Do Your Homework: What the New York Times Missed on the PROSPER Act

A recent column in the New York Times attacked proposed reforms within the PROSPER Act to assist students and families who are seeking to pay back federal student loans. The piece was quick to criticize the major reforms to student financial aid, but missed many key facts the actual impact of the major reforms within the legislation.

The New York Times

Don't Let the G.O.P. Dismantle Obama's Student Loan Reforms

By John R. Brooks
Mr. Brooks teaches tax law and policy at Georgetown.

April 9, 2018

One of the most important — but least known — achievements of the Obama administration was the expansion of the income-driven repayment program for federal student loans. The program aims to make student loan payments affordable for everyone, regardless of their income. But Republicans, in their endless quest to undo everything Mr. Obama did, are now trying to dismantle the program under the guise of reform, citing misleading claims of high costs and low effectiveness. In fact, the program's costs are low, and the student loan system as a whole is financially self-sustaining. More important, we should be increasing investment in higher education and support for students, not the reverse.

Before 2010, private lenders made most student loans. But during the financial crisis student lending seized up, and in response Congress effectively nationalized the program. Today, the federal Department of Education makes about 90 percent of all student loans (including loans to parents and graduate students). The old system included big government subsidies to private lenders. Congress and the Obama administration directed that money to income-driven repayment and Pell Grants instead. Today, all borrowers — even those with the old, pre-crisis loans — can limit their monthly payments to 10 percent of discretionary income. After 20 to 25 years (or 10 for those who qualify for public service loan forgiveness), any unpaid balances are forgiven.

Higher education remains a good investment for most students, but many still face crushing student loan payments along the way, especially recent grads and those with high debt but low-paying careers, like public interest lawyers and rural medical workers.

FACT: The PROSPER Act pairs down the numerous repayment options to two options to help borrowers better manage their debt after graduation. This includes one income-based repayment plan, and one standard 10-year repayment plan.
Additionally, none of the Obama-era regulations provided to existing borrowers are eliminated in the bill. Current terms and conditions of existing bor-rowers are grandfathered into the bill.

FACT: True accounting of the federal student loan programs shows a positive and unsustainable subsidy rate for the system. Source: CBO

FACT: We agree, that is why the PROSPER Act increases investment in the Pell Grant program to allow 7 million more students to receive a Pell Grant over the next 10 years.

NOT MENTIONED: Institutions of higher education have not helped to curb the cost of a postsecondary education. Since 2008, the average annual tuition at public colleges and universities has increased 33%, or $2,333.

FACT: $9 billion of that money went to offset Health Care.

FACT: Average debt per borrower has increased 38 percent since 2008, and families have collectively taken on over a trillion dollars in federal student loans.

FACT: Only 13 percent of the country believes college graduates are well prepared for success in the workplace. Source: Gallup

FACT: Those who default on loan payments are those who do not complete school. The fall 2010 cohort had a six-year completion rate of only 54.8 percent.

Thirty-four percent of borrowers who owe less than $5,000 default. Source: NY Fed

This is because larger student loan balances likely means the student earned a degree that enables a high income. Borrowers who do not graduate are more than twice as likely as their peers who do graduate to default on their loans. Source: College Board

Just 21% of Americans believe that college is affordable, according to Gallup

The 6.5 million borrowers who are in the income-driven repayment program now represent $352 billion in debt — about one-quarter of all borrowers and one-half of all debt in repayment. Keeping loan payments at an affordable level allows these borrowers to invest in their careers, families, homes and savings.

The Republican attack on these repayment plans is based in part on the claim that the benefits are too generous and too expensive. For example, Senator Lamar Alexander, Republican of Tennessee, the chairman of the Senate committee considering reforms to the program, says it is now "standard" for students to expect their debt to be forgiven. This view is backed even by some left-leaning organizations concerned about costs. A New America Foundation report called the program a "windfall." One from the Brookings Institution said that the program was "sinking under its own weight." Yet another from the Urban Institute said that "the current IDR system is likely to impose high costs on taxpayers."

