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FINANCING HIGHER EDUCATION: EXPLORING CURRENT CHALLENGES AND POTENTIAL ALTERNATIVES

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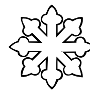

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FINANCING HIGHER EDUCATION: EXPLORING CURRENT CHALLENGES AND POTENTIAL ALTERNATIVES

WEDNESDAY, SEPTEMBER 30, 2015

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met, pursuant to call, at 10:10 a.m. in Room 562 of the Dirksen Senate Office Building, the Honorable Daniel Coats, Chairman, presiding.

Representatives present: Brady, Paulsen, Hanna, Maloney, Beyer, and Delaney.

Senators present: Coats, Lee, Cassidy, Klobuchar, Casey, Cotton, Heinrich, and Peters.

Staff present: Connie Foster, Harry Gural, Colleen Healy, Christina King, Kristine Michalson, Viraj Mirani, Brian Neale, Thomas Nicholas, Robert O'Quinn, Leslie Phillips, Ansley Rhyne, Stephanie Salomon, Aaron Smith, Sue Sweet, and Phoebe Wong.

OPENING STATEMENT OF HON. DANIEL COATS, CHAIRMAN, A U.S. SENATOR FROM INDIANA

Chairman Coats. The Committee will come to order.

I would like to welcome our witnesses and thank them for being here this morning to discuss how we can improve our current system of higher education financing. Most of us, if not all of us, will agree that the current framework is far from ideal.

From a student's perspective, rising student debt means greater difficulty in obtaining financial stability early in their careers, impacting important life decisions such as buying a house or starting a family. This is particularly true in light of the slow economic recovery where lower paying entry-level positions create additional pressures for young Americans.

From a taxpayer's perspective, the free flow of federal student loan dollars to higher education institutions without proper incentives to control costs will continue to lead to higher tuition prices charged to students.

While loans to cover tuition are relatively easy for students to obtain, many are not adequately informed as to the implications of this debt for their ability to achieve post-graduation financial success.

Greater system-wide accountability and transparency are needed and our witnesses will be sharing their thoughts with us today on how to best achieve these goals.

I am pleased to have Purdue University President Mitch Daniels, former Governor of our State, before us today to talk about his several initiatives to control costs, to improve financial literacy, and to create value for students attending Purdue. President Daniels will be outlining, among other incentives, the "Bet On A Boiler" Income Share Agreement Pilot Program and how Congress can assist similar higher education financing reforms.

I am also looking forward to hearing Dr. Kelly's thoughts on how our current student loan system distorts the higher education market and the role competitive principles can play in making higher education more affordable for everyone.

And finally, we are also pleased to welcome Mr. Chopra, who will outline the need for proper safeguards as Congress considers alternatives to the current higher education financing arrangement.

With that, I look forward to discussing these issues in more depth with our witnesses today, and now want to recognize Ranking Member Maloney for her opening statement.

[The prepared statement of Chairman Coats appears in the Submissions for the Record on page 36.]

OPENING STATEMENT OF HON. CAROLYN B. MALONEY, RANKING MEMBER, A U.S. REPRESENTATIVE FROM NEW YORK

Representative Maloney. Well thank you, Chairman Coats, for calling this hearing today, and welcome to all of the witnesses.

Rapidly growing student loan debt is a significant challenge facing our country. Student loan debt grew steadily through the Recession, more than doubling from the start of the Recession in 2007 to today, and is now close to $1.3 trillion.

Student loan debt is now almost twice the size of credit card debt, which is a staggering statistic. More than 40 million people have, on average, more than $27,000 in debt. The recent explosion in student debt risks the economic security of Americans and threatens our economic growth. As debt levels increase, young people are forced to delay buying a car, purchasing a home, starting a business, and saving for retirement. And some end up paying back their loans well into their 30s, 40s, and 50s. Now how in the world did we get to this burden on our young people?

Part of the story is that many American families have struggled in recent decades and have had trouble saving money for their children's college education, and many were hit hard by the recent Recession—the most severe economic crisis since the Great Depression.

When parents have less savings, students are forced to borrow more, substantially more. In fact, borrowing has gone up sharply in recent years with the average debt at a four-year public institution, climbing from $21,000 in 2006 and 2007, to over $25,000 in tuition in 2012 and 2013.

Another critical part of the story is that tuition has risen dramatically especially at public colleges and universities, which educate the vast majority of our students. States have also been hit hard by the Recession, and in response many have slashed funding for higher education.

Median state funding per student, for example, fell by almost one-fourth from 2003 to 2012. Cuts in state funding for higher edu-

cation forced public universities to charge more. As a result, this forces students and their parents—they have to pay more. And this means that students have to borrow more money to go to college.

With a declining state investment, tuition increases have far outpaced inflation since the 1980s. After adjusting for inflation, tuition and fees at a public four-year university more than tripled in the past 30 years.

The Bush-era Recession increased the overall amount owed by students in another way. As job opportunities shrank, more and more young people opted to enroll in school and they had to take out loans to pay for it.

The recent Recession also accelerated the loss of many higher paying jobs that did not require a college degree, further increasing the demand for college or other post-secondary education.

For-profit institutions, in particular, saw their enrollments surge, quadrupling between 2000 and 2011. A new report finds that 75 percent of the increase in student loan defaults between 2004 and 2011 results from the increase in borrowers at for-profit institutions.

Student debt is a big problem. And how do our Republican colleagues suggest that we respond to this problem? By restricting the availability of federal student loans and by expanding the private student loan market.

As recent history has shown us, private student loans pose significant risk to borrowers. These loans lack—these loans often lack consumer protections. They typically carry higher interest rates, some greater than 18 percent.

Many borrowers have been forced into default when lenders would not renegotiate, or negotiate viable repayment plans, income-based repayment, and extended loan terms. These plans, which are available with federal loans-typically are not available with private student loans. And there are many, many examples of private lenders really preying on student borrowers.

Defaults can affect employment background checks and cause lasting damage to a person's credit and their future ability in their professions. There is probably broad agreement in this room about the need to continue to clean up the abuses in the student loan industry. It has been the Wild West with providers marketing their loans to students desperate for financing through every conceivable channel: Pandora, YouTube, on-campus, off-campus, and in many different ways.

As we consider new private options for financing a college education, we must make absolutely sure we have strong safeguards in place to prevent private lenders from using any type of predatory practices to take advantage of students.

Today we will discuss a new private lending mechanism—Income Share Agreements—that could offer some students an alternative way to finance their college education.

I would like to hear from our witnesses what they have to say about this issue. I would also like to know specifically how they would protect students from any predatory practices that have been a part of the existing private student loan market.

Rather than look to the private sector to magically solve the student debt problem, we should strengthen public support for higher

education. It is important to remember that an educated workforce is a public good, and thus without government involvement we would under-invest in education.

There are four steps that we can take right now.

First, we should make tuition free for students at community college. Students would then be able to build their skills and perhaps obtain an associates degree without taking on huge debt.

Second, states need to partner with the Federal Government to reinvest in higher education, and to begin to reverse the years of budget cuts at the state level.

Third, at the Federal level we should increase investment in Pell Grants to give low-income students a real shot at a college education. Despite recent increases, Pell Grants now cover just one-third of the cost of going to a public university. Finally, we need to reform the system so that universities and colleges have some "skin in the game," some consequences when a student is unable to pay back a loan. And colleges should be rewarded when a student does succeed.

Before we take the advice of my Republican colleagues and scale back federal student loans and increase private lending to students, let's take a minute to remember how much students benefit from federal loans: Much lower rates. Better consumer protections. Income-based repayment. Extended loan terms.

College has been a gateway to opportunity for generations in our country, but for too many Americans as the price of college rockets up, the dream of an affordable college education slips away. Our goal should be college education that is more accessible and more affordable.

The Federal Government, state governments, universities, colleges, community college, the private sector, and families all have a role to play. I look forward to our discussion today.

I thank the witnesses for their commitment to this issue. I look forward to their testimony. I might say that it's good to see a former leader here in Congress. Welcome back, President Daniels.

[The prepared statement of Representative Maloney appears in the Submissions for the Record on page 36.]

President Daniels. Thank you.

Chairman Coats. Thank you. Let me introduce our witnesses. President Mitchell Daniels is a long-time friend coming from my home State of Indiana. He became the 12th president of Purdue University in January 2013 at the conclusion of his second term as Governor of the State of Indiana. President Daniels also comes from a successful career in business, holding numerous top management positions. He is a member of the board of numerous nonprofit organizations, including the Urban Institute and the American Academy of Arts and Sciences Commission on Post-Secondary Education.

Additionally, he serves as co-chair of the Committee for A Responsible Federal Budget. Mitchell Daniels earned a Bachelor's Degree from the Woodrow Wilson School of Public and International Affairs at Princeton University, as well as a Law Degree from Georgetown University.

A warm welcome to you, President Daniels.

Dr. Andrew Kelly is a Resident Scholar In Education Policy Studies and the Director of the Center for Higher Education Reform at the American Enterprise Institute where he works on higher education policy, innovation in education, financial aid reform, and the politics of education policy.

Dr. Kelly received his Doctorate and Masters Degree in Political Science from the University of California at Berkeley, and a Bachelor's Degree in History from Dartmouth College, and we thank you, Dr. Kelly, for being here today.

We're going to have to have a cell phone turnoff.

[Laughter.]

We're going to get a screen like they have at the movies, you know, so if everybody would silence their phones that would be helpful.

Finally, Rohit Chopra, who is a Senior Fellow at the Center for American Progress. Previously Mr. Chopra worked to establish the Consumer Financial Protection Bureau, and served as part of the senior leadership team.

Mr. Chopra earned his Bachelor's Degree from Harvard College and a Master's Degree in Business Administration from the Wharton School at the University of Pennsylvania.

With that, let me turn to President Daniels as the first witness, followed by Dr. Kelly, and Mr. Chopra. And I thank the witnesses for being here this morning and apologize for being late. We had a vote at ten o'clock in the Senate and I was the first to vote and the first out of the chamber. So we are doing the best we can.

Representative Maloney. And I have just been called to a vote. I will be back.

Chairman Coats. President Daniels.

STATEMENT OF HON. MITCHELL E. DANIELS, JR., PRESIDENT, PURDUE UNIVERSITY, WEST LAFAYETTE, IN

President Daniels. Thank you, Mr. Chairman (off microphone).

Chairman Coats. Would you press that [button]. Thank you. There you go.

President Daniels. The two thoughtful opening statements that we just heard make it plain there is no need to rehash the dimension of the problem we are facing, except to affirm that it is still getting worse. Last year by close to a billion dollars, 7 or 8 percent on top of the astonishing number that Ranking Member Maloney reminded us of.

Our research partners, Purdue's research partners at Gallup just yesterday released the second installment of the biggest study ever of college graduates and documented the blight on young lives that the debt is causing—postponing housing, postponing purchase of cars and durable goods, postponing starting businesses, postponing having the children this Nation is going to need to meet its obligations decades from now.

That is our principal concern, economic and personal costs. It is also of course a fiscal catastrophe, or should I say another one. It has overrun its projections in six of every seven years by my reckoning, the debt programs that we have today, and you saw the biggest write off ever, $22 billion. We all know it is just the first of many to come.

These same people who were indebted, or are indebted to the tune of almost $60,000 for public debt that has been run up, not for investment in their future but for current consumption, and we should not forget that this issue we are discussing here today contributes very directly to the buildup of that.

But we are here to concentrate on the constructive. I have three things, among many, that we could talk about: transparency and information, very important. Secretary Duncan was on the Purdue campus two weeks ago. We commended him and thanked him for the new scorecard. It could be improved. It, for instance, would help to see data on earnings program by program, because averages can be deceiving. But that is a good start.

At Purdue where debt is down $50 million in the last three years, or about 23 percent, a major factor has been a four-year freeze on tuition. We are halfway through it. But we have found that a little information and a little counseling goes a very long way in helping young people and their families make better decisions at the front end. So things the Federal Government can do to encourage that are very important.

Accountability, which the education system lacks end-to-end and everywhere is a factor here, too. I completely agree with Congresswoman Maloney's suggestion that colleges share in the risk that their graduates will not be able to meet their obligations based on the education they received. And you can sign Purdue up for one. We're more than willing and find that more than appropriate.

And many of us believe that some new approaches are in order. And just to center on the one that we were invited to talk about, the so-called "Income Share Agreements," it is very important, by the way. They were loosely mentioned a minute ago as "lending." They are not lending. That is their principal distinctive feature, in my opinion. Think of them as equity as opposed to debt. We see them not as a panacea but as an important addition to the portfolio, maybe a replacement for PLUS and most private loans which I quite agree are the biggest locus of the problem we have.

They shift the risk from the students to the investor—not the lender but the investor. They provide limits, and they provide some certainty to the obligation that a graduate will have. They would know that never more than an agreed-upon negotiated, and freely chosen percentage of their future income in any given year would go to pay back the investor.

You want debt-free education? Here it is. So we want to thank Congressman Young, Congressman Polis for this bipartisan House initiative, and I am very encouraged to hear that it has some prospects. It will be necessary, in our opinion, to provide clarifications on subjects like state usury laws, and tax treatment and, as was mentioned by Ms. Maloney, protections for—reasonable protections and boundaries for those who might participate.

I will say there is one thing about the bill that I recommend a closer look at. We do not believe—I'm sorry, we do—I would believe that, like other equity investments, income share agreements should be dischargeable in bankruptcy. As you know, student loans are not. It is another way in which they are—can fairly be described as indentured servitude. They are the most onerous form of debt we have.

I would suggest changing the bill to indicate that ISAs are dischargeable in bankruptcy. But we thank the sponsors, and we appreciate the bipartisan nature of the look that has been taken.

[The prepared statement of President Daniels appears in the Submissions for the Record on page 39.]

Chairman Coats. President Daniels, you have not lost your touch. You spoke for exactly five minutes.

[Laughter.]

You ended at five minutes on the second. I appreciate the content of what you said, and the brevity with which you said it.

Dr. Kelly. I am not trying to put too much pressure on you, Dr. Kelly, but . . .

STATEMENT OF DR. ANDREW P. KELLY, RESIDENT SCHOLAR AND DIRECTOR, CENTER ON HIGHER EDUCATION REFORM, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Dr. Kelly. Setting a very high standard, as always.

Good morning, Chairman Coats, Ranking Member Maloney, and distinguished Members of the Committee:

Thank you for the opportunity to testify. My name is Andrew Kelly. I am the Director of the Center on Higher Education Reform at the American Enterprise Institute. We are a nonprofit, nonpartisan public policy research organization, and my comments today are my own and do not necessarily reflect the views of AEI.

I am here because the federal approach to financing higher education is on an unsustainable path and too often fails to help those who need it most. While federal per-pupil aid increased 46 percent over the past decade, net prices and out-of-pocket costs at most institutions have never been higher.

Simply pouring more money into the system will not solve these problems and may make them worse. That is because the Federal Student Aid System suffers from four design flaws.

First, it essentially empowers colleges to capture as much federal aid as they can. Aid eligibility is based in part on the cost of attendance, which colleges control. In addition, colleges use detailed financial information about their applicants furnished by the Federal Government to price discriminate, often substituting federal grant aid for their own institutional resources.

Second, a lack of clear comparable information on costs and quality makes it difficult for consumers to identify the most valuable options. Systematic data on student outcomes like learning, job placement, and earnings are rare, hindering consumers' ability to make prudent borrowing decisions. This reduces market pressure on colleges to compete on price and quality.

Third, there is almost no underwriting of federal student lending. Any high school graduate can borrow to attend any accredited college at almost any price. Federal loans and grants provide no signal to students about the value of different offerings and allow them to enroll in poorly performing schools.

Fourth, existing policies do not exercise sufficient quality assurance. Federal eligibility criteria are far too generous, meaning few schools ever lose access to grants and loans no matter how poor their outcomes. Continued access to aid props up colleges that would never pass a market test.

In short, the problem is not only that we make so much money available in student aid, but that we make so much money available with very few strings attached. One potential consequence is the Bennett Hypothesis, the notion that increases in federal aid cause increases in tuition. Existing research on this question is mixed, but most studies find that at least some types of colleges raise prices in response to federal aid.

A recent study found that for every dollar in subsidized student loans colleges raise tuition prices by about 65 cents. It is difficult to identify whether aid causes tuition increases, but it certainly seems to relax the incentive to keep tuition low.

The Bennett Hypothesis has helped explain why federal investments have not kept tuition low. But the focus on price increases ignores a more pressing problem: the failure of federal aid to promote higher education quality.

Aid policy provides colleges with plenty of incentives to enroll students but less reason to worry about whether they are successful. New college scorecard data suggests that at a majority of colleges at least half of the alumni earn no more than a high school graduate six years after enrolling. Default rates are highest among borrowers with low balances, and even inexpensive institutions like community colleges have low repayment rates. These patterns indicate that higher education's problems go beyond tuition inflation. For far too many students, federal aid is providing access in name only. With these challenges in mind, there are several reforms that would encourage colleges to compete on price and value.

First, capping PLUS Loans to parents and graduate students which allow unlimited borrowing up to the cost of attendance seems like a straightforward way to curb tuition inflation.

Second, federal policy should empower consumers with better information about costs and student outcomes. The College Scorecard's new earnings data is a start, but the Federal Government should expand on this effort to collect and make public program-level outcome data.

Third, policymakers should create two simple accountability mechanisms based on loan repayment rates: A performance floor that would exclude the worst performing institutions from federal aid programs; and a risk-sharing policy that would give institutions above that floor greater skin in the game. If all colleges were held responsible for a percentage of their students' unpaid loans, they would have incentive to contain their tuition, maximize rates of student success, and reconsider their admission standards.

Fourth, reform should create space for private financing that can inject more market discipline into higher education. In theory, private investors could underwrite on the basis of program quality and future earnings, driving students toward valuable opportunities. Existing private student loans do not appear to be forward-looking in this way. More than 90 percent of new private loans feature a co-signer. An alternative is an Income Share Agreement under which students obtain funding for school in exchange for a percentage of their after-school income over a set period of time.

Because an investor's return is directly tied to his student's success, ISA providers have incentives to help students navigate toward valuable opportunities. There are a number of for-profit and

nonprofit entities trying to offer this option to students, but a lack of legal and regulatory clarity has limited the growth of this market.

Policymakers like Senator Marco Rubio and Representatives Todd Young and Jared Polis have introduced bills that would provide such clarity and put common sense consumer protections in place.

I appreciate the opportunity to provide testimony and I look forward to the discussion.

[The prepared statement of Dr. Kelly appears in the Submissions for the Record on page 46.]

Chairman Coats. Dr. Kelly, you almost—you were three seconds over.

[Laughter.]

I think we have set a standard here now.

Mr. Chopra, you really are under a lot of pressure, but we look forward to hearing from you.

STATEMENT OF MR. ROHIT CHOPRA, SENIOR FELLOW, CENTER FOR AMERICAN PROGRESS, WASHINGTON, DC

Mr. Chopra. Thank you, Mr. Chairman, and Members of the Committee, for having me today.

I am someone who has always been a big believer in the power of competition, whether it is Olympic runners training for a big race, or a burger joint looking to be the best in town.

