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Student Loan Forgiveness Programs

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Student Loan Forgiveness Programs

Summary

Student loan forgiveness and service payback programs provide financial incentives in exchange for a specific work commitment. Loan forgiveness programs repay a percentage of an employee's student loan after service commences; service payback programs cover a portion of a student's school costs in return for an agreement to work in a specific job for a specified period of time in the future. These programs have one or more of the following four goals: to provide financial assistance to students to help them with the costs of college, to entice individuals to choose a particular occupation or field of specialization, to entice individuals to work for a period of time in a certain job or underserved region, or to entice individuals to remain in a high need occupation, region or underserved facility. Several bills that would expand existing loan forgiveness or service payback programs or extend them to additional occupational groups have already been introduced in the 109th Congress; over 40 bills were introduced in the 108th Congress.

The first major federal loan forgiveness program, the National Defense Student Loan Program, was authorized by the National Defense Education Act in 1958. It was a loan forgiveness program for public school teachers. Loan forgiveness provisions currently applicable to Federal Family Education Loans and Direct Loans were adopted in the 1998 reauthorization of the Higher Education Act of 1965, as amended (HEA). These provisions are for a teacher loan forgiveness program as well as a demonstration loan forgiveness program for childcare providers. Loan forgiveness is also available for Perkins Loans (low-interest loans made by institutions of higher education to students with financial need) for borrowers who work in specific public service jobs.

In addition to the U.S. Department of Education administered provisions, there are federal loan forgiveness and service payback programs specific to particular occupations or categories of borrowers, for example, the military and health professions. States also offer many loan forgiveness and service payback programs. A survey of 100 state programs in 2000-2001 indicated that 43 states had one or more of these programs. The majority of financial aid administrators interviewed about these programs for this survey reported that they were effective in meeting students' financial needs and workforce needs. Nevertheless, concerns about the efficacy of these programs were also expressed by financial aid administrators.

In the 108th Congress, legislation was passed (P.L. 108-409, the Taxpayer-Teacher Protection Act of 2004), that will, among other things, temporarily expand student loan forgiveness to $17,500 for highly qualified special education teachers working in elementary and secondary schools, and for highly qualified mathematics and science teachers working in secondary schools. The expanded student loan forgiveness amount applies only to new borrowers on or after October 1, 1998, who borrow before October 1, 2005. As part of its reauthorization of the Higher Education Act, the 109th Congress will likely consider whether these new provisions should be made permanent.

This report will be updated to reflect congressional action.

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Student Loan Forgiveness Programs

Student loan forgiveness and service payback programs are generally instituted to provide financial aid to students to make college more accessible, and to attract individuals to serve in jobs or work in regions experiencing shortages. The first major federal loan forgiveness program, the National Defense Student Loan Program, was authorized by the National Defense Education Act in 1958. It was a loan forgiveness program for public school teachers. Subsequently, federal loan forgiveness provisions have expanded and have been extended to new categories of borrowers. Many loan forgiveness proposals have been introduced in recent Congresses. Already in the 109th Congress, several bills have been introduced that include student loan forgiveness or service payback provisions.

This report will provide an overview of the current major federal loan forgiveness programs administered by the U.S. Department of Education (ED). It will also briefly summarize some of the other major federal loan forgiveness programs. Finally, it will discuss policy issues and legislation.

Loan forgiveness and service payback programs are variations of work-contingent student financial aid:

- Service payback programs cover all or a portion of a student's school costs if the student agrees to work for a specific period of time in a specified field or job after completing his/her education. These programs pay for a student's costs (or a portion thereof) while he/she is in school. Recipients in these programs are required to provide service in return for this assistance; they agree to provide this service in *advance* (sometimes years in advance) of providing the service. There is generally a financial penalty for students who fail to meet the terms of their agreement.
- Loan forgiveness programs repay a percentage of a former student's educational debt in exchange for work in a designated job. These programs pay off a student's loan (or a portion thereof) *after* he/she starts working in a specified job. Recipients' loans (or a portion thereof) may be repaid on a graduated basis over a period of years during which they provide service, or not until the end of a specified period of service.