Emboldened, Representative Virginia Foxx, Republican of North Carolina, sponsored the Prosper Act, which has passed out of committee in the House. Under the bill, new borrowers would pay 50 percent more per month and would no longer have their loans forgiven after 20 to 25 years of repayment. The bill would also drastically cut the amount that can be borrowed for graduate school.

Income-driven repayment does have a price tag, of course. Estimates vary, but the Department of Education puts the cost for all loans outstanding at about $36 billion. Even though this may sound like a lot of money, $36 billion is pretty low in context. For one thing, it's a tiny piece of the $1.3 trillion in loans outstanding. For another, the cost of the program is nearly the same as one year of Pell Grants, the other major federal program for low-income students, but it covers 25 years' worth of loans. And most of this cost is just lost interest — the government anticipates that it will still get back more than it lends to these borrowers.

Even with this cost, the student loan program could still net as much as $50 billion for taxpayers. It has long been a profit center. The profit used to be sucked up by banks, but today it belongs to the federal government, and it is appropriate to reinvest some of this money in higher education rather than kick it all back to the Treasury. According to the Congressional Budget Office, the Prosper Act's changes to student loans would pad the government's profit by another $40 billion over the next 10 years. That's money coming directly out of borrowers' pockets — to what end?

Even if income-driven repayment did erase the loan program's profit margin, would that be such a bad thing? Taxpayers have always subsidized higher education, recognizing that it produces enormous gains for the economy and for society as a whole. The prospect of high debt is a financial (and psychological) barrier for many students, and some insurance for those who may end up with lower incomes is a worthy goal. To call that insurance a "loss" is to imply that taxpayers are entitled to profit off the backs of struggling borrowers.

> FACT: Several studies show the federal government's overly generous student loan terms leads to higher tuition, higher prices for students, and ultimately higher costs to hardworking taxpayers footing the bill. Source: Forbes

> FACT: Under the bill, new borrowers will effectively receive a student loan cap that halts accruing interest after 10 years and will have the option of an affordable monthly payment similar to a current IDR plan. This will allow borrowers to budget for other life expenses such as buying a home or starting a small business.

> Reforms You May Have Missed:
> -Enhancing financial aid counseling to help all recipients of federal financial aid better understand their options to responsibly finance their higher education pursuits and the obligations they can expect after graduation.
> -Allowing financial aid administrators the flexibility to lower loan limits for categories of students to ensure students are borrowing only what is needed to finance their education expenses.
> Disbursing grant and loan aid to students on a weekly or monthly basis, similar to a paycheck. Disbursing aid in regular installments is cost effective, helps students better manage their limited dollars while enrolled in school, and instills the value of treating college as a job where regular attendance is expected and rewarded.

> FACT: The GAO estimates that already issued Direct Loans in IDR plans will have government costs of $74 billion, higher than previous estimates from the Department. Source: GAO

> NOT MENTIONED: The PROSPER Act expands the Pell Grant program, which makes grants to students in financial need that they can spend at any accredited college.

> FACT: According to the CBO/FCRA, the PROSPER Act's changes to student loans would save $26.2 billion over 10, not $40 billion. These reforms, in addition to the expansion of Pell Grants, project an estimated $14. 5 billion in savings to the federal government. Source: CBO

> What Others are Saying

Income-driven repayment is not without flaws. The various plans are too cumbersome and confusing, and the system of loan servicing does not work well and has led to some predatory practices. But these problems are bureaucratic, not financial. Cutting back on student loan relief because of hysteria about nonexistent losses is pound-foolish. The Department of Education is a lender, but it is not a bank; its purpose — and the purpose of the student loan program — is to further education and support students, not to turn a profit.

FACT: The Obama administration even asked for Congress to adopt reforms to income-based repayment plans.

The Prosper Act would make higher education more expensive for many students, especially graduate students, while increasing profit margins for the government and private lenders. That is precisely the opposite of what our country needs now. Reinvesting the loan program's profits in relief for struggling borrowers pays both financial and social dividends. We should be embracing and expanding income-driven repayment plans, not backing away based on the fear of costs that have yet to appear.

FACT: The PROSPER Act eliminates costly hidden origination fees in order to make the process of financing education transparent and accessible for all interested students.

John R. Brooks is a law professor at Georgetown.

Click here to read more about the PROSPER Act.