POLITICS AND POLICY

Student-Debt Forgiveness Plans Skyrocket, Raising Fears Over Costs, Higher Tuition

Some Law Schools Advertise Their Own Plans to Cover Loan Repayments

By
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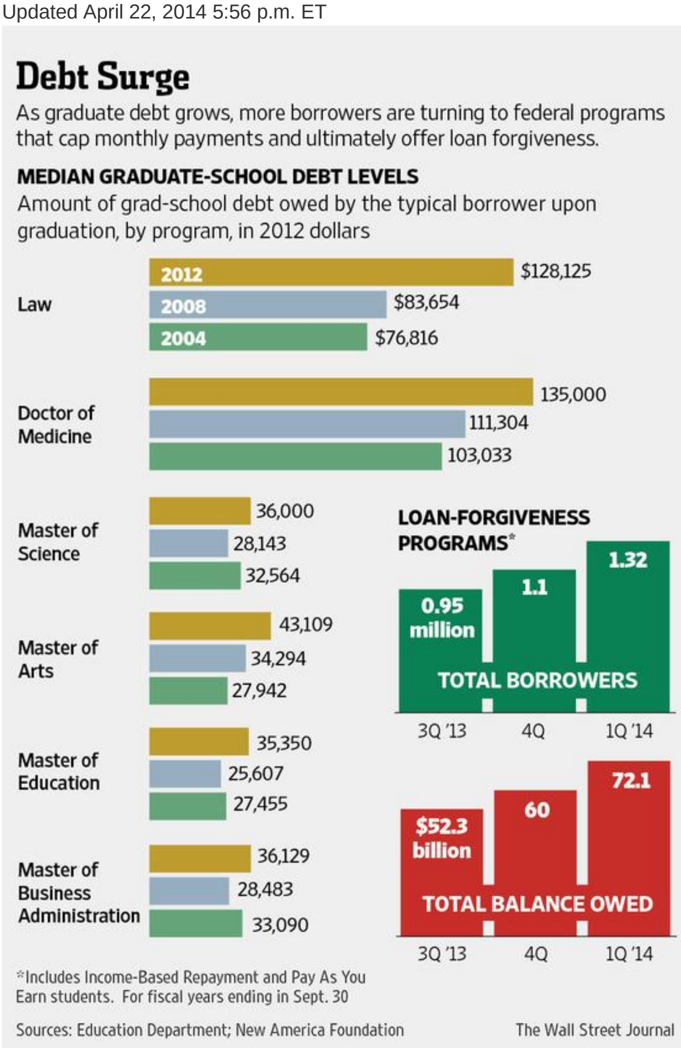

Government officials are trying to rein in increasingly popular federal programs that forgive some student debt, amid rising concerns over the plans' costs and the possibility they could encourage colleges to push tuition even higher.

Enrollment in the plans—which allow students to rack up big debts and then forgive the unpaid balance after a set period—has surged nearly 40% in just six months, to include at least 1.3 million Americans owing around $72 billion, U.S. Education Department records show.

The popularity of the programs comes as top law schools are now advertising their own plans that offer to cover a graduate's federal loan repayments until outstanding debt is forgiven. The school aid opens the way for free or greatly subsidized degrees at taxpayer expense.

At issue are two federal loan repayment plans created by Congress, originally to help students with big debt loads and to promote work in lower-paying jobs outside the private sector.

The fastest-growing plan, revamped by President Barack Obama in 2011, requires borrowers to pay 10% a year of their discretionary income—annual income above 150% of the poverty level—in monthly installments. Under the plan, the unpaid balances for those working in the public sector or for nonprofits are then forgiven after 10 years. Private-sector workers also see their debts wiped clean—after a longer period of 20 years—reflecting a government aim to have no one, wherever they work, paying down student debt their entire working life.

An independent study estimates the future cost of the 2011 program, known as Pay As You Earn, could hit $14 billion a year.

The Obama administration has proposed in its latest budget released last month to cap debt eligible for forgiveness at $57,500 per student. There is currently no limit on such debt.

The move reflects concerns in the administration not just about the hit to the government, but over the risk that promising huge debt forgiveness could make borrowers and schools less disciplined about costs. Colleges might charge more than they would otherwise, leading students to borrow more.

Federal data show tuition and fees are up more than 6% a year on average in the past decade, more than 2 1/2 times inflation.

Congress is unlikely to pass the proposed revamp this year, but the administration has pushed other changes, such as extending the forgiveness window to 25 years for the most-indebted students. The main aim, administration officials say, is to curb eligibility for forgiveness while allowing more borrowers to repay loans based on their income.

