A Higher Education Promise for the 21st Century

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JUNE 2015

As 2016 Presidential candidates jockey for position, skyrocketing college costs have emerged as a significant campaign issue. It's exciting to see politicians, the media, students and families, advocates, and experts talk about the importance of reducing costs and increasing quality for the entity most responsible for the nation's current and future economic well-being: our system of higher education. Now more than ever, candidates must have a plan for 1) how we as a country finance college costs to ensure that higher education is within reach for today's students, and 2) how we help approximately 40 million current federal student loan borrowers manage over $1.2 trillion in debt.[1]

Our generation is clear-eyed about the importance of postsecondary education and the challenge of paying for it - and we need more than slogans. Education and student debt platforms must have concrete details on policy design and implementation, their impact on federal and state budgets, and the effect on the targeted outcome.

Below we present an agenda that does just that – lays out the details needed to make college more affordable, higher quality, and achieve better outcomes after graduation. We also assess the cost of different policy proposals and how different types of student loan borrowers could benefit from each. Adopted as a package, leaders could unleash the American economy by making graduating from college without debt a reality for millions of young people looking to build a better life. Broadly, these reforms:

- **Give a Pathway to a Debt-free Degree**: Lays out how to give all students a pathway to a debt-free degree through reforms that decrease costs and expand supports;
- **Disrupt Higher Education**: Improves the quality of education and ensure students can access a worthwhile degree;
- **Cut Debt Payments for Borrowers**: Protects students and families and cuts existing debt payments by as much as 70 percent for the typical current borrower.

Debt-free college has been much discussed and sometimes raises more questions than it answers. For example: can every student attend debt free? At any college of her or his choice? At what price? Below is a concrete blueprint for how we can actually make debt-free college a reality.

We start by looking at how we can deliver the opportunity for a debt-free education at public four-year universities, a central piece of our higher education system. We estimate that a debt-free "promise" at four-year public colleges and universities will require an investment of $24 billion a year, shared by both states and the federal government. But we go further, laying out an even bolder plan for a $31.5 billion investment that would also reduce costs at all community colleges and private institutions, with a focus on those low-income students most in need of support. If our elected officials truly agree that reforming higher education is essential to the future of this country, then they must put "their money where there mouth is" and provide specific investments that match the magnitude of the problem. The comprehensive plan also disrupts the status quo to bolster value and provides students with better quality options that will lead ultimately to better completion rates. Finally, any national higher reform agenda must provide relief for current debtors, and so our proposal cuts both total debt burden and monthly payments for those with existing debt, providing help for millions of borrowers.

In the coming months, we will continue to elevate the voices of student loan borrowers. We'll ask all candidates – across the political spectrum – about their specific plans and details. It's our future at stake.

1. Pathway to Debt-Free

Americans owe more on student loans than any other form of debt besides mortgages, more than even credit cards.[2] In the last decade, debt taken out by students and families to attend college increased 231 percent (2005 to 2015) – a far steeper increase than for mortgage debt or auto loan debt .[3] It is unsustainable, and research demonstrates student loan debt is dragging down the economy, forcing an entire generation to delay starting a family, buying a home, and launching their careers.[4] High costs could also be turning untold numbers away from pursuing a degree in the first place, and forcing many low- and moderate-income students to leave school early without completing their degree.

Tackling a problem this large is a complex task. Loan debt varies tremendously along dozens of dimensions: the number of loans taken out, total debt, public versus private loans, loans taken out for living expenses, interest rates, repayment plans, forgiveness options, penalties and fees, and of course, the added value from the education the loans paid for in the first place. For the purposes of this reform proposal, we build a pathway to debt-free degrees based off of several assumptions.