Terminology for these programs can be confusing. In some cases the term loan forgiveness is used to refer to both loan forgiveness and service payback programs. These programs are also described as work-contingent financial aid because both are provided in exchange for a student or an employee providing (or promising to provide) specific services. Additionally, service payback programs are sometimes called scholarship programs because they provide financial aid during college.[1] Programs referred to in this report as "loan forgiveness programs" are sometimes referred to as "loan repayment programs" elsewhere. To attempt to minimize confusion, for purposes of this report, when these programs are being discussed in general, they will be described as "loan forgiveness and service payback programs"; when specific programs are discussed, they will be described as either "loan forgiveness" or "service payback programs." These distinctions become relevant in considering the potential of each type of program to achieve specific policy goals, as their efficacy in accomplishing these goals may differ. Most current legislative proposals for ED programs are for loan forgiveness programs, and the currently authorized ED programs discussed in this report are loan forgiveness programs.

Department of Education: Student Loan Forgiveness Programs

Federal Family Education Loans (FFEL) and William D. Ford Direct Loan Program (DL)

The largest student loan programs are the FFEL and DL programs administered by ED; together FFEL and DL provided $45.8 billion in new loans in FY2003, and they will provide an estimated $52.2 billion in FY2004. They constitute the nation's largest source of direct aid for educational expenses of postsecondary students.[2] Loan forgiveness provisions currently applicable to FFEL and DL loans were adopted in the 1998 reauthorization of the Higher Education Act of 1965, as amended (HEA). These provisions are for a teacher loan forgiveness program as well as a demonstration loan forgiveness program for childcare providers. These provisions apply to outstanding principal and accrued interest from subsidized and unsubsididized Stafford loans through the FFEL and DL programs.[3] The teacher loan forgiveness program is an entitlement program, i.e., qualified teachers who apply for the forgiveness will receive it; however, the loan forgiveness program for childcare providers is subject to appropriations. Under both programs, ED is obligated to repay loan holders for student loans forgiven. Those qualified for this loan forgiveness, and the relevant ratios of required service to amounts of debt forgiven, are summarized in **Table 1**.

Pre-Existing Loan Forgiveness for Teachers. The teacher loan forgiveness programs offered through FFEL and DL prior to the passage of P.L. 108-409, The Taxpayer-Teacher Protection Act of 2004, provide qualified teachers up to $5,000 in total loan principal and interest forgiveness after five consecutive years of

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[1] However, when such a program includes a subsequent work obligation, and requires the recipient to repay the loan, and possibly pay a penalty, for failure to meet this obligation, it is really a service payback program.

[2] CRS Report RL30656, *The Administration of Federal Student Loan Programs: Background and Provisions*, by Adam Stoll.

[3] As well as portions of consolidation loans attributable to these underlying loans.

full-time teaching (HEA, Sections 428J and 460). Teaching is considered consecutive even if there is a break in teaching, if the break is due to a return to college for teaching related education, leave under the Family and Medical Leave Act, or a call to active military duty of more than 30 days.

Teaching must be in a low-income public or private non-profit school which is in a district eligible for Elementary and Secondary Education Act (ESEA) Title I-A funding. (A low-income school is defined as one in which the percentage of children from low-income families enrolled in the school exceeds 30% of total enrollment.) Only new borrowers as of October 1, 1998, with no outstanding loan balances, are eligible for this loan forgiveness.

P.L. 108-409 includes a new requirement that teachers who begin their qualifying service on or after the date of enactment of the law (October 30, 2004), must be highly qualified (as defined in Section 9101 of the Elementary and Secondary Education Act of 1965) to be eligible for this $5,000 in loan forgiveness. However, the law states that no teacher who began eligible service prior to enactment of P.L. 108-409 will be disqualified from receiving the $5,000 in loan forgiveness. The existing criteria for eligibility (prior to P.L. 108-409) states that secondary school teachers must be teaching in a subject area relevant to their academic major as certified by the chief administrative officer of their school; and elementary school teachers must have demonstrated (as certified by the chief administrative officer of their school) knowledge in reading, writing, math, and other areas of the elementary curriculum.

