STUDENT LOAN DEBT AND THE EFFECTS ON THE BROADER ECONOMY

by
Michael Gleeson

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ABSTRACT

This paper examines the student loan debt crisis that is bubbling up in America today. Many politicians have offered political solutions to the crisis, ranging from providing student loan debt relief for to allowing student loan debt borrowers to refinance their debt. This paper examines the history student loan debt crisis, examines the two propose solutions mentioned above, and does offers an analysis of them.

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MEMORANDUM

Date: May 5, 2016
To: Rep. Jim McDermott
From: Michael Gleeson
Re: Growth of Student Loan Debt and Its Effects on the Broader Economy

Action-Forcing Event:

Retirement is on the horizon. Ten months remain in your congressional term. Your top legislative priority, as you have explained it to the staff, is to continue to raise awareness of and try to get movement on student loan debt issues.[1]

Statement of the Problem:

Rising levels of student debt are having a profound effect on younger borrowers and the economy, crowding out other investments, slowing the growth of the economy, and changing the pace at which young adults start families and buy homes.

This is not to downplay the importance of education. Individuals with a college degree earn greater than a million dollars more in their lifetime and have a lower unemployment rate than to those with a high school diploma.[2]

But the effects of student debt are profound and warrant the attention of policymakers.

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[1] Jim McDermott, Interviewed by Michael Gleeson, March 15, 2016.
[2] Ann Marie Wiersch, The Cost of College: Student Loan Debt on the Rise, Federal Reserve Bank of Cleveland, January 31, 2014.

The Federal Reserve Bank of Cleveland reported "the effects of mounting financial obligations associated with student loans go beyond student borrowers and their families. The drag on economic growth is becoming more evident as debt levels rise, and the effects are likely to be felt far into the future."[3]

The rise in student loans of the past decade is staggering. From 2004 to 2012, the pool of student loan borrowers grew 69 percent, from 23 million borrowers to 39 million borrowers. At the same time the amount that the average borrower had in loans skyrocketed by 70 percent, from $15,000 to $25,000.[4]

The amount of debt that is being accumulated is "considerably larger than amounts incurred by past cohorts," and the effect of this rising debt is affecting America's younger student loan borrowers.[5]

Retirement savings might be affected by the burden of high levels of student loan debt, according to the Consumer Protection Financial Bureau. Saving for retirement early on is important. Diverting funds from savings to pay student loans affects the total amount that individuals with student loans will eventually be able to save, forcing these individuals to rely more heavily on another form of income in retirement, namely Social Security.[6]

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[3] Ann Marie Wiersch, The Cost of College: Student Loan Debt on the Rise, Federal Reserve Bank of Cleveland, January 31, 2014.
[4] David P. Smole, A Snapshot of Student Loan Debt, Congressional Research Service, March 23, 2015.
[5] David P. Smole, A Snapshot of Student Loan Debt, Congressional Research Service, March 23, 2015.
[6] Ann Marie Wiersch, The Cost of College: Student Loan Debt on the Rise, Federal Reserve Bank of Cleveland, January 31, 2014

The housing market, a large part of the American economy, is not immune from the negative effects of the higher levels of student loan debt in the economy. The housing industry represents 17 to 18 percent of the gross domestic product of the United States.[7]

According to Lawrence Yun, chief economist for the National Realtors Association, individuals 34 years-old or younger are in the prime period of their lives for purchasing a home.[8]

"Over 80 percent of millennial buyers consider their home purchase a good financial investment, and the desire to own a home of their own was the top reason given by millennials for their purchase," he said. "Fixed monthly payments and the long-term financial stability homeownership can provide are attractive to young adults despite them witnessing the housing downturn and subsequent slow recovery in the early years of their adulthood."[9]

Despite the positive feelings about the financial stability that comes with buying a home, millennials, buyers under 34 years-old, find that "repaying student debt has made it very difficult to save for a down payment," Yun said.

The Boston Federal Reserve Bank found that "homeownership rates for households with student loan debt is always below the rate for households without student loan debt." [10]

Family formations have suffered as a result of the increasing level of debt young people are taking on to fund their higher education. "Financial obligations associated with student debt

[7] Housing's Contribution to Gross Domestic Product (GDP), National Association of Home Builders, https://www.nahb.org/en/research/housing-economics/housings-economic-impact/housings-contribution-to-gross-domestic-product-gdp.aspx.
[8] NAR Generational Survey: Millennials Lead All Buyers, Most Likely to Use Real Estate Agent, National Association of Relators, March 11, 2015.
[9] Ibid.
[10] Daniel Cooper and J. Christina Wang, Student Loan Debt and Economic Outcomes, Federal Reserve Bank of Boston, October 2014.

decrease borrowers' ability to take on additional expenses, making them less likely to move out of their parents' home and creating a drag on household formation."[11]

Lower household formations have a direct effect on the economy, according to Moody's Analytics. Each new household formed creates $145,000 of economic impact.[12]

HISTORY

World War II

America switched its attention to the war effort in the late 1930s and early 1940s. Everything from durable goods to investment in education slowed down as the economy mobilized for war. But with the end of the Second World War in 1945, millions of American GIs turned their attention to advancing their lives.

The Servicemen's Readjustment Act of 1944, known commonly as the GI Bill, helped those who served in WWII cover tuition, books and living expenses for a year of full-time schooling plus an additional month for each additional month beyond a year of service in the armed forces. For many this provided the resources needed to get a bachelor's degree.[13] This program helped re-jumpstart higher education in this country allowing as many as 4.4 million veterans to go to college.[14] This benefit was limited to the men who were in military service during the war, but the larger question around the cost of college would soon gain national prominence.

[11] Ann Marie Wiersch, The Cost of College: Student Loan Debt on the Rise, Federal Reserve Bank of Cleveland, January 31, 2014.
[12] Ann Marie Wiersch, The Cost of College: Student Loan Debt on the Rise, Federal Reserve Bank of Cleveland, January 31, 2014.
[13] A Robert B. Archibald, "Redesigning the Financial Aid System: Why Colleges and Universities Should Switch Roles with the Federal Government," Johns Hopkins University Press, p. 28.
[14] Ibid.

After the war ended, a national discussion about the cost of college began to spring up. In 1946, a group of 28 scholars and layman, headed by George F. Zook, president of the American Council on Education, was charged by President Truman with producing a report on higher education.[15] The Higher Education for American Democracy report, a six volume report released in 1947, "created arguably for the first time, a national rhetoric on higher education."[16] The report said:

> 'The commission concluded that the decision as to who shall go to college is at present influenced far too much by economic consideration.' It decreed that the only factors that should limit enrollment were the ability and interest of the student.[17]

The report was greeted with calls of "totalitarianism"[18] as the federal government proposed to play a larger role in delivering financial aid to students to help level the playing field for access to higher education. Up to this point in history, the role of financial aid had been left largely to the states via the 10th amendment.

