® American Council on Education®
One Dupont Circle NW
Washington, DC 20036
(202) 939-9300
acenet.edu

April 20, 2020

Senator Mitch McConnell
Majority Leader
United States Senate
317 Russell Senate Office Building
Washington, DC 20510

Senator Chuck Schumer
Minority Leader
United States Senate
322 Hart Senate Office Building
Washington, DC 20510

Dear Leader McConnell and Minority Leader Schumer,

As Congress strives to assist individuals, businesses and all of American society with the impact of the coronavirus pandemic, we believe that providing relief both to 13.7 million students borrowing to finance their college educations and to the 44 million borrowers already in repayment is essential to address the challenges those current and former students face.

We know that the pandemic will greatly hamper the ability of many of these individuals to repay their loans, and this in turn will strain the economy unless Congress moves quickly to provide needed, targeted relief to student loan borrowers. The evidence from the Great Recession and other economic downturns demonstrates that when unemployment shoots up the result is that millions of borrowers are unable to make their payments. Indeed, during the Great Recession, default rates increased by nearly half, from about 7% to 10%. Providing student loan relief during this extraordinary crisis is a direct and productive response.

Loan relief for students and borrowers offers important short- and long-term benefits. By making a college education more affordable, Congress can ensure students do not drop out due to sudden changes in their financial circumstances and that prospective students are able to begin postsecondary education. By providing loan relief to borrowers who have already left campus, Congress would ensure that more money is available for their immediate needs, and that additional financial security is available to Americans struggling in these difficult times.

Beyond the immediate benefits to individuals, support for colleges and universities stabilizes our economy. Institutions of higher education generate total annual revenues of about $650 billion and employ nearly 4 million faculty and staff in communities nationwide, large and small. To preserve this engine of economic development requires the continued availability of financial resources to help colleges and universities weather the current economic crisis. Borrower relief, and in turn sustaining the ability of individuals to begin or continue with their college education, is critical to sustaining the higher education enterprise.

For all of these reasons, it is vital that Congress take action to provide relief to both current students and borrowers already in repayment. The ideas presented here are predominantly short-term in nature and designed to respond to this immediate crisis. They represent targeted, timely responses to the coronavirus pandemic that will help not just individuals, but the nation as a whole, recover. We are happy to discuss additional longer-term student loan borrower relief and other changes to the program, but we believe that should more appropriately occur as part of reauthorization of the Higher Education Act.

We propose the following to provide near-term relief for all borrowers. These modifications would be effective until June 30, 2021, or until the unemployment rates falls below 8% for three consecutive months. Borrowers will not have been in active repayment for many months, so when the temporary benefits expire borrowers would need to be immediately notified that their repayments will restart within 90 days.

1. Extend the relief provided by the CARES Act by continuing both zero-interest deferred repayments for borrowers and the suspension of collection activities (wage garnishment, offsets, etc.) for borrowers with defaulted loans during the specified time frame. In addition, these provisions should be extended to all federal student loans, including FFEL, Perkins, and health education loans through the Department of Health and Human Services.

2. Students who complete their programs in the near future will be graduating into the worst employment market since the federal student loan programs were created. Extending the post-graduation grace period for one year for students leaving school will help them gain their post-graduation financial footing.

3. In order to encourage all students (and their parents) to begin or continue their college careers, provide a 1.5% interest rate and zero origination fee for any loan initially disbursed after enactment of the upcoming fourth supplemental appropriations bill and before the expiration of the specified time frame. At present, the interest rate is 4.53% on Stafford loans for undergraduates, both subsidized and unsubsidized. The rate is 6.08% for unsubsidized Stafford loans for graduate students, and 7.08% for both GradPLUS and Parent PLUS. Given that the federal government can borrow money at 0.5% it makes absolutely no sense to burden borrowers with such high rates in a public policy program designed to develop human capital.

We believe the financial impact on borrowers due to COVID-19 will continue and persist beyond the near-term. Therefore, Congress should consider two additional measures that will provide longer-term relief. Both measures will help borrowers more fully participate in the recovering economy by helping them manage their debts.

First, student loans, unlike virtually every other form of consumer credit—automobile loans and credits cards, for example—are extraordinarily difficult to discharge via bankruptcy. Perhaps limits on bankruptcy claims made sense in the 1970s when generous grant aid was the low-risk means to encourage access to higher education by low-income students. Over the years, however, Congress continued to raise the bar to successful bankruptcy claims even as student loans became the primary means of ensuring access to higher education.

We propose to restore bankruptcy protections for borrowers facing persistent financial distress. Individuals forced to declare bankruptcy should not be forced to go through that process and still find themselves owing money on student loans. With the increased economic insecurity America faces, more citizens will declare bankruptcy. When they do, all debts, including student loans, should be eliminated. This will help those whose investment in higher education was significantly curtailed by the current crisis and would be an important step in their own economic recovery.

Second, at present, borrowers may have their federal student loans canceled because they have completed a program of income-based repayment but still find themselves facing a tax bill for the forgiven amount. Congress should ensure that any loans forgiven do not impose a tax penalty on borrowers, as they do at present.

In addition, we recognize that a large number of proposals have been advanced to forgive some amount of student debt for borrowers in repayment. If Congress pursues such a policy, we urge that it pay particular attention to the scope of such a program and the capacity of the Department of Education to implement it. Any large-scale debt relief initiative would prove very expensive, and may benefit high income and other borrowers who do not require assistance in meeting their obligations. Therefore, we believe that any debt relief program should be targeted to borrowers who are financially distressed and face the greatest difficulty repaying their loans.

This approach provides both the greatest stimulative benefit—freeing individuals with limited resources from unmanageable debt burdens—as well as addressing equity issues in student debt that have grown more pronounced in recent years. Further, in designing any debt relief policy, Congress should pay particular attention to the design of the program to ensure that the Department of Education will be able to implement it swiftly and effectively. As we have learned with the Public Service Loan Forgiveness program, a policy that cannot be easily implemented will be a disappointment and a source of dismay to the borrowers who should have benefited from it.

Sincerely,

Ted Mitchell
President

On behalf of:

Achieving the Dream
American Association of Colleges for Teacher Education
American Association of Collegiate Registrars and Admissions Officers
American Association of Community Colleges
American Association of State Colleges and Universities
American College Health Association
American Council on Education
APPA - Leadership in Educational Facilities
Association of American Colleges and Universities
Association of American Universities
Association of Catholic Colleges and Universities
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