Because teachers must accrue five years of consecutive teaching before they are entitled to receive loan forgiveness, and they must be a new borrower as of October 1, 1998, it is anticipated that the numbers of teachers who are eligible, and consequently, the amount of loans forgiven, will not be large until FY2009. ED data indicate that between FY2001 and FY2003, approximately $11 million in teacher loans were forgiven. CBO projections indicate that between FY2005 and FY2014, as more teachers become eligible, approximately $2.3 billion in teacher loans would be forgiven under these pre-existing provisions. However, the new requirement in P.L. 108-409 that teachers be highly qualified will limit somewhat the number of teachers eligible for the $5,000 in loan forgiveness. CBO estimates that this change will generate a savings of $35 million in 2005 and negligible amounts thereafter.

Expanded Loan Forgiveness for Teachers in P.L. 108-409. P.L. 108-409 temporarily expands the student loan debt that can be forgiven by ED (up to $17,500) for highly qualified teachers of mathematics and science in secondary schools, and for special education and related specialists (certified by the chief administrative officer of their school)[4] in elementary schools, after five years of

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[4] The entire provision in P.L. 108-409 states that the elementary school or secondary school teacher must be one: "who, as certified by the chief administrative officer of the public or non-profit private elementary school or secondary school in which the borrower is employed, is teaching children with disabilities that correspond with the borrower's special education training and has demonstrated knowledge and teaching skills in the content areas of the elementary school or secondary school curriculum that the borrower is teaching."

consecutive service in high poverty schools. This legislation provides that this expanded loan forgiveness will be financed by savings obtained from temporary restrictions on lender yields on student loans made from the proceeds of tax-exempt bonds.

The expanded student loan forgiveness amount applies only to new borrowers on or after October 1, 1998, who borrow before October 1, 2005. The Congressional Budget Office estimates that this expanded loan forgiveness will cost $266 million between 2005-2009, with the largest cost ($175 million) occurring in 2005. This additional cost would be more than offset by savings obtained by temporary limits on lender yields. CBO estimates that the net result on federal outlays of the changes resulting from enactment of P.L. 108-409, would be a decrease of $19 million over the 2005-2009 period.

Loan Forgiveness for Childcare Providers. The 1998 reauthorization of the HEA also incorporated a demonstration loan forgiveness program for childcare providers. The program was authorized at $10 million in FY1999. The program received no funding in the first two years after its authorization (1999 and 2000); it received $1 million in funding in each of FY2001, FY2002, and FY2003. Only new borrowers as of October 7, 1998 (those with no outstanding loan balances), are eligible for this loan forgiveness. Eligible childcare providers must have a degree in early childhood education and work in a child care facility that meets state or local requirements, provides child care services for children five or younger, and provides service in a low-income community.[5]

Childcare providers are eligible for loan forgiveness after the second consecutive year of employment at the annual rate of 20% of the outstanding loan balance after each of the second and third consecutive years of service, and at the annual rate of 30% of the loan balance after each of the fourth and fifth consecutive years of service.

If appropriations are not sufficient to fund all eligible applicants in a given fiscal year, loan forgiveness is to be given on a first-come first-served basis, with priority given to borrowers who received forgiveness under this program in the prior fiscal year. ED estimates that between FY2000 and FY2003, $700,000 in loan forgiveness for child care workers was committed.[6]

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[5] A low-income community is defined as one in which 70% of the population earns less than 85% of the state median household income.

[6] This is the full amount that will be forgiven if borrowers maintain their eligibility. However, because it will be paid out over a five-year period , the entire $700,000 has not yet been disbursed. Since borrowers in FY2003 had until Sept. 2004 to apply for forgiveness, this total may increase.

