NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

September 12, 2022

Representative Virginia Foxx
2462 Rayburn House Bldg.
Washington, DC 20515

Representative Elise Stefanik
2211 Rayburn House Bldg.
Washington, DC 20515

Representative Jim Banks
1713 Longworth House Bldg.
Washington, DC 20515

Dear Representatives Foxx, Stefanik, and Banks:

On behalf of the National Association of Student Financial Aid Administrators (NASFAA) and our 3,000 member institutions, we are writing about the Responsible Education Assistance Through Loan (REAL) Reforms Act, a bill that seeks to reform federal student loans, impose limits on the authority of the Secretary of Education, and authorize Pell grants for short-term programs.

NASFAA represents nearly 20,000 financial aid professionals who serve 16 million students each year at colleges and universities in all sectors throughout the country. NASFAA member institutions serve nine out of every ten undergraduates in the U.S.

We are grateful that members of Congress are interested in much needed and long overdue student loan reform. For our part, NASFAA, in partnership with a broad coalition of experts and advocates, recently undertook its own student loan reform proposal[1]. Framed within the context of conversations about broad-scale loan cancellation, our work was premised on the assumption that unmanageable debt is the result of shortcomings of our current student loan system.

The REAL Reforms Act includes several practical reforms that simplify the federal student loan programs and address some of the most flawed aspects of the student loan system, but it falls short in some areas. We offer the following feedback in anticipation of working with bill sponsors to arrive at equitable and responsible solutions to the problems that currently plague the federal student loan system.

[1] https://www.nasfaa.org/protecting_borrowers_advancing_equity

Federal Student Loan Programs

We support the bill's elimination of capitalized interest. The concept of interest capitalization runs contrary to the principle of federal student loans as a college access tool rather than a revenue source for the federal government. The REAL Reforms Act's elimination of statutory capitalization events complements the Department of Education's (ED) efforts in this regard and ensures that every borrower will be spared the unexpected and costly practice of interest capitalization.

The proposal's cap on the total amount a borrower would repay on their loans at the amount they would have paid in principal and interest under the 10-year repayment plan offers protections against negative amortization and forever growing loan balances. Currently, borrowers in income-driven repayment plans may end up paying back more over the life of their loans than their higher-income peers, due to negative interest amortization. This bill would ensure that once a borrower has repaid the amount they would have paid in ten years had their incomes permitted such a repayment schedule, they will have fulfilled their loan obligation.

The increase to the annual graduate and professional student unsubsidized loan limit from $20,500 to $25,000 is both welcome and necessary considering the last increase was in 2008.

NASFAA has long supported[2] institutional authority to limit federal student loan borrowing and appreciates its inclusion in the bill. Institutions are held accountable for whether students' loans are repaid through cohort default rate requirements, but they currently have very little control over how much students borrow.

We also support the provisions in the bill that narrow the choice of repayment plans to two, which greatly simplifies borrowers' options. The current landscape of student loan repayment plans is too complex and leaves borrowers unsure whether the plan they've chosen is the best one for them, especially considering many plans have only minor differences.

Finally, giving borrowers with defaulted loans a second chance at rehabilitating those loans ensures continued engagement with the loan repayment system and increases the likelihood that loans will successfully be repaid.

We are concerned, however, about other provisions in the bill that would negatively impact borrowers.

For one, health professions students currently have significantly higher annual loan limits than other graduate and professional students to account for the higher cost of their programs. These students will see their annual eligibility cut by nearly half under the proposal.

Even for those borrowers whose annual limits would increase, that extra funding is nowhere close to making up for the proposed elimination of the Graduate PLUS program. Graduate degrees are required

[2] https://www.nasfaa.org/uploads/documents/NASFAA_Compiled_HEA_Reauthorization_Recommendations.pdf

for many essential, but lower paying professions. Its high interest rates push advantaged borrowers to the private market, which is more than willing to absorb the minimal risk of lending to these students. The private market, however, won't replace Graduate PLUS loans for borrowers without a robust credit history, a cosigner, or the potential for high earnings to support that debt, like librarians and social workers. Cutting the Graduate PLUS loan without offering an alternative for these students to access graduate study is an overly blunt solution when common-sense alternatives—like setting a limit based on the public, in-state tuition for the student's field of study—exist to address concerns about "unlimited" loans.

We are alarmed by the proposal to eliminate public service loan forgiveness (PSLF), a product of bipartisan efforts to ensure individuals with a desire to work in public service, like teachers, can make those decisions without having to worry about how they'll pay back their loans on the lower salaries associated with those careers.

We are not aware of concerns that PSLF is going to unintended recipients. Rather, PSLF has been plagued by underutilization and implementation challenges. Removing this important incentive for borrowers to work in public service, especially with critical labor shortages in public services like healthcare and education doesn't only disadvantage those borrowers; it negatively impacts everyone who relies on public servants- nearly every American. We would prefer to see reforms to the program, combined with upfront increased grant funding, instead of total elimination.

The proposed new income driven repayment plan removes several important, borrower-friendly provisions from existing IDR plans, such as the availability of a zero-dollar monthly payment and the opportunity for cancellation after 20 or 25 years in repayment. While a $25 minimum payment may seem trivial, for very low income borrowers, it could mean the difference between putting food on the table or making a loan payment. While a plan does exist for payments as low as $5, we are concerned that it has far too many eligibility conditions and is much too complex for struggling borrowers to reasonably undertake, increasing the likelihood that they will default on their loans.

Removing the opportunity for time-based loan cancellation will doom the lowest-income borrowers to a lifetime of debt. A borrower who has qualified for lower payments under IDR for 20 or more years is unlikely to ever earn an income to repay their debt in full. Twenty years should be enough to demonstrate a borrower's willingness to repay their loans. If they can't fulfill their obligation in that timeframe, cancellation is fair and reasonable.

Further, while the proposed plan is only somewhat less generous than current IDR plans, it is especially stingy when compared to the new IDR plan that was developed through negotiated rulemaking and is currently in the clearance process before release for public comment, which will offer a higher portion of income protected from assessment and a lower percentage of discretionary income going toward monthly payments.

Limits on Secretarial Authority

We look forward to understanding more about the proposals to limit the Secretary's authority, and what the intended and unintended consequences of such limits may be.

Workforce Pell Grants

The proposal to permit Pell grants for short term programs includes several important guardrails to ensure program quality, such as the requirement that the education be aligned with the needs of in-demand occupations, and the 70% completion and job placement rates. Understanding the need for a return on taxpayer investment, the requirement that median earnings of program graduates increase by the cost of the program may be problematic. Many students enroll in short term programs to retrain in order to keep the jobs they have, not necessarily to move up. Some alternative measure of program quality should be available to account for these instances.

Federal student loan reform is a concept whose time has come. But even the most comprehensive overhaul will not address the shortcomings of the federal student aid programs as a whole that lead to borrowing. As a starting point, it is critical to reinvest any budgetary savings from any proposed reforms directly back into the federal student aid programs, including increasing the Pell grant, to keep student indebtedness from climbing back to levels that led to the recent broad scale debt cancellation.

The coming months present an opportunity for collaboration to draft the best possible legislation for when the time is right for introduction. We look forward to working with you to fine-tune this proposal into the student loan reform that borrowers and taxpayers need.

Regards,

Justin Draeger, President & CEO

cc: Representative Bobby Scott