Connecticut Debate Association
February 11, 2017
Shepaug Valley High Schools

Resolved: Student loans should be underwritten to commercial standards.

Resolved: Student loans should be limited to students and amounts that are highly likely to be repaid in full.

Bankruptcy Becomes an Option for Some Borrowers Burdened by Student Loans

The Wall Street Journal, By SARAH CHANEY, Dec. 27, 2016

Argument that focuses on legal definition of student loan is at crux of efforts to discharge debt

Borrowers are beginning to win battles to erase some student loans in bankruptcy court, overcoming stiff obstacles that have generally blocked that path except in extreme cases of financial hardship.

Since March, several bankruptcy courts have allowed borrowers to cancel private student loans with a new legal argument that relies on vague wording about the legal definition of a student loan.

Bankruptcy law says that, without proving extreme hardship, a borrower can't discharge a loan made for an "educational benefit." This language has opened a window to cancel loans for students who argue their loans falls outside this category of debt. Such reasoning has been applied to loans obtained to attend schools without accreditation or to study for a bar exam.

The argument applies only to a slice of the private student-loan market, which makes up less than 10% of the more than $1.3 trillion in outstanding student debt. The federal government dominates the student-loan market and isn't as vulnerable in bankruptcy proceedings.

For years, bankruptcy wasn't a realistic way for Americans to get help with student-loan debt. Now, lawsuits that offer a gateway to debt cancellation are "popping up all over the country," said Austin Smith, a consumer-bankruptcy lawyer who has led the charge in courts.

Although no one keeps statistics on how often such cases arise, bankruptcy experts say they expect the number of student-loan-related lawsuits to climb as the amount of student-loan debt increases.

"Bankruptcies in and of themselves are on the decline," said D.J. Rausa, a San Diego consumer-bankruptcy lawyer. "That may change if more and more people and bankruptcy lawyers get informed there are provisions in the bankruptcy code to manage student loans."

A new federal report shows that the government is expected to forgive at least $108 billion in student debt in the coming years. The relief is part of an Obama administration plan to help borrowers but is proving far more costly than previously thought. WSJ's Lee Hawkins explains.

The argument worked for Lesley Campbell, 37 years old, who in 2014 filed for bankruptcy and later was able to discharge the unpaid portion of a $15,000 loan she took out from Citibank to study for a bar exam.

Judge Carla Craig of the U.S. Bankruptcy Court in Brooklyn, N.Y., ruled that loan debt for bar exams is akin to consumer debt and doesn't fall into the category of a student loan that sticks with a borrower in bankruptcy.

In April, Judge Robert E. Grossman ruled in favor of Lorelei Decena, who borrowed $161,592 to attend St. Christopher Iba Mar Diop College of Medicine in Senegal.

The school "falsely represented to her that it was licensed and accredited," providing her with a loan application from Citizens Bank that reflected a code for an accredited institution, court papers state. Because the school was in fact unaccredited, according to court papers, Ms. Decena, 43, was ineligible to sit for medical-board exams in multiple states.

"There's no educational benefit in this case because she couldn't have a license that she could use," said Darren Aronow, Ms. Decena's lawyer.

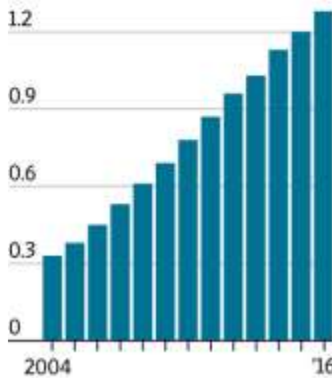
St. Christopher referred requests for comment to a New York lawyer, who didn't respond to multiple requests for comment.

Debt Management

Student debt is ballooning, while chapter 7 liquidation filings are on the decline. Experts say the trend in chapter 7 filings could reverse.

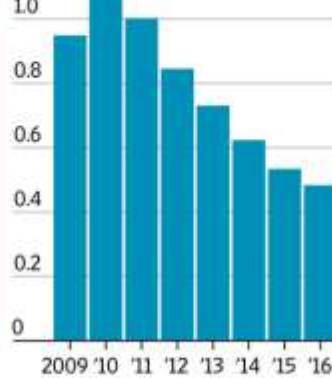
Student-loan debt

$1.5 trillion



Chapter 7 nonbusiness filings

1.2 million



Sources: Federal Reserve Bank of New York Consumer Credit Panel/Equifax (student debt); Administrative Office of the U.S. Courts (chapter 7 filings) THE WALL STREET JOURNAL.

Citizens Bank appealed Judge Grossman's ruling, and a district court recently sent the case back to bankruptcy court, finding that the bank wasn't properly notified of the lawsuit.

A spokeswoman for Citizens Bank declined to comment.

Lauren Baez, 31, who took out private and federal loans to attend a visual-arts school in 2008, also argued that she should be able to cancel her private debt without needing to prove extreme financial hardship. Her gross salary of $45,000 as a retail employee won't cover the repayment costs, she said.

"If I was forced to pay back all my student loans at this moment in time, I wouldn't have enough money to pay my rent," Ms. Baez said. "I'm making more money than I ever have before, but I still can't afford to make these payments."

Ms. Baez owed private-loan servicer Navient Corp., formerly part of Sallie Mae, $158,400 as of Nov. 28. The case settled before a judge could rule. The terms of the settlement haven't been disclosed.

A Navient spokeswoman declined to comment on the case, but said the company "continues to support reform that would allow federal and private student loans to be dischargeable in bankruptcy for those who have made a good-faith effort to repay their student loans."

Obama's Student Loan Pardon

The Wall Street Journal, OPINION REVIEW & OUTLOOK, Nov. 1, 2016 7:31 p.m. ET

Taxpayers get the bill for millennial vote-buying and for-profit closures.

As a parting gift to young voters, the Obama Administration last week issued a rule allowing borrowers to discharge billions of dollars in student debt. Tucked in are knick knacks for the plaintiffs bar and another whack at for-profit colleges.

The "borrower defense" rule purports to clarify a provision in the Higher Education Act of 1965 that allows the secretary of education to forgive student loans based on "acts or omissions of an institution of higher education." Progressive groups have been helping for-profit graduates file claims for debt relief, so the Education Department has been inundated by applications. Last year the department set up a committee to streamline and standardize the administrative process. After the committee couldn't agree, the department unilaterally rewrote the law.

The rule creates a process in which loans can be discharged if a department official concludes that a college engaged in a substantial misrepresentation based on a preponderance of evidence. This is a lower burden of proof than the clear and convincing standard required in most states to demonstrate fraud. The definition of misrepresentation would be amended to include "omissions of information and statements with a likelihood or tendency to mislead under the circumstances," so students wouldn't have to demonstrate fraudulent intent by the college.

The education secretary could approve a class of claimants (e.g., borrowers who attended a for-profit) who would be represented by a department advocate. Another department bureaucrat would resolve claims and assess a college's liability; the secretary would adjudicate appeals. No taxpayer advocate is anywhere in sight.

As a bonus, the department said it has "determined it has the authority to restore semesters of Pell Grant eligibility" (usually limited to 12 semesters) for those who attend colleges that the Administration has shut down. This authority was never delegated by Congress and could multiply the taxpayer tab. Notably, the department didn't extend the same courtesy to veterans who lose their GI benefits.

The new rule also specifies several "triggers" such as a lawsuit or citation by a state agency that could impel a college to post a letter of credit. This requirement is supposedly intended to reduce the taxpayer bill for discharged loans if a college closes. However, regulators could also use it to bludgeon for-profits. ITT Tech closed this summer after the department demanded an unusually large letter of credit, and a department spokesman told us this week that there are $6.4 billion in outstanding loans from ITT.

Colleges would also be prohibited from requiring students to sign class-action waivers and arbitration agreements. This would open big-game hunting season for plaintiff attorneys, and for-profit investors will be the top target.

The rule ostensibly covers all colleges, but the secretary in effect has carte blanche authority and can apply the regulations selectively. Many of the financial triggers such as a late report filing with the SEC apply only to for-profits. Public institutions also wouldn't be required to post letters of credit because they are backed by "the full faith and credit of the State."

While the department pegs the taxpayer cost of the rule at between $9.5 billion and $21.2 billion over the next decade, it has repeatedly lowballed the costs of its loan-forgiveness programs. Here is the Administration's regulatory model: Destroy businesses while doling out favors to political constituents. Later, bill taxpayers.

Student Debt May Be Contributing to Racial Inequality

Bloomberg News, by Shahien Nasiripour, October 24, 2016,

Black college grads owe more on their student loans while being paid less than their white counterparts.

The pursuit of higher education may be exacerbating gaps in financial well-being between blacks and whites, rather than narrowing them.

Black Americans who recently graduated college owe close to twice as much on their student loans as whites, a racial gap that has climbed nearly 14-fold over the past 15 years.

Blacks who graduated with bachelor's degrees in 2008 owed $52,726, on average, on their student debt four years later, compared with $28,006 among whites, according to a new study made public Thursday by a pair of Columbia University researchers. Black graduates, on average, were more likely to fall behind on their education loans.

"Students of color," Judith Scott-Clayton and Jing Li said in their study, "disproportionately bear the burden of student debt."

The new findings add to a growing body of evidence that that higher education might not be the great equalizer. "There is this popular notion that student debt is good," said Mark Huelsman, senior policy analyst at public policy organization Demos. "But it's actually fostering inequality rather than mitigating it."

The federal Consumer Financial Protection Bureau is investigating the issue, with a focus on how debt collectors and loan servicers are treating black borrowers, who default at much higher rates than their white counterparts. Officials also worry that too much student debt among black Americans could be preventing economic mobility.

For example, black graduates' cumulative student loan balances increased 6 percent in the four years after they left school, while whites owed 10 percent less, according to the study by Columbia researchers.

Data from the Federal Reserve show that black households led by college graduates have much less wealth than white households headed by college grads. Black Americans are also paid less than their white counterparts, regardless of their educational attainment, federal data show, and they're more likely to borrow money—and more of it—to pay for college.

More borrowing during their undergraduate years and an inability to pay down the resulting debt were responsible for about 55 percent of the increase between blacks and whites among 1993 and 2008 graduates, according to the Columbia researchers' paper. Subsequent enrollment in graduate school, much of it at for-profit colleges, caused the remaining debt divide.

Increased enrollment in graduate school is typically a sign of progress, since advanced degrees normally lead to higher salaries later. But the researchers reckon that black Americans with graduate degrees make less money, on average, than whites who only have a bachelor's degree. As a result, the increase in debt from for-profit graduate schools may not be paying off for large numbers of black Americans.

Scott-Clayton cautioned that for many black Americans, advanced degrees are worth the cost. Black Americans who graduate with an advanced degree experience a bigger pay bump relative to black bachelor's-degree holders than their white peers, she said. She added, however, that graduate school is far risker for black Americans than it is for whites because the black students end up with more debt and are either less likely to graduate or take longer to earn their credential. "It's shocking," Scott-Clayton said.

How Much Graduates Earn Drives More College Rankings

The New York Times, By JAMES B. STEWART OCT. 20, 2016

PayScale introduced its first college salary report in 2008, and the College Scorecard from the federal government followed last year, ushering an elephant into the hallowed halls of college admissions: What do the schools' graduates

actually earn?

Despite the hand-wringing of many in academia, who saw the immeasurable richness of a college education crassly reduced to a dollar sign, the data has wrought a sea change in the way students and families evaluate prospective colleges. Earnings data are finding their way into a proliferating number of mainstream college rankings, shifting the competitive landscape of American higher education in often surprising ways.

This fall, The Wall Street Journal and Times Higher Education (a unit of TES Global, and no relation to The New York Times) introduced their first college rankings.

Forty percent of their result is measures of “outcomes” — earnings, graduation rate and loan repayment rate. The other 60 percent rates the school’s resources; student engagement, as measured by student responses to a questionnaire; and “learning environment,” or diversity.

Last year The Economist released its first college rankings, and it relies even more heavily on earnings data. It took the College Scorecard earnings data and performed a multiple regression analysis to assess how much a school’s graduates earn compared with how much they might have made had they attended another school.

The Georgetown University Center on Education and the Workforce has issued another set of rankings, adjusting the College Scorecard salary rankings first for choice of major (since disproportionate numbers of students studying high-paying fields like engineering and business skew the results), and yet another ranking that assesses students’ expected earnings, given their characteristics when they entered college, to the actual outcome.

PayScale itself has refined its rankings in response to criticism, by including along with salary data the percentage of students who major in subjects other than high-paying science, technology, engineering and math, as well as the percentage of respondents who found “high meaning” in their work.

Both Forbes and Money magazines, in their rankings, incorporate PayScale data on earnings.

To be sure, the dowager of college rankings, U.S. News & World Report, steadfastly disdains the use of earnings or other outcomes in its rankings. While it continues to tweak its criteria, it relies primarily on measures of reputation and selectivity.

There are now so many rankings that “We’ll soon be ranking the rankings,” said Andrew Delbanco, a professor of American studies at Columbia University and author of “College: What It Was, Is, and Should Be.”

Juggle the ratings in the right way, factoring in a graduate’s future salaries and job satisfaction, and Claremont McKenna College in California comes out on top. Credit J. Emilio Flores for The New York Times

Rankings “drive presidents and trustees into frenzies of delight or alarm,” he said. “Meanwhile, most institutions that serve most students — underfunded public colleges, especially community colleges — aren’t even on the screen.”

One thing is clear: None of the rankings agree on which is the “best” college. The only school that shows up among the top 10 on the Wall Street Journal, Economist, Georgetown, PayScale and U.S. News lists is Harvard. But it ranks No. 1 on only one of Georgetown’s lists (earnings adjusted for choice of major).

The number of rankings is a good thing. Students and their parents certainly shouldn’t rely on only one source.

“We’ve been very clear that this is a guide for figuring how much you should spend on your education,” said Katie Bardaro, vice president for data analytics at PayScale. “In choosing college, you need to make a smart financial decision. What’s the likely return on your investment?

“Is it the only factor?” she added. “Absolutely not. But it’s an important factor.”

Stanford University is No. 1 on the recent Wall Street Journal list. It fares well on PayScale and U.S. News, too. But it falls to a distant No. 256 on The Economist’s list (which, it should be said, produced the results most at odds with other rankings).

Results diverged even more widely for smaller schools. This year’s winner on PayScale is the SUNY Maritime College, whose graduates earn a median $147,000. The school at Fort Schuyler in the Bronx enrolls fewer than 2,000 students and it offers bachelor’s degrees in engineering and science. But it only ties for 80th in U.S. News’s “regional universities north” category and isn’t even ranked by The Wall Street Journal.

Or consider a venerable liberal arts college like Washington and Lee in Virginia. It’s No. 1 on The Economist’s list. Its graduates earn a whopping $22,375 more than would have been expected based on the characteristics of entering students, the magazine calculated. But it ranks only 109th on the Wall Street Journal/Times Higher Education list, with an especially low score for diversity.

Women’s colleges are especially vulnerable when earnings data are incorporated. U.S. News ranks Wellesley College, Hillary Clinton’s alma mater, No. 3 among national liberal arts colleges. It falls to No. 30 on The Wall Street Journal’s rankings, and to No. 201 on PayScale.

Yale illustrates an even starker divergence. It is No. 1 for outcomes in The Journal's ranking; in The Economist's, it's near the bottom, at 1,270. The magazine estimates that a student attending Yale would earn about $10,000 a year less on average than if the student had attended another college.

To show how sensitive the results are to the criteria used in the rankings, I asked PayScale to rank schools based on earnings but also with relatively few majors in the high-paying science fields and whose graduates reported a high level of meaning in their work.

That resulted in an entirely different list: The top five (in order) were Claremont McKenna in California, Georgetown, Wesleyan, Holy Cross and Oberlin. Liberal arts colleges — whose leaders have been some of the most vocal critics of rankings — generally fared much better using criteria that included job satisfaction. (I'm a graduate and trustee of DePauw University, a liberal arts college.)

But does the proliferation of data — and rankings — actually help students and parents make wiser choices? "What's clear is that rankings sell," said Richard Ekman, president of the Council of Independent Colleges. "It's not at all clear that leads to a better-informed public. There's so much information it's hard for any high school student to sort it out."

Jeff Strohl, director of research at the Georgetown Center on Education and the Workforce, said, "When I was 17, I wouldn't have known what to make of" all the data. But Georgetown's goal is to help students interpret it. "We need to move the needle from just presenting the earnings numbers to helping them make a decision based on that. We need to think about this using a public service model," he said.

