State PIRGs' Higher Education Project

Recommendations for Reauthorization of the Higher Education Act (HEA)

January 2003

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Executive Summary

Since its passage in 1965, the Higher Education Act has helped millions of individuals pursue dreams of a higher education. Without the HEA's well-structured federal financial programs, many qualified students in this country would be unable to afford the costs of college. The dividends of this federal investment are clear: in the national economy, in the health of our democracy, and in the individual liberty our country's citizens possess.

However, for many students, unacceptable barriers still exist as they pursue the dream of a college education. Students are now borrowing and working more than ever before in order to pay for the costs of a higher education. Without adequate financial assistance to help cover the price of higher education, too many individuals are faced with the difficult decision of not going to college at all, or of taking on excessive debt and working long hours in order to afford a college degree.

Making college more affordable for students depends on two solutions: (1) greater investment in existing federal need-based grant programs on the front end of students' college careers, and (2) policy that offsets some of the cost of student borrowing on the back end.

This first solution, of increasing grant aid, is the most fundamental improvement that Congress can make in its changes to the HEA. To a large degree, increased financial support to the Pell Grant program and other federal grant programs would ensure increased access to higher education for students without requiring individuals to borrow heavily or work long hours.

The second underlying solution to making college more affordable, better student borrowing policy, supplements the first solution and acknowledges the responsibility that students and families have in sharing part of college costs. Student loans play an important role in helping many individuals to finance their college education. However, as part of the goal of affordable higher education, Congress has a responsibility to ensure that students do not leave school with unmanageable student loan debt.

To help relieve debt burden, Congress should take steps to make loan repayment more affordable for students. The bulk of most students' financial aid packages are loans. By ensuring that interest rates on student loans are kept low, and that students have the opportunity to take advantage of tax incentives and flexible payment plans, Congress will provide debt relief to the millions of students who borrowed in order to afford their college education.

By addressing each of these solutions in the upcoming Reauthorization of the HEA, Congress will help to ensure that even greater numbers of students graduate with college degrees and pursue their dreams. However, without these changes, the problems that stem from a lack of affordable higher education, as discussed in greater detail below, will continue to burden students and deprive this country of some of its greatest talents.

Unmet Need

There is an increasing gap between the resources that students receive to finance their college education and the actual costs of that education. Even with parental assistance, grants, work-study, and loans, the average low-income student faces unmet need totaling $3,800 for one year at a four-year public institution. This gap likely discourages some low-income students from attaining a higher education, which explains why, even among highly qualified high school graduates, only 47 percent of students with high unmet need attend college, as opposed to 67 percent of those students with low unmet need.

Excessive In-School Work

Bridging the gap of unmet need often requires students to work excessive hours while enrolled in school, which can detract from a student's educational experience and harm their academic performance. Nearly three quarters of all full-time students now work while attending school, and of these individuals, 46 percent worked 25 hours or more each week, according to data from the 1999-2000 National Postsecondary Student Aid Survey (NPSAS) analyzed in *At What Cost*?, a report released by the state PIRGs in April 2002. Without working such long hours, many of these students would likely have lacked the financial resources necessary to attain a higher education.

Burdensome Student Debt

Beyond forcing many students to make a difficult choice between forgoing college altogether, or working excessively in order to afford higher education, unmet need also contributes to a second significant problem: unmanageable student debt. To bridge the gap between tuition costs and available resources, 65 percent of students now borrow federal education loans to finance their college career. The average student graduates with nearly $17,000 student loan debt, and student loan debt for Pell recipients, who represent the lowest income sectors of students, are even higher, nearly $20,000 on average, according to *The Burden of Borrowing*, a state PIRGs' report.

Student loans and in-school employment are key resources for students to help them cover college costs. However, too many students borrow and/or work excessively, which all too often detracts from students' academics, as well as community and leadership participation while they are in school. The experience of a college education extends beyond the doors of the classroom, yet students who work long hours each week cannot take advantage of these opportunities. For students who borrow, heavy student debt can mean struggling to make monthly repayments, and possibly entering into default on those loans.

Unmet need and increasingly high debt levels signal that college is neither affordable for students while they attend school, nor even after they graduate from school, when large numbers of students can spend in excess of twenty years repaying loans taken to pay for their higher education degree.