Competition can push us and help us be our best. But like many others, I am also someone who believes that competitions and markets do not reward the best when competitors cheat rather than compete.

Today I want to talk about our student loan market and the need for common sense rules of the road to promote fair competition that protect consumers and honest businesses. Now we do not have to go very far back in history for an example of what happens when businesses cut corners.

This month marks the seventh anniversary of the collapse of Lehman Brothers and the acceleration of the financial crisis. Sketchy lenders and mortgage brokers pushed borrowers into exotic new products, sometimes using bait-and-switch tactics that led to surprises on closing day.

We did not get the benefits of competition. What we got was catastrophe. Families across the country saw their home values plummet, their retirement savings crater, and their jobs vanish.

With state budgets squeezed, support for higher education slashed and household wealth slipping away, more families could not pony up to pay for college, making more and more seek out student loans.

Since the collapse of Lehman, outstanding student debt has doubled, with debt-per-borrower far outpacing the growth in tuition. While most of our student loan market consists of federal student loans, private competition has played a big role in the student loan industry, but with mixed results.

For example, there are upwards of $500 billion in student loans originated using private capital still outstanding. Now in theory private lenders could have participated in the federal loan program

and competed on price and service, but it turns out it did not work as planned.

An investigation by the New York AG did not find lenders competing, he found them cheating. Lenders gave kickbacks to schools, and even transferred company stock to keep financial aid personnel.

By the end of 2007, the eight largest lenders in the market, including some of the biggest names in Wall Street, signed codes of conduct and many paid millions to settle charges for wrongdoing.

Our private student loan market, the one operating outside of the federal program, is not doing much better. Like the subprime mortgages that skyrocketed in the boom years, Wall Street securitization of private student loans surged, giving lenders the ability to sidestep schools and aggressively target families without clearly explaining that private student loans did not include some of the key protections of federal loans, like income-driven repayment plans which would prove to be a lifeline for students who graduated in a tough economy.

Recently regulators have started to crack down on some of the worst abuses. The Justice Department fined Sallie Mae and Navient millions for ripping off military families.

The FDIC tacked on even more for their illegal student loan servicing practices and violations of anti-discrimination laws. And just this summer, the CFPB fined Discover for illegal debt collection tactics and for inflating billing statements.

None of us like the outcome of the game when athletes are doping, or when the ref is in cahoots with the bookie to favor one competitor over another, and in the marketplace we are all better off with sensible, well-tailored rules and a fair referee.

In the student loan market, honest actors and consumers will all benefit if we make disclosures clear, ensure that servicing and credit reporting are accurate, and free of conflicts of interest, and repayment plans in times of distress are not gimmicky band-aid solutions.

That is how competition can help every student reach the finish line, instead of being part of a race to the bottom.

Thank you, and I look forward to your questions and the discussion.

[The prepared statement of Mr. Chopra appears in the Submissions for the Record on page 60.]

Chairman Coats. Dr. Chopra, thank you.

I will start with just some questions. I will try to adhere by my own rules. As a quarterback or point guard looking at the play clock, as I get down to zero I will have my staff poke me in the back and say time's up.

President Daniels, Dr. Kelly listed several things here, and you did also, relative to responsibilities, accountability, transparency, a number of things as we address this. What I would like to hear you talk about is what is the responsibility of the university relative to these tuition costs, other related costs that are rising two, three, four times the rate of inflation?

What is the role of the university in the accountability that it must engage in? You suggested a couple of things, and I think you have done more from what I understand at Purdue to be account-

able from the management side of the educational institution in getting control of its costs, because ultimately that drives up the costs to students and to the parents and students that are having to repay these loans.

President Daniels. Well up until recently, I guess you would say that the responsibility was purely an ethical or a professional one, and it was not very often honored. Colleges raised prices year on year on year because they could. And they were certainly wind-assisted by the gusher of federal money. It is perfectly well documented now that this has been a driver of higher costs and made it easy, far too easy, for those increases to happen.

I think that, belatedly, market pressure has begun to assert itself, and none too soon. As I mentioned, at our university we froze tuition the last two years. We have pledged to keep it there the next two years. Don't know beyond that. It cannot go forever, but we take that very seriously, and we are aggressively promoting our university on a value basis, quality of the education divided by its cost.

And our partners at Gallup yesterday revealed that among those graduating from college in the last few years, there is a very big difference in how they value the education they got, whether they think it was worth it or not, compared to those who graduated 10, and 20, and 30, and 40 years ago.

So there are signals that universities would be well advised, not to mention better stewards of their responsibility, if they were more careful about their costs. And I think those that are not are going to be taking an increasing risk in what could be a shakeout in higher ed coming.

Chairman Coats. In reference to that, there was a Wall Street Journal article yesterday about the Gallup Purdue Index. I might just quote from that, that the steep decline in the perception of whether a degree was worth the cost startled Brandon Busteed, Gallup's Executive Director for Education and Workforce Development. He said, "When you look at recent graduates with student loans, it really gets ugly really fast. If alumni don't feel they're getting their money's worth, we risk this tidal wave of demand for higher education crashing down." That is quite a statement. You, Purdue, participated in that effort, and with all our well-intended goals of educating our young people for the challenges of, employment challenges of the future here, if this persists that certainly puts us in an ever more difficult position in terms of that.

And whether you, President Daniels, or Dr. Kelly, or Mr. Chopra want to just quickly comment on that, I have got one minute left, I would like to get your response to that.

Dr. Kelly. Sure. I will just say three things, quickly. There are three important trends to keep in mind here.

Number one, we all know what has happened to tuition prices.

Number two, the labor market outcomes of recent college grads have not looked good. And it is not just function of the Recession. If you look at wages for the youngest workers with a bachelor's degree, they have been on the decline since about 2000.

But the third trend is also really important, which is that the fortunes of high school graduates have been even worse. They have done even worse in the labor market. So people are paying more

for a degree that is earning them less money, but having a degree is more important than ever before because the out—the counterfactual is worse. And so we need to keep that in mind when we are thinking about debt and whether debt is a net negative. The counterfactual of not having the debt is not having the degree, which is much worse in many cases.

Mr. Chopra. I think there is a lot of talk about the college wage premium. That is, the difference you earn over your life between getting a degree and not. And it is very interesting. This is all fully explained not by the increase in wages for college graduates but the decline in wages for everybody else.

So what we have is a combination on an inflation-adjusted basis of flat or declining wages for college graduates, and more and more and more debt. And the combination of those two is not really good for the credit capacity of our country in terms of formation of small business loans, mortgages, and others. So it is both sides we have to look at, the debt and the wages.

Chairman Coats. Thank you. My time has expired. Congresswoman Maloney has designated Congressman Beyer as ranking member, which entitles you and those of us up here will be followed by Vice Chairman Brady and Senator Klobuchar, and then we will get the titles out of the way.

[Laughter.]

And the rest of you can engage. So, Congressman Beyer, you're on.

Representative Beyer. Thank you, Senator, very much.

So thank you very much for coming. Senator, Governor Daniels, President Daniels, in my prior life as an automobile dealer I spent an enormous amount of time arranging loans, which very greatly varied, depending on the credit history and the credit scores, of the customer who is before us.

On the ISAs, why wouldn't they only go to the most credit worthy, or to the people, that the private investors who have an equity stake in this person see to have the greatest possible return? What will this mean for—especially if we dial back on PLUS, what will this mean for the lower income, or the lower expectation student?

President Daniels. Well we will have to see, Congressman. My belief and supposition is that if the market does take off and begin to mature, you will see a spectrum of those who have the very best prospects, yes, will maybe be the first approach for these contracts. They will also be able to negotiate the very best terms.

I still think it could be, at least up to some point, much more advantageous than other options like PLUS loans for those who might have to commit a higher percentage of their income, or for a slightly longer time, but would still get the benefits of having shifted the risk in a way that debt does not. And having secured some certainty and some limits to that percentage of their future wages that would be taken up paying for college.

You know, as I have described it elsewhere, working your way through college after college. And those who wound up or chose a less remunerative career quite naturally would have a different set of terms. It does not mean it would not be better for them.

Representative Beyer. Governor, why the need to have exemption from state usury laws?

President Daniels. Because it is not debt. This is an equity investment by every—and by the way, that is why I do not think—why I do think it should be dischargeable in bankruptcy. But if we are really going to shift the burden and shift the risk away from the partner, the student, graduate here, then we should treat it in that fashion all the way around.

Now the bill as drafted does have upper limits. I think that is just fine. It does have extensive consumer protection. I think that is just fine. But I think it would probably strangle the plan in the cradle if we let it be subject to usury laws, which 50 different flavors which really do not apply.

Representative Beyer. Great. Thank you, Governor.

Mr. Chopra, in the move away from PLUS loans and their relying on the private sector, I am concerned about the many things you read that the private sector loans have higher interest rates, that they do not have some of the other options that the federal borrowers enjoy, income-based repayments, flexibility for forbearance, financial hardship deferments. That typically federal loans are fixed interest rates; the private loans are often floating.

Is there any reason to think that moving away from the PLUS system to the private would make the problem worse?

Mr. Chopra. Well I think unlike a lot of other consumer products, there are really not many consumer protections when it comes to these consumer loans that are marketed as private student loans.

In my testimony I mention some of those issues, everything from credit reporting, to the treatment of service members, to anti-discrimination laws. And I think we will need to think about updating that.

One of the things we learned in the lead up to the financial crisis is that regulators failed to exercise decent judgment on when the market was spiraling out of control for subprime mortgages. Disclosures were not working well. There were problems from beginning to end.

And I think it is good for us to take another look at the student loan market, particularly if we are thinking of new products entering. I appreciate Governor Daniels' distinction that it is equity versus debt, but for a student the difference between the products, it is a different financing transaction. And I do not want all of them to need a Ph.D. in finance before they even enter college.

Representative Beyer. Great. Thank you.

And very quickly, I read that a third of all college debt is actually post-graduate, mostly law school and medical school, and another third of the for-profit colleges, which leaves you only a third that are the traditional undergraduate college educations. And that most of that is related to the increasing number of kids going rather, than the debt per person.

Is that accurate, Dr. Kelly? And are we overstating the crisis?

Dr. Kelly. In terms of the big growth in student debt over the past decade that people tend to cite, the aggregate number, that is a function of growing enrollments in large part. It is also a function of growing enrollments in graduate school.

Some estimates of graduate school peg it at more like 40 percent. And I do think that that raises a really important point for policy-

makers as they think about the student debt problem writ large. Disaggregating the grad school debt from undergrad debt, and the struggles there, I think is really important.

Representative Beyer. Thank you, Doctor. Mr. Chair, I yield back.

Chairman Coats. Thank you.

Vice Chairman Brady.

Vice Chairman Brady. Mr. Chair, thank you for calling this hearing. Thank you for the witnesses. This is a bipartisan issue, and I also appreciate Representative Hanna's nearly daily interest in student debt and college financing.

I had a young man in my office the other day talking about health care issues. He is in graduate work in the medical profession. He has $600,000 in debt. His fiancé is also in health care, $400,000 in debt. The reason I cannot remember the topic he wanted to talk about is I kept looking at him thinking "you've got a million dollars of student debt."

And thankfully that is not the case with everyone, but it illustrates where we have come. This committee is about the economy. We had a tough Recession. The good news is we have had many months of job creation. The problem is, it is very low. It is like a car that is stuck in first gear at 15 miles an hour.

The problem is that this is the most disappointing recovery in half a century. We are missing about 6 million jobs that should be in the economy right now, many of those available for college graduates. We are missing an economic hole in America's economy about the size of Canada's economy. And for a family of four, we are missing about $1,100 a month from our family paycheck that ought to be back right now, which is a lot of savings for college.

The challenge is the adults in the workforce is almost at what it was seven years ago. So college graduates are having trouble finding a job. They have high student loans. They are postponing purchases, which also hurts the economy. So today how do we tackle this?

We can go with the stale old ideas you always hear up here, which is more federal regulations at state colleges and universities. Or encouraging students to borrow more so they can go deeper in debt. Or, free everything, which almost always comes with a bill later on.

We are looking for fresh, new, 21st Century solutions. That is what this hearing is about. I wanted to ask Governor Daniels, one of the keys on financing seems to be much greater knowledge about what degree you are pursuing and what income that generates later so you can make good decisions.

That is starting, it seems to me, the doors cracked open at the state level but nowhere near what it needs to be from our level. What can we do to encourage at the state level that type of knowledge for students and parents so, just as we have a skills' gap today—you know, jobs versus the skills we need, so we do not have that dream gap of what that degree might generate versus the loans they might pick up. What advice would you have for us?

President Daniels. First of all, I would not underestimate the extent to which today's young people and their families are focused on that. Overwhelmingly they tell us, almost, I think to an exces-

sive extent, that is why they are going to college. That is what they are looking for. What will get me a good job at the other end?

There are other very important aspects of higher education that I hope we do not lose sight of. Nobody should think of it as vocational school. But there is a real fixation on that now. At Purdue University we teach—this is readily available information—we teach 11 of the 12 most highly paid degrees, careers by most often associated degree. We are, unlike a lot of other schools, experiencing a surge of applications, up 15 percent last year after a record increase the previous year.

And when we ask why, it is because I think students are newly concentrating on the likely benefits of a degree, and they are also looking at, you know, at price on the bottom of the fraction.

So the other thing I would say, though, and as Andrew made reference, one benefit of adding to the inventory of possible financing tools an equity-like tool like we were discussing is it would serve as a signaling mechanism back to the Congressman's previous question, you bet. Those who would invest will bid more aggressively for the degrees and the likely careers that they see as strongest in the market.

Vice Chairman Brady. And it seems to almost dictate, demand almost a cost/benefit analysis for a family, or a student looking at where they want to head, what they can pay, afford to pay, and so all that seems—this is a fascinating solution. And your point I think this is not the only solution. It ought to be another tool for families and students to finance their education.

President Daniels. That's right. I mean, I favor broad reform. It is not the subject of this hearing, but broad reform of the student financing scene we have today. Andrew has written, and really both have written persuasively on those subjects.

Vice Chairman Brady. All right. Thank you, Mr. Chairman.

Chairman Coats. We welcome back the Ranking Member in time to do your questioning.

Representative Maloney. Thank you. There seems to be a general agreement that tuition increases are driving the explosion in student debt, and I would like to understand why it is jumping up so much.

I know, Governor Daniels, that you froze tuition when you went to Purdue I believe in 2013, and that is a wonderful thing to have done. But I am interested in your perspective on the tuition increases prior to your coming over the past decade. And tuition and fees for an in-state undergraduate at Purdue increased from just over $6,000 in 2004–05 to almost $10,000 in 2013 and 2014. So that is an increase of almost $4,000 in nine years, a 64 percent increase, roughly two-and-a-half times the annual rate of inflation during that period.

Could you give us some perspective? I know that was when you were not there, but why did Purdue raise tuition rates so dramatically during this period? What were the causes for this 64 percent increase?

President Daniels. They wanted to spend more money. They did it because they could. I am not being critical. They were—our university was no different in either the long, in that case 36 year

history of continuous increases, from almost any other you could find. Neither did the go up as much by degree as many others did.

A lot of reasons for that. Separately I have been asked a lot of questions about the cost of federal regulations as a contributing factor among many others. I will tell you what I do not believe it can be attributed to, at least in our case. Indiana has been assessed, now retrospectively, as the third best State in the country for maintaining its public support of higher education.

Representative Maloney. That's good.

President Daniels. Tried to send even more money than that, but a reluctant legislature didn't agree with a couple of our ideas.

But with only one very modest reduction, we were not one of those states that had the big real-dollar cuts in public support. So that can't explain it. I think regrettably the number one reason was discussed earlier, was the now well-documented contribution of free and easy federal dollars, followed by trends in higher ed in which competition has been based too often on nonacademic factors, amenities and so forth.

Representative Maloney. So it was because the federal loans were easy for students to get, and would you say that was the contributing——

President Daniels. I would say that was not the whole explanation, but it was a——

Representative Maloney. But was it state budget cuts?

President Daniels. In some states I don't doubt that it contributed, but the Indiana experience shows that it is not a complete explanation, probably not even the—as large an explanation as the so-called Bennett Hypothesis which is no longer a hypothesis. I think it has pretty much been empirically proven. The New York Fed I think is the most recent to find validity in that.

Representative Maloney. So in other words, Purdue was taking advantage of students because they had federal student loans and it was easy to get, you know?

President Daniels. Well I think to a much lesser—that's a fair statement—to a lesser extent than most other schools I can point to, our school remains even at the time that those increases went in place, one of the least expensive in our peer group. And so I tend not to look back at what was but try to look ahead in an era in which I think value for money finally will become a decisive factor in higher ed.

Representative Maloney. Well that is a little discouraging that they just used the student federal money just to raise it and make it harder for more children to come to school.

I would like to ask Mr. Chopra, you know, many students you read about they are being forced into default because of these high loans that they have and it has lasting negative consequences for us. What are the main differences in consumer protections between federal student loans and private student loans?

What is the contrast between them and any protections that are there with federal loans, any predatory practices with private loans? Could you give us an overview as this is your area of expertise?

Mr. Chopra. It really is like comparing apples and oranges. One of the things that—and you listed some of them earlier—but one

of the ones I really want you to think carefully about is the ability to restructure that debt if you happen to graduate in a tough economic cycle.

People who entered college in 2005 during the boom of the private student loan market, they graduated in a time that was much different, when an economy was not doing well. And so they had a tough time of avoiding default because those private student loans do not include income-driven repayment and term extensions, as you mentioned earlier.

It is made even worse by securitization structures, where the servicer, the bond holder's trustee, they do not talk to each other and they cannot get to solutions. And this is not just bad for the student; it is also bad for the investors. But it is a symptom of very poor design and thinking up front.

Representative Maloney. My time has expired. Thank you.

Chairman Coats. Senator Klobuchar.

Senator Klobuchar. Thank you very much, Mr. Chairman. Thank you to our witnesses.

Governor Daniels, unemployment in Minnesota is somewhat similar to Indiana. I was just in your state a few months ago, and there are some commonalities between Minneapolis and Indianapolis besides the "apolises." And you are at 4.6 percent. We are at 4 percent. And I think one of the things we have found is that we are starting to have job openings in everything from graduate degrees, four-year degrees, one- and two-year degrees. They tend to be more in science and technology and the medical areas.

And I would like to get your perspective, as former Governor and a college president, what you think we need to do to get students into these areas where we have job openings and make sure they are getting the kinds of degrees we need them to get.

President Daniels. I do think the news is spreading. We have a very detectable increase in interest, an appreciation by parents and young people of the importance of math, and science, and the technical education that flows from them.

And as I mentioned a minute ago, if we are any indicator—and we are the third most STEM-centric university, public university in the country already, and investing to become even more so—so at least temporarily, and encouragingly, I think there is a growth in appreciation for this. We have got a lot of work to do at the K–12 level to have students ready for the rigors of today's scientific education.

I know from talking extensively with the president of the University of Minnesota, and we share a concern about—every college president will tell you that K–12 improvements are absolutely——

Senator Klobuchar. Right.

President Daniels [continuing]. Essential.

