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Fact Sheet: In The Red Act

Higher education remains the best path to the American Dream – but sadly, the rising cost of college is blocking far too many students and families from getting ahead. The good-paying jobs in today's economy often require some type of post-secondary education, but too often the high cost of college burdens young Americans with too much debt. College should be a path to opportunity, not a life sentence of debt and financial strain. That is why Senate Democrats introduced the In The Red Act to help put America on a path to debt free college in 2016 – because higher education should not put students in the red.

Students and Graduates Will Save Billions in Interest on Their Loans

The In The Red Act will allow student loan borrowers to refinance their outstanding student debt at lower interest rates, putting billions of dollars back into the pockets of people who invested in their education. Specifically, the bill would:

- Allow all eligible federal FFELP and Direct student loan borrowers to refinance their high-interest loans down to the rates offered to new federal borrowers in the 2013-2014 school year under the Bipartisan Student Loan Certainty Act.
- Allow eligible student loan borrowers to refinance their private loans into the federal program. The bill would allow borrowers whose loans are in good standing the option of refinancing their high-interest private student loans down to the rates offered to new federal student loan borrowers in the 2013-2014 school year. Those who refinance will also have access to the benefits and protections of the federal student loan program. Participation is fully voluntary.

Easing student loan debt will help graduates get ahead. The Department of Education estimates that 24.2 million borrowers would save an average of $1,896 if they were able to refinance under the In The Red Act. [Department of Education, 12/15]

Refinancing will help the most burdened borrowers. Of the more than $1.3 trillion in student loan debt, more than $200 billion is private student loans. According to the CFPB, 81% of the most burdened borrowers – those with more than $40,000 of student debt – have private student loans with interest rates of 8% or higher. The In The Red Act would allow eligible borrowers to refinance their high-interest private loans down to the rates offered to federal student loan borrowers. [Federal Reserve, 1/8/16; CAP, 11/21/13; Time, 10/18/13; Brookings, 5/14]

Refinancing is particularly important to women and borrowers of color. Although women now represent 57% of graduating classes, college-educated women under 30 only earn 82 cents for every dollar paid to their male counterparts. This amounts to an annual wage loss of more than $7,600, making student loan repayment for women all the more difficult. Refinancing would also help African Americans and Hispanic borrowers who are twice as likely to have student loan debt as white students. [NCES, AAUW, 10/24/12; Urban Institute, 6/13]

Makes Two Years of Community College Tuition-Free

The In The Red Act aims to make two years of community college as universal as high school, helping students earn an associate's degree, the first half of a bachelor's degree, or the skills they need to succeed in the workforce without having to take on crippling debt. Under the In The Red Act, a full-time community college student could save an average of $3,800 in tuition per year, and, if all states participated under this program, an estimated 9 million students throughout the country could benefit. The legislation would also hold colleges accountable by making a condition of the grant that degree training programs are tied to the skills needed in today's economy, and that credits are transferable to four-year institutions. Specifically, this legislation would:

- Create a new partnership between the federal government and states and Indian tribes to help them waive resident tuition in two years of community and technical college programs for eligible students, while promoting key reforms to accelerate student success;
- Provide a federal match of $3 for every $1 invested by the state to waive community college tuition and fees for eligible students before other financial aid is applied;
- Ensure that programs offer academic credits which are fully transferable to four-year institutions in their state, or occupational training that leads to credentials in an in-demand industry;
- Maintain and encourage state funding for higher education; and
- Establish a new grant program to provide pathways to success at minority serving institutions by helping them cover a significant portion of tuition and fees for the first two years of attendance for low-income students.

An investment in higher education is an investment in our workforce. By 2020, an estimated 35% of job openings will require at least a bachelor's degree, and another 30% percent will require at least some college or an associate's degree. [Georgetown University Center on Education and the Workforce, 6/13]

Investing in community college will help the economy. It is estimated that the accumulated contribution of former community college students who were employed in the U.S. workforce in 2012 added $806.4 billion in income to the national economy. If you include graduates' increased income, lower unemployment and other benefits, every dollar invested in community college by federal, state, and local governments provides more than $25 in return. [White House, 9/15]

Graduating from a community college increases earnings. It is estimated that community college graduates make an average of $10,000 more a year than those with just a high school diploma. Those who continue on to graduate from a four-year program earn an average of $27,000 more annually than those with only a high school degree. [White House, 9/15]