If nothing else, earnings are objective and, as the database grows into the millions, reliable. And they've helped focus attention on little-known schools that would never crack the high status barrier of the U.S. News rankings, especially the community colleges that educate the vast majority of America's students.

In addition to SUNY Maritime, I found myself looking up some schools I'd never heard of that fared well on the earnings-based rankings: Bentley University (Massachusetts), which made both The Economist's and Georgetown's top 10 lists; Otis College of Art and Design (California) and Alderson Broaddus University (West Virginia), both in The Economist's top 10; and University of the Pacific (California) and Molloy College (New York), both in Georgetown's top 10.

In the end, of course, deciding which college to attend is intensely personal. No ranking can assess a student's unique personality, goals, strengths and weaknesses and match those to the "right" college.

So how would I rank the rankings? Other than its ability to confer bragging rights, which seems a dubious distinction among already status-crazed students and parents, U.S. News seems in danger of becoming an anachronism as long as it ignores outcomes.

It should go without saying that the value of an education should never be reduced to purely monetary terms. But college is a major investment; students and parents should consult PayScale and the College Scorecard in order to understand the financial implications of their decisions.

No ranking is perfect, but I found that The Wall Street Journal/Times Higher Education survey did a creditable job blending a wide variety of factors, including outcomes and student engagement.

As Phil Baty, rankings editor at Times Higher Education, told me this week, "The success of a college graduate should not be measured purely in terms of the salaries they earn. There's more to life than a high salary. This is why we've also put an emphasis on how much the student is intellectually engaged, stimulated and stretched by their college education."

Why Not a College Degree in Sports?

The New York Times, Roger Pielke Jr., SEPT. 14, 2016

Boulder, Colo. — A new influx of money into big-time college sports is likely to reinvigorate debate over whether student athletes should be paid as if they were professionals, with colleges running semipro teams as side projects to their research and teaching missions.

But one question that gets little attention is how schools can keep big-time athletics connected to their academic objectives. Perhaps one way is for universities to award degrees in athletics.

This isn't a new idea. In 1990, in the wake of a series of college athletic scandals, the economist William F. Shughart II asked a simple question in an op-ed essay in The Wall Street Journal: "Why should academic credit be given for practicing the violin, but not for practicing a three-point shot?"

It was a good question then and remains so today, though it is one that colleges and universities have yet to answer.

But we ought to revisit it. College sports have never been bigger. Last weekend, nearly 157,000 people packed Bristol Motor Speedway in Tennessee to see the University of Tennessee battle Virginia Tech, the largest crowd ever to turn

out for a football game, college or professional.

With popularity comes money, and lots of it. In April, the N.C.A.A. signed a deal with CBS and Turner Broadcasting for an eight-year, $8.8 billion extension of their March Madness basketball TV contract to 2032, while the college football bowl series brings in more than $500 million annually.

Athletic budgets have swelled as a result. Texas A&M is on the verge of becoming the first campus to bring in more than $200 million a year from athletics. The University of Iowa just announced a 10-year, $45 million contract extension for its football coach. In 40 states the highest paid public employee is a college coach.

This monetary infusion is likely only to reinforce a divide between athletics and academics on college campuses. Creating degree programs in athletics might bring them closer together. And this wouldn't rule out providing greater compensation for student athletes; this is not an either/or proposition.

Attending classes and playing sports have not always been considered separate activities. Universities have a long history of awarding college credit for physical education. In the 1920s, almost all universities required P.E. classes toward degrees; by 2013, less than 40 percent did.

Some colleges used to offer academic credit for participating in intercollegiate athletics, but these courses have fallen out of favor.

Widespread prejudice and legitimate resentment against athletics remains in academia, and no wonder. The $6.9 million annual salary of Nick Saban, the head football coach at the University of Alabama, is equal to the combined average salary for nearly 100 assistant professors at the school, according to the most recent data available. And beyond such economic disparities, class distinctions of 19th-century England still shape thinking about sport: Classical music is valued by high society, while sport is for the masses.

Still, the arguments are compelling for creating athletics majors on campus.

Universities routinely give degrees in the performing arts, such as music, dance and theater, as Professor Shughart pointed out. In these programs performances are often given to audiences paying for the privilege of seeing exceptional talent on display.

Beyond our cultural biases, what really is the difference between a Shakespeare play, an orchestra concert and a basketball game? Each performance requires some high-level combination of physical ability and mental acuity, developed through years of training and study, and for which only a select few reach elite levels.

Another proponent of an athletics major is John V. Lombardi, a former president of the University of Florida and the Louisiana State University System. In an article two years ago in Inside Higher Ed, he argued that degrees in athletics would involve far more than just playing games.

His case for athletics degrees is based on a "structured curriculum" off the field, in areas such as "sports history, sports law, sports finance." Students would also have to meet general education requirements. Here at the University of Colorado, Boulder, for instance, we have begun an academic program in sports governance housed within the athletic department, serving the entire student body.

These degree programs in athletics would require close oversight and accountability, of course, to ensure rigor and prevent academic fraud, as in the case of the University of North Carolina, where for years scholarship athletes received A's and B's in nonexistent classes that helped them maintain athletic eligibility.

More academic attention to sports issues is sorely needed. One only has to look to FIFA, the scandal-plagued body that oversees global soccer, and the Olympics, which were marked by allegations of systematic doping among Russian athletes, to see an emerging demand for better thinking and practice in sport.

Academic programs in sport can train the next generation of sports leaders, and at the same time help universities bring athletics closer to their academic mission. Universities might look beyond the debate over college athletes as professionals, to seeing athletics as a worthwhile profession.

Roger Pielke Jr., a professor in the sports governance program at the University of Colorado, is the author of "The Edge: The War Against Cheating and Corruption in the Cutthroat World of Elite Sports."

Student Loans Are Still a Crisis

Slate, By Mark Huelsman, August 10, 2016

We shouldn't be downplaying student debt or the push for debt-free education.

Anyone who argues that college "isn't worth it" is doing so with anecdotal examples or bad data.

This article originally appeared in Inside Higher Ed.

Since student debt, free tuition, and debt-free higher education have emerged as presidential campaign–level issues, a

narrative has begun to emerge among elite news media that the rising price of college and ever-increasing student debt are phantom problems given the overall lifetime benefits of a college degree. Unfortunately that narrative, which has been highlighted over the past few weeks to varying degrees by major media outlets, including NPR and Vox, rests on a pretty narrow set of assumptions about college and its benefits. And, in fact, it misunderstands the entire point behind the push for debt-free public college.

For instance, a recent editorial in the Washington Post titled "Democrats' Loose Talk on Student Loans" makes the case that we have more of a nuisance than a crisis on our hands. It argues that bold reforms to address student debt—including the plan offered up by Hillary Clinton's campaign—are overkill and that we should presumably make large investments in other areas (like paying down the national debt). Unfortunately, however, like other news media these days, the Post editorial board appears to have overlooked some crucial facts, many of which have been reported by its own newspaper.

It is absolutely true that some form of postsecondary education and training have become more important, and nearly essential, in today's workforce. Unemployment rates for college graduates are consistently low, and the average lifetime earnings boost remains high relative to a high school degree. Anyone who argues that college "isn't worth it" is doing so with anecdotal examples or bad data.

But the reason college is so important is not because earnings for college graduates keep rising. In fact, bachelor's degree holders earn about the same amount as they did 30 years ago. Earnings for everyone else—including those with only some college experience—have gone down rapidly. In effect, a degree has become more a necessary insurance policy than an investment.

This matters because students are now on the hook for financing more and more of their own educations than ever before. As a result, graduates are taking on rising levels of debt while contending with stagnant incomes and the rising cost of health care and child care, all while attempting to save for retirement or for their own children's educations.

And they are some of the best-off of the bunch—they're able to stretch and make their minimum monthly payments. The true crisis in student loans is among those who take on student debt but do not graduate, many of whom attend high-cost for-profit institutions. Those students are more likely to default or become delinquent on student loans, potentially setting themselves up for a lifetime of economic hardship. But while some argue that what we really have is a "completion crisis," college completion is no better or worse than it's been in decades.

The difference now is that, unlike in the early 1990s, most students must borrow for a degree. In other words, we have increased the risk of attending college, simultaneously telling students that they must go to college to ensure financial security while dialing up the potential for financial catastrophe if they cannot complete.

Completion and debt are also not mutually exclusive, as some people might have you believe. Students drop out of college for many reasons, but the most common reasons cited are financial—debt, high cost, the need to attend part-time while juggling a full-time job. That means if we care about increasing college attainment, we must first deal with the financial pressure facing students who either decide not to go or feel they cannot finish. Guaranteeing a debt-free pathway to a degree can lower the risk of not graduating and help more students graduate.

On a macro level, the Post and others have seized on a report from the White House Council of Economic Advisers, the key takeaway of which was that providing students with access to loans allowed many to go to college during the recession, leaving them much better off than had they not attended at all. This report tells us much of what we already know: 1) providing a financing mechanism for students is better than nothing at all, and 2) student loans make up a relatively small share of the overall economy, yet 3) for many students (including the 7 million in default), it has become a crisis.

But those arguing that this means student debt is not a major policy problem have the counterfactual all wrong. Essentially, the report is arguing that providing students money to pay tuition bills and thus go to college is a good bet. But this is more true of need-based grant and scholarship aid than it is of loans. Grants have proven time and again to increase access, retention and completion, while research on loans is mixed. Further, grant aid, since it does not need to be paid off, does not carry with it the risk of student loans—an extremely important difference in an era of stagnant college completion rates and stagnant incomes for graduates.

And unfortunately, the news media often misses that student debt is a problem with a color and class element. We know that black borrowers take on thousands more in debt for the same degree as white students and are more likely to drop out with debt. Four in 10 black borrowers drop out with debt and no degree, including two-thirds of those at four-year for-profit colleges.

Moreover, black and Latino students do not see the same benefits of a degree. Unemployment for black college graduates is the same as white high school graduates, average earnings are lower for black workers than white workers at every level of education, and the average wealth of a black college graduate equals that of a white high school

dropout. Read that sentence again.

The fact that half of young black households have student debt, and are more likely to have student debt than young white households, means that even if they are better off going to college than not, white families will continue to have an unearned leg up in the economy. Regardless of the amount they have taken on, borrowers of color are the face of this crisis.

Society benefits from an educated population, which is why we invest in it. It's why the GI Bill, warts and all, returned $7 for every $1 invested and is considered a massive success. It's why public investment in a degree reaps tens of thousands of dollars in return.

When we individualize the benefits of college, we miss the forest for the trees. It's striking that we do this for college and no other forms of education. We do not send 5-year-olds home from kindergarten with $20,000 tuition bills, justifying it by saying that the alternative of not going to school is worse. We do this because it's in the public interest to send students to school without financial barriers, and the alternative would impose massive barriers based on race and class.

It is, of course, important that we provide relief to those who are most likely to struggle with debt and those who do not see the returns from college. The concept of debt-free college does just that, by asking students to work hard and maybe take on part-time jobs, states to chip in like they did for previous generations, and the federal government to treat higher education as a public good again. It is progressive—asking the wealthy to pay their fair share while eliminating unmet need that cripples the ability of low-income students to pay tuition bills. It reduces risk and expands opportunity.

Those of us concerned with student debt are not saying that students should avoid college, any more than we would complain about high rent and recommend homelessness instead. Instead, we want to remove the financial burden from those most afflicted and ensure that the next generation making college-going decisions doesn't avoid it because their families can't afford it.

Mark Huelsman is senior policy analyst at Demos.

The Feds Don't Care If You Dropped Out of College. They Want Their Money Back

Bloomberg News, by Shahien Nasiripour, August 8, 2016

Half of recent dropouts are delinquent on their student debt.

When it comes to collecting on student loans, the U.S. Department of Education treats college dropouts the same as Ivy League graduates: They just want the money back. New data show the perils of that approach.

Dropouts who took out loans to finance the degrees they ultimately didn't obtain often end up worse off for attending college. Unlike their peers who earn degrees, dropouts generally don't command higher wages after leaving school, making it harder for them to repay their student debt. The typical college dropout experienced a steep fall in wealth from 2010 to 2013, figures from the Federal Reserve in Washington show, and an 11 percent drop in income—the sharpest decline among any group in America.

It should therefore come as no surprise that half of federal student loan borrowers who dropped out of school within the past three years are late on their payments, according to Education Department figures provided to Bloomberg. More than half of those delinquent borrowers are at least 91 days behind. By comparison, just 7.2 percent of recent college graduates are more than three months late on their debt 1 .

These debtors are struggling despite the widespread availability of repayment plans meant to prevent distress. That doesn't need to be the case. "Many borrowers believe that getting a better payment plan with their servicer is like buying a car—a high stake, pulse-pounding negotiation they are likely to lose," said Legal Services NYC, which represents low-income New York City residents with student loan problems.

Treasury Deputy Secretary Sarah Bloom Raskin has publicly questioned whether the government's loan contractors are doing right by borrowers. The consequences—ruined credit scores, the loss of occupational licenses, and wage garnishments—"can have a serious impact on our economy," she said last month.

There are two immediate takeaways from the figures. Higher education experts eager to put families at ease about the increasing cost of college are likely to conclude that whatever crisis exists in student loans is concentrated among college dropouts, so graduates needn't worry. This is largely how the Education Department and the White House view the issue. The department recently focused its efforts on improving graduation rates, hoping it will lead to fewer loan defaults. But it's unlikely that approach will yield benefits soon. Graduation rates have increased by less than five percentage points over the past dozen years, federal data show.

The second takeaway is that it's time for the Education Department and its loan contractors to pay special attention to

the groups of borrowers most likely to struggle with their debt.

The Education Department outsources the work of collecting payments and counseling borrowers on their repayment options to loan contractors such as Navient Corp. and Nelnet Inc. The government pays these contractors about six times more for accounts that are current rather than seriously delinquent, regardless of the costs the companies incur to help borrowers resolve their delinquency. Loan companies say they simply don't get paid enough to help the neediest borrowers.

The Education Department has known for years that the typical borrower who defaults on her debt didn't graduate with a credential, federal records show. Yet its Federal Student Aid office—the somewhat independent unit that runs the government's student loan program—doesn't mandate special procedures for its contractors' dealings with borrowers most at risk of default. Instead, FSA gives its loan contractors "broad latitude" to handle borrowers' accounts.

To their credit, some of the government's loan contractors (including Navient) have urged FSA and the department to change its approach. After all, dropouts and borrowers who graduated from low-quality schools are more likely to default than peers who attended highly selective colleges. Yet under FSA's contracts, everyone is treated the same. Last year, Navient told the feds that the contracts encourage servicers such as itself to pay little attention to the borrowers that are most likely to struggle paying back their loans.

Despite the contracts, Navient spokeswoman Patricia Christel said the company tailors its outreach to borrowers most at risk of default. Michele Streeter, a spokeswoman for Education Finance Council, a Washington trade group that represents student loan companies, said some of its members do the same. Representatives for the Education Department and the government's three other major loan contractors—Pennsylvania Higher Education Assistance Agency, commonly known as FedLoan Servicing; Nelnet; and Great Lakes Educational Loan Services Inc.—didn't respond to several requests for comment.

It may be years before the department makes any changes. Its contracts with its four major loan servicers expire in 2019. Last month, the department directed FSA to structure its next round of contracts in a way that guarantees that dropouts would quickly get help with their loans from specially trained customer service representatives. It's up to FSA to carry it out.

Student-Loan Defaulters in a Standoff With Federal Government

The Wall Street Journal, By JOSH MITCHELL, Aug. 1, 2016

Some seven million Americans are in default, many of them ignoring phone calls, emails, text messages and letters from debt collectors

The letters keep coming, as do the emails. They head, unopened, straight into Jason Osborne’s trash and deleted folder.

The U.S. government desperately wants Mr. Osborne and his wife to start repaying their combined $46,500 in federal student debt. But they are among the more than seven million Americans in default on their loans, many of them effectively in a standoff with the government. These borrowers have gone at least a year without making a payment—ignoring hundreds of phone calls, emails, text messages and letters from federally hired debt collectors.

Borrowers in long-term default represent about 16% of the roughly 43 million Americans with student debt, now totaling $1.3 trillion across the U.S., and their numbers have continued to climb despite the expanding labor market.

Their failure to repay—in many cases due to low wages or unemployment, in other cases due to outright protest at what borrowers see as an unfair system—threatens to leave taxpayers on the hook for $125 billion, the total amount they owe.

