We Can’t Afford To Wait
How States And Municipalities Can Help Curtail The Student Debt Crisis

By Anne Johnson and Maggie Thompson

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The Crisis

In 2012, Americans learned an inconvenient truth—outstanding student debt crossed the trillion dollar mark, and millions of borrowers were in default. On the heels of the Great Recession, many Americans began to ask, “could this be the next crisis?” Policymakers and advocates increased their attention on the impact of heavy student debt burdens, and President Obama called upon Congress to act. Yet by 2016, student debt continues to climb and millions more have defaulted, with no solution in sight at the federal level from a gridlocked Congress.

With student debt burdens worsening and the federal government sitting on the sidelines, community and political leaders have started to fill the void, exploring their options to stop the negative consequences of student debt from impacting their cities, counties, and states. In this paper, we outline a portfolio of policy options for state and local leaders can pursue to mitigate the effects of student debt. We also offer solutions to address the root causes of the crisis: cost and accountability for institutions and lenders.

Forty-three million people in the United States owe some amount of student loan debt. Exceeding $1.3 trillion, the total student debt in the U.S. surpasses both the amount of credit card debt and car loans. However, this figure is an underestimate of debt caused by higher education, because for many families, home equity loans and credit cards have become an important part of financing college.

Because the true amount of debt associated with education held by students and families is underestimated by available data, the growth of the student debt crisis shown by existing data is especially alarming. The overall amount of student loan debt is growing, but the problem is worsening for individual borrowers, too. Students are graduating with increasing amounts of debt each year. Seven in 10 college seniors obtaining a bachelor's degree in the class of 2014 graduated with debt, and carried an average debt of $28,950.

The student debt crisis is widespread and continues to worsen. However, despite the national scale of the issue, local- and state-based solutions can provide significant relief for Americans drowning in student debt.
Seeking Immediate Relief: Addressing the Current Debt

While long-term solutions are necessary, states and municipalities have a number of tools at their disposal that can provide significant and swift relief to borrowers. Many of these solutions have already been implemented successfully in states and municipalities across the country. These policies, explored in depth below, include: increasing awareness around and enrolling borrowers in existing programs to lower their debt, allowing for the refinancing of student loans, ending counterproductive penalties for borrowers who default, and ending credit checks for employment.

Enroll Borrowers in Loan Forgiveness and Income-Driven Repayment Programs

The vast majority of borrowers with student loan debt have federal loans—either loans made through the Department of Education's Direct Loan program or, for borrowers with older loans, loans made through the Family Federal Education Loan (FFEL) program. Federal student loan borrowers are entitled to several programs that may allow them to lower their monthly payments or have their loans forgiven after a set period of time. Public Service Loan Forgiveness, for instance, is one of the most generous programs available to borrowers with federal loans. It allows any individual employed in the public sector with certain types of federal loans to have their loans forgiven after 10 years of repayment.

CASE STUDY

The County Board in Dane County, Wisconsin and the City Council in Cincinnati, Ohio passed resolutions to ensure that their own employees would be informed of their right to public loan forgiveness. The benefit offers significant loan forgiveness to public servants, potentially allowing them to afford to stay in public service.

Despite the substantial benefits income-driven repayment plans and loan forgiveness programs offer, many borrowers may be unaware of the programs available to them. Seventy percent of Federal Direct Loan borrowers in default,
for instance, met the income requirements for lower monthly payments under an existing income-driven repayment plan, meaning that many student loan defaults are avoidable. Local and state governments can step in and fill this information gap, increasing awareness of federal programs on the local level. By informing their employees of their eligibility for these programs, states and municipalities can use existing programs and policies to provide immediate relief to struggling borrowers.

Allow the Refinancing of Student Loans at the State or Local Level

Although nearly every kind of consumer debt can be refinanced to take advantage of changing interest rates, most borrowers are unable to refinance their student loans. This leaves individual student loan borrowers locked into high interest rates, hampering their ability to pay down their original loan. In Congress, lawmakers introduced legislation allowing for the refinancing of student loans. Though the legislation failed to pass in 2014, student loan refinancing is still a viable—and valuable—option on the state and local level.

Through the use of a state or municipal bonding authority, states could enable student loan borrowers to refinance their loans at lower rates. By instituting this policy, states could lower monthly payments and allow borrowers to put more money back into local economies. Refinancing student loans at the state level could assist many borrowers, especially those with high-interest private loans. However, state student loan refinancing authorities would need significant safeguards to ensure consumer protections and loan modification programs for borrowers refinancing their loans are equivalent to what they would have had with their previous lenders. This includes income-driven repayment and loan forgiveness programs available to federal loan borrowers.

