U.S. DEPARTMENT OF THE TREASURY

Press Center

Remarks by Deputy Secretary Sarah Bloom Raskin At the Rappaport Center For Law and Public Policy Conference On The Student Debt Crisis

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As Prepared for Delivery

BOSTON - Good morning, and thank you for inviting me to join in today's conference.

It is a pleasure to be here at the Rappaport Center for Law and Public Policy at the Boston College Law School.

To the Center's faculty, staff, and supporters, let me say thank you for helping to shape and nurture the next generation of leaders. And to the students who are with us today, let me lend my voice to those encouraging you to follow your passion for public policy by learning how to bring analysis to the many challenges facing our nation every day.

In terms of these challenges, there are indeed many. But being from the U.S. Treasury Department, I am most acutely focused on our country's financial challenges.

So, when we first heard that today's conference was framed around the complexities of student loans, it was clear to us that you hit a bulls-eye on a topic that is a multi-faceted financial and economic challenge facing our country.

This is a critical challenge that affects every part of our economy, and goes to the core of who we are as a nation. America was founded on the promise of opportunity and economic mobility. And today, from coast to coast, we have institutions of higher learning that deliver on this promise. It is no accident that the United States is widely recognized as having the best system of higher education in the world. For decades, our colleges and universities have provided a ladder into the middle class and opened wide the circle of opportunity for the millions of Americans who have walked through their doors. Our education system has produced the finest graduates, men and women who have developed technologies that change the way we live and ideas that have changed the course of our history.

But today, for too many Americans these quality institutions feel out of reach. As tuition has increased, the ability to afford a high quality education has decreased. So, we cannot be satisfied to simply have many of the finest educational institutions in the world, we need to ensure students can afford to attend these institutions, and that, more generally, the education that families work so hard and sacrifice so much to afford is in fact a quality education that does not leave students worse off for the investment and effort.

Ultimately, if we are to deliver on the promise of our nation, we must be concerned with student debt and the system that we have to finance that student debt.

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Here is what the data tell us: Over this decade, employment in jobs requiring education beyond a high school diploma will grow more rapidly than employment in jobs that do not[1]; and of the 30 fastest growing occupations, more than half require post-secondary education.[2]

The data also show that:

On average, workers age 25 to 32 with four-year college degrees earn more than 60 percent more than those with only high school degrees, up from 30 percent more in the late 1970s.[3] These premiums have grown despite the significant increase in the supply of college educated workers, as the percentage of young adults with at least a bachelor's degree has risen from 22.5 percent in 1980 to 34 percent in 2014.[4] Over the course of a lifetime, a person with a four-year college degree earns approximately $570,000 more than a person with only a high school diploma in present value terms, while a person with a two-year college degree earns $170,000 more.[5],[6]

But of course, these numbers understate the true value of higher education, which represents an important investment in both the individual potential of our citizens and the general health of our society. Higher education confers both pecuniary and nonpecuniary benefits on individual students, but it also benefits society more broadly, in the form of increased productivity, increased innovation, and increased civic engagement.

Higher education is, in this sense, a public good as well as a personal investment. And like many public goods, we have a public interest in maintaining a robust and sustainable higher education system that is affordable and accessible to all our people. Our nation's human talent is an asset that we need to invest in, and our economy's strength depends on this investment in talent and potential being made prudently.

Financing Higher Education

But herein lies the challenge. With tuition growing at rates far in excess of average earnings, particularly in the wake of the great recession, the challenge of maintaining an affordable, accessible system of high quality higher education has markedly increased. [7]

In the United States we finance higher education through a variety of public and private forms of financial support. According to research by Pew Charitable Trust, total direct investment in higher education—which consists of grants, appropriations, and other direct spending at the federal, state, and local levels—totaled $157.5 billion in 2013 alone.[8],[9] Nonetheless, students pay for a significant portion of their education, and this is often supported by the federal student loan system.

As the cost of higher education has grown, students and families have, in large measure, relied on borrowing through the federal student loan system to fill this gap. Americans owe more than $1.2 trillion in federal student loans today, up from just over half a trillion at the end of 2007.[10] Though it does not rival mortgage debt, the total outstanding student loan debt is now larger than either credit card or auto loan debt. As the economy has recovered, the rate of new student loan borrowing has slowed.[11] Still, the overall volume of loans outstanding and the average debt level per student continue to grow.