Dorie Nolt, a spokeswoman for Education Secretary Arne Duncan, said the proposals are meant to ensure the "neediest borrowers" benefit and to protect the program from "institutional practices that may further increase student indebtedness."
Supporters of the forgiveness program say it is working largely as designed.

"Given the increasing cost of college, the need to borrow money to cover tuition payments can price students out of socially important but historically low-paying jobs, like teaching and social work," said Rep. George Miller of California, the senior Democrat on the House education committee.

A top Senate Republican, however, is calling for change.

"Income-based repayment can be a way for students responsibly to manage debt, but it should not be a bailout for students who borrow too much or for schools who charge too much," said Sen. Lamar Alexander of Tennessee, the ranking Republican on the Senate Education Committee.

Law schools at Columbia University, the University of Chicago and Georgetown University are among those offering some graduates additional aid to cover all or part of their minimum monthly payments under the federal plans.

Max Norris, a 29-year-old lawyer for the state of California, illustrates the potential costs of the program. He pays about $420 a month to the Education Department on his $172,000 in debt, which he says fails even to cover the interest owed. But his out-of-pocket expense falls to $100 monthly after aid from his school, University of California's Hastings College of Law.

Mr. Norris, who makes $60,000 a year in his job, would have about $225,000 in debt forgiven after 10 years, assuming he stays in public service and his salary rises 4% annually, according to a repaymentcalculator created by the New America Foundation, which advocates less-generous forgiveness.

He said he learned of the programs before enrolling. "My intent the whole time in going through law school was to take advantage of this program," he said.

Schools aren't shy in touting the programs' benefits.

Georgetown said on its law-school website until recently the school's aid combined with the federal plan "means public interest borrowers might not pay a single penny on their loans—ever!" A school spokeswoman said the statement was removed this year in light of the proposed changes in Mr. Obama's budget.

Georgetown Law Dean William Treanor said the school sees steering graduates to public-service jobs as part of its Jesuit mission. The school, which assists only those who go on to work in the public sector, spent about $2 million last year covering payments for those in the federal program, he said. In all, 432 Georgetown graduates are now in the program, up from 264 in 2012. Annual tuition is $50,890.

Mr. Treanor said the program doesn't influence the prices the school charges its students.

The plans' long-term costs have greatly outpaced the government's predictions. In the last fiscal year, debt absorbed by the repayment plans from the most widely used student-loan program—Stafford loans—exceeded government expectations from a year earlier by 90%.

A report last week from the Brookings Institution, a centrist think tank, offered one of the few preliminary examinations of the programs' impact. The most popular plan could cost taxpayers $14 billion a year if it becomes available to all borrowers as Mr. Obama has proposed, while fueling tuition inflation, it said.

"Loan forgiveness creates incentives for students to borrow too much to attend college, potentially contributing to rising college prices for everyone," the study said. The authors recommend scrapping the forgiveness provisions.

Student debt has nearly doubled since 2007 to $1.1 trillion, disproportionately driven by the growth in graduate-school debt.
The government has offered some form of income-based repayment since the early 1990s, but few studentsfound the terms enticing. But in 2007, Congress allowed borrowers working in nonprofit and government jobs to have unpaid debt forgiven after 10 years, and cut monthly payments for new borrowers to 15% of discretionary income.

In 2010, it cut those payments to 10% for borrowers who took out loans from 2014. A year later, Mr. Obama, through executive action, moved up the date when borrowers could qualify for the new terms, creating a program for those who took out loans from 2011.
The White House this year has proposed making the program available to all student borrowers, regardless of when they signed their loans.
The popularity of the programs surged after the Obama administration began to promote them, starting in 2012, on the Internet and later through email to borrowers.

Supporters of generous loan-forgiveness plans for public-service workers say the policy helps talented workers stay in jobs that typically pay less than the private sector.

"As soon as the government had them trained up for public jobs they left it. It was an incredible cost," said Philip Schrag, a Georgetown University professor who has researched the income-based repayment programs.

The plans are designed to help people like Jacqueline Grippe, a Monroe County assistant public defender in Rochester, N.Y. Using an income-based repayment plan, Ms. Grippe pays about $350 a month toward her roughly $180,000 in debt, most of it accrued at Syracuse University's law school, from which she graduated in 2012.

That keeps her payment manageable on a $58,500 salary, she said, and relieves the pressure of having to find work at a higher-paying law firm. Syracuse isn't assisting in the payments.

"Being in the public sector is a calling for me," said Ms. Grippe, 29. Without the repayment plan, she said, "I don't know what I would do."

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Corrections & Amplifications

An earlier version of the chart that accompanies this article incorrectly labeled the Doctor of Medicine category as Master of Medicine.