Consumer and
Worker Protection

U.S. Department of Education
Via Electronic Submission

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Commissioner

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Dear Secretary Cardona:

Congratulations on your confirmation to the role of Secretary of Education of the United States of America. As you continue to settle into your position, you will certainly be faced with many unresolved challenges in the education policy realm. As the head of a consumer-focused municipal agency with deep concern for the impact of student loan debt on our constituents and local economy, I am writing to request that you make addressing the unsustainable burden of student loan debt one of your top priorities.

Higher education was once thought of as a steppingstone to the path of financial security for many aspiring Americans with low- and moderate-income. The over 40-year old student loan program was originally intended to bridge the funding gap for these students who would otherwise have been unable to afford the opportunity to pursue this path. Fast-forward to today and federally-held student loans now total $1.6 trillion in outstanding debt and comprise the lion's share of student loans[1]—the largest source of consumer debt in the United States after mortgage debt.[2] The rapid increase in total student loan borrowing has tremendous implications for the individual borrower, as the average federal student loan borrower now holds about $37,000 in debt—twice as much as in 2007.[3] Moreover, student loan debt is wreaking havoc on the financial health of borrowers, as evidenced by the fact that student loan debt was the consumer debt category with the highest delinquency rate prior to the federal student payment pause.[4]

This meteoric rise in student loan debt is a direct response to the decline in public funding for higher education and skyrocketing tuition costs, meaning students today are paying more for their education than students in 2007. At the same time, a process called credentialization is occurring, in which employers increase the minimum education levels for jobs, pushing workers to attain more education to access the same jobs as before.[5] The resulting growth in the number of people borrowing to fund their higher education and at increasing amounts, coupled with the concurrent stagnation of income growth, brings us to where we find ourselves today, with many borrowers experiencing debt overhang. That is to say, high debt levels and increasing delinquency have not only caused problems with the day-to-day ability of student loan holders to borrow and save, it has also stymied their ability to invest in their future by building home equity, saving for retirement, opening a business, and making other major life decisions.[6] In the long run, the impact of student debt is not limited to the borrower in the present, it affects future generations as it curtails the ability of parent borrowers to invest in their children's future, and pass on wealth to the next generation.

We see this when we look across our city. We also see that the neighborhoods struggling the most with student loan debt tend to have higher concentrations of groups facing systemic barriers—those with low income, Black and Latino Americans—some of the same groups student loan debt was intended to help.[7] But instead of helping, student loan debt is contributing to the perpetuation of systemic barriers.[8]

With the pandemic relief payment pause in place until the end of September, student loan borrowers have some much-needed breathing room and policymakers have time to reflect on the broken system for financing higher education. If nothing is done before payments commence, delinquencies will resume their devastating upward trend.[9] As the administration begins to think through the impact of the student debt crisis, we strongly urge you to take following actions to address one of the largest problems facing our residents:

- **Address misconceptions about what it means to "struggle" with student debt.** For more than a decade, student debt has been a drag on households and on the economy. Individual borrowers and families struggle to buy homes, save for retirement, and pay more for other forms of credit. And yet, conversations often focus on targeting relief to limited segments of borrowers. Instead, policies aimed at mitigating the burden of student debt should take a holistic view of the role it plays in borrowers' financial lives and provide actionable solutions tied to long term affordability. The Department should work with federal and local government partners to develop research demonstrating the full impact

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[1] See Federal Student Aid Portfolio Summary for Q4 2020 https://studentaid.gov/data-center/student/portfolio
[2] See https://www.newyorkfed.org/microeconomics/hhdc
[3] Same as footnote 1
[4] Same as footnote 2
[5] See https://rooseveltinstitute.org/wp-content/uploads/2020/07/RI-Student-Debt-Crisis-Labor-Market-Credentialization-201810.pdf
[6] See https://www.researchcghe.org/perch/resources/publications/wp38.pdf for a literature review of the effects of student debt on major life decisions
[7] See https://www.bloomberg.com/news/articles/2018-10-19/mapping-which-neighborhoods-are-buried-in-student-debt; https://www.frbsf.org/community-development/files/student-loan-debt-in-the-bay-area.pdf; https://www.philadelphiafed.org/-/media/frbp/assets/community-development/reports/student-loan-debt-in-philadelphia.pdf; and https://www1.nyc.gov/assets/dca/downloads/pdf/partners/Research-StudentLoanDebtDistressAcrossNYCNeighborhoods.pdf
[8] See https://journals.sagepub.com/doi/abs/10.1177/2332649218790989; and https://tcf.org/content/report/bridging-progressive-policy-debates-student-debt-racial-wealth-gap-reinforce/
[9] See, e.g., https://protectborrowers.org/every-26-seconds/

of student loan debt to better understand how current policies affect borrowers' broader financial lives. Policymakers can then use this data to craft meaningful solutions that ensure student debt does not set the next generation of students back financially for a lifetime.

