NC Student Loan Calculus: What North Carolina Can Do to Ensure All of Its Students Receive an Affordable, Quality College Education

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The topic of student loan debt is increasingly gaining public attention. Too often, assumptions about debt are made that hide the real contours of the problem. For example, simply citing aggregated student loan debt loads at a state or national level suggests that every student loan borrower is the same– with identical financial backgrounds, borrowing to attend similar institutions, and facing the same issues with repayment. Even a preliminary examination of the issue indicates that this is not the case. For example, middle class graduate students, gaining degrees in a STEM field, are facing much different student loan issues than those from working-class families who enroll in a for-profit degree program.

This paper seeks to explore student loan debt and its attendant issues in North Carolina, and make policy recommendations based on specific types of students loan debt and demographic characteristics of the borrowers in NC.

The paper explores several specific problems and possible policy reforms that could help discrete groups of North Carolina students. It concludes:

- While only 5% of North Carolina students attend for-profit institutions, these students are disproportionately low-income and African-American. NC for-profit students also have higher levels of student loan debt and poorer outcomes compared to other higher education institutions in the state. North Carolina for-profit schools have also faced several complaints and investigations at the state and federal level. For this reason, we recommend that North Carolina improve oversight of for-profit schools by requiring the institutions to report on how much they spend on tuition versus advertising and salaries, and improve other reporting requirements.

- Historically Black Colleges and Universities continue to play a critical role in educating students of color and low-income students in NC, with lower financial costs than for-profit institutions, and better outcomes. For example, the average completion rate at public HBCUs is almost 3 times greater than the for-profit sector. We recommend that NC increase focus on funding HBCUs and support better marketing for HBCUs so that they can overcome recruiting efforts by the less successful for-profit schools targeting the same student population.

- If North Carolina develops its own student loan refinancing program, an idea growing in popularity, it should focus that program to ensure it is competitive with existing federal options that work well for many borrowers, and provide rigorous loan counseling to ensure borrowers do not give up rights and privileges that come with federal loans. It is important to bear in mind that refinancing programs do not provide significant relief for low-income borrowers, who are struggling to repay small debt loads due to low earnings. It is also important to recognize that federal repayment programs already serve many graduates from public colleges and universities well.

- The paper also recommends that NC consider implementing registration of student loan servicers and oversight of servicers and creating a student loan ombudsman at the state level.

Background: North Carolina's Higher Education Landscape

North Carolina's institutions of higher learning enjoy a national reputation for excellence, with three North Carolina universities – Duke, Wake Forest, and the University of North Carolina at Chapel Hill – ranking in the top thirty of US News and World Reports Annual "National University Rankings"[i] and Davidson College ranking in the top ten for liberal arts colleges nationally.[ii] NC is also known as the home of some of the nation's most notable HBCUs – Shaw University was the first HBCU started in the South, and North Carolina A&T now graduates more African-American engineers than any other college in the country.[iii]

Importantly, North Carolina's public colleges and universities are also relatively affordable when compared to their similarly ranked counterparts. For example, though it is steadily rising,[iv] yearly tuition and fees for in-state students at the University of North Carolina at Chapel Hill totals $8,340, while an in-state student at the University of Michigan, Ann Arbor pays $13,142 in tuition and fees.[v] This relative affordability means that those North Carolina students who attend public colleges and universities leave school with less debt than many of their peers across the country.[vi]

Far too many examinations of the student debt issue stop here, surveying only the expense of the nation's four-year, public universities. In doing so, these analyses have captured only a small subset of the debt issue– how student debt affects the middle-class, often white students who attend these schools. In reality, North Carolina students matriculate at 210 public community colleges and universities, for-profit schools, and private universities.[vii] Of these, 77 are public community colleges and universities serving 379,339 (80% of the total) students, 55 are private schools serving 72,121 (15%) students, and 79 are for-profit institutions which enroll 21,579 (5%) students.[viii] NC is also the home of ten HBCU's, a combination of public and private nonprofits, which serve a significant number of students of color and contribute to the overall local communities in which they are located.[ix]

Considering the various types of higher education institution in more depth helps to highlight specific issues that smaller subsets of students face with regard to student loans. In this paper, we seek to go beyond statewide averages in student loan debt to understand how the debt picture changes on an institutional and demographic level and what that means for all North Carolinians – not just those who attend traditional colleges and universities.

