

## CA Student Loan & Debt Service Review Workgroup

December 10, 2020

8am – 10am PST

### Workgroup Attendees

Dr. Lande Ajose  
Office of Governor Gavin Newsom

Chris Ferguson  
California Department of Finance

Dr. Sandy Baum\*  
Urban Institute

Hal Geiogue  
Scholarshare Investment Board

Catalina Cifuentes  
California Student Aid Commission

Bob Shireman\*  
The Century Foundation

Dr. Jamillah Moore  
California Student Aid Commission

\*Member of the Public

### Facilitators, Presenters, and Support

Sandy Baum  
Urban Institute

Patrick Perry  
California Student Aid Commission

Adam Looney  
Brookings Institution

Melissa Bardo  
California Student Aid Commission

Debbie Cochrane  
The Institute for College Access and Success

Martha Snyder  
HCM Strategists

Hans Johnson  
Public Policy Institute of California

Juana H. Sánchez  
HCM Strategists

Bonnie Latreille  
Student Borrower Protection Center

Katie Lynne Morton  
HCM Strategists

Kat Welbeck  
Student Borrower Protection Center

Elizabeth Salinas  
HCM Strategists

## Meeting Notes

Welcome

*Patrick Perry, CSAC*

- Meeting objectives
- Meeting agenda
- Housekeeping announcements

## Public Comment

- Samantha Seng, NextGen California
- Cody Hounanian, Student Debt Crisis
- Suzanne Martindale, Consumer Reports
- Kristin McGuire, Young Invincibles
- Gabriel Feiner, UC Student Association

## National Landscape: Who Holds the Debt?

*Sandy Baum, Urban Institute; Adam Looney, Brookings Institutions*

- Low-income, minority, and first-generation students are much less likely than others to go to college
- High school students from lower SES backgrounds are less likely than others to go to college and earn a degree
- Black and Hispanic adults are less likely than White and Asian adults to have any college experience
- Debt is concentrated among more educated individuals because debt is accumulated over more years and in graduate programs.
- Graduate and professional degrees are responsible for a disproportionate share of debt, but often lead to high-paying jobs.
  - There are many borrowers who borrow small amounts and who pursue degrees that don't have a large payoff.
- Debt is disproportionately owed by higher-income households.
- Income-based repayment reduces the true burden of debt on low-income borrowers.
- Those who struggle most often owe the least: They dropped out or attended a low-cost community college.
- How much low-income borrowers owe overstates how much they pay because of income-driven repayment.
- Without means testing and targeting, debt relief proposals largely benefit high-income students.
- State and federal policy interact.
  - Policies that base state subsidies on required monthly payments do not help the lowest-income borrowers—who do not have to make payments.

## Student Debt and Default in California

*Debbie Cochrane, The Institute for College Access and Success (TICAS)*

- 62 percent of graduates in the class of 2019 had debt, with an average of \$28,950.
- Over the last 15 years, growth in average debt outpaced inflation. It more than doubled the pace of inflation in 18 states.
- Surveys have demonstrated that students' struggles have exacerbated during COVID-19.
- High-debt states include: NH, PA, CT, RI, DE, ME, NJ, MA, ND, DC
- Low-debt states include: UT, NM, NV, CA, WY, HI, FL, WA, AZ, LA
- Fewer than 47% of Class of 2019 students in CA left college with debt.
- Amongst California public colleges, low-income and underrepresented are much more likely to graduate with debt.
  - 3 out of 4 Black CSU graduates leave college with student loan debt, compared to half of all CSU graduates.
- Recommendations
  - Support outreach about income-driven repayment options
  - Facilitate the completion of Employment Certification Forms (ECFs) for government employees who could benefit from Public Service Loan Forgiveness, with potential to scale up to support other employers.
  - Investigate colleges' compliance with California Education Code 69800.2(a), which requires students to be notified about untapped state and federal aid (including loans) before certifying private loans.
- For-profit college graduates face particular challenges with student debt. In California:
  - For-profit colleges enroll 8% of students, but 18% of Black undergraduates
  - For-profit colleges account for 50% of borrowers who default on federal loans within 3 years.
  - 50% of undergraduate borrowers who are not paying down federal student loan principle within 3 years.
- Over 60,000 California borrower have applied for discharges. 10,000 are pending and awaiting adjudication as of September 2020.
- The federal landscape with respect to borrower defense and closed school discharges may evolve significantly in the coming months. Possible state interventions include:
  - Advocating for improved federal processes
  - Seeking to identify students eligible for federal loan discharges who have not yet applied
- AB1340 (2019) required for-profit colleges to begin collecting and reporting data to the Bureau of Private Postsecondary Education as soon as January 2020, but little progress has been made.
- AB 1346 (2019) expanded access to state-level discharges for students whose programs or schools closed prior to completion.
- Q&A
  - Bob Shireman: There seem to be two factors that cause people to be reluctant or anxious about IDR. First, the ballooning loan balance is very scary. Second, the tax treatment of forgiven amounts. How can we address those problems?

