

Mr. Chairman, Ranking Member Enzi and Members of the Committee:

Thank you for the opportunity to appear before you today to discuss the issue of student loan debt.

The President and I believe that postsecondary education should be within the reach of every American. As you know, this belief transpired into a goal for America to once again have the highest proportion of college graduates in the world by 2020. To be clear, this goal is founded on more than a belief. Rather, it is a strategy for competitiveness, growth, and shared prosperity that is deeply rooted in the economic well-being of our country.

For students, too, college remains an excellent investment. College graduates with an associate's degree earn at least 30 percent more than those who attended only high school, and they are half as likely to be unemployed. In June 2010 Georgetown University's Center on Education and the Workforce released a report titled "Projections of Jobs and Education Requirements Through 2018." The report says that nearly two-thirds of the job vacancies between 2008-2018 will require some postsecondary education.

And, of course, education has important civic benefits, helping students broaden their horizons and engage in their communities and our democracy.

Student loans are a powerful tool for bringing higher education within reach. Like any tool, they can be misused or even risky, and some students are struggling to repay their loans. Yet it holds true that for most students, borrowing to pay for college will be one of the best investments of a lifetime. As such, the Federal student loan program continues to be a pillar of our college affordability efforts.

There remains concern, however, that students are taking on debt they cannot afford in order to attend education programs that leave them with poor employment prospects. Student loan defaults are on the rise, particularly in the for-profit sector and particularly for students who have not completed certificate or degree programs. We have a responsibility to make sure that all students have the critical information and appropriate protections to make smart financial decisions about postsecondary education.

The Administration has made a landmark investment in postsecondary education and is taking new steps to make student loans more affordable and strengthen the American system of higher education. I would like to describe those efforts before addressing for-profit colleges specifically.

### Background

A little more than a year ago, with the leadership of this committee, Congress enacted the most significant changes to the student aid programs since their creation four decades ago. Due to student loan reform, all new Federal student loans are made through the Direct Loan program – using low-cost capital from the Treasury and delivered and serviced through student loan companies under performance-based contracts. These reforms are estimated to save taxpayers over \$60 billion over the next decade, allowing for increased investments in Pell Grants and community colleges, and making student loans more affordable, while still reducing the deficit.

The student loan programs have grown significantly in recent years. Currently, 36.1 million Americans hold over \$740 billion in outstanding Federal student loans. When combined with outstanding private education loans, student loan debt is now greater than the total volume of credit card debt. This year, the Department expects to make \$116 billion in

new student loans. The program's growth is due to the downturned economy coupled with growing student enrollment, changes Congress made to expand student loan eligibility, and increased prices of postsecondary education—particularly outside of the community college sector.

There remains a robust market in private student loans—including loans made by schools themselves—outside of the government system of student lending. Private loans totaled \$8.5 billion this year, according to the College Board. While these loans are necessary for some students to afford the high cost of tuition—such as student in very expensive programs or those students who are not eligible for federal loans— they typically carry much higher, interest rates and lack important borrower protections available under federal student loan programs such as discharge for disability of death, and affordable repayment options such as income-based repayment.

The most recent data from the Department's National Postsecondary Student Aid Study (NPSAS) shows that in 2008, two-thirds of students graduating from four-year colleges and universities had student loan debt. At the same time, average debt levels for graduating seniors with student loans rose to \$23,100 in 2008—a 24 percent increase from 2004. Still, over half of all associate degree recipients and one-third of all bachelor's degree recipients did not have any educational debt.

In most cases, loans are excellent investments. Workers with four-year college degree earn 70 percent more than those with only a high school diploma, and are typically only half as likely to be unemployed. Workers with two-year degrees earn 30 percent more.

But there is evidence that, for a fraction of students, student loan debts are not affordable. A recent survey conducted by the Pew Research Center and the Chronicle of Higher Education shows that an overwhelming majority of college graduates say that college was a good investment for them personally. But about a quarter of students surveyed said their loans have affected their career choices adversely, and a quarter also said that college loans have made it harder to buy a home.

Default rates are climbing as well. The projected 2009 two-year cohort default rate is now 8.9 percent, up 27 percent from only two years ago. Among former students at for-profit colleges, the projected 2009 data indicates 15.2 percent are defaulting within two years of their first scheduled payment. (see "Attachment A")

The Department works very hard to protect taxpayers from the costs of defaulted student loans, and appropriately so. We eventually collect about 85 cents for every dollar that enters default, on a present-value basis, including anticipated collections from charges to students for costs of collecting defaulted student loans.

But for students, the consequences of default can be severe. Collection costs can be added to the size of the loan. In addition, third-party debt collectors, tax and federal benefit offsets, and a variety of other tools can be used to collect the loan. Only very rarely can defaulted student loans be discharged in bankruptcy. As a result, we need to be careful to make sure that students are borrowing appropriate amounts and using the tools that are available to help students better manage their educational debts.