For-profit Colleges in North Carolina

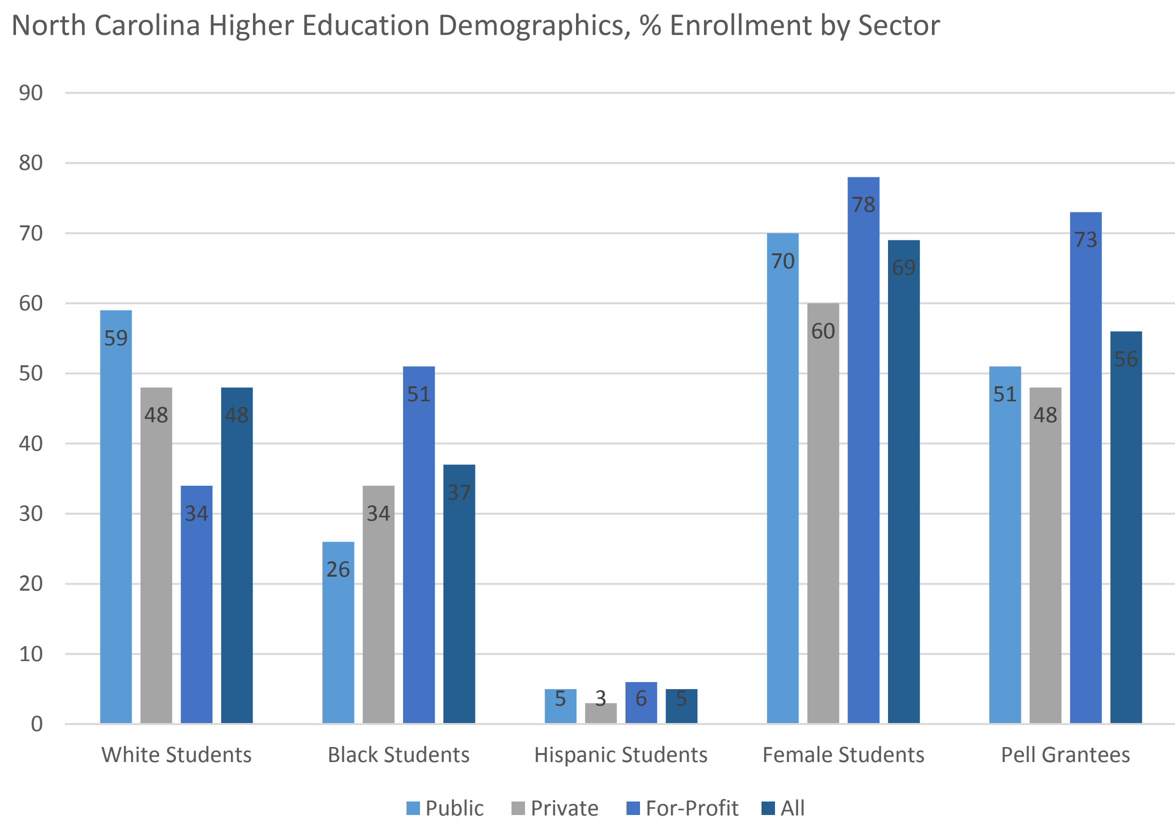
For the past several years, scrutiny of for-profit colleges has increased, beginning with a 2012 report from the US Senate's Health Employment Labor and Pension Committee (HELP). The HELP Committee report, that examined 30 publicly traded for-profit colleges, found that these institutions were up to four-and-half-times more expensive than their public counterparts, and that 96% of students who attend for-profit colleges borrow to do so.[x] Further, students who attend for-profit colleges are far less likely to be able to repay their loans, leading to greater default and serious financial consequences for former students. Nationally, the for-profit sector generates nearly half of all student loan defaults, while enrolling only about 13% of all students.[xi]

While only 5% of students (21,579) attend for-profit institutions in North Carolina, these students face a disproportionately high cost for their student loan debt and frequently fail to achieve outcomes similar to those offered by other higher education institutions in the state. Further, as we will discuss below,

low-income and African American North Carolinians are disproportionately represented at for-profit colleges.

Low-income Students and Students of Color Are Over-represented at For-profit Institutions

Using data released from the US Department of Education's College Scorecard, we calculated how institutional enrollment across sectors of higher education breaks down in the state of North Carolina by race, income, and gender.

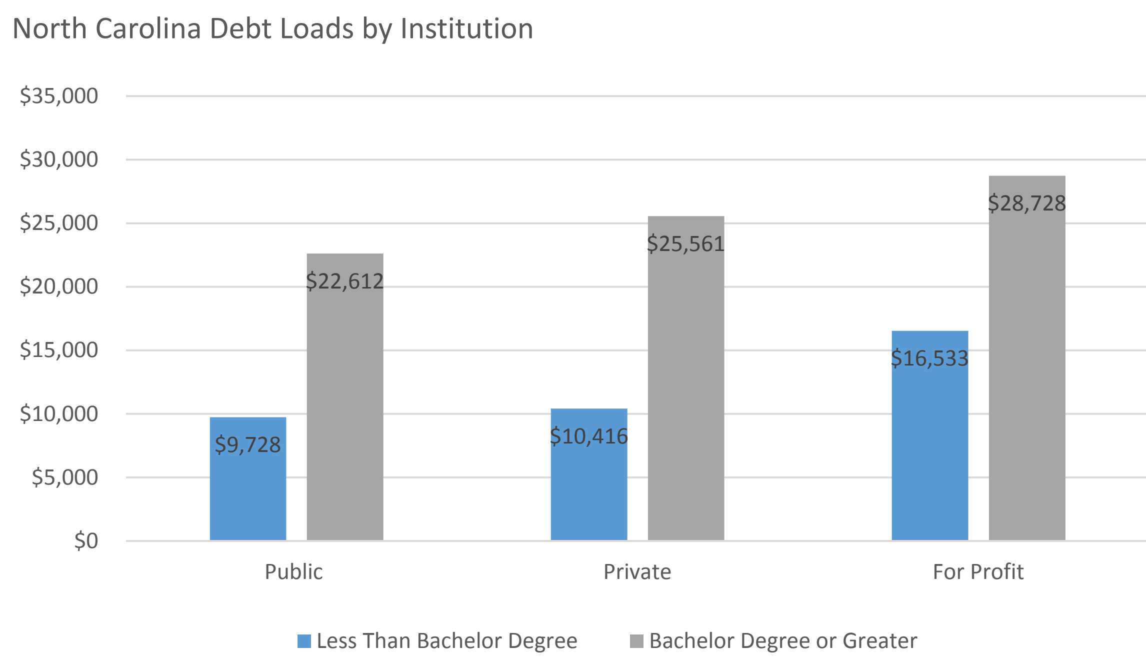


In this chart, students receiving the Pell grant act as a proxy for low-income students, as Pell grants are awarded only to those dependent students with parents who are not expected to be able to contribute significantly to their education out-of-pocket, or to low-income independent students. The data show that while 51% and 48% of college students attending public and private colleges are Pell Grantees, 73% of students at for-profit colleges are receiving the federal tuition assistance grant, almost 1.5x greater.