The report concluded that even in 1947 the cost of attending college posed a serious barrier for many students who wanted to achieve a better life for themselves. One of the problems with the system as it was in 1947 was that the cost of tuition was leaving behind a "vast pool of potential leaders and socially competent citizens."[19] This problem could not be tolerated and threatened to create a segregated society based on education.

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[15] "The President's Commission Higher Education for Democracy, 1947" University of Illinois, http://courses.education.illinois.edu/eol474/sp98/truman.html, accessed on February 19, 2016.
[16] P. Hutcheson, "The 1947 President's Commission on Higher Education and the national rhetoric on higher education policy." History of Higher Education Annual, 22.
[17] Claire Gilbert and Donald E. Heller, "The Truman Commission and its Impact on Federal Higher Education Policy From 1947 to 2010", November 2010.
[18] Claire Gilbert and Donald E. Heller, "The Truman Commission and its Impact on Federal Higher Education Policy From 1947 to 2010", November 2010.
[19] Ibid.

> The democratic community cannot tolerate a society based upon education for the well-to-do alone. If college opportunities are restricted to those in the higher income brackets, the way is open to the creation and perpetuation of a class society which has no place in the American way of life.[20]

The Cold War and Student Loans

At a time when America was deadlocked with the Soviet Union, a single action by America's rival shook the nation and forced it to rethink how it dealt with its own education system.

In 1957, the Soviets had bested the United States in the space race by launching Sputnik. The small Soviet satellite circled the earth sending shock waves through the American psyche.

Americans were unprepared for the Soviet satellite and did not realize how much the Soviets had poured into their own educational system.

Speaking to the National Press Club in 1958, U.S. Commissioner of Education, Lawrence G. Derthick, said:

> What we have seen has amazed us in one outstanding particular: we were not prepared for the degree to which the U.S.S.R is committed to education as a means of national advancement. Everywhere we went we saw indications after indication of what we could only conclude amounted to a total commitment to education.[21]

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[20] William Barclay Allen and Carol M. Allen, "Habits of Mind: Fostering Access and Excellence in Higher Educationm," Johns Hopkins University Press, p. 102.
[21] Clearance B. Lindquist, "NDEA Fellowship for college teaching 1958-68", U.S. Department of Health, Education and Welfare, 1971.

Congress, too, felt the pressure of the space launch. In the 85th Congress (1957-1958), nearly 1,500 bills were introduced that dealt wholly or partly with education.[22]

On January 8, 1958, Rep. Carl Elliott, chairman of the Special Subcommittee on Education of the House Education and Labor Committee said that the launch of Sputnik "suddenly awakened [the American people] to some of the shortcomings of our educational system. Today, no one believes our education system is superior because it is American. Our proud complacency has vanished."[23]

To bolster America's education system, Congress embarked on passing what would become the National Defense Education Act (NDEA) of 1958.

Looking at the Congressional history of the bill, it is obvious how the Soviet's achievement in launching a manmade object into space pushed the education act through Congress. "Soviet sputniks and intercontinental ballistic missiles, as well as the growing evidence of Russian advances in scientific knowledge and intellectual capacity, have dealt a severe blow to American complacency."[24]

Despite the threat that the Soviets posed, some in Congress worried that an equally threatening menace would be the growing size and role of the federal government in the lives of everyday Americans. In the Senate report that accompanied this bill, those concerns were beaten back with the argument that "it is clearly within the American tradition to seek appropriate means for stimulating and strengthening science and education for the defense of our country."[25]

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[22] Ibid.
[23] Ibid.
[24] Senate Report to accompany S.4237, August 8, 1958, p. 2-3
[2525] Ibid, P.5.

Some argued that the government's intervention would crowd out the private sector. But the Senate report accompanying the bill said that nearly 30 percent of full-time students attended colleges and universities where no financial aid funds were available.[26]

In the end, Congress passed H.R. 13247, the National Defense Education Act of 1958. The legislation, among other things, authorized the U.S. Commissioner of Education to lend $295 million from FY 1959 to FY 1962 to university and college student loan funds to enable needy students to continue their education.[27]

At the signing in Newport, Rhode Island, President Eisenhower said the act was an "emergency act" to be terminated in four years. This, he said, was a first step, adding that "the federal government having done its share, the people of the country, working through their local and State governments and through private agencies, must now redouble their efforts towards this end."[28]

The program was meant to be short-lived, but the federal government's role in higher education was cemented.

The 1960s and a Move Towards Loans For All Students

After the NDEA, Congress took up the cause making college education available to all students. To this end, Congress passed the Higher Education Act of 1965. One portion of the act provided for state agencies and commercial lenders to be part of the process for financing higher education in America. The Guaranteed Student Loan Program (GSLP) that emerged from this legislation was designed to reach lower and middle income student's families.

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[26] "Federal Student Loan Programs—1958 to 1974", Congressional Research Service, 1975.
[27]"Federal Education Aid Approved," CQ Almanac Online Edition, http://library.cqpress.com/cqalmanac/document.php?id=cqal58-1341294, accessed on February 16, 2016.
[28] "Statement by the President Upon Signing the National Defense Education Act." The American Presidency Project. http://www.presidency.ucsb.edu/ws/?pid=11211, accessed on February 16, 2016.

The report that accompanied the legislation discussed the need for the program by saying:

> College costs in this country have spiraled to a point at which it is not just the very needy who require financial aid. Many students from middle-income families are also finding it difficult to meet the constantly increasing costs of a college education…what is badly needed now is a comprehensive program for financing the college costs for those who have a legitimate need.[29]

The purpose of the GSLP was to provide access to credit from commercial lenders. The program accomplished this in two ways: the federal government insured lenders against loss from the borrower not being able to repay, and the government pushed states to set up their own guarantee program through interest free advances.[30]

In the 1970s, a rebranded program using the name Federal Family Loan Program adopted reforms to help expand the student loan market. The biggest reform came when Congress realized that private lenders had trouble selling long-term small-dollar amount loans off their books. To help lenders, the government in in 1972 established Sallie Mae, which created a secondary market for the sale of loans.

Bankruptcy

Students and their families began to finance higher education with loans and eventually some individuals who had borrowed could not pay back their loans.

In the 1976, the Department of Health, Education, and Welfare reported that it had paid $500 million to banks on nearly 350,000 student loan defaults. Changes to the program were made,

[29] House Report No. 621 to accompany H.R. 9567, July 14, 1965, p. 30.
[30] Margot A. Schenet, "The Federal Family Loan Programs", Congressional Research Service, December 2, 1994.

but the media fixated on the story. The media played up the hype that loopholes in the student loan system would bankrupt the nation.[31]

The media focused on two cases on particular. A Stanford Law School student filed for bankruptcy two days before graduation in 1973, discharging more than $17,000 in student debt, and a Massachusetts couple who discharged $20,000 in student debt. These large amounts caught the eye of the public and Congress.[32]

U.S. Representative Allen Ertel called the actions of the individuals who were going through school and shedding their loan repayments in bankruptcy "tantamount to fraud."[33] Ertel worried that if people could get educated and easily cast of the chains of student debt, it would destroy the lending system that students use to attain higher education.

