

## EQUITY ALERT

## DROWNING IN DEBT

Immediate Steps to Address New York's Student Loan Debt Crisis



The Education Trust—New York

As New York's elected officials work to complete the state budget by the end of this month, new data show that lower-income families face overwhelming student loan debt and reinforce the importance of strong and immediate action to protect borrowers and prevent onerous student loans.

In The Education Trust—New York's 2017 report, *To 'Excelsior,' And Beyond*, we reported that the Federal Reserve Bank of New York had calculated that New Yorkers collectively owed more than \$86 billion in student loan debt in 2016.<sup>1</sup> At our request, the New York Fed updated this data—and as of 2017, the state's student loan debt burden has surpassed \$90 billion.<sup>2</sup>

The problem is particularly acute in communities with household income under \$50,000. According to data tabulations from the New York Fed, more than 1 million borrowers in these communities owe nearly \$30 billion in student loan debt. This debt

burden represents a 44 percent increase from just six years earlier.<sup>3</sup>

While New Yorkers in lower-income communities owe moderately less on average than student loan borrowers in wealthier communities, they have a much higher debt-to-income ratio and face far more difficulty with repayment (*see figure*). In fact, the delinquency rate in communities with household income under \$30,000 is nearly three times as high as the delinquency rate in communities with median income at or above \$125,000.<sup>4</sup>

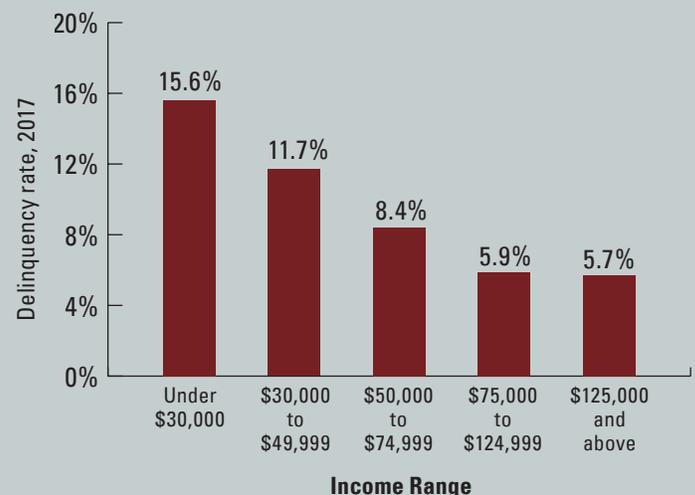
**Against the urgent backdrop of the daunting and growing debt burden on lower-income families, the current state budget process presents an opportunity to make meaningful progress.** In this Equity Alert, Ed Trust—NY highlights several of the most high-impact proposals to address three strategic priorities:

### Student loan debt affects borrowers across all income ranges, but low-income communities have the hardest time keeping up with the debt burden

Student loan debt by average community income level



Delinquency rate by average community income level



Source: New York Fed Consumer Credit Panel / Equifax; Internal Revenue Service. Community data is grouped by ZIP code and household income is calculated based on 2015 Adjusted Gross Income per tax return.

# 1

## MAKE COLLEGE MORE AFFORDABLE FOR LOWER-INCOME FAMILIES

Our 2017 analysis found that the average student with family income up to \$48,000 already receives enough financial aid from New York's Tuition Assistance Program (TAP), federal Pell grants, and other sources to fully cover the cost of *tuition* at public colleges and universities—but these families still face thousands of dollars in unmet need due to *other costs of attendance* such as books, housing, food, and transportation.<sup>5</sup>

In fact, even after federal, state, and institutional scholarships and grants are taken into account, lower-income students are left with major gaps to be able to afford each year of college—representing a massive proportion of their family income.

