POLICY FOCUS

Solutions to the College Debt Crisis

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

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WHAT YOU NEED TO KNOW

More than 40 million Americans carry student loan debt. Often, parents are still paying off their own loans while worrying about saving for college for their children. America's student loan debt has become a crisis, totaling more than $1.3 trillion.

The college debt problem – largely created by too much government intervention – needs market-driven solutions. Policymakers should address two distinct, but related issues: the high cost of college (for future students) and debt repayment (for former students).

To bring down the cost of college, policymakers should give students more options for higher education through accreditation reforms and expanded access to online and competency-based learning programs. This would force traditional colleges to compete on price. Schools should also be held accountable for value: If colleges have high levels of defaulting borrowers, those schools should shoulder some of the financial burden. This will help schools focus more on helping students gain marketable skills and to find gainful employment after graduation. Lenders should also be able to compete to offer borrowers the best interest rates for each loan.

For those who already face debt, economic reforms can foster a stronger jobs market and healthier wage growth to make it easier for people to afford to pay back their loans. Finally, policymakers can consider some reforms to the tax code to encourage student debt repayment.

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This policy focus is Part Two in a two-part series. To learn more about this debt crisis and why government solutions won't work, read Part One.

WHY YOU SHOULD CARE

The college debt crisis may seem overwhelming, but these solutions could help:

- **Encouraging Competition in Higher Education:** It's time for a paradigm shift in higher education, to restore value to college degrees. Education shouldn't be about how many hours you spend in a classroom, but about what you learn. Reforming accreditation and expanding access to online and competency-based learning programs would increase competition and put downward pressure on tuition prices.
- **Holding Colleges Accountable:** Colleges, particularly public institutions, have a responsibility to taxpayers. Policymakers should hold schools accountable, and encourage them to budget wisely and provide value to students and families.
- **Privatizing Student Lending:** Taxpayers shouldn't have to bear the risk involved in student lending, and borrowers shouldn't all face the same government-controlled interest rate. Instead, private lenders should compete to offer students the best rates according to the individual risk related to their loans.
- **Economic Reforms to Empower Debtors:** A variety of economic reforms can help create more job opportunities and higher wages. As more debtors find good-paying jobs, they can afford to pay down their student debt balances and finally be freed of this financial liability.

MORE INFORMATION

The college debt crisis is several problems rolled into one, and therefore requires a multi-faceted solution. Policymakers should focus on making college a better value (for current and future students), while also encouraging and empowering current debtors to repay responsibly.

Driving Competition Through New Learning Methods and Reforms

In just one generation (30 years), the cost of attending private and public colleges has more than doubled after adjusting for inflation. Meanwhile, many Americans are questioning the *value* of a college degree, as a higher share of college graduates are underemployed or do not demonstrate mastery in academics. Policymakers should work to both make higher education more affordable while also encouraging colleges to improve their services to provide better value to students.

Policymakers can make college more affordable and accessible by requiring that public colleges and universities make educational materials available online. In this technological era, students shouldn't have to pay for the luxury of living on campus and using the universities' posh amenities, particularly since many colleges and universities are already providing the public with free access to course content. Dedicated students should be able to access course materials online and take tests and complete projects to receive credit, like any other student. This would give students more affordable learning options and encourage colleges to focus more on their core educational mission.

Students should also have more options to earn credit at public universities and those accepting federal subsidies by demonstrating mastery on independent assessments. In an era when students have an opportunity to learn from teachers around the world through low-cost, online learning programs, competency-based learning offers a practical and affordable way for students to demonstrate their qualifications to future employers through a fraction of the cost of a traditional college course.

At the same time, federal policymakers should reform the accreditation process to allow more schools and higher education institutions to compete to provide high-quality services to college students. Fostering competition by reducing the barrier to entry to provide postsecondary instruction would result in lower costs for students and potential student loan borrowers. More options and greater competition among higher education providers would also encourage students to be careful customers of postsecondary instruction and lead to lower costs overall.

Holding Colleges Accountable

Students may be surprised to learn that today, most of the money that colleges spend goes toward expenses that are not instruction-related. According to the National Center for Education Statistics, instruction accounts for only 27 percent of expenses for public universities and 33 percent at private universities. Administrative costs account for an increasing share of costs at both public and private universities.

Even worse, there's growing speculation about the value of the education that college graduates receive. Only 11 percent of business leaders in a Gallup survey said they believed college graduates have the skills and competencies they need. A Collegiate Learning Assessment survey showed that 40 percent of college seniors fail to graduate with the complex reasoning skills needed in today's workplace.

Colleges supported by taxpayer dollars have a particular duty to ensure that they are using resources wisely and producing results. Policymakers should consider how to push school administrators to do more with the resources they have. For example, in 2015 former Indiana Governor and president of Purdue University Mitch Daniels imposed a tuition freeze at the university as a way of forcing the college to consider its spending habits and better prioritize resources.

