

The Student Debt Burden and Its Impact on Racial Justice, Borrowers, & the Economy.
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Chair Warren, Ranking Member Kennedy, and Members of the Committee, thank you for the opportunity to testify today.

Federal student loans impose a crushing burden on many borrowers, particularly those who enroll in programs where most students don't finish, programs where most graduates are unable to find a job, or programs where debts incurred are unpayable even with a good-paying job. Because of failures in federal lending programs, millions of Americans are drowning in student debt. The borrowers who struggle are disproportionately from lower-income families, first generation students, and students of color. And many more Americans miss out on the economic opportunities a college education provides out of fear of its cost.

But that is only part of the story. Most borrowers, like college and graduate students in general, earn more, are better educated, live longer, are more likely to own a home, and come from more affluent backgrounds than other Americans.ⁱⁱ Most student loans finance high-quality investments that boost borrowers' earnings and economic health. As a result, most debt is owed by well-educated graduates, in higher-income households who have the means to repay their loans.

In short, the economic burden of student loans varies enormously. The white-collar executive with an MBA, for example, is not in the same boat as the for-profit school dropout struggling to find a job. That means that widespread or universal policies to reduce student debt burdens are regressive and disproportionately benefit well-educated, high-income households, expanding inequalities between more and less educated Americans.

The high cost and regressive effects of across-the-board loan forgiveness can be reduced by targeting relief to those in need. For example, income-driven repayment plans reduce or suspend payments to borrowers whose incomes are low or debts too high and offer eventual forgiveness. Today's income-driven plans are flawed and need fixing. But it is essential to get them right because even under the most expansive "free-college" plans, many students would continue to need to borrow to cover living costs while enrolled, or to attend private universities, or graduate and professional schools. A sustainable solution to the student loan crisis requires not just addressing the debts of past students, but ensuring that future borrowers don't wind up in the same circumstances.

The Characteristics of Student Loan Borrowers

For background, more than half of student debt (56 percent) is owed by households with a graduate degree.ⁱⁱⁱ That's not because most Americans have a graduate degree—only 13% do.^{iv} It's because programs where students borrow large amounts are mostly professional degree programs like MBAs, law school, or medical school. Indeed, a disproportionate amount of student debt is owed by borrowers at a handful of elite colleges with prestigious graduate programs that charge astronomical tuition.^v While we hear about the struggles of borrowers who owe more than \$100,000, the reality is that only

7% of borrowers owe that much, and many of them are white collar professionals who can afford to repay their loans.^{vi}

Most borrowers use student loans to finance high-value investments. In 2019, 56% of BA degree recipients from private nonprofit and public four-year colleges graduated with debt; they had had an average debt of \$28,800.^{vii}

After college, the typical bachelor's degree recipient earns significantly more than a worker with only a high-school diploma—about \$1m more over a career.^{viii} Today, in the midst of this terrible pandemic, while 6.7 percent of high school graduates are unemployed, only 3.7 percent of college graduates are (and the rate is even lower for those with advanced degrees).^{ix} That helps explain why about 36 percent of all student debt is owed by individuals in the top 20 percent of the income distribution.^x

And it's not just that borrowers do well after college, they often grew up in affluent households. There's no income or wealth test for who can get a federal student loan, and affluent students are more likely to go to an expensive college, complete a degree, and go to graduate school. As a result, the typical student who grew up in a high-income family incurs about 27 percent more debt than the typical student from a low-income family.^{xi}

And that's among people who went to college. When you consider who goes to college in the first place, college students are even more privileged. About 80 percent of children who grew up in the top 25 percent of families go to college, compared with 29 percent of children who grew up in the bottom 25 percent.^{xii} Those high-income students are six times more likely to complete their degree. Inequities like that helps explain why only 33 percent of Americans have a bachelor's degree.^{xiii}

The barriers to going to college and graduating are particularly severe for Black and Hispanic Americans, who enroll in college at lower rates than whites and are less likely to complete a degree. Indeed, the intersection of these inequities mean that for Americans born in the early 1980s, there are more white Americans from the richest 10 percent of the income distribution who went to college than all Black Americans combined.^{xiv}

In contrast, borrowers who struggle with student loans are different. Almost 90 percent of borrowers who default on a student loan received a Pell Grant because their income and wealth was low when they applied to college.^{xv} Almost 46 percent of defaulted borrowers went to a for-profit school, even though they represent only 9 percent of students.^{xvi} Half of defaulters never completed a degree, even though only 8 percent of student debt is owed by households without a degree. Other than the fact of having a student loan, the economic circumstances of struggling borrowers has almost nothing in common with borrowers from higher-income backgrounds and successful careers.

Reducing economic hardship associated with student loans

When considering policies to reduce the economic burdens of student loans, it is important to recognize that even modest student loan forgiveness proposals are staggeringly expensive and consume federal spending that would more effectively address economic hardship and inequities. The sums involved in loan-forgiveness proposals under discussion would exceed cumulative spending on many of the nation's major antipoverty programs over the last several decades.

In terms of its scale in budget and cost to taxpayers, widespread student loan forgiveness would rank among the largest transfer programs in American history. Full forgiveness of existing student debt would cost more than the cumulative amount spent on programs like unemployment insurance, or the Earned Income Tax Credit, or food stamps in total over the last 20 years.^{xvii} And in contrast to those targeted programs, the beneficiaries of student loan forgiveness would be vastly richer, whiter, better educated, and of higher socioeconomic status.^{xviii}

Indeed, a counterintuitive result of the analysis of who benefits most from student debt is that the money largely flows to borrowers who can and do repay their loans rather than those who cannot. In effect, loan forgiveness pays pennies on the dollar to borrowers without the means to pay or who are enrolled in repayment plans that lead to forgiveness, while paying the full value of the debt plus interest to higher-income borrowers who pay their loans. Without targeting relief, that can increase inequities rather than reduce them.