Across State University of New York (SUNY) and City University of New York (CUNY) 2- and 4-year institutions, the average remaining net price for students with household income up to \$48,000 ranged from \$4,326 to \$12,220.<sup>6</sup>

**The Assembly 1-house budget proposes the establishment of a new Martin Luther King, Jr. Scholarship Program to address this unmet need.** Under this initiative—which complements the Excelsior Scholarship for tuition costs—students who are eligible for TAP (a program that provides grants for families earning up to \$80,000) would also receive \$3,500 towards “room and board, transportation expenses, textbooks and instructional materials, technology and electronic devices, and personal expenses including clothing, food, or medical, vision, and dental insurance.”<sup>7</sup> The Assembly has proposed \$25 million for FY19, which would benefit approximately 7,100 students.

**The Executive Budget and Assembly 1-house budget also include the DREAM Act,** which would enable all students—regardless of immigration status—to participate in TAP and all other scholarship and loan programs.

# 2

## PROTECT CONSUMERS FROM STUDENT LOAN ABUSES

Student loan servicers are supposed to play an important role in protecting the rights of borrowers. The Consumer Financial Protection Bureau (CFPB) defines their function as “serving as a link between borrowers and lenders or loan holders. Servicers manage borrowers’ accounts, process monthly payments, and communicate directly with borrowers. When facing unemployment or other financial hardship, borrowers must contact student loan servicers to enroll in alternative repayment plans, including income-driven repayment plans for borrowers with federal loans, obtain deferments or forbearances, or request a modification of loan terms.”<sup>8</sup>

However, a major report by the CFPB identified significant abuses and illegal activity in the student loan servicing industry.<sup>9</sup> Although President Obama’s administration took steps to protect student loan borrowers,<sup>10</sup> President Trump has rescinded important federal guidance and his Secretary of Education recently announced plans to block states from filling the void—making New York’s leadership essential.

**The Executive Budget would establish a Student Loan Ombudsman at the Department of Financial Services (DFS) and enact legislation to protect borrowers from industry abuses.**<sup>11</sup> Major provisions of the Executive’s student loan servicing bill include: “prohibiting servicers from various common unfair, deceptive, and misleading tactics; licensing and regulating student loan servicers who service the loans of New York residents; creating strong standards for the retention of records and continuing borrower benefits, in the event of sale, assignment, or other transfers; and subjecting student loan servicers to possible examination by the DFS Superintendent.”<sup>12</sup> The Assembly 1-house budget also includes student loan servicing legislation, although provisions in that version of the bill would make enforcement far more difficult.

# 3

## HELP STUDENTS COMPLETE COLLEGE AND SUCCESSFULLY ENTER THE WORKFORCE

The delinquency gap between lower- and higher-income communities in part reflects the higher default rates faced by students who left college without completing a degree—leaving them with significant debt without the ability to earn a family-sustaining wage.<sup>13</sup> Programs that help low-income and other first-generation college students complete college—and do so on-time—can both reduce debt *and* lead to a pathway to economic and workforce opportunity that makes financial security possible.

**The Executive Budget includes several proposals designed to improve food security, including a requirement for food pantries or similar supports on every SUNY and CUNY campus.** The “No Student Goes Hungry” initiative recognizes that food insecurity threatens students’ ability to succeed, and that students should never have to choose between buying food or buying books or meeting other essential needs.

**The Assembly 1-house budget restores and makes new investments over the Executive Budget in several important programs that are proven to benefit students and improve college completion:**

- **Higher Education Opportunity Programs (HEOP)**, which provide academic, financial, and student support services to low-income students

who are not academically prepared for college-level work.<sup>14</sup> These programs can demonstrate college completion rates that approach or exceed that of non-participants.<sup>15</sup>

- **Search for Education, Elevation, and Knowledge (SEEK)** opportunity program, a longstanding program for low-income, academically borderline students pursuing 4-year degrees at CUNY. Recent research found long-term economic benefits for program participants, leading *The Hechinger Report* to call SEEK “an engine of social mobility.”<sup>16</sup>
- **Accelerated Study in Associate Programs (ASAP)**, CUNY’s groundbreaking program for students pursuing an Associate’s degree that provides structure, intensive advising, and a robust set of academic and non-academic supports. A rigorous independent study found that ASAP nearly doubled student graduation rates.<sup>17</sup>
- **Child care centers at SUNY and CUNY institutions.** These programs address the lack of affordable reliable child care that can prevent students from completing a college degree.

