THE HILL

Middle-class college kids need this tax exemption

BY DEBRA J. CHROMY, OPINION CONTRIBUTOR - 05/20/17

College affordability is one of the most pressing concerns facing American families, and many students and parents feel discouraged by the prospect of taking on — and managing — education debt. However, college remains one of the best investments Americans can make in their future. A recent study from the Georgetown Center on Education and the Workforce reported that 99 percent of jobs added since the recession have gone to workers with at least some college education.

Therefore, as Congress works to reform the tax code, it is imperative that policymakers preserve the ability of nonprofit and state-based organizations to offer low-cost financing options that afford middle-income families the ability to pay for their college dreams.

As college costs continue to rise, many middle-income families require low-cost financing options in addition to the Federal Direct Student Loan Program. Nonprofit and state-based student loan funding providers have the unique ability to utilize tax-exempt bond financing — in the form of qualified student loan bonds — to help families fill the gap with low-cost, consumer-friendly loans.

Policymakers should keep in mind, as they work to reform the tax code, that repealing the tax exemption would dramatically increase the cost of these loans, adversely affecting middle-income families, who already bear a significant portion of the $1.3 trillion student debt burden.

There are currently 19 state-based and nonprofit lenders who offer education loans with low interest rates, low or no origination fees, lower monthly payments and lower total debt than many other education loan options, including the Federal Direct PLUS program. For example, families who work with one state-based program can save an average of $2,500 over 10 years on a $10,000 loan, compared to if they had taken out a PLUS loan.

Most of these organizations also provide the in-depth counseling that borrowers need to understand and manage their loan responsibilities, and they guide borrowers through all repayment options available to them — with special attention paid to working with borrowers who experience economic hardship.

During their 2015-16 fiscal year, these organizations made more than 87,000 loans to more than 76,000 borrowers, totaling $1.1 billion. Collectively, their outstanding portfolios include 1.56 million in loans totaling $11.25 billion, representing more than 628,000 borrowers.

Additionally, 13 nonprofit and state-based organizations offer refinancing loans, making education debt more manageable for families by providing a refinancing tool that consolidates high-interest rate education loans into a single loan, reducing overall debt burden and in many cases, reducing monthly payments by as much as $200 or $300 per month — saving borrowers anywhere from $3,000 to $5,000 over a 10-year repayment term.

Tax-exempt qualified student loan bonds also allow nonprofit and state-based student loan organizations to serve as critical resources for the citizens of their states, assisting families with every facet of the higher education financing experience. These organizations use any excess revenues to help fund extensive free programs to counsel students to choose the best-fit school, borrow appropriately, complete their degree, maximize their earning potential and successfully repay their loans.

In the past year, these organizations worked directly with 2.5 million students and families, granting over $655 million in scholarships, awarding $577 million in grant funds, assisting 1 million students with their college applications, assisting more than 76,000 students with filing their FAFSAs, and hosting over 600,000 free programs for students and families on college planning, financial literacy and budgeting.

In order to retain the ability of nonprofit and state-based organizations to provide low-cost, consumer-friendly loans to middle-class families, and their ability to offer extensive free outreach programs, it is critical to preserve tax-exempt Qualified Student Loan Bonds.

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