Therefore, the state PIRGs have approached proposals for Reauthorization of the HEA from this two-point perspective of making college affordable for students: our first series of policy proposals seek to assist students while they are in school, while our second series of proposals intend to deal with the problems too many student borrowers face after they leave school. In addition, we have included a section on the importance of strengthening consumer rights for students, as students are too often the prey of an aggressive and complex marketplace.

Proposals for Reauthorization of the Higher Education Act

A. Front-End Assistance: Students need more financial help while they are in school.

Greater investment in federal grant programs would be important during any Reauthorization, but it is especially important now. A slowed economy, drastic state budget cuts, and dramatically increasing college costs are burdening students and their families from a number of perspectives. Not only do many students have less money available to them to pay for college, but increased tuition and living expenses threaten to leave thousands of students behind, or saddled with even more debt and in-school work.

State budget cuts have caused tuitions to rise an average of 9.6 percent at four-year public schools during the last year, and room and board expenses are, on average, 8.6 percent higher, according to The College Board. Private schools, facing dwindling endowments and other revenue decreases, are raising tuitions as well, with the average four-year private institution increasing tuition by nearly 6 percent this past Fall.

Despite increases, federal financial aid has not kept pace with rising college tuitions over the past two decades. According to The College Board, the average grant award received by undergraduate students has dropped by over one-third since 1982, as a percentage of average tuition and fees at a four-year public institution.

Increasing investment in need-based grant programs for students has proven to be the most effective means to increase access and persistence. For low-income students whose families can make only little or no financial contributions towards the cost of college, grant money often makes college a reality.

With a greater investment in higher education grant programs like Pell and Supplemental Education Opportunity Grants (SEOG), a greater number of students would have access to a college education without struggling and many more would not have to borrow or work excessively.

Pell Grants

The Pell grant program, which assists nearly 5 million low-income students each year, serves as the federal government's most important vehicle of need-based aid for college-bound students. More than half of Pell Grant recipients are from families with incomes under $15,000. These are students with extreme need, and without this assistance, many Pell Grant recipients would be unable to obtain a college degree.

Problem A-1: The Pell grant maximum award is inadequate to cover the costs of college for low-income students.
A lack of investment in the Pell program since its inception in 1972 has stalled its ability to adequately reduce unmet need for low-income students. Ten years ago, the Pell grant maximum covered over 80 percent of the yearly cost of a four-year public institution. Today, despite award increases over the last several years, the $4,000 Pell maximum covers only 40 percent of the average $10,000 yearly cost of a four-year public school.

To ensure that students from low-income families have equal access to higher education, the Committee should increase the maximum Pell Grant authorization to $10,200. If tuition and living expenses continue to increase at current rates, the cost for a year of school at a four-year public institution in 2007-08 will total nearly $16,000. Doubling the current Pell Grant maximum award is necessary to account for the rising costs of college and to assist low-income students in paying for these costs.

According to a 1995 GAO study, there is a direct relationship between increasing the resources available to students through the Pell Grant, and decreasing the drop-out rate, especially among minority students. The GAO study found that increasing Pell Grants by $1,000 in a given semester decreased drop-out rates among African American students by 7% and among Hispanic American students by 8%.

Proposal A-1: The Pell Grant award maximum should be increased to $10,200, which will relieve the burden of unmet need on low-income students.

Problem A-2: Disconnect between Pell's program operation and its funding source creates situations like the current Pell shortfall and allows for harmful fluctuations in financial assistance for the country's neediest students.
Increasing the authorized Pell grant maximum alone is not sufficient to make college more accessible for low-income students. Currently, because Pell is a discretionary program, Congress has the ability to appropriate award maximums that fall short of authorized Pell awards. Despite an authorized maximum award of $5,100 for 2001-02 in the 1998 Higher Education Act amendments, the maximum Pell appropriated by Congress in 2002 was only $4,000.

As a result of its discretionary funding, the Pell program falls prey to fluctuations in the national economy, which increases the burden on students and families during times at which they most need financial assistance, when personal income and state assistance are down and tuition rates are up. During periods of economic surplus, Congress has increased Pell award levels, but these increases have not been adequate to compensate for stagnant growth during more difficult economic periods.

Congress should realize the importance of investing in higher education during both economic upswings and downturns by making the funding source of the Pell program an entitlement, a change that would correspond both with the program's operation and students' need. By including the program under mandatory funding, low and moderate-income students would be assured of the financial assistance necessary in order for these students and their families to afford a college education.