Community colleges serve the neediest of students. 40% of students who attend community colleges are first-generation students, 30% have dependents, and 38% receive Pell Grants. Many community college students are recent immigrants, working adults, or students who could not afford or were not quite ready for a four-year institution. The majority also attend part-time, working to support themselves, their families, and to pay for school. [White House, 9/15]

Community colleges are uniquely positioned to serve their communities. Almost 40% of all college students are enrolled at one of America's more than 1,000 community colleges. For many students, community colleges offer academic programs and a less expensive starting point to a four-year college degree. These schools are particularly important for students who are raising children, working, need remedial classes, or can only take classes part-time. Community colleges are also uniquely positioned to partner with employers to create tailored training programs to meet economic needs within their communities such as nursing, health information technology, and advanced manufacturing. [White House, 9/15]

Holding Community Colleges Accountable

In order for states to participate in the community college proposal under the In The Red Act, states must take a number of steps to maintain their commitment to higher education funding, provide high-quality academic and occupational training programs that will help students succeed, and adopt institutional reforms and innovative practices that improve outcomes. Specifically, states would be required to:

Describe evidence-based reforms and practices they will implement to improve student outcomes, including completion/transfer rates. The bill suggests a number of approaches to achieve this, including:

- Comprehensive academic and student support services, focused on first-generation and minority students;
- Accelerated learning opportunities, such as dual/concurrent enrollment
- Competency-based education;
- Strengthened remedial education, focused on vulnerable and underrepresented groups;
- Redesign of high-enrollment courses to improve outcomes and reduce costs, and
- Career/degree pathways.

Promote alignment between public and secondary and postsecondary education. Under the In The Red Act, states would be required to describe how they will promote alignment between public secondary and postsecondary education to expand awareness of, and access to postsecondary education, reduce the need for remediation, and improve outcomes.

Make reforms to higher education funding. Under the In The Red Act, states would be required to demonstrate how they would make reforms to higher education funding, including requiring that some amount of state funding is based on institutions' performance on state-specified metrics, including successful student outcomes.

Commit to maintaining higher education funding. The bill would require participating states to maintain their public higher education funding at a level that is equal to, or exceeds, the average amount provided for each full-time student at public institutions of higher education for three consecutive fiscal years.

Ensures Pell Grants Keep Pace with Rising Costs

The In The Red Act will ensure that Pell Grants keep up with rising costs by indexing the Pell Grant to the Consumer Price Index (CPI) beyond 2017 with mandatory funding to protect and sustain its value into the future. Without permanent CPI indexing, the purchasing power of the Pell Grant will erode, making it harder for students and families to afford college. [White House, 1/19/16]

Under the In The Red Act, 9.2 million students will get an increase of $1,300. Indexing the Pell Grant means that, compared with current law, the maximum Pell Grant award will increase by $1,300 in the 2026-2027 award year, resulting in larger awards for 9.2 million students. [White House, 1/19/16]

Pell Grants are critical for low- and moderate- income families. In 2015, Pell Grants helped more than 8.2 million students from low- and moderate-income families pursue higher education, and 73% of all Pell Grant recipients had a total family income at or below $30,000. [Department of Education, 2/15]

Pell Grant recipients are already more than twice as likely as other students to have student loans. 61% of students who receive Pell Grants have to take out loans compared to 29% who do not receive the Grants. Among Pell Grant recipients who graduate from four-year colleges, nearly 9 out of 10 have student loans, and their average debt is $4,750 more than their higher income peers. For students of color, Pell Grants are particularly important. More than 60% of African-American undergraduates and half of Hispanic undergraduates rely on Pell Grants to attend school. [TICAS, 3/13/15]

Accountability Resolution

The In The Red Act expresses support for efforts to provide institutions of higher education with strong incentives to ensure that students graduate with degrees and credentials that have a high value, and that will enable graduates to secure good-paying employment in their field of study and enjoy long-term success by:

- Enhancing accountability for institutions of higher education for quality and cost of degree programs, including student debt burden;
- Holding institutions of higher education and their leaders financially accountable when they engage in fraud or misconduct that violates federal and state laws;
- Creating incentives and tools that will allow state governments and institutions of higher education to curb tuition inflation and maintain investment in higher education;
- Creating incentives for institutions of higher education to direct more resources to their academic programs and to provide pathways to ensure that all students can complete their degrees and credentials in a timely manner; and
- Guaranteeing that the servicing of federal student loans issued by these institutions of higher education will meet the highest standards of quality, customer service, and compliance with the law to promote borrower success and minimize defaults.