**The Senate 1-house budget restores funding for SUNY’s Graduate Achievement and Placement Program**, which is designed to reduce remediation and improve outcomes for students at SUNY community colleges through additional programming and supports, and for child care centers at community colleges. ■

***We would like to express our gratitude to the Federal Reserve Bank of New York for providing student loan debt data.***

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## ENDNOTES

<sup>1</sup> "To 'Excelsior,' And Beyond." (New York, NY: The Education Trust–New York, March 2017), <https://edtrustny.org/pressrelease/excelsior>.

<sup>2</sup> New York Fed Consumer Credit Panel / Equifax; Internal Revenue Service. Community data is grouped by ZIP code and household income is calculated based on 2015 Adjusted Gross Income per tax return.

<sup>3</sup> Adjusted for inflation using the Consumer Price Index: U.S. Bureau of Labor Statistics, Division of Consumer Prices and Price Indexes, Northeast Region, available at: <https://data.bls.gov/cgi-bin/surveymost?cu>.

<sup>4</sup> New York Fed Consumer Credit Panel / Equifax; Internal Revenue Service. Delinquency is defined as at least 90 days delinquent, including those who are in default.

<sup>5</sup> "To 'Excelsior,' And Beyond."

<sup>6</sup> Ibid. Analysis using 2014-15 (provisional) data from the National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), for students who participated in federal Title IV financial aid programs.

<sup>7</sup> Assembly Bill 9506-A, Part X.

<sup>8</sup> "Student loan servicing: Analysis of public input and recommendations for reform." (Washington, D.C.: Consumer Financial Protection Bureau, September 2015), [https://files.consumerfinance.gov/f/201509\\_cfpb\\_student-loan-servicing-report.pdf](https://files.consumerfinance.gov/f/201509_cfpb_student-loan-servicing-report.pdf).

<sup>9</sup> "CFPB Supervision Report Highlights Risky Practices in Student Loan Servicing." (Washington, D.C.: Consumer Financial Protection Bureau, October 28, 2014), <https://www.consumerfinance.gov/about-us/newsroom/cfpb-supervision-report-highlights-risky-practices-in-student-loan-servicing/>.

<sup>10</sup> See, for example: <https://www2.ed.gov/documents/press-releases/loan-servicing-policy-memo.pdf>.

<sup>11</sup> TED, Part W, Subpart A.

<sup>12</sup> Mobilization for Justice, Inc. "Memorandum in Support of Article VII Budget Legislation, TED Part W, Subpart A, Student Loan Servicers."

<sup>13</sup> See, for example: Adam Looney and Constantine Yannelis, "A Crisis in Student Loans? How Changes in the Characteristics of Borrowers and in the Institutions They Attended Contributed to Rising Loan Defaults" (Brookings Papers on Economic Activities, 2015).

<sup>14</sup> For more information, see: <http://www.highered.nysed.gov/kiap/colldev/HEOP/>.

<sup>15</sup> The Education Trust–New York analysis of unpublished data provided by the New York State Education Department.

<sup>16</sup> Jill Barshay, "These colleges turn low-income students into middle-class earners – but how?" *The Hechinger Report*, February 5, 2018, <http://hechingerreport.org/one-college-system-pushes-many-graduates-middle-class-beyond/>.

<sup>17</sup> "Doubling Graduation Rates: Three-Year Effects of CUNY's Accelerated Study in Associate Programs (ASAP) for Developmental Education Students." (New York, NY: MDRC, February 2015), [http://www1.cuny.edu/sites/asap/wp-content/uploads/sites/8/2015/02/MDRC\\_Doubling\\_Graduation\\_Rates\\_ASAP\\_Executive\\_Summary\\_Feb\\_2015.pdf](http://www1.cuny.edu/sites/asap/wp-content/uploads/sites/8/2015/02/MDRC_Doubling_Graduation_Rates_ASAP_Executive_Summary_Feb_2015.pdf).



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