Proposal A-2: The funding for the Pell Grant program should be switched to a mandatory account to ensure that students consistently receive the financial assistance they need to afford a college education.

Problem A-3: Even with additional federal investment in Pell, the program will likely need additional funding in order to reach greater numbers of students with unmet need.

In addition to increasing federal investment in Pell, Congress should consider programs by which supplementary funds could be channeled into Pell. The "Pennies for Pell" program would allow student borrowers to round up their monthly loan payments: a student could choose to repay his normal payment of $433.51 rounded up to the nearest dime, $433.60, or to the nearest dollar, an even $434.00, for example. The money generated by this program would be directed by the loan servicer into an account for additional Pell grant funds.

While it is difficult to predict the success of such a program, the administrative and overhead costs would likely be low, and the potential for generating more money for the Pell program could be substantial, given the large number of individuals in repayment of student loans. Individuals who have struggled themselves to pay for college are likely to seize an opportunity to help students who are in the same position, and by making the rounding up process flexible, borrowers would have the opportunity to contribute on a variety of monetary levels.

At a time when Pell is drastically under funded, Congress must take steps – both traditional and creative ones - to restore the program's ability to truly assist low and moderate-income students in paying for college.

Proposal A-3: Congress should implement a "Pennies for Pell" donation program in order to generate additional investment in Pell.

State and Campus-based Grant Programs

Problem A-4: States and schools need greater opportunities to offer need-based financial aid for students.

The Leveraging Educational Assistance Partnership (LEAP) Program, which includes the former State Student Incentive Grants (SSIG) Program, and the Supplemental Educational Opportunity Grant (SEOG) provide critical assistance to some of the country's neediest students. SEOG awards supplement Pell Grants given to students with exceptionally high need. LEAP, a state-federal partnership that provides incentives for states to award need-based aid, currently assists over 667,000 students nationwide, with almost 70 percent of these students from families with yearly incomes below $20,000.

Increasing the investment in each of these programs makes the difference in thousands of students' decisions each year as to whether they can afford to attend college. At a time when state economies are strained, it is even more important to offer federal assistance, which allows states and schools to give more need-based money.

Proposal A-4: Increase the maximum SEOG award from $4,000 to $8,000 and authorize increased levels of investment for LEAP, SEOG, and other campus-based grant programs to assist students with exceptional need.

Restrictions on Aid Eligibility

Problem A-5: Provisions in the HEA unjustly prevent some students from receiving federal financial aid.

Education policy should be formed with the intention of opening doors to individuals, not closing them to certain segments of the population. Currently, students are ineligible to receive federal financial aid if they have been convicted of a drug offense, or if male, they refuse Selective Service registration.

While the broader domestic goals intended by these policies may have merit, access to higher education should not be restricted in order to achieve national agenda goals. Rather, increasing access to higher education for all individuals should serve as a domestic policy goal on its own.

Individuals who have been convicted of drug offenses, or those who refuse to register for the draft already face consequences designed for those actions. They should not be subject to a second punishment, that of restriction to federal financial aid, which impairs access to higher education.

Proposal A-5: Congress should eliminate nonessential aid eligibility requirements, such as those related to drug convictions and Selective Service registration.

Graduate Student Grants

Problem A-6: Greater numbers of students are pursuing education beyond college, yet many have inadequate financial resources to help them do so. Increasingly higher numbers of students are enrolling in graduate schools, as many employers now require education beyond the typical undergraduate degree. Many of the students who will attend graduate school have already borrowed to finance their college education, which means that upon graduation, they can be repaying loans taken out over six or more years.

Furthermore, most graduate students receive little or no parental assistance in tuition payments, leaving these students with full responsibility to pay for the costs of a graduate degree.

To relieve the burden faced by these students, and to encourage students to pursue graduate degrees, grant aid at the graduate level should be increased. Currently, the Department of Education authorizes graduate assistance through two programs: the Graduate Assistance in Areas of National Need (GAANN) program, and the Jacob Javits Fellowships program. Together, appropriations for these two sole graduate programs totaled only $41 million in 2002.

In addition to asking Congress to provide for authorizations of these programs at significantly higher levels, we recommend that an additional fellowship program be established to offer assistance to underrepresented minority groups.