As a result, in the nation widely recognized as having some of the finest educational institutions in the world, our citizens now have the highest level of college student loan debt of any country.[12] Data collected by The Institute for College Access & Success show that about 70 percent of graduates in 2014 had student debt, borrowing on average nearly $29,000.[13]

What does it tell us when 7 out of every 10 college graduates take on debt to finance their higher education? It tells us that for the vast majority of Americans, post-secondary education is inaccessible without loans, and as a consequence, our student loan financing system has become a requisite component of delivering on the promise of a high quality education. If we are concerned with helping to build the next generation of scientists, innovators, and leaders—and helping the next generation get a foothold in our economy—we have to ensure that the student loan financing system is working for them.

The health of our student loan financing system also has broader effects because student debt matters from the perspective of our economy as a whole. When students borrow to attend schools that don't deliver, they are left with debt but no corresponding earnings gains. Such a debt burden may hamper their ability to thrive and be financially secure, and this could have ripple effects throughout the economy.[14]

More generally, the experience of the last decade provides a painful reminder that debt burdens can worsen economic downturns and slow economic recoveries. Consumer spending, which accounts for more than two-thirds of GDP, was much slower than usual to recover after the Great Recession, in part because of the high household debt and leverage experienced in the wake of the housing bust. High debt probably weighed on consumption both because high debt service payments impaired households' ability to spend on other items and because high debt made it hard to refinance into lower-rate mortgages and obtain additional credit. While student loan debt is much smaller than mortgage debt and does not pose the same systemic risk, a burden of student debt could, in principle, have analogous effects down the line.

In short, our student loan financing system is not only essential infrastructure for delivering on our nation's promise for millions of individuals, but it also provides a critical public good that is a necessary support for our country's economic growth and prosperity. It is important that our student loan system is designed with this necessity in mind.

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So how well is our nation's student loan financing system serving the public good and the millions of Americans who currently have student loan debt? The data show both some encouraging signs and some reasons for concern.

As I have mentioned, our system supports broad access for millions of students each year, and the vast majority of borrowers are making loan repayments and managing their debt. At the same time, the percentage of those who are struggling under the increased debt load has grown as well. Approximately 11.6 percent of the balances of federal student loans that have entered repayment are in default, and in the Direct loan portfolio, another 5.5 percent are at least 91 days delinquent.[15] While we have seen some signs of improvement, these numbers are still high.

We also see that at some schools, the majority of students are not only struggling to repay their loans, but are making absolutely no progress at all in reducing the amount owed. These schools are predominately for-profit schools, but this also includes some community colleges and non-selective four-year institutions.[16] The College Scorecard recently released by the Department of Education shows that at about 20 percent of schools, less than half of federal student loan borrowers are able to pay down a dollar of principal over the first five years in repayment.[17] The promise of a college or university is a quality education, a good-paying job, and the chance to get ahead. But instead, borrowers at these schools have lower graduation rates, higher unemployment rates, and earn less than the overall population of student loan borrowers. For these students, the promise of a high quality higher education has proven to be empty. And when these institutions do not deliver on this promise, the consequences fall on our whole country, and also on student loan borrowers individually. These effects can be so devastating and so burdensome at these institutions that borrowers can leave worse off than when they started—the investment they made in their education now quashed by the overwhelming debt burdens with which they are saddled.

This is alarming; it does not reflect a student loan financing system that is fully meeting its mandate to advance the public good. We need to hold schools and servicers accountable for the essential parts that they play in this critical public infrastructure, and for where they have failed to deliver.

So, how can we enhance accountability in a way that supports increased access to quality and affordable higher education, the advancement of the public good, and opportunity for all Americans? The answer is to better align enforcement and metrics for accountability with the goals of our student loan financing system.

Elements of Student Loan System

Before I continue on how we improve accountability, let's remind ourselves of the goals of a consumer lending system such as the student loan finance system.

From mortgages to credit cards to auto loans, consumers and lenders alike are better off when borrowers can access financial products on clear terms that they understand, when they receive accurate information, when they are able to navigate repayment in an affordable manner, and when they are treated fairly throughout the lifecycle of the loan. And whether it's our student loan financing system or our nation's mortgage markets, consumers benefit from clear rules of the road and from a cop on the beat to ensure that the rules that underpin these principles are followed by all market participants.

Let's walk through these attributes and make sure we understand what our student loan system should strive to achieve along each dimension, so that when we discuss accountability in a few minutes, we have a better sense of what contributes to a successful student loan lending system. And I will note that the Obama Administration has devoted considerable attention and effort to addressing student loan reform and has implemented important changes across several of these dimensions. At the same time, the data show us that we have more work to do.