The Osbornes say they are the victims of a for-profit school that made false promises and a predatory lender—the government.

“Do you think I’m going to give them one penny I’m making to pay back the loan for a job I’m never going to hold?” said Mr. Osborne, 45 years old, who studied to be a health-care worker but can’t find a job as one.

The rising number of borrowers in default weakens the economy as underwater homeowners did after the housing crash: by damaged credit, an inability to spend and save for the future, and a lack of resources to move to better jobs.

In the case of homeowners, though, foreclosures offered a chance to start fresh and slowly rebuild their lives. There is generally no such option for student debtors—federal law prohibits them from expunging their debts in bankruptcy, except in extremely rare circumstances.

The Obama administration says it can help borrowers like the Osbornes get back on track with programs that slash their monthly payments and forgive a portion of their balances, if only they would respond. The administration is also working to expand a program that forgives debt for borrowers who can prove their schools defrauded them with deceptive advertising claims.

And in a controversial move, the government has stepped up garnishments of borrowers' wages. It garnished $515 million in the nine months through March, federal figures show.

After years of uneven progress in reducing defaults, the Education Department is turning to a team of behavioral scientists who are trying to figure out how to get borrowers to respond, testing things such as what language to use in emails and what time of day to send text messages.

Deputy Treasury Secretary Sarah Bloom Raskin has also met with borrowers to gauge what policies would help them avoid default. Ms. Raskin has the same concerns about defaulted borrowers as the administration did with homeowners who faced foreclosure.

"As we intervened to help homeowners, I think we also have a responsibility to help students who might feel the aftershocks of economic developments they had no part in creating," Ms. Raskin said.

Most borrowers in default owe relatively small balances—a median of $8,900, according to the Education Department. But student advocates say that can be a lot of money for someone unemployed or in a low-paying job, and with other expenses to juggle.

And many feel they shouldn't have to pay anything.

The Osbornes' example underscores the challenge. Each enrolled at Abdill Career College Inc., a small for-profit school in Medford, Ore., shortly after the recession. They earned certificates as medical assistants and in 2011 graduated from a second program to become phlebotomists, or health-care workers that draw blood.

But they couldn't find steady jobs in the field, Mr. Osborne said. Now, Mr. Osborne makes $13 an hour in sales for a solar-power company, and she works as a maid, he said.

Mr. Osborne said Abdill provided a low-quality education and exaggerated the likelihood that they would find career success. And he said the government should have never extended them so much debt for jobs that are in low demand. The typical phlebotomist makes just under $32,000 a year, according to the Labor Department.

About 1 in 5 student borrowers who left Abdill in 2012 defaulted on their loans within three years, the latest federal figures show. Its default rate of nearly 21% is far higher than the national average of 12% among all colleges.

Abdill's owner, a woman named Ki who said she doesn't have a legal last name, confirmed the couple attended the school. But she said privacy law prevents her from discussing details of the couple's time there. She said the school has recently lowered its tuition, and that it prioritizes helping students find jobs.

Mr. Osborne said the government should have never extended him and his wife so much debt for jobs that are in low demand. He now makes $13 an hour in sales for a solar-power company, while his wife works as a maid.

It isn't clear how many borrowers in default are simply unable to repay, or are able to pay but refuse to do so in protest.

Illinois resident Jim Lopko, 36, said he would repay his debt if his balance hadn't skyrocketed because of interest. He owes $122,000 in student debt—a combination of federal and private loans—after graduating with an associate degree from one for-profit school and dropping out of a bachelor's program at a second in 2009. He said he dropped out because he had borrowed the maximum amount in federal loans and he couldn't gain access to any more private ones.

He is in default on his private loans and in forbearance on his federal loans. Debt collectors call him almost daily but he ignores their calls.

Mr. Lopko, who lives in a Chicago suburb, now earns $32,000 a year as a customer-service agent for an Illinois manufacturer.

"The only way out of this situation honestly is to win the lotto or to find a job that pays me $300,000 a year," Mr. Lopko said.

He says he tries to be frugal but admits he occasionally splurges. He recently upgraded to a one-bedroom apartment from a studio and took out a loan for a new Subaru WRX that carries a $445 monthly payment.

"Are you supposed to stay in inside all the time, never go out, and pay these loans?" he said.

The Wall Street Journal, Notable & Quotable: The 'Free College' Cascade

July 29, 2016 6:26 p.m. ET

From "How Clinton's 'Free College' Could Cause a Cascade of Problems," July 27 in the Chronicle of Higher Education:

The first in line for harm, most experts agree, would be the private colleges. . . .

"You're going to see a combination of dropping enrollments and skyrocketing tuition discounting," [Kent John Chabotar, a former president of Guilford College] says, "killing off the weaker, private, unendowed colleges." The

migration to public institutions wouldn't have to be universal to be devastating, he says. Some institutions would have difficulty absorbing even a 5- to 10-percent drop in enrollment. . . .

So let's say that migration happens, and a new crop of students chooses public institutions over the privates. Good news for the publics, right? Maybe not. It's unclear that regional publics and community colleges have enough capacity. . . .

"Do we really think in this fiscal environment, if a state makes higher education free, they'll increase funding that much?" [Donald Hossler, a scholar at the USC Rossier School of Education] asks. Colleges, he says, would soon be expected to educate more people with fewer resources per student. The quality of public education could erode. . . .

In fact, some experts worry that free tuition for most families could exacerbate existing inequalities and further stratify higher education. While poor students would attend crowded, lower-tier public colleges at no cost, affluent students could buy their way into elite colleges—public or private—where they might get a different kind of education from everyone else.

Faster Graduation Leaves Schools Grappling With New Enrollment Patterns

The Wall Street Journal, By MELISSA KORN, July 25, 2016

With more students finishing in less than a half-dozen years, colleges must add sections of upper-level courses and admit fewer transfer students

School administrators are grappling with fundamental math problems as they nudge students toward a speedier graduation.

With more students finishing in less than a half-dozen years, schools must add sections of upper-level courses, admit fewer transfer students to replace dropouts, and expand their freshman classes to make up for the absence of "super-seniors" lingering in dorm rooms and classrooms.

"It certainly is a concern to manage the change in enrollment patterns," said David Laude, senior vice provost for enrollment and graduation management at the University of Texas at Austin.

The school is intentionally increasing the size of its freshman class to account for the fact that the four-year graduation rate has jumped from 51% in 2012 to a target of 70% for the class of 2017, due to efforts like peer mentors, predictive analytics to help flag students before they veer off course and even a help desk dedicated to aiding students struggling to nab spots in classes they would need to make that final push to graduation.

Quick success in improving four-year graduation rates can have unintended consequences at some schools.

One campus at the University of Hawaii was caught off-guard recently by a surge in students interested in taking a heavier course load. The campus couldn't offer enough slots to accommodate all those who wanted to sign up for an extra class or two in a given term, said Risa Dickson, vice president of academic planning and policy.

The university system is adding online classes and rethinking how it schedules introductory and advanced sections to make sure more students can enter the courses they actually need to graduate in four years.

Ms. Dickson said campuses are also assessing their overall enrollment plans based on what they hope is a "new normal" of higher graduation rates. Overall enrollment at the University of Hawaii's four-year schools slid by 9.2%, to 51,291, between the spring of 2012 and this spring, because the system didn't enroll more freshmen to make up for the increase in departing seniors.

"It's quite frightening," Ms. Dickson said. "When students take six years, you do have two more years of revenue from them. But we have to remember this is a good thing."

Colleges Nudge Students to Graduate Within Four Years

The Wall Street Journal, By MELISSA KORN, July 25, 2016

Slow graduation rates hurt schools' reputations and add to tab for 'super seniors'

College administrators are sending a message to their students: Hurry up.

Low graduation rates hurt a school's reputation, and staying enrolled for extra years adds to the tab for students. So dozens of schools and statewide systems are trying to cut back on the number of "super seniors" milling about campus.

Schools have embraced marketing gimmicks like "Class of '17" bumper stickers to rally students around their graduation year. But they also are changing how they price a semester to make it easier to stay on pace to graduate, notifying students eligible to graduate that they should do so soon, and altering the classes offered in a given term to help students take the courses they need.

"The most effective way to lower student debt is to lessen the time toward completion," said Cleveland State University President Ron Berkman. Cleveland State now charges the same price for 18 credits as for 12 in a semester, and allows

students to register for a full year of courses at once to help them plan more effectively.

The four-year graduation rate at Cleveland State doubled between the 2007 and 2011 entering classes. But it is still stubbornly low: Just 22% of those who enrolled as full-time freshmen in 2011 finished by 2015.

Those numbers illustrate a widespread challenge for schools as college-hopping, the lure of extracurricular activities and second or even third majors continue to keep students on campus.

Nationally, four in 10 students who entered college for the first time as full-time freshmen in 2008 graduated within four years. The six-year rate hovers around 60%.

Most financial-aid offerings, including the federal Pell Grant program, count students as being enrolled full-time if they take just 12 credits a term. But to finish the standard 120-credit degree in four years, students need to take 15 credits each semester.

The Obama administration proposed in its fiscal 2017 budget request a $300 bonus payment to Pell recipients who take 15 credits or more each semester. And Congress is weighing reinstituting year-round disbursements of Pell funds, which could help students speed up school by taking more summer classes.

Sevag Alexanian had been taking between 12 and 14 credits most semesters at California State University, Northridge. He realized last year that it would take 4½ years to graduate at that pace, but he opted to stick around for an entire fifth year, tacking on a major in marketing to his business management degree.

"It adds value to the college degree," he said of the second major.

It also adds time—and money.

A report last month by personal-finance website NerdWallet found that two additional years in school can cost $300,000 over a person's life, including money spent on tuition and student loans, lost income and missed retirement savings.

Schools are trying to catch students like Mr. Alexanian before they fall behind.

More than 190 campuses nationwide have implemented or will launch in the next year "15-to-Finish" campaigns, which drill into students the need to take 15 credits each term in order to graduate in four years, according to Complete College America, a nonprofit that advocates for higher graduation rates. Six states have rolled out the programs across their entire university systems, the group said at a conference on the topic late last month.

The University of Hawaii has blanketed local media and posted 15-to-Finish slogans on T-shirts, cups and pens since 2012. It holds a drawing for free textbooks for students who took 30 credits their first year, it weighted graduation rates more heavily in school-funding formulas, and it even stopped renewing scholarships for students who didn't take 30 credits the prior year.

"We've changed the culture," said Risa Dickson, vice president of academic planning and policy for the state university system. "We've changed what people think full-time is."

The four-year graduation rate at University of Hawaii at Mānoa rose to 27% for the class that started in 2011, up from 21% two years prior, and hit 37% for those who took at least 15 credits in their first term.

Even a full course load every term can't guarantee a four-year timeline. For example, Justin Calso had been studying finance at University of Hawaii at Mānoa, taking at least 18 credits most semesters. But he decided in the spring of his junior year to add a second major in Korean and spend a semester in Seoul before leaving school.

"I simply was not ready to graduate," Mr. Calso said. The 21-year-old will study in South Korea this coming fall, then take a few final classes and work as an intern back in Hawaii in the spring.

Meanwhile, students who are ready to move on can struggle to get credit for how far they have come. With more than one-third of students now attending multiple institutions during their college careers, convoluted credit-transfer policies continue to slow the timeline to graduation.

Reid Simkovitz called his transfer process "a mess." After spending three years at a community college in New Jersey—the extra year due to a change in majors—he sought a four-year school that would recognize the work he had already done. One offered to award him just 10 credits, or the equivalent of three courses.

Mr. Simkovitz, 22 years old, moved to Louisiana State University in part because it took more than 40 of his 60-plus credits from the prior institution. After two years and an extra summer of classes in Baton Rouge, he aims to graduate next May.

Free College, Dude

The Wall Street Journal, Editorial, July 10, 2016 5:30 p.m. ET

Clinton's offer to millennials: subsidies now, higher taxes later.

Some of our friends console themselves over Donald Trump by saying that Hillary Clinton is at heart a pragmatist who will steer to the political center as her husband did. You sure can't tell by her sprint to the left since she's become the presumptive Democratic nominee. Her latest move is to adopt Bernie Sanders's idea to make college another middle-class entitlement.

The proposal continues Mrs. Clinton's rejection of her husband's New Democratic platform in favor of a cradle-to-grave entitlement state. She's trying to fill the chronological and subsidy gaps that President Obama has left undone.

She has already proposed expanding Social Security benefits for retirees who took time off midcareer, adding pre-retirees as young as 50 to Medicare, and guaranteeing 12 weeks of paid family and medical leave. She also wants to sweeten ObamaCare subsidies with tax credits of $5,000 per family to cover copays and deductibles. Don't forget universal pre-K. The goal is to make every American dependent on government—and the Democratic Party—from birth to death.

Mr. Obama took a giant step toward making college an entitlement by nationalizing student loans (which Bill Clinton started to do), reducing the interest-rate on those loans, and then when the debt burden became too high facilitating debt forgiveness. Mrs. Clinton was going this route but Mr. Sanders outbid her during the primaries with "free" college tuition.

She's now trying to attract Bernie's voters by offering to have taxpayers pay college tuition for students from families with incomes up to $125,000, or about 80% of households. States would supposedly have to maintain their current spending levels on higher-ed to qualify for matching funds, but look for colleges to jack up tuition as Washington promises to pay for it.

Consider what happened after the Obama Administration created supplemental Pell Grants that averaged $1,700. Between 2008 and 2010, spending on Pell Grants increased by nearly 120%. Tuition and fees jumped more in 2009 at nonprofits (5.9%) and public four-year colleges (9.5%) than in any year during the past decade. Mrs. Clinton's tuition plan is another income transfer from the private economy to the academic class that overwhelmingly votes for Democrats.

Students would have to pay room and board, so most would still need to take out loans. But Mrs. Clinton has a government sweetener for that too. She would make universal the income-based repayment plans that allow borrowers to discharge student loans after paying merely 10% of their income for 20 years.

President Obama allowed recent grads to qualify for loan discharges, but Mrs. Clinton wants to eliminate the age barrier so older grads can benefit. What she calls "social entrepreneurs"—aren't we all?—would also be eligible for up to $17,500 in loan forgiveness. Taxpayers would pick up the tab.

One irony is that Mrs. Clinton attacked Mr. Sanders's free-college plan during the primaries, as did her allies in the Democratic policy establishment. The Tax Policy Center took a break in May from attacking tax cuts to report that spending under the Sanders plan "would increase by $807 billion over 10 years." And that was estimating only the "reallocation of spending from private sources to public ones," not including higher college attendance.

Matthew Chingos of the Brookings Institution added that because free college doesn't address room and board, it "leaves families from the bottom half of the income distribution with nearly $18 billion in annual out-of-pocket college costs that would not be covered" by current government subsidies. The affluent would thus benefit more from "free college."

Mrs. Clinton's proposal isn't the same as Bernie's but it's close enough for government work. It will be fascinating to see if Bernie's liberal critics now give Hillary a pass.

The saddest part of this is that the millennial voters Mrs. Clinton is trying to bribe don't seem to realize they'll pay for free college for the rest of their lives. As debt and entitlements increase as the baby boomers retire, there aren't enough millionaires to soak. The politicians will have to raise taxes, and probably severely, on millennials as they reach their peak earning years. Mrs. Clinton's proposal amounts to a giant national student loan to be repaid with future taxes.

Like most of her agenda, Mrs. Clinton's student subsidy plan has no chance of passing as long as Republicans hold the House. But watch out if Nancy Pelosi gets the gavel back. If Donald Trump's candidacy costs the GOP the House and Senate, the price will be far more than losing the Supreme Court.

Obama's Student Loan Writeoff

The Wall Street Journal, June 17, 2016, Opinion

First target for-profit schools, then have taxpayers pay the bill.

In its final months the Obama Administration is accelerating rule by regulation. Behold the sweeping "borrower

defense" rule it proposed this week that targets for-profit colleges while creating large-scale student debt relief and enriching the plaintiffs bar. Three progressive goals for the price of one rule.

Last summer the Education Department established a "negotiated rulemaking committee" to clarify an obscure provision in the Higher Education Act of 1965 that authorizes the Secretary to discharge student loans based on "acts or omissions of an institution of higher education." The committee failed to reach a consensus, so the White House is now rewriting the law wholesale.

