



HOW STATES CAN SOLVE THE STUDENT DEBT CRISIS

A Framework for Reducing Student Debt Burdens
for Present and Future Borrowers

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THE ANNIE E. CASEY FOUNDATION

How States Can Solve the Student Debt Crisis is part of the Aspen Institute Financial Security Program's (Aspen FSP's) continued work on understanding the harmful impacts and developing solutions to the various dimensions of consumer debt. It was produced in support of the Annie E. Casey Foundation's Southern Partnership to Reduce Debt (SPRD)—a multi-year, multi-state effort focused on relieving the debt burdens of families in the South. Aspen FSP and SPRD share the belief that states can play a significant role in strengthening the financial security of US households.

DISCLAIMER

The examples included in this report reflect promising solutions being implemented by states. The Aspen Institute does not explicitly endorse firms, organizations, or specific legislation or regulation, but rather recognizes these promising efforts to meet consumers' needs through innovation and policy reforms. These examples are illustrative rather than exhaustive; others may offer similar services and proposed reforms, and the Aspen Institute does not intend to recommend any examples cited in this report over similar competing legislation or ideas.

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The Aspen Institute Financial Security Program's (Aspen FSP) mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity. We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical financial challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans.

Aspen FSP's Expanding Prosperity Impact Collaborative (EPIC) is a first-of-its-kind initiative in the field of consumer finance, designed to harness the knowledge of a wide cross-section of experts working in applied, academic, government, and industry settings toward the goal of illuminating and solving critical dimensions of household financial insecurity.

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Executive Summary

Student debt balances are ballooning, posing a serious threat to the financial security of millions of borrowers across the country. In the last 15 years, total outstanding student debt has grown six-fold and now hovers at over \$1.5 trillion.¹ Student debt has significant short- and long-term impacts on individuals, their communities, and the broader economy.

Those with outstanding student debt are struggling to keep up with their payments. According to the Department of Education, only 1 in 4 borrowers are paying down both principal and interest.² The burden of taking on and paying back this debt is uniquely harmful for borrowers of color and women. According to one study, 20 years after enrollment the typical black student still owes 95% of their debt, compared with 6% for white students,³ and almost two-thirds of all student debt is held by women.⁴

Yet even on-time payments are no indication that student debt is not posing a burden on individuals and households. Paying a student loan bill can mean forgoing saving and other consumption, with impacts on personal well-being. One survey found that over half of college graduates with debt said student loans are what is preventing them from building emergency savings; and over two-thirds said that the debt felt like an emotional burden.⁵

States have a unique role to play in addressing student loan burdens. Their role in overseeing public universities, tax and budget powers, and regulatory authority mean that they have a wide array of options to help borrowers with their student loans. No state is untouched by the student debt crisis. In 2018, the lowest state average for student debt of borrowers at graduation sat at \$19,750. Twenty-one states had averages over \$30,000.⁶

The crisis demands urgent action to alleviate its impacts on individuals, their families, their communities, and the broader economy. While it is too early to say what the long-term impacts of the crisis will be, what has unfolded so far indicates a need to curb further escalation. Solving the crisis will require solutions from a range of stakeholders and actors—and states have an opportunity to act immediately.

To provide options to states to address this growing threat to financial security, Aspen FSP conducted a scan of possible state solutions to address student loan burdens. The identified solutions fit into three types of actions that align with the borrower experience, with particular consideration for how they help low-income borrowers and borrowers of color:

- **Reduce the out-of-pocket cost of attendance**
- **Protect students as they navigate existing debt**
- **Decrease existing student debt burdens**

Executive Summary

What States Can Do to Solve the Student Debt Crisis

Goal #1: Reduce the Out-of-Pocket Cost of Attendance, Particularly for Low-income Borrowers and Borrowers of Color

Need-Based Aid and Grant Programs offset the cost of attendance for students

Free College Programs reduce the need to incur debt to attend school

Dual Enrollment Programs allow high school students to obtain postsecondary credits at no or low-cost

4-year Community College Programs allow students to obtain 4-year degrees at community colleges, often at lower cost

Mandatory FAFSA Initiatives increase FAFSA completion, increasing access to federal student aid

College Savings Account Investments help future students save for postsecondary programs by investing state funds in individual 529 accounts

Goal #2: Protect Students as They Navigate Existing Debt, Particularly for Low-income Borrowers and Borrowers of Color

Student Loan Servicing Legislation and Regulation could protect student loan borrowers from poor servicing or predatory behavior

Re-Enrollment Programs encourage noncompleters to return to school by offering student debt forgiveness

Goal #3: Decrease Existing Student Debt Burdens, Particularly for Low-income Borrowers and Borrowers of Color

Individual Tax Expenditures reduce the tax liability of borrowers to help offset student loan payments

Employer Tax Credits and Deductions incentivize employers to create student loan repayment benefits for their employees

Sector-Specific Loan Forgiveness and Repayment Programs provide borrowers a path to loan forgiveness and repayment while helping states achieve other policy objectives

State-Sponsored Refinancing allows borrowers to secure a lower interest rate, reducing the overall debt burden, helping save money in short- and long-term

Targeted Loan Repayment repays loans on behalf of student borrowers

Housing Assistance Programs enable borrowers to pay down debt while building assets in the form of homeownership

Introduction

As the amount of student debt owed continues to grow—now surpassing \$1.5 trillion,⁷ states across the country are implementing practical and innovative solutions aimed at alleviating student debt burdens.

The problems associated with student loan debt are systemic and consequential for borrowers, their households, their communities, their states, and for the nation’s economy. But these problems are also solvable—and states have taken notice.

This brief makes the case for state-based action to address the student loan crisis, outlining a sample of today’s universe of state-led solutions. In continuing to develop and implement

solutions to this evolving crisis, governors, state legislators, and other state policymakers can use the solutions detailed throughout this brief as examples of tangible solutions that can be replicated and scaled.

The brief also provides an introduction to the state of the crisis—how we got here and who is most affected. An accompanying brief, *Solving the Student Debt Crisis*, offers a more in-depth overview, including additional details about today’s borrowers and how student debt disproportionately impacts low-income borrowers and borrowers of color.

WHY STATES ARE UNIQUELY EQUIPPED TO ADDRESS THE STUDENT DEBT CRISIS

No state remains untouched by the student debt crisis. According to The Institute for College Access and Success, 65% of 2018 graduates relied on student loans.⁸ Among Pell Grant recipients (students from low-income households), 84% graduated with debt.⁹ When disaggregated, the average student debt of graduates by state ranged from a low of \$19,750 in Utah to a high of \$38,650 in Connecticut. While the full impact of the student debt crisis will not be felt or understood for years to come,¹⁰ rising student loan debt has growing negative effects on the financial lives of borrowers, including their ability to save, purchase homes, and maintain financial security.¹¹

These impacts could translate to lost revenue for states as the growing student loan burden crowds out other consumption and could reduce economic growth, with consequences for sales and income taxes.^{12,13} It is therefore in the best interest of states to mitigate these consequences for their own residents.