Wisconsin was the first state to introduce the Higher Ed, Lower Debt bill to allow borrowers to refinance their student loans into a state student loan authority. Other states, such as Rhode Island, have existing student loan authorities that allow borrowers to refinance their loans lower interest rates. Recently, lawmakers in Montgomery County, Maryland drafted legislation to establish a loan authority that would give the county the ability to leverage its municipal borrowing power to allow residents to refinance at lower rates.
States would also benefit from refinancing: in addition to a potential increase in state revenue, if the right to refinance student loans were coupled with a residency requirement, states might see more residents staying in-state. Thus, while refinancing remains out of reach at the federal level, states can take matters into their own hands and find alternative ways to offer borrowers this important tool.

End Counterproductive Penalties for Borrowers in Default

Another immediate remedy available to states involves reforming penalties for borrowers in default. In 21 states, driver's or professional licenses can be withheld or revoked due to a default on a student loan. This policy is not only punitive, but also counterproductive. For an individual in default, losing access to a driver's or professional license may impede their ability to obtain or access work, further limiting their ability to pay down their loans. Instead of creating obstacles in the path to financial security, states must do more to help borrowers avoid or get out of default so they can fully contribute to local economies.

End Credit Checks on Employment

Borrowers need employment to pay off their loans, but many employers have policies that make it needlessly difficult for borrowers to get a job. Research shows that nearly half of employers check credit histories for at least some positions within their firms. Given the rising levels of student debt American graduates carry, an individual's debt-to-income ratio or student debt status is not necessarily an appropriate indicator for his or her job-readiness. State and local governments can enact legislation to ensure that borrowers who were forced to take out student loans in response to rising college costs are not penalized by employers' use of credit checks.

Furthermore, laws ending credit checks on employment can and have been structured to have reasonable exceptions for certain jobs in government or law
enforcement or for positions putting individuals in charge of major financial decisions. Local and state legislators have an imperative to take action to ensure that student loan debt is not a barrier for qualified individuals seeking a job.

A Clean Sweep: Fixing Student Loan Servicing

The student debt crisis requires immediate relief. However, there are several state and local solutions that, while not immediate, will ultimately provide substantial relief to borrowers. One such solution involves cleaning up the student loan servicing industry.

Today, too many student loan borrowers are getting the runaround from their student loan servicers—the companies responsible for sending bills and making sure payments are properly processed. Sometimes, servicer mistakes can lead to errors on credit reports, late fees, penalties, and other headaches for borrowers.

In the years leading up to the mortgage crisis, states sought to take action by making new standards for mortgage loan servicers that protected homeowners. Given the similarity between problems in mortgage servicing and what we are seeing in student loan servicing, states can help student loan borrowers through a number of potential legislative and regulatory reforms. These reforms include enacting a borrower’s bill of rights, establishing a student loan ombudsman, and licensing student loan servicers.

In 2015 the New York City Council passed a bill that prohibits employers from using credit checks to screen job applicants. The bill included several exemptions for certain types of job in law enforcement or for employees with authority over significant third-party assets. This effort is expected to help end discrimination against minority job applicants who are often victims of predatory lenders.
Enact a Borrower’s Bill of Rights

In recent years, President Obama signed into law a number of new protections for consumers with credit cards and mortgages, yet there is no similar framework for student loan borrowers. A Student Loan Borrower’s Bill of Rights that establishes minimum standards for timely payment processing, disclosures about alternative repayment plans, and response times for fixing errors would help resolve many of the types of problems that borrowers face.

Every state has a designated state banking regulator, and some states may have laws in place that allow these regulators to develop rules to govern student loan servicers. If they are not currently authorized to do so, state legislation can empower them to establish—and enforce—these standards.

Establish a Student Loan Ombudsman

The Dodd-Frank Wall Street Reform and Consumer Protection Act established an ombudsman at the Consumer Financial Protection Bureau (CFPB) to assist borrowers with student loan complaints. The ombudsman is required to file annual reports and make recommendations to Congress based on an analysis of these complaints.

State banking departments should designate a state student loan ombudsman to work with the CFPB and Department of Education to provide additional assistance to borrowers with complaints. Ideally, the state regulator will also require student loan companies serving consumers in a particular state to include information on disclosures, billing statements, and other communications on how borrowers can contact the ombudsman. The ombudsman should also provide testimony before relevant state legislative committees and provide regular reports on efforts to assist borrowers.

