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Congress Considers Linking Student-Loan Terms to Income

Democrats revive a proposal Bill Clinton could not get passed: lower interest payments for the neediest

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While her classmates were looking forward to tossing their graduation caps in celebration this spring, Ashley A. Hurlburt, a senior at Becker College, faced the future with anxiety. She had to reapply for federal student loans to stay in college another semester, which left her contemplating the mammoth amount of debt she would have after her time here was finished.

The 21-year-old first came to college with plans to become a veterinarian, the profession she fell in love with as a senior in high school. The veterinary program is one of Becker's strongest, and the main reason Ms. Hurlburt, who works weekends at an animal hospital, chose to come to the small private college.

But since her freshman year, Ms. Hurlburt, whose parents, a machinist and a director of a day-care center, cannot afford to contribute to Becker's $29,000-a-year price tag, has rung up more than $75,000 in student-loan debt. Worried about her ability to repay it, she switched from a preveterinary major to a veterinary-technician and business-management double major at the end of her sophomore year, extending her time at Becker for one more semester to try to ensure herself a decent-paying job immediately upon graduation.

"I don't want to be paying the rest of my life to have a job that I love," she says, referring to the cost of veterinary school. "That's my dream, but I can't afford to do it."

In 2005, 98 percent of students graduated from Becker with loan debt, at an average of $32,120, according to *U.S. News & World Report*. As a resident assistant for three years, Ms. Hurlburt says she has seen as many as a quarter of freshman students in her dormitory unable to return for the next academic year because they cannot afford the costs.

The average loan debt at Becker is some $15,000 above the national average, but thousands of students across the country find themselves in the same position as Ms. Hurlburt. Faced with having to make a decision between the career they want and one that will pay enough for them to climb out of debt, many choose the latter.

That trend has alarmed some observers and has revived interest in an idea once thought to be a relic of the Clinton administration: income-contingent repayment. Legislation being considered in Congress would cut interest rates on student loans for the neediest students and cap interest payments at a percentage of monthly income, among other changes. Supporters say the measure, the Student Debt Relief Act, would free students from having to make decisions about employment based on their loan debt.

Lessening the Burden

If passed, the legislation could make a difference for students like Dimas C. Espinola, a recent graduate of

College of the Holy Cross, also in Worcester.

During his four years at Holy Cross, Mr. Espinola participated in a number of volunteer projects, including spring-break trips to flooded New Orleans to rebuild homes, and to the backwoods of Virginia to help isolated residents along the Appalachian Trail with daily chores. He planned to pursue a service-oriented job, like AmeriCorps or teaching, because he loves the way helping people makes him feel, he says.

But after a meeting with the college's financial-aid director, he realized that the $60,000 in student loans he must begin paying six months from now would make such work impossible.

"Up until this year, they were just a bunch of numbers," says Mr. Espinola of his loans. "Now it's going to be a challenge to do something even as simple as paying the interest that's accumulated."

Under the new legislation, introduced by Sen. Edward M. Kennedy, the Massachusetts Democrat who is chairman of the education committee, students who take a public-service job would have their student loans forgiven after 10 years of repayment. All other students would have their loans forgiven after 25 years.

In addition, the bill would cut interest rates in half on new loans for the neediest students, from 6.8 percent to 3.4 percent, and would also cap student-loan payments at 15 percent of each graduate's monthly income. (For more details of the bill, see box.)

"Borrowers, especially those with high debt burden, should know that there is an end in sight," says Jennifer S. Pae, president of the United States Student Association.

Some of the concepts in the Student Debt Relief Act were first developed when Bill Clinton, who had a portion of his college loans forgiven in exchange for teaching law school for a year in Arkansas, ran for president in 1992. The National and Community Service Trust Act, proposed in 1993, created AmeriCorps, which provides money for college tuition or to repay student loans in exchange for volunteer service. The legislation also proposed to make debt repayment contingent on income and to forgive loans for students pursuing service-oriented jobs.

But those portions of Mr. Clinton's bill did not make it into the final draft, blocked by lawmakers who worried that it was an expensive gamble that might attract few participants. The IRS also objected, citing the complexity of ferreting out the percentage of people's income that would go to paying back their student loans.

With loan debt skyrocketing, the benefits of AmeriCorps are not enough of an incentive today for some students, like Mr. Espinola, who want to pursue public-service jobs. After an exhausting search for ways to work in that sector, he resolved to live at home with his parents in Lowell, Mass., and find a job as a research assistant or on the business side of medicine, neither of which he wants to pursue.

