

AAUW CAPITOL HILL LOBBY CORPS
THE STUDENT DEBT RELIEF ACT OF 2007/ S.359
2/1/2007

I. SUMMARY

Message: Support the Student Debt Relief Act of 2007, (S. 359) by becoming a co-sponsor of this bill, which aims to make college more affordable for all students.

II. BACKGROUND

STUDENT AID NOT KEEPING PACE WITH COLLEGE COSTS OR INFLATION

A college education is a necessity in order to succeed in today's society; however, the cost of receiving that education has dramatically risen in recent years. Because student aid—and family incomes—have not risen at the same rates as college tuition, the dream of a college education has become more of a challenge in recent years, placing burdens on both students and their families. In fact, a majority of Americans are finding paying for college more difficult than they did a decade ago.ⁱ

Between 1995-96 and 2005-06, grant aid per student increased by 46 percent in constant 2005 dollars, but that money only covered an average of 26 percent of the \$5,289 increase in private college tuition and fees, and an average of 74 percent of the \$1,881 increase in average public four-year college tuition and fees.ⁱⁱ By comparison, median family income increased by only three percent in that same decade, while tuition rose anywhere between 34 and 52 percent.

STUDENT BORROWING IS UP

This has led to an increase in borrowing to finance a college education. Over the past decade, debt levels have more than doubled for graduating seniors with student loans, from \$9,250 to \$19,200 – a 108 percent increase (58 percent after accounting for inflation).ⁱⁱⁱ At public universities, debt levels more than doubled for graduating seniors with student loans, from \$8,000 to \$17,250 over the past decade – a 116 percent increase (65 percent after accounting for inflation).^{iv} Further, nearly 25 percent of undergraduates use credit cards to help pay tuition and fees, increasing their debt load.^v Private student loans now total \$17.3 billion, having grown at an average annual rate of 27 percent between 2001-02 and 2005-06.

STUDENTS ARE MORTGAGING THEIR FUTURES

And this heavy borrowing is having an impact on students' social and economic futures. In 2002, student loan debt caused 14 percent of young graduates to postpone marriage; 30 percent to hold off on buying a car; 21 percent to delay having children; and 38 percent to defer buying a home. Further, students report debt levels that would deter them from pursuing lower-paying public service careers that are critical to the well-being and future of the nation, including teaching (23

percent of public college and 38 percent of private college graduates) and social work (37 percent of public and 55 percent of private college graduates).

STUDENT DEBT AND WOMEN

Loan repayment is an even more significant burden for women, who earn less on average over the course of their lives than their male counterparts. According to AAUW research, in 2004, college-educated women 25 and older earned 75 percent of what their male peers earned. This pay gap appears within the first year after college—even when women are working full-time in the same fields as men—and widens in the first ten years in the workforce. AAUW research points to several factors that appear to be pivotal including the field of study, the decision to have children, and occupational choice.^{vi} Since women are more likely to borrow than men and they will make less on average after graduation, female graduates are more likely to struggle with their loan debt.

No student wants to borrow more than is necessary to finance higher education, but when students need to borrow they should have access to loans that carry the most favorable terms and conditions. Access to affordable loan programs relieves the debt burden on students over the long term, and ultimately puts a college education within reach of more people.

III. WHAT THIS BILL WOULD DO

The Student Debt Relief Act works to address the crisis of student debt and ensure that cost is not a barrier to a college education:

- **Immediately increases Pell Grant maximum** to \$5,100 with mandatory funding; and provides additional Pell Grant increases through enactment of Student Aid Rewards Act (STAR Act), which reforms the student loan programs and generates savings to use for student aid by encouraging schools to use more efficient of the two federal loan programs.
- **Cuts interest rates in half** (from 6.8 percent to 3.4 percent) for subsidized undergraduate student loans over 5 years. (This part reflects H.R. 5)
- **Debt Relief:** Provides borrower option of having federal student loan payments capped at 15 percent of a monthly discretionary income, and forgives student loans after 25 years.
- **Provides loan forgiveness** for public sector employees after 10 years.
- **Consolidation/Reconsolidation:** Allows students to reconsolidate loans, repeals the elimination of in-school consolidation.
- **Origination Fees:** Reduces origination fees in Direct Loan program by 1 percent to track program origination fee reduction, and gives Secretary explicit authority to reduce origination fees.