#### Striking the Right Balance on For-Profit Colleges

As indicated by the fact that Chairman Harkin holding this hearing, student debt is a particular concern for students at for-profit institutions.

For-profit career colleges can be helpful partners in reaching the President's goal of once again leading the world with the highest proportion of college graduates. Many of them do a great job preparing students for work. As a sector, for-profit institutions have done a lot to introduce important technological innovations, increase access to higher education, and create new career opportunities for millions of Americans—especially for low income and working adults.

At the same time, student debt is particularly prevalent at for-profit schools. According to NPSAS, ninety-two percent of students at for-profit institutions borrowed to finance their education in 2007-08. By contrast, the sector with the next highest borrowing rate was at 4-year private nonprofit institutions, where 59 percent of students borrowed. At public two- and four-year institutions, just 13 percent and 46 percent, respectively, of students borrowed.

Not only do students at for-profit institutions borrow at a greater rate than their peers, on average, the amount they borrow is greater than all but one sector. Students at for-profit institutions on average borrowed \$8,100, compared to \$6,600 for students at public four-year institutions and \$4,100 for students at public two-year institutions. Students attending private nonprofit four-year institutions borrowed \$9,100 for programs that are typically much longer than proprietary programs.

Burdened with higher borrowing rates and larger debt levels, borrowers at for-profit institutions have worse repayment outcomes than their peers at other institutions. In the 2008 cohort, students at for-profit institutions represented just 12 percent of students, but they accounted for 26 percent of borrowers and over 46 percent of students who defaulted within three years of leaving school. In fact, for-profit institutions produced a larger share of students who defaulted on their loans than the entire public sector of higher education combined.

The Department is committed to striking a balance that will draw upon the strengths of the for-profit sector while avoiding its pitfalls, protecting students, and ensuring that federal dollars are well spent. As you may know, over the past two years the Department has taken a series of efforts to strengthen program rules, such as prohibiting recruiters from being paid based upon the number of students they recruit.

With the help of over 90,000 public comments, last week we released final regulations defining the term “gainful employment,” setting requirements for eligibility for occupational training programs. While the regulations apply to programs at all types of institutions, for-profit programs are most likely to leave their students with unaffordable debts and poor employment prospects.

Our final regulations require each program to demonstrate that at least 35 percent of its students are paying their loans and that debt burdens for typical students do not far exceed expert recommendations. By setting a minimum standard of expectation, we hope to improve the lowest performing programs; those who can't or won't improve will lose access to federal loans.

I want to be perfectly clear about one thing: This rule will do nothing to hurt the educational opportunities for low-income students and students of color. Just the opposite is true. The disadvantaged students that are disproportionately likely to enroll in these programs will see higher graduation rates, lower default rates, and programs that provide better value in the labor market. They will also be able to make more informed choices. Our final rule equips students and their families with critical information about gainful employment programs by requiring disclosure of program costs, completion, placement, and loan repayment rates. Disclosures are important, but do not erase the need for minimum safeguards to ensure that students are well served by their educational institutions and taxpayers are protected from abuse of the student aid programs.

I reject the premise that we need to lower our standards for programs that enroll large numbers of disadvantaged students. We should not be saddling any students with debts they won't be able to repay, and that's no less true when students come from disadvantaged backgrounds. Nor is it true that some types of students won't repay their loans. We

found that only 1 percent of the variation in repayment rates is explained by the percentage of the student body who are racial or ethnic minorities.

At the end of the day, we believe that because industry will quickly adapt to the regulations and clean its own house, very few programs will lose Title IV funds. In fact it is already happening, with some segments of the career college industry taking meaningful steps by closing down low-performing programs, reducing student debt, offering free trial periods, and reforming recruiting practices.

Today, I am directing my staff to take two new steps to help institutions rise to these new standards. First, we will release guidance providing a blueprint for institutions that want to offer free trial periods for new students mirroring approaches that some in the for-profit industry have already pioneered. And in the coming days, we will invite applications for a pilot project giving institutions new tools to reduce student debt. We will let institutions reduce the size of student loans, while carefully measuring the impact on students' access and success, to see if it's possible to design lower cost programs.

Together with our new regulations, these steps will help ensure that students at these schools are getting what they pay for: solid preparation for a good job. We're giving career colleges every opportunity to reform themselves but we're not letting them off the hook, because too many vulnerable students are being hurt.

This is a significant step forward, but only one example of how we are working tirelessly to ensure that students of every age and background succeed in college and career.