The income-contingent payback plan "would give them options," Lynne M. Myers, financial-aid director at Holy Cross. "For new graduates it's very scary to walk into the world with a loan payment that limits their choices. If they can choose to enter a field of their choice, or feel more comfortable about taking a lower-income-paying job, knowing as their income increases, they're able to increase their payments as they go along, it looks more affordable to the student."

Reducing Private Borrowing

Mr. Kennedy's proposals would be included in the reauthorization of the Higher Education Act, which has not been renewed since 1998. Since that same time, growth in tuition and fees has outpaced both inflation and median family income, and very little has been done to assuage the financial strains it has caused. In fact, since 1992 the annual amount of federal loans borrowed by both undergraduates and graduates has grown to $50-billion from about $19-billion.

Taken together, the changes included in the proposed legislation would provide a safety net for low-income students and their families, says Robert M. Shireman, a former senior education-policy adviser in the

Clinton administration.

The bill tells people "those investments they've made in order to go to school full time, keep their work hours down, and get that degree are not imperiling their future with the potential of having a huge portion of their income taken for student-loan payments," says Mr. Shireman, who is also the founder of the Project on Student Debt, a group that pushed Congress to include many of its concepts in the bill.

But the legislation could face opposition from Republicans eager to create their own version.

"There would be few people on our side of the aisle supporting it," says Craig Orfield, spokesman for Sen. Michael B. Enzi, ranking member of the education committee.

While the act is receiving some bipartisan support (Sen. Gordon H. Smith, Republican of Oregon, is its co-sponsor), Sens. Wayne Allard, Lamar Alexander, Orrin G. Hatch, and other Republicans are working alongside Mr. Enzi toward proposing their own higher-education legislation. Since discussions are still preliminary, no one would comment on the details of their to-be-proposed bill. Mr. Orfield did add that Senator Enzi would be taking a "more educated-consumer kind of approach" when drafting legislation.

Mr. Kennedy's proposed bill does not yet have a price tag, but it would be paid for by cutting subsidies, says the senator's spokeswoman. For example, the Student Aid Reward Program, which is included in the bill, would reformat the student-loan program to free up funds. By giving colleges new incentives to offer loans to students through the direct-loan program, which is cheaper for taxpayers, rather than the more expensive Federal Family Education Loan Program, which is operated through private lenders, it would generate $13-billion in savings, $10-billion of which would go to increased scholarship aid.

In addition, the measure would affect only federal loans, not funds borrowed from private lenders.

Ms. Hurlburt, for one, takes out private loans, for which her aunt co-signs, on top of government loans. Her accumulated interest is almost as much as the loans themselves.

Mr. Espinola, whose private loans account for more than half of his accumulated debt, is quick to point out that even if the bill passed and he could take advantage of each new allowance, he would still struggle to meet monthly payments to private lenders.

Still, supporters of the new measure say it could reduce the amount of private borrowing.

"For some students, not all students, increasing grant aid, reducing the interest rate of Stafford loans, and capping repayment would go a long way in reducing the amount of private-loan borrowing they would have to do," says Larry Zaglaniczny, director of Congressional relations at the National Association of Student Financial Aid Administrators, which supports the measure.

Worth the Price

Some colleges, a step ahead of the new legislation, have already embarked on their own efforts to help students from disadvantaged backgrounds avoid taking on debt. Beginning next fall, the University of Pennsylvania plans to replace loans with grants for students from high-need families earning less than $60,000.

Other elite public and private institutions, such as the University of Virginia and Princeton University, already have similar programs in place.

Penn spends more than $90-million per year out of its operating budget for need-based grants to undergraduate students, and it estimates that roughly 40 percent of freshmen receiving financial aid will have their need met without any expected student loan in 2007-8.

But for smaller private institutions that lack a $5.3-billion endowment like Penn's, providing scholarships and grants is nearly impossible.

Becker College, one of several such institutions that dot Worcester's landscape, struggles each year to retain its students. The college attracts many first-generation students and others who come from low-income families because of its career-focused academic offerings.

"Our longer-term worry is, Can we keep that value at a point where it is worth incurring this debt?" says Kenneth E. Zirkle, Becker's president. "We have an ethical and moral obligation."

Supporters of the Kennedy measure say it could help students afford college and pursue their goals afterward. If the new legislation had been in place when Ms. Hurlburt started at Becker, she would have continued with her preveterinary major and would be looking forward to veterinary school, she says.

"More people would get to do what they want to do," says Ms. Hurlburt. "So many people right now can't follow their dreams."

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