Given their position in higher education and policy leadership as “laboratories of democracy” and their place in precipitating the student debt crisis, states have a unique role to play in addressing the student debt crisis. First, gridlock at the federal level is preventing relief to students.¹⁴ States on the other hand are able to move more quickly in developing and implementing innovative solutions that can later be replicated at the federal level.¹⁵

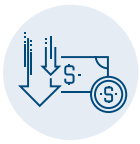
Furthermore, reductions in state funding have contributed to the rising cost of public postsecondary institutions¹⁶—which will be explored further later. Therefore, the onus is on states to help borrowers because states are in part responsible for decreased affordability.



The Consequences of Student Loan Debt Reach Beyond the Individual

The following statistics are an aggregation of surveys that vary in sample size and statistical validity. The results included below are meant to illustrate the array of other financial challenges borrowers face in incurring student debt.

Student Debt Has Deep Impacts on Short-term Financial Stability



- 58% of borrowers attribute a decline in credit score to student debt.¹⁷
- 13% said it caused a failed credit check for apartment applications.¹⁸
- 6% reported having wages or social security benefits garnished because of student debt obligations.¹⁹
- 55% of college graduates with student debt say it forces them to delay saving for emergencies.²⁰
- Four in 10 people still paying off their loans say they are struggling financially.²¹

Student Debt is a Roadblock to Long-term Financial Security



- Among young student borrowers, those with student loan debt have half the retirement savings at age 30 of those without.²²
- Research shows that it is the presence, not merely the size, of student debt that discourages retirement contributions.²³
- 83% of young student loan borrowers in repayment who have not purchased a home listed student loan debt as a factor for delaying them from purchasing one.²⁴
 - On average, they noted a 7-year delay between the time they wanted to buy a home and when they were able to purchase one.

Student Debt Affects Career and Life Decisions



- More than half (53%) of student loan borrowers noted debt as a factor in choosing which career to pursue.²⁵
- 61% of student loan borrowers who had hoped to start a business said student loan debt affected their ability to do so.²⁶
- On average, 22% of student loan borrowers noted that they delayed moving out of their parents' home for two years due to student loan debt.²⁷

Student Debt Perpetuates and Exacerbates the Racial Wealth Gap



- 70% of black borrowers are at risk of default.²⁸
- 20 years after starting college, a typical black student still owes 95% of their total debt, compared with 6% for white students.²⁹
- Approximately 40% of black borrowers drop out with outstanding debt and struggle to pay back the amount.³⁰
- Disparities in student debt outcomes place borrowers of color and their communities at a greater disadvantage in terms of accumulating and maintaining wealth.

Student Debt Poses Risks to the Broader Economy



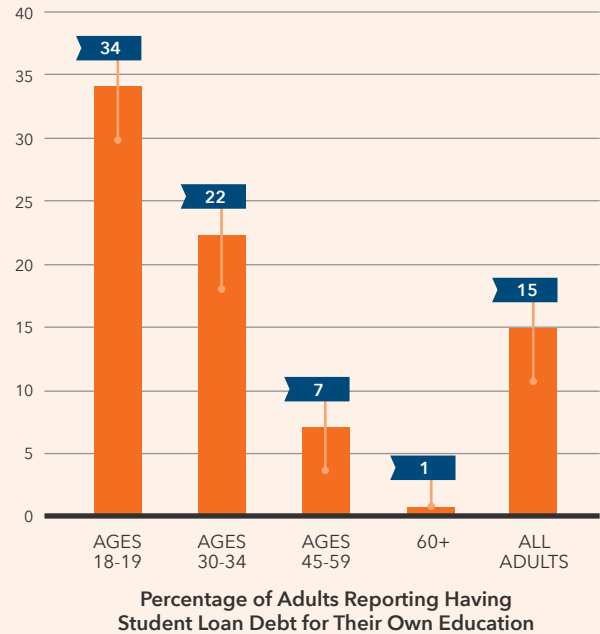
- Consumption decreases when consumers have debt-to-GDP ratios that exceed 60%.³¹ The debt-to-GDP has steadily declined since the Great Recession, however, it currently sits at 76%, which could present a risk to aggregate consumption.³²
- While economists are unsure about the broader economic effects of household debt, research shows it depresses homebuying, auto sales, and other consumption, which could slow economic growth.³³
- According to the Federal Reserve, larger negative economic effects are possible if student loan payments crowd out household spending.³⁴

Why People Borrow

Traditionally, borrowing to attend a postsecondary institution has been a common sense and advantageous decision for many students. Research has long shown that postsecondary degrees lead to better short- and long-term economic outcomes, largely due to improved job prospects and increased pay.³⁵ However, rising tuition costs in combination with increases in costs of living have complicated the economic outcomes of borrowing.

Unfortunately, the increased reliance on student loans to fund higher education has come with downstream consequences that borrowers and policymakers did not anticipate. Increasing student loan debt can have ripple effects that trap individuals in long-term financial distress, permeating to disrupt the greater financial stability of households and communities. As shown in the previous section, the latter scenario of financial instability is the reality for a growing population of students and borrowers.

Not Just Millennials – Adults of All Ages Take on Debt to Pay for Higher Education



Data Source: <https://www.pewresearch.org/fact-tank/2019/08/13/facts-about-student-loans/>

Rising Costs Exacerbate the Student Debt Crisis

A key factor in the student loan crisis is the rising costs of higher education. From 2008 to 2018, the proportion of per-student costs covered by state funding dropped from 71% to 54%.³⁶ At the same time, the proportion of per-student costs paid for by students increased from 29% to 46%.

Decreasing per-student state funding is frequently cited as a primary contributor to the spike in costs. State funding for public colleges and universities fell by \$7 billion between 2008 and 2018, after adjusting for inflation. During that time, the annual tuition of 4-year institutions rose by 36% (\$2,651).³⁷

Within the field, there is debate about the degree to which state funding has contributed to rising costs.³⁸ Some scholars have suggested other drivers of rising costs, including generous federal funding (often in the form of student loans) that has not provided adequate incentives to control costs.³⁹

The extent that reductions in state spending on higher education contribute to higher out-of-pocket college costs depends on other competing state funding priorities. With the exception of Vermont, all states are required by constitution or statute to balance their budgets on an annual basis, meaning rising costs in one area must be offset by lower spending in another or by higher revenues.⁴⁰ These constraints require state lawmakers to make difficult decisions when dividing limited funds. For example, multiple studies have suggested that decreases in higher education funding have been associated with increased funding for Medicaid and other public welfare programs.⁴¹

Regardless of the causes of the crisis, we know the current costs of pursuing a postsecondary degree are unsustainable for many students. And, despite this ongoing debate, we have enough sense of the scope of the crisis to prompt state action to address it.