#### Improving Access to Need-Based Funds

In the past two years, Congress and the Administration have worked together to make more aid available to college students. First, we have significantly expanded our investment in Pell Grants. Since 2008, the maximum award has grown by \$819 and the number of recipients has grown by 50 percent, from 6.2 million to 9.4 million. These investments were made possible, in part, by reforming the student loan programs and eliminating unnecessary bank subsidies in the guaranteed student loan program. As you know, the Pell grant program is in peril due to rising program costs and because, in past years, one-time funding was used as a temporary solution and shortfalls have accumulated. In order to continue investments in higher education that are critical to America's future, while also choosing to maintain fiscal discipline, the Administration remains committed to an approach that will maintain the maximum award at \$5,550 and put Pell Grants on a sound financial footing for future years.

There is also evidence that the complexity of the student aid application – known as the FAFSA – and lack of awareness of aid eligibility have been obstacles to students entering college and receiving aid. In 2008, more than 2 million students who were eligible for Pell Grants failed to apply for Federal student aid, of which over sixty percent said they didn't think they were eligible. One pilot program found that providing modest assistance in filling out the FAFSA boosted college enrollment among low-income high school graduates by 7 percentage points.

Over the past two years, the Department has also used online technology to enable students and parents to automatically skip unnecessary questions and to electronically retrieve their tax information directly from the IRS, making the FAFSA both easier to complete and more accurate. We have proposed legislation to eliminate 20 questions that require the applicant to obtain information that is unavailable from the IRS, so that a student could apply for aid on our web site with only basic information such as his or her address and college choices. We are also working to provide FAFSA assistance to potential college students by working with school systems, high schools, and Volunteer Income Tax Assistance (VITA) sites across the country. In addition to its support for investments in Pell Grants, the Administration worked with Congress to reauthorize the American Opportunity Tax Credit to help offset higher education costs for

students and families. For the first time, the credit is now refundable to families who earn too little to pay income taxes. The credit is now worth \$10,000 for four years of college.

All told, federal funds available through Pell Grants and the American Opportunity Tax Credit have grown by approximately \$25 billion a year. Last year, the College Board released a study that revealed that the net price of tuition—the cost after grant aid and tax benefits—is actually lower than it was five years ago. We are tremendously proud of our role that accomplishment.

### Student Loan Affordability

With your help, Mr. Chairman, we have also expanded the loan repayment options that are available for borrowers to help ensure that students are able to pursue careers about which they are truly passionate, without taking on an unmanageable student loan debt. Towards this end, the income-based repayment plan is available for all eligible student loan borrowers. This plan ensures that payments on Federal student loans are never more than 15 percent of a borrower's income after a basic living allowance is taken into consideration. In addition, under the Public Service Loan Forgiveness Program, the federal government will now forgive a borrower's outstanding loan balance after 10 years of successful repayment if the borrower serves as a teacher, nurse, or other public service professional, and 25 years for all others. This is good deal for students today and will be a better deal in 2014 when the income cap will be lowered to 10 percent of a borrower's income and remaining debt will be forgiven in 10 years for those in public service and 20 years for all others.

To illustrate just how important income-based repayment is for borrowers, consider the following example. Imagine an out-of-school borrower making \$30,000 a year, but saddled with \$40,000 in Federal student loan debt. Payments for that borrower would be:

- \$460.32 per month under the standard 10-year repayment plan; or
- \$277.63 per month under an extended 25-year repayment plan; or
- \$174.94 per month under our income-based repayment plan.

Beginning in 2014, a new borrower with similar income and debt would pay only \$114.63 per month. Income-Based Repayment is the equivalent to a very sizable monthly tax cut for borrowers, again paid for by reducing unnecessary bank subsidies that had been present in our federal student loan system. The FY12 Budget Resolution passed by the House (H.Con.Res.34) proposes to repeal the provision of last year's student loan reform that including funding for the income-based repayment plan. We must work together to protect this important safeguard for student loan borrowers, and ensure that student loan borrowers, especially those committed to careers in public service, benefit from a stronger plan in 2014. The Administration also has proposed that the debt forgiven through Income-Based Repayment should not be taxed.

In addition to ensuring that loans are affordable, we need to make sure that they are sufficiently and appropriately available. While there are well-founded concerns about the increasing debt levels among some borrowers, it is also true that current annual loan limits in the Federal student loan programs are inadequate for certain students. The existing Perkins Loan Program provides students with additional low-interest loans, but the program is too small, inefficient, and inequitably structured to help many students. For these reasons, this Administration supports creating an expanded, modernized Perkins Loan program that will provide \$8.5 billion in new loan volume annually—eight and a half times the current Perkins volume—and, when fully implemented, would reach over a total of 3 million students at as many as 2,700 additional postsecondary education institutions.