The first key attribute is accessibility. A core feature of the federal student loan program—embedded in our desire to provide quality educational opportunity to all who can achieve it, rather than just to those who can afford it—is its accessibility to any student attending an eligible institution regardless of personal or family income or assets.

Second, a successful financing system must be transparent. Before taking on debt, borrowers should understand its costs and benefits. Students and their parents need information not just on the cost of the loan, but about the path to a degree and the potential earnings enhancement that the degree can reasonably be expected to provide. This information enables them to assess the total potential return on their educational investment. Administration initiatives like the College Scorecard—

which make data available on cost, graduation rate, loan default rate, average amount borrowed, and average earnings of graduates by school—are helping students and parents choose a school well-suited to them.[18],[19]

Third, the loan product should be affordable. Whether this means a standard 10-year plan or an income-driven repayment plan, the same principle applies: Limiting borrowers to monthly payments that they cannot afford is a disservice to the public good and works against the very opportunity higher education should provide. That is why the Obama Administration has taken a number of steps to make student loans more affordable, particularly by improving the repayment options available to borrowers. Recent actions establishing the Revised Pay As You Earn Plan, or REPAYE, provided 5 million additional borrowers with the opportunity to cap their monthly student loan payment at 10 percent of monthly discretionary income regardless of when they first obtained the loan. The Administration also has proposed eliminating the potential tax liability that borrowers will incur if they receive loan forgiveness under the Pay As You Earn program. [20] This is a logical step to deliver the intended benefits of borrowing, rather than simply replace student loan debt with tax debt at the end of the line.

Fourth, the lending and, equally importantly, the repayment process must be navigable. Our student loan financing system is highly complex, with multiple repayment options and other features. And the burden of this complexity falls on the borrower. This means that borrowers need access to timely guidance and assistance. For example, based on the conversations I've had with students, many people are unaware that they can repay their federal student loans with payments based on their income, or that generous forgiveness programs exist for those employed in public service and those facing permanent disability. We must do a better job of informing students of these options.

The Need for Greater Accountability

We have made considerable progress against several of these attributes over the last seven years, but when too many students have their futures limited—instead of their opportunities expanded— we have more work to do. And we need greater accountability in our student loan financing system for this progress to happen.

Who should be accountable? Simply stated: Those in our system that are receiving federal taxpayer funds. This includes the entities that service the student loans. Loan servicing is done by private firms that are relied on to help borrowers manage their accounts, identify and assess their repayment options, make changes to their accounts and repayment plans, and address problems that may arise. Strong servicing is an essential part of any good loan product, but it is particularly important given the complexity of student loans.

When servicers fail to deliver on their obligations, we see student loan borrowers who are unaware of the options they have and unable to take advantage of them. Too many of these borrowers wind up in default, causing damage to their credit and piling up fees in the process. Even worse, we see many turn to scams—the quick-fix approaches advertised on telephone poles. So, not only do the servicers have to deliver on their obligations, but when they do not, there must be consequences. We need effective enforcement against under-performing and poorly performing loan servicers.

The Department of Education expects to pursue new servicing contracts this year, which provides a new opportunity to implement improved enforcement and accountability metrics. The Department of Education has also indicated its intent to establish a uniform complaint system that borrowers can use if they encounter any issues with their servicer. These are important steps and an opportunity that we should seize soon.

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Importantly, accountability also means that schools receiving the proceeds and benefit of taxpayer-funded loans through tuition and fees must be held accountable for providing a quality offering. The student loan program is a significant source of funding to the schools borrowers attend. Those institutions benefiting from federal student aid should be expected to produce positive borrower outcomes on behalf of students and taxpayers alike. And to that end, the federal government must promote clear standards of accountability.

This Administration has taken steps in this regard too. Through Gainful Employment regulations, the Department of Education has created standards to ensure that for-profit and certificate programs will help students find gainful employment in a recognized occupation. If schools do not meet the minimum requirements for employment, they can lose access to the suite of federal financial aid programs for their students.

While these rules are an important safeguard to prevent abuse by the worst performing institutions, there are additional steps that would continue to shift incentives throughout the system to benefit students and hold schools accountable.

What are some of these incentive-shifting steps? One such step is to ensure that our metrics of accountability are designed correctly.

Currently, one of the major institutional accountability measures the federal government uses to attempt to assess student outcomes is known as the cohort default rate. The cohort default rate measures the proportion of a school's borrowers that default over the first three years of entering loan repayment. But avoiding default is hardly a measure of success, or an indication that the college or university the borrower attended made good on its promise to provide a high quality education. The cohort default rate has been ineffective at identifying many schools that have severely low loan repayment rates.

