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Congress Frets as Grad Student Forgiveness Tab Rises By Billions

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> Graduate students making biggest use of income driven plans

> Republicans seeking to increase student loan payments

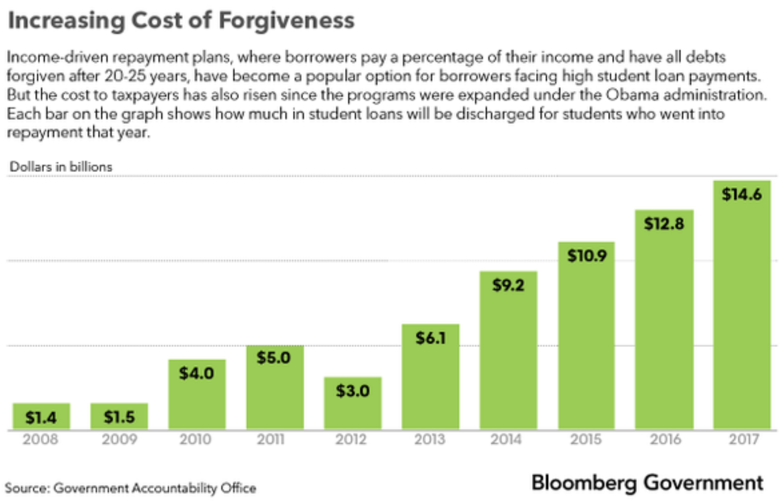
Young people sinking under debt flocked to student loan forgiveness programs after those initiatives were expanded years ago. But what started with good intentions has morphed, critics say, into an expensive way for high-income earners, many with graduate student loans, to have their debts forgiven on the taxpayer’s dime.

The Government Accountability Office estimates student loans made in 2009 that are now in income-driven repayment plans will cost taxpayers $1.5 billion. For 2016 loans, the GAO estimates a taxpayer cost of $12.8 billion. Part of the increased cost came from more students taking out loans and the programs becoming more popular among borrowers.

But the high amounts graduate students borrow have also contributed to forgiveness costs rising faster than anticipated, said Robert Kelchen, an assistant professor of education at Seton Hall University.

“Once politicians are aware of the cost of graduate student loan forgiveness, it could bring down the entire income-driven repayment system for undergraduates who need it,” he said.

The Education Department projects 65 percent of borrowers who entered income-driven repayment programs in 2016 were graduate students.



DRAG ON PORTFOLIO

Income-based repayment has been around since 1994, but a 2007 law made the terms of the programs more generous. The Obama administration further expanded the programs, allowing borrowers to pay a smaller share of their income and have loans forgiven more quickly, in 20 years instead of 25.

“No one should go broke because they chose to go to college,” Obama said in his 2010 State of the Union address.

The loan forgiveness programs appear to be doing their job. A 2018 report from Princeton University found those in income-driven repayment programs were less likely to default on their loans and more likely to own a home and have a higher credit score.

The cost, however, is higher than expected.

The Education Department’s inspector general warned earlier this year the government was at risk, if current trends continued, of lending out more in upcoming years than borrowers would eventually repay through income-driven repayment plans, with the difference being borne by taxpayers.

The plans threaten to become a drag on the government’s overall direct student loan portfolio. Currently, the loan portfolio is expected to produce $31 billion in net revenue for the federal government over the next decade, a drop from the $153 billion in 10-year revenue it was estimated to produce in 2014, according to a Bipartisan Policy Center estimate based off of Congressional Budget Office data. Higher-than-expected enrollment in income-driven repayment plans was one of the two reasons the CBO gave in explaining the drop.

POLICY FIXES?

Those numbers raised concerns on Capitol Hill, where Republicans on education committees want to reduce or shut down loan forgiveness programs over cost concerns.

Sen. Lamar Alexander (https://www.bgov.com/core/legislators/?utm_source=twitter&utm_medium=bnacorpsocial#!/BB11774) (R-Tenn.), chairman of the Senate Health, Education, Labor, and Pensions Committee, and Sen. Mike Enzi (https://www.bgov.com/core/legislators/?utm_source=twitter&utm_medium=bnacorpsocial#!/BB5247251) (R-Wyo.), chairman of the Senate Budget Committee, said they were "troubled by the financial state of IDR plans" in a recentletter (http://src.bna.com/AqD?utm_source=twitter&utm_medium=bnacorpsocial) to the CBO. The senators requested the office report on the entire federal student loan program and specifically asked for an estimate on when the income-based loan program would become underwater financially.

"Any system that lends more than is repaid will surely become a liability to federal taxpayers," the senators said.

Most income-driven plans require borrowers to make payments of 10 to 20 percent of their discretionary income for 20 to 25 years, at which point the remainder of the outstanding amount is forgiven. A House Republican bill (H.R. 4508 (https://www.bgov.com/us_legislation/6494918900217282591?utm_source=twitter&utm_medium=bnacorpsocial)) introduced last year would have required some students to pay more and ended another program to forgive loans of eligible public and nonprofit workers.

The House Education and the Workforce Committee approved the bill in December along partisan lines. However, the bill has yet to gain enough GOP support for leaders to bring it to the floor,in part because some Republicans want to preserve the public employee loan forgiveness program.

House Democrats in July proposed keeping both programs in their higher education bill, although they would reduce the number of income-driven repayment programs while keeping those plans with terms most generous to students.

Exactly how much the programs will cost is difficult to predict, though, as the amount borrowers pay back depends on the job market and the economy.

SUPPORT FOR STUDENTS

Complicating matters is the nature of the income-based repayment program makes it attractive to students whose profession requires an advanced degree – lawyers and doctors, for example.

"Where things get worse from here is on the graduate school side, where people can borrow unlimited amounts," said Jason Delisle, a resident fellow at the American Enterprise Institute who was formerly a Republican staff analyst on the Senate Budget Committee.

While the overall amount of graduate student debt in income-driven repayment plans is unclear, evidence from the Education Department suggests many borrowers have both high debts and high projected incomes. Nearly half of all dollars in such plans are owed by borrowers with debts of $100,000 or more. At the same time, 40 percent of borrowers in income-driven repayment programs are projected to make $100,000 or more.

The amount graduate students are borrowing also is increasing. The average graduate student borrowed $72,300 in the 2015-16 school year, compared with the $47,700 the average graduate student borrowed in the 1999-2000 school year.

Knowing their payments will be pegged to their income, and their loans eventually will be forgiven, removes any incentive for borrowers to limit their indebtedness, said Sandy Baum, a fellow at the Urban Institute. With income-driven repayment, a student who owed $200,000 would pay back the same amount as a student who owed $300,000 if the two had similar earnings.

"A lot of debt could get forgiven for people with relatively high incomes who borrowed hundreds of thousands of dollars," she said. "The program's design means that borrowing more is not necessarily associated with paying back more."

Higher rates of graduate borrowing simply reflect higher tuition costs, said Jonathan Fansmith, director of government relations for the American Council on Education, which represents 1,800 college and university presidents and executives that favor the forgiveness programs.

He said that even if there is loan forgiveness down the road, students must comply with strict criteria and "very few people are comfortable with the idea of taking on massive amounts of debt."

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