Proposal A-6: Greater investment should be made in grant aid for graduate students, which will encourage higher numbers of students to pursue this higher education, as well as minimize the debt levels of students who attain graduate degrees.

Loan origination fees

Problem A-7: Student borrowers are deprived of up to 4 percent of their student loan amounts, yet they are expected to repay these amounts in full, plus interest. The first month of each student's college year can be among the most expensive, as students are expected to pay for books, supplies, and up-front costs for housing, meal plans, and other school-related expenses. Many students – now over 65 percent – take on federal education loans to help in the payment of these costs.

However, origination and insurance fees of up to 4 percent on a loan's principle prevent students from receiving their entitled full loan amount, at a time when students most require financial assistance. A student who borrows $2,000 for the school year may only receive $1,920. Upon repayment, though, a student will be expected to repay the full $2,000, plus interest, effectively charging students for money that never actually made its way to their bank accounts.

Origination fees were instituted in 1981 by the federal government to help reduce the deficit. Intended to be a temporary measure, these fees still persist, and make loans even more expensive for students.

In 2001, Representative George Miller introduced legislation, H.R. 1622, which would prohibit the collection of origination fees or insurance fees on loans made within the FFEL or Direct Loan (DL) program. We urge Congress to pass this legislation, which will make loans more affordable for students.

Proposal A-7: Origination and insurance fees on student loans should be eliminated, to give students their fully entitled loan awards.

Student loans

Problem A-8: A small percentage of students has demonstrated need for loan funds beyond current Stafford borrowing limits.

Student loans often contribute an essential part of the equation to raising access to higher education. As individuals with no or minimal credit history, borrowing through the student loan program effectively gives students the opportunity to secure a better future with the promise of a college degree.

However, limits exist on the amounts of money that students can borrow in the federal education loan program, with these limits serving both to minimize the debt carried by students and to increase the likelihood that students will be able to repay these loans. Currently, students are eligible to take on up to $23,500 in federal education loans over five years of school. For all but a small percentage of students, these loan limits appear sufficient to assist in the costs of a higher education.

To best increase access to college, then, Congress should craft student loan policy that targets those students who do demonstrate the need for additional assistance in paying for school. Raising loan limits for all students, as explained in the following section on back-end help for students, only encourages excessive borrowing, which causes an increased burden on student borrowers during years of repayment.

The population of students who appear to need additional education loan assistance can be approximated by the number of students who, having taken on maximum Stafford loans, are turning to more expensive private loans. According to recent NPSAS data, about 10 percent of all students who borrow federal education loans also borrow in the private label market. However, nearly a third of those students who have taken on private label loan debt have not depleted their Stafford federal education loan money. These students, then, are needlessly taking on student loans that are more expensive than those in the federal loan program. This problem is one that should receive the attention of both Congress and the Department of Education, and is further addressed in section C of this document, Consumer Protection for Students.

The remainder of students taking on private label loans – about five percent of all student borrowers – have taken out their maximum Stafford loans, and therefore this is the population of student who appear to demonstrate a need for additional loan funds.

An increase in Pell and SEOG awards would likely remedy this situation substantially, as greater grant assistance for low-income students would minimize their need to borrow beyond current Stafford limits.

However, to provide for those students who demonstrate the need for additional loan money in order to finance their college education, Congress should create an additional loan specifically for this segment of the population. Because these students are taking on great debt, they should have access to a supplemental federal loan that has especially good terms and conditions for the student, including a zero percent interest rate and no origination fees.

Students would be eligible for a supplemental federal loan only if they demonstrate to their financial aid officer that they possess need beyond their aid package, which includes loans, work-study, and grants. If a student had need, even with current maximum Stafford loans, he would be able to apply for a supplemental loan, which should total no more than $1,000 for the first year of school, and $2,000 for each additional year of school.

This approach to raising loan limits achieves several beneficial ends: it targets students who need extra loan assistance, which prevents students from needlessly borrowing more than they should and keeps the costs of raising loan limits low for the federal government. For these students, who would otherwise likely borrow in the private label market, turn to credit cards, or work additionally throughout the school year, a zero percent interest supplemental loan allows them to attend college without a substantial burden on them now or later in life.

Proposal A-8: To increase access to higher education and to minimize the burden on those students with the greatest need for federal education loans, Congress should create a supplemental zero percent interest rate federal education loan, which would be available to students with demonstrated need for loan money beyond current Stafford limits.