Federal Perkins Loans

Perkins Loans are low-interest loans made by institutions of higher education to students with financial need. The program was incorporated into the Higher Education Act in the Educational Amendments of 1972 (P.L. 92-318). Federal money is allocated by formula to institutions, and is used by institutions, in combination with an institutional match, to capitalize revolving loan funds in order to make Perkins loans.[7] Perkins Loan forgiveness is available for borrowers who work in specific public service jobs. Although the amount available for granting Perkins loans is subject to appropriations, as well as repayments into its revolving loan funds, Perkins borrowers who meet the criteria for loan forgiveness are entitled to receive it. Those qualified for this loan forgiveness, and the relevant ratios of required service to amounts of debt forgiven, are summarized in **Table 1**.[8]

Borrowers eligible for forgiveness of their Perkins loan due to public service include:

- Full-time teachers employed in public or nonprofit elementary or secondary schools in districts eligible for ESEA Title I-A funding, where the percentage of children from low-income families enrolled in the school exceeds 30% of total enrollment,
- Full-time Head Start staff,
- Full-time special education teachers in public or nonprofit elementary or secondary schools (including teachers of infants and toddlers) or qualified professional providers of early intervention services under the Individuals with Disabilities Education Act (IDEA),
- Members of the Armed Forces for service in an area of hostilities,
- Volunteer service under the Peace Corps Act or the Domestic Volunteer Service Act of 1973,
- Full-time law enforcement or corrections officers (including prosecuting attorneys, but not public defenders), for service in local, state or federal law enforcement or corrections agencies,
- Full-time teachers of math, science, foreign languages, bilingual education, or other fields determined to have a shortage by the state educational agency,
- Full-time nurses or medical technicians providing health services, and
- Full-time employees of public or private nonprofit child or family service agencies who provide or supervise service for high-risk children from low-income communities.[9]

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[7] CRS Report RL31618, *Campus-Based Student Financial Aid Programs Under the Higher Education Act*, by David Smole.

[8] Ibid.. Perkins loans are also cancelled due to borrower death or disability, but ED is not required to repay institutions for these loans.

[9] Higher Education Act of 1965, Section 465 (20 U.S.C. §1087ee).

Table 1. Student Loan Forgiveness Programs Administered by the U.S. Department of Education

Stafford student loans (FFEL and DL)		
Type of service	**Forgiveness period**	**Maximum forgiven**
Highly qualified secondary school teacher of science or math and highly qualified elementary or secondary school special education teacher in school serving low-income children (For new borrowers on or after Oct. 1, 1998 who have borrowed prior to Oct. 1, 2005).	$17,500 after five years of qualifying service	$17,500
Eligible elementary or secondary school teacher in school serving low-income children (for new borrowers on or after Oct. 1, 1998.) Teacher who commences eligible service on or after Oct. 30, 2004, must be highly qualified.	$5,000 after five years of qualifying service	$5,000
Child Care Provider Demonstration — for providers serving in child care facility serving low-income community (For new borrowers on or after Oct. 7, 1998).	20% for each of years two and three; 30% for each of years four and five	Up to 100%
Perkins Student Loans		
Type of service	**Forgiveness period**	**Maximum forgiven**
Full-time elementary or secondary school teacher in a school serving low-income students.	15% for each of years one and two; 20% for each of years three and four; 30% for year five and each successive year	Up to 100%
Full-time Head Start staff	15% for each year of service	Up to 100%
Full-time special education teacher or qualified provider of early intervention services for the disabled.	15% for each year of service	Up to 100%
Member of Armed Forces in area of hostilities	12½% for each of years one through four	Up to 50%
Vista or Peace Corps volunteer	15% for each of years one and two; 20% for each of years three and four	Up to 70%
Full-time law enforcement or corrections officer	15% for each of years one and two; 20% for each of years three and four; 30% for fifth year and each successive year	Up to 100%

Perkins Student Loans		
Type of service	**Forgiveness period**	**Maximum forgiven**
Full-time teacher in shortage area	15% for each of years one and two; 20% for each of years three and four; 30% for fifth year and each successive year	Up to 100%
Full-time nurse or medical technician	15% for each of years one and two; 20% for each of years three and four; 30% for fifth year and each successive year	Up to 100%
Full-time employee of provider of services to high-risk children and families in low-income communities.	15% for each of years one and two; 20% for each of years three and four; 30% for fifth year and each successive year	Up to 100%

Source: HEA, Sections 465, 428J, 460, and 428K.