Just as notable is the over-representation of African American students in North Carolina's for-profit schools. North Carolina is 21.5%[xii] African American, a number closely reflected by the demographics of the state's public colleges and universities. In contrast, the state's for-profit colleges are 51% African American. In other words, the African American student population at North Carolina's for-profit colleges is two times greater than those at the state's public and private institutions.

Students Who Attend NC For-profit Schools have Significantly Higher Debt Loads

Differences in enrollment populations next raise the question of whether students at different institution types experience similar or different costs and debt and similar or different outcomes.



As earlier noted, most debt analysis tends to examine student debt at the macro level, noting for example, that North Carolina college loan borrowers leave school with an average of $18,406 in debt. But averages are deceiving. For example, loan borrowers who attend public and private schools offering less than four year degrees have much lower debt on average, while loan borrowers attending public and private four year degree programs leave school with more debt.

Once again, the outlier is for-profit schools, where debt is significantly higher for all programs. A borrower who attends a two-year degree program from one of North Carolina's community colleges leaves school with less than $10,000 in debt. But for loan borrowers of the state's for-profit schools, that number increases all the way to $16,500. The same is true for students seeking to obtain four-year Bachelor's degrees - attending a for-profit institution is a more expensive proposition, costing loan borrowers more over time in the form of student loans. This is particularly disturbing given the demographics above - students at for-profits are more likely to be low-income, and more likely to be students of color.

Students at North Carolina For-profit Schools Are Less Successful in Repaying Their Loans

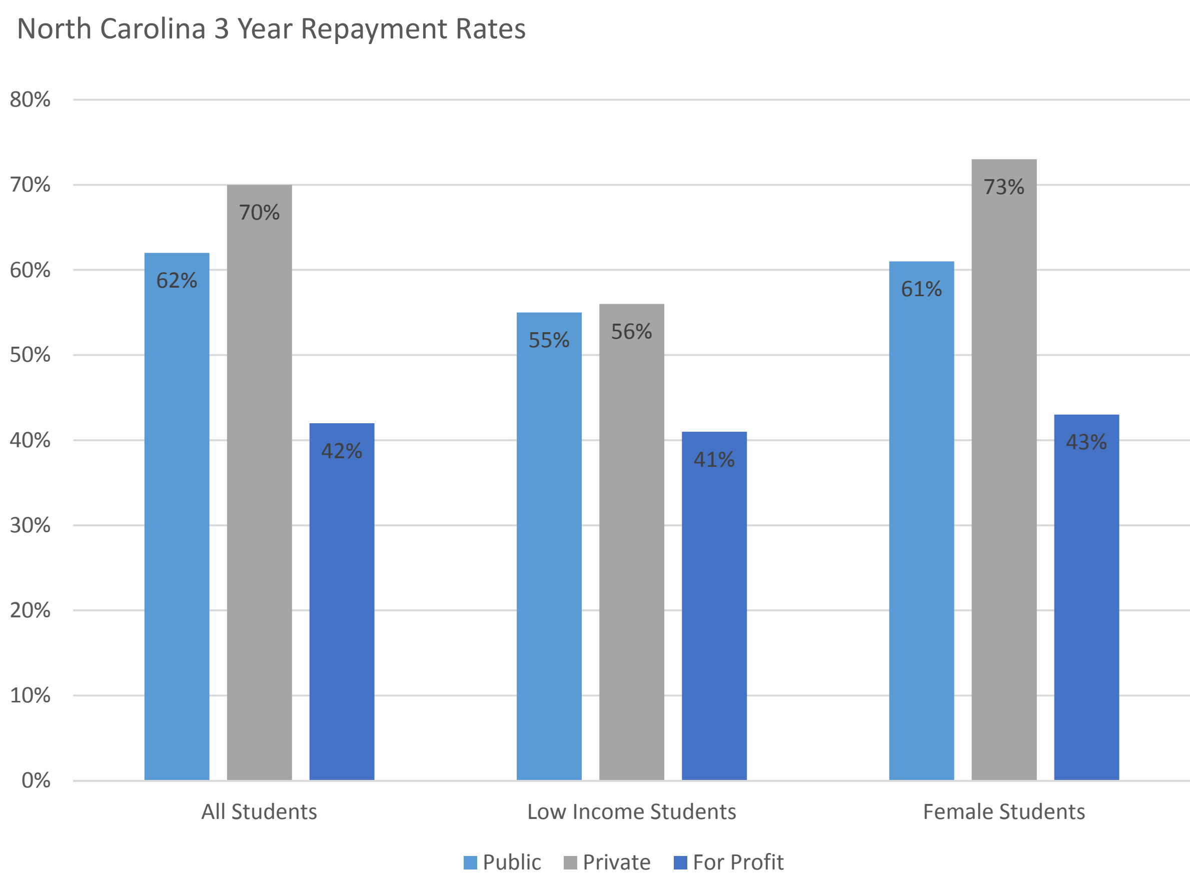
While it is important to also evaluate student debt in light of the success of an institution's students once they are working and earning, the limitations of the College Scorecard data make this task more difficult than discerning the demographics and student loan debt levels of North Carolina institutions. Many of the major for-profits, including the University of Phoenix and ITT Technical Institute, both schools with North Carolina campuses, report outcomes like repayment rates and income data as an institutional aggregate for the country, rather than campus-by-campus. In fact, the Department of