> These bankruptcies could easily destroy the federal student loan program…This problem cannot be permitted to spread nationwide because destruction of the student loan program would operate to deny the benefits of higher education to many world-be students who are otherwise qualified for post-high school education or training…This destruction of student loan programs would represent a tremendous waste of one of this nation's greatest assets, the minds and skills of American youth.[34]

The Congress in 1978 passed Section 523(a)(8) of the Bankruptcy Code, a provision pushed by Ertel, that made it more difficult to shed student loans in bankruptcy. This provision has been

[31] Chuck Stewart, "You Can Do It!: Bankrupt Your Student Loans And Other Discharge Strategies," Author House, p. 18.
[32] Ibid.
[33] John O'Connor, "Make Student Loan Debt Dischargeable In Bankruptcy…Again," National Bankruptcy Forum, http://www.natlbankruptcy.com/make-student-loan-debt-dischargeable-in-bankruptcyagain, accessed on February 28, 2016.
[34] Chuck Stewart, "You Can Do It!: Bankrupt Your Student Loans And Other Discharge Strategies," Author House, p. 18.

tightened by Congress over the years, and the courts have played a significant role in defining the intent of Congress regarding this section of the law.

In Section 523(a)(8), Congress determined that a higher standard for the discharge of student loans needed to be applied. Congress created an undue hardship test for student loans to be dismissed in bankruptcy, but it left it up to the courts to figure out how to apply the test.

The courts have adopted what is called the Brunner Test to determine whether a person has undue hardship. To pass the Brunner Test pass and get the loans discharged, a borrower must show that he can "(1) maintain, based on current income and expenses, a minimal standard of living for the debtor and dependents if forced to pay off student loans; (2) additional circumstances exist indicating that this state of affairs is likely to persist for a significant portion of the repayment period of the student loans; (3) You have made good faith efforts to repay the loans."[35]

However, the principle as it has been applied by the courts has made it almost impossible for people to discharge their debt through bankruptcy.

One example is Doug Wallace Jr. Diagnosed with diabetes, Wallace Jr. lost his sight and became unemployed shortly after graduating from Eastern Kentucky University. He owed $89,000 in student loans, and when he tried to get them discharged in bankruptcy, he was denied.[36]

Since the inception of 523(a)(8), many students have not been able to access the protections of bankruptcy, creating another factor in the student debt crisis.

Federal Direct Student Loan Program

[35] John O'Connor, "How can I tell if my student loan debt is dischargeable in bankruptcy?", National Bankruptcy Forum,
[36] Ron Lieber, "Last Plea on School Loans: Proving a Hopeless Future," *The New York Times*, August 31, 2012.

In the early 1990s, the Federal Family Loan Program (FFELP) started to become a budgetary concern for the federal government and a management issue as well.[37] The program had 7,800 lenders participating using their own capital to fund loans to students and families.[38] The number of lenders and the interrelated web between the lenders, the secondary market, and the government created management issues that the first Bush Administration wanted to address.[39]

As part of the Omnibus Budget Reconciliation Act of 1990, new data was provided to Congress about the cost of student loans for budgetary purposes. The information presented lawmakers with a picture that "guaranteeing loans made by private lenders to students—rather than directly lending money to students—was costly and burdensome."[40]

In 1992, the Bush Administration rolled out a pilot project for a system that would change the way the student loans were distributed. The program enrolled 300 institutions to begin issuing loans directly to students.[41] The program was only a pilot program because the Bush Administration and schools did not want to change the way loans were being disbursed. There was concern about how a shift of this magnitude would affect the student loan program.[42]

In 1993, the Clinton Administration picked up where the Bush Administration left off, pushing hard to scale up the pilot program into a full-fledged program that would shift the way loans were disbursed. The Clinton Administration plan would have eliminated the pilot project and

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[37] "Student Loans: How did we get here?," Institute for Higher Education Policy, https://www.luminafoundation.org/files/resources/loans-viewing-guide.pdf, accessed on February 28, 2016.
[38] Margot A. Schenet, "The Federal Family Loan Programs", Congressional Research Service, October 16, 1996.
[39] Matthew B. Fuller, A History of Financial Student Aid to Students, Sam Houston State University, July 25, 2014.
[40] Ibid.
[41] Student Loans: How did we get here?," Institute for Higher Education Policy, https://www.luminafoundation.org/files/resources/loans-viewing-guide.pdf, accessed on February 28, 2016.
[42] Margot A. Schenet, "The Federal Family Loan Programs", Congressional Research Service, October 16, 1996.

moved to a complete phase-in of the program by 1998, thus eliminating the need for banks to be involved in the process.[43]

The Clinton Administration saw the advancement of the program as a budgetary win and benefit for students.

In a message transmitted to Congress, President Clinton said that the new program would save the government $4.3 billion over a five year period. At the same time, students would no longer have to shop around for the best rates and loan offers. "This reform simplifies the system for many students, enabling them to receive all of their aid through 'one stop shopping' at their institutions' financial aid office."[44]

Few disagreed that the existing program for disbursing student loans was flawed, complex, and overly expensive. But critics of the Clinton Administration's plan wondered if it was the proper role of the government to get involved this heavily in the administration of student loans. Others questioned whether the Education Department had the capacity to manage the task of administering the loan created by the new program.[45]

Ultimately, a new Congress and the power of lobbyists stopped President Clinton's plan from going forward.[46] In the 104th Congress, Republicans took aim at ending the program. Rep. Ernest Istook (R-Okla.) and Senator Coats (R-Ind.) introduced bills (H.R. 1501/S. 1198) to end the program at the end of July 1996.[47] Republicans argued that continuing the program would cost the government money; the opposite of what the Clinton Administration asserted. New scoring rules

[43] Margot A. Schenet, "The Federal Family Loan Programs", Congressional Research Service, October 16, 1996.
[44] William J. Clinton, "Message from the President – National Service and Student Aid," Journal of the House of Representatives, Wednesday May 5, 1993, P 382-383.
[45] Margot A. Schenet, "The Federal Family Loan Programs", Congressional Research Service, October 16, 1996.
[46] George Dennison, "Student Loans and Access to Higher Education," The Montana Professor 23.1, Fall 2012.
[47] Margot A. Schenet, "The Federal Family Loan Programs", Congressional Research Service, October 16, 1996.

forced CBO to change the way it evaluated the administrative costs of the direct loan program. The new scoring showed that it would cost the government between $300 million to $1.5 billion to continue making direct loans.[48]

<u>The Health Care and Education Reconciliation Act of 2010</u>

In 2008, the financial markets went into turmoil, with major banks and other engines of the financial economy collapsing. Credit markets tightened, making access to capital more difficult. The student loan market was not immune from the credit crunch. Money that students needed to go to school dried up, and the capital that banks used to finance loans through the FFEL program got scarcer.

