Democrat and Chronicle

06/05/2017 - Page A11

Trump spending proposal, called a ‘taxpayer first budget,’ may result in many unknowns

JAMES GOODMAN

@GOODMAN_DANDC

The budget proposed by the administration of President Donald Trump claims to make $143 billion in savings related to student loans and assistance over a decade as part of what Office of Management and Budget Director Michael Mulvaney calls a "taxpayer first budget."

But Lauren Asher, president of the Institute for College Access and Success, said the Trump budget is "a recipe for higher student debt, greater inequality, and a weaker economy."

In addition to ending the public service forgiveness option, which frees those eligible for this program from loan repayments after making them for 10 years, the Trump proposal would end federal subsidized loans for undergraduates.

Such loans — designed for students who meet a standard of showing financial need — are interest-free during the students’ undergraduate years.

The proposed budget also cuts funding for work-study programs almost in half from $987.8 million to $500 million.

And while the budget would extend Pell grants — the chief federal grant program — to students going to school in the summer, it fails to adjust grant awards in the entire program for inflation and weakens the Pell program by taking $3.9 billion out of reserves, according to an Institute for College Access analysis.

One of the unknowns in the Trump budget is the effect of a proposed repayment plan that would require undergraduates to enter a 15-year repayment plan, with monthly payments of 12.5 percent of their income. Any debt that remained after this time would be forgiven.

Graduate students would have to repay debt for up to 30 years before their balance would be forgiven.

Currently, there are various income-based repayment options, with monthly payments of some at 10 percent of income over 20 years.

Mark Kantrowitz, an authority on student loans and financial aid based in the Chicago area, like Asher, said a more simplified range of repayment options is desirable, but the Trump approach creates new hardships, especially for low income borrowers. "There is no policy driving this. It’s just a desire to cut," Kantrowitz said. "They call a lot of things improving financial aid. The reality is they are cutting the money, and when you cut the money, you make it less affordable.

Tuition-free effect

Local college financial aid officials find a new Federal Reserve report putting in print what they see on a daily basis. And they are troubled by reductions in the Trump proposal.

"It’s going to put more students in debt," said Melissa Jarkowski, interim director of financial aid operations at Monroe Community College.

But many New York residents at MCC and other public colleges in the state would be shielded from the full impact of the Trump budget by the tuition free option, the Excelsior Scholarship.

Funded with $163 million in! the state budget, the program covers the tuition of students attending! schools in the State University of New York and City University of New York systems. Students from families making up to $100,000 a year are eligible for free tuition this fall. The eligibility ceiling increases over the next two years to $125,000.

The program makes up the difference between tuition and what the student receives in federal and state grants, as well as scholarship and other assistance from their colleges.

The College at Brockport estimates that 72 percent of its first-year students last fall and 75 percent of its transfer students would have qualified for the tuition-free provisions of the new program. They would not have to borrow to cover the instate tuition of $6,470.

Still, students would have to come up with funds for room and board — $12,418 this past school year at Brockport — and other expenses.

One way MCC has lessened the burden of student loans is by trying to limit federal borrowing in the financial packages that MCC staff helps students put together.

Since the 2014-15 school year, MCC has tried to cap the borrowing for first-year students at $3,500 and for second-year students at $4,500, unless they are staying in a residence hall on campus.

"We tell them if they need more, they have to request it," said Jarkowski.

St. John Fisher College is an example of how important loans are to funding a college education.

This past school year, Fisher undergraduates took out 2,105 federal loans worth $15.2 million and 521 private loans totaling! about $8 million.

The average debt for students who took out just federal loans and graduated this spring was $25,733 and for those who took out federal and private loans was $35,925.

College at Brockport Enrollment Services Director Scott Atkinson said the Trump budget could make financing a college education more difficult for some students.

This past school year, 5,389 Brockport undergraduates — about 70 percent of that enrollment — took out student loans, borrowing, on average, $7,922. A year ago, students who borrowed graduated with an average debt of $29,748.

Borrowing would become more expensive under the Trump proposal. Most of the students who borrow have qualified for subsidized federal loans so they don’t accrue interest on these loans while in college.

But if Trump succeeds in ending such loans, student debt would average about $900 more, according to Atkinson.

Perkins to expire

Students in need will no longer be able to get a lift from a Perkins loan, a federal initiative more than 50 years old that has not been renewed and is slated to expire at the end of September. Colleges participating in this program have a pot of federal funds to make loans to students in difficult financial straits.

Recipients pay 5 percent interest, with repayment beginning after they graduate. These repayments have provided the funding for Perkins loans to others.

"I have 20 students who wouldn't be here except for Perkins," said Stephen Field, executive director of student financial services at Roberts Wesleyan College. Alexsis Hernandez, 20! , of Chili, will begin her senior year at Roberts Wesleyan with about $23,000 in student loan debt.

Hernandez credits the $1,000 she has received a year from Perkins with paying for expenses that she could not otherwise afford out of pocket. Perkins and federal work study have formed a safety net of sorts in the student loan program.

"It has been a big help," said Courtney Smith, 21, of Batavia about the $6,000 in Perkins loans that she received as a student at Rochester Institute of Technology. Smith, who graduated from RIT in May, considers herself "pretty lucky" to have limited her student debt to $25,000.

Rates and advice

Under President Barack Obama, the federal government b! ecame the major source of student loans as the number of students attending college increased.

Previously, the banks did most of the lending in the student loan program, with the loans guaranteed by the federal government if the borrowers defaulted.

The shift was intended to reduce the cost of borrowing by students.

Private financial institutions still play a role in the program, servicing loans. Students can borrow from banks, often at higher interest rates.

Federal student loans have a fixed interest rate that does not change over the course of the loan. But each year new loans have a fixed rate based on the 10-year Treasury Note auction.

Although the increases in rates have yet to be announced, Kantrowitz calculated the interest rate increases for new federal loans that are expected to kick in on July 1:

» Federal undergraduate loans, increasing from 3.76 percent to 4.45 percent.

» Federal graduate student, increasing from 5.31 percent to 6 percent.

» Federal Grad PLUS and Parent Plus, increasing from 6.31 percent to 7 percent.