The Administration has moved to provide mass debt relief to protect itself from student anger after it drove for-profit Corinthian College out of business. (See "Obama's Corinthian Kill," July 26, 2014.) Last year the Education Department set up an ad hoc process to forgive loans for some 85,000 Corinthian borrowers. Taxpayers could be on the hook for up to $3.2 billion. The new rule expands that process and is estimated to cost between $199 million and $4.2 billion annually—though loan-forgiveness expansions have already cost many times more than projections.

The new proposal would allow borrowers to discharge loans if a court renders a legal judgment against their college or if their school breached a contract. The department also wants to make borrowers eligible if their college made a "substantial misrepresentation." This is defined as "any statement that has the likelihood or tendency to mislead under the circumstances" or "omits information" and on which that person "could reasonably be expected to rely, or has reasonably relied, to that person's detriment."

This would vastly expand the basis for debt relief since nearly all ads can be defined as misleading under some circumstance. Government bureaucrats would play King Solomon and oversee a tribunal—which means a rubber stamp.

The Secretary of Education could also certify claims for groups of borrowers with "common facts and claims." A "department official" would represent borrowers pro bono. Another government solon would review "the basis for identifying the group," resolve claims and determine the liability of a college for discharged loans. This quasi-judicial system would eviscerate due process.

A group under this definition could encompass tens of thousands of borrowers who attended a for-profit that has been investigated or sued by a government agency. Neither the government nor borrowers would have to prove the individuals were harmed by the school's alleged misrepresentation. The Secretary, not a judge, would adjudicate appeals and could fine colleges and cut off their access to federal student aid, which could force many out of business.

The Education Department is also redoing its "financial responsibility" regulations, which require colleges to post letters of credit if they fail to meet certain equity, income and cash reserve standards. The department wants to add roughly a dozen criteria for measuring financial responsibility—most unrelated to a college's solvency—such as a lawsuit by a federal or state agency or high dropout rate. Schools that fail any of these "triggers" would have to notify students and post a letter of credit.

The putative goal is to ensure that taxpayers aren't stuck paying for discharged loans at colleges that close because of government prosecutions. But many for-profits may not be able to obtain a letter of credit while under the government's sword of Damocles. This could impel the department to choke off federal aid, triggering a liquidity crisis and collapse, or an exodus of students.

Naturally, the rule also bars class-action waivers and mandated arbitration in enrollment agreements. While the department claims that class action lawsuits will enable recoveries beyond government debt relief, the main beneficiaries will be plaintiff lawyers.

A fair rule would apply to all colleges, for profit or nonprofit, but public colleges would be exempt from the new financial responsibility rules. Education Secretary John King has said that the department's goal is to target for-profits like Corinthian. Which more or less sums up the Administration's campaign against for-profit schools: Shut down as many as possible, and then minimize any student backlash by handing taxpayers the bill for the wasted loans.

More Than 40% of Student Borrowers Aren't Making Payments

The Wall Street Journal, By JOSH MITCHELL, April 7, 2016

New figure raises worries that millions of them may never repay more than $200 billion owed

More than 40% of Americans who borrowed from the government's main student-loan program aren't making payments or are behind on more than $200 billion owed, raising worries that millions of them may never repay.

The new figures represent the fallout of a decadelong borrowing boom as record numbers of students enrolled in trade schools, universities and graduate schools.

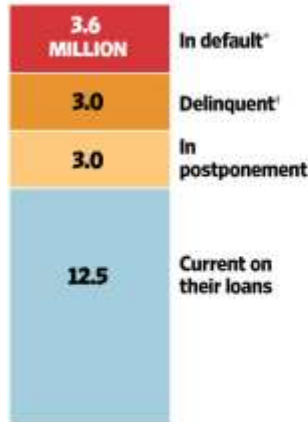
While most have since left school and joined the workforce, 43% of the roughly 22 million Americans with federal student loans weren't making payments as of Jan. 1, according to a quarterly snapshot of the Education Department's $1.2 trillion student-loan portfolio.

About 1 in 6 borrowers, or 3.6 million, were in default on $56 billion in student debt, meaning they had gone at least a year without making a payment. Three million more owing roughly $66 billion were at least a month behind.

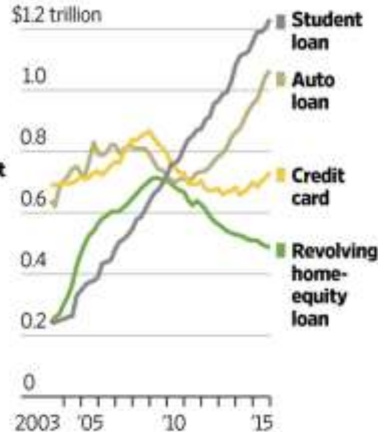
Failing to Repay

Some 43% of the roughly 22 million Americans with federal student loans were either behind or received permission to postpone payments due to economic hardship as of Jan. 1.

Americans who are out of school and owe federal student loans



Debt outstanding by type of consumer loan



*At least 360 days behind on a payment †Between 31 days and 360 days behind on a payment

Sources: Education Department (student loans); Federal Reserve Bank of New York (debt outstanding)

THE WALL STREET JOURNAL.

Meantime, another three million owing almost $110 billion were in "forbearance" or "deferment," meaning they had received permission to temporarily halt payments due to a financial emergency, such as unemployment. The figures exclude borrowers still in school and those with government-guaranteed private loans.

The situation improved slightly from a year earlier, when the nonpayment rate was 46%, but that progress largely reflected a surge in those entering a program for distressed borrowers to lower their payments. Enrollment in those plans, which slash monthly bills by tying them to a small percentage of a borrower's income, jumped 48% over the year to 4.6 million borrowers as of Jan. 1.

Advocacy groups, some members of Congress and the federal Consumer Financial Protection Bureau fault loan servicers—companies the government hires to collect debt—for not doing enough to reach troubled borrowers to offer such payment options.

"The servicers aren't quite promoting them in the way they should be—I think some of it's information failure," said Rachel Goodman, a staff attorney at the American Civil Liberties Union.

But the picture seems more complicated.

Navient Corp., which services student loans and offers payment plans tied to income, says it attempts to reach each borrower on average 230 to 300 times—through letters, emails, calls and text messages—in the year leading up to his or her default. Ninety percent of those borrowers, which include federal borrowers as well as those who hold private loans, never respond and more than half never make a single payment before they default, the company says.

The Obama administration—worried about taxpayer costs and the prospect of consumers damaging their credit by defaulting—has stepped up efforts to reach borrowers and offer the income-based repayment plans. In some cases, the government is garnishing wages and tax refunds of borrowers who refuse to pay.

Education Department officials note that some defaulted loans are from prior decades and, unlike private lenders, the government is severely limited in its ability to write them off and remove them from the books. They also point out that the growth in defaults and delinquencies slowed last year, suggesting progress in the administration's efforts to get borrowers current.

But the officials acknowledge that a large pool of borrowers have essentially fallen off the radar. The Education Department has assembled a "behavioral sciences unit" to study the psychology of borrowers and why they don't repay.

"We obviously have not cracked that nut but we want to keep working on it," said Ted Mitchell, the Education Department's under secretary. He said many defaulted borrowers dropped out of school and are underemployed.

Carlo Salerno, an economist who studies higher education and has consulted for the private student-lending industry, noted that the government imposes virtually no credit checks on borrowers, requires no cosigners and doesn't screen people for their preparedness for college-level course work. "On what planet does a financing vehicle with those kinds of terms and those kinds of performance metrics make sense," he said.

Some borrowers aren't repaying even when they can. Research from Navient shows that borrowers prioritize other bills—such as car loans, mortgages and heating bills—over student debt. A borrower who fails to pay down an auto loan might have her car repossessed; with student loans, there is no such threat.

Kristopher Mathews, 38 years old, is in deferment on about $11,900 in federal student loans. During the recession he earned a certificate at a Michigan-based for-profit college that teaches media arts, but he wasn't able to find the well-paying job in radio that he hoped for.

Mr. Mathews now works as a logistical analyst for an auto company, making $46,000 a year. He says he devotes his income to caring for his family—he and his fiancée have three children—and paying off two credit cards and a car loan. "With all the other necessities in life I just don't have" funds to pay student debt, he said.

Once his deferment expires, he isn't sure if he will feel obliged to pay down his loan. "They promised me everything," he said of his for-profit college. "And I honestly have nothing to show for it except a piece of paper that doesn't really do me any good."

Most borrowers who have defaulted owe relatively little—a median $8,900, according to the Education Department.

The administration maintains that the student-loan program, as a whole, will generate a profit over the long term, but the risk is rising that its revenue won't meet the administration's projections.

Even many borrowers who are current on their loans are paying very little. More than a third of borrowers on an income-based repayment plan had monthly payments of zero because their incomes were so low, according to a Navient survey last year.

The Education Department, through private debt-collection agencies, garnished $176 million in Americans' wages in the final three months of last year for student debt, federal data show.

The administration's pursuit of troubled borrowers is drawing criticism from student advocates and their allies in Congress. Last week, the American Civil Liberties Union and the National Consumer Law Center sued the Education Department, accusing it of blocking public access to data on the agency's debt-collection efforts. The groups suggested that the companies collecting debt for the department might be discriminating against black and Hispanic borrowers.

Dorie Nolt, a spokeswoman for Education Secretary John B. King Jr., said the agency is reviewing the groups' public-information requests.

"The singular goal of our student loan program is to help all students get a degree that sets them up for success, and we take the treatment of our borrowers—particularly historically underserved students—very seriously," Ms. Nolt said in an email.

The Feds and Students vs. Taxpayers

By JORGE KLOR DE ALVA and MARK SCHNEIDER, The Wall Street Journal, March 3, 2016

Obama is encouraging loan recipients to claim they were misled by colleges. Guess who will pay.

Last month President Obama announced the creation of a "Student Aid Enforcement Unit" that could end up costing taxpayers billions of dollars and reduce access to career training in the U.S. Housed in the Education Department, this unit follows the president's complaint last year that many schools—especially career-training, for-profit schools—rely heavily on federally funded loans yet do not reliably graduate students equipped for jobs.

The Student Aid Enforcement Unit will greatly increase the use of two little-known Education Department regulations, first enacted in 1994. The "borrower defense" permits students to claim they owe nothing on their student loans because they enrolled based on a school's misleading assertions about job-placement and graduation rates. The "closed school" regulation relieves students from their debt when a school they are attending shuts down. Federal education loans that are forgiven become liabilities of the government, i.e., the taxpayers.

Now that students are being encouraged to claim that they were misled, a small industry has already taken root, with online forms asking students if they feel they have been misled and then detailing how they can file for relief from loan repayment. Class action law suits are also being readied and filed to discharge even more student loans.

The Education Department is working on another regulation to let it recoup the discharged loans from the schools in which the student was enrolled. But few schools—career, public or private not-for-profit—could afford massive discharges, so it is unlikely that taxpayers will ever in effect be reimbursed for the forgiven loans. Bankruptcies at the for-profit schools are the likely outcome, which will decimate this form of career education that today includes well over 10% of all postsecondary students.

The example of Corinthian Colleges Inc. gives an idea of what is to come. After finding last year that the for-profit Corinthian colleges had misled students with false claims about job-placement rates, the Education Department began to enforce the regulations on behalf of tens of thousands of claimants.

The department expedited closed-school discharge claims from approximately 40,000 students at Corinthian's closed Heald College. By December, the department was estimating that 85,000 additional Corinthian students may be eligible for relief under the rule. Education Department data show that the first 5,814 closed-school discharge claims approved for former Corinthian students came to about $75 million. If 85,000 more students are granted relief, taxpayers may face a bill for over $1 billion for this institution alone.

Using Education Department data, we estimate that at Corinthian, roughly 8% of student loans have been forgiven, and 10% are likely to be granted relief after all claims are evaluated. Taking this as our guide, it is safe to say that many proprietary colleges and universities—including those currently under investigation by the Education Department, the Federal Trade Commission, state attorneys general and other regulatory bodies—may ultimately find themselves out of business and unable to pay the department back for the loan relief it grants.

Certainly, the federal government has a responsibility to protect students from bad schools engaged in deceptive practices, especially since the federal government provides over $100 billion in loans each year to students enrolled in public, private and proprietary college and universities.

In the past, however, colleges found to have questionable practices have been forced to discontinue false advertising and required to establish policies and procedures that produce accurate and verifiable documentation on job-placement rates and postgraduation earnings. This was the procedure followed in 2013, when the Education Department's inspector general found that Arkansas State University had made employment claims that could not be justified.

The expansion of the application of borrower-defense regulations—from a handful of cases over 20 years to potentially thousands annually—has opened the door for any students, from any institution, nonprofit or for-profit, to claim they were lured to the school by deceptive practices. As the new Student Aid Enforcement Unit (which adjudicates the claims based on state laws) overflows with claimants alleging unfulfilled promises of employment, postgraduate education or a rewarding career, taxpayers will be left holding the bag.

Mr. Klor de Alva is president of Nexus Research and Policy Center in San Francisco. Mr. Schneider is a fellow and vice president of the American Institutes for Research in Washington.

Poorest Students Feel the Bite of Rising College Costs

The Wall Street Journal, By JOSH MITCHELL And ANDREA FULLER, Feb. 19, 2016

Higher tuition, living expenses drive an increased loan burden

Students from the poorest households are shouldering more of the pain from rising college costs, borrowing at far higher levels as a share of family income than ever.

As college costs have increased faster than government grants and scholarship money in the past two decades, poor students have been taking on more debt for tuition as well as for living expenses.

It is now the norm for U.S. students from the lowest income bracket to borrow at least half of their household income to attend most four-year colleges. At 58% of 1,319 four-year colleges with available federal data, students from households earning $30,000 or less a year left those schools during the 2013 and 2014 school years owing a median $15,000 or more in total debt, according to a Wall Street Journal analysis.

Ten years earlier, only 18% of four-year institutions had such high debt burdens among students in the same income bracket.

Debt covered only a small share of college expenses for poor students in previous generations, but it has become the main source of education funding for them, said Stephen Burd, a senior education-policy analyst at the New America Foundation, a left-leaning think tank.

"When the government created the federal student-aid programs back in the '60s and early '70s, student loans were really supposed to go to middle-class students," Mr. Burd said. "It was never really thought that this was going to become the primary way that we support low-income students."

The debt figures, released as part of the Education Department's College Scorecard, include both dropouts and graduates. The Scorecard data lists a median debt load for each school, but not a nationwide figure.

Tuition increases are one of the main drivers in rising debt. Among the four-year schools in the Journal's analysis, the average increase in tuition and fees was greater than 75% in the past decade, outpacing inflation.

Meanwhile, grants aren't keeping up with college costs, other figures confirm. At public four-year colleges, the average annual net price—or the price that students paid, out of pocket, for tuition and living expenses after factoring in grants and tax benefits—rose by an inflation-adjusted 26% over the past decade to $14,120 this school year, according to the College Board. At private, nonprofit four-year schools, net prices rose 7% to $26,400.

What's more, graduation rates have stagnated in the past decade, leaving many low-income students with high debt and no degree. And those who graduated have entered the labor market during a sluggish economic expansion and haven't seen wage increases commensurate with their rising debt.

Though federal data on debt loads and post-college salaries aren't directly comparable, average earnings for low-income students a decade after they enroll—about $45,000 a year according to the College Scorecard—have remained relatively

flat in recent years.

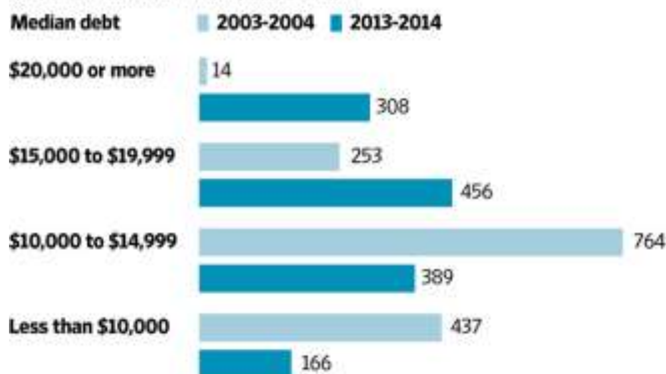
“It’s just a much riskier proposition” for low-income students to borrow, said Mr. Burd. College can leave poor students “worse off than before they enrolled” because low-income families don’t have the money to bail out borrowers if they run into trouble, he said.