Education sanctions this evasion by allowing institutions with multiple campuses to choose not only whether to aggregate their data, but how many campuses they aggregate and report.[xiii]

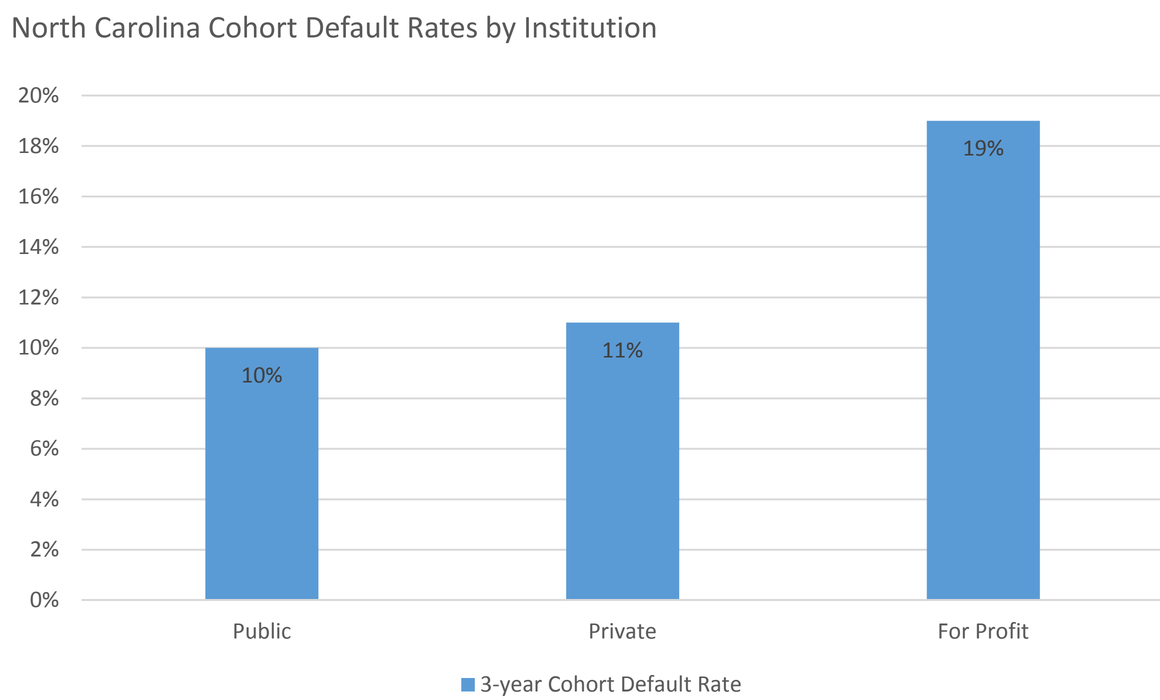
However, two metrics, repayment rates and cohort default rates, are still helpful for understanding whether or not borrowers are making enough money to actually repay the debt that they took on in order to pay for their college educations.

While the default rate, which measures the percentage of borrowers who are no longer making payments on their loan debt, is more widely cited, the repayment rate is actually more illustrative. The repayment rate measures the percentage of borrowers who are able to pay even one dollar towards the principal of their loan each month.[xiv] This is important, because some for-profit schools have learned to manipulate their default rates by assisting former students and loan borrowers with enrollment in loan deferment and income sensitive repayment programs.

As demonstrated below, borrowers from for-profit colleges struggle significantly when compared to their public and private peers. 62% and 70% of public and private college borrowers have been able to make a payment on principal three years after entering repayment, as opposed to just 42% of for-profit borrowers.



North Carolina's loan default statistics are similar, with for-profit colleges having a higher loan default rate than their public and private counterparts – almost double, in fact.



The picture of NC for-profit colleges that emerges from the data is stark. North Carolina has three sectors of education that serve distinctly separate students. Low-income students, as measured by the number of Pell Grantees, make up a far larger percentage of students at for-profit schools than their public and private school counter parts, as do African American students. Public and private schools are also more affordable, leaving borrowers with significantly less debt, particularly those borrowers who are attending institutions that offer two-year degrees or less. When borrowers who attend public and private colleges leave school, they can afford to repay their loans. By contrast, North Carolina's for-profit post-secondary institutions are more expensive and borrowers are less likely to be able to repay their loans when they leave.

If outcomes at for-profit colleges were comparable to those at their non-profit counterparts, large demographic differences in enrollment potentially would not be problematic. But with higher debt loads, lower rates of repayment, and higher loan default rates, policy makers should be concerned that educational predators are exploiting vulnerable communities and public student aid programs while failing to achieve the goals of our higher education system. They should address for-profit institutions and for-profit student debt differently than debt incurred to attend far more effective public and private colleges and universities in the state.

