ALBANY LAW SCHOOL
GOVERNMENT LAW CENTER

WARREN M. ANDERSON LEGISLATIVE BREAKFAST SEMINAR SERIES

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Higher Education and the Student-Debt Crisis

Summary by Michele A. Monforte, GLC Publications Editor

The Government Law Center held the first of its 2020 Warren M. Anderson Legislative Breakfast programs on February 11th. The purpose of the program was to provide an overview of the troubling student-debt landscape and to generate key ways New York policymakers could address the problem. There is increased urgency to identify state-level solutions given the federal government's recently proposed cuts to student aid.

The audience heard views from three panelists, each of whom has been engaged in innovative work in the field: **Brian Backstrom**, Director of Education Policy Studies at the Rockefeller Institute of Government (https://rockinst.org/blog/how-states-are-protecting-student-loan-borrowers/#series); **Lorelei Salas**, Commissioner of the New York City Department of Consumer and Worker Protection (https://www1.nyc.gov/site/dca/about/commissioner.page);

and **Winston Berkman-Breen**, Student Advocate & Director of Consumer Advocacy for the New York State Department of Financial Services (http://justicecatalyst.org/justice-catalyst-fellow-winston-berkman-breen-appointed-as-first-ever-student-advocate-director-of-consumer-advocacy/).

The speakers agreed there are meaningful ways for the State to get involved. In general, they comprise regulating traditional and alternative student-loan servicing companies, providing education and outreach to students and parents about student loans, and dispersing additional money to students or offering incentives to students to finish college.

Mr. Backstrom pointed out nuances in the debt picture. About 42% of college and university students in New York graduate without any debt. Almost 50% of SUNY students are debt-free and almost 80% of CUNY students are debt-free. Students who do graduate with student-loan debt, however, carry an average of $30,000 in loan debt. Interestingly, a majority of the loan defaults are from borrowers with very little debt. One of the reasons may be these students have not graduated and, therefore, face limited job opportunities. In contrast, graduate-degree borrowers who, for example, attend medical, dental, and pharmacy school, take out much larger loans, but they are able to pay off their debt fairly quickly because their jobs pay significantly more.

The student loan landscape is changing. Parent Plus Loans, a federal direct student loan available to the parents of dependent undergraduate students, have doubled in the past ten years, indicating a shift in the market place. In the past, parents often based what college their child could attend on how much they could afford; parents today sometimes feel they need to pay for any college their child wants to attend, regardless of cost.

Commissioner Salas emphasized the scope of the problem and how it touches on more and more of us as the debt increases. She shared personal experiences of how she is still paying off her student-loan debt and will soon be helping her children navigate their student-loan options.

The Department of Consumer and Worker Protection (DCWP) has identified areas of significant borrower distress, and subsequently coordinated a series of successful student-loan debt clinics in the Bronx and Brooklyn providing free financial counseling to residents who were facing high student-loan debt and other types of debt. The DCWP ran a successful widespread public awareness campaign about the Financial Empowerment Centers and put together a handy tip sheet for borrowers.

Mr. Berkman-Breen pointed out how student-loan debt affects certain demographic groups differently based on racial and gender disparities. There is evidence of redlining, where a lender

charges a higher interest rate, for example, to students of historically black colleges. Alternative lenders known as fintechs, or financial technology firms lending through an online platform, sometimes factor in where loan applicants attended college instead of basing the rate on a student's credit score alone. This can result, for instance, in a student in a 4-year institution getting a better rate than a student attending a 2-year community college.

The decision in *Nelson v. Great Lakes* had a huge impact on student borrower protections. The 7th Circuit Court of Appeals ruled that student loan servicers can be held accountable under state consumer protection laws.

Last year, New York State passed the Student Loan Servicing Act, which gave the Department of Financial Services (DFS) authority to license, regulate, and provide oversight of student loan servicers. DFS also created the Student Loan Borrower Bill of Rights to help consumers of student loans.

When Professor Ayers asked about what programs they would prioritize, the responses included:

- Encourage prospective students to avoid student-loan debt entirely, when possible.
- Educate students who plan to go to college about filling out the U.S. Department of Education Free Application for Federal Student Aid (FAFSA). Significant numbers of students fail to complete the FAFSA; the online forms are a lot of work and completing them is time consuming, but most students are eligible for federal dollars which carry a lower interest rate and better consumer protections. And FAFSA is also used to award Pell Grants for low-income students to pay for college, and these grants usually do not have to be paid back. Many students do not apply and lose out.
- Invest in programs such as New York City's child savings account program to help public school students save for college. The program fosters saving starting when the child is in kindergarten and has been extremely successful.
- Publicize the State's tuition assistance programs (TAP, Excelsior Scholarship Program) and the series of niche loan forgiveness programs it offers.
- Promote the 529 college savings plan, a vehicle for setting aside funds for future college costs providing tax and other financial benefits.
- Take additional steps to further regulate the student-loan servicing industry.
- Offer students a financial incentive, such as forgiving a student's first year of borrowing, if they graduate.

Although the student-debt issue seems daunting, the discussion helped clarify the economic and social justice issues, and the audience was left with some realistic options to meet this challenge.