- Response: Biden administration is interested in improving IDR. One solution is to cap the amount of interest that can be capitalized. The IRS could also put up guidance that forgiven amounts should not be taxable.

### Student Debt in California

*Hans Johnson, Public Policy Institute of California (PPIC)*

- Too few low-income students complete college.
- Low-income students face barriers at three key points on the pathway: among high school graduates, enrolling in four-year colleges as a freshman; among community college students, share transferring to four-year college; and among four-year college students, share earning a degree.
- College costs are burdensome for low-income students (net costs).
- College Scorecard data allow for examination of cumulative debt among recent college graduates.
- College debt is ubiquitous. Nationwide, 6.9 million college students graduated with debt in 2016-17.
- Debt varies by institution type, credential, and field of study.
- The share of graduates with debt as well as the amount of debt varies widely by sector and credential level.
- Fields of study with the highest average graduate debt include dentistry; medicine; optometry; health professions and related clinical sciences; law; pharmacy, pharmaceutical services and administration; film, video, and photographic arts.
- Most debt is held by graduates of private colleges; most graduates are from public colleges.
- Recommendations/ efforts in California:
  - Provide effective targeting of aid and debt relief.
  - Establish longitudinal data system in California.
  - Make more opportunities available in the public systems.
- Q&A
  - Hal Geiogue: We have targeted aid based on California's needs (e.g., teachers, low-income, etc.). How do we approach targeting by public needs (e.g., high-demand fields)?
    - Response: A student with a liberal arts degree and a lot of debt might be deemed not a high-demand field. What would that mean distributional for low-income student borrowers.

### Student Loan Debt Report Card

*Bonnie Latreille and Kat Welbeck, Student Borrower Protection Center*

- Overly narrow definitions of what it means to "struggle" overestimate the student loan infrastructure.
- Problem: runaway college costs; solution: in-school deferment, grace period, IDR, PSLF
- Problem: second chance; solution: rehabilitation and consolidation
- Problem: catastrophic event coverage; solution: disability discharge, closed school discharge, DTR
- Direct loan delinquency rates higher for Level 10 year or Level >10 year than PAYE or IBR.
- 60% of borrowers in IDR miss their recertification deadline.

- 600,000 borrowers seeking PSLF have not made a single qualifying payment
- 60% of borrowers who are not reducing their student loan balance are delinquent.
- 9 out of 10 borrowers were not enrolled in IDR within a year of exiting a rehabilitation plan.
- 9 million federal student loan borrowers in default.
- More than half of borrowers relying on public assistance programs miss out on IDR.
- Failures in CARES Act implementation included continued wage garnishment of tens of thousands of borrowers, continued billing notices, inaccessible call center staff.
- Borrowers pay a "secret price tag" in other areas:
  - More likely to fall behind on other debt payments
  - Less ability to buy a home
  - Less likely to pursue a job in their chosen field or graduate education
  - Higher priced mortgages, auto loans, and credit cards
  - Less wealth accumulation
  - Less retirement savings
- Borrowers of color use IDR at lower rates than white borrowers.
- AB 376 established protections for borrowers including those working in public service, borrowers with disabilities, etc.
- Student Loan Industry Report Card
  - Market monitoring
    - Risks/costs to consumers, legal protections available and the extent to which borrowers are accessing these protections, impact and prevalence of servicing breakdowns in underserved communities
- Without market-level data, policymakers are blind to consumer risks. Metrics include:
  - Availability of customer service
  - Back-end processing of emergency relief options
  - Access to temporary relief options
  - Access to permanent loan modifications
  - Average and median processing times, in days, for borrowers waiting for an approval or denial of eligibility for relief programs.
- Q&A
  - Bob Shireman: The fact that 70% of defaulters could have used IDR is a scandalous indictment of the servicing system. Prior speakers suggested "automatic" IDR. Would that help
    - Response: Automatic IDR sounds good, but it gets complicated for borrowers who don't have traditional income. It gets complicated when using alternative documentation for income. Recent job loss, income changes month-to-month. That is difficult to automate because it requires collection of that information from borrowers. We should strive for automation, but there are other easier solutions that would help the broken process.