Helping struggling borrowers does not require providing a windfall to high-income, well-educated students from affluent backgrounds. In other contexts—like when we help struggling families put food on the table with food stamps, or laid-off workers pay the bills with unemployment insurance, or support working families with the earned income tax credit—federal programs target the aid to households in greatest financial need.

An effective way to target loan relief is through income-based repayment plans, which limit student loan repayments to 10 percent of a student's discretionary income (income minus 150% of the poverty line) and forgive undergraduate debt after 20 years. In principle, that program ensures that higher-income borrowers contribute to the cost of their postsecondary education, but provide relief to those who are less fortunate.

In practice, the program is flawed and needs improvement. Too few students enroll in the program because of administrative barriers and the complexity of our repayment program. Defaulted borrowers cannot enroll until their loans are rehabilitated or consolidated, and have limited opportunities to do that. The parameters of today's program and the disproportionate amount of debt owed by graduate borrowers means that the relief offered through income-based plans is heavily tilted to borrowers with expensive graduate degrees (including those with high incomes), rather than to low- and middle-income students with modest debts.^{xix} There are many good policies to improve income-based repayment such as by making enrollment and re-enrollment automatic^{xx}, reducing paperwork burdens^{xxi}, and accelerating forgiveness for borrowers with smaller balances^{xxii}. Likewise, the suspension of payments associated with the pandemic may provide an opportunity to rehabilitate the loans of defaulted borrowers and allow them to enroll in income-based plans, which would eliminate a key source of economic hardship.

In addition, it is important to recognize that federal policies already provide significant debt relief if a borrower's institution closes, if they are defrauded by their institution, if they become disabled, or if they work in public service. The implementation of those programs has been impaired, and relief has been delayed or denied to eligible borrowers. That can be fixed administratively.

Most problems that student borrowers face are predictable based on the institution or program they attend, the cost of the program, and their economic circumstances at enrollment.^{xxiii}

For instance, the federal government offers loans to students at low-quality institutions even when we know those schools don't boost their earnings and that those borrowers won't be able to repay their loans. The federal government makes Parent PLUS loans to the poorest families when we know they will almost surely default and have their wages and social security benefits garnished and their tax refunds confiscated, as \$4.5 billion were in 2019. The federal government saddles millions of students with loans to enroll in online programs, which seem to have offered no labor market value.^{xxiv} It's no surprise that such loans lead to economic catastrophe for the affected borrowers.

Federal lending programs also allow many institutions, particularly those with graduate and professional degree programs, to charge astronomical prices and still attract student enrollment. There is little doubt that overpriced and low-quality institutions would be significant beneficiaries of widespread loan relief as it would justify their decisions to increase costs and eliminate the complaints of their students without requiring them to do anything about tuition or educational quality. In the absence of legislative reform, loan relief would give postsecondary institutions stronger incentives to increase prices and ignore the poor outcomes of their students.

Indeed, we are experiencing this crisis now largely because of changes in federal government policies that gutted accountability rules, expanded lending to online programs, and raised and then eliminated limits on the amounts parents and graduate students can borrow, which encouraged lower-quality institutions to increase enrollment, tuition, and the debts of their students^{xxv}. At the same time, states pulled back from funding public colleges and federal grant aid fell behind the rising cost of college, shifting enrollment toward lower-quality schools. The evidence shows that the poor outcomes of students at those institutions are largely not explained by factors like family income, age, race, academic preparation, or other student characteristics but by the quality of the schools themselves. For instance, after controlling for such attributes, students that attend for-profit institutions are roughly 50 percent more likely to default on a student loan than students who attend public community colleges.^{xxvi}

Screening out the worst programs and providing better financial incentives for schools to improve quality and control costs would alleviate the worst outcomes, and still provide access to high-quality education for students from all backgrounds. In the past, the accountability rules imposed in the early 1990s shut down many low-quality schools and led their students to enroll at better-performing programs, where students borrowed less, and default rates declined.^{xxvii} Across America, there are thousands of institutions that regularly provide upward economic mobility to their students—including low-income, first generation, and minority students.^{xxviii} Federal programs could do more to enroll students in such programs and help them to succeed.

Having established criteria that defined which institutions and programs should be eligible for federal aid and in what amount, and which students should be supported with federal grants instead of loans, Congress could use that as a template for targeting relief to existing borrowers who could not have benefited from those changes.

It's important to solve the problems in federal lending programs not only to help the millions currently burdened by student loan debt, but also because each year the federal government lends an additional \$100 billion in new loans to Americans. Even if Congress enacted significant new spending to reduce or eliminate undergraduate tuition at public colleges, most of that borrowing would continue to be used to finance living expenses, tuition at private universities, and for graduate and professional degree programs. That means we can't throw the whole system out—we're going to need it. And thus we need to fix it.

The crisis in student lending can't be fixed with a one-size-fits-all approach to forgiveness. To address that, Congress must decide which students, institutions, and degree programs taxpayers should pay for and which should be paid by future students. It should do the same for existing borrowers. Federal aid should flow to those who truly need it and not all borrowers need help.

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