Senator Klobuchar. Because they just keep thinking to make these degrees more relevant, and with the costs and those kinds of things, when you need to make sure that they are training the kids in the areas where we have the openings.

President Daniels. Well as we have been discussing, more transparency, and I commended on stage a couple of weeks ago Secretary Duncan for the most recent efforts there. We need to go further.

Senator Klobuchar. And how would you go further?

President Daniels. Well the first phase there shows, for instance, average income of graduates of school A versus B versus C, and we need to drill down into the specifics. Because as you know at any given university there's a wide spectrum of career prospects based on what a student decides to study.

So, and again, one of the virtues I think of a more equity-like financing option is it would send us a market signal, the market would bid differently for the chem-E grad than it might for a graduate of a different discipline.

Senator Klobuchar. Thank you.

Mr. Chopra, my dad is a graduate of a two-year degree, and then went on to get the rest of his degree at the University of Minnesota. My sister went to a community college as well. So I have some sense of the importance of that. And I think we know that by 2020 an estimated 35 percent of job openings will require at least a bachelor's degree; 30 percent will require some college or an associates degree. So how does this all fit with the community colleges? And can you talk about that, the cost there, and what can be done to make those degrees more desirable since some of the openings we have that I mentioned before, whether they are in welding or some kind of trades, are one- and two-year degrees.

Mr. Chopra. Yes, I think this goes hand in hand actually with our previous discussion about those who are defaulting often are ones who do not complete college and have lower balances. And many of them are going to pretty poorly performing, often for-profit schools.

And I think we should think more about how community college investments can be a gateway for people to in some ways try college, get that first associates degree, without having so much debt.

Senator Klobuchar. Exactly.

Mr. Chopra. And that allows——

Senator Klobuchar. And actually getting a degree where they can work.

Mr. Chopra. That's right. And I think, to go on the previous discussion, there is not right now a market incentive for many schools to produce job—degrees that lead to jobs. We have many, particularly in the for-profit sector, where the market incentive is to revenue maximize with whatever degrees there may be.

And in Dr. Kelly's testimony you can see that the accountability structure is not there in that sector, as well as others; that we need to remove some of these low-performing schools that are just having people drowning in debt.

Senator Klobuchar. Okay, let's put them aside for a second. I just really want to get at the one- and the two-year degrees that are performing, and how we make it easier for kids to go to those and incentivize them.

Mr. Chopra. Well part of that is investing more in those degrees. I think too many people actually—a lot of people are able to go for free, but a lot of people are not.

Senator Klobuchar. Okay. Thank you very much.

Chairman Coats. Congressman Hanna.

Representative Hanna. Thank you, Chairman.

I want to just quickly mention, Utica College, which until recently was affiliated with Syracuse University in my District, has lowered their tuition 43 percent, at a year when they have had the largest enrollment and applications in their history.

And it will take them 14 years, at a 3½ percent interest rate, to get back to where they are today. And they have done this on their own, so I think that is worth looking at. I will give you some information on it.

The other thing I wanted to mention is Congressman Kilmer and I, and along with Orin Hatch, Senator Hatch, have a bill that will allow students, or teachers who stay in Title I schools with poverty levels below 40 percent, or above 40 percent of the poverty line, to have a direct cash credit to help them fund their college education debt. And in addition to that, along with what Ms. Klobuchar was talking about, we also have a bill that I want to ask you about in terms of allowing people to capitalize their debt as if it were an expense like any other business. It's called a STEM Education Opportunity Act, something I wrote out of my office, that would allow someone, regardless of when they pay off their debt, to write off the cost of that—and I'm sure there are a lot more details to be added—but throughout the course of their life based on when they decided to take it.

So they would capitalize it as if a business bought a piece of equipment. But for the moment, though, I want to ask, we know that the implications for this huge amount of debt abroad, across the economy, and I want to ask each of you if you have a notion of what that means.

We know people are not buying homes as early. We know that people are withholding—not getting married, not having children, a whole host of things. And they owe a trillion dollars or so.

President Daniels, would you like to speak about that?

President Daniels. Well you said it all, Congressman, or most of it. I guess I would add, these are very, very real problems. As I said earlier, we ought to worry most about the damage to the prospects of young lives. But behind that, to the near-term effects on the economy. And they are very real. We are learning more all the time about postponement of purchases, about the postponement of business startups, and so forth.

But we ought not neglect the fact, you are talking about write offs, you know, ultimately we are writing off, and we are going to write off, a ton of federal debt. It is all coming back to visit—it will come back to visit itself on these very same young people.

So if the average student loan—student indebtedness now is $27- to $30,000, they already owe twice that in federal debt that has been run up not by them, or not on their behalf, but by their elders, us, for current consumption. And that is an economic—it is a huge economic problem, the dominant one I believe for the future of this country. And this subject we are gathered on this morning is now a material contributing factor to it.

Representative Hanna. Have you seen numbers on what percentage, or part of a percentage it might be in terms of our growth to our economy?

President Daniels. Yeah, I mean there is a mountain of evidence that shows that debt burdens as they grow are a direct pen-

alty on growth. And if you ask me to name the single dominant problem facing the country now, it is that we are staggering along at, as was made mention, at historically low growth rates coming out of a recession that deep, and no other problem we face is susceptible to a satisfactory solution while that is the case.

And so the debt anchor that we are already carrying, let alone the one that is right in front of us, is a very real problem for the growth of this country and everything means in terms of upward mobility, hopes for low income people, and commitment, frankly, to the democratic process, which has always produced that hope.

Representative Hanna. Dr. Kelly.

Dr. Kelly. I would caution against making too many inferences about the effect of debt on the economy from this period in particular, just because two trends covary does not mean that one necessarily causes the other.

The best study on how debt affects home ownership finds very small effects among student debt on getting a mortgage or obtaining a mortgage. That's a longitudinal study by a researcher at the University of Wisconsin, as one of the authors.

I will say that part of the problem we have is that the composition of who has student debt has actually changed dramatically as a function of the Recession. People went back to college. People left their jobs and they went back to college, lower income people often. And so those people are going to be less likely to own homes in the first place, and also they are likely to have lower credit scores, and so on.

So one of the ways to interpret those trends is as part of the access story. That is, we invited more people to go back to college. People with debt are going to look like they are struggling more in the economy.

Representative Hanna. Thank you. My time has expired.

Chairman Coats. Thank you. Senator Peters.

Senator Peters. Thank you, Mr. Chairman.

And thank you, our panel, for your excellent testimony here today. President Daniels, I just have a question for you, particularly given some of the comments you have made particularly about the increases that we saw at Purdue prior to your tenure, and Dr. Kelly as well talking about large increases in tuition with colleges and universities across the country.

A disturbing trend that I have seen in universities is the increased use of adjunct professors as opposed to having full-time faculty, often tenured faculty who are doing substantial research and other types of activities. I think some of the statistics I have seen is that roughly 50 percent of instructors now in universities across the country are part-time instructors. And a majority of these folks are not in a career somewhere and then teaching part-time, this is actually their job and they have to cobble together their teaching at several universities, or having many classes, often earning very, very low wages.

And if you look at overall wages for professors, I think last year was the first increase of 2 percent, the first one above inflation in five years. So it does not seem as if the money is going into the classroom, particularly when we have this incredible trend to part-time instructors who are living, some of them, not much above the

poverty level even though they have Ph.D.s and substantial education.

So where is all the tuition increase—where is that money going if it is not going into the classroom and going into the professors who are actually teaching our students?

President Daniels. Yes, Senator, I think you have put your finger on something very important. I am happy to tell you that at Purdue we have very, very few adjunct faculty, a high ratio of tenured and tenure track and clinical or research faculty.

But nationally, I believe you are quite correct. This has been the trend, and it simply indicates, and I made quick mention earlier that too often in higher ed the terms of competition lately have not been academic excellence, and they certainly have not been affordability. In fact, quite the contrary.

The terms of trade, oddly enough, were that in the absence of other evidence people associated a higher sticker price with more quality. And I don't know the Utica situation directly, but where we see these dramatic—a few dramatic reductions in tuition, they weren't collecting it in the first place. They were backdoor discounting through, you know, scholarship assistance and so forth.

But the dollars that were getting collected too often were invested or spent on amenities, and creature comforts, and things that people who went to college even 10 or 20 years ago would not recognize.

So I think that is all changing. I think the terms of competition are, as they were bound to, shifting. And I hope they will shift very much in the direction of those schools which are maintaining and can prove educational quality and academic excellence for the dollars they are charging.

Senator Peters. Dr. Kelly.

Dr. Kelly. I think this concept of shifting the terms of competition is actually the most crucial insight here as to how to right this system. I think this is partly why simply adding more money to the system without changing the incentives that colleges face and how they compete with one another is not going to change a whole lot. It will be sort of gobbled up by the system as it always is, and then we will maybe reset the clock for a year and be back where we started.

I think the rise of adjunct instructors really helps to crystallize this incentive structure, that colleges are not judged on the basis of how much students learn and how well they do once they are out in the labor market. Instead, they are judged on amenities, and student-faculty ratios, and so on.

Those things cost money, and hiring adjuncts allows you to save, to redistribute some of the money you were spending on teaching to do other things.

Senator Peters. No, I want to push back a little bit. My comments, I didn't mean that adjunct is an inferior professor. In fact, adjuncts can be highly skilled, very good instructors. They just simply do not get paid adequately for their services. They are being shortchanged. And so if there is money that a university is raising, it is going somewhere else other than paying faculty members who are the people who are actually educating our students.

Dr. Kelly. That's right. And, you know, please interpret my point to mean that the university is signaling its priorities by where its money is going, and it is not necessarily going to teaching, often, because they are paying adjuncts less money.

There is some research as to the difference between adjunct faculty and full-time faculty. It tends to find that full-time faculty, you know, have higher performing students. I would not push that too far. There has been, to my knowledge, no randomized controlled trial of that. But I think your point remains that simply spending more money, the concern is that it will not actually reach the classrooms, that it will go to other functions and other things without changing the terms of competition.

Senator Peters. Thank you. I'm out of time.

Chairman Coats. Thank you, Senator.

Representative Paulsen.

Representative Paulsen. Thank you, Mr. Chairman. Thanks for calling this hearing, to identify some of the current challenges we have in the higher education system. But it is also refreshing to talk about some new ideas and some new solutions.

It seems that too often the conversation that we have here in Washington focuses on whether or not the student loan interest rates should be 4½ percent, or they should be 5½ percent. That is an important conversation to have, but we are missing the opportunity really to focus on the real driver of student debt. And that is the rising cost of college.

I think we would all agree that while the difference between an interest rate of 4½ percent or 5½ percent is noticeable, there is a much larger difference between needing to borrow $15,000 to complete your college education, or borrowing $100,000 to complete that education.

And with more and more jobs today requiring a college degree, it is likely we are going to continue to see more and more American students choosing to go to college. And so we should be focusing on reigning in college costs.

And, President Daniels, you have become very well known across the country for cutting costs at Purdue, for freezing tuition now for four years. Can you talk a little bit more about how you have been successful in getting the Purdue community on board with trimming costs?

President Daniels. Thanks, Congressman. First of all, I am not particularly impressed with anything we have done so far. I think there is much, much more to do, but it is a start. But I would not overclaim at all.

But I like your question because I think it was a central one. I would say this. One of the beauties of our campus or any campus I know is the wide variety of views on almost every subject. It is one of the joys of working at a place like that.

But if I could identify one thing that I think is a matter of consensus on our campus at least, it is that we want our doors to remain open, as they have been for 150 years, to people of all social and economic backgrounds.

We are a land grant school. A lot of people do not know it because of our name and, frankly, I think a great academic record,

but we are. And it is very much a core principle for us. And so from the beginning we have asked everyone to contribute.

We have a fund, by the way. Many of our faculty, administrators, and staff forego raises voluntarily and contribute it to a fund which we use to buy down the cost of next year's tuition.

So, yes, we are doing those things which I hope will conserve dollars for the real core purpose, which is excellent faculty and facilities for them to teach in. But I am happy to tell you, and I believe this would be true on most campuses, that when people are asked to think about it they very much want to work at and teach at places where no-one is denied the opportunity based on economics.

Representative Paulsen. You know, you also talked about one-sided accountability. Can you elaborate a little bit more on what you mean, and how you can create a system that actually focuses on shared accountability among government, universities, and students. The NY Federal Reserve study showing, every dollar of increase in federal student aid is a 65 cent increase in tuition. We know that it is the same for Pell Grants, 47 cent increase for every dollar that we put in the student loans.

President Daniels. I think it is pretty straightforward. You know, I was in the health care business for a long time, and the parallels are pretty plain. When someone else is paying the bills, or large portions of the bills, the buyer is immunized or insulated against the full, at least temporarily in the case of student loans, against the sense of value that they are acquiring for it.

So the schools had it going both ways. A lot of free money coming in one way. Nobody measuring that value on the other end. And now fortunately, and thanks to this committee and other leaders here, Secretary Duncan and others, we are beginning to see scrutiny of the results, more public information about the results, and I hope likewise some sharing at least of the risk and accountability on the front end.

As I said, we for one institution would be willing to step up to that.

Representative Paulsen. Dr. Kelly, maybe you can add a little bit on how to have a better accountability system that focuses on shared accountability?

Dr. Kelly. So the problem of the current federal rules around financial eligibility that are based on the cohort default rate, which is the percentage of your students that default after three years—three years after entering repayment.

It is a binary variable. You are either above the measure and you are out of the system, or you are just below it and you are in with full access to the system. And so that creates little incentive for people below that floor to improve.

There are also lots of ways to appeal the Department's decision as to whether to kick you out. The result is that very few schools ever lose eligibility, despite horrible outcomes in many cases. So one of the things we have proposed is a risk sharing system where colleges would be on the hook financially for loans—for some percentage of the loans that go unpaid by their students.

It does not have to be a large percentage. In the mortgage market they found that risk retention of 3 to 5 percent changes behav-

ior. So—and there is a bipartisan push to do this now, and I applaud that.

Representative Paulsen. Thank you. Thank you, Mr. Chairman.

Chairman Coats. Thank you. Senator Heinrich.

Senator Heinrich. President Daniels, one of the areas where there seems to be some agreement is that shifting the terms of competition is really going to be key to beginning to arrest some of these unsustainable increases both in terms of tuition and in terms of student loan debt.

In addition to apples to apples kind of comparisons and scorecards like you have talked about, do you see other tools that can get at that same issue and make sure that we are measuring value?

President Daniels. Yes, sir. In our state, and in a growing number of states, at least a portion of state aid is now predicated on performance. It is in early stages. These are imperfect measurements. They do lead to occasionally some anomalous outcomes, but it is the right direction to go, which is to say that when some percentage—and I hope it will be a growing percentage—of government assistance, state or for that matter federal, is based on the value of the product being the service being delivered, the graduation rates, the retention and progress rates, and maybe one day the success of graduates elsewhere, you will have another incentive pushing in the right direction.

Senator Heinrich. Mr. Chopra, I want to get at another issue that I think, in the case of New Mexico may not look exactly like the rest of the country but which is very important to our students. I am very proud of the fact that a number of our higher education entities—the University of New Mexico, New Mexico State, New Mexico Tech—have actually done a very good job of managing their tuition costs. We have not seen the kinds, the scale of change and increases that we have seen in other places.

And I have certainly talked to a lot of students who talk about the incredible importance, oftentimes first-generation students, in Pell Grants and being able to access those relatively modest cost institutions that provide a high value.

It led me in some case to introduce S. 1998, the Middle Class Chance Act, which updates Pell Grants to a little over $9,000, allow recipients to use those for 15 semesters instead of the current 12, and use them year-round.

Do you have thoughts for some of the traditional financing tools and whether, how important they continue to be, especially for low income students to get in the door? And in particular with first-generation students.

Mr. Chopra. As we discussed earlier, an entry point of community college and using a Pell Grant, many of those students are able to go almost for free. And I think more of that should occur as long as we are getting good performance out of it.

One of the things that I would encourage you also to think further about is how we structure the post-9/11 GI Bill benefit. We have a lot of people that are nontraditional who have served, and in some ways they are not necessarily getting to use those benefits in the most high-value way.

So, and to echo what others are saying here, you know, accountability to ensure that poor performing high-cost schools are not grabbing most of the dollars is critical. And part of that is rigorous enforcement that if we have standards that people are failing, they need to be kicked out and not be able to get the benefit, whether it is federal aid or the GI Bill or what have you.

Senator Heinrich. I suspect, certainly in my case and I suspect many of my colleagues would love to know your thoughts on improving those post-9/11 GI benefits. And I've got a little bit of time here, so why don't I ask you quickly, could you remind us and elaborate a little more than in your limited testimony some of the unique financial pitfalls that our Service Members and our Veterans face when trying to finance higher education, and some of the abuses that we have seen in recent years within that sector of the market?

Mr. Chopra. Yeah, the Congress funds the DoD Military Tuition Assistance Program, as well as the post-9/11 GI Bill benefit. There are also specific programs for military spouses, as well. And I have been personally troubled at the very aggressive recruiting of people with these benefits.

There is a law, a requirement called "the 90/10 Rule" which requires certain institutions to get 10 percent of their revenues from non-Title IV sources. And so many of these service members or veterans are seen as nothing more than a dollar sign in a uniform. So I think some of the same principles we are talking about with accountability and risk sharing we need to think about that more broadly, too, to make sure that people are not just enrolling students to get those GI Bill benefits, but they are actually succeeding.

Senator Heinrich. Thank you all for your testimony. It is very much appreciated.

Chairman Coats. Thank you, Senator.

Senator Lee.

Senator Lee. Thank you, Mr. Chairman.

Thanks to all of you for being here. It is an honor to have you here, and we always benefit from your insight. You know, this is an exciting time to be involved in a discussion about higher education. I happen to believe we have got the best higher education system in the world here in the United States.

It has challenges, yes, and we have got to confront those, but it is an exciting opportunity to be part of this discussion. I look at some of the things that are happening in this area, and I am encouraged by steps that a lot of people in this field are taking, including for instance President Matt Holland, the president of Utah Valley University, who recently set up a financial services initiative within this University, a big school and a rapidly growing school within the State of Utah. He set this up for the purpose of providing guidance to students, giving them information to make sure that they know what they are getting into, the implications, the ramifications of their different student financing options.

And he did this not in response to a high loan balance among his graduates. In fact, Utah Valley University has a very low loan balance among its graduates, perhaps the lowest in the State of Utah. He did this, rather, because he wants to provide a valuable service

to his students. I appreciate what he is doing there and the insight that you have given us today.

I would like to start with President Daniels. You were asked, I believe, a few minutes ago about what kind of transparency is offered to students at your university. I wanted to ask you, what kind of a burden would it be for institutions like yours administratively and financially to have to provide information like that, information regarding, you know, average debt load per major, average time to graduate per major, average starting salary per major, and things like that?

President Daniels. Approximately zero. I mean, these things we know or should know. And we do provide it. I was not surprised to hear your account of what that one university has done. It is very like what we have seen, and some other schools. I know our sister school, Indiana University, has had good luck, too.