An effort to address unfair and deceptive practices by for-profit schools has already begun at the state and federal level. Several of North Carolina's for-profit schools have had a wide-ranging number of complaints and investigations filed against them by federal agencies and the attorney generals office.[xv] These range from multi-state attorneys general investigations into ITT Tech regarding the company's recruiting and financial aid practices, marketing and advertising claims, and licensure pass rates,[xvi] to

Security and Exchange Commission,[xvii] Department of Education,[xviii] and Federal Trade Commission investigations into the University of Phoenix. ITT Technical Institute reported five campuses in North Carolina in 2012, enrolling 1,686 degree-seeking undergraduates, while University of Phoenix reported two campuses that same year, enrolling 976 degree-seeking undergraduates.[xix] Enforcement actions also include addressing Kaplan University's now-defunct unaccredited dental assistant program[xx] and the NC Medical Institute, a "medical training school" offering unaccredited and unlicensed degrees.[xxi]

Historically Black Universities and Colleges in North Carolina

Within North Carolina's public and private college system, Historically Black Colleges (HBCUs) have served an important purpose since their founding in the aftermath of the Civil War,[xxii] by seeking to increase the representation of African American students in upper education. North Carolina has ten accredited HBCUs, all 4 year degree granting, ranging in undergraduate enrollment from 612 at the all-female Bennett College in Greensboro to 8,577 at engineering, business and technology focused North Carolina A & T, also in Greensboro. Five are public institutions, five are private (see below). HBCUs accept a disproportionate share of low income students (as represented by the proxy measure Pell grant recipients) compared to the universe of 4 Year NC public and private non-profit schools as shown in the table below.

Institutions

	Undergrad Enrollment	Average % Black	Average % Undergrads Receiving Pell Grants
Public HBCUs[xxiii]	26,683	77	62
All 4 Year Publics (including HBCUs)	169,260	32	42
Private Non-profit HBCUs[xxiv]	6,388	84	76
All 4 Year Private Non-Profits (including HBCUs)	68,215	30	47
Four Year For-Profit Schools	3,582	55	67

As discussed earlier in the paper, the for-profit college sector in North Carolina appears to target low-income students and students of color.[xxv] However, HBCUs similarly have higher low-income and student of color populations, but lower financial costs and better outcomes.[xxvi] The table below shows that the average completion rate (6 years from enrollment) for public HBCUs is almost 3 times greater than the comparable figure for the for-profit sector and almost 2.5 times greater at private HBCUs compared to for-profits. The average median debt load of for-profit 4 Year graduates is almost $13,000 higher than that of public HBCU graduates and just over $1,000 higher than private non-profit HBCUs.

Completion Outcomes and Financial Burden for NC's HBCUs vs 4 Year NC for-profit colleges

	Average Completion Rate within 6 Years	Average Instructional Expenditure per Full Time Student	Average Median Debt at Graduation
Public HBCUs	0.40	$9,307	$25,403
Private Non-profit HBCUs	0.33	$6,810	$37,150
Four Year For-Profit Schools	0.14	$2,663	$38,392

Source: U.S. Dept of Ed. College Scorecard, 2015 release

Several recent news articles have highlighted the enrollment declines and financial struggles of North Carolina's HBCUs following the tightening of credit eligibility in 2011 for federal Parent Plus loans.[xxvii] These articles point out the potential losses to our state and the African American community should these institutions to be weakened further.

> "A study by the Postsecondary National Policy Institute shows that HBCUs produce a disproportionate number of African-Americans with science and technology-related degrees. HBCU students also cite a more supportive learning environment than their peers at predominately white institutions. These institutions are economic anchors as well within their communities – leading to hundreds of millions of dollars in economic impact and tens of thousands of job, according to a study by the Institute for Minority Economic Development."[xxviii]

Beyond Parent Plus loan changes, for-profit colleges may also be contributing to the loss of students enrolling at North Carolina's HBCUs. The for-profit sector is well-known for its aggressive marketing.[xxix] A recent U.S. News and World Report article illustrates the role of advertising in attracting low-income students overcoming both "bad press about saddling students with high debts and offering few professional prospects" and a higher price tag than both public and private non-profit institutions for every type of degree.[xxx] Effective marketing targeted at the under 24 age group, not a traditional constituency of the for-profit sector, has resulted in increasing enrollment in this demographic, a trend that does not bode well for NC's HBCUs (over 83% of their enrollment is in the under 24 age group, according to recent College Scorecard Data).

North Carolina's HBCUs face competition for attracting and retaining young, first time students of color and low-income students, who may perceive that they have limited options available for higher education. Funding for intensified and strategic outreach and an emphasis on the value and supportive environment that have been the hallmark of these institutions could be very useful in the face of for-profit efforts.

The Solutions

There are, therefore, at least two distinct constituencies that emerge within the student loan problem.

The most at-risk cohort of borrowers in North Carolina is those who attend for-profit colleges. While a smaller group of borrowers, the data suggests that these borrowers generally have higher loan debts and less ability to repay their loans. And while lobbyists for the industry claim that the inability to pay is a result of the demographics of students who attend their institutions,[xxxi] the vast record of investigations and lawsuits against North Carolina for-profits in the last decade suggests a much deeper problem. Please see Appendix A for a comprehensive list of state and federal investigations and enforcement actions regarding North Carolina for-profit schools.

For borrowers attending for-profit schools, the question is not merely one of dealing with outstanding debt, but rather whether the underlying degree is a product that is one of value. Many of these borrowers don't need assistance with the servicing of their loans nor will they benefit from refinancing. These borrowers need the state to address the legitimacy of the institutions they are borrowing to attend and, possibly, assist them in cancelling their loan debt all together.

Second, there are the borrowers who attend the state's non-profit community colleges, public, and private schools. As demonstrated by the College Scorecard data, these borrowers have relatively low median loan debts when compared to their counterparts nationally,[xxxii] and are generally able to make their payments. For these borrowers, policy solutions should be focused on strengthening affordable access to these schools and encouraging enrollment, and making the process of paying on loans simple, fair and transparent.