Since 1972 the program has forgiven more than $524.8 million and $0.7 million in loan principal for teachers and the military, respectively. For the newer Perkins Loan forgiveness categories: volunteer service, law enforcement, early intervention and nurse/medical technicians, $5.4 million, $34.8 million, $33.2 million and $72.9 million in loan principal has been forgiven, respectively.[10] ED is obligated to reimburse institutions for Perkins Loans cancelled due to eligible public service by the borrower. ED reimburses institutions for loan cancellations to the extent funded by appropriations. Data are not currently available on the extent to which appropriations have been sufficient to cover outstanding obligations.

Additional Large Federal Loan Forgiveness/Service Payback Programs

This section briefly summarizes some of the other major federal student loan forgiveness and service payback programs. These programs are limited to specific groups of employees (e.g., federal employees) or to those training or working in specific occupations (e.g., medical shortage occupations). Each section includes references or links for more information about these programs.

[10] These data were provided by the U.S. Department of Education and reflect cumulative cancellations as of June 30, 2002. Teacher and military cancellations prior to 1972 are not included here.

Programs for Federal Employees

For Military Employees. The military has an extensive array of programs that can help students with college costs in return for military service. These programs include funds to assist with education expenses and full-scholarship programs (for example, Service Academies and ROTC scholarships);[11] access to educational resources; as well as assistance with loan repayment.[12]

Student loan forgiveness programs constitute a small share of the educational assistance programs available to military personnel.[13] An example of a loan forgiveness program available to eligible borrowers is the Army's College Loan Repayment Program which will forgive one-third of approved student loans for each year of full-time duty served, up to a maximum of $65,000. The Navy's Loan Repayment Program also offers a loan forgiveness program for up to $65,000 for full-time duty soldiers who have no prior military service, a high school diploma and a qualified loan. The Air Force College Loan Repayment Program offers up to $10,000 in loan forgiveness to eligible new recruits.

For Civilian Employees. Federal agencies may use loan forgiveness to recruit new employees — agencies may pay up to $10,000 per year, and $60,000 in total, toward an employee's student debt. In return, the employee must agree to work for the agency for at least three years.[14]

Programs for Medical and Health Researchers and Professionals

The following discussion provides examples of some of the many loan forgiveness and service payback provisions available to qualified individuals. The National Institutes of Health has several loan forgiveness programs (both extramural and intramural), to help attract individuals to research careers. In exchange for a two-year work commitment (of at least 20 hours per week), NIH will repay up to a total of $70,000 of a researcher's qualified education debt.[15]

The National Health Service Corps (NHSC) has both loan forgiveness and service payback programs to encourage health professionals to work as primary

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[11] See Rebecca Kilburn and Beth Asch, eds., *Recruiting Youth in the College Market: Current Practices and Future Policy Options* (Santa Monica, CA: RAND National Defense Research Institute, 2003).

[12] For detailed information on available assistance, including relevant links, see [http://www.todaysmilitary.com].

[13] For more information on Department of Defense personnel issues, see CRS Issue Brief IB10089, *Military Pay and Benefits: Key Questions and Answers*, by Robert Goldich; and CRS Report RL32151, *DOD Transformation Initiatives and the Military Personnel System: Proceedings of a CRS Seminar*, by Lawrence Kapp.

[14] CRS Report RL31102, *Student Loan Repayment Program for Federal Employees*, by Lorraine Tong and Barbara Schwemle.