First, we show a pathway to a debt-free public four-year degree – knowing that two-year degrees and certificates are critical as well. We expect our reforms would also eliminate loan debt at community colleges and dramatically reduce prices at private institutions. Second, we define debt-free by looking at the full cost of attendance, not just tuition. A focus solely on tuition ignores all of the other costs that go into affording school – housing, books, food, and, for the 25% of students who are parents, child care. Finally, in the complex higher education environment, students and families pay different net prices - that is, costs faced after grant awards. We analyze how students and families currently finance their education through grants, loans, and out-of-pocket, at four-year public institutions, by income quartile.

Average Debt taken out by 4-year public students by income				
	1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
Income	$0-18,308	$18,309	$47,778	$93,802
Average Net Price	$11,289	$11,822	$15,142	$18,931
Out-of-pocket/Other	$3,869	$4,972	$8,144	$11,803
Average Loan (of those that borrowed)	$7,419	$6,850	$6,997	$7,127
# Borrowers	939,380	872,161	855,357	694,032
Total Debt (borrowers x Average Loan)	$6,969,561,376	$5,974,428,136	$5,985,136,901	$4,946,741,898
Total Cost to supplant debt	$24 billion			

Source: YI calculations from the U.S. Department of Education, 2011-12 NPSAS Data. Income quartiles specific to 4-year public school attendees.

Using these assumptions, supplanting all debt taken out by students attending four-year institutions would require an investment of approximately $24 billion, offering every student and their family a strong pathway to a debt-free public education. Doing so would ensure that all students could access public education; would no longer face barriers to completion due to financial cost; and could leave our public institutions without the stifling burden of debt.

Student debt policy is complex: even for simple policies that reduce tuition prices at public schools, one cannot assume that those savings will replace the same amount of student loan debt taken out. Indeed, for some students, the promise of reduced tuition might inspire them to pursue more higher education, and, concurrently, take out more debt to cover the full costs. Others may choose a more expensive institution. However, we do know that combining many the policies below would more than eliminate the ***need*** for a student to take on debt to complete a four-year degree at a public institution.

Below we lay out seven strategies that, when combined, not only carve that pathway for debt-free public degree for all students, but *also* provide for additional targeted investments to help low-income and middle class students complete their degree at a variety of institutions. We do not think that public policy should focus solely on four-year schools, as there are many paths to career success. These seven strategies could not only lead to debt-free four-year degrees, but a dramatic cost reduction at community colleges and additional cost reduction at private institutions.

i. Raise Pell to the national average in-state tuition - Tuition has skyrocketed in America. It has increased by 42 percent at in-state public four-year institutions in the last decade.[5] As the keystone program to help low-income students afford college, the Pell Grant has not kept pace with the rise in college costs. In the 1980s, Pell could cover over half of the cost a four-year public degree; presently, it covers less than a third.[6] By pegging Pell to in-state tuition ($9,139 for the 2014-2015 school year[7]) Pell can maintain its value for low-income students, even in the face of rising costs. Furthermore, if we move all of the Pell grant over to mandatory spending, instead of coming up on the chopping block as part of discretionary spending, this important program will be protected from yearly attempts to slash the award during budget season.

Cost: $21 billion.[8]

Scenario: A graduating student receiving a Pell Grant carries a debt load of $31,200 (the average amount for a Pell recipient).[9] With the increase to the maximum awards carried over four years, Pell benefits for this student could grow by $13,636 while pursuing a degree.

$31,200 - $13,636 = $17,564[10]

Debt Reduction: 44 percent

ii. Year-round Pell Grants - Currently Pell Grant recipients attending college full-time in the fall and spring semesters are not eligible to receive assistance Pell for summer school, without it counting against next year's eligibility.[11] These students are simply trying to complete their education and enter the workforce faster, potentially saving them thousands of dollars by accelerating their education. This policy would allow students who wish to take extra courses during extra terms (i.e. summer term) to receive an additional Pell

Grant in the same calendar year.