I said earlier a little counseling, a little financial advice goes a very long way, and we have seen a number of families realize they either do not need to borrow, or really would be wise not to borrow as much as they originally intended. So I think it is a responsibility, frankly, not particularly a burden, and it is always easier when you do not have to do it, but my sense is that any of the things you just mentioned we know now and it would not be an expensive or a burdensome thing to make certain that every student considering financial aid was fully aware.

Senator Lee. Is there any aspect of existing federal law or existing federal regulatory practice that makes it more difficult to establish programs like that? In other words, is there any change we could make to federal law or federal administrative practice that would encourage universities to do that sort of thing?

President Daniels. Yeah, lots of them. As in every other realm, yeah, I was part of a hearing a few months ago on this very subject, one which I think maybe a previous question brought up, very important. We are trying to move to year-round education. We are trying to move to progress-at-your-own rate education. And it would be really helpful to have some of the financial aid instruments modernized to accommodate that.

Most of them, or all were originally designed for the old traditional start in September, finish in May, agrarian calendar, which increasingly describes the educational experience of a declining minority of our students.

Mr. Chopra. Senator, if I could add?

Senator Lee. Yes.

Mr. Chopra. The counseling piece is a really good discussion to have. And it is not just at the front end when students are coming in. It is also when they are repaying. That is the case when they are outside of the confines of the school gates. And that is one of the reasons I think we need to take a close look at student loan servicing. These are the companies that are hired to collect debt on behalf of the Federal Government and other private actors, and they are required to provide students options on how they navigate their debt. And unfortunately I think we find too many borrowers are being rushed off the phone, rather than giving honest and clear information. And this just reminds me too much of what we saw in the foreclosure crisis where there were options to avoid fore-

closure that would have been good for investors and good for the homeowner, and instead we had businesses cutting corners and it hurt us all.

So we should look at not only in school but after school as well. Some people have thought about how housing counselors who are now dealing with less or fewer foreclosures, how they might play a role in assisting student loan borrowers, as well.

Senator Lee. Thank you. Thanks for that insight. I see my time has expired. Thank you, Mr. Chairman.

Chairman Coats. Thank you, Senator. Senator Cassidy, you're on.

Senator Cassidy. President Daniels, we have heard a lot of testimony that although you say that many of your parents and families are very interested in knowing the cost of education and the value thereof, to me that just shows you have got a bunch of engineering students coming to your school, right? The liberal arts person may not be quite as kind of into the numbers—it's not like a stereotype—but apparently the data shows that, that most students do not pursue that.

So I am intrigued by your ISA. That would be a clear market symbol. But on the other hand, you can imagine that if you move beyond philanthropy and loyal alums, and you move into the kind of financier, there is going to be some program that says, oh, this person had a tiger mom. We're going to bet on this person.

And this person came from a disadvantaged background from this zip code and they are less likely to complete their education and go far. You see where I'm going with that. Any thoughts about that? Because again this would be a great market signal, but I can see you want to have some protections, if you will.

President Daniels. Well, we will only know when we know, Senator, but I can imagine in a fully developed market these things would, would work themselves out in very interesting ways. For instance, I suspect that at least initially, and maybe always, the most frequent use of an ISA would be to in essence recapitalize a student who maybe started with debt but now has shown some real promise. They have progressed a couple of years.

There is a lot of data that shows that those first-generation students that you talked about, Purdue has built its reputation on first-generation and low-income students who went out and did great things after achieving a fine education. And some of them might look to the market like the very finest of prospects, and in essence as I say can convert debt, or a large portion of it, to an equity like arrangement.

Another thing I would say is—and we have not made any decisions yet. We are studying a whole variety of options. But I think early on you would probably see a blended system in which there would be some subsidization by let's say loyal alums, or philanthropically minded individuals, of those students with less certain prospects.

Senator Cassidy. Can I interrupt you for a second?

President Daniels. Please.

Senator Cassidy. Limited time, so I don't mean to be rude. Now it also seems—I have read about the GRAD PLUS Program which seems to be somewhat, you know, subject to abuse. Grad schools

have raised their tuition, and people can never hope to get paid back to. So this seems like an ideal thing for kind of the grad school component. And I'm just asking your thoughts on that.

President Daniels. I agree completely. And in the written testimony I say some pretty direct things about PLUS loans, and both of these gentlemen have written about them, and I think probably have similar thoughts. But, yes, I think that's the way to get rid of the PLUS loan program and I think the ISAs could be a partial replacement.

Senator Cassidy. Let me ask Dr. Kelly. Dr. Kelly, you speak about this skin-in-the-game thing, but I have been told by people who know far more than I that if you look at those schools who have great repayment rates, oftentimes they have very few Pell Grant students, if you will, indicative that they have a kind of better-off student body to begin with. And, if you will, they may even be deliberately avoiding the implicit federal obligation to take on all social economic class, et cetera, and that you should kind of scale your skin-in-the-game by how many Pell Grants or some other kind of marker for what you are doing for the lower income. Any thoughts about that?

Dr. Kelly. Sure. I think it is crucial that any risk-sharing system acknowledges that tension. The way that we have dealt with it in our writing and our proposals is to suggest that you couple a risk-sharing system with bonuses for Pell Grant graduates.

Now we don't want to just premise the bonus on enrolling Pell Grant students because that is going to lead to just more enrollment, rewarding them for enrollment. We want them to be successful. That is one way in which you would still maintain the incentive for institutions to seek out and enroll Pell Grant students, and in fact to sort of hedge some of the risk of doing that under the risk-sharing system. I think that gets you 90 percent of the way there to sort of—getting into a risk-adjusted, risk-sharing where different schools have different standards, I think it is a slippery slope.

Senator Cassidy. Except, let me stop you there.

Dr. Kelly. Sure.

Senator Cassidy. Because there are some schools such as historically Black colleges and universities who have taken as their mission helping those who are disadvantaged and come from a background, et cetera, et cetera—you know where I am going with that—and then there are others who have a rich tradition and frankly take very few Pell Grant students, and many of their parents, you know, all the things you look for for a kid who is going to do well. Should they really be kind of judged on the same scale, if you will?

You really want some institutions taking that risk don't you?

Dr. Kelly. I think you do. And I think that is why you would incentivize them to do so by saying to them if you're successful with these students, we are going to——

Senator Cassidy. Yeah, but I am going to your point where you say you would not want to stratify the kind of risk assessment. Maybe I misunderstood what you said.

Dr. Kelly. Yeah, I think that that is a slippery slope toward having lower standards, frankly, for institutions that enroll low income students. And I think that would be a shame.

Senator Cassidy. But—well, I am out of time. Thank you.

Chairman Coats. I can give you 10 seconds, because that is a really, really good question.

Senator Cassidy. Well, I do think that if you have a school, a second Ivy League school which has very few Pell Grant students, and you compare it to a historically Black college and university which is going to have a lot of Pell Grant students, to put them on the same scale is unfair to all. It really makes one look really good, and the other look pretty bad, but their missions are quite different.

So knowing that it could be a slippery slope where you end up with lower standards, at some point do we want to run that risk? Because otherwise we don't have a good picture of what the demographics of your incoming class, it may not be a great education you've just got great demographics.

Dr. Kelly. I think this is a question about the Federal Government's interest as a lender, frankly, and whether it wants to lend money to institutions that it knows most people do not graduate from——

Senator Cassidy. No, I didn't say that. You don't have standards, so——

Dr. Kelly. So this is part of the tension here. Is that—if we want to take—if we want to take access-oriented institutions and make sure they have the incentive to maintain their access, then we should subsidize that activity directly rather than lend for it.

Senator Cassidy. Then let me flip it. Someone once told me that the original inclusion of private schools in the whole student loan program was conditioned upon their commitment to taking lower income people, lower income students, but that statistically they have not. And that if you take Pell grant as a proxy for doing so, they have just not done it.

And so if you will, there is that flip side, right?

Dr. Kelly. Sure.

Senator Cassidy. You have not expanded access in any appreciable way, and so therefore should the federal taxpayer be subsidizing you? I am the proud graduate of a land grant college. I will say that land grant colleges I think kind of get to that sweet spot. But I do think that is the other side of the tension that you are describing.

Dr. Kelly. I agree, and I think this is entirely in keeping with this notion of changing the terms of the competition. I think that we have encouraged elite colleges to become more selective, hyper-selective often, and raised their tuition prices to signal that they are a higher-quality alternative. All of these things depress low income enrollment and low income interest in the school because of sticker shock and so on. So I think the point you are pointing out, the point you are making is well taken.

Senator Cassidy. Mr. Chopra, I did not mean to ignore you.

Mr. Chopra. I'll take it, Congressman.

Chairman Coats. You raised an important question, actually because I have a hearing on that subject alone. I appreciate that, and appreciate the witnesses.

Senator Casey, you have been patient, but the last shall now—maybe you can get extra time.

Senator Casey. Mr. Chairman, don't open up that door.

[Laughter.]

No, but I thank you for the hearing. We are grateful for this opportunity. I want to thank our witnesses for being here.

Mr. Chopra, I will come to you in a minute not only to make up time that Senator Cassidy wanted, but also to probe a little more on the state's role here.

But I want to start with Governor Daniels. Governor, good to see you again and appreciate your Pennsylvania roots. Am I right? Monongahela?

President Daniels. That's right.

Senator Casey. We wish when people are born in Pennsylvania they stay, but we lost you so we'll keep claiming you.

But I wanted to ask you about a program that does not get a whole lot of attention, but it is the subject of some work here in the Senate this week, the Perkins Loan Program.

In our State, it amounts to some 40,000 students that benefit from Perkins. Across the country, right around 539,000 students. You know it well, and folks in the room know it well, low-interest, fixed-rate loans for students with exceptional needs.

What we are trying to do this week, and it is interesting that we've got a bipartisan effort, about 25 co-sponsors to extend the program for a year. Four of the co-sponsors are Republicans. So we do have a good consensus in the Senate on this.

The concern obviously is that the students that are benefiting here are exceptional need, as I mentioned before. One quarter of all loan recipients are from families with incomes less than $30,000. So not a lot of income.

It is, as you know, a revolving loan program. And I am told—I want to make sure I am right about this—Purdue in the 2013-2014 academic year issued nearly 3400 Perkins loans? Does that sound right?

President Daniels. I don't know, but it sounds right.

Senator Casey. And what is your experience with the program? And what is your sense of it in terms of the Purdue experience?

President Daniels. Obviously it has played a very important role over time. My—I am generally persuaded by the suggestion of those more expert—a couple of them are here—that ultimately reform here ought to be more in a Perkins-like direction, that we ought to have maybe one loan program that ought to be means' tested.

Among the many things we have not talked about this morning, the current system subsidizes wealthy families in many respects, and a country that is broke, and a program that is consistently overrunning even its own projections and causing more borrowing, you know, ought not to be in that business.

So I will defer to those who live in these issues all the time, but my sense is that a simplified program, perhaps offering a federal loan program, coupled with some other vehicles of the kind we

have discussed here today, would probably wind up looking more like the Perkins Program than the other ones that we have today.

Senator Casey. Interesting. Mr. Chopra, I will move to you on that question. I want to raise another question as well about the states' role here. But just for a moment on Perkins, if you can speak to that?

Mr. Chopra. I think we need to be concerned particularly for loans that are given to low income students that it is clearly understood, and that it is simple, it works well with the other loans they might have. So it feels like a place where broader reform could be needed, and simple extensions might not meet the goals you want, but I am happy to follow up with your staff further about that.

Senator Casey. I appreciate that.

One of the issues that we discussed today, either by way of the testimony or questions, was the diminution of state investment in public colleges and universities. We are told, if I have the data here, we are told that in a recent study by the Center on Budget and Policy Priorities, state spending on higher education nationwide is down to an average of $1,805 per student, which is about a little more than 20 percent.

We are also told that in 2012, that year per-student spending by states reached its lowest level in 25 years.

Mr. Chopra, I wanted to ask you about that. (A) do you think that is a major driver of part of the problem we have? And (b) how do we deal with that? What is the best way to deal with that?

Mr. Chopra. Well one of the things that is always a challenge is data in this area is so poor, but there is no question that state budgets were killed, particularly with the downfall of the housing market.

And so we now see the data showing that the percentage paid, that consists of tuition from students as the overall budget has increased nationally quite a bit and across most states.

Senator Casey. So student share is up?

Mr. Chopra. The student share is up. So I think we have to start questioning, given that many people are financing that, how do we align the incentives of states not to keep disinvesting, because someone will have to pay for it in one way or the other, either the student through more loans, the families through their own savings, or even the Federal Government.

So I think it speaks to a bad trend, and probably many states are going to regret some of that. And I think there is good work in many states to try and hold their own schools more accountable to make sure they are delivering results.

Senator Casey. Well since I am the only one between here and lunch, I will stop there. Thank you, very much.

Chairman Coats. Well Senator Cotton popped back in. We are glad to have you back, Tom.

Senator Cotton. No lunch for anyone.

[Laughter.]

Chairman Coats. You're up.

Senator Cotton. Thank you all for appearing before us. Thank you for taking the time to help inform us on this very important topic.

President Daniels, that sounds nice.

[Laughter.]

Many people wish they could have called you that years ago. You have been in and around Washington, in addition to being the President of Purdue now and a Governor as well, when we think about what is driving the student loan crisis, we have heard a lot of testimony today about the easy availability of debt financing that students may not appreciate the terms of repayment, or that may be driving the rate of tuition higher according to the Bennett Hypothesis. Some of that is the availability of debt financing from relatively low interest rates that have been on student loans, in fact capped by Members of Congress.

I mean, in your experience do Members of Congress and Senators have the skill sets needed to determine what interest rates should be paid on student loans?

[Laughter.]

President Daniels. Now, Senator, what kind of a loaded question is that?

[Laughter.]

I admire the skill set of every Member of Congress. As you know, my admiration is boundless. Oh, you know, I guess what you are asking is, can we arbitrarily set interest rates which therefore amount to subsidies? Are they best determined arbitrarily or through some market system? And my answer would be the latter, and whatever they can be.

And we have had a lot of good discussion this morning on the ways in which the current system of financing, everything you just mentioned, has contributed to distortions in the market, and probably misleading signals to students, and has certainly contributed very meaningfully to the runup in costs which is the root of all this problem.

So I don't know that I am answering your question about the aptitude and capabilities of our Members, but——

Senator Cotton. That's not a clear answer, but——

President Daniels. But I would say, you know, it is beyond any of our human capabilities to know with certainty what the right number is in a setting like that.

Senator Cotton. I mean, Hayek's main proposition is that no matter how smart and capable any person is and how public-spirited it is, that person will never have all the information of millions of people distributed throughout a market.

President Daniels. Yes.

Senator Cotton. Dr. Kelly, given the rapid increases as we've seen in student debts, and because of a slow economy the difficulties so many students are having of the ability to repay their loans, do you foresee a kind of student debt crisis the way we saw in the mortgage finance sector in 2007–2008?

Dr. Kelly. I don't. I think they are very different scenarios, and I think it is important to remember who is actually struggling the most with their debt. And it is not the people with the highest balances. The people with the highest balances tend to have gone to graduate school and have completed a bachelor's degree, and then gone on to graduate school. They are doing very well.

They have low rates of financial hardship most of the time. So I think the real crisis here is among people who tried to enroll in

a program that was going to expand their economic opportunity, but without access to information about which program was the most valuable, and which degrees were in growing fields. I think they often made poor decisions, often through no faults of their own, frankly.

There is downside risk to investing in higher education, and that is why we have created robust protections for student loan borrowers on the back end, like income-based repayment. I think we could change some of the terms of loan forgiveness to make them less perverse and potentially curb tuition inflation. But I think allowing student loan borrowers to tie their payments to their income is a reasonable safeguard against such a crisis.

Mr. Chopra. Senator, if I could add, I don't think it is the same type of crisis but we have some serious problems. We have 8 million Americans in default, which is going to threaten their ability to get on their feet economically. And I am worried that we are acting way too slowly.

One of the reasons we acted quickly in the last crisis is because it threatened the sustainability and livelihood of large financial institutions, and I don't think students have the same kind of political connections. So we need to make sure that we are thinking about the long game and not just the sanctity of a few.

Senator Cotton. One alternative means of financing higher education that has been discussed here today is Income Sharing Agreements, which you piloted at Purdue. I was sponsor of legislation last year in the House that would have set up a regulatory framework similar to what Congressmen Young and Polis have done.

Do you think that that kind of ISA arrangement should be available to all forms of higher education, four-year degree institutions and students, but also maybe just a student who needs to go back and get a couple of classes to build skills for their local economy?

President Daniels. Instinctively I would say yes. We probably ought to walk before we run and see if it works. We talked earlier about the fact that it might well start among the more secure, or more promising borrowers, but I can see mechanisms, and we would like obviously to see mechanisms where it was available more widely and possibly everywhere.

Senator Cotton. Dr. Kelly.

Dr. Kelly. If I could add, I think one of the virtues of creating space for Income Share Agreements is that they could finance things that currently do not have access to the federal loan program without putting taxpayer dollars at risk, but ensuring at the same time that there are back-end protections by tying the payments to somebody's income.

Senator Cotton. Well my time has expired, and I do think I am standing between everyone and lunch, so thank you all very much for your time here today.

Chairman Coats. Thank you, Senator.

I want to thank our witnesses. I think this is one of the more instructive, constructive hearings that we have had on this Committee, and I appreciate the three of you being here to deal with some interesting questions. I think my colleagues are not here, but I think I can speak on their behalf, for their interest in this.

Too often we arrive at Committee meetings and the obligation of the Chairman and Vice Chairman to be there, that is all that is sitting at the dias.

Obviously our witnesses can understand here there is a significant interest in this particular issue, which has major ramifications particularly as we are living ever more in the global economy. Getting the right flow of talent and skills into our economy is critical to the future of the United States being competitive in an ever more competitive world.

The results from the Gallup-Purdue Index ought to give all of us pause in terms of how we can provide better value for the cost that is being endured by students and their parents. And you know this goes beyond just macro numbers.

It goes to individuals who find themselves deeply in debt, living at home, not able to pursue what their parents had thought they had paid for, and that is their opportunity to have the opportunities that we have had.

And I was happy that—well, not happy, but I think the question relative to the macro issue here of our ever plunging into more and more national debt is going to have significant consequences not only in our education system, but just about everything that we do here.

So whether it is medical research, or whether it is education, or any of a number of other essential issues and things that we ought to be engaged in as a Nation is at great risk. And we have to keep our focus on that macro issue as well as the micro issues, and there is an interaction between the two of those.

So all in all, I think this was a very constructive day. I thank you again, and with the fall of the gavel we are adjourned.

(Whereupon, at 11:56 a.m., Wednesday, September 30, 2015, the hearing was adjourned.)

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF HON. DAN COATS, CHAIRMAN, JOINT ECONOMIC COMMITTEE

I would like to welcome our witnesses and thank them for being here today to discuss how we can improve our current system of higher education financing. Most of us, if not all of us, will agree that the current framework is far from ideal.

From a student's perspective, rising student debt means greater difficulty in attaining financial stability early in one's career, impacting important life decisions such as buying a house or starting a family. This is particularly true in light of the slow economic recovery, where lower paying entry-level positions create additional pressures for young Americans.