[15] [http://www.lrp.nih.gov/].

health providers in selected health professional shortage areas, as identified by the Department of Health and Human Services. Recipients selected for the loan forgiveness program must sign a contract agreeing to provide two years of clinical service in the shortage area. The NHSC will pay up to $50,000 of outstanding qualified student loans for the first two years of service.[16]

The Nurse Reinvestment Act (P.L. 107-205), signed into law on August 1, 2002, established a service payback program which provides a scholarship to nursing students in exchange for a commitment to work two years in a healthcare facility in a critical nursing shortage area. In addition, it established a loan forgiveness program for nurses who agree to work as nursing faculty for a period of time.[17]

There are also federal programs that provide loan forgiveness *after* the completion of a specified term of service. Examples include programs for AmeriCorps, the National Civilian Corps and VISTA.[18]

State Programs

Increasing numbers of student loan forgiveness and service payback programs are also being offered by states.[19] A survey of 100 state programs in 2000-2001, published by the Lumina Foundation for Education, indicated that 43 states had one or more of these programs. Seventy-five percent of these programs (and 90% of participants) were service payback programs. However, since 1998, state loan forgiveness programs have been growing faster than service payback programs.[20] Teaching and medical fields were the occupations most frequently targeted; almost

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[16] [http://nhsc.bhpr.hrsa.gov/].

[17] CRS Report RL31090, *Long-Term Care: Nursing and Paraprofessional Workforce Issues*, by Julie Lynn Stone.

[18] Members of AmeriCorps, the National Civilian Corps, and Volunteers in Service to America (VISTA) who complete a term of service, are eligible for an education award through the National and Community Service Act of 1990. This education award may be used toward college expenses or to repay qualified student loans. The award is $4,725 for a year of full-time service with lesser awards available for part-time service. VISTA members may choose the education award or a lump sum stipend that accrues at the rate of $100 for each month of service. CRS Report RL30186, *Community Service: A Description of AmeriCorps, Foster Grandparents, and Other Federally Funded Programs*, by Ann Lordeman.

[19] Rita Kirshstein, Andrea Berger, Elana Benatar and David Rhodes, *Workforce Contingent Financial Aid: How States Link Financial Aid to Employment*, American Institutes for Research and the Lumina Foundation for Education, Feb. 2004. (Hereafter cited as Kirshstein et al., *Workforce Contingent Financial Aid*.)

[20] For more information on state programs for teachers, see CRS Report RL32050, *Teacher Recruitment and Retention: Current Programs and Legislation in the 108th Congress*, by Jeffrey Kuenzi.

70% of the participants were teachers.[21] Academic merit was the most common criterion for choosing participants for service payback programs; financial need was the second. State service payback programs often require participants to be a state resident whereas loan forgiveness programs do not typically require participants to be a state resident.

The majority of financial aid administrators interviewed about these programs, for the Lumina survey, reported that they were generally effective in meeting students' financial needs and workforce needs. Nevertheless, concerns about the efficacy of these programs were also expressed by student financial aid administrators. Administrators also reported that they believed loan forgiveness programs were lower risk than service payback programs, since service was provided each year before forgiveness was granted, and because there were not the administrative costs of tracking borrowers throughout school and the subsequent period of service.

The authors of this survey found state tracking systems were inconsistent, and states had little data available on the programs' efficacy:

> Some programs knew the number of participants with current obligations but could not separate those meeting the workforce obligation from those repaying the financial assistance. Other programs could not distinguish the number of students who completed their service obligation from the number of students who completed only partial service.[22] ... Despite the proliferation in and variety of these programs, however, states have done little research to determine whether these types of financial aid programs are an effective way of either providing financial assistance to students or attracting workers to occupations that are experiencing shortages.[23]

Policy Issues

Loan forgiveness and service payback programs generally have one or more of the following four goals: to provide financial assistance to students to help them with the costs of college, to entice individuals to choose a particular occupation or field of specialization, to entice individuals to work for a period of time in a certain job or underserved region, or to entice individuals to remain in a high need occupation, region or underserved facility.

Past research has examined the efficacy of loan forgiveness and service payback programs as a way of achieving these goals.[24] The Government Accountability

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[21] Kirshstein, et al., *Workforce Contingent Financial Aid*.

[22] Ibid.

[23] Ibid.

[24] L.E. Zubrow, "Is Loan Forgiveness Divine? Another View," *George Washington Law Review*, vol. 59, no. 3 (1991). For a literature review, see Westat Human Service Group, *Loan Forgiveness in Postsecondary Education: A Review of Recent Legislation and*

(continued...)

