March 4, 2021

**Support the Student Loan Reform Act, H.R. 1586**

On behalf of FreedomWorks’ activist community, I urge you to contact your representative and ask him or her to cosponsor the Student Loan Reform Act, H.R. 1586, introduced by Rep. Scott Perry (R-Pa.). This bill would establish a program under which colleges and universities can cosign all eligible direct loans made to their students in exchange for the ability to offer lower interest rates on such loans. Allowing for institutions of higher learning to cosign student loans presents a much-needed market-based solution to the student debt crisis by incentivizing such institutions to take more responsibility for their students’ futures while also encouraging students to choose higher education paths more wisely and seek degrees that institutions stand behind.

With much talk recently of putting a bandaid on a bullet wound by “canceling,” or “forgiving” student loan debt, it is positive to see that there are still some members in Congress who support market-based solutions to our nation’s problems, especially in education. We continually see increased government involvement proposed as a “fix” for a problem that was created by government involvement in the first place -- the student debt crisis is certainly no exception.

It is preposterous to think that more government is the solution in any instance, but especially this one. This is to say nothing of the moral hazard of simply “canceling” debt obligations for millions of Americans, that leaves blue-collar workers and those who responsibly managed their finances and worked hard to pay back their loan debt already on the hook to pay for it.

One of the biggest issues facing young Americans today is indeed outstanding student loans. According to Pew Charitable Trusts, “43 million Americans held federal student loans,” in 2019, amounting to $1.5 trillion of debt, with 20 percent of borrowers being in default on those loans. One of the greatest drivers of this student debt crisis is that the income value of their degrees does not match with their debt obligations. This problem that cannot be fixed, and would actually be exacerbated by, “forgiving” existing student loan debt, despite cries from the left otherwise.

The problem at its core is overwhelmingly due to two of many majorly perverse incentives put in place by the federal government: 1) over-subsidization the cost of a college degree inherently
drives up the cost of that degree, and 2) over-promotion of the “traditional” four-year college degree when other education paths quite frequently both better suit students’ interests and talents as well as better prepare students for the workforce.

In order to combat this issue, H.R. 1586 would establish a program by which institutions of higher learning can put skin in the game by cosigning eligible direct federal loans. In exchange, students would receive a lower interest rate on these loans, with the rate decreasing as the risk assumed by the college or university increases. In other words, the more confident the institution of higher education is in its degrees, the more appealing they become to prospective students, and the more prospective students can therefore trust that their degree will serve them well in the job market. Over time, such an incentive structure will drive students to choose degrees that allow them to become gainfully employed and repay their loans, instead of falling victim to the current system and becoming another contributor to the ever-growing student debt burden.

In short, student loans are not the primary driver of the student debt crisis in America. Rather, the government and its counterproductive policies are the primary driver. All too often, students are told that attending a four-year university is the best path to take, regardless of their own aptitude. Then, after years of hard work and tens of thousands of dollars of debt, many students find that their degrees alone are not sufficient. This problem is exacerbated by the number of students who enroll in degree programs with limited career potential. Allowing colleges and universities to cosign student loans as put forth in H.R. 1586 begins to rightszie this problem the correct way.

When these institutions are financially liable for the future of their students, they will be far more likely to invest in ensuring their students are adequately prepared for the job market. Enrollment in the program sends a clear signal from institutions to potential students that they care about their students’ futures and are willing to invest in them.

Innovative proposals like the Student Loan Reform Act are a shining example of how to use market-based incentives, not mandates or big government, to create a creative win-win situation for both schools and students. For these reasons, I urge you to contact your representative and ask him or her to cosponsor the Student Loan Reform Act, H.R. 1586.

Sincerely,

Adam Brandon
President, FreedomWorks