WGU

Policy Brief

Responsible Borrowing

Approximately 43 million Americans owe more than $1.7 trillion in public and private loans, making student loans the nation's largest source of non-mortgage debt.[1] This debt can have a disruptive effect on borrowers' lives, with repayment being an obstacle for many.

The Biden-Harris administration's plan to forgive up to $20,000 in individual student loan debt[2] has been met with mixed reactions. While one-time debt forgiveness provides relief for millions of Americans, it does not fix ongoing problems with college tuition and the financial aid system. For example, college costs continue to rise at rates higher than inflation,[3] and students may lack guidance and clear information on loans and aid.

Changes that address underlying issues with borrowing and tuition will result in long-lasting improvements. By viewing the student debt crisis through a proactive lens, policymakers will help students borrow more responsibly and hold institutions more accountable for high tuition rates, leading to better, more equitable outcomes for all learners.

The Impacts of Student Debt

To afford higher education, more and more students are acquiring debt. The cost of attending college has grown significantly in recent decades, usually increasing at rates beyond those of standard inflation.[4] According to a data analysis by the Aspen Institute, "In 2018, 54% of young adults who enrolled in college took on some form of debt to pay for their education, double the share of adults who did so in 1980."[5]

Some demographic groups are more likely to struggle with student debt. Studies show that "the cost of America's student debt crisis falls disproportionately on Black and Latinx communities,"[6] and that "Black and African American college graduates owe an average of $25,000 more in student debt than White college graduates."[7] Student debt also has a disparate impact on low-income and first-generation borrowers: An analysis of Department of Education data found that 87% of those who defaulted on loans were also Pell Grant recipients, and 70% had parents without college degrees.[8]

Student debt can create long-term problems for borrowers. A study by Prudential found that almost 40% of those paying off their loans say they are struggling financially.[9] As a result, they may have to postpone milestones like homebuying or having children. Struggling borrowers are also more likely to experience adverse health outcomes, such as psychological problems[10] or cardiovascular disease.[11]

Student debt exacerbates societal and economic problems. The student loan crisis affects both borrowers and non-borrowers. According to a report by the Education Data Initiative, "The effect student loan debt has on the economy is similar to that of a recession, reducing business growth and suppressing consumer spending."[12] Educational debt may also hamper housing markets and increase reliance on social programs.[13]

Policy Recommendations and Examples

Strategies that inform students about their loan status, provide alternative funding options, and encourage responsible borrowing can have a lasting effect. These approaches make the student loan process more equitable by providing all current and potential borrowers with valuable, often personalized, information. In addition, institutions of higher education must be held accountable for high levels of student debt.

States and higher education institutions should implement responsible borrowing initiatives. Responsible borrowing initiatives are not requirements or forced limits on borrowing; they simply provide students with guidance and personalized information that helps them borrow more wisely. These initiatives have proven successful in reducing loan amounts.

- At **Western Governors University (WGU)**, all students who apply for financial aid receive a personalized plan recommending that students borrow only their "unmet direct costs," which are tuition and fees minus any grants or scholarships. Since the inception of this program in 2013, the average amount borrowed has decreased by 30%. Several organizations have recognized WGU's responsible borrowing program for its innovation and impact.[14]

- Using WGU's program as a template, **Tennessee** enacted the Responsible Borrowing Initiative Act in 2020.[15] This act requires state-operated institutions to provide students with an annual college financing plan. Students also have access to a personalized Student Loan Scenario Calculator, which "gives students full visibility of their total student loan debt, including prior college debt, and projected debt at the time of graduation."[16]

States should regularly provide borrowers with student loan information. Fourteen states require their postsecondary institutions to send a student debt letter to all borrowers.[17] Although this process is not as intensive as a responsible borrowing plan, it gives students a personalized overview of their current borrowing status.