As important as grants, tax benefits, and loans are, it is important to keep in mind there are two sides to the college affordability ledger. There is financial aid on one side and college costs on the other. States and colleges themselves have a responsibility to keep cost growth down. We know that declining state spending is a major driver of tuition increases at public universities. Colleges themselves need to keep an eye on their mission of providing a quality education at an affordable cost. Public institutions like the University of Maryland and some private institutions like Cornell are finding ways to combat rising tuition without compromising on quality. We know that there are ways to improve learning at a lower cost. Carol Twigg's work at the National Center for Academic Transformation is encouraging the thoughtful use of technology to drive down instructional costs while simultaneously improving student outcomes is heartening. I want to join President Obama in challenging every university and college president to do more of the same to get a handle on spiraling costs.

Given the varying prices, the likely payoffs of different postsecondary education programs, and the significant consequences for getting into trouble with debt, it is important for students and families to make informed decisions about which college to choose and how to pay for it. We need to make sure that they have the information they need to evaluate schools based on price, quality, and fit. Just as it should be easy for Americans to compare mortgage or credit card offers, it should be easy to compare colleges and financial aid packages. We are implementing a number of new provisions in the Higher Education Act to empower them to make those comparisons so that students and families have the information they need to vote with their feet.

The College Navigator web site maintained by our National Center for Education Statistics includes average net price tuition amounts, which gives students and their families a more accurate picture of information on college costs than just a school's "sticker price". By October, all institutions of higher education will have their own net price calculators on their websites. The Department has given schools a template to use for the net price calculator, or they can design their own.

Later this month, we will unveil a new College Affordability and Transparency Center to provide information on postsecondary institutions' published tuition and net prices, ranked from high to low, and indicating which institutions' prices are climbing fastest. And we are developing a model financial aid award letter that, if adopted, would make it easier for students to compare financial aid offers across schools.

We're proud of these efforts, but they will help only if students use them. That is why we created the Financial Education for College Access and Success program last year. This initiative provides funds for State-led efforts to, among other things, improve student financial literacy. For example, the Tennessee Department of Education will develop and evaluate new instructional materials – which will be available at no cost to States – that help middle school and high school teachers prepare their students for financial decisions related to investing in postsecondary education. We also established a partnership with the Federal Deposit Insurance Corporation and the National Credit Union Administration to provide students with safe, affordable deposit accounts so they can learn about finances while managing and saving their own money. If we wait until students are taking out a loan before providing relevant and effective financial education and counseling then we are too late.

Just last week, our Federal Student Aid office invited guaranty agencies to propose innovative business models that we expect will include new, outcomes-focused approaches to provide financial counseling, debt management, and default prevention without additional costs to taxpayers.

#### Helping Make Postsecondary Education Pay Off

We are also working hard to encourage efforts by institutions to improve the quality of instruction at an affordable cost. An example of this is our effort, we are collaborating with the Department of Labor on a program they administer, to

support and enhance education and training programs that can be completed in two years or less through the \$2 billion investment in the Trade Adjustment Assistance Community College Career Training Grant program that was funded as part of last years' legislation that included student loan reforms.

As you may know, this program's application period for the first \$500 million dollar investment closed earlier this spring, with award notifications scheduled to take place later this year. Our hope is that every community college in the country; indeed, every school in the country, will have access to all of the high-quality materials created with these funds.

I am also calling on States and colleges to boost completion rates, because we know that students who fail to graduate often struggle to repay their loans. Currently, only about 60 percent of students at four-year colleges earn a degree within six years of initial enrollment. At four-year for-profit institution the completion rate is only about half that. At two-year institutions, students in for-profit programs earn credentials at rates slightly above their peers at public programs, but nonetheless only one student graduates from these programs at these institutions for every two who leaves with no degree to show for the time and investment.

Our FY 2012 budget request includes investments that are targeted to help disadvantaged students enroll in and complete college. Our request includes a new national innovation fund to support programs that explore innovative practices to accelerate learning, boost completion rates, and hold down tuition costs. We are also proposing to reward States and colleges that produce more college graduates. We have also released a "College Completion Tool Kit" of low cost and no cost strategies that States can pursue to boost attainment and associated federal revenue streams to draw upon these strategies. The best jobs and fastest growing firms will gravitate to communities, counties, and States with a highly educated workforce, and we are committed to helping each State educate its way to a better economy.

### Conclusion

Ensuring that every qualified American has the opportunity to pursue his or her college goals is among the most critical priorities for this Administration.

Equipping our citizens with the skills and knowledge offered by our higher education system will ensure that all Americans can contribute to our shared goal to out-build, out-innovate, and out-educate the rest of the world. The Administration will continue to work tirelessly to ensure that students and families have the resources to pay for college and the tools they need to make the best decisions for themselves about pursuing postsecondary education.

The value of a college degree remains much higher than its price - and higher education, in general, is certainly still a worthwhile investment. But, we need to continue to ensure that students can afford to enroll in and complete college and that they have the protections in place if by chance, their college choices do not pay off.