Office (GAO) has issued several reports and provided testimony on loan forgiveness and service payback programs intended to attract health professionals to serve in a shortage area. In a 1974 report the GAO examined the efficacy of a program of loan forgiveness called the Health Profession Student Assistance Program (the program is no longer in existence in the form evaluated by the GAO).[25] The GAO found this particular program, with the loan forgiveness provisions in effect at the time of the evaluation, was not effective on influencing where graduates set up their practices. According to the GAO, it was not effective because most students were not aware the loan forgiveness was available, and because those that were, did not consider the forgiveness sufficient to outweigh the disadvantages of the required service.

In subsequent work, the GAO has examined the strengths and weaknesses of loan forgiveness versus service payback provisions. In response to a congressional request, the GAO compared the relative costs and benefits to the federal government of the National Health Service Corps loan forgiveness and service payback programs. The GAO did not examine the efficacy of these programs in general, but in contrasting the costs and benefits of these two programs under the specific circumstances of the National Health Service Corps, it found the service payback program to be more costly.[26] The GAO found the administrative costs in the National Health Service Corps service payback program were greater than those in the loan forgiveness program because students must be tracked through college, and subsequently through their performance of service. This is in contrast to loan forgiveness programs where forgiveness is provided after service, and where the employee has the responsibility of applying for loan forgiveness. As a result, administrative costs are lessened.

Additionally, the GAO found that loan forgiveness recipients were more likely to complete their service commitment and to continue service after their obligation had expired. Loan forgiveness programs minimize the risk that someone will commit to a particular major to qualify for financial aid, but will not continue in the field or perform their required service.[27]

However, service payback programs may have advantages as a financial aid program. Because these programs provide aid to students during college as expenses occur, they may serve students who otherwise could not attend. Thus, they may broaden the pool of potential recipients to include less affluent students. This may partly explain the attraction of these programs in states, where, in general, only state

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[24] (...continued)
Relevant Literature, prepared for the Office of Policy and Planning, U.S. Department of Education, Jan. 1993.

[25] U.S. Government Accountability Office, *Congressional Objectives of Federal Loans and Scholarships To Health Professions Students Not Being Met*, GAO/Report No. B-164031-2, 1974.

[26] U.S. Government Accountability Office, *National Health Service Corps: Opportunities to Stretch Scarce Dollars and Improve Provider Placement*, GAO/HEHS-96-28, Nov. 1995

[27] U.S. Government Accountability Office, *Health Care Access: Programs for Underserved Populations Could be Improved*, GAO/T-HEHS-00-81, Mar. 23, 2000.

residents are eligible to participate in service payback programs. As a consequence, the potentially higher costs may be offset by the fact that the benefits accrue to state residents, and the recipients remain in the state to provide their service.

The Lumina study (discussed earlier) is a recent examination of state loan forgiveness and service payback programs. It did not try to ascertain the efficacy of loan forgiveness and service payback programs in achieving states' workforce or financial aid goals, however, as noted, it did raise concerns about the lack of available evidence on this issue:

> ... we really do not know whether these programs are the best way to help individuals, whether currently enrolled in school or repaying loans, cover educational expenses. Also, we really do not know whether programs themselves are helping reduce workforce shortages or whether those accepting financial assistance would have worked in the occupation or geographic areas without the incentive of loan forgiveness or repayment.[28]

Over time, as loan forgiveness and service payback programs have become more widespread and their popularity has risen — policy discussions have become more focused on the fine-tuning of loan forgiveness and service payback provisions to best meet the needs of the targeted group, job, or region.

Perhaps in part due to the potential advantages of loan forgiveness programs in terms of cost and in retaining individuals in specific jobs, occupations, or regions, most ED administered programs and most current legislative proposals are for loan forgiveness programs. Elementary and secondary teachers, in particular, are the intended recipients of these programs, but many other occupational groups, including armed services personnel, public servants, public defenders, nurses, Head Start teachers and early childhood teachers, mental health professionals, families of public safety officers, and many others, are included in proposals that have been introduced in the 108th Congress.