B. Back-End Assistance: Students need greater assistance with student loan repayment.

For the 65 percent of students who now borrow to pay for college, repayment of student loans can be a burden, especially for graduates with low incomes, or those who have a high debt to income ratio. While student loans can make college "affordable" in the immediate sense, excessive student debt in the years following graduation signals that his or her college education has not truly been affordable.

Providing relief to students with high student loan debt should be a high priority in this Reauthorization, and should be considered an important component of making college more affordable for students.

Loan limits

Problem B-1: Student debt burdens many students after they leave school.
In order to pay for the costs of a college education, the majority of students now take on federal education loan debt, in both the Stafford and Perkins loan programs. While student loans make the dream of higher education possible for millions of students each year, these loans also have the potential to saddle students with debt in excess of twenty years after they finish school.

The average student in 1999-2000 graduated with nearly $17,000 federal education loan debt. With an interest rate of 6.8 percent, paid over ten years, that student will pay nearly $23,500 to repay the loan. Currently, 39 percent of student borrowers have unmanageable debt after they graduate, meaning that their monthly student loan payments are more than 8 percent of their monthly incomes[*], according to data from the Department of Education's National Postsecondary Student Aid Survey.

Collectively, these figures indicate that many students graduate with excessive levels of student loan debt. We urge Congress to not further exacerbate this problem by raising general federal education loan limits, which would increase the number of students with unmanageable debt levels.

Rather, to meet the needs of those students with demonstrated need for additional federal education loans, we urge Congress to implement the supplemental zero percent interest rate loan described in the previous section, with Proposal A-8.

Proposal B-1: Congress should keep federal education loan limits at current levels to help curtail student debt levels.

[*] The student loan industry suggests that monthly student loan payments should not exceed 8% of monthly income before taxes.

Interest rates

Problem B-2: As a result of interest rate fluctuations from year to year, students can be at risk of paying high interest rates on their student loans.
As the price of higher education rises and students take on increasing debt in order to pay for college, it is essential that interest rates on student loans be kept low to minimize the burden of repayment.

The fixed interest rate change that is scheduled to occur in 2006 ensures that students will not be put at risk of having high interest rates during repayment, and we urge Congress to preserve this provision during Reauthorization.

Proposal B-2: Congress should retain its previously approved fixed interest rate of 6.8% on federal Stafford loans.

Repayment Terms and Conditions

Problem B-3: Many borrowers are often unable to afford standard loan repayments for the first several years of repayment.
The first several years of student loan repayment can often be most burdensome for individuals. Borrowers in repayment of their student loans are often recent graduates with low-paying jobs. According to a Spring 2002 National Association of Colleges and Employers (NACE) survey, the average starting salary for students with an undergraduate degree in a political science field was less than $29,000. For many recent graduates in other fields, salaries are similarly low. According to the American Federation of Teachers, the average beginning teacher's salary is $26,639.

Without the opportunity to pay lower amounts than the standard loan repayment, many borrowers are substantially burdened by their student loan debt. Alternative repayment plans, like the income-contingent and extended repayment options, take into account the financial difficulties that individuals often face in their first several years after leaving school.

Proposal B-3: Income-contingent and extended repayment should be made available to all borrowers in the FFEL program to reduce the chance of student default and provide greater flexibility to borrowers in repayment.

Problem B-4: Without updates of relevant information, borrowers often neglect or make poor decisions about their student loan plans.
The Department of Education and lending institutions should take steps to ensure that students make the best possible decisions about their student loans. Unfortunately, student borrowers are often uninformed about the plans and opportunities available to

them that would meet the needs of their current financial situation, which can result in extended forbearance, default and unnecessary burden on borrowers.

Proposal B-4: Borrowers should receive periodic information from lenders, servicers and the Department of Education recommending that they review their payments relative to their current financial circumstances.

Consolidation

Consolidation offers a way for students to refinance their student loans, allowing them to take advantage of lower interest rates, on-time repayment incentives, and various repayment options that lenders may offer. In preserving some competition between lending programs and institutions, consolidation ensures that students have access to the best terms and conditions for their circumstances.

Problem B-5: Some students in the FFEL program are being deprived of a basic consumer right afforded to others in the federal education loan program.

The Single Holder Rule, which requires students with loans under a single federal education lender to consolidate with that lender, limits student choice and hinders competition in the student loan market. Without the ability to take advantage of the best rates and terms available, students are kept in a virtual monopoly where they are held to the conditions dictated by their lending institution.