- **Restructure repayment plans to make repaying student loan debt within 10 years a reality.** More than 45 million Americans now owe more than $1.6 trillion in student debt and to afford to pay back this debt, repayment periods now stretch out up to 25 years. The Department should prioritize broad-based student debt cancellation of $50 thousand per borrower, including debt in delinquency and default, to spur economic growth and ensure repaying student loan debt within the "standard repayment period" of 10 years is once again a possibility. The Department must also prioritize an overhaul of the student loan payment system to ensure that borrowers have access to affordable and easy-to-comprehend repayment options. The overhaul should expand the income threshold for zero-dollar payments under income-driven repayment (IDR) and re-evaluate what it means for a payment to be affordable by taking into consideration regional prices and other differences in mandatory household expenditures. It should also include making IDR automatic for borrowers in distress. Further, the Department should call on the federal government to limit the interest rate for all federal student loans by capping the federal student loan rate at the inflation rate.
- **Combat economic inequality and drive economic growth in distressed communities with targeted student debt cancellation.** While this crisis touches borrowers in every corner of the country, Black and Latino borrowers disproportionately bear the brunt of this crisis. Because Black and Latino borrowers are less likely to draw upon familial wealth to pay for college, they are more likely than their white peers to take on loans to pay for school. Black and Latino families struggle with disproportionately large student debt balances that take longer to pay off—and when their children go to college, disparate wealth perpetuates the cycle.

  In addition to the broad-based relief mentioned in the previous bullet, the department should promote economic equality by providing additional, targeted relief to borrowers facing systemic barriers. We are pleased to see efforts to help defrauded borrowers access full forgiveness have already been announced. To address the lax oversight by the Department during the previous administration, we hope to see a more complete overhaul of the existing pathways to debt cancellation, including, for example, avenues for debt relief for attendees of schools that close, disabled borrowers, low-income borrowers, and borrowers working in public service.
- **Build a more equitable economy by providing options to attend college debt-free.** Higher education has long promised to be a gateway to the middle class and a key driver of economic opportunity. Over time, as students and families have increasingly turned to student debt to finance higher education, the growth and burden posed by these debts

have deterred low-income people from pursuing college and have undercut the value of a college degree—the college wage premium. In the wake of the last recession, millions of Americans pursued higher education in an effort to build new skills and shelter from a depressed labor market. As the economy recovered, these borrowers emerged with unprecedented debts, fueling the student debt crisis plaguing Black and Latino communities in cities across the country.

This matter is even more important today, as the increasing cost of higher education has resulted in a situation where even students studying at the most affordable institutions struggle to make ends meet.[10] For example, a survey conducted before the pandemic, in 2019, found that nearly half, 48 percent, of students surveyed at NYC public universities reported being food insecure and over half, 55 percent, reported facing housing insecurity.[11]

The Department of Education should call on Congress to take immediate action to ensure the new generation pursuing higher education amid a depressed labor market can study without the weight of material hardship and, when they graduate, enter the workforce free from the debt overhang caused by unsustainable amounts of student debt. That means reinstating the "American Dream" by providing direct support to public, Historically Black, and Hispanic-serving colleges and universities to reduce the tuition costs of the institutions that educate the majority of American students. Further, it means providing low- and moderate-income students with the financial support necessary to cover the full cost of college attendance at these institutions, including tuition, food, housing, and books, without taking on debt.

- **Protect borrowers in distressed communities from predatory practices and hold bad actors accountable.** Research conducted by the Office of Financial Empowerment reveals a significant divide in who is bearing the brunt of the student debt crisis.[12] For example, students who attend for-profit colleges disproportionately struggle to manage student debt, reflecting both the higher debt burdens and poor employment outcomes after attending these schools. For far too long, predatory for-profit schools have used deceptive and discriminatory practices to lure students in by promising the American dream and leaving them with nothing but an outrageous bill. The fallout of this predatory behavior is disproportionately borne by Black and Latino families, exacerbating deep racial and economic divides.

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[10] Acknowledging the failure of federal student aid to keep up with the cost of tuition, states and municipalities have taken on the burden of bridging the difference between tuition and federal aid for some groups. For examples, see https://www.michigan.gov/reconnect/; https://owd.boston.gov/tfcc/; https://tnreconnect.gov/; and https://www.hesc.ny.gov/pay-for-college/apply-for-financial-aid/nys-tap.html

[11] See https://hope4college.com/city-university-of-new-york-realcollege-survey/

[12] See https://www1.nyc.gov/site/dca/consumers/Student-Loans-Research.page

> The Department should heighten compliance reviews on student loan and employment outcomes for institutions receiving federal funds and, in conjunction with the Consumer Financial Protection Bureau, take immediate action to root out predatory players and hold them accountable. The administration also must roll back efforts by the prior administration to block enforcement and oversight by state and local governments. Further, Black and Latino communities depend on the administration to prioritize and coordinate efforts across the federal government to police discrimination by schools and companies, working in partnership with city and state consumer protection officials on these critical efforts.

Thank you for your time and consideration of this very important issue. Addressing the policy areas above would not only help the nearly 43 million current federal student loan holders and their families, it will also reinstate the promise of higher education as a path to financial security. As you continue to develop your agenda for the Department, please consider us as your partner in this process and feel free to call on us as resources on this very important issue.

Sincerely,

Lorelei Salas
Commissioner

CC: New York City Congressional Delegation