SOLVING THE STUDENT DEBT CRISIS: GOALS FOR STUDENT DEBT RELIEF

As part of a two-year deep dive on the causes and ramifications of consumer debt, Aspen FSP identified a set of goals for student loan reforms and programs that would increase the financial security of borrowers. Solutions to the crisis should boost borrowers’ short- and long-term financial security, and that can only be done with a full understanding of the different ways in which student loan debt threatens households’ financial security. In evaluating solutions, EPIC prioritized the following qualities:

- Postsecondary education must be made more affordable for students and more equitable in both costs and benefits for people of color.
- Solutions must reduce the financial burden and hardship of students as well as increase the well-being of people with unaffordable student loan debt.

The scan made one thing clear: states can take many different actions to address this problem. Below are three categories of solutions states can pursue, based on where they interact with students and borrowers along the student debt lifecycle, from before loan origination through repayment.

Note on Methodology

The solutions included in this brief are the product of a landscape analysis that the Aspen Institute Financial Security Program conducted of states and how they are attempting to address mounting levels of student debt. Aspen FSP reviewed state education department websites to identify what state solutions are currently being implemented, as well as reviewed select proposals in state legislatures. In addition, FSP interviewed more than 20 state leaders and policy experts to better understand the problem and the tactics that can be utilized to decrease student debt at the state and local level. Given time constraints, Aspen FSP reviewed some research on the effectiveness of solutions but did not conduct a full literature review of each solution. The options included in this toolkit are not exhaustive but are meant to serve as a resource for states, with a range of solutions that vary in their difficulty to implement and expected impact.

THREE STEPS STATE LEADERS CAN TAKE TO DECREASE STUDENT DEBT BURDENS

<p>1. Reduce the out-of-pocket cost of attendance, particularly for low-income borrowers and borrowers of color</p>	<p>Target prospective students who have yet to enroll in post-secondary education. Reduce the out-of-pocket cost of attendance, reducing the need to borrow and minimizing the debt burden post-graduation.</p>
<p>2. Protect students as they navigate existing debt, particularly for low-income borrowers and borrowers of color</p>	<p>Target borrowers navigating existing debt regardless of their matriculation status. Help borrowers understand their student loan terms and repayment options, provide legal protections, and protect borrowers from accumulating more debt than necessary.</p>
<p>3. Decrease existing student debt burdens, particularly for low-income borrowers and borrowers of color</p>	<p>Target borrowers who have already accumulated debt. Help borrowers reduce the size or negative impacts of their existing debt burden.</p>

The solutions featured in this brief are organized by the goals above. Each solution is accompanied by real examples that states have proposed or enacted. The examples are followed by analysis of design features, and some include an analysis of features that could be detrimental and should be carefully considered, if not avoided altogether.

The menu of solutions is grounded in Aspen FSP’s priority of identifying solutions that improve the overall financial security of individuals and families, with careful consideration given to how solutions would impact low-income borrowers and borrowers of color.

Goal #1

Reduce the Out-of-Pocket Cost of Attendance, Particularly for Low-income Borrowers and Borrowers of Color

The solutions in this section target students who have yet to enroll in higher education and are meant to reduce the overall cost of attendance, minimizing debt burdens post-graduation. These solutions are generally aimed at reducing the student-borne costs of tuition and fees, housing, transportation, books, and personal expenses.

Ideally, these solutions would address all associated costs of enrolling in a postsecondary program—and do so for full-time and part-time students. However, this would be costly and could require multiple strategies to succeed. This overview includes both comprehensive solutions to reduce the total cost of attendance and strategies for reducing the cost of specific line items for students.

Solutions listed in this section include: Need-Based Aid & Grant Funding, Free College Programs, Dual Enrollment Programs, 4-year Community College Programs, Mandatory FAFSA Initiatives, and College Savings Accounts. Each solution is listed with a description of the program, an example of existing state policies and/or proposals, and design considerations.

NEED-BASED AID & GRANT FUNDING

Grant programs provide direct funding to students to offset the cost of attendance, minimizing the debt burdens students take on in attending postsecondary programs. Grant programs can be structured in a variety of ways and can be designed to target specific demographics of students.



Solutions

The Washington College Grant is Washington state's recent update to its former "State Need Grant."⁴² The grant offers tiered, targeted need-based aid to students from low- and middle-income households and the maximum award amount covers full tuition at any in-state postsecondary institution.

Assigning Award Amounts Based on Need

Washington's College Grant program gives according to family need⁴³

- Award amounts are prorated by income category and part-time enrollment.
- To be eligible, a student must come from a family whose income does not exceed 70 percent of the state's median family income (MFI), which currently is \$61,500 for a family of four.
- Current funding allows full awards to students at or below 50 percent of Median Family Income (MFI). Those with incomes between 50 and 70 percent MFI receive a prorated award.
- The maximum award values for full-time enrollment in 2018-19 range from \$2,823 to \$9,745, depending on the type of institution attended.
- Washington College Grant is funded by the General Fund and the Opportunity Pathway Account, which receives a portion of Washington's Lottery proceeds.



Targeting Aid Toward Underrepresented Groups

States also can structure grant programs to support specific demographics of borrowers. Tennessee's Minority Teaching Fellows Program allows minority teachers to receive an award of \$5,000 per year for students who pursue a teacher certification at an eligible Tennessee college or universities.⁴⁴ The Minority Teaching Fellows Program is unique in that it targets a traditionally underserved demographic of students and provides a substantial grant award to those who participate. Few states have grant programs for students of color and this kind of targeted aid would be effective if replicated at scale. This program could be strengthened by removing the requirements that the loan must be repaid

in the event that the recipient does not meet the program requirements or is not employed at an eligible school.



Supporting Students with Dependents

The State of California employs a generous amount of student aid as one of the top states giving students grant money to attend college. In the 2019, California signed into law a significant budget expansion that included increased funding for the Cal Grant. The increase includes \$96.7 million in additional funding specifically for students with dependents.⁴⁵



Design Considerations

Broadly, grant programs are effective in decreasing costs for students and minimizing debt burdens. Grant programs that target students of color are even more effective in addressing short- and long-term racial wealth disparities.