License Student Loan Servicers

Just as states require licenses for the mortgage industry, states should also require that student loan servicers obtain a license and report data on a quarterly basis to the state banking department. This data should include the number of borrowers, outstanding loan balances, loan type, enrollment in alternative repayment programs, and other key information. State regulators should make this aggregated information on licensees public and subject licensees to routine examinations to ensure consumer protection laws are being followed.
Cracking Down on Predatory Schools

For-profit schools generate a disproportionately high amount of the national student debt. Therefore, to address the student debt epidemic in the longer term, states should monitor and evaluate the practices of colleges in-state. The recent collapse of Corinthian Colleges, a for-profit school chain repeatedly accused of defrauding students, provided a stark reminder that states must step up to make up for lax federal oversight.

Federal law requires that schools be authorized by an agency at the state level, but many of these state agencies have done little to police the activities of unscrupulous schools. Stronger enforcement and oversight by state authorities will help stop abuses before they become problems nationwide.

Ensure Vigorous Oversight of Schools

States typically have boards or agencies charged with approving schools to operate within their borders. State approval is a prerequisite for participating in federal student aid programs. Unfortunately, some of these boards and agencies are governed by school officials themselves. States should ensure that these oversight bodies are completely independent and represent the public, not the industry they regulate.

These state boards and agencies should be transparent about their activities, publishing all documentation used when determining eligibility for approval. These bodies should also be required to solicit public input on approval of for-profit schools by holding public hearings and offering opportunities for students and the public to comment. They should annually report on their
onsite inspections and examinations of schools, as well as whether they have assessed any fines or sanctions. If they do not have adequate authority to assess fines, state law should authorize them to do so.

Create a Student Protection Unit within Attorneys General Offices

State attorneys general typically enforce laws on unfair and deceptive practices by for-profit colleges. In fact, many attorneys general have already filed lawsuits against bad actors in the industry. To ensure that the protection of students is not overlooked by state enforcement authorities, states should explicitly designate an office reporting to the Attorney General that is accountable for overseeing and coordinating all state enforcement activities on student protection. This office will work closely with other state and federal agencies, the Department of Education, and other stakeholders to monitor student complaints and pursue enforcement actions against law-breaking institutions.

Establish Institution-Financed State Tuition Recovery Funds

In the wake of the collapse of Corinthian Colleges in 2014, states must examine new mechanisms to ensure that students who attended predatory institutions can be reimbursed for the costs they incurred at their school. States can create state tuition recovery funds to ensure that students are compensated if they attend a school that closes as Corinthian did. However, taxpayers should not be held responsible for the financial consequences of a school closure. Instead, State Tuition Recovery Funds should be funded by fees collected from institutions. Currently only 22 states maintain a State Tuition Recovery Fund. More states must put in place protections that will ensure that predatory schools, not students and taxpayers, are the ones who will pay if a school collapses.

In the states that have State Tuition Recovery Funds, work needs to be done to ensure that the funds are adequately funded and solvent. The recovery funds must also be public and accessible to students to ensure that they know where to go for relief.

A Look Ahead: Making Free or Debt-Free Options the New Norm

Policies that assist individuals and families currently dealing with student debt present the first step to solving this crisis. However, the United States
has a system of higher education that is churning out individuals with higher levels of debt each year, for both graduates and non-graduates. To truly address the root cause of the student debt crisis, states must adopt policies that make higher education a public good again, rather than an increasingly unaffordable private investment undertaken by students and families. A large-scale reinvestment in higher education at the state level is needed. There are numerous policies states can pursue to address the root causes of the current crisis, which is tied closely to spiraling costs.

**Restore Support for Public Colleges to Pre-Recession Levels**

The cost of higher education has increased astronomically in recent decades and public support for higher education and family earnings has been unable to keep pace. In 2002, a median-income family would have needed to spend 23 percent of its income to pay the tuition, fees, and room and board for one child in a four-year college. By 2012, a similar family would have needed to spend 33 percent of its income to pay those same expenses. Since the Great Recession 49 states have spent less per student on higher education than pre-recession, and this disinvestment has corresponded with drastic increases in tuition.

States must sufficiently invest in public higher education to bring state support back to pre-recession levels. Many states are also exploring ways to make a college education debt-free for students. State leaders should look at innovative strategies and new sources of revenue to reinvest in public higher education if they want to arrest the acceleration of the student debt crisis in their communities.

