NASFAA
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

February 15, 2019

The Honorable Kamala D. Harris
112 Hart Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Doug Jones
326 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Catherine Cortez Masto
204 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Elizabeth Warren
317 Hart Senate Office building
United States Senate
Washington, D.C. 20510

Dear Senators Harris, Jones, Masto, and Warren:

On behalf of the National Association of Student Financial Aid Administrators (NASFAA), I thank you for the opportunity to provide thoughts and ideas on how to address the racial disparities that exist within higher education financing. NASFAA represents nearly 20,000 financial aid professionals who serve 16 million students each year at approximately 3,000 colleges and universities in all sectors of higher education throughout the country. NASFAA member institutions serve nine out of every ten undergraduates in the U.S., and a central part of our mission is to advocate for policies that increase student access and success, particularly for low-income and underrepresented students.

While our country has made great strides in providing access to an affordable college education over the past several decades, we know that disparities still exist between who is able to access and afford postsecondary education. Of particular concern, found across the entire college-going lifecycle, is the disparity that exists by race. Students of color are more likely to go into loan debt for their educations, borrow more than their peers, and have more difficulty repaying their loans. Compounding these issues are data that indicate that students of color are also less likely to obtain their degrees, which is one of the leading indicators for future economic stability and successful student loan repayment.

According to the National Center for Education Statistics (NCES), in 2016 an estimated 77.7 percent of African American students borrowed for postsecondary education, compared to only 57.5 percent of their white peers.[1] When it comes to degree attainment, of those who began their postsecondary degree in 2008, 63 percent of white students graduated within 6 years, as opposed to only 42 percent of African American students and 56 percent of Hispanic students. One long-range study shows that 49 percent of African American students defaulted on at least one loan within 12 years, compared to only 20 percent of their white counterparts.[2] The data are clear, and it is our responsibility as a community to consider policies to reduce these disparities so that education may be, as it was always intended, an equalizer.

[1] Safier, R. (2018). Student Loans Weigh the Heaviest on Black and Hispanic Students. *Student Loan Hero*. Retrieved from https://studentloanhero.com/featured/study-student-loans-weigh-heaviest-black-hispanic/
[2] Kelchen, R. (2017) New Data on Long-Term Student Loan Default Rates. *Kelchen on Education.* Retrieved from https://robertkelchen.com/2017/10/06/new-data-on-long-term-student-loan-default-rates/.

PHONE: 202.785.0453 FAX: 202.785.1487 WEB: www.nasfaa.org
1801 PENNSYLVANIA AVE., NW, SUITE 850, WASHINGTON, DC 20006

Policy Solutions

Students of color face different challenges at different stages of the postsecondary process, from application all the way to repayment. It becomes important then to offer solutions for each stage of the higher education lifecycle, rather than trying to tackle the issue wholesale. NASFAA respectfully offers the following policy recommendations, divided into application, borrowing, and repayment, to be considered as ways to help address the racial disparities that exist within higher education. While our recommendations are not specifically focused on students of color, they reflect our mission of promoting access to and success in higher education for our country's neediest students, and we believe they can make a strong impact for underrepresented populations.

<u>The Application and Verification Process</u>

The Free Application for Federal Student Aid (FAFSA) is the first point of access to higher education, yet it still remains a barrier for many students, disproportionately impacting the most vulnerable student populations. NASFAA has long been interested in ways to make the FAFSA and the overall application process more efficient and streamlined for students and families. While improvements to skip-logic questions and the implementation of the IRS Data Retrieval tool have improved the application, NASFAA has developed a model for the FAFSA itself that would ensure program integrity and accurate targeting of federal funds, while simplifying the application for federal financial aid as a whole.

NASFAA's proposal would, after an applicant answers basic demographic and dependency status questions, steer applicants down one of three pathways based on their predicted financial strength.[3] Under this model, applicants who have a low predicted financial strength based on means-tested benefits and tax-filing status would not have much of an application at all, since their data could be matched against existing federal databases to which they've already provided information. Applicants with higher levels of predicted financial strength and more complex financial situations would be presented with more questions. Filtering in this way targets FAFSA questions about certain types of income or assets to the population most likely to have those income sources. Under NASFAA's proposal more income information would be brought over directly from the IRS, as well, decreasing the likelihood of user-error when supplying FAFSA information. We encourage Congress to approach FAFSA simplification with a focus not just on the number of questions, but on making better use of existing technology to make the form more accurate and efficient.