In establishing and/or expanding grant dollars for students, states should consider the following factors to help increase college affordability for the most vulnerable students:

- **Focus on low-income households:** A study by the Federal Reserve Bank of Minneapolis finds that focusing financial aid on low-income households is both cost-effective and could boost the economy.⁴⁶ In practice however, a significant number of state grant programs are structured so students from high-income households qualify and receive awards.⁴⁷
- **Guaranteed funding:** Consistent and adequate funding for state-based grant programs is essential. Some states appropriate funding every few years, while others provide different amounts of funding each year. To ensure program stability and promote access to the most financially vulnerable, it is important for states to prioritize consistent funding when creating grant programs.
- **Emergency and completion grants:** Unexpected expenses or financial challenges can be a serious barrier to completion and force students drop out of school before obtaining a degree. Creating grant funds for students who encounter an unexpected spike in expenses protects students from dropping out. Wake Tech in North Carolina offers a grant of up to \$1,000 that students can tap during financial emergencies.⁴⁸

- **Eligibility requirements:** While eligibility requirements and restrictions can make a program more affordable, they can also inadvertently restrict access for students who would most benefit from financial aid. Such restrictions include:
 - Academic performance & GPA requirements
 - Standardized testing requirements
 - Limiting grant awards to specific majors
 - Community service requirements
 - Drug-free requirements
 - Post-graduation requirements

Low-Income Borrowers, Pell Grants, and Student Debt

The rise in costs of postsecondary education has coincided with a decrease in available need-based aid. For students of low-income families, Pell Grants play a crucial role in decreasing the cost of attendance. While Pell Grants are still the largest source of grant funding for students, they are covering a decreasing percentage of total costs. In 1975, Pell Grants covered almost 80% of a student’s total costs of attendance, on average. Today, Pell Grants cover just under 30%.⁴⁹ The decrease in Pell Grant funding coverage translates to an increased reliance on other sources of funding, the most notable being public and private loans. Today, 84% of Pell Grant recipients graduate with student debt compared with 46% of non-recipients.⁵⁰

FREE COLLEGE PROGRAMS

Free college programs (also known as tuition-free or “Promise” programs) are state, institution-led, or federal initiatives that cover the costs of postsecondary programs for students. These programs provide aid to students on a “first-dollar” or “last-dollar” basis. First-dollar programs apply the award amount first, contributing to major educational costs upfront, which allows students to use other financial aid like federal aid dollars to cover living costs and additional expenses. Last-dollar programs are built to cover a gap in funding. They are often limited to covering tuition costs only and kick in once a student has exhausted all other financial aid (e.g. Pell Grants and other state aid).⁵¹



Solutions

More than 15 states have implemented free college programs, and just as many have proposed programs.⁵² Washington's College Bound Scholarship program is a first-dollar program that specifically targets low-income households for students pursuing both 2- or 4-year degrees.⁵³ The program has few eligibility requirements beyond the income threshold and allows students to participate even if enrolled part-time. Indiana and Oklahoma also have free college programs that specifically target students from low-income households. Maryland's Guaranteed Access Grant is also noteworthy. The grant targets students from low-income households—at the time of application, the applicant's household must be below 130% of the poverty level. When renewing, the limit increases to 150%. It is available for in-state students under the age of 26 and is meant to cover 100% of a student's financial need, with a maximum renewable award amount of \$19,100.⁵⁴



Design Considerations

When designed well, free college programs can dramatically increase affordability and reduce debt burdens post-graduation. The Education Trust's "A Promise Fulfilled: A Framework for Equitable Free College Programs" is an excellent resource for states that details the history of free college programs, offers an equity analysis of states who have created free college programs, and outlines recommendations for states considering doing the same.⁵⁵ The framework also identifies strategies and criteria states can use to prioritize the needs of students from low-income households and students of color. In improving or creating free college programs, states should consider the following features to promote equity, inclusion, and programmatic success:

- **Cost-of-living expenses:** Living expenses can make enrolling in postsecondary programs prohibitive. Ensuring free college programs cover costs beyond tuition and fees allows students from low-income households to participate without incurring debt for other expenses.

- **4-year program eligibility:** Many free college programs are limited to 2-year institutions. State should create free college programs that extend to both 2- and 4-year degrees to give students, particularly students from low-income households, the flexibility to pursue the education that best fits their needs.
- **Eligibility requirements:** In establishing eligibility requirements, states should be clear on the purpose and goal of those requirements. For example, while GPA requirements may be well-suited for merit aid programs, they run counter to the free college goal of making college more affordable and accessible to all students.
- **Data collection and publication:** Tracking and releasing data on program participation and outcomes and disaggregating this data by race and income allows states to learn from their free college programs so that they can be tweaked over time to help students with the greatest need.

DUAL ENROLLMENT PROGRAMS

Dual enrollment programs provide qualifying high school students the opportunity to earn college credit as they complete their high school degrees. Dual enrollment programs offer students additional educational opportunities and provide a cost-effective option for offsetting future postsecondary tuition costs.



Solutions

Florida and Georgia both have generous dual enrollment programs—in Florida, qualifying students are exempt from payment of tuition, registration, and fees,⁵⁶ and in Georgia, all mandatory and non-course related fees, including textbook costs are covered.⁵⁷ In Georgia, students receive a specific award amount that pays for a maximum of 15 semester or 12 quarter hours per term.⁵⁸ Florida's dual enrollment program provides multiple credit and course options for students—for example the program offers specific tracks for students who want to earn industry certification or enroll in college or career courses on a full-time basis.⁵⁹



Design Considerations

Dual enrollment programs increase affordability and reduce debt when they do not impose tuition or fees onto students. Some programs limit dual enrollment opportunities to students who can pay for credits while in high school. This runs counter to our debt reduction goals for two reasons: 1) it does not reduce the overall costs of pursuing a postsecondary education, and 2) it prevents students without financial means from participating. The best dual enrollment programs are offered at no cost to students and have few barriers to entry.

States should consider the following in creating new dual enrollment programs:

- **Cost-of-living expenses:** Dual enrollment programs offered at no cost to students are more costly for the postsecondary institution and state but also ensure that students with the greatest need are able to participate in the program. Cost coverage includes covering costs outside of tuition. Without additional support, other costs such as fees, book, and transportation can hinder a student’s ability to adequately prepare or complete for the program even if enrollment is free.
- **Clear credit guidelines:** Outcomes are improved if students have clarity regarding which postsecondary programs will accept credits once finished with a dual enrollment program. Most states have language specifying which state-funded colleges and universities must accept credits. This helps students avoid losing credit when transferring from high school to a postsecondary program.
- **Data collection and publication:** States should build in data collection and program evaluation as a component of dual enrollment program implementation. More specifically, data pertaining to the number of lower-income students, high school graduation rates, college enrollment, and how quickly a college degree was completed will be important for analyzing the effectiveness of dual enrollment programs.