**Massachusetts**

In Massachusetts advocates released a study outlining the cost to the state of making all public institutions debt-free. Advocates are using this study to drive a statewide ballot initiative to raise state funding for debt-free public college. The initiative would create an additional tax of four percentage points on annual income above $1 million to pay for debt-free college at every state institution.
Make Community College Free

Since President Obama announced in January 2015 the America’s College Promise campaign, free community college programs have been springing up across the country. Given that almost half of students in the higher education system are community college students, and that community college is a gateway for first-generation students to attain a higher education, enhancing access to community college is one of the most impactful things a state can do to boost college affordability and completion.

Examine Student Fees

As tuition costs have soared, advocates and students on various campuses across the nation have seen a jump in student fees for meal plans or other campus services. Some of these fees constitute a new way for institutions to generate revenue without raising tuition in an environment where state funding for higher education is still below pre-recession levels.

Some states have started to examine whether mandatory fees charged to students are appropriate for the services provided or if they needlessly increase the cost of college for students by making them pay for goods they may not use. At the University of Tennessee, for example, commuter students were required to pay for meal plans that many did not use. Other schools have mandatory fees associated with athletic programs regardless of a student’s participation. State legislatures should examine any mandatory student fees charged by institutions and ensure that the fees are appropriate for the services rendered and are not being used by institutions to fill budget gaps.

States like Tennessee and Oregon and cities like Chicago and Milwaukee have all passed free community college programs.

In Tennessee the Tennessee Promise program covers any tuition costs that are not covered by federal aid for a student. Some programs, like the Milwaukee program, which makes the Milwaukee Area Technical College tuition-free, are funded by private foundations rather than state or local governments.
Establish Tuition Equity for DREAMers

Undocumented students are currently prohibited from accessing federal education benefits, and in many states they are also denied in-state tuition rates. With college costs soaring, these restrictions can create insurmountable barriers for undocumented students hoping to obtain a higher education. Some states have started to address this issue by passing in-state DREAM Acts that allow undocumented students to pay in-state tuition rates.

Currently at least 18 states have implemented provisions allowing some undocumented students to pay the same tuition at public institutions of higher education as their documented peers. Some states have achieved this through legislative action and others through decisions made by a Board of Regents. More states must act to provide “in-state,” more affordable tuition to undocumented students.

National Problems, Local Solutions

In recent years, the need for leaders across the country to address the student debt crisis—both in the immediate and in the long-term—has become abundantly clear. The magnitude of the debt held, the increasing amount of debt per student, the spiraling costs of college, and the lack of consumer
protections for borrowers all reflect the urgency of the growing crisis. In the absence of meaningful and sweeping action at the federal level to address not just the current debt, but a higher education system that continues to produce it at rising levels, state and localities must step up to arrest the impact of student debt on their communities.

About the Authors

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Originally from Minnesota, Anne was the Deputy Field Director on Paul Wellstone’s 2002 re-election campaign. After the campaign Anne helped found Wellstone Action, a nonprofit civic engagement training organization. Through her work she has become a respected expert on youth issues and political engagement. She has also consulted with numerous state and federal candidates and progressive organizations to develop young voter turnout programs and national issue campaigns.

Anne has developed curricula and led trainings for numerous organizations and campaigns, including Obama for America, in addition to leading trainings and giving presentations on Millennial engagement and the political process in Turkey, Italy, the United Kingdom, Canada and India. She has also worked with the National Democratic Institute’s Middle East and North Africa Program on political trainings and election monitoring in the West Bank.

A University of Minnesota graduate, Anne began her career working at the United Nations in Geneva, Switzerland, as a fellow at the Sub-Commission for the Promotion and Protection of Human Rights.

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Prior to joining Generation Progress, Maggie was a founding member of Brass Tactics, a grassroots advocacy firm that engaged on key progressive priorities including bringing nontraditional voices to the climate-change fight, implementing the Affordable Care Act in states, and organizing for gun-violence-prevention legislation. She was also a state outreach director at the Common Purpose Project, helping to oversee numerous issue campaigns.
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Maggie served in the Obama administration at the White House Council on
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Maggie has also worked as a trainer with Wellstone Action since 2005, when
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Maggie worked as a field archaeologist in central Greece and Germany.
She graduated with a degree in economics and classical archaeology from
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**END NOTES**


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