> The Federal Family Education Loan Program (FFELP), has become unstable and unreliable," Congress wrote in its report to accompany the Health Care and Reconciliation Act of 2010. "Over the past year, turmoil in the U.S. credit markets has made it impossible for many lenders, and difficult for others, to secure private capital with which to make student loans. As a result, many lenders that once participated in the FFELP have pulled out of the program and are no longer making loans.[49]

In 2008, to aid the flailing Federal Family Education Loan Program (FFELP) program, the government provided authority for the Department of Education to buy loans from financial institutions that originated them so that the originating institution could clear its books. The

[48] Ibid.
[49] House Report 111-443 - THE RECONCILIATION ACT OF 2010, https://www.congress.gov/congressional-report/111th-congress/house-report/443/2, accessed on February 28, 2016

government spent over $14 billion on the purchase of loans.[50] The accompanying report said "the FFELP has become dependent on taxpayer funds to make loans to students and families."[51] The loan purchases cost the government more than if it would have issued the loans itself. The fact that the government could more cheaply issue loans to students than it could through the FFELP system began a rethinking of the FFELP system.

The Congress used the opportunity of having a reconciliation bill to do what President Clinton had wanted – to make direct loans the only way that federal loans were disbursed. The Committee in its report noted that eliminating FFELP would save the federal government $87 billion dollars over a decade, and would provide Americans with "affordable, quality education opportunities to help make our economy strong and competitive again."

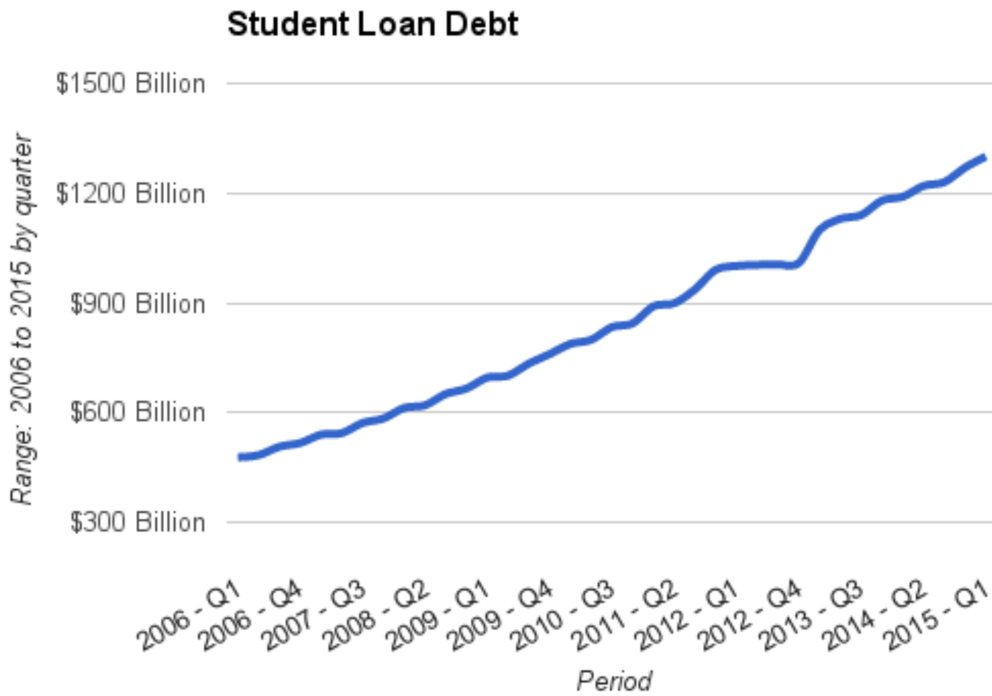
Some in Congress, mainly Republicans, voiced opposition that the move would undermine the private sector's role in federal student aid and that it represented a step towards bigger government. "This job killing government takeover of student lending generates approximately $87 billion in savings and earrings for the government – the bulk of which Democrats plan to spend on an array of new and expanded entitlement programs."[52]

Background

Student loans pose a systemic threat to the economy, and their proliferation threatens to slow the growth of the broader economy.

Graph 1

[50] House Report 111-443 - THE RECONCILIATION ACT OF 2010, https://www.congress.gov/congressional-report/111th-congress/house-report/443/2, accessed on February 28, 2016
[51] Ibid.
[52] "Just Another Government Takeover: the Student Aid & Fiscal Responsibility Act (H.R. 3211)," Committee on Education and Labor, Republicans, December 19, 2009.



Graph[53]

Student debt has exploded over the past decade, rising from $240 billion in 2003 to more than $1.2 trillion in 2015.[54] Student loan debt is expected to rise an astounding $2,726.27 every second, according to work compiled by *MarketWatch* and StartClass, an education data site.[55] As of February 16, 2016, the debt stands at approximately $1.337 trillion.[56] One model projects that at the current rate, student debt will exceed $2 trillion by 2025.[57]

[53] Jillian Berman, "Watch America's Student-Loan Debt Grow $2,726 Every Second," MarketWatch, Jan 30, 2016
[54] Robert Hiltonsmith, "At What Cost: How Student Debt Reduces Lifetime Wealth," Demos, August 2013.
[55] Jillian Berman, "Watch America's Student-Loan Debt Grow $2,726 Every Second," MarketWatch, Jan 30, 2016
[56] Jillian Berman, "Watch America's Student-Loan Debt Grow $2,726 Every Second," MarketWatch, Jan 30, 2016.
[57] Robert Hiltonsmith, "At What Cost: How Student Debt Reduces Lifetime Wealth," Demos, August 2013.

Over a twelve year period, the overall share of households with student debt grew at a modest rate, rising from 9 percent to 12 percent between the periods 1989 to 2001. But from 2001 to 2010 the share of households with student loan debt rose markedly, as indicated in table 1.[58]

Table 1

Percent of Households with Outstanding Student Loans

	1989	2001	2010
Percent of all households	9%	12%	19%
Age of Households Head: Younger than 35 years-old	17%	26%	40%

Table 1 highlights that among a younger cohort – individuals just starting their lives to those into their mid-thirties – the trend over the past two decades is an increase in the amount of debt that the households are bearing.