Cost: $2.1 billion.[12,13]

Scenario: The average Pell Grant recipient carries a debt load of $31,200. With Pell Grants helping year-round, this student is eligible for additional award of $1,700[14] per year, and can graduate a semester early. These benefits and savings amount to $9,000, assuming that summer Pell supplants debt taken out to pay for those credits. While an ideal scenario, this simple restoration of Pell could go a long way helping students most in need.

$31,200 - $9,809 = $22,200

Debt Reduction: 31 percent

iii. Fix the FAFSA - The present FAFSA form has over 100 questions, resulting in many students and families describing the form as "complex" and "confusing".[15] Simplifying the form to fewer questions would likely increase the rate at which young adults complete the form, and therefore, increase the aid given out to those who need it.[16]

Furthermore, the timing just doesn't make sense. A student applies using prior-year information to apply, resulting in late notification of awards - potentially too late to make the most financially sound college decisions. Switching to a prior-prior year system, where students and families submit information from two years before the start of enrollment, would allow the Department to auto fill FAFSA forms for students and make aid decisions faster. And getting this information to families earlier means that students are more likely to take advantage of it.

Cost: $3 billion.[17]

Scenario: A student frustrated with the FAFSA process fails to submit the FAFSA, leaving Pell dollars on the table. The student instead takes out $29,400, the average debt load for graduates of four-year schools.[18] Had that student applied for aid through a simplified FAFSA and received the benefits for which they were eligible, their debt could be reduced by $14,516.[19]

$29,400 - $14,516 = $14,884

Debt Reduction: 50 percent

iv. Incentivize States to Reinvest in Public Higher Education - States have slashed funding for public higher education by an average of 19 percent since the Great Recession.[20] Almost three-quarters of all students attend public colleges and universities, institutions that rely heavily on state budget support. Indeed, only three states are currently spending more than they did before the recession.[21] A recent GAO report found that tuition now makes up a larger percentage of revenue than state budget support.[22] Furthermore, state budget cuts are estimated to be responsible for 78 percent of tuition hikes, with increased spending on administration, operations, and construction accounting for the remaining 22 percent.[23] Given fiscal challenges in states, an incentive from the federal government is needed to jumpstart the return to higher education investment at the state level. There are a number of ways to structure this incentive, through block grants meeting certain requirements, a Pell matching grant program, or a flexible federal approach that gives states the discretion to determine their tuition and aid structure.[24]

Cost: $23 billion (divided by states and federal government).[25]

Scenario: A graduate of a public non-profit four-year institution, paying in-state tuition, took out $25,600 in student loans, the average amount for public four-year graduates. With state funding restored to pre-recession levels, tuition would have grown at a smaller pace, potentially saving the graduate $13,594.[26]

$25,600 - $13,594 = $12,178

Debt Reduction: 53 percent

v. Invest in Child Care for Student Parents - The Child Care Access Means Parents in School (CCAMPIS) Expansion and Matching Grant Provision - provide funds to directly support or establish campus based child care programs primarily serving the needs of low-income, Pell eligible student-parents.[27] As the economy has evolved and the need to have a postsecondary credential has grown, the number of student parents has increased by 50 percent to nearly 5 million in just the last decade-and-a-half.[28] We should expand our investments in young families by bolstering access to child care on campus – a commonsense solution that could mean the difference between a young parent completing their degree or dropping out.

Cost: $500 million (divided by states and federal government).[29]

Scenario: A student parent leaves school after having taken out $25,709 in student loans, the average debt load for a student with dependent children.[30] With good actors in the CCAMPIS program providing childcare spending an average of $2,000 per student parent, per year,[31] savings over the course of a four-year degree could amount to $8,000.