From a taxpayer's perspective, the free flow of federal student loan dollars to higher education institutions, without proper incentives to control costs, will continue to lead to higher tuition prices charged to students. While loans to cover tuition are relatively easy for students to obtain, many are not adequately informed as to the implications of this debt for their ability to achieve post-graduation financial success.

Greater system-wide accountability and transparency are needed, and our witnesses will be sharing their thoughts with us today on how to best achieve those goals.

I am pleased to have Purdue University President Mitch Daniels before us today to talk about several of his initiatives to control costs, improve financial literacy, and create value for students attending Purdue. President Daniels will be outlining for us the "Bet on a Boiler" Income Share Agreement pilot program and how Congress can assist similar higher education financing reforms.

I also look forward to hearing Dr. Kelly's thoughts on how our current student loan system distorts the higher education market and the role competitive principles can play in making higher education more affordable for everyone.

We are also pleased to have with us Mr. Chopra, who will outline the need for proper safeguards as Congress considers alternatives to the current higher education financing arrangement.

With that, I look forward to discussing these issues in more depth with our witnesses today.

PREPARED STATEMENT OF HON. CAROLYN B. MALONEY, RANKING DEMOCRAT, JOINT ECONOMIC COMMITTEE

Chairman Coats, thank you for calling today's hearing.

Rapidly growing student loan debt is a significant challenge facing our country. Student loan debt grew steadily through the recession, more than doubling from the start of the recession in 2007 to today, and is now close to $1.3 trillion. More than 40 million people have, on average, more than $27,000 in debt.

The recent explosion in student debt risks the economic security of young Americans and threatens our economic growth. As debt levels increase, young people are forced to delay buying a car, purchasing a home, starting a small business and saving for retirement.

And some end up paying back loans well into their 30s, 40s and even 50s.

How did we get here?

Part of the story is that many American families have struggled in recent decades and have had trouble saving money for their children's college education. And many were hit hard by the recent recession, the most serious economic crisis since the Great Depression.

When parents have less savings, students are forced to borrow more. Substantially more. In fact, borrowing has gone up sharply in recent years, with the average debt at a 4-year public institution climbing from $21,900 in 2006–07 to $25,600 in 2012–13.

Another critical part of the story is that tuition has risen dramatically, especially at public colleges and universities, which educate the vast majority of our students.

States have also been hit hard by the recession, and in response many have slashed funding for higher education. Median state funding per student, for example, fell by almost one-fourth from 2003 to 2012.

Cuts in state funding for higher education force public universities to charge more. As a result, this forces students and their parents to have to pay more. And this means that students have to borrow more money to go to college.

With declining state investment, tuition increases have far outpaced inflation since the 1980s. After adjusting for inflation, tuition and fees at a public 4-year university more than TRIPLED in the past 30 years.

The Bush-era recession increased the overall amount owed by students in another way. As job opportunities shrank, more and more young people opted to enroll in school. And they had to take out loans to pay for it.

The recent recession also accelerated the loss of many higher-paying jobs that did not require a college degree, further increasing the demand for college or other post-secondary education.

For-profit institutions, in particular, saw their enrollments surge—quadrupling between 2000 and 2011. A new report finds that 75 percent of the increase in student loan defaults between 2004 and 2011 results from the increase in borrowers at for-profit institutions.

Yes, student debt is a big problem.

And how do our Republican colleagues suggest that we respond to this problem? By restricting the availability of federal student loans and by expanding the private student loan market.

As recent history has shown us, private student loans pose significant risks to borrowers. These loans lack the consumer protections of federal loans. They typically carry higher interest rates, some greater than 18 percent. And they offer fewer options for loan modification.

Many borrowers have been forced into default when lenders wouldn't negotiate viable repayment plans. Income-based repayment and extended loan terms—plans that are available with federal loans—typically are not available with private student loans.

And there are many, many examples of private lenders preying on student borrowers.

Private lenders regularly declare borrowers' private student loans in default after a co-signer dies or files for bankruptcy, even for borrowers who paid their loans on time for years.

Of course, a default can affect employment background checks and cause lasting damage to a person's credit.

There is probably broad agreement in this room about the need to continue to clean up the abuses in the private student loan industry. It's been the Wild West, with providers marketing their loans to students desperate for financing through every conceivable channel—Pandora, You Tube, on campus, off campus, at the gym and so on.

As we consider new private options for financing a college education, we must make absolutely sure we have strong safeguards in place to prevent private lenders from using predatory practices to take advantage of students.

Today we will discuss a new private lending mechanism—income share agreements—that could offer some students an alternative way to finance their college education.

I would like to hear what our witnesses have to say about this issue. I would also like to know—specifically—how they would protect students from the predatory practices that have been a part of the existing private student loan market.

Rather than look to the private sector to magically solve the student debt problem, we should strengthen public support for higher education. It's important to remember that an educated workforce is a public good and thus without government involvement, we would underinvest in education. There are four steps we should take right now.

First, we should make tuition free for students at community college. Students would then be able to build their skills, and perhaps obtain an associate's degree, without taking on huge debt.

Second, states need to partner with the Federal Government to reinvest in higher education, and to begin to reverse the years of divestment at the state level.

Third, at the federal level, we should increase investments in Pell Grants to give low-income students a real shot at a college education. Despite recent increases, Pell Grants now cover just one-third the cost of going to a public university.

Finally, we need to reform the system so that universities and colleges have some "skin in the game," some consequences, when a student is unable to pay back a loan. And colleges should be rewarded when a student succeeds.

CONCLUSION

Before we take the advice of my Republican colleagues and scale back federal student loans and increase private lending to students, let's take a minute to remember how much students benefit from federal loans.

Much lower rates . . . . Better consumer protections . . . .. Income-based repayment . . . . Extended loan terms . . . .

College has been a gateway to opportunity for generations in our country. But for too many Americans, as the price of college rockets up, the dream of an affordable college education slips away.

Our goal should be college education that is more accessible and more affordable.

The Federal Government, state governments, universities, colleges, community colleges, the private sector and families all have a role to play. I look forward to our discussion today and thank the witnesses for their testimony.

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Written Testimony of
Mitchell E. Daniels, Jr.
President, Purdue University
Joint Economic Committee

September 30, 2015

Chairman Coats, Ranking Member Maloney and members of the Joint Economic Committee, thank you for the opportunity to be here. In our economy, which now prizes information and skill more than at any time in history, there are few questions more important for growth than how we make higher education and career readiness affordable and accessible to all Americans.

The facts are already widely known, but no one understands them more pressingly than the nation's 43 million student debt holders. Nearing $1.3 trillion, education debt has increased almost 3X since 2006, affecting not just students and graduates but increasingly their parents and grandparents. In the last year, student debt increased by almost $86 billion, or 7 percent.[1] It now exceeds all other debt except home mortgages and of course, the biggest debt of all, the federal debt held by the public.[2]

Not dischargeable even in most bankruptcies, student debt obligations are a modern form of indentured servitude. The personal implications of the debt can be harsh throughout a borrower's life. The demands of loan payments, especially private loans, are normally unsympathetic to periods of unemployment or underemployment, serious illness, or new life callings.

The government's income-based repayment plans, which eventually forgive student debt after a period of low or non-payment, can offer some relief for some federal loans, but they are proving very imperfect. Among the early warning signs has been the decline of the student-loan bond market. Sensing danger ahead, investors are now hesitant to buy bonds backed by federal student debt for fear that the debts, which pre-date the 2010 shift to direct federal lending, will not be fully repaid. With buyers less interested and the market devalued, banks reportedly have less capital to lend for other new loans.[3]

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[1] July 2015. Board of Governors of the Federal Reserve System. http://www.federalreserve.gov/releases/g19/current/#fn11b

[2] August 2015. Federal Reserve Bank of New York. http://www.newyorkfed.org/microeconomics/hhdc.html#/2015/q2

[3] September 2015. Wall Street Journal. http://www.wsj.com/articles/debt-relief-is-snarling-the-market-for-student-loans-1443035071

But of course, the bigger problem is the deep financial cost for taxpayers. The Congressional Budget Office recently increased its estimate for the cost of student loans by $39 billion over ten years, mostly because of the growth of such government-backed income-based repayment plans. Similarly, the Office of Management and Budget quietly wrote off $22 billion in debt in the last budget, mostly because it had underestimated the FY16 costs of income-based repayment. As one media outlet reported, this is "larger than the annual budget for NASA, or the Interior Department and EPA combined."[4] In the past, some have pretended that the loan program would be a financial net plus for taxpayers, but with more write-offs certain in the future, such claims can now be safely dismissed.

The societal and economic consequences of student debt make it a problem that impacts all Americans, not just those directly tied to higher education. Mounting evidence shows that students with education debt are more likely to delay vital life decisions that benefit us all at the macro level. Home buying, marriage, childrearing and even moving out of the family house are all now commonly delayed because of student debt. There is also compelling evidence that the business startup rate suffers when graduates take on too much debt as potential innovators pass on the uncertainty of the entrepreneurial lifestyle in favor of the safety of a traditional job at an established company with a consistent paycheck.

Earlier this week, our partners at Gallup released the results of the second annual Gallup-Purdue Index, the largest survey of college graduates ever conducted. Consistent with other smaller scale studies, the survey found that nearly half of recent graduates with student debt decided to postpone a graduate education because of their student loans. A third delayed purchasing a house or a car, and one in five put off starting a business. With higher debt levels, the rate and frequency of such delays only magnify.

The trend in student debt coincides with the trend in tuition prices, which have increased by 225 percent over the last 30 years, after inflation.[5] With such out-of-control pricing, there is a real threat that those in our nation's lowest income brackets — those who have the most to gain from more education — might start to view college as an option only for the rich. Disturbingly, but perhaps not surprisingly, the percent of Americans who believe that a college degree is "very important" plummeted, from 75 percent in 2010 to 44 percent in 2014.[6]

State financial support for higher education, cut dramatically in many states over recent years, may have contributed to the rise in costs and debt, but this is far from a complete explanation. In at least half of the country, inflation-adjusted tuition increases have outpaced inflation-adjusted state funding cuts. In many cases, public universities in states

[4] February 2015. Politico. http://www.politico.com/magazine/story/2015/02/the-college-loan-bombshell-hidden-in-the-budget-114930#.VNjcamTaHaw

[5] 2015. CollegeBoard. http://trends.collegeboard.org/college-pricing/figures-tables/published-tuition-fees-relative-1984-85-sector#Key Points

[6] October 2014. PDK/Gallup Poll. http://pdkintl.org/noindex/PDKGallupPoll_Oct2014.pdf

that increased higher education investments between the years 2008 and 2015 raised tuition just as much as states that cut funding.[7]

Two additional triggers of the debt problem multiply in force when combined. The first is a lack of information and financial literacy in regards to borrowers' expected salaries and payments; the second, a well-intended but complicated national policy of making large education loans exceptionally easy to acquire.

Economists and policymakers have long feared that the easy flow of loan dollars combined with pressures placed on college administrators to grow their budgets have made schools slow to rein in costs. Budget solutions usually follow the path of least resistance and when your customers have unlimited funds and insufficient information about the product they are buying, the easiest budget solution is often to raise prices rather than find operational efficiencies.

Over the years, various studies have supported this theory. The most recent was released by the Federal Reserve Bank of New York last July. The paper found that for every new dollar received by universities in subsidized loans, schools increased their tuition rates by about 60 cents. For every dollar of Pell Grants, sticker prices increased by about 40 cents.[8]

Such examples make a case for Congress to adopt a "first, do no harm" policy. The most specious and counterproductive of suggestions is to simply hand out even more public funds, a "hair of the dog" approach — if you're hung over have another — if ever there was one. As shown by the New York Federal Reserve study, this would risk decreasing the incentives for colleges and universities to run their programs efficiently.

Moreover, it is fallacious to term such an approach "debt-free"; borrowed by an already bankrupt federal government, the money will be all debt, merely shifted to taxpayers, including these very same students as they enter their working years. Already facing $58,000 per person in federal debt, incurred not for their future but almost entirely for the current consumption of their elders, the last thing today's young people need is another massive federal entitlement program.

Therefore, guided by the principle that something needs to be done, but not something that will actually make matters worse, I suggest three areas ready for Congressional action.

Financial Transparency and Literacy

At Purdue, we have made student affordability and debt reduction a primary objective. We froze tuition for at least four years, made textbooks more affordable, and reduced room and board costs. Each of these measures have helped bring down our student debt levels in the last three years by $50 million or 22 percent.

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[7] May 2015. Center on Budget and Policy Priorities.
http://www.cbpp.org/sites/default/files/atoms/files/2015_highered_download.xlsx
[8] July 2015. Federal Reserve Bank of New York.
http://www.newyorkfed.org/research/staff_reports/sr733.pdf

But, one of the fastest and easiest ways to reduce the student debt load is to simply promote financial literacy. For example, we reformatted our financial award letters to more precisely communicate how much students will need to come up with after grants and scholarships and we provide all students with a payment plan scenario before they borrow so that they better understand how much they will really owe.

Doing more to help students clearly understand what a degree will cost and what they can expect to earn is the next phase of the movement for more financial literacy in higher education funding. The new online College Scorecard from the U.S. Department of Education is a good first step, but without data at the program level, it could mislead. Students with plans to major in a university's lowest grossing degrees are likely to get into financial trouble if they assume they will earn the average reported in the Scorecard. Congress should continue to build from this positive first step by encouraging universities to be transparent, honest and specific in the costs and earning potential of the degrees they offer.

Accountability

More than 35 states use some form of performance-based funding to create an environment where universities are rewarded and held accountable for the results they generate with state funding.[9] In my state, the performance formula grades and rewards schools on several factors, including the graduation levels of at-risk students and the number of high-impact degrees awarded.

At the Federal level, by comparison, such incentives are almost non-existent. Current federal policy does threaten to cut off eligibility to federal loans when the 1-year and 3-year student loan default rates exceed 30 and 40 percent, but in practice, this has little impact as a motivating force. Of the thousands of schools receiving federal aid, fewer than 0.5 percent are ever seriously threatened with this sanction in a given year.[10] Further limiting the incentive, a school with a 3-year default rate of 25 percent is treated the same as a school with a 15 percent rate.

The current system is entirely one-sided. Colleges and universities receive taxpayer dollars with nothing at risk and no incentive to ask for less in tuition. Fundamental reform towards a system of shared accountability is clearly warranted. Colleges and universities should have more skin in the game. They should share in the risk with students and taxpayers that the education provided might not lead to positive life outcomes and they should be rewarded when results are good.

Of course, any efforts to promote shared risk should keep sight of the fact that not all good schools are the same — what's right for Harvard or Purdue might not be right for a community college or a vocational school. Likewise, a poorly crafted accountability measure could discourage schools from recruiting at-risk students. But these are manageable obstacles, not roadblocks. Shared-accountability proposals that avoid these

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[9] July 2015. National Conference of State Legislatures.
http://www.ncsl.org/research/education/performance-funding.aspx
[10] 2015. U.S. Senate Committee on Health, Education, Labor and Pensions.
http://www.help.senate.gov/imo/media/Risk_Sharing.pdf

pitfalls, such as the one recently outlined in a paper by the Lumina Foundation and in discussion in the Senate HELP committee, should be explored by lawmakers.[11] Purdue, for one, is eager to embrace a culture of accountability that asks us to share in these risks with students and American taxpayers.

Alternative funding

About 60 percent of students who earn a bachelor's degree have education debt, most of it from the Stafford loan program. While these federally backed and subsidized loans are the most affordable for borrowers, more than $26 billion is borrowed each year through less-forgiving private loans and PLUS loans.[12]

Private loans are used by less than 10 percent of students, but the use rate is much higher for big borrowers.[13] Over 80 percent of those who borrow more than $40,000 have at least one private loan.[14] For government issued PLUS loans, available to graduate students and the parents of undergraduates, there are over 2 million Grad PLUS loans and 6 million Parent PLUS loans outstanding. The average value of a public university PLUS loan is about $20,000 for parents and $27,000 for grad students.[15]

Although private loans and PLUS loans are a minority of all outstanding loan dollars, these two loan options deserve a disproportionate amount of the blame for the nightmarish anecdotes that generate the most public alarm. It should be a priority of lawmakers to find alternatives to these two loan options, without losing sight of the recent research by the Federal Reserve and without aggravating the federal debt problem.

Into this dismal picture, a glimmer of a better idea has appeared. Income-share agreements (ISAs), under which a student contracts to pay funders a fixed percentage of his or her earnings for an agreed number of years after graduation, offer a constructive alternative to today's private and PLUS loans, both as an option for new originations and for refinancing existing debt.

In early August, our affiliates at the Purdue Research Foundation launched a search for a partner who could help us establish and manage such a program. We are currently reviewing six serious proposals from a range of groups with different backgrounds and experiences. We continue to weigh our options with a final decision expected before the end of next month.

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[11] September 2015. Kelchen, R. http://www.luminafoundation.org/files/resources/proposing-a-federal-risk-sharing-policy.pdf
[12] 2014. Collegeboard. http://trends.collegeboard.org/sites/default/files/2014-trends-student-aid-final-web.pdf
[13] 2013. Collegeboard. http://trends.collegeboard.org/student-aid/figures-tables/percentage-undergraduate-and-graduate-students-borrowing-private-loans-over-time
[14] 2013. CFPB, Chopra. http://www.consumerfinance.gov/newsroom/student-debt-swells-federal-loans-now-top-a-trillion/
[15] 2014. The Chronicle of Higher Education. http://chronicle.com/blogs/bottomline/new-data-shed-light-on-use-of-plus-loans-and-controversial-loan-denials/

If we move forward, students who need more than they receive from the Stafford program, or who simply wish to avoid the hazards of traditional loans, could enter into an ISA. When they do, any loan debt they already carry could also be refinanced into the agreement if they choose, permitting them to graduate free from any private or PLUS loan debt.

For students, the clear advantage is that their education payments will never be more than the agreed portion of their incomes, no matter what life brings including unemployment, underemployment and health issues. ISAs shift the risk of career shortcomings from student to funder: If the graduate earns less than expected, it is the funders who are disappointed; if the student decides to go off to find himself in Nepal instead of working, the loss is entirely on the funding providers, who will presumably price that risk accordingly when offering their terms. This is true "debt-free" college.

ISAs are neither a new nor untried idea. Milton Friedman proposed them more than a half-century ago, and there is a market for them today in Colombia, Mexico, Chile and other Latin American countries. A number of non-profit and for-profit providers are eager to develop a market for ISAs in this country. In a working ISA market, we expect that at least some contributors will not be investors in the traditional sense, but rather loyal alumni and philanthropists who see this as a way to do more with their charitable dollars than a traditional donation.

Our exploration of the idea is consistent with our desire to guarantee that a Purdue education will be within the financial reach of every qualified student. We are willing to put all options on the table as we consider how to do that. Inevitably, some ideas will make a difference and some won't; some will be practical, and some will be farfetched. I'm not ready to make any final statements about ISAs. But there is something very American and progressive about the idea that contrasts with the existing alternatives. Consider that with private and PLUS loans, access to higher education funding regressively depends on family wealth. With an ISA, family credit is irrelevant to one's worthiness to get funding. What matters is the future, and an individual's promise to work hard, and pursue the American dream.