As homeowners are free to refinance their mortgage with various banks, so should all student borrowers be afforded the same opportunity of choice in consolidation and in who holds their loans.

Proposal B-5: The single holder rule should be repealed to give students the opportunity to take advantage of the most optimal terms and conditions lenders can offer on student loans.

Problem B-6: Students who consolidate may prevent themselves from taking advantage of better interest rates in the future.

Consolidation offers debt relief to thousands of student borrowers each year. As the average student loan debt continues to increase, so does the importance of consolidation opportunities in the FFEL and DL programs.

Consumer choice could even be further expanded, by allowing student borrowers to consolidate more than once over the life of their loans. Currently, a student who consolidates his student loans is locked in to the available interest rate at that time. Multiple consolidation options could be limited to those with lower incomes, which would make student loan repayment easier for those who most need assistance.

Proposal B-6: Congress should establish more flexible and beneficial terms for consolidation, including giving student borrowers the opportunity to consolidate more than once over the life of their loans.

Tax credits and deductions

Problem B-7: High interest payments can often burden student borrowers, especially those borrowers in their first years of repayment.
Currently, student borrowers can deduct interest payments from the taxable income they claim each year, which can save most student borrowers up to $250 each year. While this deduction assists students with repayment, it offers the greatest assistance to higher income student borrowers, who often need less debt relief than those with lower incomes.

Providing a tax credit for student loan interest would provide an even more dramatic means to help borrowers in repayment, especially those who are most in need of assistance. A tax credit of up to $1,500, as proposed in H.R. 1072, introduced by Representative Mark Foley in 2001, would allow students to repay their loans virtually interest-free.

Beyond the help to students, this type of tax credit could serve as a stimulus for the economy, as many students with loan debt delay or forego expensive investments like a car or a house.

Although this type of policy would be addressed in a tax bill, rather than in Reauthorization, it is important that a tax credit be a part of any discussion related to student loan debt and repayment options. The impact such legislation would have on the affordability of college is significant, and the leadership of the higher education community and the Education and the Workforce committee is undoubtedly necessary to its passage. The state PIRGs urge Congress to institute a student loan tax credit as part of the upcoming tax bill to provide relief for students in repayment.

Proposal B-7: Implement a $1,500 tax credit, as proposed by Representative Foley in the Student Debt Relief Act in 2001, for student loan interest payments as part of a tax bill in the 108th Congress.

Loan forgiveness

Problem B-8: Some student borrowers who work in job sectors that provide valuable services to communities can have difficulty in repaying their student loans because of the lower salaries of those jobs.

High student loan debt can dissuade students from entering some of our most important careers nationwide, as many of these jobs cannot provide the salaries necessary for a student to repay larger student loan obligations. Loan forgiveness already provides relief for thousands of teachers in low-income districts, which not only encourages students to enter the teaching profession, but offers some hope that for those students who do, that they will not be burdened by excessive student loan debt.

Many of the country's lowest-earning college graduates work in non-profit 501(c)3 jobs, sectors that provide invaluable benefit to their communities. According to ACCESS, a website that specializes in non-profit careers, non-profit salaries are 25 percent lower on average, as compared to business and governmental salaries. With lower salaries, even students with debt below the $17,000 average can have difficulty in repayment.

The state PIRGs also support loan forgiveness legislation for other job sectors, including the nursing, childcare, and social work professions. We urge Congress to pass H.R. 5636, introduced by Representative Thomas Tancredo, which would expand loan forgiveness to nurses. We are also supportive of legislation, including H.R. 650 and H.R. 5091, introduced by Representative Lindsey Graham, and H.R. 2765, introduced by Representative Jay Inslee, which would expand loan forgiveness opportunities for teachers. The funding for these programs should be mandatory, so that individuals assured of loan forgiveness do not later have these promises revoked due to discretionary budget changes.

Capping the salaries at which loan forgiveness would be available would secure these funds for those who are most in need of financial assistance. For example, a salary cap of $35,000 for a single earner in these job sectors would mean that only low to moderate-income earners would receive loan forgiveness.

To both commend our country's students for their service and to provide debt relief, we urge Congress to expand loan forgiveness provisions to recent college graduates working in the non-profit sectors.