The Education Department calculates median debt figures for three income brackets—$30,000 or less, between $30,001 and $75,000, and greater than $75,000—based on how much a student’s parents earn, or how much a student’s household earns if he or she isn’t a dependent. Those brackets aren’t adjusted for inflation, meaning the students with families earning under $30,000 are relatively poorer today than they were a decade ago while debt for that group has increased substantially.

Borrowing has climbed among all income brackets during the past decade. By total dollar amount, student debt rose fastest among the wealthiest households—those earning more than $75,000. While students in that income bracket borrowed more as college costs rose, their amount of debt was still a lower proportion of their income compared with poor students. At no four-year college did the median debt of students in the highest income bracket equal at least half of family income, or $37,500.

Education experts say the recession and mild recovery have led poor students to turn to student loans to cover living expenses, even among those schools with low tuition.

“Transportation, medical, room and board—all that stuff is rising even when tuition isn’t, and financial aid isn’t rising” as quickly, said Sara Goldrick-Rab, a University of Wisconsin-Madison professor who has studied student debt trends.



Even with a scholarship, Hector Cabrera, a 19-year-old freshman, had to borrow about $4,000 this year to cover tuition and living costs at Purdue University Calumet, a small public school in northwest Indiana. His father is a self-employed welder and his mother is unemployed. Together, they earn less than $28,000 and don’t have the savings to pay for college, he said. He lives with them in Hammond, Ind.

Purdue Calumet had one of the largest increases in median debt for poor students in the past decade, nearly tripling to $16,914. Mr. Cabrera expects to borrow about that amount during his time at school.

Mr. Cabrera said he turned down offers from more expensive colleges because he wanted to limit his debt. He is working part time in the school’s financial-aid office. Borrowing, he said, is “an investment in my future.”

Thomas Keon, Purdue Calumet’s chancellor, says his school is limited in its ability to help low-income students. Tuition and fees are relatively low even among state schools, at roughly $7,000 a year. But the college has a small endowment and limited money for scholarships, he said.

High debt burdens among poor students have grown at public, private nonprofit and for-profit colleges alike, but the fastest growth has come among public schools. A decade ago, 4% of state schools had a median debt of at least $15,000 for students whose families earned $30,000 or less, according to Scorecard data. Today, almost half of state schools leave poor students with debts that high.

Robert Kustra, president of Boise State University, a public research university in Idaho, said debt is rising among poor families because state and federal grants—which don’t have to be repaid—haven’t kept up with rising costs.

But like many other schools, Boise State has shifted more money toward merit-based scholarships, which go to students with high test scores and grade-point-averages, from need-based aid. That is designed in part to enroll the best prepared students and lift graduation rates, Mr. Kustra said.

“We are certainly reaching out to students in need, but we also recognize we must have some guarantee of completion,” Mr. Kustra said.

Boston Architectural College had one of the largest increases in median debt for low-income students. In the decade before the 2013-2014 school year, tuition more than doubled to $18,622. Median debt for poor students rose to $32,888

for the 2013-14 school year.

James Ryan, vice president of enrollment management at the school, says the school's debt load is likely higher than at other colleges because degree programs require significant practical experience and extend beyond four years. He adds that the recession forced more students to take unpaid rather than paid internships to get practical training.

Mr. Ryan says the college has raised tuition to "try to normalize ourselves with some of our competition," though he says "a significant amount of that increase" has been targeted toward more aid for needy students.

"We were perceived not as valuable…because we were so much less expensive than other schools," Mr. Ryan said.

Why Is Tuition So High

Slate, By Ellen Wexler, February 16, 2016

This article originally appeared in Inside Higher Ed.

Ironically enough, student aid might be to blame.

College tuition has risen too quickly, and debt is unmanageable for increasing numbers of students; that much is clear. But to contain college prices, education leaders will need to answer a contentious question: Why does the price keep rising?

Higher education's critics tend to blame high prices on overpaid professors or fancy climbing walls. At public colleges, lobbyists tend to blame reductions in state support. But a new study places the blame elsewhere: the ready availability of federal student aid.

Student aid accounts for most of the tuition increases between 1987 and 2010, according to a working paper from the National Bureau of Economic Research. The more money students can borrow, the idea goes, the more colleges can charge.

Over the last few decades, the amount of aid available to students has increased dramatically: Subsidized loans were expanded, while an unsubsidized loan program made its debut. But looking at the big picture, does that money always offset the costs to students?

The researchers say no. Instead, colleges increase tuition even more, because they know financial aid can cover the difference. Student aid may cover more of students' tuition—but if the aid wasn't available, tuition might not have gone up in the first place.

"You've got to somehow tie aid to lowered tuition if you want to give money to students," said Grey Gordon, an assistant professor at Indiana University and co-author of the paper. "You have to somehow structure it so colleges can't just increase tuition and capture that money."

But the idea that increased student aid drives up tuition is contentious, as is the researchers' model. The paper's conclusions depend on a model of one hypothetical college, which is based on data from private and public nonprofit institutions.

The more money students can borrow, the more colleges can charge.

"This is an atom bomb mathematical technique on a problem that requires much more nuance," said David Feldman, economics professor at the College of William and Mary and author of the 2010 book Why Does College Cost So Much?.

Feldman said increasing federal aid will rarely change how high a college sets its tuition. A college's sticker price is set by its wealthiest students' ability to pay—and the wealthiest students never take out loans.

That doesn't mean colleges never use federal aid to their advantage. Especially at private colleges, Feldman said, federal aid may replace existing scholarships. Take a student who would have gotten $20,000 from a college. If she gets an extra $1,000 in Pell Grants, she may get $19,000 from her college instead. The student pays the same, but the college pays less.

How did debt get so bad in the United States? Join personal finance columnist Helaine Olen as she takes in-depth look at the reality of debt in America. What's it like to empty out your 401(k) to help a family member? How does a first-generation college student navigate student loans at a for-profit school? What works—and what doesn't—for people struggling to get out of debt? Find out in this series. Join us today.

At public universities, increases in Pell Grants typically lower net tuition. "It's a very different system," Feldman said. "That's the nuance that's missing." For-profits, on the other hand, are the one sector where the theory "applies in spades," he said.

While the paper looks at nonprofit institutions, the idea that student aid increases tuition is perhaps most evident in for-profit colleges: In one study, for-profit institutions that participate in the federal aid program charged tuition that was 78

percent higher than those that didn’t.

Ronald Ehrenberg, a Cornell University professor of industrial and labor relations and economics and an expert on higher education governance, also cited the research on for-profits. “However,” he said in an email, “virtually everyone who has looked at public higher education and modeled it concludes that the major thing driving up tuition in public higher education is the withdrawal of state support.”

It’s a narrative that’s ingrained in the higher education landscape: State support is down, and students are covering the difference. This idea, too, is backed up by research—states that invest more in higher education see lower prices, said John Barnshaw, senior higher education researcher at the American Association of University Professors.

“As states increased their funding, the net price dropped,” he said, “and it was a statistically significant drop.”

But according to the NBER researchers’ model, changes in state appropriations didn’t contribute to tuition increases. “Even if appropriations have fallen, there are other sources of revenue that have offset that,” Gordon said. “Sports programs, hospitals, endowments. Endowments is the big one.”

The second, equally divisive finding of the paper has to do with what doesn’t drive up colleges’ price tags: faculty salaries.

The idea that faculty salaries increase tuition is popular, and the reason is something called Baumol’s cost disease. In the 1960s, the economist William Baumol noted that certain sectors become more productive over time, which allows them to cut labor costs and lower prices. But sectors that don’t see productivity increases still end up increasing their workers’ salaries, which drives up the cost for consumers.

Think of a string quartet, the example Baumol used in his original analysis. Even as time passes and technology improves, it will take the same number of people the same amount of time to play a piece of music as it did hundreds of years ago. Productivity isn’t increasing, but the cost of a string quartet will still rise—and the consumer has to pay the extra cost.

The paper’s conclusions depend on a model of one hypothetical college, which is based on data from private and public nonprofit institutions.

Education, proponents argue, is the perfect example of Baumol’s theory. Instructors stand in front of lecture halls or seminar rooms, interacting directly with a manageable group of students. For centuries, the argument goes, nothing has changed about this model. Faculty members are expensive, and tuition goes up.

But according to the researchers, Baumol’s hypothesis doesn’t hold up. In the model, costs did rise—but instead of raising tuition, the model college responded to the higher costs by increasing enrollment.

“The cost is not a per-student cost,” Gordon said. “It has not become more costly to educate an additional student. It’s become more costly to educate all students in general.”

It’s a hard time to blame the faculty; many education analysts are sympathetic to the challenges faculty members face, and they’re happy to see more research that refutes Baumol’s hypothesis. Colleges rely more and more on part-time faculty members, who often work for low pay and no benefits. But it’s perhaps equally hard to blame student aid, often seen as the only way for most students to earn a degree.

For those who disparage the idea of trade school, trade school is increasingly what people expect of college. A traditional college education was never meant to provide specific skills for various careers. More...

“I go to college campuses almost every week and look at their expenses,” said Howard Bunsis, an accounting professor at Eastern Michigan University who does research for the AAUP. “It’s not student aid that’s getting a bigger share of the pie. In most places, it’s the administration.”

And then there’s the model itself. While based on real data, it doesn’t represent a real institution. And while the researchers plan to expand on their work in the future, the current model combines public and private data—a tactic many said was too simple a way to view a complex problem.

“You need to look at the incentives that different kinds of schools face and understand the process of tuition setting in order to have a good understanding of how those schools are likely to respond to small changes in federal grant and loan policies,” Feldman said.

U.S. Helps Shaky Colleges Cope With Bad Student Loans

The Wall Street Journal, By ANDREA FULLER and JOSH MITCHELL, December 21, 2015

Corrections & Amplifications

The U.S. Department of Education in January 2017 released updated data showing that it had overstated federal-student-debt-repayment rates at almost all colleges in data that it had released in September 2015 as part of the Obama

administration's College Scorecard. The article below was based on the incorrect data from 2015. (Jan. 25, 2017)

Government officials guide schools on how to clean up data and keep access to federal aid

LITTLE ROCK, Ark.—Arkansas Baptist College got a dire warning from the Education Department last year. So many students had defaulted on their loans that the college was at risk of losing access to federal aid.

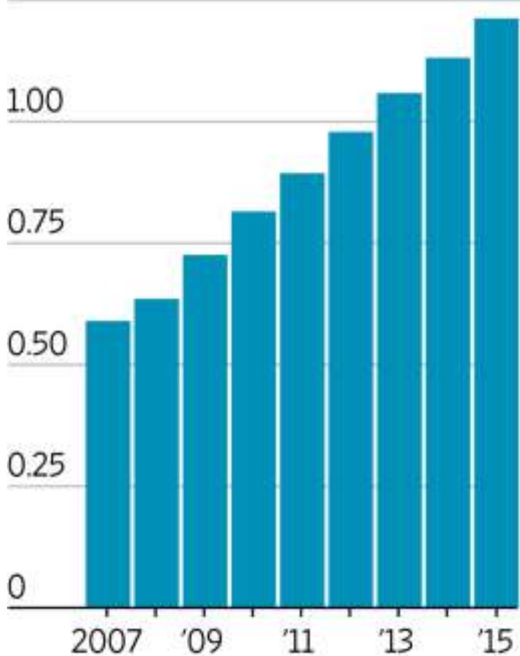
That threat is one of the biggest weapons the agency has to police the performance of colleges and universities. But the warning to Arkansas Baptist also came with an offer of help, says Yvette Wimberly, a dean at the college.

For the next six months, the Education Department told the college how to look for errors in its student-loan data. Arkansas Baptist identified at least three students who were murdered after they left the college. Fixing that and other data problems cut the default rate enough to save Arkansas Baptist.

Critics say the Education Department's willingness to help colleges clean up their numbers shows how reluctant it is to shut down the worst-performing colleges. Keeping troubled colleges alive is more controversial than ever, since federal student-loan debt has doubled to $1.2 trillion since 2007.

"They can help a school fix their default rate, but do they actually help fix their students' economic well-being?" says Nick Hillman, an assistant education professor at the University of Wisconsin in Madison who has studied student-loan default rates. "That's what it should be all about."

Government officials say they do everything in their power to hold colleges accountable. Ted Mitchell, undersecretary at the Education Department, says the agency also wants to make sure that a college's student-loan data are correct before punishing it. "For this to be a fair process, these sanctions must be based on accurate information," he says.



Under a process created by Congress, colleges can lose federal aid if their default rate hits 30% for three years in a row—or exceeds 40% in a single year. In most cases, a student loan is in default if the borrower has gone more than 360 days without making a payment. Borrowers are allowed to delay payments under some circumstances, such as illness or unemployment, though the interest owed on their loans keeps accumulating.

Since October 2001, just 17 educational institutions—all of them trade schools—out of a total of about 6,000 failed to meet loan-default requirements and then were banned from getting federal aid, the Education Department says.

At 108 four-year colleges, at least half of all students hadn't paid even $1 of what they owe within three years of leaving college, according to an analysis by The Wall Street Journal of the latest government data. Those colleges got more than $10 billion in federal student loans and grants last year.

Some help

With help from the Education Department, Arkansas Baptist reduced its three most recent yearly default rates below 30%. Last year's 26% default rate still ranked in the highest 1% of the 1,615 colleges in the Journal's analysis.

Arkansas Baptist's nonpayment rate on student loans was 88%, the highest of any four-year college in the U.S. More than four out of every five students drop out. Fitz Hill, president of the historically black private college, says the numbers look bad mostly because Arkansas Baptist enrolls poor students.

"They're talking about default rates," he says. "I'm talking about lives."

Anthony C. Johns, 32 years old, regrets accumulating roughly $40,000 in debt while attending Texas College, a private college in Tyler. He says he graduated in 2007 with an English degree but couldn't land a full-time job.

"I think I applied for everything on CareerBuilder from teaching to banking," says Mr. Johns, who has defaulted on his Texas College loans. "Default was very embarrassing." Since then, he has enrolled in law school and borrowed $30,000

to pay for the first year.

In the past four years, Texas College's student-loan default rate has been a few percentage points lower than 30%. When borrowers who are delaying payments on their loans but haven't defaulted are included, the rate of troubled loans was 76%, according to the latest data.

Texas College declines to comment.

While accreditors and state officials also oversee colleges, federal lawmakers gave the Education Department responsibility for cracking down on colleges with too many loan defaults. Congress wanted to make sure colleges weren't taking tuition money without helping students graduate and get jobs.

In the early 1990s, the law that imposed loan-default rate limits stopped the flow of aid to hundreds of schools, largely fly-by-night for-profit colleges.

But colleges learned how to massage their official loan-default statistics by encouraging former students to suspend their payments, according to government researchers. Because the federal government tracked loan defaults only in the first two years after students left school, colleges weren't hurt when borrowers postponed payments beyond two years and then walked away from their loans.

Corinthian Colleges Inc. took advantage of that tactic for years, according to a Senate report in 2012. The for-profit chain liquidated in bankruptcy earlier this year amid allegations from state and federal officials that the company misled students. The company denied the allegations. Federal officials have said that 350,000 former Corinthian students owing roughly $3.5 billion might be eligible for loan forgiveness.

Loan-default rates at many Corinthian campuses were high but below federal limits. College officials said it was "easy" to get students to delay payments through a process called forbearance, according to the Senate report.

Corinthian also offered McDonald's Corp. gift cards to students who contacted the college's default-management team, the report added. That group guided the forbearance process for Corinthian students.

In 2008, lawmakers tried to tackle default-rate manipulation by extending how long the Education Department tracks defaults to three years from two.

Some higher-education lobbyists warned that the change would shut down dozens of colleges, recalls Harris Miller, former president of the Career College Association, a trade group. Lawmakers compromised by raising the maximum allowable loan-default rate to 30% from 25%.

Under the 25% threshold, 82 additional colleges would have been at risk of losing access to federal aid based on data published earlier this year, the Journal's analysis shows. Those colleges got more than $1 billion last year.

Lawmakers also created loopholes to help colleges challenge potential punishment by the Education Department because of high loan defaults. For example, colleges are allowed to provide evidence that a loan servicer didn't do enough to contact students. Loan servicers process loan payments.

The agency itself also gives struggling schools a hand. Last year, the Education Department reduced loan-default rates for an undisclosed number of colleges before releasing the data to the public. Default-rate information is stored in a database at the agency.

Agency officials say the move was related to students with multiple loans, which can cause data problems that wrongly punish some colleges. Officials haven't said which colleges benefited from the move.