Congress has already made important steps toward aiding some of the country's most vulnerable students by introducing the FAFSA Fairness Act of 2019[4], which would allow students who are unable to provide parent information because of situations such as parental abandonment, abuse, or neglect, to submit their FAFSA after answering a single screening question, as a "provisionally independent" student. Currently, a FAFSA submitted without parent information is considered incomplete. If this bill is enacted, these students would no longer face the barrier of the FAFSA in getting the federal aid they need to achieve their educational goals.

Unfortunately, the complexities of the financial aid process do not end with FAFSA. If an application is selected for verification, the process used to check the accuracy of information provided by the applicant on the FAFSA, the student must provide specific documentation to their institution in order to receive any federal need-based funds.

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[3] https://www.nasfaa.org/uploads/documents/fafsa_report_1.pdf
[4] https://www.nasfaa.org/news-item/17419/Democratic_Lawmakers_Aim_to_Help_Students_Without_Access_to_Parental_Information_Complete_the_FAFSA

The large majority of applicants selected for verification are eligible for the Pell Grant, and according to data from the Department of Education (ED), over half of Pell-eligible applicants were selected for verification in 2015-16.[5] Unfortunately, this means many of the lowest income students, or those most in need of financial aid, are targeted with heightened complexity, additional scrutiny, and delayed aid notification. It is estimated that more than 1 in 5 low-income students selected for verification never complete the process.[6]

For those that do take the necessary steps to complete verification, depending on the time of year, the ability and responsiveness of the student to obtain and provide requested documentation, and the processing ability of the institution's financial aid office, can make verification take a substantial time to complete, holding up the awarding and disbursing of a student's financial aid. In the fall of 2018 the Senate passed the Faster Access to Federal Student Aid (FAFSA) Act[7] that would allow for direct data-sharing between ED and the IRS. The FAFSA Act is the lynchpin to further simplification and reduction of verification burden, and we urge Congress to reintroduce and consider this important piece of legislation in the 116th session.

<u>Borrowing</u>

As the data above show, students of color borrow more, on average, than their white peers. While many factors account for the amount of debt students amass when seeking a postsecondary education, there are commonsense policies that can be put in place at the federal level to help reduce indebtedness. The below recommendations stand to aid all borrowers, but those with higher debt stand to benefit the most.

First, for many years NASFAA has advocated for the elimination of origination fees. Before a federal student loan is disbursed, the loan proceeds are reduced by the origination fee percentage, and those funds are withheld by ED. They are a relic of the bank-based guaranteed student loan program, a program where the fees offset subsidies to lenders. In 2016-17, the federal government charged $1.6 billion in origination fees, and collected more than $8.1 billion in origination fees from students and parents from 2012-13 to 2016-17. Parent PLUS loans generate the most revenue for the federal government at 29 percent of all origination fee revenue.[8]

Origination fees add to overall indebtedness and are nothing more than a tax on students and parents. Several bills have been introduced calling for the elimination of origination fees, including the Eliminating the Hidden Student Loan Act of 2017[9], and we implore Congress to revisit this issue and pass legislation that ends this unnecessary added debt.

Second, we encourage Congress to provide financial aid administrators with the authority to limit loan amounts in certain scenarios. Institutions are increasingly being held accountable for student repayment and default rates but have no practical tools to curb indebtedness. By allowing financial aid administrators to limit loan amounts to specific populations, academic programs, credential levels, or other categories established by the school (such as enrollment status, living arrangement, and dependency status), a school can better control borrowing and help their students keep student loan borrowing to a minimum. Several

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5 http://www.nasfaa.org/issue_brief_verification#f2
6 http://www.collegeaccess.org/BlogItem?dg=25a2dd88-a0a9-4198-9fbe-1da7a06d290e
7 https://www.congress.gov/115/bills/s3611/BILLS-115s3611es.pdf
8 https://www.nasfaa.org/uploads/documents/Issue_Brief_Origination_Fees.pdf
9 https://www.congress.gov/115/bills/hr3835/BILLS-115hr3835ih.pdf

bills have provided this authority, including the Financial Aid Simplification and Transparency Act[10] and the Promoting Real Opportunity, Success, and Repayment through Education Reform (PROSPER) Act.[11]

Finally, we cannot fully address the issue of racial disparity in indebtedness without examining the Parent PLUS Loan Program. According to New America, "Approximately a third of white PLUS borrowers come from household AGIs of more than $110,001, with about one in 10 coming from families with AGIs less than $30,000. For Black families, about one in 10 have AGIs over $110,001, with approximately one-third having an AGI of less than $30,000."[12] These numbers tell the story: Black families are at a much higher risk for insurmountable intergenerational debt, and the Parent PLUS program, as structured, allows for it, if not exacerbates it.