Colleges must also face some accountability when it comes to student lending. A recent report by the U.S. Senate HELP Committee found that an alarming 1,800 colleges have student loan default rates above 15 percent, and at 200 institutions close to one in three borrowers defaulted. The HELP Committee analysis found that high default rates impose significant consequences both on borrowers who default, who suffer financially as a result, and taxpayers who ultimately pay for the federally-guaranteed loans. Policymakers should enact reforms to shift some of the risk of potential student defaults to higher education institutions so that colleges and universities shoulder some of the financial burden of students who fail to realize long-term value from their costly, borrowed education.

Lifelong Learning ESAs

The federal government should reform current federal policies that encourage saving for college, including tax-free savings options commonly referred to as 529 plans, to allow families and students to use those funds through a person's K-12 and postsecondary education to facilitate lifelong learning. In the modern economy, the need to learn and acquire skills does not start or end at college. Lifelong learning will be the norm for the majority of American adults. Federal policies for education savings should reflect this reality.

Getting Government Out of the Lending Business

The United States made a grave mistake in turning student lending over to the federal government. The government has no business managing student loans. This system exposes taxpayers to risk when borrowers default and treats many borrowers unfairly. The government offers two interest rates: one for all undergraduate loans and a higher rate for graduate students and parents.

No other credit market offers all borrowers the same rate. When people apply for mortgages, car loans, credit cards, or personal loans, lenders take many individual factors into account, including characteristics of the borrower (such as his or her credit score, assets, or income) and the collateral or the use of the loan. These factors all affect the interest rate offered. These rates signal whether a loan is high- or low-risk; rates will correspond.

Similarly, some student loans are riskier than others, and merit higher interest rates. A market-based pricing system would benefit low-risk borrowers and would signal to all borrowers the risk associated with their loans.

For example, a student with a good credit history who is planning on using his loan to go to medical school should get a lower interest rate than a student with no credit history who is planning to use his loan for a bachelor's degree in music. This is not to say that health care is a more valuable service to mankind than music; it simply reflects labor market demand for the two borrowers' different professions and the related likelihood that each will pay back his loan in a timely fashion.

The government doesn't have the resources to evaluate each individual student loan, but private lenders do. Private lenders should compete with one another to offer each individual borrower the best interest rate for his or her loan. Naturally, private companies, who would bear the risk related to each loan, would seek innovative ways to serve all sorts of student borrowers. The government simply can't provide that individualized level of customer service, and should bow out of the student loan business, returning this industry to the private sector.

Economic Reforms to Empower Today's Debtors

Understandably, many Americans with student debt would support reforms to our higher education system and to the student loans industry. But for them, the checks have already been deposited, and the loans spent. What can be done to aid those who are already deep in debt?

The biggest hurdle to student loan repayment is finding a job that provides enough income for debtors to make their monthly payments.

Policymakers should put economic reforms in place to foster a strong job market so that wages will increase, allowing more youth to pay back their loans in a more timely fashion. These reforms include rolling back costly and needless workplace regulations (such as the Affordable Care Act's mandate that employers provide health insurance), and increasing businesses' access to working capital through financial reforms.

Lawmakers can also work to reign in government spending and lower tax burdens on businesses and on all working people. With a reduced tax burden, more businesses can hire and promote more workers, and more individuals can keep more of their hard-earned dollars and put them toward student loan repayment.

We should also encourage financial literacy education at the state and local level, to ensure that more Americans understand the cost of borrowing and the burden of debt.

Changes to the Tax Code to Help Student Debtors

Right now, employers who want to encourage education can offer to pay for all or part of workers' tuition for higher education classes tax-free. This is a good incentive to get employers to invest in their workers.

We should amend the tax code to allow employers to similarly offer a tax-free educational debt-repayment benefit. It's essentially the same as the tuition benefit, only the payment occurs after-the-fact, not before. Many workers would prefer this benefit to more take-home pay, as every additional dollar paid toward their loans would reduce their interest burden.

Another possible tax change: Currently student debtors can take a tax deduction for the money they paid in interest (similar to the mortgage interest deduction used by many homeowners). But the interest-deduction for student loans is capped at $2500 per year, an amount that many borrowers surpass, especially if they are making aggressive payments early in the repayment process.

Policymakers could remove this $2500 cap, or increase it, as an additional incentive for aggressive repayment. Some have suggested doubling the capped amount for married taxpayers, so that they do not face a penalty for filing taxes together.

WHAT YOU CAN DO

- **Get Informed:** Learn more about America's College Debt Crisis. Visit:
  - The Independent Women's Forum
  - American Enterprise Institute
  - The Heritage Foundation
- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.
- **Become a Leader in the Community:** Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.
- **Remain Engaged Politically:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!