Lawmakers complain

In a letter, several Democratic lawmakers complained that the move might put "more student loan borrowers at risk of taking on debt they cannot repay." Agency officials say they are deciding how to respond.

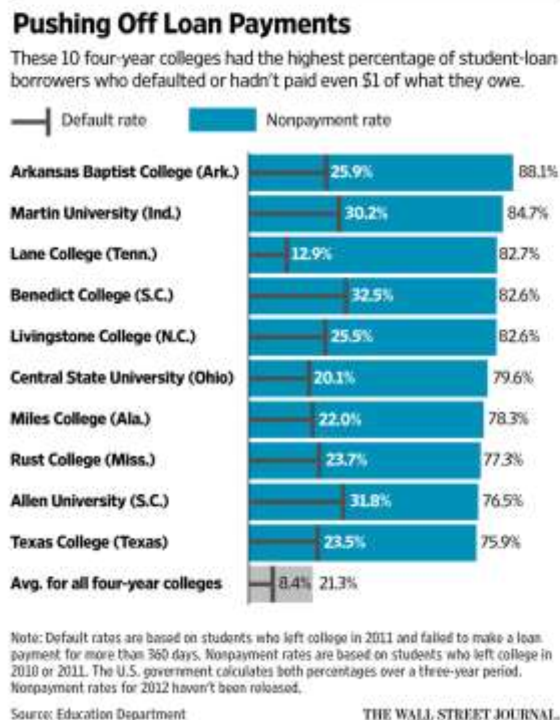
Debbie Cochrane, research director at the Institute for College Access & Success, a nonprofit advocacy group, says the Education Department decided to "let schools off the hook" but did nothing to help indebted students.

"The department doesn't simply see itself as a cop on the beat that's giving out tickets," says Terry Hartle, a senior vice president at the American Council on Education, a lobbying group that represents college presidents. Instead, the agency "wants schools that have problems to get better."

Last year, federal officials worked closely with historically black colleges before the Education Department published loan-default data, says Lezli Baskerville, president of the National Association for Equal Opportunity in Higher Education, which represents black colleges.

The agency "worked hand and glove" with the colleges "in response to desperate appeals," she says. Closing historically black schools would reduce college access for low-income African-Americans, she adds.

Mr. Mitchell of the Education Department says it provides "technical assistance to all institutions, especially those with high default rates, to help them best serve students."



As of 2013, nine historically black colleges had loan-default rates of more than 30% for two years in a row. A third year at that level would have put them at risk of losing access to federal aid. Last year, though, their default rates all fell below 30%.

Education Department officials also participate in informational workshops that help colleges learn how to manage default rates.

In an email sent to college administrators in January, the American Association of State Colleges and Universities trade group wrote: "The goal of this initiative is to develop a plan that will protect institutions from the ultimate sanctions associated with high default rates."

The trade group has co-sponsored loan-default workshops with a nonprofit group called USA Funds. USA Funds spokesman Bob Murray says it helps save students "thousands of dollars in additional costs and damage to their credit." A spokeswoman for the trade group said it participates in the workshops to provide assistance to its members and discuss strategies for default management.

Jarvis Christian College Vice President Shirley Friar says one of her first moves after being hired there two years ago was to hire a default-rate consultant. At first, the Hawkins, Texas, college had a default rate of 51% in 2013.

She says federal officials decided to exclude from the percentage students who defaulted on only one loan. That helped cut the default rate to 37%.

Ms. Friar says colleges that open their doors to risky students shouldn't be judged solely by their loan-default rates. "You're judging the institutions based on something that they don't control at all," including the economy's health, she says.

High loan defaults are a sign that the government should provide more grants to low-income students, Ms. Friar adds, not proof that colleges with high default rates are delivering a bad education.

Arkansas Baptist's president, Mr. Hill, says the college's students are among the poorest in the U.S. More than 70% get federal Pell grants, which are reserved for low-income students. The college is naming a new building after a student who was shot dead while changing a tire across the street from campus.

Mr. Hill, a former head football coach at San Jose State University, took over at Arkansas Baptist in 2006 when the college was under scrutiny from its accreditor.

In response, he went on a nationwide recruiting drive. Enrollment more than doubled. The school has an open enrollment policy, meaning it offers admission to just about everyone who applies.

After the Education Department called in February 2014 to notify Arkansas Baptist that its loan-default rate had topped 30% for the third year in a row, federal officials suggested that the college scour all student records for possible data errors, says Ms. Wimberly, the college dean who led the effort.

"They gave us suggestions of things to look for," she says. "We went through every name that they gave us."

The school held regular conference calls with the Education Department to provide updates, and two Education Department officials visited Arkansas Baptist in August 2014 to monitor the college's progress, she says.

Mr. Mitchell, the agency's undersecretary, says the Education Department also visits colleges to make sure they are helping students stay on track to repay their loans, not just to help them wrestle with questionable data.

Arkansas Baptist escaped the possibility of losing access to federal aid by revising its default data to reflect the murdered former students.

In addition, some students had enrolled in other colleges and graduate schools, meaning they aren't required to make

payments on their Arkansas Baptist loans yet. The last year of attendance was wrong for some students, while others actually had made loan payments but were incorrectly shown in the government's database as defaults.

Mr. Hill says Arkansas Baptist has improved financial counseling for students and is on track for a loan-default rate of no more than 25% this year. "We would never be here" without the Education Department's help, he says.

College Too Expensive? That's a Myth

The Wall Street Journal, By LAMAR ALEXANDER, July 6,2015

Pell grants, state aid, modest loans and scholarships put a four-year public institution within the reach of most.

Paying for college never is easy, but it's easier than most people think. Yet some politicians and pundits say students can't afford a college education. That's wrong. Most of them can.

Public two-year colleges, for example, are free or nearly free for low-income students. Nationally, community college tuition and fees average $3,300 per year, according to the College Board. The annual federal Pell grant for these students—which does not have to be paid back—also averages $3,300.

At public four-year colleges, tuition and fees average about $9,000. At the University of Tennessee, Knoxville, tuition and fees are $11,800. One third of its students have a Pell grant (up to $5,775 depending on financial need), and 98% of instate freshmen have a state Hope Scholarship, providing up to $3,500 annually for freshmen and sophomores and up to $4,500 for juniors or seniors. States run a variety of similar programs—$11.2 billion in financial aid in 2013, 85% in the form of scholarships, according to the National Association of State Student Grant and Aid Programs.

The reality is that, for most students, a four-year public institution is also within financial reach.

What about really expensive private colleges? Across the country 15% of students attend private universities where tuition and fees average $31,000, according to the College Board. Georgetown University costs even more: about $50,000 a year. Its president, John DeGioia, told me how Georgetown—and many other so-called elite colleges—help make a degree affordable.

First, Georgetown determines what a family can afford to pay. It asks the student to borrow $17,000 over four years and work 10-15 hours a week under its work-study program. Georgetown pays the remainder—at a total cost of about $100 million a year.

Apart from grants, work and savings, there are federal student loans. We hear a lot of questions about these loans. Are taxpayers generous enough? Is borrowing for college a good investment? Are students borrowing too much?

An undergraduate today can get a federal loan of up to $5,500 his first year. The annual loan limit rises to $7,500 his junior and senior years. The fixed interest rate for new loans this year is, by law, 4.29%. A recent graduate may pay back the loan using no more than 10% of his disposable income. And if at that rate he doesn't pay it off in 20 years, taxpayers forgive the loan.

Are students borrowing too much? The College Board reports that a student who graduates from a four-year institution carries, on average, a debt of about $27,000. This is about the same amount of the average new car loan, according to the information-services company Experian Automotive. The total amount of outstanding student loans is $1.2 trillion. The total amount of auto loans outstanding in the U.S. is $950 billion.

But a student loan is a lot better investment. Cars depreciate. College degrees appreciate. The College Board estimates that a four-year degree will increase an individual's lifetime earnings by $1 million, on average.

What about the scary stories of students with $100,000 or more in debt? These represent only 4% of all student loans, and 90% of the borrowers are doctors, lawyers, business school graduates and others who have earned graduate degrees.

About seven million federal student loan borrowers are in default, defined as failing to make a loan payment in at least nine months. That's about one in 10 of all outstanding federal student loans in default—although the Education Department says most of those loans eventually get paid back.

Here are five steps the federal government can take to make it easier for students to finance their college education:

• Allow students to use Pell grants year-round, not only for the traditional fall and spring academic terms, to complete their degrees more rapidly.

• Simplify the confusing 108-question federal student-aid application form and consolidate the nine loan repayment programs to two: a standard repayment program and one based on their income.

• Change the laws and regulations that discourage colleges from counseling students against borrowing too much.

• Require colleges to share in the risk of lending to students. This will ensure that they have some interest in encouraging students to borrow wisely, graduate on time, and be able to pay back what they owe.

• Clear out the federal red tape that soaks up state dollars that could otherwise go to help reduce tuition. The Boston Consulting Group found that in one year Vanderbilt University spent a startling $150 million complying with federal rules and regulations governing higher education, adding more than $11,000 to the cost of each Vanderbilt student's $43,000 in tuition. America's more than 6,000 colleges receive on average one new rule, regulation or guidance letter each workday from the Education Department.

It is vital that more Americans earn their college degrees, for their own benefit and that of the country. A report by Georgetown University's Center on Education in the Workforce tells us that if we don't, we'll fall short by five million workers with postsecondary education in five years.

Mr. Alexander, a Republican from Tennessee, is chairman of the Senate's education committee. He has been secretary of the Education Department, president of the University of Tennessee and governor of Tennessee.

How Student Debt Harms the Economy

The Wall Street Journal, By MITCHELL E. DANIELS, Jan. 27, 2015

In 2010-13, the percentage of younger people owning part of a new business dropped to 3.6% from 6.1%.

To the growing catalog of damage caused by the decades-long run-up in the cost of higher education, we may have to add another casualty. On top of the harm high tuition and other charges are inflicting on young people, and the way their struggles are holding back today's economy, we must add the worry that tomorrow's economy will suffer, too.

Ever-escalating tuitions, especially in the past dozen years, have produced an explosion of associated debt, as students and their families resorted to borrowing to cover college prices that are the only major expense item in the economy that is growing faster than health care. According to the Federal Reserve, educational debt has shot past every other category—credit cards, auto loans, refinancings—except home mortgages, reaching some $1.3 trillion this year. Analyses in The Wall Street Journal and by Experian in 2014 show that 40 million people, roughly 70% of recent graduates, are now borrowers. In the class of 2014, the average borrower left with an average load of $33,000.

Even though the debt balloon is a fairly young phenomenon, several damaging results are already evident. Research from the Pew Research Center and Rutgers shows that today's 20- and 30-year-olds are delaying marriage and delaying childbearing, both unhelpful trends from an economic and social standpoint. Between 25% and 40% of borrowers report postponing homes, cars and other major purchases. Half say that their student loans are increasing their risk of defaulting on other bills. Strikingly, 45% of graduates age 24 and under are living back at home or with a family member of some kind.

Now comes evidence that it's not just consumer spending that these debts are denting, but also economic dynamism. A variety of indicators suggest that the debt burden is weighing on the engine that has always characterized American economic leadership—and the factor that many have assumed will overcome many structural and self-imposed challenges: our propensity to innovate and to invent new vehicles of wealth creation.

For instance, the U.S., despite its proud protestations about how creative and risk-taking it is, has fallen in multiple world-wide measures of entrepreneurship. A drop in such activity by the young is playing a part. From 2010 to 2013, the Journal reported on Jan. 2, the percentage of younger people who reported owning a part of a new business dropped to 3.6% from 6.1%. Over the past 10 years, the percentage of businesses started by someone under 34 fell to 22.7% from 26.4%. Common sense says that the seven in 10 graduates who enter the working world owing money may be part of this shift.

New data strengthens this hypothesis. Working with the Gallup Research organization, Purdue scholars devised last year's Gallup-Purdue Index, the largest survey ever of U.S. college graduates. Among its findings: 26% of those who left school debt-free have started at least one business. Among those with debt of $40,000 or more, only 16% had done so.

Controlling the cost of higher education, and expanding access to its undeniable benefits, is first of all a social and moral obligation of those in a position to affect it. Purdue is midway through what is so far a three-year tuition freeze. Coupled with reductions in the costs of room and board and textbooks, these actions have brought down our total cost of attendance for each of the last two years, for the first time on record.

Aggressive counseling of students about the dangers of too much borrowing, and the alternatives available to them, has also helped, as total Purdue student borrowings have dropped by 18% since 2012. That represents some $40 million these superbly talented young engineers, computer scientists and other new workers will have to spend, or perhaps invest in their own dreams of enterprise. At Purdue, where we give students the ownership of any intellectual property they create, and support their attempts to give birth to new products and companies, a significant number of such dreams are likely to become real.

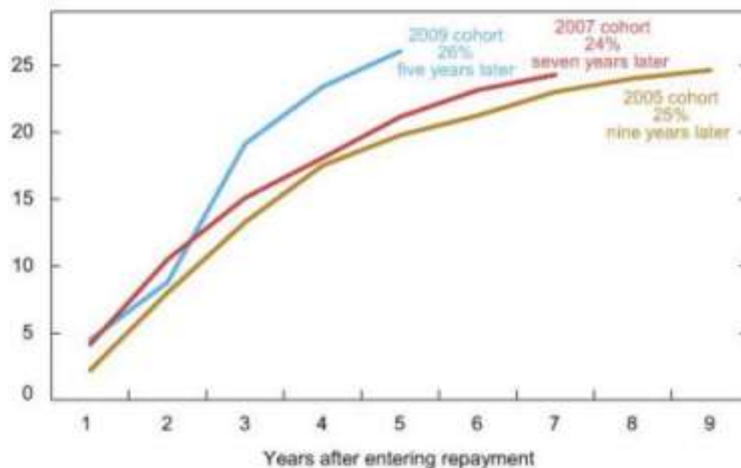
Today's young Americans have a very legitimate beef with previous generations. A pathetically weak recovery has left millions of them unemployed, underemployed and with falling incomes, not the rising ones their predecessors could expect. And, never forget, they are already saddled with a lifetime per capita debt of some $700,000 (to date) to pay not for debts they incurred, but for those run up in entitlement programs such as Social Security, Social Security Disability and Medicare, explicitly designed to tax the young to subsidize their elders.

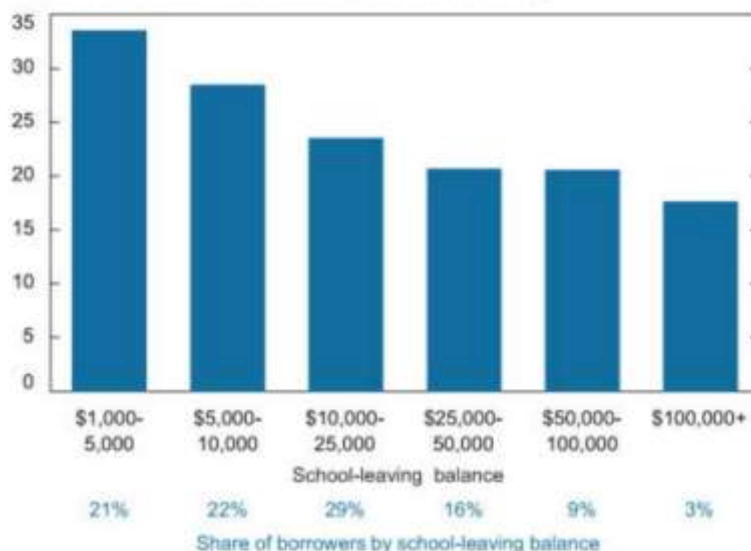
For future generations to enjoy the higher living standards America has always promised, nothing matters more than that the U.S. remains a land where miracles of innovation and entrepreneurship happen consistently. As a matter of generational fairness, and as an essential element of national economic success, the burden of high tuitions and student debt must be alleviated, and soon.

Mr. Daniels, the former governor of Indiana (2005-13), is the president of Purdue University.

The Stunning Failure of Our Student Loan System, in Two Charts

Slate, By Jordan Weissmann, February 19, 2015





How dysfunctional is our student loan system? Consider this: Of borrowers who began repaying their debts in 2009, 26 percent have already defaulted—meaning they fell at least 270 days late on their debt—according to new data from the Federal Reserve Bank of New York. Of those who went into repayment in 2005, when the economy was somewhat decent, 25 percent have defaulted.