EXPANDING ACCESS TO 4-YEAR DEGREES VIA COMMUNITY COLLEGE PROGRAMS

Increasingly, states are legislating and authorizing community colleges to offer 4-year, baccalaureate degree options to students. For families who

can’t afford the rising costs of traditional 4-year institutions, community college programs offer an economical alternative. Community college programs charge a fraction of the tuition at traditional 4-year institutions. During the 2019-2020 school year, the average annual tuition at a public 2-year community college was \$3,730 compared with \$10,440 at a public 4-year institution.⁶⁰



Solutions

Twenty-four states and counting allow community colleges to offer 4-year degrees.⁶¹ In 2019, Oregon joined the list, passing legislation that will permit 17 community colleges to offer applied baccalaureate degree programs with approval from the Higher Education Coordinating Commission.⁶² The law went into effect in January 2020.



Design Considerations

While the policy motivations for states allowing community colleges to offer 4-year degrees range from trying to address education goals to meeting changing workforce demands, from a financial security perspective, these programs represent an important debt-reduction strategy. Community colleges currently serve more than 5 million students,⁶³ and disproportionately serve underrepresented minorities. In 2015, community colleges served over half of all Native American students, over half of all Hispanic students, and approximately 40% of all African-American and Asian/Pacific Islander students.^{64, 65} Expanding 4-year degrees to community colleges can be an effective strategy in reducing economic and educational barriers for students of color.

For states interested in pursuing this strategy, there are many examples to pull from. The Education Commission of the States (ECS) outlines the pros and cons of community college 4-year degree expansion, and provides a series of core elements and goals that states should consider when developing and implementing policy that enables community colleges to do so.⁶⁶

MANDATORY FAFSA INITIATIVES

Mandatory Free Application for Federal Student Aid (FAFSA) initiatives require students to complete the FAFSA as part of their high school graduation requirements. FAFSA completion is important because it allows for students to be eligible to receive Federal loans, grants, and scholarships.



Solutions

Louisiana was the first state to require all graduating students to complete the FAFSA. Before doing so, the FAFSA completion rate of the state was around 50%. Now it sits at just over 80%.⁶⁷ Illinois and Texas have both passed similar initiatives that will go into effect in 2020 and 2021, respectively.^{68, 69}



Design Considerations

FAFSA completion is positively correlated with enrollment in postsecondary programs.⁷⁰ However, FAFSA completion rates vary dramatically from state to state, and students of low-income families—students who need the most aid—have lower completion rates than higher income students.⁷¹

While completing the FAFSA does not guarantee a reduction in overall costs, it does connect students to financial aid that they otherwise would not have access to. This is important for two main reasons: 1) federal assistance changes the type of loan products students can access. Without access to federal loans, students in need of financial support would be forced to rely on private loans, which are typically more expensive⁷²; and 2) federal aid includes grant dollars which are critical for keeping costs and debt to a minimum, particularly for students from low-income households who qualify for Pell grants.

The FAFSA can be a difficult form to complete. For this reason, providing assistance to students and schools for completing the form can prevent the FAFSA from being a barrier to high school graduation.⁷³ States can also provide waivers to eliminate the completion requirement for certain circumstances, such as military service. Efforts like the FUTURE ACT, now signed into federal law, have pushed for a simplification of the form.⁷⁴ The

Making Postsecondary Education Affordable for Deferred Action for Childhood Arrivals (DACA) Students and Undocumented Students

Several states and actors have begun to create new policies and programs aimed at making postsecondary education more affordable for both undocumented students and DACA students, mainly through two vehicles: 1) expanding in-state tuition rates to undocumented immigrants and 2) allowing undocumented students to receive state-based financial aid. The DACA program, originally created during the Obama Administration, provides temporary relief against deportation for a portion of undocumented immigrants and allows them to be eligible for a work permit.⁷⁷

Undocumented students face a unique set of challenges pertaining to college affordability and are often forced to utilize private loans to attend postsecondary programs.⁷⁸ Undocumented students are commonly treated as out-of-state students when attending public colleges and universities. Additionally, undocumented students are unable to qualify for federal financial aid or scholarships and therefore remain reliant on private loans, which are more expensive than federal loans and come with fewer protections. In-state tuition or state-based financial aid could meaningfully decrease the disparities that exist between undocumented and documented students.

As of September 2019, 19 states and the District of Columbia offer in-state tuition rates to undocumented immigrants.⁷⁹ Seventeen states extend tuition rates through state legislation and the other two states allow in-state tuition rates to undocumented students via their state board of regents. Currently, seven states offer undocumented students the opportunity to receive state financial aid.

law allows students to skip up to 22 questions on the FAFSA, automates the income recertification for federal borrowers who use Income-Based Repayment plans, and allows the IRS to share the users' tax information with the US Department of

Education.^{75,76} Still, even with efforts to simplify the form, states should ensure mandatory completion initiatives are not punitive and do not harm students who are unable to complete the form in time.

COLLEGE SAVINGS ACCOUNTS

529 plans are state-sponsored accounts that provide residents with a tax-advantaged savings account for future educational expenses. Accounts can be opened by individuals for their own educational expenses or opened on behalf of a beneficiary.



Solutions

While all states and Washington, D.C., sponsor 529 plans, those accounts could be made more generous through direct state investment or financial incentives to save. In spring 2019, Colorado signed into law a new college savings account, the Collegenest 529 savings account, where the state invests \$100 for every child adopted or born after January 1, 2020.⁸⁰ The money must be claimed on behalf of the child before the child turns five.



Design Considerations and Analysis

Savings alone will not solve the student debt crisis, and the benefits of 529 accounts primarily benefit high income households who are able to make the most of the tax-advantaged nature of such accounts. However, programs that enhance these accounts—to not only encourage savings but directly help households do so—can be a straightforward and impactful way of improving financial security.

Starter funds like that of Colorado's program make tax-advantaged savings accounts a vehicle for a more inclusive savings program that can benefit low-income households. States can also improve the utility of savings accounts by creating matching programs that increase the value of savings for families. For example, California's 529 program offers a targeted match to families making \$75,000 or less. The program allows for a one-to-one match on contributions of up to \$200 as well as a one-time contribution of \$25 if users establish a monthly automatic contribution of \$25 or more when opening an account.⁸¹

Goal #2

Protect Students as They Navigate Existing Debt, Particularly for Low-income Borrowers and Borrowers of Color

The solutions in this section target borrowers as they navigate existing debt with the purpose of 1) protecting students from accumulating more debt than necessary, 2) ensuring borrowers understand loan terms and repayment options, and 3) providing legal protections. These solutions help borrowers avoid additional unexpected costs, poor repayment programs, and/or unmanageable interest rates. They are designed to benefit any borrower holding student loan debt, regardless of whether they are in school, have graduated, or did not complete their degree.