Currently, Parent PLUS borrowers can borrow up to their students' cost of attendance, so long as they simply maintain no "adverse credit history". Federal Parent PLUS loan underwriting does not take into account a parent's ability to repay their loan. In determining credit worthiness, NASFAA recommends parent eligibility credit criteria should include some measure of likely ability to manage their debt and repay the loan, such as a debt-to-income measure, use of FICO scores, or another test of adequate resources. In an acknowledgement that students and families now depend on loans to provide access to a postsecondary education, debt-to-income ratios or other underwriting metrics need not mirror private loan standards, but not accounting for ability to repay does not offer sufficient protections for parents.

Importantly, any underwriting changes made to parent eligibility criteria should be applied to new borrowers only, to protect current borrowers already in the system. This was made abundantly clear when ED in 2011, without making anyone aware, tightened the credit check for Parent PLUS borrowers, resulting in nearly 400,000 unexpected Parent PLUS denials, with 28,000 of those being for students at HBCUs.[13]

Finally, but perhaps most importantly, the most progressive student loan system would be one where low-income students need not borrow at all. That requires additional grants upfront to provide equal access to postsecondary options. According to the United Negro College Fund, the Pell Grant purchasing power dropped to its lowest point in history in 2015, covering less than one-third of the average cost of attending postsecondary education.[14] We must do better than this.

<u>Repayment</u>:

No matter the amount a student borrows, if they cannot navigate the existing complicated student loan repayment system, they will not be successful in repaying their loans. NASFAA recommends consolidating the multiple existing repayment plans we have now, many of them income-driven, into a simpler system. There are multiple ways this can be achieved, and likely several options that would work well, including moving to one income-driven plan and one standard plan. Congress has explored this idea in multiple pieces of legislation, including the Help Students Repay Act,[15] and we believe it is a critical component of reducing confusion and ultimately, default.

In developing any new repayment system, Congress must pay careful attention to the design and

[10] https://www.congress.gov/115/bills/hr3835/BILLS-115hr3835ih.pdf
[11] https://www.congress.gov/115/bills/hr4508/BILLS-115hr4508rh.pdf
[12] https://www.newamerica.org/education-policy/reports/wealth-gap-plus-debt/introduction/
[13] Carlton Brown, "Negotiated Rulemaking for Higher Education 2013" (testimony given at the U.S. Department of Education Office of Postsecondary Education Public Hearing, Atlanta, GA, June 4, 2013).
[14] https://www.uncf.org/the-latest/the-purchasing-power-of-federal-pell-grants-has-dropped-to-its-lowest-level
[15] https://www.congress.gov/115/bills/hr4372/BILLS-115hr4372ih.pdf

implementation of the programs and their respective forgiveness options. Can we, for example, simplify and streamline income-driven plans by automatically recertifying income, as was proposed in the Streamlining Income-Driven, Manageable Payments on Loans for Education (SIMPLE) Act.[16] As with almost everything touching the Title IV programs, the devil is in the details, and we encourage Congress to fully explore all aspects of repayment, along with potential unintended consequences, before developing a new system. We are also intrigued and supportive of recent announcements to explore allowing student loan payments through payroll withdrawal and the tax system. Given the overwhelming number of borrowers who are also W-2 wage earners, this could be a more effective way to keep borrowers' repayment amounts affordable and easy to make, all while keeping them out of delinquency or loan default.

Before closing, we would be remiss to not offer a note of caution on the broad topic of accountability in higher education, and our concerns related to how efforts to achieve more "risk-sharing" and "skin-in-the-game" could disproportionately impact students of color. While well-intentioned, the recent discussions around risk-sharing, such as the proposal to require schools to pay back a portion of their students defaulted dollars, have the potential to be catastrophic to under-resourced schools that are more likely to admit riskier students. A poorly designed risk-sharing program that does not consider institutional mission and the level of risk a school already assumes will end up being regressive in nature, harming the very students it seeks to help. Accountability is important and should be sought, but it will require thoughtful design that allows for the differences among institutions.

We thank you for the opportunity to share policy recommendations that we believe will help students of color better navigate the financial aid application, borrowing, and repayment processes. We are continually looking for ways to further develop our policy work and to collaborate within the community and are hopeful that these recommendations provide a strong base for beginning to tackle the issue of racial disparities in postsecondary education. This issue is not one that will be solved in a vacuum or by one proposal alone; in that vein, we look forward to continuing to work with you and our colleagues on this important topic.

Sincerely,

Justin Draeger, President & CEO

[16] https://www.congress.gov/115/bills/s1712/BILLS-115s1712is.pdf