How bad are those numbers compared with other sorts of lending? Let's take mortgages during the housing bust as a comparison point. After almost five years, only 18 percent of home loans that were issued in 2006 had fallen into a serious delinquency (meaning the owner was at least 90 days late with a payment), according to CoreLogic.* That should give you a sense of scale for the problem. Student borrowers are getting financially slaughtered.

And it's not just those who are furthest in debt. As the Fed illustrates, students who borrow small amounts for school are far more likely to default than those who borrow six-figures.

Two takeaway points here. First, whenever you read about how young adults with student loans are more likely to live with their parents and less likely to buy a home, remember these default numbers. It's far harder to get a mortgage when your credit rating has been cratered by bad education debt.

Second, this is why Washington needs to focus on both decreasing the amount of debt students take on, and on changing the way it's repayed. As a group, students are inherently risky borrowers.The federal government will lend money to anybody who goes to school, no matter how poor their chances of completing their degree

and finding a job that will position them to repay their debt. And when the economy nose-dives, leaving jobs scarce, it exacerbates those issues. But at the same time, there are lots and lots of options for federal loans that should, theoretically, keep just about any borrower from outright defaulting, for instance by hooking monthly payments to income. The problem is that those programs are vastly underused, because people either don't know about them or don't realize how they could help. So we see hordes of young adults with small, potentially manageable debts going into default. That costs them, and costs the government. (Even though you can't discharge student loans in bankruptcy, Washington still has to pay debt collectors to harass troubled borrowers.)

There are lots of good ideas for how to make student lending safer. For instance, as I've written, we could automatically enroll borrowers in income-based plans. We need to make those changes soon.

Student-Loan Debt: A Federal Toxic Asset

The Wall Street Journal, By JOEL BEST And ERIC BEST, Oct. 1, 2014

Only about 56% of borrowers are making payments. At the peak of the mortgage crisis, 10% fell behind on payments.

Let's call her Alice. One of us has known her for years. She earned her Ph.D. in the mid-1990s when academic jobs were scarce, and she wound up an academic gypsy. She left graduate school to take a one-year full-time academic appointment, but then found herself cobbling together part-time teaching jobs at different community colleges in a large metropolitan area, earning a couple of thousand dollars for each course she teaches. She is a dedicated teacher, but her annual income is between $30,000 and $40,000.

Alice owes $270,000 in student loans. She only borrowed about $70,000 to pay for grad school, but she's never been able to afford much in the way of payments, and after consolidating her loans and accumulating interest charges for years, she's watched her debt roughly quadruple.

If Alice taught students in a low-income high school or was a recent graduate, she would be eligible for various programs that would allow her to discharge at least some of her debt. But since she graduated at a time before income-based repayment and loan-forgiveness programs, there is no federal program to help established part-time community-college faculty discharge their old student-loan debts.

In fact, the federal government is quite content with Alice's situation. The $270,000 she owes is carried on the government's books as an asset. The government reasons that, since it is nearly impossible to discharge student loans through bankruptcy, it will eventually collect all of the more than $1 trillion in federal student loan debt that Alice—and millions of other student borrowers—owe.

Not likely. Because Alice has figured out how to avoid repaying and still stay in the government's good graces. She is able to defer her loans without accruing additional interest by enrolling in two community-college courses per term while she works toward a business degree that she hopes will lead to a new career. Meanwhile, her $270,000 balance remains on the books, growing all the time.

She doesn't think of herself as a deadbeat, but making a $1,200 monthly payment for the next 30 years is daunting. Within a few years, she'll be of an age to collect Social Security, and at that point she expects the government to begin withholding about $30 from each monthly check to pay her student loans. That will hardly offset the hundreds of dollars of interest charges that accrue each month. Meanwhile, Alice has friends with full-time jobs who are appalled by her taking courses to avoid repayment, but she says she has to choose between paying for a place to live and repaying her loans.

But it is Alice's place in the larger picture that is the more important story. The federal government assumes that almost all student-loan debt can be treated as an asset because federal loans are not dischargeable under normal circumstances. So it really is not a problem if the total debt exceeds $1 trillion ($2 trillion around 2020 on current trend), since all that money is sure to be repaid.

But that assumption looks more and more fanciful. Studies by the New York Federal Reserve Bank show that only about 56% of borrowers are making payments. Among those under 30 and in repayment—that is, they have not received permission to postpone payments—more than a third are delinquent. That's a lot: At the peak of the recent housing crisis, only about 10% of borrowers fell behind on their mortgage payments. But Alice is part of the 44% of borrowers who are not repaying student loans for various reasons.

Why isn't this high percentage of borrowers who are excused from making payments alarming federal policy makers and most of the analysts who study student loans? There is really no prospect that Alice is going to be able to cough up more than a quarter-million dollars and pay off what she owes. At some point, the government is going to have to reclassify billions in loans and interest as losses. Meanwhile, as college costs rise and more students pursue higher education, student borrowing grows. According to the Department of Education, students borrow over $100 billion annually, and the figure rises with each new academic year.

This is a big problem. Unexpected write-offs of billions of unpaid student loans will confront Americans with a set of ugly choices: Will we raise taxes to cover the losses—which is impossible to imagine in today's political climate? Do we cut other federal spending—which is nearly as unlikely since we're talking about substantial sums? Or do we significantly increase the national debt. This will be a continuing crisis; each year's increased borrowing will require confronting the same choices in future years.

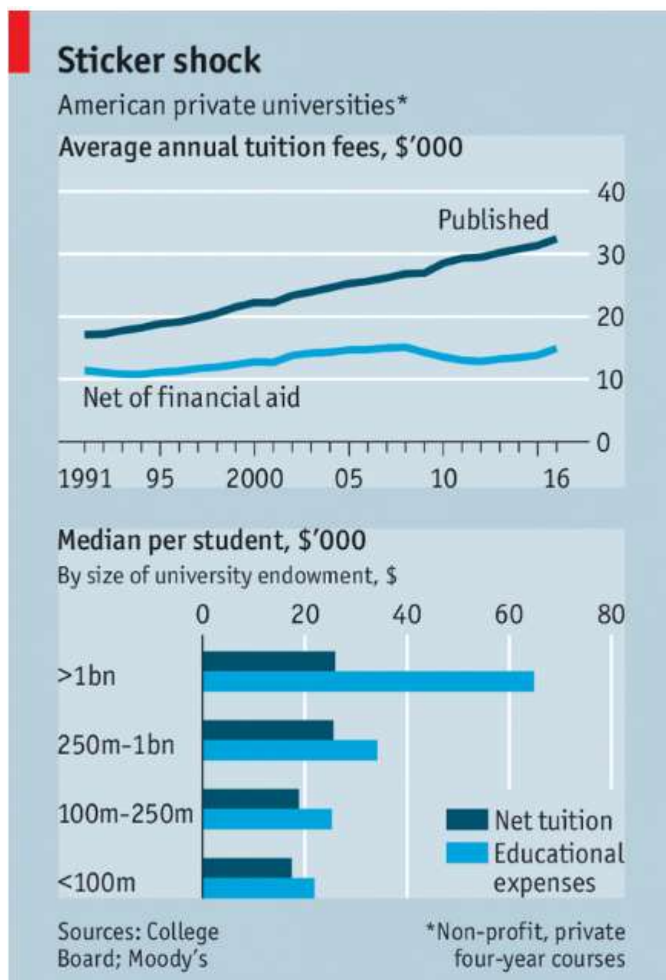
Washington recently acknowledged that there are a lot of Alices; in mid-September, the GAO issued a report documenting the rapid increase in the student debt among those over 65. But many of the proposed reforms, on tinkering with interest rates and the like, would increase—not reduce—total student-loan debt. A larger issue, so far ignored, is that unless college costs are brought under control, things will only get worse, and the federal government will continue to accumulate Alice-like "assets" in the federal direct-loan portfolio.

Joel Best is a professor of sociology and criminal justice at the University of Delaware. Eric Best is an assistant professor of emergency management at Jacksonville State University. They are the authors of "The Student Loan Mess: How Good Intentions Created a Trillion-Dollar Problem" (University of California, 2014).

Colleges with big endowments face calls to scrap tuition payments

The Economist, Mar 26th 2016 | NEW YORK

ON his deathbed in 1638, John Harvard bequeathed half of his estate, about £800 and his library of some 400 books to a new college in present-day Cambridge, Massachusetts. Harvard's founders decided to name their new university for its first big benefactor. About 370 years ago the first Harvard scholarship to help "some poore scholler" was set up thanks to £100 donated by Ann Radcliffe. The university continues to be the beneficiary of generous donors. Last year, John Paulson, a hedge-fund investor, donated $400m to Harvard's engineering school, its largest gift ever. Harvard has an endowment of $36 billion, the largest in the country. Last year it raised more than $1 billion. Some of its alumni think this ought to be sufficient to scrap tuition fees.



Among them are Ralph Nader, a veteran political activist, and Ron Unz, author of a number of searing articles on American meritocracy. Both are hoping to win election to the university's board of overseers, from which perch they will push to make Harvard free for all students to attend, and also pressure its admissions office to disclose data on how it chooses which students to admit. They hope that other well-endowed Ivies would then be shamed into doing the same.

America's universities raised a record $40.3 billion last year, according to the Council for Aid to Education. Harvard's endowment is made up of 13,000 funds and is its largest source of revenue by far. Endowments are not usually used to lower tuition fees, but they can be used to provide scholarships and financial aid to students who cannot afford to pay (70% of students at Harvard get some assistance with fees and living costs).

Some lawmakers are wondering whether threats to change the tax-exempt status of endowments might be used to persuade colleges to bring down the cost of tuition, which has increased by 220% in real terms since 1980. Nexus Research and Policy Centre (a group set up by the University of Phoenix, which is for-profit and therefore not tax-exempt) says colleges receive $80 billion in support from state and local government every year, which ought to give politicians some leverage in return.

In January Tom Reed, a Republican congressman from New York, proposed a bill requiring endowments with assets of more than $1 billion to allocate 25% of their

income for financial aid or lose tax-exempt status. Two congressional committees, the Senate Finance Committee and the House Ways and Means Committee, have sent letters to the heads of the colleges with the biggest endowments asking about spending, conflicts of interest and fee arrangements for money managers. The 56 largest private university endowments have until April 1st to explain how they use their tax-free investment earnings.

The colleges have their defenders. “Most of these places are already providing a fair amount of financial aid for students well beyond the poverty line,” says Kim Rueben of the Tax Policy Centre. Kevin Weinman, Amherst’s chief financial officer, says his university’s endowment provides $90m to the college’s budget, $30m more than tuition, room board and various fees combined. This school year, it will spend $50,000 per student to fund financial aid, pay faculty and fund student activities. After Congress last examined the topic in 2007, more colleges began to award grants instead of loans. Financial aid has doubled over the past decade. Some schools, like Brown in Providence, Rhode Island also make voluntary payments in lieu of property taxes.

In addition to pointing out their generosity, colleges also argue that forcing them to spend endowment money on free tuition might even be illegal. Donors can restrict their tax-exempt gift to a legally-binding particular purpose, such as creating a chair, establishing a scholarship or building a new lab. Around 70% of endowments are restricted funds. Not abiding by a donor’s wishes can result in a lawsuit. Princeton was sued by the heirs of the A&P grocery fortune who claimed a gift of $35m made in 1961 was misused and not spent as directed. Amherst, which has a $2.2 billion endowment, ran the numbers and found that if it increased annual spending to 8% from its current level of 4-5%, it would have to rely on tuition to fund running costs. After 25 years its endowment would be 60% smaller than it is now.

If the wealthiest colleges already spend so much on financial aid, where is the problem? Mr Unz argues that relentless endowment-fuelled spending on new buildings, sports facilities and the hiring of administrators has created an arms-race in higher education, pushing up prices at those universities that are not fortunate enough to have lots of generous benefactors. Harvard could scrap tuition payments without damaging its finances or touching the restricted portion of its endowment, he reckons. Furthermore, the abolition of both complicated financial-aid forms and terrifying sticker-prices for tuition (ie, before financial aid is calculated) could, he argues, do much to encourage applicants from beyond the plutocracy.

Graduate stock

The Economist, Aug 22nd 2015

Funding students with equity rather than debt is appealing. But it is not a cure-all

DEBATES over how to fund higher education never lie dormant for long. In Britain, recently, there have been reforms about twice a decade; the last one, which hiked tuition fees, all but killed off the Liberal Democrats, members of the previous coalition government. In America, concerns abound over soaring costs and towering student debts. As a result, presidential candidates have been weighing in with plans to overhaul the system.

Why should the state support students in the first place? One argument is that society benefits from educated citizens, who pay more taxes, generate more jobs and help to advance human knowledge. Typically, such social gains justify subsidies. But the private returns to many degrees are juicy enough to encourage would-be students without a subsidy. The New York Fed reckons that a bachelor’s degree provides a 15% return on investment.

A better argument is that a purely private market for funding college would probably struggle. Despite the rosy averages, not all graduates succeed, so borrowing to pay for college is a gamble. Students do not know what job opportunities they will have later on; lenders must guess whether a 20-year-old will become a banker or a busker. Asset-poor youngsters cannot post collateral to compensate lenders for the risk. Unable to raise cash, poor students would be locked out of education without state support.

Governments can help spread these risks around. One option is to fund higher education fully, as many European countries do (the downside being that poor taxpayers subsidise successful graduates). Another is to offer loans on more generous terms than banks. For instance, governments can make repayments conditional on graduates earning a decent income, and collect the money like an additional income tax. Australia pioneered this approach in the early 1990s; Britain has since followed. Today, Hillary Clinton promises to expand America’s hodgepodge of “income-based repayment” schemes if she becomes president.

There are two problems with these schemes. First, taxpayers shoulder some risk, bailing out those who never earn enough to repay. Second, the incentives are skewed. Universities can sell dubious courses at a high price to students who do not care that the degree may not boost their earnings—as the taxpayer will foot the bill. When Britain trebled its cap on tuition fees in 2011, the government promised universities would charge the maximum only in “exceptional circumstances”. But two-thirds of universities—including many middling ones—immediately priced at the cap.

Can these problems be overcome? Marco Rubio, a Republican candidate for president, wants income-based repayment

with a twist. Instead of borrowing to pay for college, students could sell a percentage share of their future income to private investors, and use the proceeds to fund their studies. Students' liabilities would then resemble equity rather than debt.

This idea—which was floated by Milton Friedman in 1955—has several advantages. Students do not face too much risk; if they earn only a pittance, they pay little. But investors will not fund a booze-up; if a course fails to add value, students will be unable to raise enough cash to enroll.

Investors, though, would still face uncertainty over a student's ability and career intentions. To resolve this, they would need to invest in a whole cohort of apparently similar students, to be sure of backing both high-rollers and hipsters. That might be easier said than done. Income-contingent financing will appeal most to students who expect low incomes; it is most expensive for the highest earners. If students can choose whether to participate, few wannabe-bankers will sign up (although an upper limit on lifetime payments might mitigate this).

Adverse selection plagued an experiment with equity financing at Yale University. In the 1970s around 3,300 undergraduates there agreed to pay 4% of their annual income for every $1,000 of funding they received until the entire group's fees were paid. But students who expected future riches had no incentive to sign up in the first place to what was in effect an income-redistribution scheme. Worse, those who did take the money could later buy themselves out too cheaply. Alumni were still stumping up a quarter of a century later, and Yale had to terminate the plan.

Select wisely

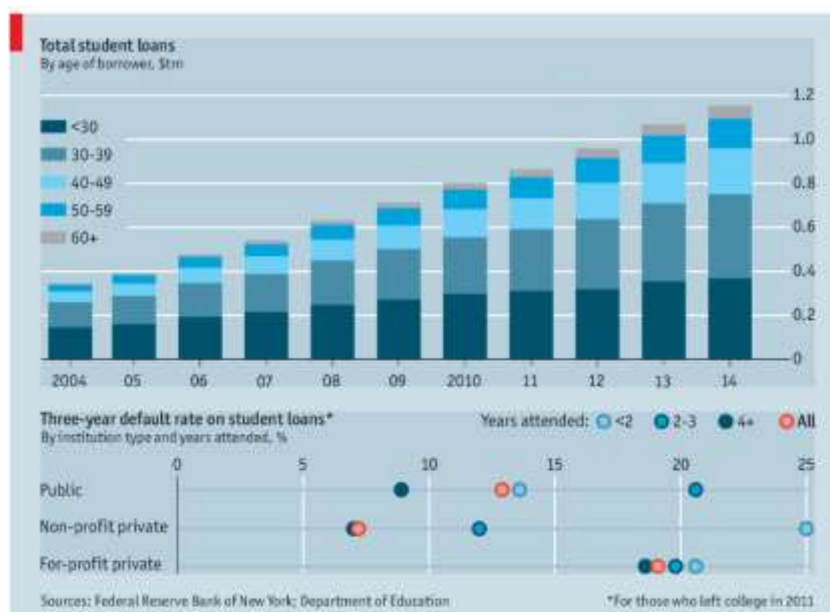
Unlike the Yale students, investors would see this problem coming, threatening the viability of the contracts from the outset. But they could make their offers more attractive to the best students. For instance, Upstart, a peer-to-peer lending platform that has dabbled in equity financing, predicts students' future income based on their academic background and area of study. That could enable bright students to agree a more favourable income-sharing agreement, lessening the adverse-selection problem.