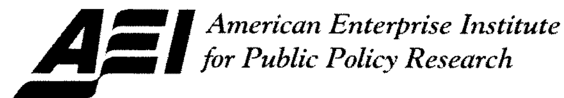
I am grateful to Rep. Young and Rep. Polis for introducing HR 3432, the Student Success Act of 2015, as a bipartisan effort. This legislation will make it possible for us to test whether ISAs can give students a better deal than they now have. The legislation is needed because it will provide important protections for students and offer clarity for the ISA provider. It's also my hope that the final version of the bill will make it clear that ISAs should be dischargeable in bankruptcy, which will be an important distinction from the current offerings.

Without this legislation, we will never see ISAs in use at a large scale; with it, we have a chance to do something real for students. I encourage the Senate to introduce and pass similar legislation to HR 3432, and to do it quickly. Legislative clarity will open doors to develop this option in a way that is not currently feasible.

Conclusion

The United States, to this point the global leader in higher education, has much to be grateful for in this economy that thrives on information and high skill. But our

competitiveness is threatened by out-of-control university costs and an administrative culture that avoids accountability. Increased transparency and honest advice about what students can expect to make and owe in specific programs would help, as would reforms to make sure universities have skin in the game. Finally, an aggressive assessment of the funding models in use today, combined with a series of reforms to open doors for the growth of an income sharing model would position our universities and our economy for continued success.



Statement before the United States Congress Joint Economic Committee
Hearing on Financing Higher Education:
Exploring Current Challenges and Potential Alternatives

Reforming Higher Education Finance to Align the Incentives of Colleges, Students, and Taxpayers

Dr. Andrew P. Kelly
Director, Center on Higher Education Reform
American Enterprise Institute

Wednesday, September 30, 2015

The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute.

Good morning, Chairman Coats, Ranking Member Maloney, and distinguished Members of the Committee, and thank you for giving me the opportunity to share my views on the concept of financing higher education.

My name is Andrew Kelly and I am the director of the Center on Higher Education Reform at the American Enterprise Institute, a non-profit, non-partisan public policy research organization based here in Washington, DC. My comments today are my own and do not necessarily reflect the views of AEI.

I'm here today to discuss important concerns about our current approach to student financial aid and to identify some possible solutions, both reforms to current policy and opportunities to leverage private financing more effectively.

The federal government now hands out more than $150 billion a year in grants, loans, and tax credits—up from $93 billion just ten years earlier.[1] On a per-pupil basis, federal aid disbursements increased from just over $7,450 in 2003-04 to more than $10,900 in 2013-14 (in constant 2013 dollars).[2] Yet net prices—what students pay after grants and scholarships—and out-of-pocket costs are at all-time highs.[3] Though we are spending about twice as much on the Pell Grant program as we did prior to the Great Recession, the purchasing power of the grant is at an all-time low.[4] Meanwhile, new data on loan repayment suggests that many students are borrowing too much for programs that do not pay off in the labor market.[5]

What explains these trends? Many analysts have argued that the problem is not that federal aid has failed to keep up with the price of tuition, but that federal aid itself may be one of the forces driving those increases. Grants, loans, and tax credits bring down the out-of-pocket price for students, thereby enabling them to afford more than they would have in the absence of the aid. But these programs provide colleges with little incentive to contain their costs, and may provide reason to increase them. How much a student can borrow is based on the cost of attendance, which is set by colleges themselves; the higher their prices, the more aid their students are eligible for. While undergraduate loans have annual and lifetime borrowing limits, federal loans to parents and graduate students allow for unlimited borrowing up to the cost of attendance.

Research on the causal effect of federal aid on tuition prices—popularly named the "Bennett Hypothesis" after former Secretary of Education William Bennett—has tended to produce mixed findings across sectors, aid programs, and time periods. A handful of recent, well-designed studies suggest that federal aid does lead at least some types of colleges to change their sticker and net prices. This literature suggests that different aid programs—loans versus grants, for instance—have different effects on tuition prices, and that different types of colleges will vary in their response to changes in federal aid programs.

In this testimony, I will argue that while the Bennett Hypothesis has been a useful lens in explaining why expansions in federal aid have failed to keep out-of-pocket prices low, it examines just one facet of the challenges facing federal policymakers. On the positive

side, it has helped to clarify the incentives colleges face and why simply spending more is unlikely to bend the cost curve. In the extreme, it warns us that federal aid is doing the opposite of what it was designed to do: inflating prices rather than reducing them.

But the focus on price increases pays too little attention to a more pressing problem—the failure of student aid policy to promote educational quality. Put another way, tuition inflation is one important symptom of a broader problem: federal aid provides loans to high school graduates with essentially no questions asked, and allows those loan dollars to flow to any accredited college regardless of whether they provide a valuable education. Easy credit with no underwriting and imperfect information leads to a scenario where—per the Bennett Hypothesis—colleges can raise tuition prices without changing the quality of the education and still attract paying customers. Federal loans also allow students to enroll in low-value programs—those that are overpriced relative to their quality. Even if these institutions do not *raise* their prices in response to changes in federal aid, the availability of loans enables them to charge more for their programs than they would be able to in the absence of that aid.

Note that in both scenarios—Bennett's "greedy colleges" that raise tuition to capture federal aid and the poor programs that are able to overcharge—public money designed to make college more affordable only serves to make it more expensive than it should be. But while solutions to the former—stricter loan limits or an elimination of the loan programs altogether—may reduce tuition prices, they may not help students navigate to the most valuable options.

In the remainder of this document, I discuss the four major design flaws in the student aid system before summarizing the evidence on the so-called Bennett Hypothesis. I then discuss what I see as a crisis of value in American higher education and conclude with a discussion of potential solutions to these problems: stricter loan limits, better data for prospective students, improved federal accountability policies, and private sector financing alternatives.

Four Design Flaws in the Federal Student Aid System

Before discussing the existing evidence on the relationship between federal aid and tuition prices, it is useful to take a step back and examine the way the federal aid system distorts the higher education market. In theory, federal grants, loans, and tax credits should finance a market where consumers "vote with their feet" for the schools that provide a quality education at a reasonable price. In the aggregate, these market forces should give colleges incentive to contain their costs and improve their programs.

Unfortunately, the market does not operate as designers hoped it would for four main reasons.

First, the federal aid system essentially empowers colleges to capture as much federal aid as they can—both by increasing sticker prices of tuition but also through price discrimination. Federal aid programs determine how much aid a student is eligible to

receive by comparing a students' "Expected Family Contribution" (generated by a formula that incorporates family income and family size) to the cost of attendance. Institutions set their own cost of attendance, and as it increases, so does the amount of aid students receive. Researcher Andrew Gillen has described this as "an invitation to raise tuition" and a main driver of the Bennett Hypothesis.[6] Undergraduate loans feature annual and lifetime limits, but loans for parents and graduate students (PLUS Loans) allow for unlimited borrowing up to the cost of attendance.

But a college's ability to capture aid goes further. The government provides colleges with detailed financial information for every prospective student who fills out a Free Application for Federal Student Aid (FAFSA), empowering colleges to price discriminate, or tailor net tuition prices to how much a family is able to pay. Colleges are able to use that information to identify which students will receive federal need-based grants and can then shift institutional resources away from those grant recipients and toward other students. In other words, they can use federal grant aid to supplant, rather than supplement, their own resources. Instead of bringing down net prices, then, federal grants crowd out institutional aid.

Second, a lack of clear, comparable information on costs and quality makes it difficult for consumers to identify the most valuable options, reducing market pressure to keep tuition prices low. Consumers typically lack the information necessary to assess the value of different programs—that is, the cost relative to the quality. Systematic data on student outcomes like learning, job placement, and earnings are still nonexistent or rare, while information on inputs (spending, admissions selectivity, and faculty-student ratios) are readily available and enshrined in popular rankings. The dearth of data on the value of different options hinders consumers' ability to make prudent borrowing decisions, and the ready availability of federal money provides less incentive to invest wisely.

In the aggregate, this lack of transparency blunts the kind of competition that could put downward pressure on tuition prices. Colleges compete for students on the basis of inputs rather than the value of the education they deliver.[7] Competition on inputs actually leads colleges to spend and charge more, behavior that is made possible by access to federal aid. Though the newly released College Scorecard data provides information on the median earnings and repayment rates of alumni at different institutions, these data only cover recipients of federal student aid and are still not systematically available at the program level. Without these data, thousands of students every year borrow to enroll in colleges and programs that cost far more than they are actually worth.

Third, there is almost no underwriting in federal student lending. In a rational market, lenders would likely limit students' ability to borrow for low-value programs; not so with federal loans. Any high school graduate can borrow to attend any accredited college, no matter how prepared for college that graduate is or how poorly that college prepares its students for success. Parent PLUS loans feature a basic credit check, but it is backward-looking and not based on the quality of the program the child wishes to attend. Students get identical loan limits and interest rates whether they enroll in a top college or one that fails to graduate 90 percent of its students. As such, federal loans and grants provide no

signal to students about the quality of different offerings and allow them to enroll in poorly performing schools.

Fourth, this lack of underwriting would be less of a concern if policymakers limited access to federal aid to quality programs and kicked poor-performing schools out of the system. Unfortunately, federal eligibility criteria are far too generous, making it very difficult to lose access to grants and loans. Accreditors rarely revoke colleges' accreditation, and institutions maintain full access to federal aid so long as fewer than 40 percent of their alumni default on their loans within three years of entering repayment (or this Cohort Default Rate (CDR) does not exceed 30 percent for three consecutive years). Even then, colleges have a number of grounds on which to appeal the Department of Education's decision.

The end result: very few colleges are ever kicked out of the federal aid system. Just 11 colleges have been sanctioned in the last decade.[8] Meanwhile, almost 500 colleges had cohort default rates above 25 percent in 2014,[9] and new data on repayment rates shows that more than one-third of borrowers failed to pay down a dollar of principal within three years.[10] Access to federal aid does more than just inflate tuition; it props up colleges that would never have passed a market test.

In short, the problem is not only that we make so much money available in student aid, but that we make so much money available with very few strings attached.

The Bennett Hypothesis: One Symptom of a Distorted Market

Of the possible consequences of these design flaws, the Bennett Hypothesis has received the most scholarly attention. In a 1987 op-ed that launched this debate, then-Secretary of Education William Bennett argued:

> If anything, increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuitions, confident that Federal loan subsidies would help cushion the increase. In 1978, subsidies became available to a greatly expanded number of students. In 1980, college tuitions began rising year after year at a rate that exceeded inflation. Federal student aid policies do not cause college price inflation, but there is little doubt that they help make it possible.[11]

Note that Bennett readily admitted that aid policies do not "cause" tuition inflation. Nevertheless, researchers have spent decades trying to document a causal link between increases in the availability of federal aid—higher loan limits, larger Pell Grants, or changes in student or institutional eligibility—and the sticker price of tuition. In its crudest form, the Bennett Hypothesis implies that for every dollar increase in federal aid, colleges will increase their prices by a dollar. Given the link between aid eligibility and the cost of attendance, the theory has intuitive appeal.

The topic has been hotly debated among scholars, college leaders, and advocates, in part because the results of these studies have generally been mixed. Most studies have found evidence for the Bennett Hypothesis among particular sectors of higher education but not others and for some aid programs but not others.

For instance, some studies have found Bennett effects in public colleges but not at private ones, while others have found the opposite. In one of the earliest studies of the hypothesis, Michael McPherson and Morton Shapiro examined data from 1978 to 1985 and found no evidence among private colleges but found that every $100 dollar increase in federal aid led public colleges to raise their tuition $50.[12] More than ten years later, Michael Rizzo and Ronald Ehrenberg found a similar effect among 91 public flagship universities.[13] However, Bridget Terry Long found no evidence that four-year public or private colleges increased tuition in response to federal tax credits, but that public two-year colleges did.[14] And a 2001 National Center for Education Statistics (NCES) analysis of tuition prices from 1988 to 1998 found no relationship between federal loans or grants and tuition prices across all institutional categories.[15]

Other studies have found evidence for the Bennett Hypothesis among private institutions. Larry Singell and Joe Stone found evidence that Pell Grant expansions caused increases in net tuition at the most selective private non-profit universities but not among public or lower-ranked private institutions.[16] Stephanie Cellini and Claudia Goldin compared prices at private, for-profit colleges that were eligible to receive federal Title IV aid to similar for-profits that were not eligible. They found that tuition prices were 75 percent higher at aid-eligible for-profits—essentially a dollar increase in tuition for every dollar in federal grant aid.[17] A 2015 study from the Federal Reserve Bank of New York took a closer look at the effect of federal loan changes and found lower pass-through rates, with each additional dollar in subsidized loans raising tuition 60-70 cents. The effects of Pell Grants (25 to 50 cents on the dollar) and unsubsidized loans (30 cents) were smaller and less robust to additional control variables. The Bennett effects were most pronounced among expensive, moderately selective private institutions.[18]

A subset of research has examined how grants and tax credits affect the way institutions price discriminate. Two recent analyses have found evidence that colleges shift institutional aid away from beneficiaries of federal grants and tax credits, effectively "capturing" the federal aid. University of Maryland economist Lesley Turner has found that institutions capture about 12 percent of Pell Grant aid via price discrimination, and that the capture rate was much higher at elite private institutions (about two-thirds of Pell Grant aid) than at public ones.[19] Similarly, in a study of tax benefits, Treasury Department economist Nicholas Turner found that federal tax credits crowded out institutional aid roughly dollar-for-dollar.[20] In other words, federal grants and tax credits may simply supplant (rather than supplement) institutional aid, blunting their ability to lower net prices.

Refinements to the Hypothesis

Thus, the existing research on the Bennett Hypothesis is not conclusive (and sometimes contradictory), but most studies find some evidence that at least some types of colleges respond to changes in federal aid by raising tuition prices or shifting institutional aid. The type of college implicated varies across studies, however. And with the exception of the recent New York Fed analysis, few studies have looked specifically at the effect of student loan programs. Finally, these studies are observational, not experimental, making

it difficult (if not impossible) to determine causality.

It is important to note, though, that whether federal student aid *causes* an immediate increase in tuition is different from asking whether such aid *enables* colleges to raise tuition when they need or wish to raise revenue. Indeed, the focus on short-term causal effects likely understates the effect that federal aid has on the incentives for colleges to keep tuition low. Selective colleges pursuing prestige will seek out the resources needed to spend more on the kinds of amenities and student services that can attract top students. Less selective public institutions must find ways to cover their costs in the event that per-pupil funding from the state declines (as it has over the past decade).[21] And open-access for-profit colleges, under pressure to maximize shareholder returns, may have incentive to raise tuition when policymakers increase aid.

In each case, faced with a choice of whether to contain costs or raise tuition prices, most institutional leaders will opt for the latter. The former would be difficult and contentious and may even hurt a school's ranking.[22] The latter allows schools to maintain or increase spending and keep their cost structure intact, and higher tuition prices may actually help colleges attract better students.

Researcher Andrew Gillen has convincingly argued for a refinement of the Bennett Hypothesis that acknowledges these two ideas—that many colleges compete for prestige by spending more, and that this competition is a dynamic process that plays out over time. Selective colleges compete largely on the basis of the inputs to the educational process rather than the value of the education they provide. The availability of federal aid enables colleges to practice what economist Howard Bowen called the "revenue theory of costs:" colleges will spend whatever they need to in pursuit of prestige, leading them to raise all the money they can and spend all the money they raise. And because prestige is positional, colleges will feel compelled to raise and spend more as their peers do. Though only some schools raise tuition immediately in response to increases in aid, their competitors may follow suit in the years following in order to keep up in the "arms race."[23] Over time, this competition raises costs and tuition across the board.

Gillen has also pointed out that it makes little sense to lump very different federal aid programs together under one Bennett Hypothesis, as grants, loans, and tax credits are likely to have different effects on pricing behavior.[24] Specifically, he argues that need-based aid (like Pell Grants) will have less of an effect on tuition prices than programs that provide money to students across the income spectrum (like loans and tax credits). Differences across loan programs are also likely important; PLUS loans for parents and graduate students, which allow for unlimited borrowing up to the cost of attendance, seem especially likely to inflate tuition. However, I am not aware of rigorous research that has examined this question.

More Than Tuition Prices: Federal Student Aid and Higher Education Quality

While research on the Bennett Hypothesis has focused primarily on how the student aid system affects tuition levels, the link between federal aid policy and higher education quality—the other side of the value proposition—has gotten less attention. But increasing

evidence suggests that we not only have an affordability crisis in American higher education, we have a value crisis as well. The wages of recent college graduates have actually declined over the past decade, meaning students are paying more for a lower return.[25] And that is among students who complete a degree; among the 40 percent who fail to finish, the average drop-out now earns about as much as a high school graduate.[26] Drop-outs are also much more likely to default on their loans.[27]

Even at institutions with the lowest tuition prices, like public community colleges, student success rates are low and default rates are high. New data drawn from tax returns and the National Student Loan Data System suggest that more than one-third of student loan borrowers who started at public community colleges in the most recent cohorts defaulted within five years of entering repayment. These same data show that 64 percent of community college borrowers entering repayment in 2012 actually owed more two years later (which suggests their payments are not keeping up with interest).[28]

Across all colleges, the five-year default rate for the 2009 cohort was 28 percent—more than double the three-year rate used in official federal regulations. Fully 57 percent of borrowers entering repayment in 2012 owed more two years later; at for-profit colleges, that was true of 74 percent of borrowers.[29] The Consumer Financial Protection Bureau estimates that the average balance on a defaulted loan is about $14,500.[30] These numbers suggest that students are having trouble repaying even modest debt loads, which in turn raises serious concerns about the quality of the education they received.

New data on graduate earnings, furnished by the College Scorecard, support that conclusion. Department of Education researchers found that "at 53 percent of institutions, more than half of alumni are not even earning more than a typical high school graduate within six years after starting at the school."[31] Not surprisingly, at nearly 350 colleges in the database, more than half of alumni had either defaulted on their loans or failed to pay down a dollar of principal within seven years after enrolling.[32]

In other words, the availability of federal aid not only creates little incentive to keep tuition under control; it also encourages any high school graduate to enroll in any accredited college, no matter how lousy. Low-quality programs, even inexpensive ones, waste taxpayer dollars and fail to raise skill levels or educational attainment. College not only costs too much; many colleges and programs cost far more than they are worth.

Potential Solutions

If policymakers are primarily concerned about reining in the price of tuition—of halting Bennett effects—solutions include limiting or eliminating federal student loan programs and moving away from basing aid eligibility on where institutions set the cost of attendance.

It is important, though, to avoid falling into a trap on this front. Cutting aid, including eliminating the student loan programs entirely, would almost certainly reduce prices in the near term (and eliminate poor-performing colleges). But it would also prevent many

students from accessing opportunities that would benefit them. A dramatic reduction in student aid would therefore have consequences for the economy. Similarly, adhering to a national cost of attendance estimate might leave students unable to access programs that are costlier to provide but that provide a sizable return on investment (that is, STEM degrees, allied health credentials).

A more fruitful approach would be to pursue reforms that encourage colleges to compete on price and value. Four such reforms stand out.

