Congress of the United States
Washington, DC 20510

July 14, 2016

The Honorable Gene Dodaro
Comptroller General
U.S. Government Accountability Office
441 G St., N.W.
Washington, D.C. 20548

Dear Mr. Dodaro,

The rising costs of higher education have caused total U.S. student debt to skyrocket to more than $1.2 trillion – doubling in the last seven years alone. This problem affects all of our constituents—those hoping to attend college, college students, and graduates and families struggling to pay off the massive debt. Because most of these loans are owned by the taxpayers, even those who do not attend college are affected by this massive debt.

However, we have observed that there is very little empirical analysis regarding the costs and impacts of the Graduate PLUS (Parent Loan for Undergraduate Students) program. The same is true for the many income-based repayment options established by the Administration over the last decade. Examples of these include: the Income-Contingent Repayment (ICR) program, the Income-Based Repayment (IBR) program, and the Pay As You Earn (PAYE) and Revised Pay As You Earn (REPAYE) plans, all of which can be used to lessen the repayment burden of Grad PLUS or other federal student loans.

Thus, we ask that you provide us with a comprehensive analysis of how these programs overlap so we can better understand the programs' impact on the costs of higher education. This analysis can help Congress determine the best way to improve these programs for the benefit of students, families, and taxpayers. Specifically:

1. We understand that the GAO is currently compiling a report requested by Senator Enzi regarding the cost of income-based student loan programs. We are requesting that within the course of completing that research, you itemize the cost of those programs specifically for the Grad PLUS loans. How would implementation of the President's recent announcement to enroll two million more people in PAYE by April 2017 affect estimates to those costs?
2. Accounting in conformance with the Federal Credit Reporting Act (FCRA) requires federal loan programs to be reported on a present value basis, discounting the projected cash flows for interest, loan forgiveness and loan losses. How is FCRA estimating future cash flow losses for new programs, like PSLF and IDR, which have no historic precedent? How does this method differ from Fair Value accounting required by Generally Accepted Accounting Principles?

3. We have seen the GAO's report on the use of income-based repayment programs for all types of student loans. Please expand on that to include the rates of participation specifically for the Grad PLUS loans.
4. As the Obama Administration has altered the terms of the income-based repayment programs to make them more generous to borrowers, have students enrolled in the less favorable repayment plans changed their plans to the more generous plans now available?
5. What is known about the costs to the government of offering income-based repayment plans and PSLF to borrowers with Grad PLUS debt, and how well targeted these costs are to those borrowers struggling the most to repay their loans?
6. Since the Public Service Loan Forgiveness Program became available, has there been an increase in graduates enrolled in income-based repayment plans being employed in qualifying positions? If possible, please provide an estimate of how much it would cost the federal government if everyone who qualified for PSLF used it.
7. Do students tend to borrow more money now than before the income-based repayment programs were created?
8. The remaining balances forgiven under the ICR, IBR, PAYE, and REPAYE programs are required to be treated as income by the borrower. Is this properly disclosed to the graduates enrolled in these programs?
9. What kinds of financial aid counseling do Grad PLUS borrowers receive, and how effective is this counseling at ensuring that borrowers do not take out more debt than they can afford?

We also have concerns about whether schools could take advantage of these programs. Specifically, Loan Repayment Assistance Programs (LRAP) allow schools to commit to paying for a student's loan payments if they work in public service. This could create a moral hazard leading to current borrowers, in effect, subsidizing graduates. In one public example, Georgetown University Law School advertised[1] to its students that they would be able to attend law school without cost by servicing their Grad PLUS loans through the PSLF program, while the school would absorb the payments through a fee levied on current students, thereby placing the entire cost of the law degree on taxpayers. In addition, they encouraged their students to shelter their income in retirement savings in order to keep their payments as low as possible.

10. Please provide a risk assessment for programs like these and the potential costs and problems that could arise should these practices become widespread.
11. If possible, please determine if these programs are common and if schools use income-based repayment plans as a recruitment tool.
12. Please provide recommendations for how the Department of Education or lawmakers could address abuse of this program and prevent further abuse.
13. Do students tend to borrow more through the Grad PLUS program if they are pursuing majors that train students for jobs in public service, such as a Masters of Education or a Masters of Public Policy degree?

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[1] https://www.washingtonpost.com/news/wonk/wp/2013/08/09/how-georgetown-law-gets-uncle-sam-to-pay-its-students-bills/

Lastly, while we understand that the ICR, IBR, PAYE, and REPAYE programs as advertised require payments of 10 – 20% of discretionary income, we are concerned that borrowers are actually paying a very small percentage of their gross income. Because the ICR, IBR, PAYE, and REPAYE payment plans with Grad PLUS loans are usually based on the previous year's tax return rather than current income, students are vastly underpaying advertised payment rates for at least the first year of loan repayment.

14. What is known about Grad PLUS borrower's ability to repay their loans and to what extent do Grad PLUS borrowers participate in income-based repayment programs to manage their debt burden?
15. What is the average discretionary income percentage and gross income percentage that graduates with full-time employment pay the first year after graduation towards these loans programs?
16. What is the average gross income percentage that graduate students pay through these programs?
17. What is the average amount of time it takes for graduates to begin paying down the principal on their loans after graduating?
18. Are federal debt forgiveness programs discouraging graduates from refinancing student loan debt at lower rates than currently available from private lenders?
19. Please provide recommendations for how the Department of Education or lawmakers could address this issue to make the income to repayment rate ratios as close as possible to the advertised rates and minimize loan forgiveness.

Thank you for considering our request. We appreciate your prompt attention.

Tom Cotton

Senator Tom Cotton

Dan Coats

Senator Dan Coats

Bill Cassidy, M.D.

Senator Bill Cassidy

Pat Tiberi

Congressman Pat Tiberi

Senator Mike Lee