- **Indiana**, the first state to establish this requirement, passed the Indiana Truth in Borrowing Initiative in 2015. The initiative was patterned after a similar, successful program at **Indiana University (IU)**: "After just two years of sending annual letters to all student borrowers, IU officials estimated undergraduate student borrowing decreased by almost 16%, amounting to approximately $44 million in student savings."[18]

States should implement universal FAFSA requirements. Students must submit the Free Application for Federal Student Aid (FAFSA) to receive Pell Grants and other federal funding. However, many eligible students fail to complete the FAFSA. One study found that **$24 billion** in federal and institutional funds go unclaimed each year as a result.[19]

Requiring high school students to submit the FAFSA and providing necessary guidance to assist in the process can help students access less burdensome financial aid, such as grants and lower-interest loans.

- In recent years, several states have passed legislation requiring high school students to submit the FAFSA. **Louisiana**, which was the first state to do so, has seen an increase of more than 24% in total FAFSA completions.[20] Additionally, the gap in FAFSA completions between lower- and higher-income schools has narrowed.[21]

Postsecondary institutions must be held more accountable. Holding institutions accountable for unreasonable student debt can help their students borrow more responsibly or discourage institutions from making unnecessary tuition hikes. When institutions raise tuition costs, students accrue more debt. However, not all tuition funds go toward the cost of instruction. A recent analysis found that approximately 61 of every 100 tuition dollars at public colleges and universities go directly to education costs. The remainder is spent on college-run hospitals, research, and other expenses.[22] Although nonprofit institutions are required to publish annual financial information, the data may not be easy to access or understand. Heightened transparency in spending practices holds institutions more accountable for tuition increases.

The Cohort Default Rate (CDR) is the only federally mandated metric holding institutions accountable for high loan default rates. The CDR "revokes a college or university's eligibility to receive federal grants and loans if too many of their students default on their loans."[23] However, loopholes make it easy for institutions to avoid penalties. Additionally, no students are currently entering default due to the pandemic-driven moratorium on student loan payments, which began in March 2020. This means "the CDR has become virtually useless for the next several years."[24]

The following approaches could increase institutional accountability:

- Continue to add more comprehensive, user-friendly data to the federal College Scorecard website[25] on student outcomes, including median earnings and median debt by program of study.
- Develop a new method of data sharing that clearly shows how each institution spends tuition funds, with public disclosures for more transparency.
- Close the CDR loophole for borrowers in forbearance. Currently, a school loses federal funding if 30% of its students default for three consecutive years. If institutions encourage borrowers to pursue deferment or forbearance options during this three-year period, they can avoid any penalty. A proposed solution to this loophole is to treat borrowers who are in forbearance for more than three years as if they defaulted, thus keeping institutions accountable.[26]
- Revise CDR language, or develop a new metric, that includes a standard other than loan default, deferment, and forbearance rates to hold institutions accountable in the years following the COVID-19 student loan repayment moratorium.
- Require institutions to share the risk when its borrowers do not meet a standard repayment threshold. One proposal suggests that institutions should "partially repay the government when a cohort of borrowers fails to meet a repayment threshold within five years."[27]
- Develop institutional metrics to determine if "loans are excessive based on the student's ability to repay" or "if the program was worth the cost."[28] These metrics would be publicly available and help students decide where to attend college and which programs offer a good return on investment.

Conclusion

Student debt adversely impacts millions of borrowers each year; however, the challenges associated with borrowing cannot be a deterrent to higher education. Policymakers must take additional steps to support current and potential borrowers. These actions will make college more affordable, hold higher institutions accountable, and help welcome all learners.

About WGU

Established in 1997 by 19 U.S. governors with a mission to expand access to high-quality, affordable higher education, online, nonprofit WGU now serves more than 130,000 students nationwide and has more than 287,000 graduates in all 50 states. Driving innovation as the nation's leading competency-based university, WGU has been recognized by the White House, state leaders, employers, and students as a model that works in postsecondary education. In just 25 years, the university has become a leading influence in changing the lives of individuals and families and preparing the workforce needed in today's rapidly evolving economy. WGU is accredited by the Northwest Commission on Colleges and Universities, has been named one of Fast Company's Most Innovative Companies, and has been featured on NPR, NBC Nightly News, and CNN, and in The New York Times. Learn more at wgu.edu and wgu.edu/impact.

Please contact the WGU Public Policy Office at PublicPolicy@wgu.edu for more information.

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