A Harvard research paper from November 2015 indicate that from 1989 to 2013, three more years of data than is provided in Table 1, the median amount of student debt exploded from $5,423 in 1989 to $17,000 in 2013.[59]

It is important to keep in mind that student loan debt rose during the so-called Great Recession, making it the only form of consumer debt to increase during this period. Moreover, during the so-called Great Recession and afterwards, student loan debt is rising as households are

[58] William Gale et. al., "Student Loans Rising: An Overview of Causes, Consequences, and Policy Options," Tax Policy Center: Urban Institute and Brookings Institution, May 2014.
[59] Irene Lew, "Student Loan Debt and the Housing Decisions of Young Households," Harvard Joint Center for Housing Studies, November 2015.

deleveraging themselves of other types of consumer debt. "Real aggregate credit card debt fell by 16 percent between 2010 and 2014, and other debt fell by 14 percent."[60]

It is not just the proliferation of student loan debt but the size that is staggering. Individuals with debt of $50,000 or more increased from 4 percent to 17 percent over the period of 1989 to 2013. Over this same time period, student loan debt of between $25,000 and $49,999 rose from 5 percent to 18 percent.[61]

One of the reasons for the increase in student debt is related to the increase in the number of people seeking both undergraduate and a graduate levels of education. From 1989 to 2010, "the share of households with no college experience fell from 41 to 31 percent, the share with at least one person with a bachelor's degree increased from 20 to 24 percent, and the share with at least one person with a graduate degree increased from 9 to 13 percent."[62]

As educational attainment rises so does the average amount of debt that a student loan borrower takes on. This added amount of loans that students are taking on is impacting the economy. The evidence comes both in the form of anecdotal incidences that you have spoken about and the facts cited in published articles.

One story you often recite is of the young woman who approached you to discuss her situation with her student loans. She was paying 13 percent interest on her student loans and was

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[60] Irene Lew, "Student Loan Debt and the Housing Decisions of Young Households," Harvard Joint Center for Housing Studies, November 2015.
[61] Ibid.
[62] Beth Akers and Matthew M. Chingos, "Is a Student Loan Crisis on the Horizon," Brown Center on Education Policy at Brookings, June 2014.

only able to cover the minimum balance every month.[63] You have shared how distressing it is for her, and how distressing it was for you to hear about her plight.[64]

And it is not just the average person on the street that has issues with student loans. Testifying before a Congressional committee in 2012, then Federal Reserve Chairman Ben Bernanke told the committee members that his son would graduate from medical school with $400,000 in student loan debt. (Bernanke's son attended the Weill Cornell Medical College in New York, which for the class of 2013 costs just north of $278,000 for four-years. The cost includes the cost of living expenses and books.)[65]

Another area of the economy that is suffering as a result of high student loan debt burden is the real estate sector. First-time homebuyers are the bedrock of the housing market. "The trend has alarmed some housing experts, who suspect that student loan dent is partially to blame."[66]

> 'This is huge for us,' said David H. Stevens, chief executive of the mortgage bankers association. 'Student debt trumps all other consumer debt. It's going have an extraordinary effect on young peoples' ability to borrow for a home, and that's going to impact the housing market and economy at large.'[67]

Student loans affect a household's incentive to save in two ways. Student loans repayments divert money away from what could otherwise be used for a down payment or monthly payment on

[63] Jim McDermott, Interviewed by Michael Gleeson, March 15, 2016.
[64] Ibid.
[65] Janet Lorin, "Medical School at $278,000 Means Even Bernanke Son Has Debt," BloombergBusiness, April 11, 2013.
[66] Dina ElBoghdady, "Student Debt May Hurt Housing Recovery By Hampering First-Time Buyers," *The Washington Post*, February 17, 2014.
[67] Ibid.

a mortgage. Second, student loan debt forces individuals to choose between paying down student debt, saving for retirement, or putting money aside for a down payment.

"With more Americans putting big chucks of their income towards student loan payments, that means they're less able to stash away extra cash for their first down payment," said Rohit Chopra, the student loan ombudsman for the Consumer Financial Protection Bureau, told a crowd at the Federal Reserve Bank of St. Louis in 2014. He added that increasing student debt may turn out to be "one of the more painful aftershocks of the Great Recession."[68]

The saving needed to make a first-time home purchase requires nearly 20 years to get the 10 percent down payment and closing costs for a moderately priced home, according to the Center for Responsive Lending. (The report does not define what constitutes moderately priced.)[69]

Aside from the unbelievable amount of determination it takes to save for a down payment, the government, in an effort to try to prevent another repeat of the financial meltdown, has added a new regulation that makes entry into the homeowners market harder for individuals with high student loan debt. The Dodd-Frank Act requires borrowers seeking a qualified mortgage to have a combined monthly housing costs and monthly debt payments not exceeding 43 percent of an individual's income to qualify for a loan.[70]

Phil Denfeld, a vice president of First Hertiage Mortgage in Fairfax, Va., told *The Washington Post* that these new regulations are a game changer. "This change can affect a wide range of people with student loan debt," Denfeld said. "Graduate student, law students."

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[68] Dina ElBoghdady, "Student Debt May Hurt Housing Recovery By Hampering First-Time Buyers," *The Washington Post*, February 17, 2014.
[69] Joe Valenti et. al. "Student-Loan Debt Has a Rippling negative Effect on the Broader Economy," Center for American Progress, April 10, 2013.
[70] Ibid.

The Federal Reserve Bank of New York showed in a report in 2013 that students who had or have student loan debt are half as likely to obtain a mortgage.

"The finding upended traditional thinking, which held that student debt signaled higher earnings and higher chances of owning a home."[71]

You have introduced a number of bills in this Congress to help alleviate the problems around student loans. The first, Fairness in Student Loan Lending Act (H.R. 1131), would allow students to refinance their student loans to a rate equal to the rate on the 10 Year Treasury Bond. The other two dealt with taxation of repayment of student loans. H.R. 2429 allowed students who used an income-based repayment plan or an income-contingent repayment plan to be exempt from paying taxes on the amount of the loan that was forgiven. H.R. 3206 protected students who attended Corinthian College institutions from having to pay tax on money that was refunded from their federal student loans. This refund would go back to the government, not to the students, and would have happened because the school either shutdown or was sold.

Political Figures and Principal Figures

The issue of student loans has been dominated politically by Democrats. Political figures from you, Jim McDermott, to Elizabeth Warren to President Obama have weighed in on this recently.

House Democratic Leader Nancy Pelosi (Calif.) said in a press conference that student loans represent an "anvil"[72] around the neck of recent college graduates.

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[71] Dina ElBoghdady, "Student Debt May Hurt Housing Recovery By Hampering First-Time Buyers," *The Washington Post*, February 17, 2014.
[72] Mike Lillis, "Pelosi: Let's lift 'anvil' of student debt," *The Hill,* March 18, 2015.

> "Our Republican colleagues are always talking about [how] we can't heap mountains of debt onto future generations," Pelosi said. "We all agree … but we don't want to heap mountains of debt onto individual American students and their families. And that's where we have this division."[73]

Rep. Joe Courtney (D-Conn.) and Sen. Elizabeth Warren (D-Mass.) introduced the Bank on Students Emergency Loan Refinancing Act, "a bill that would allow undergraduate borrowers repaying private or public student loans to refinance those loans to an interest rate of 3.86 percent."[74] The 3.86 percent is about half the interest rate paid on graduate loans and are significantly lower than the rates offered for private student loans.