Of course, there will be outliers in this cohort – borrowers with very high loan debts, generally incurred because of a correspondingly higher degree level. For the small percentage of these borrowers who will become high-income earners, state-level refinancing may also be a viable policy solution.

Increased State Oversight of For-Profit Colleges

While graduate student borrowers may benefit from state-level student loan refinancing, for-profit student borrowers likely will not, despite the fact that they are also likely to have high debt loads when compared with their similarly situated peers. In North Carolina, borrowers who attend for-profit schools borrow between 22% and 42% more than their public school counterparts. Nationally, while they represent only 14% of associate degrees and 9% of bachelor's degrees,[xxxiii] borrowers who attend for-profit colleges account for 43% and 24% of borrowers with $50,000 or more in student loan debt, respectively.[xxxiv]

Unlike those borrowing to attend graduate school, however, borrowers who attend for-profit schools have much lower rates of loan repayment. In North Carolina, as shown above, graduates of for-profit colleges are only 60% as likely to repay on their loans as graduates of North Carolina's public colleges and universities. Moreover, the state's for-profit colleges have a cohort default rate that is 1.9 times the rate of the Tarheel state's public institutions.

Given the widespread reports of unfair and deceptive practices at North Carolina's for-profit post-secondary institutions as well as the alarming number of state and federal investigations and complaints, and the data showing high-costs and poor performance, North Carolina student loan policy should prioritize increasing state oversight and shutting down predatory for-profit schools.

In North Carolina, for-profit schools are regulated under NC Code Ann. § 115D-89, which empowers the state Community College Board to oversee and license for-profit institutions via the State Board of

Proprietary Colleges. The State Board of Proprietary Colleges has issued a series of regulations which provides some program and institutional reviews during the initial application process, licenses the institutions, renews those licenses annually, and collects both the required bond and pro-rated amount, based on gross tuition revenues, into the Student Protection Fund.[xxxv]

The North Carolina State Board of Proprietary Colleges is a fundamental piece of the regulatory triad that oversees post-secondary education in the United States. And while state policy is powerless to affect the private accreditation agencies that license for-profit colleges or the federal Department of Education that continues to allow for-profit institutions to access billions of dollars in federal student aid despite years of abuse, increasing state oversight could fundamentally reform the way for-profit schools operate.

North Carolina can improve oversight in the following ways:

- Require institutions applying for state approval to report what percentage of revenues from tuition they spend on:
    - Instruction
    - Advertising
    - CEO salaries

How institutions spend their money is important. In 2012, an investigation into the nation's 30 largest for-profit schools by the Senate Health Employment, Labor and Pensions Committee found that, on average, for-profit colleges spent 22.7% of their revenues on marketing and recruiting, 19.4% on profit, and just 7.2% on instruction.[xxxvi] These numbers are particularly disturbing given that for-profit schools can take up to 90% of their revenues from Title IV sources like Pell Grants and Student Loans.

- Require institutions to report, annually, at the institutional, campus, and program level, student outcomes.

All institutes of higher education, whetherprofit, report outcomes like cohort default rates and median debt loads by their Office of Post Secondary Education Identification (OPEID) Number. Despite the appearance of sanctioning data manipulation, the US Department of Education allows for-profit colleges with multiple campuses to aggregate those campus outcomes into a few OPEID numbers. As a result, numbers regarding outcomes for for-profit colleges are not specific to a state – much less a campus or program.

By requiring for-profit colleges to report the following at the institutional, campus, and programmatic level, the state will be better able to shut down poorly performing schools while supporting those schools that are serving their students well. These outcomes include:

  - The cohort default rate
  - The repayment rate
  - The job placement rate
  - The median debt load

- Create a state-wide definition for “job placement”.

Job placement, while required to be reported as part of the 2014 federal Gainful Employment regulations, does not have a federal definition. In order for the disclosures required under the rule to be effective, they must have a cohesive and meaningful definition. A definition that could easily be adopted and applied to North Carolina for-profit colleges making job placement disclosures is attached to this memo.

- Prohibit for-profit colleges from enrolling students if the institution has not obtained the necessary programmatic licensing in order for the student to sit for a licensing exam in North Carolina or be placed in a job in their field in this state once they have graduated.

- Prohibit for-profit colleges from knowingly enrolling students who cannot be licensed in their field or otherwise be placed in a job because of their criminal background or other disqualifying factors.[xxxvii]

Higher education accreditation is multi-faceted. While accreditation by a federally recognized accreditor is required in order for for-profit colleges to access Title IV funding, a second accreditation, called program accreditation, is often required for those students hoping to enter the licensed professions, including medical assistants, surgical technicians, and lawyers.

Too often, for-profit colleges fail to obtain the program accreditation necessary for graduates of their programs to actually become licensed in their field. When that happens, borrowers find themselves barred from finding employment, despite having paid for and successfully completed their degree.

For-profit colleges should be prohibited from enrolling borrowers who will not be able to use their degree because they cannot be properly licensed.

For example, in North Carolina, the state Attorney General’s office currently has a case pending against the North Carolina Medical Institute, which the Attorney General’s office alleges was an unlicensed nursing training school. According to the complaint, after losing their state accreditation, the school continued to offer a number of unlicensed programs and fraudulently place nursing assistants on the state-approved list, using a former employees license number. That case is set for trial this fall. As Attorney General Cooper said in the press release announcing the suit “Students seeking training to upgrade their job skills deserve to get what they pay for, and patients deserve care from properly trained employees.”