$25,709 - $8,000 = $17,709

Debt Reduction: 31%

vi. Simplify and improve the higher education tax system -The American Opportunity Tax Credit (AOTC) is currently distributed after taxes are filed, potentially resulting in students taking loans to fill the gap. To make it easier and decrease the likelihood of having to take out loans, provide the tax credit at the time of purchase, so that they have the money available when they need it most, and make the AOTC fully refundable to be the most helpful for low-income students. In addition, eliminating the Lifetime Learning Credit, Tuition and Fee Deduction and changing the levels of AOTC phase-outs will fully defer the cost of making the AOTC fully refundable.[32]

Savings: $3 Billion.

vii. Federal Work Study Reform - Federal Work Study was designed to help low-income students afford the cost of college, but currently wealthier schools that have relatively few low-income students receive more allocations than schools who have more students in need. The funding can and should be allocated based on need. Additionally, the program should be reformed to encourage work placements in positions where students can get valuable experience towards future careers.

Currently, Federal Work Study reaches 704,000 students, and the federal government spends roughly $972 million annually on the program.[34] We propose tripling the funding for the program to $3 billion annually, to allow it to reach over 2,000,000 students. That increased investment should then be allocated via a formula that takes into account low-income student enrollment and graduation rates, so that those funds go to institutions that are serving the population that needs work study the most, thereby increasing individual participation in the program.

Cost: $2 billion.

2. Disrupt Higher Education

The higher education marketplace is difficult to navigate, making it much too hard for a student to make a real assessment of the return on investment of pursuing a particular program or degree or to find ways to gain real-world skills. Yet access to an affordable degree will only benefit students and families in the long-run if it also leaves those students with a degree that provides value in the workforce. Below are four straightforward ways to give this generation a clear pathway to a worthwhile degree.

i. Use Data to Create a Transparent Marketplace - Despite increased calls for accountability and transparency in our higher education system, we still can't answer fundamental questions about higher education's alignment with the workforce. This is largely due to the student unit record ban included in the last reauthorization of the Higher Education Act.[35] We could replace the current patchwork system of state and federal data reporting and surveys with a national, student-focused system that provides students and families with essential information about their college and career choices, while protecting the privacy of sensitive personal information. This information could be especially useful to first-generation college students whose families may not have interacted with the higher education system, and is something that students and the business community alike have gotten behind.

Cost: According to a feasibility study on the creation of a student unit record system, conducted by the National Center of Education Statistics in the Department of Education, much of the cost of developing the system would be in the up-front implementation, with costs decreasing over time. The study further noted that data reporting burden will increase under the current framework and might even surpass the burden of a unit record system. Furthermore, the Department of Education currently uses much of the technology needed for a student unit record system, in its collection and analysis of IPEDS data.[36]

Scenario: A student who performed little or no search for where to go to school, was attracted to a poorly performing associate degree program, perhaps after seeing an advertisement, and leaves school with $20,000 in debt, not an atypical amount for a student who attends a proprietary education program, for example.[37] With the proper postsecondary data system, this student could have had the tools she needed to shop around, and chosen the same associate degree program at a higher performing institution that costs less (average borrower from a two-year program is $10,000[38]).

$20,000 - $10,000 = $10,000

Debt Reduction: 50 percent

ii. Expand Registered Apprenticeships - The current registered apprenticeship program combines work training with a paid position, usually to provide a technical education or certification. We propose doubling the number of active, registered apprenticeships, currently at 358,000.[39] These programs not only provide students with valuable training and work experience, but also have the added bonus of bringing down costs of schooling.

Cost: $125 million.[40]

Scenario: A student who otherwise would have attended a vocational program at a 2-year institution, where the average borrower takes out $10,000 in debt, instead enrolls in a registered apprenticeship program to learn similar skills. Because the student simultaneously works while in the program, the student no longer needs to take out any student loans at all.

$10,000 - $10,000 = $0

Debt Reduction: 100 percent

iii. Improve Quality by Cutting off Failing Institutions - that don't prepare their students for careers should not operate on the backs of students, families, and taxpayers. We need thresholds for eligibility for federal financial aid that requires schools to show value for all students.