> A college education is one of the most valuable investments a family can make, but rising costs have made it difficult to afford – and student loans often come with higher interest rates than mortgages, car loans, and other forms of consumer lending," Courtney said. "Student debt – which surpassed $1 trillion last Congress – hinders our economy because it delays borrowers from major investments, including buying a home, starting a business, and saving for retirement. As higher education becomes more crucial than ever to secure a good-paying job, keeping college affordable must be a top priority in Washington.

In 2015, President Obama created a way for more Americans to avoid defaulting on their student loans. The President changed Pay as You Earn to Revised Pay as You

[73] Ibid.
[74] "Courtney, Warren Introduce Bill To Aid Student Loan Borrowers" Joe Courtney's website, March 18, 2015.

Earn that will allow student loan borrowers to pay back their student loans and capping the amount they will pay at 10 percent of their discretionary income.[75]

Senate Democrats have continued to keep up the pressure on student loans. The Senate Democratic Leader Harry Reid (Nev.) in January introduced the RED Act that incorporated a number of introduced student loan bills, including the Warren bill (mentioned above).

Speaking at the press conference with the Senate Leader, Sen. Charles Schumer (D-N.Y.) called the student loan crisis "one of the most pressing issues facing millennials and many middle class Americans today." [76]

The presidential candidates have spoken about student loan debt too. Democratic presidential candidate Senator Bernie Sanders (Vt.) has a six point plan to make college tuition- and debt-free. Specifically, Sanders would drop the interest rate on student loans from 4.29% to 2.37%.[77] Additionally he would make all public and colleges tuition free.[78]

Democratic presidential candidate Hillary Clinton's plan, called the "New College Compact" is light on details. It promises to allow those with student debt to refinance their loans to a lower rate and for future undergraduates "the plan will significantly cut interest rates so they reflect the government's low cost of debt."[79]

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[75] Danielle Douglas-Gabriel "What you need to know about Obama's latest student loan plan before enrolling" The Washington Post, December 18.2015.
[76] Danielle Douglas-Gabriel "Senate Democrats launch campaign to reduce student debt," *The Washington Post*, January 21, 2016.
[77] "It's Time to Make College Tuition Free and Debt Free," Bernie Sanders 2016.
[78] Ibid.
[79] "Hillary Clinton's New College Compact," *The Briefing*, HilaryClinton.com.

Republican Presidential candidate Senator Marco Rubio (Fla.) repeatedly said on the campaign trail that he graduated with $100,000 in loans. He talked about how he could not afford to repay his loans and had to go into forbearance.[80]

Policy Proposal

The proposal for the legislation that you would introduce contains two distinct elements. The first element would combat the tax implications of discharging student loans after 20 years of repayments for those student loan borrowers who use income-based and income-contingent repayment plans. The second part of the proposal would allow those with FFELP and Direct student loans to refinance their student loans to lower rates laid out in the Bipartisan Student Loan Certainty Act. The proposal would also allow students with private student loans to swap their private student loans for new federal student loans that are issued at a lower rate. The proposal will achieve the goal of getting these reforms made into law by passing a bill through Congress.

Under current law, after 20 years of repayment on income-driven repayment and income-contingent repayment plans, the remaining debt of the student is discharged by the government. However, the discharge of debt creates a taxable event. The amount that is discharged is considered income to the student loan borrower, and the student has to include the discharged amount in gross income.

The first part of the proposal would allow that student loan borrowers who use income-driven or income-contingent repayment plans to pay off their student loans would not have a taxable event when their loans are discharged. This would mean that student loan borrowers would not have to pay tax on the amount that is discharged. The first part of the proposal, according to the

[80] "You Deserve The Facts Before Taking Out Student Loans," MarcoRubio.com.

Treasury Departments General Explanations of the Administration's Revenue Proposals, is estimated to cost $5 million over the 10-year budget window. [81]

The second part of the proposal would enact the Bank on Student Emergency Loan Refinancing Act, a bill originally put forward in 2014 by Sen. Elizabeth Warren (D-Mass.) and Rep. John Tierney (D-Mass.). The bill would allow students to refinance their loans to lower rates contained within the Bipartisan Student Loan Certainty Act of 2013. The Act sets "federal student loan interest rates to the financial markets. Under the Act, interest rates are determined each spring for new loans being made for the upcoming award year, which runs from July 1 to the following June 30. Each loan has a fixed interest rate for the life of the loan."[82] Private student loans could be many percentage points higher than the government rates, providing significant relief to student loan borrowers.

The proposal would be paid for by enacting the so-called Buffet rule. Warren's one-pager describes the tax as making sure that millionaires and billionaires pay their fair-share.[83]

The Treasury Departments General Explanations of the Administration's Revenue Proposals explains the so-called Buffet Rule, the "fair share tax," in more detail. Income derived from dividends and long-term capital gains is taxed at a taxed at a maximum rate of 23.8 percent, while wage income is taxed at a higher graduated rate that rises to 39.6 percent.[84]

> "Many high-income taxpayers derive large benefits from the preferentially low tax rates on dividends and capital gains. For example, nearly 90 percent of

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[81] "Treasury Departments General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals," Department of the Treasury, March, 2014.

[82] "Interest Rates for New Direct Loans," Federal Student Aid: An Office of the U.S. Department of Education, https://studentaid.ed.gov/sa/about/announcements/interest-rate.

[83] "Bank on Student Emergency Loan Refiencing Act – Fact Sheet," accessed on March 9, 2016, http://www.warren.senate.gov/files/documents/Warren%20Refinancing%20-%20Fact%20Sheet1.pdf.

[84] Treasury Departments General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals," Department of the Treasury, March, 2014

families in the top 0.1 percent of the income distribution benefit from the lower tax rate on dividends and capital gains, compared to less than 10 percent of families in the bottom 60 percent of the income distribution. High-income investors, who have large amounts of dividends and capital gains, can have tax burdens that are much lower than those paid by equally well-off high-income workers. In addition, the maximum 23.8-percent tax rate on dividends and capital gains is well below the statutory tax rates on wages faced by many lower-income families."[85]

Authorization

The first part of the proposal would amend Section 108(f) of the Internal Revenue Code to read as follows:

"(1) IN GENERAL- In the case of an individual, gross income does not include any amount which (but for this subsection) would be includible in gross income by reason of the discharge (in whole or in part) of any student loan if such discharge was pursuant to--

`(A) a provision of such loan under which all or part of the indebtedness of the individual would be discharged if the individual worked for a certain period of time in certain professions for any of a broad class of employers, or

`(B) subsections (d)(1)(D) and (e)(7) of section 455 or section 493C(b)(7) of the Higher Education Act of 1965 (relating to income contingent and income-based repayment, respectively).'.

[85] Ibid.

(b) Effective Date- The amendments made by this section shall apply to discharges of indebtedness after the date of the enactment of this Act."[86]

The second part of the proposal would amend Section 451 of the Higher Education Act of 1965 (20 U.S.C. 1087a(a)), section 140 of the Truth in Lending Act (15 U.S.C. 1650), and would add section 59A to the Internal Revenue Code which would create the Fair Share Tax On High Income Earners.