In his 2012 report, Senator Tom Harkin, then-chair of the HELP committee, opined “State oversight of for-profit education companies has eroded over time due to a variety of factors, including State budget cuts and the influence of the for-profit college industry with State policymakers."[xxxviii] It's time to reverse that trend in North Carolina, and reassert the authority of the State Proprietary School Board to act on behalf of students, not for-profit colleges.

Increased funding and support for HBCUs

While for-profit colleges often try to argue that they are similarly situated to Historically Black Colleges and Universities, spending patterns reveal a mission that is wholly different from their HBCU counterparts. Investigations into for-profit schools like University of Phoenix and ITT found that the majority of their resources are being spent on advertising and CEO salaries.[xxxix] The data from college scorecard shows that HBCUs are more focused on spending where it matters – student instruction.

Those priorities should be rewarded, with increased focus on funding HBCUs. Given HBCUs' historic focus on educating students that lack traditional college preparedness, it is increasingly important to ensure that enrolled students are not spending their Pell Grant and federal loan eligibility on remedial courses. Special scholarships could be created for students coming from disadvantaged school districts to ensure that they can attend remedial classes while preserving their Pell Grants for core college courses.

HBCUs should also be given larger advertising budgets in order to compete with for-profit colleges, who often embark on media campaigns that are directly targeted at the students that HBCUs seek to recruit. A media campaign focused on bringing more students into the state's HBCUs – particularly one tied to an increase in scholarship funding at the institutions – would simultaneously boost enrollment while encouraging students who may have otherwise considered a for-profit school to attend a HBCU.

Servicing Reform at the State Level

In 2016, the US Department will renegotiate its contracts with the corporations who service the federal loans it issues, likely integrating many of the servicing recommendations made in the Student Aid Bill of Rights, a list of recommendations for best practices in student loan servicing released by the Obama Administration in late 2015.[xl] While borrowers, advocates, and state governments can and should work to influence those contracts, the state can also take the lead in working to ensure that student loan servicers treat borrowers fairly.

Last year, Connecticut became the first state to institute a Student Loan Borrower Bill of Rights,[xli] requiring, among other things, the registration of student loan servicers with clients in the state and the creation of a state-level Student Loan Ombudsman. A similar piece of legislation in North Carolina could help borrowers in the state better manage their student loan debt.

Servicer Registration

Secondly, Connecticut's Student Loan Borrower Bill of Rights requires student loan borrowers to register and be licensed in the state, bringing them within the oversight of the state's regulator. This allows Connecticut to place certain parameters around servicing practices. While it is necessary to review federal servicing contracts to determine how far states can go in restricting certain practices, states can prohibit misapplying payments, making false reports to credit bureaus and require servicers to regularly report to the legislature regarding their practices.

Student Loan Ombudsman

A state level student loan ombudsman, as envisioned by the Connecticut legislation would be a first point of contact for student loan borrowers whose servicers are not properly addressing their needs. Whether the issue is a misapplication of payments, refusal to qualify borrowers for certain income sensitive repayment programs, or simply helping a borrower understand their options, the Ombudsman would be a friendly face on an often inscrutable process and would work collaboratively with the borrower and the loan servicers to resolve the issue. Further, the Ombudsman would provide and analyze borrowing trends and information for legislators and policy makers, and make recommendations regarding ever-evolving student loan law.

A Note About Student Loan Refinancing

Over the last several years, calls to allow student borrowers to refinance their student loans have increased, particularly after Congress failed to renew undergraduate Stafford student loans at 3.4% in 2013, instead tying the interest rate to Treasury yields.[xlii] As a result, federal student loan interest rates increased in 2014-2015, but will decrease in 2015-2016.[xliii]

Student loan interest rates for graduate borrowers have always been considerably higher – generally double the rate of undergraduate student loans – and graduate student loan borrowers are often those who can most benefit from refinancing legislation.

Prior to 2010, non-profit state agencies were empowered to issue federally guaranteed student loans. While the Health Care and Education Reconciliation Act eliminated the ability of state agencies to originate federal loans, eighteen states[xliv] continue to operate these agencies to fill the gap in federal education funding with state education loans. [xlv] Funding for these loans is usually provided via low-interest, tax-exempt bonds.[xlvi]

With federal student loan interest rates rising and Congress failing to act, several states have decided to create refinancing programs at the state level. Generally, the states that are considering state-level refinancing programs are those with existing agencies. While North Carolina does not issue general education loans since the passage of the Health Care and Education Reconciliation Act, the state does, as of 2011, issue a Forgivable Loan for Service. The Forgivable Loan for Service provides loans for every degree level in certain need-based sectors that will be forgiven on a yearly basis, meaning one loan will be forgiven per year of employment.[xlvii] The North Carolina State Education Assistance Authority (NCSEAA) is the entity that administers and originates the Forgivable Loan for Service.[xlviii] That makes the NCSEAA and its partner, the College Foundation of North Carolina, a likely candidate to house any state level-refinancing program.

State-level refinancing, however, is not a panacea for student loan borrowers. In fact, a narrow focus on state-level refinancing misses the mark for most student loan borrowers and, worse, without carefully crafted protections, state-level refinancing could harm the borrowers that federal servicing benefits the most.

As discussed above, not all student loan borrowing is the same. In fact, the vast majority of student loan borrowers who attend undergraduate public schools don't have an overwhelming amount of student loan debt. According to a recent study by the Urban Institute, only 12% of student loan borrowers have more than $50,000 in loan debt.[xlix] And while that percentage is increasing, it remains true that on the whole it is mostly graduate student loan borrowers [l] and borrowers who attend for-profit colleges[li] who have higher-than-average loan debt.