- **Direct Loan/Student Aid Administrative Funds:** Repeals 2005 Budget Reconciliation provision that moved administrative funds to discretionary side of budget to restore funding as mandatory, to ensure continued operation of the student aid programs.
- **College Tuition Tax Deduction/Student Loan Interest Tax Credit:** Extends college tuition tax deduction and increases allowable deduction from \$4,000 to \$12,000. Converts the existing student loan tax deduction into a tax credit.
 - A tax credit is a direct reduction in tax liability, independent of tax bracket. For example, a \$1,815 tax credit lowers an individual's tax liability by \$1,815. A tax deduction is an adjustment to income, on which the individual is paying tax. A tax credit is better but is also more expensive.

IV. STATUS

The Student Debt Relief Act (S.359) was introduced by Sen. Edward Kennedy (D-MA) and referred to the Senate Finance Committee.

Sen. Kennedy hopes to incorporate it into the HEA re-authorization. As chair of the HELP committee he hopes to have a March markup.

Co-Sponsors: Mikulski, Lieberman, Schumer, Durbin, Obama

Congressional appropriations committees have completed their work on the FY07 budget, proposing a joint funding continuing resolution based on FY06 levels. However, this measure also includes an expansion in Pell grants, with an increase of \$615.4 million that will increase the maximum Pell grant by \$260 to \$4,310. While this is a great improvement in Pell grant funding, more work is still needed to ensure that college costs do not continue to place heavy burdens on students and families.

V. TALKING POINTS

Argument: *Congress is completed the FY07 budget continuing resolution, which includes an increase in the Pell grant award? Why is another increase needed?*

Rebuttal: For students, the increase in the Pell grant award that is included in the FY07 budget continuing resolution, would mean an increase of \$260 per year, up to \$4,310, according to congressional estimates. While this is a “good” start, “good” isn’t “good enough”. We should aim to make college more affordable for students and their families.

Argument: *The administration is increasing Pell grant awards and expanding access to the program.*

Rebuttal: While President Bush did propose to increase the Pell grant award by \$100 each year over the next five years in his fiscal year 2006 budget, the proposal was not acted upon, and the proposal did not appear in the FY07 proposal by the administration. We do not know if the

President's budget proposal will call for an increase in the Pell grant award, as it is due out on Feb. 5th.

Argument: *Congress must make tough choices during lean budget times.*

Rebuttal: In fact, tough budget times do require tough choices about programs and services requiring a commitment of federal funds. Investing in education produces long term benefits both for students and the American workforce. With changes in the workforce over the last 125 years, higher education is becoming less of a luxury and more of a necessity. By the year 2020, it is estimated that there will be 15 million new jobs requiring postsecondary education. As the skill requirements of jobs continue to increase, so too should access to postsecondary training for all students. To meet these demands, it is crucial that the federal government maintain its commitment to creating access to higher education with-out mortgaging student's futures.

VI. TARGETS

All Democrats (except for sponsor and co-sponsors), as well as moderate republicans, and some members of the HELP Committee. *Note to members*: If you are lobbying in the office of a freshman member of Congress, make sure that you introduce yourself, AAUW, and AAUW Lobby Corps to the staff.

VII. WHO TO ASK FOR Education LA's

ⁱ The National Center for Public Policy and Higher Education. *Measuring Up 2004*. The National Center for Public Policy and Higher Education, California, 2004. http://measuringup.highereducation.org/docs/nationalreport_2004.pdf

ⁱⁱ The College Board. *Trends in Student Aid*. 2006, p. 23.

ⁱⁱⁱ Calculations by the Project on Student Debt from the National Center for Education Statistics (NCES), National Postsecondary Student Aid Study (NPSAS), 2004 undergraduates and 1993 undergraduates, Data Analysis System (DAS).

^{iv} Calculations by the Project on Student Debt from the National Center for Education Statistics (NCES), National Postsecondary Student Aid Study (NPSAS), 2004 undergraduates and 1993 undergraduates, Data Analysis System (DAS).

^v The College Board. *Trends in Student Aid*. The College Board. New York, 2005.
http://www.collegeboard.com/prod_downloads/press/cost05/trends_aid_05.pdf

^{vi} U.S. Department of Education, National Center for Education Statistics, 1993/2003 Baccalaureate and Beyond Longitudinal Study. Annual earnings for full-time college-educated woman in 2004 were \$31,223 compared to \$40,798 for college-educated men—a difference of \$9,575. *Income, Poverty, and Health Insurance Coverage in the United States, 2005*. U.S. Census Bureau, U.S. Government Printing Office.