Implementation

The proposal would be implemented in two parts. The relieving tax liability on student loan borrowers who use income-based and income-contingent repayment plans would be effective immediately after the passage of the bill. The second part of the bill that would allow students to refinance their loans would require the Secretary of Education to setup a program to allow for the exchange of loans. The Department of Education would need to issue regulations on specifically directing how students with private loans would exchange those loans for new federal loans.

Policy Analysis

The proposal is made up of two distinct parts. The first would create a non-taxable event when the loans from income-based and income-contingent repayment are discharged. Under current law, when student loans are repaid using income-based and income-contingent repayment plans, the amount that is forgiven is taken in gross income in the year discharged.[87]

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[86] "Student Loan Tax Debt Relief Act," Rep. Jim McDermott, May 19, 2015.
[87] "Memo to Honorable Sander Levin," Department of the Treasury, September 19, 2006.

A student with $39,500 in student debt who uses income-based or income-contingent repayment plans could end up paying $41,000 in loan forgiveness, according to the Office of Management and Budget.[88]

The proposal, according to Treasury, would cost $5 million over 10 years.[89]

The proposal could need to be implemented by the Treasury Department after the legislation is passed. The change in law is not going to require the Treasury Department to spend significant amount of put the change into force, making it more likely that the change will be enforced.

The proposal has been part of the Treasury Department's recommendations for tax policy for a number of years. So unlike some proposals that a member of Congress would want to advance, there is likely to be little push back on this policy from the Office of Tax Policy within the Treasury Department.

A positive of the first part of this proposal is that it costs very little – $5 million over 10 years. The fact that it is so inexpensive is likely to make it a proposal that could be tacked onto another proposal without many people noticing.

A negative of the cost is that it is not revenue neutral. It is much easier to get something into a bill if it is revenue neutral than if it is going to cost money.

Another positive of the proposal is that it might encourage more student loan borrowers to enroll in income-based and income-contingent repayment plans.[90] The

[88] Ron Lieber, "For Student Borrowers, Relief Now May Mean a Big Tax Bill Later," *The New York Times*, December 14, 2012.
[89] Treasury Departments General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals," Department of the Treasury, March, 2014.

negative of this is that if more student loan borrowers take advantage of this program it is going to cost the government more and more money as more people are eligible for forgiveness of their loans. The fact that it will cost more and more over time is a function of the fact that there are more students attending institutions of higher education.

The second part would allow students with FFELP, Direct and private student loans to refinance those loans into a federal student loan at a lower rate. The second part of the proposal would be fully offset by instituting the so-called Buffett Rule.[91]

The so-called Buffett Rule would put a minimum tax on those earning more than a million dollars a year. The Treasury Department in outlining the policy behind this pay-for said that those in the upper-income brackets are able to lower their adjusted gross income by using the itemized deduction over the standard deduction. It also says that high income taxpayers more often earn their income from dividends and capital gains than from wage income.

The pros of the second part of this proposal are that it would be fully offset by instituting a tax on higher income taxpayers. Having a proposal that does not add significantly to the debt is a positive that would allow Democrats could get behind the deal. Democrats in recent years have been loathed to add to the nation's debt. A recent example of how Democrats get wary about supporting legislation that adds to the debt came during the debate in 2015 over the massive tax package. House Majority Whip Steny Hoyer (D-Md.) said that adding to the nation's debt is "a very high concern" and is "very controversial."[92] Thus, having a low cost is a positive. Another thing to point out is that

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90 Treasury Departments General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals," Department of the Treasury, March, 2014.

91 "Letter to Honorable Elizabeth Warren: S. 2292, Bank on Students Emergency Loan Refinancing Act," Congressional Budget Office, June 4, 2014.

92 Brian Faler, "Tax deal swelling into $800 billion blowout," *Politico*, December 2, 2015.

the fact that the proposal is budget neutral means that it will not add to the debt of deficit, meaning it will have no negative budgetary issues.

There is a question of whether wiping away hundreds, thousands, or tens of thousands of dollars of debt is equitable.

Jason Delisle, at the New America Foundation argues that it is not. "You forgive someone's loans, then you stick them with a tax bill that's equivalent to making three or five or 10 more years of payment on the loan."[93]

While one person that *The New York Times* spoke with for a story said they should not be allowed off the hook. "I think it's perfectly fair," Stephanie Day who the Times interviewed said.[94]

The other question is whether this policy will help the problem outlined at the front of this memo: will this this policy proposal with its two subcomponents help the economy?

Political Analysis

The political analysis of this proposal is fairly straight forward: taken together the to parts of the package has little chance of passing. Despite the fact the student loans have become a hot political issue during the past couple of years, with Democrats, including prominent members of the House, Senate and the presidential contenders, as well as Republican Presidential candidate Marco Rubio, talking about this issue, the issue is unpalatable for a number of political reasons.

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[93] Ron Lieber, "For Student Borrowers, Relief Now May Mean a Big Tax Bill Later," *The New York Times*, December 14, 2012.
[94] Ibid.

Republicans will whole-heartedly disagree with imposing a tax on upper-income taxpayers to offset the costs of refinancing student loans. When the bill was brought up in 2014, then Republican Senate Minority Leader Mitch McConnell (R-Ky.) said the bill was "not about student loans" but was a way for Democrats to "cover their hides" and have something to run on in November.[95]

After the bill failed to gain enough votes to move forward in the Senate in 2014, Warren told reporters that voters should "ask every single Republican who voted against this bill; why protecting billionaires are more important than giving our kids a chance to pay off their loans."[96]

A negative of using the so-called Buffett Rule is that it is not likely to garner support from the other side of the aisle. Republicans have been clear in their opposition to this proposal. Senator John Thune (R-S.D.), speaking about the tax, said the proposal "would do one thing and one thing only, and that is target higher taxes on a small subset of our population in order to serve a political purpose."[97]

The Warren bill was not the first time that Senate Democrats brought up a bill with a pay-for of the so-called Buffett Rule. In 2012, Senate Republicans put the kibosh on bringing up the "Paying a Fair Share Act" by not providing the Senate Democrats with the needed 60 votes to allow the bill to move forward. McConnell speaking on the floor lambasted Democrats for bringing the bill to the floor that was little more than a political stunt. "By wasting so much time on this political gimmick that even Democrats admit won't solve our larger problems, it's shown the president is more interested in misleading people than he is in leading," Mr. McConnell said.[98]

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[95] Erica Weiner, "Senate Republicans block Sen. Elizabeth Warren's bill to reduce student loan debt," *The Associated Press*, June 14, 2014.

[96] Patrick Johnson, "After Student Loan Refinancing Bill Blocked In Senate, Calls For Holding Republicans Accountable," Masslive.com, June 11, 2014.

[97] David Welna, "Senate Republicans Block Debate On Buffett Rule," NPR, April 17, 2012.