Cap Loan Programs that Allow Unlimited Borrowing and Reform Loan Forgiveness

Undergraduate loans already come with annual and lifetime limits ($31,000 for dependents, $57,500 for independents).[33] Capping or eliminating the Parent and Grad PLUS loan programs that allow unlimited borrowing up to the cost of attendance seems like a straightforward way to eliminate one potential source of tuition inflation. Though these loans have low default rates overall, they allow students to attend any program at literally any price.

Likewise, policymakers should reform income-based repayment and loan forgiveness programs that currently provide little incentive for students to borrow prudently or for institutions to keep tuition low. Thanks to generous public sector loan forgiveness, some graduate student borrowers face no marginal cost on dollars borrowed above a particular threshold, sending a green light to institutions to raise tuition.[34] Allowing students to tie payments to their income is a reasonable protection, but policymakers must ensure that these programs do not create perverse incentives for institutions.

Improve Transparency

One way to encourage schools to compete on value is to empower consumers with better information about costs and student outcomes. As Andrew Gillen has argued regarding the Bennett Hypothesis, "the clearest way to escape . . . is to change the nature of competition:"

> Colleges compete in a zero-sum game based on prestige because they cannot compete based on value, and they cannot compete based on value because measures of both quality and price (net tuition) are obscured. If information on those two were available, the pursuit of excellence would be replaced by the pursuit of value . . .[35]

Experimental evidence suggests that providing prospective students (or their parents) with additional information can shape preferences and choices.[36]

Policymakers have made progress on this front, requiring colleges to create net price calculators that provide students with an estimate of what students like them paid to attend after grants and scholarships. The College Scorecard also breaks out net price estimates by income group. On the outcomes front, the Scorecard contains institution-level data on median earnings, as well as the percentage of alumni earning more than a high school graduate and making progress in repaying their loans. But these data only cover recipients of federal student aid, and outcomes are not available at the program

level. A handful of states have collected and reported program-level earnings data for graduates from their public universities, but states cannot collect data on students who cross state lines and do not have measures of student loan repayment.

There federal government could improve consumer information by combining postsecondary data from institutions and wage or tax records from other agencies. However, there is currently a ban on collecting these kinds of data that was put in place in 2008. To ensure students are equipped to reward valuable providers with their business and avoid those with poor outcomes, policymakers should consider repealing the ban. They could then make new data available to third parties that can build all manner of user-friendly ratings and rankings.

Implement a Performance Floor and Risk-Sharing for Federal Loans

Policymakers should replace the primary federal higher education regulation—the CDR—with two simple accountability mechanisms: a performance floor that would kick the worst-performing institutions out of federal aid programs and a risk-sharing policy that would give institutions skin in the game.

The most basic element of these new rules should be a performance floor under which institutions are no longer eligible to receive Title IV funds. A performance floor should not be built around loan defaults, because students can enroll in forbearance to avoid defaulting even when they are not paying back their loans. A better option would be to use a measure of loan repayment rates. Such a measure would assess the proportion of students who are making progress in paying down their loan balance. This measure would be straightforward and readily understandable by all system participants. It would also hold institutions accountable for students who are taking advantage of existing repayment protections but are not in fact making progress in paying down the principal.

When it comes to setting standards, using a norm-referenced threshold could alleviate concerns about setting an arbitrary cutoff for a relatively new metric. By comparing institutions to national averages, such a policy would also reflect fluctuations in the economy that affect all providers.

To ensure that colleges above the performance floor still have incentive to improve, policymakers should consider a risk-sharing policy, whereby institutions are on the hook financially for loans their students fail to repay. The current CDR rule is all-or-nothing, giving institutions just below the thresholds little reason to improve. Giving all institutions some "skin in the game" by holding them responsible for a percentage of their students' loans that go unpaid would change that. Institutions would have incentive to contain their tuition costs, maximize rates of student success, and reconsider their admissions standards.

There is an emerging bipartisan push to create such a risk-sharing system, but questions remain. To ensure that institutions still have incentive to enroll low-income students, reformers could pay a financial bonus for Pell Grant recipients that graduate. In addition,

a risk-sharing policy must take pains to distinguish borrowing for tuition from borrowing for living expenses. Currently, colleges cannot limit the amount of federal money that students are able to borrow, and some complain that they are held accountable for borrowing over which they have little control. Policymakers should monitor a current experimental sites project that allows a subset of institutions to limit borrowing.

Create Space for Private Financing

One way to inject more market discipline into higher education finance is to rely on private financing options. Unlike the federal government, private lenders and investors would, in theory, have incentive to underwrite loans on the basis of the expected value of particular postsecondary options. Under such a system, students would be unable to secure financing for programs with no return on investment, and loan terms would reflect the value of different options, thereby sending a signal to students about where to invest.

Unfortunately, the existing private student loan industry does not appear to be "forward-looking" in this way. Evidence suggests that the overwhelming majority of private student loans require a credit-worthy co-signer; as of 2014-15, nearly 94 percent of private student loans were co-signed.[37] In the aftermath of the recession, lenders have "[tightened] credit standards and [reduced] lending to nonprime borrowers."[38] Rather than enabling students to borrow on the basis of their future earnings, therefore, existing private lenders appear to be underwriting based on traditional measures of risk, such as a parent's FICO score. This is understandable, but it suggests that relying only on existing private loan products could leave many low-income students without the ability to finance programs with a positive return.

Income Share Agreements (ISAs) are an alternative source of private financing that has received considerable attention in recent years. Under an ISA, private investors provide the tuition money up-front in return for a fixed percentage of a student's income over a set period of time. An ISA is not a loan, as there is no principal balance; students pay back according to their income, meaning those who are less successful after school will likely pay less than they received in financing. On the other hand, students who are more successful will repay the initial amount and potentially much more, though always with affordable payments.

Because the investors' return depends on how successful the student is after school, the investors have a strong incentive to help students find institutions that provide a return on investment and to provide them with support during and after their studies. Some ISA funders also tailor the terms of the contract depending on the expected economic value of an institution or program, sending students a clear signal about the value of different options.

Note that ISAs would drive students toward the most valuable options, not necessarily the least expensive. This would be a significant improvement from the existing system. Providers who charge far more than their program is worth would have a hard time attracting ISA funds, while those that provide a quality education at a reasonable price

would win market share. Like transparency reforms, forward-looking private financing could improve market discipline.

While there is currently a small market of ISA providers, legal and regulatory uncertainty has stunted their ability to expand. Questions about the enforceability of ISA contracts and the regulatory agency that will oversee these instruments remain open. Likewise, effectively underwriting ISAs requires access to program-level data on the earnings of graduates, information that is currently available in only a handful of states.

It is also important that federal policymakers put adequate consumer protections and standards in place regarding ISAs. A colleague of mine, along with a coauthor from New America, recently published a paper outlining a consumer protection framework for ISAs, one that adapts traditional consumer protection tools used in a lending context to the structure of ISAs. These protections have been incorporated into a legislative proposal from Representatives Young and Petri.[39]

ISAs are not a substitute for all federal student aid, but could serve as a useful complement. Students who receive federal aid but have unmet need above current loan limits could use ISAs instead of Parent PLUS loans or private student loans, which offer few protections should problems arise after graduation. And because ISA investors would seek to nudge students toward options where they are likely to be successful, this private capital would help steer existing federal investments to more productive ends.

I appreciate the opportunity to provide testimony. I am enthusiastic about the Committee's focus on this topic and believe that these reforms can help to align the incentives of institutions, students, and taxpayers.

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Consumer Protection & Higher Education Financing Alternatives

Testimony before the Joint Economic Committee of the United States Congress
Hearing on Financing Higher Education: Exploring Current Challenges and Potential Alternatives

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September 30, 2015

Chairman Coats, Ranking Member Maloney, and members of the committee, thank you for holding this hearing today.

I am currently a Senior Fellow at the Center for American Progress. I recently departed as Assistant Director of the Consumer Financial Protection Bureau, CFPB,[1] where I led the agency's work on student financial services. I also served as the CFPB's first student loan ombudsman, a new position established by Congress. My comments today are my own and do not represent the views of any other individual or organization.

The financial crisis has contributed to a major rise in student debt in America. In my testimony today, I will discuss the opportunities and challenges with private capital participation, including the emergence of new products, such as those that obligate future income. While investigating alternative models of financing higher education through private capital sources is worthwhile, this must be informed by a careful examination of past problems in the marketplace. The emergence of new products is a reminder of the need to modernize our student loan consumer protection framework and ensure fair competition.

Swelling student debt

This month marks the seventh anniversary of the collapse of Lehman Brothers and the acceleration of the global financial crisis.[2] Families across the country saw their home values plummet, their retirement savings crater, and their jobs vanish.

While rising tuition is often blamed by the growth in average student debt held by graduates, the financial crisis is also a major culprit. With states slashing support for higher education and the crisis destroying trillions of dollars in household wealth, more and more families turned to student debt to access college. And in these seven years, student debt has doubled to a total of $1.3 trillion owed by more than 40 million Americans.

Of course, this does not include many other forms of debt triggered by the expenses of going to college. For example, many students and their families might take out a home equity loan, seek a

loan from their retirement fund, or borrow from family and friends. Others drain their savings, which leads some to stay afloat by using credit cards.

As long as college remains expensive, private credit products will probably always be a part of the puzzle. In theory, private capital participation could provide the marketplace with valuable price signals and lead to better service. However, this has generally not been the case in the student loan market in recent history.

Prior to 2010, private financial institutions originated most student loans under the Federal Family Education Loan Program. Through this program, banks and specialty lenders such as Sallie Mae offered loans to students subject to a maximum interest rate. These loans were ultimately guaranteed by the federal government. Theoretically, lenders could compete against each other by competing on lower interest rates.

Unfortunately, lenders did not vigorously compete on price and instead sought to gain market share by pushing schools to place them on the institution's preferred lender list. Rather than aggressively bargaining on behalf of students, many schools and school officials were conflicted.

According to an industrywide investigation by New York Attorney General Andrew Cuomo in the mid-2000s, lenders provided compensation, gifts, and perks to schools and school officials, given the financial aid office's ability to drive loan volume to particular lenders. The attorney general found cases in which student loan industry executives paid heavy consulting fees and transferred stock to school officials.[3]

By the end of 2007, the eight largest lenders in the market—Citibank, Sallie Mae, Nelnet, JPMorgan Chase, Bank of America, Wells Fargo, Wachovia, and College Loan Corporation—had all agreed to a new code of conduct. Many paid millions to settle charges of wrongdoing in connection with these practices.[4] In 2008, Congress belatedly restricted many of these aggressive practices in the Higher Education Opportunity Act.

Recent challenges in the private student loan market

The Financial Crisis Inquiry Commission carefully documented the delayed regulatory response to problems in the subprime mortgage market. Despite years of warnings, the Federal Reserve Board of Governors failed to use its authority under the Home Ownership and Equity Protection Act to rein in harmful lending practices. As the Commission's report noted, in July 2008, "long after the risky nontraditional mortgage market had disappeared and the Wall Street mortgage securitization machine had ground to a halt, the Federal Reserve finally adopted new rules..."[5] The lax oversight of the mortgage market proved to be catastrophic for the broader economy.

Less well-known is the lack of response by the Federal Reserve Board and other regulators to effectively police the private student loan market. In 2004, just under $8 billion in private student loan asset-backed securities were issued. Two years later, over $16 billion was issued.[6] Like the mortgage market, the demand for these securities fueled a subprime boom. More loans were being marketed directly to consumers, and increasing number of borrowers did not utilize

cheaper federal loan options first. Only after the market dried up did the Fed begin to address problems through rulemaking.

Since the crisis, regulators have shown a greater commitment to enforcing existing laws. Recently, private student loan providers have also faced consequences to address serious misconduct that harmed student loan borrowers.

Sallie Mae/Navient: Illegal conduct targeting military service members

Last year, the U.S. Department of Justice ordered Sallie Mae and Navient to pay $60 million for violations of the Servicemembers Civil Relief Act, or SCRA, after referrals of complaints from the CFPB.[7] The Department of Justice described the companies' conduct as "intentional, willful, and taken in disregard for the rights of service members."[8] The defendants wrongfully conditioned benefits under the SCRA upon requirements not found in the law, improperly advised service members that they must be deployed to receive benefits under the SCRA, and failed to provide complete SCRA relief to service members after having been put on notice of these borrowers' active duty status.

The illegal conduct of Sallie Mae and Navient harmed nearly 78,000 service members. Approximately 74 percent of these refunds are attributable to private student loans. Refunds ranged from $10 to more than $100,000.[9] Given the seriousness of the violations, the defendants agreed to proactively query a U.S. Department of Defense database and automatically provide SCRA benefits.

Sallie Mae/Navient: Billing disclosure misrepresentation, illegal late fee harvesting, discriminatory lending, and electronic funds transfer violations

In 2014, the Federal Deposit Insurance Corporation ordered Navient to pay restitution and penalties of an additional $37 million for allocating borrowers' payments across multiple private student loans in a manner that maximized late fees and deceived borrowers about how they could avoid late fees.[10]

The consent order also noted violations of the Equal Credit Opportunity Act—which protects borrowers from being discriminated against due to their race, gender, religion, and other factors—as well as violations of the Electronic Fund Transfer Act, which protects borrowers in the case of erroneous transfer errors.[11]

Discover Financial Services: Illegal student loan-servicing practices, inflated billing statements, and illegal debt collection practices

Two months ago, the CFPB ordered Discover to pay $18.5 million in fines and penalties to approximately 100,000 victims.[12] Discover purchased nearly all of Citibank's private student loan business and retained many of its operating procedures. The CFPB investigation found that Discover was inflating billing statements,[13] illegally called borrowers early in the morning and late at night, and engaged in other illegal debt collection conduct.

Other alleged misconduct in the private student loan market

In 2014, the CFPB sued ITT Educational Services for unfair and abusive conduct, including pressuring students into taking out high-cost loans.[14] The CFPB also sued Corinthian Colleges for predatory private student lending and strong-arm debt collection tactics in violation of the law.[15] State attorneys general have also alleged misconduct related to lending abuses.[16]

According to a report analyzing court filings, researchers have raised serious concerns about potential "robo-signing" in private student loan collection cases.[17] In the years leading up to the financial crisis, banks such as JPMorgan Chase, Bank of America, and Citizens Bank[18] originated private student loans that were subsequently pooled and securitized. In an analysis of court filings related to the National Collegiate Student Loan Trusts, the report describes that pleadings lacked clear evidence that the plaintiff actually owned the loan in question. These alleged practices bear a close resemblance to the serious breakdowns in the mortgage-servicing market that led to illegal foreclosures.

Developments in private capital participation

In recent years, entrepreneurs have identified a number of unmet needs in the marketplace. Notably, the number of offers to refinance high-rate student loans has grown very rapidly. They are typically offered to borrowers who have obtained employment, so lenders can use current income to underwrite loans. According to the CFPB's Consumer Complaint Database, these providers have received relatively few complaints from borrowers. This product market is still quite small and generally serves graduates of four-year institutions who earn above-average incomes.

Other market participants have offered products that obligate a portion of future income rather than a typical fixed amortization schedule. These products are sometimes referred to as income-share agreements.[19] In some respects, income-share agreements might cure one of the major pitfalls of private student loans: the lack of an affordable repayment option during a sustained period of hardship. However, similar to other private loans, these products may be very difficult to evaluate and compare since future income is often highly uncertain.

Many of these new market entrants have been keenly aware of the need to offer these products in a fair and transparent fashion. After all, if any abuses are uncovered during the infant stages of the market's development, future consumer demand may be severely curtailed.

While most new market entrants have good intentions, common-sense rules of the road are a critical element to guard against bad actors and protect honest, ethical market participants. Industry, consumers, and policymakers share a goal in making sure the market is sufficiently competitive and free of distortionary conflicts of interest.

Consumer protection and competition

While income-share agreements will likely do little to nothing to address the existing student debt stress affecting our country, they remind us that it is critical to remedy the serious deficiencies in the private student loan market today and to modernize the consumer protection framework so that new market entrants can successfully challenge current incumbents. Congress should modernize the consumer protection framework with the following principles in mind.

1. Terms and conditions should be clear and transparent, not buried in the fine print

In 2008, after years of troubling practices in the private student loan industry, Congress enacted legislation requiring new disclosures. The Federal Reserve Board of Governors implemented these new disclosures in 2010. Unfortunately, these disclosures seemed designed primarily to fit the business model of existing players, mostly large financial institutions, rather than spurring competition that benefits consumers.

Income-share agreements provide a particular challenge, since using the existing disclosures would be awkward. For example, any imputed Annual Percentage Rate would need to be based on a future estimated income. There would be additional complexity if the share of income devoted to repayment of the obligation varied by level of income (e.g. 3% of the first $25,000 of income, 5% of income between $25,001 and $150,000, and 10% of income above $150,000).

Providers of income-share agreements should work together with regulators on how to use these existing disclosures, perhaps with supplementary information to ensure greater clarity.[20] Over time, the CFPB[21] should develop an improved e-disclosure regime that will give consumers the ability to compare traditional amortizing products to non-traditional products. This should include the ability to compare repayment options made available to borrowers with federal student loans, as well as how borrowers can prepay obligations.

Schools can also play a productive role to ensure responsible lending. For examples, school certification of private loans—whereby schools certify that students have unmet need—can meaningfully reduce risk. At the same time, policymakers must also guard against school conflicts of interest. If schools are able to financially gain from relationships with market participants, such arrangements should be fully disclosed and comply with existing law.

2. When servicing and collecting on obligations, consumers should be treated fairly

Regulators have uncovered patterns of improper practices in the servicing and collections process. As noted above, providers have allocated payments in ways that maximize fees and distorted billing statements. Securitization and other investor participation arrangements can also have unintended consequences stemming from skewed incentives.

Unlike mortgages and credit cards, there is no specific set of minimum standards for student loan borrowers when it comes to servicing, potentially leading to a race to the bottom and severely disadvantaging honest market participants.

Since the industry has failed to develop a robust code of conduct, policymakers will likely find that they need to put into place new borrower protections to prevent further abuse. New market entrants should also adhere to the principles enshrined in the Fair Debt Collection Practices Act.

3. Military service members and veterans should not be penalized for their service

The improper foreclosures of military families by JPMorgan Chase, Wells Fargo, Bank of America, and Citibank,[22] along with the Sallie Mae/Navient scheme to overcharge service members with student loans, should serve as a stark reminder that policymakers must beef up oversight and protections for these borrowers.

The Servicemembers Civil Relief Act should also be amended to allow service members to retain their preservice obligation rate cap even if they refinance into a different student loan product. Policymakers should also consider criminal penalties for certain egregious violations.

Providers of income-share agreements would be wise to steer clear of any poor treatment of service members and veterans by developing a clear set of processes to ensure these consumers are not unfairly penalized.

4. Regulators and the public must have confidence that the market is free of discrimination

Higher education is intended to help aspirational individuals make the most of their potential, rather than limiting them based on factors beyond their control. Pursuant to the Home Mortgage Disclosure Act, mortgage originators meeting minimum thresholds must report certain attributes of loan applications to a public database, including the race and gender of the applicant and the reason for denial. Policymakers should consider similar requirements for providers of private financing for education. Availability of this data would also create needed transparency for the market.

