

Press Release



American Action Forum Experts Propose Reforms to Federal Student Loan Programs

DOUGLAS HOLTZ-EAKIN | NOVEMBER 30, 2011

WASHINGTON- The American Action Forum today released a report by Forum President Douglas Holtz-Eakin and Annie Hsiao, the Forum's Director of Education Policy, titled "Federal Student Loan Programs: Risks to Students and Taxpayers." In this report, Holtz-Eakin and Hsiao analyze the current system and recommend specific steps for reform to avert a crisis in the student loan industry.

The cost of college has increased 757 percent since 1980 while the quality and benefits of a degree have diminished. Unemployment for recent college graduates has increased more 70 percent since 1990. The total amount of student debt is \$833 billion as of June 2010 and about 65 percent of students graduating with a bachelors degree graduated with debt. Without a paycheck, students cannot make their loan payments.

Loan programs have failed to meet the objective of helping students afford a high quality college education and earn a degree. The recent federal overhaul of student loan programs only adds fuel to the fire. Not only does it hurt the very students we wish to educate but also taxpayers who are at risk of being on the hook for trillions of dollars.

"With the federal government expanding its role in the student loan market, taxpayers are assuming greater risk which is only magnified by the skyrocketing cost of college and a dismal job market," said Holtz-Eakin. "High student loan balances plus a high unemployment rate for recent college graduates equals high risk for student loan defaults with taxpayers ultimately on the hook. This report examines some of the underlying problems with the current system and proposes some commonsense reforms to increase efficiency and protect taxpayers."

Download the report below

Douglas Holtz-Eakin's and Annie Hsiao's Recommendations for Reform:

Use an Accurate Scoring Method for Federal Loans. Use a scoring method that accounts for risk so that current budget scoring rules are not exploited to overstate "savings" and allow those assumed "savings" to fund further growth of federal programs.

Private Lending over Government Lending. Because the federal government has no distinctive advantage in providing lending services, recent federal policies have not been proven to be effective in helping with college completion or costs, and since federal loans are fraught with risk passed onto the American taxpayer, a better policy option would encourage more private lending over federal government lending.

College Transparency. Under the 2008 reauthorization of the Higher Education Act, the federal government codified transparency reporting requirements that would provide students and families more information on the risks and rewards of pursuing higher education in a specific field of study. However, these transparency reporting requirements have not been adequately enforced by the Department of Education.