Solutions listed in this section include: Student Loan Servicing Legislation and Regulation and Re-Enrollment Programs.

Each solution is listed with a description of the program, an example of existing state policies and/or proposals, and design considerations.

STUDENT LOAN SERVICING LEGISLATION AND REGULATION

Student loan servicing is a structural component of the borrower experience. Student loan servicers collect student loan payments on behalf of the federal government, assist borrowers in selecting repayment plans, and discharge student debt when required. Effective loan servicing enables borrowers to make timely payments, avoid delinquency and default, and successfully pay down their debt. Poor servicing can result in unnecessary increases in outstanding balances, misapplied payments, denied payment credit, and mismanagement of repayment plan enrollment.⁸²

State laws can provide additional protections for borrowers from poor loan servicing. Existing laws are designed to improve servicing in a number of ways, including establishing additional state oversight of loan servicers, creating additional legal requirements for servicers (both through specifying prohibited acts or required responsibilities), and creating public-facing student loan advocates.⁸³



Solutions

Connecticut was the first state to pass legislation aimed at regulating student loan servicers. Connecticut's "Student Loan Bill of Rights" includes oversight of banks and guaranty agencies, and student loan servicer licensing requirements. It also created an "Office of the Student Loan Ombudsman," and prohibits services from engaging in behaviors at the detriment of the borrower. Thirteen states now have student loan servicing laws on the books.⁸⁴



Design Considerations

Student loan servicing plays an important role in borrowers' experience with student loan debt and can make a difference for many borrowers in understanding their loans, enrolling in the repayment plan that works best for them, and staying up to date on payments. Higher education experts have debated the extent to which servicers are responsible for complaints about the loan servicing process,^{85,86,87} but alleged failures by loan servicers have resulted in multiple lawsuits against them.^{88,89} Well-designed state laws could provide additional oversight and consumer protections for borrowers against poor loan servicing. However, these changes would not address the underlying complexity of the federal student loan repayment system, which can drive much of the confusion faced by borrowers.⁹⁰ They would also not fundamentally change the underlying issues of higher education affordability that are driving the student loan crisis.

State policymakers should consider the fact that loan servicers typically provide servicing for borrowers across the country, rather than for a single state. Consequently, if multiple states implement differing regulations of servicers, it could inadvertently create additional complexity for both servicers and borrowers in the student loan system.

RE-ENROLLMENT PROGRAMS

Re-enrollment programs provide pathways to postsecondary completion to noncompleters (students who have taken loans, but who have not completed a degree) and are often paired with some amount of debt forgiveness to increase incentives for re-enrollment.



Solutions

While we have yet to see state-level action in developing a comprehensive re-enrollment program with student debt forgiveness, Wayne State University in Detroit, Michigan has implemented a program that is being replicated and scaled by institutions across the country.

Approximately 13,000 noncompleters with some college and no degree in the Detroit area initially attended Wayne State University. The university was eager to develop a program to re-engage this large and growing population. They created the Warrior Way Back program which enables students who dropped out of Wayne State University with outstanding debt to re-enroll. Additionally, the university writes off up to \$1,500—roughly the cost of one class—for all participants of the program.⁹¹



Design Considerations

The Warrior Way Back program has been a win for students and the university. Students, most of whom are adults (the average age of program participants is 39), get to return to school and leave to join the workforce with a degree. The university nets positive revenue, as the \$1,500 offered as past-due debt forgiveness is a fraction of the total tuition fees students pay during the additional semesters of matriculation until degree completion.

Re-enrollment programs address Aspen FSP's goals in that they minimize debt while improving educational outcomes for students and borrowers. Furthermore, between improving degree completion rates, education and workforce outcomes, and the financial security of participants over the long-term, re-enrollment programs offer a significant return on investment.

Goal #3

Decrease Existing Student Debt Burdens, Particularly for Low-Income Borrowers and Borrowers of Color

The solutions in this section answer one question: if you have existing debt, how can it be minimized? They address the heart of the crisis by focusing on outstanding debt. These solutions target borrowers who have already accumulated debt and are designed to help borrowers decrease their existing debt burden.

Many of the challenges attributed to student loan debt are prevalent within two profiles of borrowers: those with large debt balances, who are more likely to have pursued graduate degrees,⁹² and those with low-debt balances, many of whom never completed an undergraduate degree.⁹³ High-balance borrowers are becoming a larger share of total borrowers—almost 1 in 5 borrowers have outstanding balances of over \$50,000.⁹⁴ Perhaps counterintuitively, however, those with low balances are more likely to miss payments and default on their debt. Borrowers with less than \$10,000 in outstanding debt make up two-thirds of all defaults. The individual experiences of borrowers are unique, but it is important to understand the general trends that exist within each of these groups.

When it comes to decreasing existing debt burdens, the options available to states vary significantly. In this section, we outline five solutions aimed specifically at debt reduction and one particularly innovative solution that combines debt reduction with asset building.

Solutions listed in this section include: Individual Tax Expenditures, Employer Tax Credits and Deductions, Sector-Specific Loan Forgiveness and Repayment Programs, State-Sponsored Refinancing, Targeted Loan Repayment, and Housing Assistance Programs. Each solution is listed with a description of the program, an example of existing state policies and/or proposals, and design considerations.

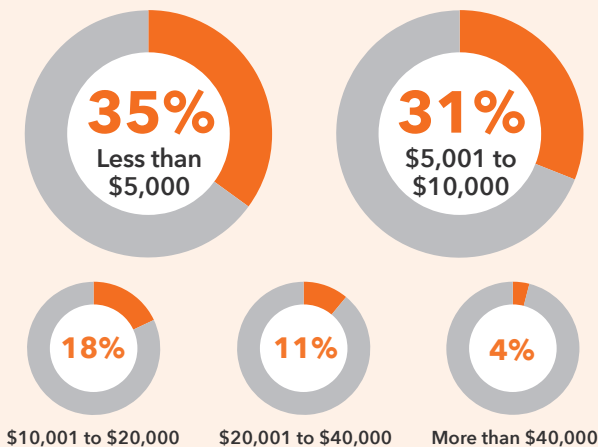
INDIVIDUAL TAX EXPENDITURES

Tax expenditures targeted at student loans, including credits, deductions, and exemptions, reduce the annual tax liability of borrowers in order to offset student loan payments.