Providers of private student loans and income-share agreements should work cooperatively with one another and with regulators on a standardized data architecture to minimize costs associated with reporting this data, while also protecting privacy.

5. Private credit products to finance higher education should help consumers build credit history

Student loan products are among the first credit obligations for consumers today. Ensuring that providers are furnishing accurately is critical. Under the Higher Education Act, federal student loan credit information must generally be furnished to consumer reporting agencies in accordance with the Fair Credit Reporting Act, but there is no similar requirement for other products to finance a postsecondary education.

Congress should consider enacting a similar requirement with a phase-in period for the industry to modernize data standards to ensure furnishing accurately reflects the loan status.[23]

6. Products must provide for a clear path for consumers to manage through periods of distress

For students graduating in the midst of the financial crisis, they found that their degree was worth much less than they had anticipated, leading many into delinquency and default.

Prior to 2005, bankruptcy was one option to manage through this challenge. Currently, restructuring private student loan debt is almost impossible compared with other forms of credit. According to a study conducted by the CFPB and the U.S. Department of Education, the 2005 changes to the bankruptcy code did not lead to lower prices for consumers or meaningfully expand access.[24] Multiple studies have concluded that there does not appear to be any systemic abuse by the bankruptcy code by student debtors. Borrowers with private student loans are effectively trapped with few loan modification options—a stark contrast to federal student loans.

If Congress repeals the favorable treatment to lenders that do not offer flexible repayment options, this would provide a strong incentive for lenders to work constructively with borrowers to avoid default. When products include safety nets in times of distress, they might better serve borrowers without sacrificing investor returns.

Finally, industry and policymakers should take steps to promote competition and avoid actions that simply give incumbents more market power. Open data standards and application program interfaces, or APIs, can help spur technology-enabled comparison shopping, similar to markets for everything from plane tickets to diapers.

Conclusion

While today's hearing is examining potential alternatives to existing loan products, we must not delude ourselves into thinking that new loan products are a silver bullet. One of the best alternatives to existing policy is to reverse the trend of disinvestment in public higher education. If Americans must commit more and more of their future income to achieve their dream of going to college, then we will continue to undermine the role of higher education as a means to climb the economic ladder.

Perhaps more importantly, we must address the existing debt burdens of Americans, which undoubtedly ballooned as an aftershock of the financial crisis. Helping borrowers manage their payments and avoid default by cleaning up student loan servicing and spurring opportunities to refinance should be high on the list.

In addition, as Congress seeks to reauthorize the Higher Education Act, broader reforms are also needed to increase accountability for schools and financial institutions, such as efforts to give all

participants "skin in the game." There must also be serious efforts to improve access to performance and outcome data.

Just as policymakers are rethinking the role of private capital in the aftermath of the conservatorship of Fannie Mae and Freddie Mac, we must also determine whether and how private capital participation can benefit students. Providing greater regulatory clarity for new products in this market and beefing up the consumer protection framework will yield benefits for both consumers and honest market participants.

Endnotes

[1] The Consumer Financial Protection Bureau was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The CFPB oversees large depository institutions and nonbanks for compliance with federal consumer financial laws, including student loan market participants.

[2] September 2008 also marked a number of other noteworthy events, including the placement of Fannie Mae and Freddie Mac into conservatorship, the largest bank failure in U.S. history (Washington Mutual), the bailout of AIG, and the so-called deathbed conversions of Goldman Sachs and Morgan Stanley into bank holding companies.

[3] See, for example, Office of the Attorney General of New York, "Cooperation Agreement and Assurance of Discontinuance in the Matter of Student Loan Xpress Inc. and CIT Group Inc." (2007), available at http://www.ag.ny.gov/sites/default/files/press-releases/archived/CIT%20Cooperation%20and%20AoD.pdf.

[4] New York State Office of the Attorney General, "Cuomo Announces Settlement With Student Loan Company," Press release, December 11, 2007, available at http://www.ag.ny.gov/press-release/cuomo-announces-settlement-student-loan-company.

[5] Financial Crisis Inquiry Commission: *Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States* (2011), available at http://fcic.law.stanford.edu/report.

[6] Consumer Financial Protection Bureau and U.S. Department of Education, *Private Student Loans* (2012), available at http://www.consumerfinance.gov/reports/private-student-loans-report/.

[7] U.S. Department of Justice, "Justice Department Reaches $60 Million Settlement with Sallie Mae to Resolve Allegations of Charging Military Servicemembers Excessive Rates on Student Loans," Press release, May 13, 2014, available at http://www.justice.gov/opa/pr/justice-department-reaches-60-million-settlement-sallie-mae-resolve-allegations-charging.

[8] The full text of the complaint is available at http://www.justice.gov/sites/default/files/crt/legacy/2014/05/14/salliecomp.pdf.

[9] U.S. Department of Justice, "Nearly 78,000 Service Members to Begin Receiving $60 Million Under Department of Justice Settlement with Navient for Overcharging on Student Loans," May 28, 2015, available at http://www.justice.gov/opa/pr/nearly-78000-service-members-begin-receiving-60-million-under-department-justice-settlement.

[10] Federal Deposit Insurance Corporation, "FDIC Announces Settlement with Sallie Mae for Unfair and Deceptive Practices and Violations of the Servicemembers Civil Relief Act," May 13, 2014, available at https://www.fdic.gov/news/news/press/2014/pr14033.html.

[11] The full text of the consent order with Sallie Mae Bank (2014) is available at https://www5.fdic.gov/EDOBlob/Mediator.aspx?UniqueID=5007e0b4-911a-435c-9a0a-9d984ec5f53f. The full text of the consent order with Navient (2014) is available at https://www5.fdic.gov/EDOBlob/Mediator.aspx?UniqueID=668ab68c-7c2d-48e5-b880-1e329828a004.

[12] Consumer Financial Protection Bureau, "CFPB Orders Discover Bank to Pay $18.5 Million for Illegal Student Loan Servicing Practices," Press release, July 22, 2015, available at http://www.consumerfinance.gov/newsroom/cfpb-orders-discover-bank-to-pay-18-5-million-for-illegal-student-loan-servicing-practices/.

[13] When loans serve as collateral for asset-backed securities, private market participants may have sometimes have an economic incentive to manipulate billing statements and other borrower communications to ensure that adequate cash flows are available for coupon payments to bondholders while still maximizing interest accrual.

[14] Consumer Financial Protection Bureau, "CFPB Sues For-Profit College Chain ITT for Predatory Lending," Press release, February 26, 2014, available at http://www.consumerfinance.gov/newsroom/cfpb-sues-for-profit-college-chain-itt-for-predatory-lending/.

[15] Consumer Financial Protection Bureau, "CFPB Sues For-Profit Corinthian Colleges for Predatory Lending Scheme," Press release, September 16, 2014, available at http://www.consumerfinance.gov/newsroom/cfpb-sues-for-profit-corinthian-colleges-for-predatory-lending-scheme/.

[16] Under the "90-10 rule," for-profit colleges must receive at least 10 percent of their revenue from sources outside of federal student loans and grants under Title IV of the Higher Education Act. This may be creating an incentive for colleges to aggressively recruit beneficiaries of the GI Bill and to develop exotic private student loan programs.

[17] Robyn C. Smith and Emily Green Caplan, "Going to School on Robo-signing: How to Help Borrowers and Stop the Abuses in Private Student Loan Collection Cases" (Boston: National Consumer Law Center, 2014), available at http://www.studentloanborrowerassistance.org/wp-content/uploads/2013/05/robo-signing-2014.pdf.

[18] In some cases, the originator of record may have been a predecessor financial institution acquired by these institutions. The prospectus for each securities offering provides further details.

[19] There is no official term to describe these products, which are also sometimes referred to as human capital contracts.

[20] Admittedly, this will be a difficult task, and the existing safe harbor model forms developed by the Federal Reserve Board of Governors may prove to be unusable.

[21] The authority to prescribe disclosures under the Truth in Lending Act transferred from the Federal Reserve Board of Governors to the Consumer Financial Protection Bureau in 2011.

[22] U.S. Department of Justice, "Service Members to Receive Over $123 Million for Unlawful Foreclosures Under the Servicemembers Civil Relief Act," Press release, February 9, 2015,

available at http://www.justice.gov/opa/pr/service-members-receive-over-123-million-unlawful-foreclosures-under-servicemembers-civil.

[23] The current framework for furnishing credit information is outdated. However, there is no market incentive for industry to modernize it. Should Congress require furnishing by a specific future date, this might serve to jump-start action and reverse the existing complacency.

[24] Consumer Financial Protection Bureau and U.S. Department of Education, *Private Student Loans* (2012), available at http://www.consumerfinance.gov/reports/private-student-loans-report/.

QUESTIONS FOR THE RECORD FOR MR. ROHIT CHOPRA SUBMITTED BY HON. CAROLYN B. MALONEY, RANKING MEMBER, AND MR. CHOPRA'S RESPONSES

1. Last year, several private student loan lenders were ordered to pay tens of millions of dollars for violating the Servicemembers Civil Relief Act. This year, another private lender was fined for harming student loan borrowers.

Going forward, what can we do to deter private lenders from exploiting student borrowers? What incentives or disincentives would be effective?

Recent enforcement actions taken against major players in the student loan industry are not only bad for borrowers, they are bad for the honest actors looking to serve their customers fairly. I am particularly concerned that community banks, credit unions, and non-profit lenders are disadvantaged by the culture of corner-cutting among the industry giants.

One of the most important ways to remedy the marketplace is to apply some of the reforms made by Congress to the credit card and mortgage markets to the student loan market. For example, explicit servicing standards to ensure borrower payments are processed properly and servicing transfers run smoothly will be critical.

We must also explore the role that schools play. After the student loan kickback scandal was uncovered, Congress restricted the ability of schools to accept gifts and share revenue from private student lenders. Congress should consider requiring schools with a preferred lender list to warn prospective borrowers about legal violations by student lenders. This would provide a strong deterrent for market players to engage in illegal conduct.

2. In the upcoming reauthorization of the Higher Education Act, what should Congress do to enhance consumer protections for borrowers of private student loans?

Congress should enact reforms to address the following areas:

(1) Borrowers in distress: Requiring servicers to assess a borrower in distress for a loan modification; adjusting the treatment of private student loans in bankruptcy proceedings

(2) Servicing standards: Enacting consistent, privately enforceable servicing practices to ensure adequate customer service

(3) Credit reporting reform: Requiring lenders and servicers to accurately furnish certain types of information to consumer reporting agencies

(4) Data and reporting: Establishing public reporting of key origination and performance data to protect against discriminatory practices, similar to the Home Mortgage Disclosure Act; implementing certain data standards to create marketplaces and promote more vigorous competition

(5) Harmful contract clauses: Eliminating "gotchas" in fine print, such as auto-defaults (where a borrower in good standing is put in default when a co-signer dies), universal default, and other clauses

(6) Servicemembers and veterans: Streamlining the Servicemembers Civil Relief Act to ensure protections are not lost when refinancing

(7) Disclosures: Implementing disclosures that allow borrowers to understand and compare all types of student loans.

QUESTION FOR THE RECORD FOR MR. CHOPRA SUBMITTED BY SENATOR AMY KLOBUCHAR AND MR. CHOPRA'S RESPONSE

Mr. Chopra, in your testimony, you touched on the securitization of student loans—that is, when banks or other investors buy up student loans, bundle them up into a security and then sell them to other investors. I am concerned that a disruption in this market could affect the ability of our young people to go to college and get the training and education they need to compete in the workforce.

- **Can you describe how the securitization of student loans works? What happens if someone defaults on their loan?**
- **What protections are there for students who have loans that are bundled?**
- **What lessons have we learned from the market crisis that we could apply to this market?**

Most outstanding student loan asset-backed securities are collateralized by government-guaranteed student loans under the Federal Family Education Loan (FFEL) program. Fortunately, recent disruptions in this market are not threatening

the ability of students to access new loans, since the Congress discontinued originations under this program.

In a securitization, an issuer typically originates or purchases loans which serve as collateral for bonds issued by a trust. Borrower payments are sent to a servicer hired by the trustee and ultimately flow to bondholders. When a borrower defaults, the servicer will file a claim if the loan is guaranteed. In the case of ABS collateralized by private student loans, a borrower will typically be pursued by a debt collector or attorney after a default.

There are no explicit protections for borrowers whose loans have been securitized. As we saw in the mortgage market, securitization can lead to distortions that harm borrowers. For example, servicers and trustees may not retain adequate documentation to prove to a borrower that they have the requisite legal claim to collect on the loan. In addition, a servicer may seek to maximize profits by not adequately informing borrowers about loan modification options—instead steering them to quick-fix solutions, such as forbearance.

Policymakers must take steps to ensure that borrowers are protected against poor servicer practices, especially where incentives may be distorted by securitization. We must also rethink the 2005 changes to the treatment of private student loans in bankruptcy, which may be inhibiting constructive workouts between borrowers and loan holders. We should also enhance the quality of data by asking regulators to collect and publish origination and performance information.

QUESTIONS FOR THE RECORD FOR PRESIDENT DANIELS SUBMITTED BY REP. ALMA S. ADAMS, PH.D., AND PRESIDENT DANIELS' RESPONSES

1. Being a graduate of a Historically Black College and University (HBCUs), I can personally say that without the opportunity offered to me by North Carolina A&T State University I would not be sitting before you today, so it's absolutely important that we ensure these institutions not only survive, but thrive.

This is why my colleague, Bradley Byrne and I launched the Bipartisan HBCU Caucus earlier this week.

One of the issues we're exploring is the impact of the rising cost of college tuition on often already cash strapped HBCUs.

To the panel, can you all discuss some policies that may be implemented with regard to alternative forms of financing particularly available for HBCUs?

The primary means to make college more affordable should be to rein in spending and to encourage universities to operate more efficiently. Congress should be careful to avoid policies that make it easier for administrators to raise tuition prices.

After that, we owe it to the current and future students of historically black colleges and universities to create alternatives to the PLUS and private loans that leave so many students in high debt. Income-share agreements, under which a student contracts to pay funders a fixed percentage of his or her earnings for an agreed number of years after graduation, offer a constructive alternative, both as an option for new originations and for refinancing existing debt.

I am grateful to Rep. Young and Rep. Polis for introducing HR 3432, the Student Success Act of 2015, as a bipartisan effort. This legislation will make it possible for universities, including HBCUs to test whether ISAs can give students a better deal than they now have. The legislation is needed because it will provide important protections for students and offer clarity for the ISA provider. It's also my hope that the final version of the bill will make it clear that ISAs should be dischargeable in bankruptcy, which will be an important distinction from the current offerings.

Without this legislation, we will never see ISAs in use at a large scale; with it, we have a chance to do something real for students. I encourage the Senate to introduce and pass similar legislation to HR 3432, and to do it quickly. Legislative clarity will open doors for universities to explore this in a way that is not currently feasible.

Follow-Up

What financing alternatives should be discussed with regards to HBCUs when specifically considering student factors such as being low-income and first generation?

There is something very American and progressive about ISAs that contrasts with the existing alternatives. Consider that with private and PLUS loans, access to higher education funding regressively depends on family wealth. With an ISA, fam-

ily credit is irrelevant to one's worthiness to get funding. What matters is the future, and an individual's promise to work hard, and pursue the American dream.

Research shows that low-income high school graduates are among the most risk adverse student borrowers, causing some to pass up higher education all together. ISAs address this need by shifting the risk burden off of the student and on to the provider. If the graduate earns less than expected, it is the funders who are disappointed. Education payments will never be more than the agreed portion of their incomes, no matter what life brings, including unemployment, underemployment and health issues. This is true "debt-free" college.

Purdue University, like HBCUs, is committed to preventing discrimination of any kind. ISAs should be available to students of all backgrounds. Unlike other financing tools that often depend on a student's family circumstances, such as Parent PLUS and private student loans, ISAs are built around the investment students are making in their future—not where they came from in the past.

QUESTION FOR THE RECORD FOR DR. ANDREW KELLY SUBMITTED BY REP. ALMA S. ADAMS, PH.D., AND DR. KELLY'S RESPONSES

1. Being a graduate of a Historically Black College and University (HBCUs), I can personally say that without the opportunity offered to me by North Carolina A&T State University I would not be sitting before you today, so it's absolutely important that we ensure these institutions not only survive, but thrive.

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To the panel, can you all discuss some policies that may be implemented with regard to alternative forms of financing particularly available for HBCUs?

It is important to note that income-share providers need not be proft-making entities, but may well be non-profit funds that are interested in increasing college access among particular demographic groups or at particular institutions. HBCUs seem like a potential target for such a non-profit model, where philanthropists could provide the seed money to get a fund started, and that fund would then be sustained by income-linked payments from alumni. Think about it as a revolving fund or "pay it forward" arrangement for a particular institution.

Follow-Up

What financing alternatives should be discussed with regards to HBCUs when specifically considering student factors such as being low-income and first generation?

In the non-profit revolving fund example laid out above, private funders could also work with HBCUs to improve student services and linkages to the labor market in ways that maximize student success.

QUESTIONS FOR THE RECORD FOR MR. CHOPRA SUBMITTED BY REP. ALMA S. ADAMS, PH.D., AND MR. CHOPRA'S RESPONSES

1. I would like to ask you about Parent PLUS Loans.

As you know this program underwent some changes in 2011 that resulted in students who were previously eligible for these loans being denied.

This greatly affected many students' ability to pay tuition, and had a dramatic effect on HBCUs.

When the problem first surfaced in 2012, 400,000 students nationwide, including 28,000 HBCU students were negatively affected by the change in PLUS Loan standards.

Mr. Chopra, do you believe the recent changes to the Parent PLUS loan eligibility requirements are enough to fix the problem created by the 2011 changes?

If not, what changes do you believe need to be made to address these problems?

No, I do not believe the changes to the Parent PLUS program will ultimately repair the underlying problems faced by many borrowers attending Historically Black Colleges and Universities (HBCUs) and other institutions that disproportionately serve low-income and first-generation college attendees.

While many institutions benefit from sizable endowments built on donations from wealthy alumni over many generations (sometimes over centuries), most HBCUs and other Minority-Serving Institutions (MSIs) do not have these resources.

While examining loan programs is important, we must also take steps to ensure that HBCUs and MSIs have adequate resources to ensure graduates and their families do not incur excessive debt. The upcoming reauthorization of the Higher Education Act should include an examination of a modernized funding model to recognize the unique contributions of these institutions.

2. Being a graduate of a Historically Black College and University (HBCUs), I can personally say that without the opportunity offered to me by North Carolina A&T State University I would not be sitting before you today, so it's absolutely important that we ensure these institutions not only survive, but thrive.

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To the panel, can you all discuss some policies that may be implemented with regard to alternative forms of financing particularly available for HBCUs?

Follow-Up

What financing alternatives should be discussed with regards to HBCUs when specifically considering student factors such as being low-income and first generation?

As noted in my written testimony, the market for private financing products should be free of discrimination. For regulators to ensure that creditors are not violating the Equal Credit Opportunity Act, Congress and the industry should consider requiring a data reporting framework similar to the Home Mortgage Disclosure Act. This will help to ensure that creditors are not unfairly denying or charging higher prices to students and HBCUs and MSIs.