If schools are asking, "How do we do the bare minimum to keep our borrowers out of default?", they are asking the wrong question.

Instead, schools need to be asking, "How can we make sure our students complete their degrees and receive an education that delivers the tools they need to succeed in the labor market and repay their loans?" We need to think about an accountability metric that addresses this objective.

This may mean using a standard of accountability that would assess school performance by measuring student loan repayment rates, rather than default rates. Such a standard could compare the amount of loan repayment progress that borrowers at a school make over a designated amount of time to a target rate of repayment progress.

A standard like this would capture not only students who have defaulted, but also students who are struggling with repayment. Second, while the cohort default rate is limited to a three-year time frame (and students who default after this period do not count against an institution's cohort default rate), a repayment-based standard could track outcomes over a longer period of time. And it could also close a loophole that allows schools to minimize their cohort default rate by temporarily pushing students at risk of default into deferment or forbearance.

Repayment rates also have the potential to be a more meaningful metric of accountability because repayment rate in the relatively short run is a robust indicator of long-run loan outcomes. For example, the loan repayment rate after five years is a good predictor of the long-term performance of a loan.

By refining our standards of accountability, we can change the incentives for higher education institutions, and make it clear that the success of every borrower is our priority.

And when an underperforming institution fails to equip borrowers to succeed and, ultimately, to repay, students, families, and taxpayers should not be left holding the bag. Requiring institutions to have a more direct financial stake in borrower outcomes could change the behavior of schools in ways that benefit students. Several states are already experimenting with funding public universities based on outcomes as well as enrollment. Members of Congress from both parties have also raised the prospect of collecting a financial contribution from institutions that produce poor student loan outcomes. Such a change could be a direct incentive for schools to improve quality, provide greater resources to assist and guide students to complete their degrees, and help graduates find jobs that pay well. The same can be said for incentive payments or other benefits that could be tied to achieving superior outcomes and serving at-risk students, such as the Administration's proposal to reward colleges that graduate Pell students. In the end, fostering accountability may hold real promise.

Accountability also means making sure that schools that participate in the federal student loan program are on strong financial footing and capable of standing by their obligations. Already, we have seen Corinthian College students harmed by false promises used to induce them to enroll. As those loans are now discharged, Corinthian is unable to reimburse the taxpayers for the cost of those discharged loans. Stronger standards should be adopted to ensure that schools that have benefited from federal student loans will at least be able to cover any costs associated with loan discharges resulting from a school closure, borrower defense claims, and other borrower refunds. If schools are not responsibly managing their finances and potential liabilities, the taxpayer once again bears the cost.

Conclusion

If we, as a nation, are committed to delivering on the promise of a high quality, affordable, accessible, education for our nation's most important resource—our students—we must do more to ensure this is a reality within reach of everyone. It is not enough to be content with the progress we have made. We must vigilantly hold the institutions within our student loan finance system—both student loan servicers and schools—accountable for the responsibility they have to deliver on their obligations to their students and to the American people.

We must be honest with ourselves about what is lacking in our current approach toward financing this critical investment. We've taken a number of steps in the right direction, but we have further to travel to fully meet these objectives. We have a responsibility, as a government, to make sure that the rules of the road prevent underperforming servicers and schools from harming students with unaffordable debt, and we must continue our work until the student loan financing system delivers on its promise for every student.

Thank you.

