DOING AWAY WITH DEBT:

Using Existing Resources to Ensure College Affordability for Low and Middle-Income Families

America's financial-aid system has become almost impossible to navigate and burdensome for those who need it most. Tuition and fees are skyrocketing, forcing almost half of college-going students to borrow. Low and middle-income students are taking on frightening levels of debt. Bachelor's degree recipients leave school with an average of $26,600 in debt, and over 100,000 students are shut out of college each year, with cost concerns acting as a major limiting factor. We *must* and *can* do better for students willing to work hard to learn their way into the middle class.

The Education Trust proposes a college-aid redesign — a new system that shares responsibility among the federal government, states, institutions of higher education, and students to help low-income students attend and complete college with no loans and middle and upper-middle income students to do the same with no-interest loans.

Underlying Principles

Our redesign is based on seven basic principles for action:

- Needy Students First
- Prioritize Low-Cost Providers
- Rational Incentives
- Accountability for All
- Simple, Stable, and Predictable System
- Tangible Impact
- Shared Responsibility

No-Loan/No-Interest Loan Guarantees

We used these seven principles to assess the current federal financial-aid system and determined that a different design – one with an up-front, no-loan guarantee to low-income families and a no-interest loan guarantee to middle-income families would better serve students. Fifty-five colleges already make similar guarantees.

Low-income and working-class students with incomes less than $50,000 who attend school full-time, take a college prep course of study in high school, do 10 hours of work or service a week on average, and complete college within 150 percent of regular time can attend college with no loans. Middle and upper-middle income students with incomes between $50,000 and $115,000 can receive no-interest loans if they meet the same requirements.

How No-Loan Guarantee Works

The federal government consolidates and targets a series of existing higher education tax, loan, and grant programs – not including the Pell Grant program – to provide funds to states based on their percentage of students in poverty and performance on access, affordability, and success measures. Funds must be spent on education and up to 20 percent may be spent on secondary school improvement to ensure that all students are provided a college- and career-ready course of study with accompanying support services.

STATES COMMIT TO:

1. Ensuring no-loan and no-interest guarantees;
2. Enrolling all students in a college- and career-ready course of study in high school;
3. Stabilizing tuition and fees;
4. Ensuring easy transfer among institutions, including two-year to four-year institutions; and
5. Publishing return-on-investment data for all institutions of higher education.

INSTITUTIONS COMMIT TO:

1. Meeting minimum standards on indicators such as graduation, Pell enrollment, and Pell graduation rates;
2. If they have exceptionally large endowments, using their own funds to provide the no-loan guarantee; and
3. Offering the courses and course pathways necessary for students to complete in a set period of time.

STUDENTS COMMIT TO:

1. Completing a college- and career-ready course of study,
2. Attending college full time,
3. Working or doing service 10 hours a week on average, and
4. Completing within 150 percent of time.

No-Loan/No-Interest Loan Guarantees Are Cost Neutral

There are 10 student-aid programs – Supplemental Educational Opportunity Grant, in-school interest rate subsidies, the American Opportunity Tax Credit (refundable and non-refundable portions), Lifetime Learning Credits, 529 Plans, Coverdell plans, student loan interest rate deduction, parent personal deduction, and facility bonds for private nonprofit educational facilities – that can be targeted, consolidated, or re-imagined to better provide funding for low and middle-income students to access and complete college debt-free or with no-interest loans.