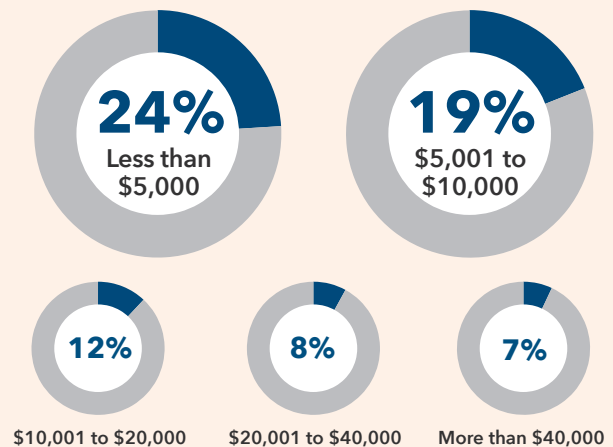
The High Cost of Small Loan Amounts

Share of Defaulters and Three-Year Federal Student Loan Default Rate Among Borrowers Entering Repayment in 2010-2011, by Loan Balance

SHARE OF DEFAULTERS



DEFAULT RATE



Source: US Council of Economic Advisers (2016), *Investing in Higher Education: Benefits, Challenges, and the State of Student Debt*, Figure 27.



Solutions

Five states have implemented individual tax expenditures targeted at reducing existing student loan burdens for their borrowers. For example, Minnesota's Student Loan Tax Credit is a nonrefundable credit for student loan payments made on principal amount and interest that allows borrowers to reduce their tax liability by up to \$500 (\$1,000 maximum for married couples filing jointly).⁹⁵ The tax credit has few eligibility requirements and taxpayers can apply for the credit every year that they are making a qualified education loan payment, making it accessible to a broader number of borrowers.



Design Considerations

By directly offsetting borrowing costs as part of the tax process, tax expenditures are one of the more flexible tools at states' disposal. They stack on top of the federal government's existing \$2,500 tax deduction for student loan interest, which phases out as household income increases. The impact of tax expenditures on the overall student loan crisis depends on their generosity and eligibility requirements. When creating student loan tax programs, states should carefully consider their program requirements:

- **Refundability:** Refundable tax credits are paid to a taxpayer regardless of whether the individual has a tax liability. Designing a student loan tax expenditure as a refundable credit allows low-income households with zero tax liability to benefit from the program. This would increase program costs but provide support to low-income households. The benefits of nonrefundable credits accrue primarily to higher income households because they have a higher tax liability.
- **Balance requirements:** In an attempt to target those with the largest loan burdens, some programs only aid borrowers with balances above a certain threshold. Unfortunately, because low-balance borrowers are most at risk for default, such requirements can inadvertently exclude those most in need of aid from programs.
- **Graduation requirements:** Noncompleters can face steep barriers in paying off their student loans. Degree requirements for student loan tax programs cut such borrowers off from necessary aid.

- **Income requirements:** To reduce the cost of a student loan tax program, states could create income requirements for participation similar to the federal government's credit, which would focus the benefit primarily on low- to middle-income households.

EMPLOYER TAX CREDITS AND DEDUCTIONS

Tax credits and deductions can be provided to employers to incentivize them to provide student loan benefits to their workers. They can incentivize different types of programs, including loan repayment benefits or savings programs. These programs can take multiple forms including making matching payments for student loans, or simply making student loan payments on the employee's behalf.



Solutions

Only a few states have tax programs that incentivize employers to provide a student loan benefit. In 2019, Connecticut passed one of the most generous versions of this policy to date, a program that allows employers to claim a tax credit for student loan payments made on behalf of their employees—a credit of 50% of a maximum payment of \$2,625 per employee per year.⁹⁶



Design Considerations

Several large organizations have begun to offer student loan repayment benefits to their employees, but such benefits remain rare. A 2018 survey by the Society for Human Resource Management found that only 4% of US companies offer a student loan debt benefit.⁹⁷ Such a policy could be a more cost-effective way to reduce borrower loan balances, leveraging employer funds to further reduce student loans. However, it is unclear how effective tax credits will be in expanding access to those benefits for low- and moderate-income borrowers. In addition, the benefits of such incentives would only assist employed individuals at companies that provide benefits. In particular, many low-income and independent workers do not have access to "standard" benefits from their employers.

SECTOR-SPECIFIC LOAN FORGIVENESS AND REPAYMENT PROGRAMS

Sector-specific loan forgiveness and repayments programs offer targeted student loan relief to borrowers within specific professions. Most existing programs target professionals in healthcare and education. These programs have goals beyond student loan relief, including creating incentives for individuals to pursue careers in fields where a shortage exists within the workforce.



Solutions

The Kansas Student Rural Opportunity Zones Loan Repayment Program is a place-based student loan incentive designed to encourage borrowers to move to and work in the state’s rural counties.⁹⁸ The program offers borrowers with outstanding student loan balances from 2-year, 4-year, or graduate programs up to \$15,000 in repayment assistance if 1) they live in one of Kansas’s designated “Rural Opportunity Zones”, and 2) secure sponsorship from either an employer or the county.



Design Considerations

Many sector specific loans and repayment types do not fall within FSP’s goal of increasing household security for the most vulnerable borrowers given that most of the state-funded repayment programs are often limited to a small number of professions within a given state. However, they are worth noting because despite their restrictions, many like that of Kansas do offer sizeable student debt relief to those who qualify.

In addition to these goals, states could also consider expanding these programs to provide additional incentives for specific income brackets or other demographic groups who are disproportionately impacted by student loan debt.

STATE-SPONSORED REFINANCING

Loan refinancing programs allow borrowers to decrease outstanding debt amounts and repayment time. By refinancing a loan, borrowers can decrease

existing interest rates, thereby cutting hundreds and potentially thousands of dollars off their overall debt amount.



Solutions

At least 10 states offer student loan refinancing, most through their state loan authorities.⁹⁹ This includes a diverse group of states via several geographic representations in all parts of the country. As an example, some of the states that offer state student loan refinancing include New Hampshire, Minnesota, Louisiana, and South Carolina. Several other states have written or passed legislation to create state-sponsored refinance programs.^{100, 101}



Design Considerations

Interest rates vary depending on loan type. For borrowers who initially secured a loan with a high interest rate, refinancing can be an effective option for decreasing overall student debt. State-sponsored refinancing offers a competitive alternative for borrowers wary of refinancing with a private lender. States looking to improve existing programs or create new refinancing programs should consider the following so that programs are equitable and accessible to borrowers:

- **Graduation requirements:** Noncompleters face steep barriers in paying off their student loans. Degree requirements for refinancing programs cut such borrowers off from important aid.
- **Fees:** Some refinancing programs include application, origination, or prepayment fees which impose additional financial hardships on disadvantaged borrowers.
- **Debt thresholds:** Many states limit refinancing to borrowers with outstanding debt amounts of \$5,000, \$7,500, or \$10,000 or more. While such requirements lower costs, loosening them would provide benefits to low-balance borrowers who are most at risk of default.
- **Federal student loan benefits:** States should make sure program participants are aware of any tradeoffs that come from refinancing through a state program. For example, participants could lose access to federal student loan protections or programs, such as income-driven repayment plans for federal student loans.

