest in making sure we are asking the right questions when we consider the number of student loan borrowers, the amount of student loan debt outstanding, and how borrowers are faring with student loan debt over time.

We must also bear in mind that many students borrow amounts that are reasonable given the enormous potential individual returns to higher education. As I noted earlier, student loans serve an important economic purpose, helping students invest in their potential through higher education and generating positive spillovers from each individual’s education. As a society, we recognize that federal student loan programs provide millions of deserving, talented, ambitious students like you with the ability to contribute to our economy.

But we want to be clear-headed when we evaluate the sustainability of these debt levels and the challenges associated with repayment. To do this, we need to look carefully at the performance of these loans. For example, what portion of outstanding student borrowers are delinquent, meaning they have missed one or more payments? What portion of outstanding student loans are in default, which usually means an individual is 270 or more days late in making a payment and has not made any arrangements — like deferment or forbearance — to temporarily postpone payments? How are delinquencies and defaults changing over time? In other words, what portion will not get repaid and what consequences will a borrower face when the loan is not repaid? Given that people generally don’t know, at the time the loan is originated, how much money they will make at the time they graduate and beyond, we have to make sure there are appropriate options in place to help them manage their debt loads.

Let’s drill down a bit on these questions: Among those who borrowed, undergraduates who recently finished school have an average of approximately $30,000 in student loan debt,[14] and the large majority of graduates who are able to make payments on this debt will spend 10 years or more paying it down, juggling high monthly payments with working, paying rent or a mortgage, raising children, and building a future. For other graduates, this burden will be too much to bear. Of borrowers who entered repayment in FY 2010, nearly 15 percent had defaulted by the end of FY 2012, and for those at for-profit schools, the number was even higher at nearly 22 percent.[15] While delinquency rates on many other types of debt have fallen in recent years, delinquencies on student loan debt are rising. Evaluating these levels depends, in turn, on understanding fully the consequences of delinquencies and defaults.

What are the costs associated with delinquent loans? For one, delinquent borrowers could have future problems accessing credit, affecting the person’s ability to buy a car or a first home. In some cases, delinquency can even affect a person’s ability to participate fully in the economy because many employers run credit checks as part of their standard employment verification processes, and a poor credit history may send a negative signal, causing an employer to think twice about hiring a delinquent borrower. Default carries even more serious costs and consequences. A report from the National Consumer Law Center noted that, “Vulnerable students attempting to better their lives face severe consequences if they default on federal student loans.”[16] They can have their wages garnished and their credit marred for many years. Even borrowers who ultimately avoid default and repay their debt can face additional charges if they fall behind on their payments at any point. This can require further sacrifices to pay the monthly bills, dampening consumption and hindering the economy’s recovery.

The sustainability of high levels of student loan debt needs to be analyzed against the backdrop of the more granular data. And, to the extent that adverse costs and consequences associated with student loan indebtedness can be mitigated or eliminated, we should think
carefully about how we do that. For example, we should put in place policies to help people make informed decisions about where to go and how to pay for school, and strengthen our efforts to inform and protect borrowers at every stage of the process.

When it comes to helping students choose the right educational path, the Administration has continuously pushed to centralize, standardize, and make accessible information that can help students make an effective comparison between schools. Through the Department of Education’s College Scorecard, this information is now available in an interactive format that helps families weigh their options and make informed decisions about higher education and their financial responsibilities. Additionally, the Consumer Financial Protection Bureau, in partnership with the Department of Education, launched a “Know Before You Owe” campaign to make sure students have information on the true costs of financing a degree. With input from students, parents, guidance counselors, and college officials, the Department of Education and the Consumer Financial Protection Bureau have created a standardized financial aid shopping sheet that is now used by more than 2000 colleges and universities.