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[1] U.S. Bureau of Labor Statistics, "Occupational employment projections to 2022." Available at http://www.bls.gov/opub/mlr/2013/article/pdf/occupational-employment-projections-to-2022.pdf.
[2] U.S. Bureau of Labor Statistics, "Employment Projections—2014-24." Available at http://www.bls.gov/news.release/pdf/ecopro.pdf.
[3] Pew Research Center, "The Rising Cost of Not Going to College," 02/11/2014. Available at: http://www.pewsocialtrends.org/2014/02/11/the-rising-cost-of-not-going-to-college/
[4] National Center for Education Statistics. https://nces.ed.gov/programs/digest/d14/tables/dt14_104.20.asp
[5] Greenstone & Looney (2011). Where is the Best Place to Invest $102,000 – In Stocks, Bonds, or a College Degree? Available at http://www.brookings.edu/research/papers/2011/06/25-education-greenstone-looney.
Abel & Deitz (2014). Do the Benefits of College Still Outweigh the Costs? Available at http://www.ny.frb.org/research/current_issues/ci20-3.pdf.
Causal estimates of the return to higher education are lower than these cross-sectional returns, though still substantial in the 8-15 percent range. See Oreopoulos and Petronijevic (2013). Making College Worth It: A Review of the Returns to Higher Education. Available at http://www.nber.org/papers/w19053.pdf.
[6] It is also true that there is substantial heterogeneity in the returns to college. For example, although the estimated internal rates of return of two- and four-year colleges are quite similar, the net present value of a four-year college degree is more than double the net present value of a two-year college degree. There is even more substantial variation in estimated internal rates of return for different college majors, ranging from 5.5% (for men who are education majors) to 16.4% (for women who are computer and information science majors). Ofer Malamud and Lisa Barrow, "Is College a Worthwhile Investment?", *Annual Review of Economics*, Vol. 7 (2015): 519-55.
[7] Census Bureau, Table H-6. Regions--All Races by Median and Mean Income: 1975 to 2014. Available at http://www.census.gov/hhes/www/income/data/historical/household/2014/h06AR.xls.
College Board, Figure 6: Inflation-Adjusted Published Tuition and Fees Relative to 1985-1986, 1985-86 to 2015-16. Available at http://trends.collegeboard.org/college-pricing/figures-tables/published-tuition-and-fees-relative-1985-86-sector.
[8] Stauffer (2015). Federal and State Funding of Higher Education: A Changing Landscape. Available at http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2015/06/federal-and-state-funding-of-higher-education.
[9] Over time, the composition of this spending has shifted; federal spending has increased, while state level investment has receded (Stauffer, 2015).
[10] Federal Reserve Bank of New York (2016). Quarterly Report on Household Debt and Credit, February 2016.
[11] Originations of federal loans peaked in the 2010-11 school year at approximately $116 billion and have fallen gradually to an estimated $96 billion for the 2014-15 school year. College Board (2015). Trends in Student Aid 2015.
[12] OECD (2014). Indicator B5: How Much do tertiary students pay and what public support do they receive?, available at http://www.oecd.org/edu/EAG2014-Indicator%20B5%20(eng).pdf.
[13] This statistic includes federal and private student loan debt borrowed. The Institute for College Access & Success, Project on Student Debt. Available at http://ticas.org/posd/map-state-data-2015.
[14] One effect worth watching is the effect of student loan debt on older people. Debt held by borrowers between the ages of 50 and 80 has increased by about 60 percent over the last 12 years. While not all of this debt is student loan debt, student loan debt for this age group more than doubled (Federal Reserve Bank of New York, "The Graying of American Debt," 02/24/2016. Available at: http://libertystreeteconomics.newyorkfed.org/2016/02/the-graying-of-american-debt.html). For older people who are poor, the effect of this debt on monthly federal benefits, when withheld as payment on this student loan debt, will need analysis.
[15] Federal Student Aid Data Center, Portfolio by Loan Status. Includes both FFEL and Direct loans.
Federal Student Aid Data Center, Direct Loan Portfolio by Delinquency Status. Available at https://studentaid.ed.gov/sa/about/data-center/student/portfolio.
[16] Looney and Yannelis (2015). "A Crisis in Student Loans? How Changes in the Characteristics of Borrowers and in the Institutions they Attended Contributed to Rising Loan Defaults." Available at <http://www.brookings.edu/~/media/projects/bpea/fall-2015_embargoed/conferencedraft_looneyyannelis_studentloandefaults.pdf>.
[17] Based on Treasury calculations from the College Scorecard, 2013 file.
[18] The publication of the scorecard data is just a start. Ideally, third parties will use this data, perhaps in concert with other sources, to develop interactive tools for students and parents to make the data more accessible and informative.

[19] Looking forward, we should continue to look for ways to improve the Scorecard's usefulness. For example, we might consider expanding the data regarding how borrowers from each program fare in loan repayment. The Scorecard provides the percentage of borrowers who have paid down at least $1 of principal within three years of leaving school. Students might benefit from more granular information on the repayment patterns, including how much principal has been repaid over different time periods, to better understand how well a program's graduates are able to manage their debt. For example, information on how much of their original balance the average borrower in a program has repaid after year three or year five, timeframes that are sufficient to allow borrowers to find employment and establish a repayment pattern, may more clearly illustrate how well a program prepares its students to repay the loans necessary to attend.

[20] Pay As You Earn, a federal loan repayment plan, allows Direct loan program borrowers to pay as little as 10 percent of their discretionary income and receive loan forgiveness on remaining balances after 20 or 25 years. The Administration recently expanded this program further so that all Direct loan student borrowers, regardless of the origination dates of their loans, are eligible. Borrowers with loans originated under the guaranteed loan program may be able to consolidate their loans to gain access to these new repayment plans.