Proposal B-8: Expand loan forgiveness provisions for student borrowers to include nursing, childcare, social work, and non-profit jobs.

C. Consumer Protection for Students

As a population, students are particularly vulnerable to being taken advantage of, as marketing to students by commercial businesses has grown substantially in recent years. The state PIRGs ask Congress to ensure that students receive their due rights as consumers.

FAFSA forms

Problem C-1: Companies are illegally charging students for the completion of their FAFSA forms.
More than 8 million students and families currently depend on federal financial student aid to help finance their college education, and the Free Application for Federal Student Aid (FAFSA) form ensures that all students have equal access to this financial assistance. However, a number of on-line website services now exist that offer the completion of a student's FAFSA form in exchange for fees ranging from $39.99 to $189.99 for this service.

Charging students for the completion of their FAFSA is illegal by standards outlined in the Higher Education Act, as it harms the very people that federal financial aid programs are designed to help. Students in need of financial assistance for school cannot and should not be subject to extraneous fees in order to obtain that assistance.

The Higher Education Act states in Section 483 (a)(1) that only the Secretary of Education is allowed to produce, distribute, and process free of charge a common form, the FAFSA, to determine a student's eligibility for need based aid. The statute prohibits, in section 483(a)(2), charging students and families for the collection, processing or delivery of federal aid through the FAFSA. It also stipulates that no data collected on a form for which a fee is charged shall be used to complete the FAFSA.

On behalf of students and their families, the state PIRGs urge the Education Department and Congress to investigate the growing practice of on-line companies charging for completion of FAFSA forms, and that steps are taken to prevent this illegal activity from occurring. Without a simple and free application process for federal financial aid, many of the students who depend on this assistance might not access a higher education.

Proposal C-1: The Education Department and Congress should work to ensure that no students are charged for completion of their FAFSA forms.

Credit cards

Problem C-2: Students can too easily obtain credit cards, which can lead to irresponsible credit management and excessive credit card debt.
According to Nellie Mae, 78 percent of college students in 2000 owned credit cards, with each of these students carrying an average credit card balance of

$2,748. Aggressive marketing to students by credit companies, coupled with most students' lack of financial experience and knowledge, often leads students down a path to excessive debt.

With no credit history or means to assure ability to pay debts, students can receive access to lines of credit totaling thousands of dollars. No other segment of the population is allowed to place themselves in this position of risk except for college students.

Congress should take steps to curtail excessive credit card marketing on college campuses. Currently, many companies pay colleges or student groups in order to set up tables on campus, with these companies offering free goods in exchange for students signing up for a credit account.

In addition to curbing excessive credit card marketing on campuses, Congress should pass legislation that would amend the Truth in Lending Act and require that consumers under the age of 21 only be issued a credit card if they can demonstrate one of the following: that they have the financial means to repay debts, that someone else possessing those financial means is willing to sign for joint liability of the account, or that they have completed a credit counseling course.

Proposal C-2: Congress should pass the Underage Consumer Credit Protection Act, which amends the Truth in Lending Act, to prevent the potential for credit card abuse among students.

Private loans

Problem C-3: Almost half of those students who take on private label loans do so unnecessarily, without first utilizing all of their Stafford loan money. Small numbers of students borrow in the private market – about 10 percent of student borrowers overall - but for those who do, these loans are more expensive for students to repay, and offer considerably fewer benefits than loans given through the federal education loan system. Disturbingly, data from the 1999-2000 NPSAS suggests that a third of the students who borrowed private label loans did so needlessly, as they had not borrowed their maximum Stafford loan amounts.

The FFEL and Direct Loan programs are designed to assist students in paying for the costs of college to avoid placing a substantial burden on them while they are in school or in repayment. The fact that students are turning to private label loans without depleting their Stafford loan reserves suggests a lack of information, or misinformation, communicated to students and their families about student loans.

In order to prevent needless borrowing by students in the private loan market, the state PIRGs ask that Congress and the Department of Education investigate the marketing of private label loans to students. Financial aid officers should be responsible for informing students about the maximum Stafford loan amounts and the benefits of federal education loans over private label loans. Furthermore, students should not receive marketing from companies offering private label loans in information distributed by a school's financial aid office.

Proposal C-3: Congress and the Department of Education should work to ensure that students do not borrow needlessly in the private label market without first taking advantage of the maximum federal education loans available to them.