## Group Discussion

*Martha Snyder, HCM Strategists*

- Key themes:
  - Consistency across the presentations
  - Exploring IDR more
  - Using data to drive decisions
  
- Patrick Perry
  - Information gap for borrowers and repayment debt awareness
  - Where do students learn of their learn repayment options?
    - Bob: It tends to be their own servicer. Even when a borrower finds a different information source about IDR or public service loan forgiveness, the details depend on the types of loans. That raises questions, and they have to talk to their servicer to learn more. The servicers have not been that helpful at answering students' questions.
  - The concept of where student loans fit in the continuum of unmet need. It seems like loans tend to be a sponge in the continuum.
    - Sandy: One issue is that we know that students who don't pay tuition still borrow a lot of money, almost as much as students who do pay tuition. Living expenses plays a role in generating student debt.
  
- Bob Shireman
  - The income or race distribution data seemed to have a discrepancy across presenters, but that might have been due to different denominators.
  
- Chris Ferguson
  - It would be helpful to see some of the data by region in the state. That gets to some of those linkages that we've heard.
  
- Sandy Baum
  - It is absolutely true that Black students are more likely to borrow and more likely to borrow more and more likely to default. If you flip that around to look at what share of students meet certain characteristics are Black, you will see different numbers.
  
- Bob Shireman
  - It looks like the state budget will be okay this year, but we might be facing some difficult budget years ahead. In the past, that has led to cuts by the state in higher education and less access at the public institutions. People who would have gone to the community college are pushed into for-profit institutions. The puzzle we could run into is the question of tuition. It's good to keep tuition down, but if that means that the student does not have the money to keep a program open, those closed doors leads students to seek other situations.

- Hal Geiogoue
  - Is there anyone who can examine the breakdown of undergraduate and graduate debt? It might give us a good tool to be able to focus our efforts.
    - Patrick to explore a research scan.
- Patrick Perry
  - Some states have promoted debt-free college. California requested the LAO to do an analysis of what that might look like in California. Has anyone done evaluation of states who has promoted a debt-free college and how that works?
    - Sandy: The Tennessee program is not a debt-free program. It is a free tuition program. Some are last-dollar and others are first-dollar. Pell Grant recipients in TN are borrowing for living expenses. A debt-free program is usually based on students' ability to pay tuition and meets the has no gap. The programs that have been implemented have been free tuition and last-dollar.
  - In California, tuition is eliminated already for many students. Living expenses is a big question.

Discussion of Evaluative Criteria  
*Juana Sanchez, HCM Strategists*

- Catalina Cifuentes
  - Return on Investment
  - Measuring Impact
- Bob Shireman
  - The phrase "outcomes we care about" is in the list. It could be helpful to get some clarity around what that means.
    - We need to discuss this. The outcome we care about can vary. If we focus too narrowly on one particular outcomes, the solutions could have unintended consequences.
  - Discuss benchmarks. Some are broader and others are narrower (reduce default rates vs. reduce default rates by 1/2, for example, have different scopes).
  - Equity in the context of residents of California more broadly beyond those who borrow is important.
- Patrick Perry
  - We need to focus on California-specific conditions.

Closing Announcements  
*Patrick Perry, CSAC*

- Upcoming meeting schedule