The affordability of student loans, as compared to returns from the investment in higher education, is also relevant to understanding the sustainability of these high debt levels. [17]

The effectiveness of servicing and collection efforts is also relevant in determining whether student loans are resulting in dangerously high levels of delinquencies or defaults. As a lender, that evaluation includes making sure the government’s student loan servicers – the name we give to banks or similar institutions who receive and process the borrower’s monthly payments on the government’s behalf – know immediately when a borrower is in trouble and can be ready to offer that borrower a repayment program that gives him or her the best chance of successfully repaying their loans. However, nearly 7 million Americans are now in default on a federal student loan.[18] Under current law, these borrowers can be subject to wage garnishment and tax refund offset, making it more difficult to get back on their feet. But we must ask the hard questions about why these borrowers were unable to enroll in loan modification programs, such as the Pay As You Earn plan, with their federal student loan servicer to avoid default.

We have a world-class higher education system that is the envy of people living on every continent; our system of financial aid and federal student lending should be world-class and world-famous as well. From the time students sign the promissory note to the moment they make their final student loan payment, we must have the necessary programs in place to ensure they are able to successfully manage their loans. The federal student loan servicers are often the main touch point for borrowers once they leave school and are therefore vital to improving the higher education financing system. All borrowers should be able to rely on a system in which the servicer, the university, and the government provide information and resources to help borrowers manage their loans successfully. This is critical to ensuring that taxpayers recoup their investment and that borrowers can make the most of their education without being sidetracked by the consequences of delinquency or default. With nearly $1.1 trillion of outstanding federal student loans, we have an obligation to work across agencies, with servicers, and with schools to inform and protect borrowers’ best interests.

These tasks require that we have sufficient data and information to assist troubled borrowers. If we can understand the patterns that lead to delinquency and default, we may be able to predict and even preempt such outcomes to the benefit of borrowers, taxpayers, and economic growth. By working with servicers and across government, we can measure and improve borrower outcomes in ways that assure our higher education system is an engine for continued income mobility and economic growth.

Thank you for inviting me to be here with you today. I wish you all success in your future endeavors, and I am confident that you, under the strong leadership of President Hrabowski, will achieve great things and make an indelible mark on the world around you.

[1] In addition to the benefits in terms of income, mobility, and economic growth discussed here, people with a college degree have better health, higher civic engagement, and are less likely to draw on the social safety net (Baum, Ma, & Payea 2010).


[5] In addition to these benefits to the individual, people with a college degree have better health, higher civic engagement, and are less likely to draw on the social safety net (Baum, Ma, & Payea 2010).

[6] From Trends in College Pricing 2013, Figure 10.

[7] Cite: Haskin report


[10] While estimates of the size of the private student loan market vary, federal student loans are believed to account for over 90 percent of new student loan originations in recent years. See Consumer Financial Protection Bureau, Private Student Loan Report.


[12] Ibid.


[15] The Department of Education defines a 3-year cohort default rate as the percentage of a school's borrowers who enter repayment on certain Federal Family Education Loan (FFEL) Program or William D. Ford Federal Direct Loan (Direct Loan) Program loans during a particular federal fiscal year (FY), October 1 to September 30, and default or meet other specified conditions prior to the end of the second following fiscal year. Available at http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html.


[17] Accordingly, policies to make student loans more affordable are worth noting. One such policy has resulted in interest rate reductions for new federal student loans. Instead of charging students a fixed 6.8 percent on undergraduate loans, the Bipartisan Student Loan Certainty Act of 2013 set the rate on new undergraduate loans this past year at 3.86 percent. In addition, the Administration's Pay As You Earn plan uses borrower income, rather than student loan amount, to calculate monthly loan payments. And we have been working to help make sure eligible borrowers are aware of repayment plans such as Pay As You Earn through efforts like our recent partnership with Intuit's TurboTax team that communicates student loan repayment options to millions of borrowers at tax time.

Normally, borrowers make fixed monthly payments on their federal student loans over a period of time, but this payment structure does not take into account the fact that much of the payoff from a college education comes only after a graduate has gained some experience. New college graduates can still struggle with loan repayments, especially in the current economic environment. The PAYE repayment program caps the monthly loan payment at 10 percent of a borrower’s discretionary income and forgives any remaining balance after 20 years.