As noted above, presently data on these programs' effectiveness are limited. Some outstanding questions for future research on these programs include acquiring more data on the extent to which loan forgiveness or service payback recipients would have taken the targeted job irrespective of the program, the extent to which participants remain in jobs after the expiration of the loan forgiveness or service payback program, how the efficacy of these programs compares to other forms of financial aid, and the extent to which these programs may be divisive when there are similar individuals working in similar jobs, but only some are eligible for loan forgiveness (in effect, creating a situation where one employee is paid more than another for the same work).

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[28] Kirshstein, et. al., *Workforce Contingent Financial Aid*.

Legislation in the 108th Congress

Over 40 bills were introduced in the 108th Congress to extend loan forgiveness or service payback programs to additional categories of individuals or to expand existing programs. The majority of these bills were for loan forgiveness programs.

Legislation introduced in the 108th Congress was intended to enhance incentives for individuals to choose or stay in a particular job or career. Many of these proposals focused on teachers. Estimates indicate that as many as one third of new teachers leave the profession within five years. Many other teachers leave existing teaching jobs for other teaching jobs, creating a significant problem for some schools.[29] Some have argued that $5,000 dollars in student loan forgiveness is not sufficient to attract and retain highly needed teachers.

The only ED administered loan forgiveness bill signed into law during the 108th Congress, is P.L. 108-409, the Taxpayer-Teacher protection Act of 2004. This legislation requires new teachers, who commence eligible service on or after October 30, 2004, to be highly qualified (as defined in Section 9101 of the Elementary and Secondary Education Act of 1965) to be eligible for the $5,000 in loan forgiveness provided in preexisting law. However, teachers who were eligible prior to enactment of P.L. 108-409, will remain eligible for this $5,000 in loan forgiveness.

P.L. 108-409 also temporarily expands the student loan debt that can be forgiven by ED (up to $17,500) for highly qualified teachers of mathematics and science in secondary schools, and for certified (see footnote 4) special education and related specialists in elementary schools, for five years of consecutive service in high poverty schools.

P.L. 108-409 provides that the expanded loan forgiveness will be financed by savings obtained from temporary restrictions on lender yields on student loans made from the proceeds of tax-exempt bonds. The expanded student loan forgiveness amount applies only to new borrowers on or after October 1, 1998, who borrow before October 1, 2005. The Congressional Budget Office estimates that this expanded loan forgiveness will cost $266 million between 2005-2009, with the largest cost, $175 million, occurring in 2005. These additional costs would be more than offset by savings obtained by temporary limits on lender yields. CBO estimates that the net result on federal outlays from the changes in P.L. 108-409 will be a decrease of an estimated $19 million over the 2005-2009 period.

In addition, H.R. 438, the Teacher Recruitment and Retention Act of 2003, was passed by the House on July 9, 2003. This legislation would increase the student loan debt that could be forgiven by ED (up to $17,500) for highly qualified teachers of mathematics and science in secondary schools, and for special education and related specialists in elementary schools, for service in high poverty schools. Also included are provisions for a new accelerated repayment for these eligible teachers. H.R. 438 would permit teachers to receive the lesser of: 10% of their outstanding

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[29] CRS Report RL32050, *Teacher Recruitment and Retention: Current Programs and Legislation in the 108th Congress*, by Jeffrey J. Kuenzi.

loan balance, or $1,750 after the second year of service; $2,625 or 15% of their outstanding loan balance, after the third year of service; $4,375 or 25% of their outstanding loan balance after the fourth year of service; and $8,750 or 50% of their outstanding loan balance after the fifth year of service.

H.R. 2211, the Ready to Teach Act of 2003, was passed by the House on July 9, 2003. H.R. 2211 would have, among other things, awarded competitive grants to states or eligible partnerships to be used in part for a service payback program to attract teachers in high need subject areas. Similar legislation, H.R. 4409, the Teacher Training Enhancement Act, was passed by the House on June 2, 2004. This bill was added to H.R. 444, the Back to Work Incentive Act of 2003; H.R. 444 was passed by the House on June 3, 2004.