TARGETED LOAN REPAYMENT

Targeted loan repayment would provide relief to borrowers within a specific demographic and/or outstanding loan profile. Compared to a federal debt reduction strategy like full cancellation, targeted loan repayment would minimize costs by assisting borrowers identified as having the greatest need.



Solutions

Currently, no state has developed or implemented such a policy. However, given the broad possible benefits to borrowers, states could consider it as an ambitious possibility to directly address the student loan crisis.



Design Considerations

In pursuing a loan repayment strategy, states have a lot of flexibility in design and implementation. One strategy for targeted loan repayment could be directed solely at borrowers with low outstanding balances—balances of \$10,000 or under which would account for borrowers most likely to default.¹⁰² Given the struggles of this particular group, even a small amount of loan repayment could make a significant impact on the financial security of borrowers.

A 2019 report by Demos that outlines federal loan cancellation strategies (which are analogous to ambitious repayment strategies) provides guidance on how to help borrowers with the most need and reducing the racial wealth gap.¹⁰³ While states cannot cancel student debt, they can structure repayment programs to mimic loan cancellation proposals. Three strategies in the report represent different forms of targeted loan cancellation and include: 1) canceling all debt for some and some debt for all, 2) canceling all or most debt for families below a certain income, and 3) forgiving a percentage of student loan principal for anyone enrolled in a means-tested benefit program at least two years after leaving college.

HOUSING ASSISTANCE PROGRAMS

States can create programs to help borrowers pay down their debt while building other assets, such as subsidizing homeownership.



Solutions

Maryland SmartBuy is a program aimed at helping individuals and families with student debt purchase homes.¹⁰⁴ To qualify, homebuyers must have a minimum outstanding debt balance of \$1,000. A portion of the home purchase price (15%) is then used to pay off outstanding debt at a maximum payoff of \$40,000, and the full debt balance must be paid off at the time the home is purchased. Since the program launched in 2016, the program has enabled Marylanders to pay off a total of \$7 million in student debt.¹⁰⁵



Design Considerations

Maryland SmartBuy is unique in that it allows borrowers to receive debt relief while building assets. Continued growth of the program could reap substantial long-term benefits for the state and its residents.

Developing programs that help borrowers navigate their debt while becoming homeowners can offset the compounding financial effects of student loan debt on household financial security. Furthermore, across the country, black homeownership rates are at a near-record low: 42.7% compared with 64.8% for total population.^{106, 107} Programs like Maryland SmartBuy could be particularly effective in addressing racial wealth disparities.

However, similar to what is outlined in previous solutions, in developing new programs, states should carefully construct eligibility requirements so that they are not prohibitive. Programs that keep the following eligibility requirement minimums low would enable a broader range of borrowers to participate: outstanding student debt balance, credit scores for underwriting, and down payments.

How States Can Lead in Solving the Student Debt Crisis

Across the country, millions of individuals and households are navigating the additional financial challenge of ballooning student loan balances. The impact this is having on households spills into communities and the broader economy.

States are deeply implicated in the crisis—both in the role they play funding postsecondary programs and financial aid, as well as how they are impacted when households are financially insecure.

Luckily, there are a suite of solutions that can be implemented by states to curb this problem. This brief outlines a menu of solutions available to states across three goals, with particular consideration for how they help low income borrowers and borrowers of color: reducing the out-of-pocket cost of attendance, protecting students as they navigate existing debt, and decreasing existing student debt burdens.

This paper is not designed to provide an exhaustive list of recommendations, but rather provide governors, state legislators, and other state policymakers a resource summarizing existing state policies and proposals they could

replicate. In developing this resource, Aspen FSP identified a range of guiding principles that should be considered when implementing policies to address student loan burdens.

No one policy or product will solve the student debt crisis. Solving the crisis demands solutions from a range of stakeholders. States are well positioned to implement a diversity of solutions that help borrowers across the debt lifecycle. This brief provides a steppingstone for states looking to take action to address this large and growing problem. Aspen FSP encourages states to learn from each other as solutions are developed and implemented and intends to update this brief as states gain more experience and new options become available.

Aspen FSP is developing resources that provide analysis of the solutions strategies available to different stakeholders. In April 2019, we published a brief that assessed more than a dozen federal policy proposals and in February 2020, we released a brief that provides an overview for cross-sector action to the student debt crisis. A later brief will explore debt-reduction and repayment solutions specific to employers.

✔ FOCUS ON FINANCIAL SECURITY OUTCOMES:

The goals of addressing student loan debt should go beyond delinquency and default. The ultimate metric of success for solutions must take into account the broader impacts of student loan burdens on household finances.

✔ BUILD IN DATA COLLECTION, EVALUATION, AND PUBLICATION:

Thorough tracking and evaluation of outcomes and metrics will allow states to better understand and improve upon solutions as they are being implemented. For many of the solutions included in the toolkit, additional evaluation is needed to establish their effectiveness. State-led data collection and evaluation of solutions as they are being implemented and piloted will help the field as a whole.

✔ HELP THOSE WITH LOW BALANCES:

Borrowers whose financial security is at most risk from student loans are not those with high balances, but rather those with low balances. Solutions that truly address the student loan crisis must include borrowers with low balances.

✔ ADDRESS THE TRUE CIRCUMSTANCES OF TODAY'S STUDENTS:

Today's students do not consist only of 18- to 22-year-olds attending a 4-year college straight out of high school. Almost two-thirds work, many have families, and most attend 2-year, not 4-year institutions.

✔ PRIORITIZE EQUITY:

As with past drivers of the wealth gap, black borrowers are disproportionately harmed by the student debt crisis. The crisis also magnifies economic inequality for women and other racial and ethnic groups.

✔ PROVIDE OPTIONS FOR NONCOMPLETERS:

Noncompleters are disproportionately represented among those delinquent on their loans, and they also do not benefit from the wage increases associated with a degree. Solutions should both help students toward completion and provide pathways to re-enrollment.

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