To help limit adverse selection, the government might also gradually withdraw subsidised loans, which the best students will usually prefer to equity. The main role for government would then be to help to collect payments through the tax system, as the administrative burden of monitoring incomes would be too great for investors to bear.

That day is a very long way off. In the meantime, a final problem haunts all income-based repayment schemes: moral hazard. With repayments linked to income, graduates are discouraged from working. In Britain, student-loan repayments mean most graduates face a steep marginal tax rate of 41%. Repayments that must be made come-what-may do not create this problem (American student debts persist even through bankruptcy). That means the optimal financing mix for students—as with companies—is probably some mix of discipline-inducing debt and flexible equity. On the path to the perfect scheme, pitfalls abound. But Mr Rubio's idea is a good start.

College debt: More is less

The Economist, Aug 15th 2015



Student debt in America now totals $1.2 trillion, up more than threefold over the past decade. On August 10th Hillary Clinton announced a $350 billion plan to reduce this sum. It would increase federal subsidies granted to state-school students, and help existing borrowers refinance their liabilities. New loan originations have decreased every year since 2010, and default rates have stabilised.

Surprisingly, the less students borrow, the more likely they are to struggle with repayments—presumably because debtors with six-figure obligations tend to have postgraduate degrees and steady jobs, whereas those with more modest loans tend to be college dropouts. Non-payment rates also vary by institution. Students at for-profit

schools fare the worst: nearly 20% default within three years of leaving college. If Mrs Clinton succeeds in cutting state-school tuition, the for-profit education industry could take a big hit.

Losses on Private Student Loans Hit Lowest Level Since 2008

The Wall Street Journal, By ANNAMARIA ANDRIOTIS, Dec. 13, 2016

Private student-loan losses have fallen to new lows

Lenders wrote off an annualized 1.9% of undergraduate and graduate private student-loan balances in the third quarter, down from 2.4% a year prior, according to a new report Tuesday from data firm MeasureOne.

That is the first time this figure has fallen below the 2% mark since at least 2008, the farthest back MeasureOne tracks the data. Losses peaked at 10.1% in the third quarter of 2009.

The private student-loan industry has undergone a major turnaround since the recession, taking a starkly different route than the federal government by tightening lending standards. Almost every private student loan extended to undergraduates also requires a creditworthy parent or other adult cosigner, a process that leaves two borrowers on the hook and lessens chances of lenders writing off bad debts.

Missed payments are also hovering near record lows, a mark they hit earlier this year. Some 1.9% of outstanding private student-loan dollars were at least 90 days past due in the third quarter versus 2.3% a year prior. A peak of 6.1% came in the second quarter of 2009, according to MeasureOne's data, which is based on the six largest student-loan companies, including SLM Corp., or Sallie Mae, and Navient Corp.

Private student loans are a small piece of the student-loan market. Federal student-loan balances account for 92.5% of outstanding student-loan debt. Most of that has been extended without checking borrowers' credit scores. While default rates for federal student loans have been coming down in recent years, they remain high despite the low national unemployment rate.

Wall Street has been bullish on private student-loan companies since Election Day. Expectations of lighter regulation and an opportunity for private companies to play a bigger role in financing college debt has contributed to Sallie Mae's shares rising 53% since Donald Trump's victory. Shares of Navient, the largest student-loan servicer by balances, are up 24%.

U.S. to Forgive at Least $108 Billion in Student Debt in Coming Years

The Wall Street Journal, By JOSH MITCHELL, November 30, 2016

GAO report offers first full cost estimate of debt-relief programs, berates Education Department over accounting methods

WASHINGTON—The federal government is on track to forgive at least $108 billion in student debt in coming years, as more and more borrowers seek help in paying down their loans, leading to lower revenues for the nation's program to finance higher education.

The Government Accountability Office disclosed the sum Wednesday in a report to Congress which for the first time projected the full costs of programs that set borrowers' monthly payments as a share of their earnings and eventually forgive portions of their debt.

The GAO report also sharply criticized the government's accounting methods for its $1.26 trillion student-loan portfolio, pointing to flaws that have led it to alter projected revenues significantly over the years. The government says it still expects the program to generate a profit over the long term, but it has repeatedly trimmed expectations for revenues.

President Barack Obama has promoted income-driven repayment plans—passed by Congress in the 1990s and 2000s—to stem a sharp rise in borrowers defaulting on their loans since the recession. Enrollment in such plans has more than tripled over the past three years to 5.3 million borrowers, who owe roughly $269 billion, according to Education Department statistics cited by the GAO.

A new federal report shows that the government is expected to forgive at least $108 billion in student debt in the coming years. The relief is part of an Obama administration plan to help borrowers, but is proving costly. WSJ's Lee Hawkins explains.

Ted Mitchell, undersecretary at the Education Department, said such programs "are helping millions of borrowers successfully manage loan repayment, particularly those for whom standard repayment may prove challenging."

He added that the administration has proposed changes to reduce costs. Mr. Obama, for example, has called for capping how much debt public-service workers can have forgiven.

The most generous version of income-driven repayments caps a borrower's monthly payment at 10% of discretionary income, which is defined as adjusted gross income above 150% of the poverty level.

That formula typically lowers monthly payments of borrowers by hundreds of dollars. Public-service workers—those employed by a government agency or at most nonprofits—have balances forgiven after 10 years, tax-free. Private-sector workers have balances forgiven in 20 or 25 years, with the forgiven amount taxed as ordinary income.

President-elect Donald Trump said during his campaign he supported the idea of helping student-loan borrowers. He has proposed setting payments at 12.5% of income and forgiving balances after 15 years. He has also suggested winding down the federal student loan program and shifting lending to the private sector.

Growing evidence suggests many of the most hard-pressed borrowers—college dropouts who owe less than $10,000—aren't taking advantage of the programs, while workers with graduate degrees, such as doctors and lawyers who don't necessarily need help, are.

The figures that the GAO cites suggest the average balance of borrowers in income-driven repayment plans stands at roughly $51,000. That sum suggests a disproportionate share of those benefiting from the plans are graduate-degree holders. Undergraduate borrowers owe about $30,000, on average, upon graduation, other research shows, and the government caps lifetime borrowing from federal programs for undergraduates at $57,500. It doesn't limit how much grad students can borrow. And graduate-degree holders typically have higher incomes and have low rates of unemployment, Labor Department data show.

There are still about 8 million Americans in default on their student loans, and the number of defaults among borrowers who recently left school has come down only slowly.

Meanwhile, Senate Budget Committee Chairman Mike Enzi (R., Wyo.), who ordered the GAO study, has criticized the Obama administration's use of executive authority to sweeten terms of the repayment plans, which he said would add to the national debt.

"This Administration has been manipulating the terms of the student loan program without the consent of Congress, while shirking its statutory duty to carefully assess the cost impact of those changes," Mr. Enzi said in a statement, adding that he was considering legislation to force changes in the government's accounting methods.

Some outside academics say it is increasingly likely that the projected surpluses of the federal student loan portfolio—which has more than doubled over the past decade—won't materialize. "I'm not at all confident that the federal government will end up making money on student loans," said Robert Kelchen, an assistant professor of higher education at Seton Hall University.

In addition to debt forgiveness under income-driven repayment programs, the administration is also moving to forgive loans for borrowers who can show they were lured to enroll at schools—mostly for-profit colleges—that used deceptive advertising.

Income-driven repayment plans are also causing concern that as more students become aware of the benefits, they will become less sensitive to tuition increases, enabling universities continually to raise tuition ultimately at taxpayer expense. Higher education costs have increased by an average of 5.2% a year in the past decade, far faster than inflation, which has been running at under 2%.

And some borrowers with graduate-school loans are refinancing their debt at lower interest rates with private lenders such as SoFi. Congress, through legislation, has set higher interest rates for grad students than undergrads, to ensure the programs don't lose money. When private lenders pick off those borrowers, the surpluses dwindle.

The GAO estimates $137 billion owed under income-driven repayments won't be repaid. Most of it—the $108 billion disclosed Wednesday—would be forgiven because of borrowers fulfilling their obligations under the plans. The other $29 billion will be written off because of disability or death, the GAO projects, the only other circumstances under which the government takes a loan off its books. The government can garnish wages and Social Security checks for those in default.

And that $108 billion only covers loans made through the current fiscal year. The overall sum could continue to grow alongside enrollment increases. The GAO said it could take 40 years to know the full costs of the programs.

Still, supporters say the plans offer a lifeline to borrowers who are unemployed or earning little, while the Obama administration has credited the programs with leading to a reduction in the number of new graduates defaulting on their loans.

Supporters point out that under current law, any amount forgiven would be taxed as ordinary income for private-sector workers, limiting the benefits for individuals. Public-sector workers aren't taxed on forgiveness.

The GAO report also criticizes how the Education Department has produced budget estimates for the loan program. For example, it said the department has failed to account for inflation when estimating borrowers' future earnings. And it said the agency failed to account for further increases in enrollment in income-driven repayment plans.

Student Loans Could Use Some Market Discipline

The Wall Street Journal, By GREG IP, Sept. 18, 2015

Misaligned incentives between students, colleges and government fuel bad-debt problem

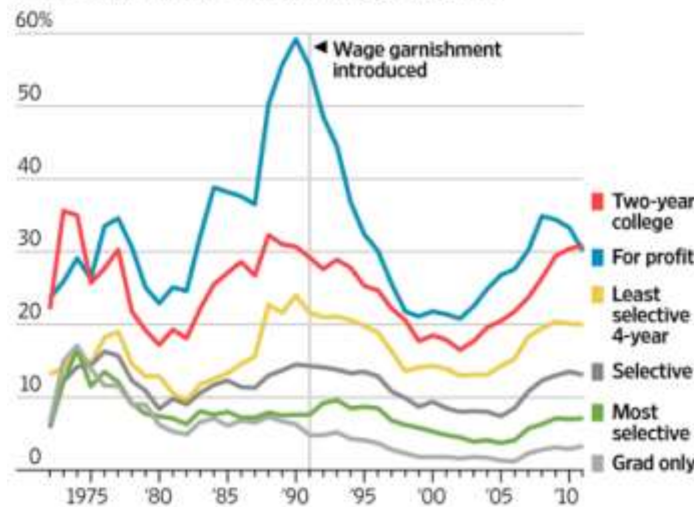
Consider two student borrowers: one at the for-profit University of Phoenix, the other at the well-regarded, public University of Minnesota-Twin Cities. Both start repaying their loans in 2009. Five years later, the first has a 45% probability of having defaulted, the second, just 7%.

Despite those very different borrowing risks, the two paid the same interest rate on their loans. The federal government, which backs $1.2 trillion of student debt, charges the same rate regardless of student, college or program. That is by design: The purpose of the program isn't to make a profit but to ensure as many children as possible benefit from college.

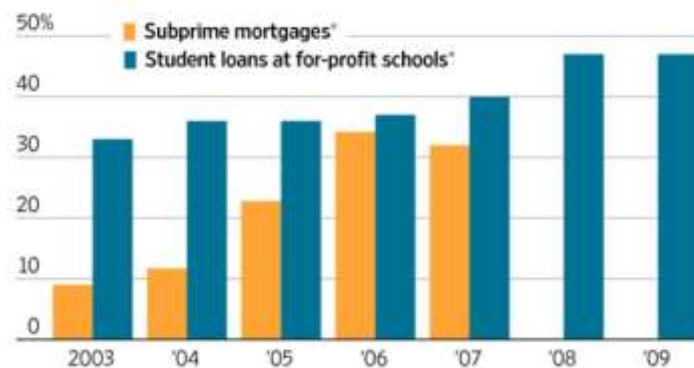
Defaults With a Difference

The likelihood of defaulting on a student loan is closely linked to the type of college the student attended. For-profit default rates exceed subprime mortgage loan defaults.

Percentage of student borrowers who default on their student loans within three years of starting repayment



Default rates within the first five years for subprime mortgages and student loans for those who attend for-profit colleges



*Represents year of origination for mortgages and year of first repayment for student loans; effectively, no subprime mortgages were originated in 2008 and 2009

Sources: Adam Looney and Constantine Yannelis (student loan default rates); Chris Palmer, University of California at Berkeley (subprime loan default rates)

THE WALL STREET JOURNAL.

But because terms and risk of the loan aren't linked, the program also muffles the sorts of price signals that could help students get value for their money. And that plays a little-appreciated role in the surge of student debts and defaults.

In this respect, student loans are different from subprime mortgages, to which they are often compared. Subprime lenders had their own, not the government's, money at stake, and in theory did take risk into account when deciding how much to lend and at what rate; their mistake was failing to realize how risky the loans really were. Even federally guaranteed mortgages consider risk, such as by requiring that a loan not exceed the house's value.

The widely divergent performance of different sorts of student loans is starkly illustrated by a new study by Adam Looney of the Treasury Department and Constantine Yannelis, a graduate student at Stanford University, and presented at the Brookings Institution last week. They find that the student-loan "crisis" is overwhelmingly a crisis of borrowers who attend for-profit colleges or two-year community colleges.

These "nontraditional" borrowers historically accounted for only a small share of student debt. But that changed in the last decade, particularly during the Great Recession, as unskilled workers with evaporating job prospects flooded back to college. The share of total debt accounted for by students at for-profit colleges soared from 12% in 2000 to 20% in 2014, and the share accounted for by two-year community-college students went from 4% to almost 6%.

Such students default at a far higher rate than borrowers who attend four-year public or nonprofit colleges. In part that is because for-profit and community colleges often don't deliver the hoped-for jobs or pay: Unemployment among nontraditional borrowers is far higher and has risen more than for other students since 2000.

This isn't necessarily the colleges' fault. For-profit colleges have historically enrolled students who are at greater risk of default, because they are older and come from poorer families and poorer communities—precisely the students most deserving of taxpayer support. They served a valuable purpose during the downturn by expanding to meet surging demand when public institutions were constrained by money or capacity.

Messrs Looney and Yannelis believe the worst of the defaults has passed. As the economy has improved and oversight of for-profit colleges intensified, the number of their new borrowers has dropped sharply, and default rates have dipped. The University of Phoenix says its default rate has improved "significantly" in recent years.

Nonetheless, students do seem to fare worse at for-profit colleges, in great part because these schools have little financial incentive to ensure students take the programs most likely to lead to well-paying jobs, to screen out inadequately prepared students or to hold down tuition.

Caroline Hoxby of Stanford University notes that until about 1990, more expensive colleges were more likely to deliver higher incomes for graduates. With the rise of for-profit colleges, that correlation has weakened. Ms. Hoxby puts the "actuarially fair" student loan interest rate—one that reflects the probability of default—at 5% or less for a bachelor's degree at a selective nonprofit or public college and more than 35% for a certificate at a for-profit college.

The Obama administration's response has been to publish more information about colleges' success in graduating and placing students in well-paying jobs, and threaten to deny student loans to colleges with consistently poor records.

A potentially more effective way to align interests between students and colleges would be to charge higher rates or apply lower borrowing limits to loans that are clearly more likely to default. The federal government isn't about to charge 35% interest. But it could inject market discipline by requiring the college to share in any loan loss, as some policy makers have proposed. Doug Elliott of the Brookings Institution cites as a model the federally guaranteed small-business loans in which banks bear part of the risk of default.

The main drawback is that while this would penalize poorly performing colleges and programs, it could also penalize students from disadvantaged backgrounds who, given their lack of family wealth, pose a bigger credit risk.

Such students are probably helped more through grants, which can be targeted precisely at those most in need of help. Loans, by contrast, end up subsidizing not just the needy but the affluent and, least deserving of all, the colleges.