[98] Jonathan Weisman, "In Senate, Republicans Block Debate on 'Buffett Rule'", *The New York Times,* April 16, 2012.

Republican opposition to the tax on upper-income taxpayers comes despite polls that show overwhelming support for the policy proposal. A Gallop poll from a week before the vote was taken in the Senate in 2012 showed that "60 percent of Americans supported the proposal, including 63 percent of political independents." The Senate's number three Democrat and leader of the Senate's messaging arm, Charles Schumer, said that the Democrats are on the right side of this momentous issue. The polls, Schumer said, are "proof positive" that "for first time in decades, maybe generations, they're on the defensive on their signature issue," taxes.[99]

Since 2012, the Senate has tried to bring up for a vote the so-called Buffett Rule, either as a free standing measure or as part of a larger measure a number of times without having any success.[100]

The other part of the proposal does have a greater chance of moving forward. Republicans have expressed an interest in joining on to a bill that would make sure debt forgiveness at the end of the income-based repayment and income-driven repayment plans do not create a taxable event. George Callas, then senior tax counsel to Ways and Means Chairman Paul Ryan (R.-Wis.), said that Ryan would not consider this proposal outside of tax reform, despite the low $5 million cost over the 10 year budget window. Everything, he said, will be considered through the prism of tax reform.

Another member of the Ways and Means Committee Kenny Marchant is (R-Texas) tax staffer said that his boss likes the policy, but the optics are a mess. There were more than 50 Democrats on the bill at the time Marchant's office was approached to join the bill. The staffer said his boss could not join because he could not be the first Republican to join a Democrat-laden bill.

[99] Jonathan Weisman, "In Senate, Republicans Block Debate on 'Buffett Rule'", The New York Times, April 16, 2012.

[100] Don Maples, "Buffett Rule" Congressional Research Service, March 9, 2016.

Marchant's staffer hit on a key problem with the bill, at least in its current form. The bill has 55 members from the Democratic Party and none from the Republican Party. Republicans view with skepticism a bill that is so lopsided when it comes to cosponsors. If it was more even, then it would be a totally different ballgame for this provision.

The positive sign that Marchant's staffer provided is an indication that there is support for the policy once the optics of the bill changes; namely, waiting for this bill to expire in the 114th Congress and start fresh in the 115th Congress with a coalition of Democrats and Republicans on the bill.

One of the ways that the pitch could be shifted to address the concerns of Republicans who are on the fence is to focus on the cost of implementing this program. The Treasury Department estimates that this proposal would cost only $5 million over ten years. With $1.3 trillion in outstanding student debt and 40 million individuals with student loans, this is not an issue that is going away soon. Also making the debt forgiveness a non-taxable event would get rid of a tax.

Adjusting the message to say that the supporting this is a tax reduction and will cost very little would allow more Republicans support the proposal.

The benefits of moving forward with this proposal are that it takes two highly popular proposals, the Warren bill and your bill, the bill that makes the discharge of debt from income-based and income-contingent repayment plans, and bundles them together. Democrats can use the opportunity to rally around the proposal to use it to continue to push the issue into the election year.

The proposal will also live on past the time that you will be in Congress, since you are retiring at the end of this Congress. Other members can take up this package and continue to move the ball forward with these popular provisions bundled as a proposal.

For the Democratic Party, this might be a good way to motivate the base. Voter turnout in the early primary and caucus states on the Democratic side has been much lower compared to the 2008 contest.[101] This series of proposals, if Democrats rally around them, might be a catalyst for the base.

If this proposal were to make it through Congress, it would need a friendly administration that would be willing to sign the bill into law. More than that, there would be a whole series of rule makings that could be slowed up by an administrative agency that does not want the rules to move forward.

Another theme that Democrats have used in their messaging is eliminating the class disparity that exists between the upper class and the middle-class. For the Democrats, the Buffett Rule would the wrongs, which they say allows billionaire investor Warren Buffett to pay a lower tax rate than his secretary.

Jay Carney, then White House Press Secretary, said of the Buffett Rule "the tax code should not be written in a way that allows the wealthiest Americans to pay taxes at a lower rate than middle-class Americans."[102]

By advancing a proposal, which contains the Buffett Rule, Democrats can hope to drive a wedge between the electorate and Republicans. In 2012, when the Senate brought the Buffett Rule bill up in the Senate, then Republican president nominee Mitt Romney said the bill represented a

[101] Chuck Ross, "Democratic Turnout Down 32% In Super Tuesday States Compared To 2008," The Daily Caller, March 2, 2016.
[102] David Jackson, "Obama, like Buffett, pays lower tax rate than his secretary," The USA Today, April 16, 2012.

"new source of division…'let's find the very most successful in our country and say they're bad guys,'" Romney said at a recent campaign stop. "'Go after 'em. And let's divide America.'"[103]

Recommendation

Congressman McDermott, I think that you should not move forward with the proposal as presented in the policy recommendation section. The income-based and income-driven repayment debt forgiveness being made a non-taxable event is being advanced by the Treasury Department and the Obama administration. This is a priority for the administration and is something that they could help move the ball forward on.

Second, you have introduced a bill, H.R. 2429, that would make this event non-taxable. From the 110th Congress where it was first introduced to this Congress, the 114th, it has gained a tremendous amount of support among members of the House Democratic caucus, going from two cosponsors to 55 cosponsors.

Third, this bill has a small price tag of $5 million over ten years. The low price tag might make it attractive to Republicans who want to get involved in the debate surrounding student loans.

Fourth, creating a non-taxable event such as this one is a tax cut, and Republicans are generally supportive of tax cuts. If this bill is pitched as a tax cut, it might have a chance of getting more support.

Fifth, the so-called Buffett Rule alienates Republicans. Republicans blocked the Paying a Fair Share Act in 2012 and the Warren bill in 2014, each which either contained the so-called Buffett

[103] Ibid.

Rule. This package, with the first proposal has a chance of moving forward, but adding this second element with the so-called Buffett Rule is likely to doom it.

Finally, this proposal will not help alleviate the problem of student loan borrowers being able to have more capital to invest in the economy. Yes, refinancing a student loan to a lower interest rate would provide the borrower with potentially more disposable income per month. However, there is nothing to indicate that the amount that student loan borrowers who refinance would invest the money into the economy rather than save. Second, getting rid of the tax penalty on income based repayment and income contingent repayment may have a long term effect on the economy, by freeing up people from having to save for a future tax bill, but the evidence of this is not clear.

For all of these reasons, I would not recommend you move forward with the policy outlined in this proposal.

<u>CURRICULUM VITA</u>

Michael Gleeson spent a number of years focusing on higher education policy for Congressman Jim McDermott (D-Wash.). Prior to his time as an advisor to Rep. McDermott, Michael was a Capitol Hill reporter for *The Hill* newspaper and *Tax Notes*. Michael holds a master's in taxation from American University. He lives in Virginia with his lovely fiancé, Emily.