It is also important to remember that most student loan borrowers are using federal student loans, which have a wide array of income-sensitive repayment, deferral, and forgiveness programs – and a 4.29% interest rate in 2016.[lii] In fact, only about 17% of borrowers last year graduated with private student loans.[liii]

For most student loan borrowers, the problem is not the amount they are borrowing or the interest rate attached to the loan. It is the amount of money they are making after graduation. As Baum says, "High debt levels are not necessarily associated with repayment difficulties; borrowers with relatively small debts can struggle if they have low earnings, while those with high incomes can pay off large debts without undue hardship."[liv]

And that is the crux. The average North Carolina borrower who graduates with an undergraduate degree from a public community college or university with a federal loan benefits much more from remaining in the federal loan program. This program allows them to pay their loans as a percentage of their income, delay payment if they or their spouse loses their job, and offers forgiveness for certain public sector and non-profit employees. Refinancing into a state loan program, while ostensibly cheaper, may not allow them to retain these benefits.

State loan refinancing programs may benefit those graduate students with high debts and high incomes, who don't qualify for either the federal income-sensitive repayment programs or loan forgiveness programs, or those borrowers who have borrowed private student loans.

If North Carolina develops its own student loan refinancing program, it should take steps to make it as competitive with the federal program as possible, and provide rigorous loan counseling to ensure that borrowers understand what rights and privileges they may be giving up when transitioning from federal loans. A state-based refinancing program should:

- Provide borrowers with a rigorous review of their debt, income, and job stability, as well as loan counseling, prior to placing them in a refinancing program in order to ensure that it is in their financial best interest.

- Provide borrowers with transparent servicing standards, including a complaint center that can handle and quickly resolve complaints.

- Provide at least one income-sensitive repayment program that allows borrowers to extend the term of their loan while lowering their payments to a maximum percentage of their incomes.
- Provide a structure that allows for forbearance should a borrower face a financial emergency.

Conclusion

North Carolina, with its diverse educational landscape, rapidly expanding population, and desirable financial climate, is positioned to be a leader in the reform of higher education. That reform begins with understanding the complexities of higher education as they exist across different sectors and demographics.

Bill Friday, former president of the UNC system for three decades once said of higher education, *“Your job is to see that they get a chance. To help them step forward. Help them grow. Help them enrich their lives. And when you do that, then you create a whole army of positive motion.”* It is now incumbent upon us to find and implement policies that ensure that students who work hard, enroll in college, and finish a degree don’t find themselves mired in debt because of that very journey past the schoolhouse door.

Appendix A

Actions and Investigations Against North Carolina For-Profit Schools

Ongoing:

- CEC: North Carolina is one of 17 states and the District of Columbia that is invesitigating CEC (American InterContinental University, Briarcliffe College, Brooks Institute, Colorado Technical University, Harrington College of Design, Le Cordon Bleu, Missouri College, Sanford-Brown) for "practices relating to the recruitment of students, graduate placement statistics, graduate certification and licensing results and student lending activities, among other matters" from 2006 until present day. This investigation is ongoing.
- ITT Technical Institute: North Carolina is one of 12 states that is invesitigating ITT Tech for practices related to their "marketing and advertising, recruitment, financial aid, academic advising, career services, admissions, programs, licensure exam pass rates, accreditation, student retention, graduation rates and job placement rates". The investigation is ongoing.
- North Carolina Medical Institute: On October 9, 2015, the North Carolina Attorney General's office filed a complaint against the North Carolina Medical Institute, which was an unlicensed nursing training school that was offering a number of unlicensed programs and fraudulently placing nursing assistants on the state-approved list. That case is currently set for trial this fall.

Resolved:

- Corinthian: While Corinthian Colleges (Everest, Heald, Wyotech) collapsed during the investigation by the North Carolina Attorney General's office and 37 other states, the Attorney General's office remains engaged in federal discussions regarding federal student loan debt forgiveness.
- EDMC: North Carolina and several other states began investigating EDMC (The Art Institutes, Argosy University, Brown Mackie College, South University) in 2014 based on complaints from students that the company's courses were more costly than they had been led to believe, did not transfer as they had been told they would, and did not lead to the high-earning jobs promised by recruiters. On November 16th, the multi-state coalition settled that case with for more than $102 million, as well as a substantive consent agreement and separate $95 million in loan forgiveness in a federal whistle blower suit.
  North Carolina students who attended the Art Institutes in Durham and Charlotte received $4.1 million in debt forgiveness.
- Kaplan College: In 2012, the North Carolina Attorney General's office began an investigation into Kaplan College's Charlotte campus in 2012 related to misleading statements about their dental program. As a result of the inquiry, Kaplan withdrew their license to operate a dental assistant training program in NC and gave students refunds.
- Thomas Healthcare: In August 2013, the North Carolina State Attorney General's Office sued Thomas Healthcare for misleading consumers by operating an unlicensed for-profit nursing school in violation of the Unfair and Deceptive Trade Practices Act, NCGS 75-1.1 et seq. In September 2013, the court entered a consent judgment ordering consumer refunds totaling $12,531 and preventing the defendant from operating an unlicensed nursing program in the future.

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[xv] A frequently updated list of state and federal investigations into for-profit colleges can be found at http://www.republicreport.org/2014/law-enforcement-for-profit-colleges/
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[xvii] Apollo Education Group, Inc. (Form 8-K), at 2 (July 29, 2015)
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[xxiv] Five total, including Bennett College, Livingstone College, Saint Augustine's University, Johnson C Smith University, and Shaw University.
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