A proposal from the Washington, DC based think tank the Education Trust requires 1) four-year institutions to enroll at least 17 percent Pell Grant recipients per year to receive institutional-directed federal benefits (campus-based aid, any future federal-state competitive grant program, TRIO, or GEAR UP), 2) that institutions need to allocate 60 percent of their own grant aid based on student economic need, and 3) four-year institutions would lose eligibility for Title IV aid if fewer than 15 percent of students graduate within six years of initial enrollment.[41] The Education Trust estimated annual savings of 15 billion per year.[42] The proposal sets a reasonable standard that holds schools accountable for enrolling low-income students and serving them well to help them complete their degrees. We believe that adding a repayment rate mechanism to this proposal would go even further, and dovetail well with our risk sharing proposal below.

Savings: $15 Billion.

iv. Give Students Clear Options By Expanding AmeriCorps, Launching American Counseling Fellows - The AmeriCorps program is the largest public service program in the country, and alumni are shown to have better job prospects and higher wages. In 2014, AmeriCorps only offered 64,500 positions.[43] We can expand this to 500,000 positions to fully meet demand for national service, costing around $6.5 billion.[44]

Some of the funding for the expanded AmeriCorps program should go to found a new "American Counseling Fellows" program -- a proposal that would send 30,000 recent college graduates into our nation's high schools in order to aid students, especially low-income students. A wealth of research demonstrates student access to counseling leads to higher test scores, higher graduation rates[45], and higher rates of college enrollment.[46] Not only that, but it could provide the resources needed for things like prior learning assessments, which measure already established skills on a person-by-person basis in order to reduce the need for redundant courses and accelerate time to degree completion. PLA students seeking bachelor's degrees save on average 2.5 to 10.1 months on their time to completion, depending on number of PLA credits taken.[47]

3. Protect Borrowers and Reduce Existing Debt Burdens

A debt-free pathway to a degree is just one half of the puzzle. With millions of borrowers struggling to afford monthly payments, we must see action to provide relief to those who already have debt and need some form of relief. Major changes to debt repayment can substantially cut debt burdens. We propose:

- Moving all borrowers into a repayment plan based on their income, cutting monthly payments by as much as 70 percent.
- Allowing federal debtors with high interest rates to refinance their loans, and private debtors to convert their loans to federal loans in order to receive lower interest rates and protections such as access to income-based repayment.

We must also provide relief from poor servicing or harsh debt collection practices by cracking down on bad servicers, enforcing current protections, giving those in dire straits access to bankruptcy, and putting poor performing schools on the hook for the debt they dole out.

i. Repay Loans Based Only on Income - When students borrow too much or don't make enough money to meet their monthly payments, they risk default. In fact, more than one in 10 students (13.7 percent) who entered repayment in 2011 ended up defaulting on their loans, wrecking their credit.[48]

Despite this, there are income-based repayment plans that could virtually eliminate the threat of defaulting your loans, helping borrowers and perhaps encouraging debt-averse students to enroll in college in the first place. But enrollment in repayment plans based on income remains low – at about 16 percent in the first quarter of 2015.[49] All federal student loan borrowers should be automatically enrolled in a repayment plan based on income upon leaving school. Just like in current plans, borrowers would have the remainder of their debt forgiven after twenty years of repayment. A borrower with a bachelor's degree who makes an average income out of college ($30,000) with average debt levels ($26,500) enrolled in Standard repayment will pay $272 per month. That same average borrower in Pay as You Earn, or the repayment plan based on income, not debt loads, will pay $81 per month – cutting payments by as much as 70 percent. It is important to note that over time, as the PAYE enrollee's salary increases, they will pay more per month.

Cost: NA.[50]

Scenario: This policy is also particularly helpful for borrowers who are truly struggling – in fact, low-debt, low-income borrowers are more likely to default.[51] While estimating a borrower's projected income over the lifetime of a loan is difficult - estimates need to include the relationship between size of the monthly payments and their effect on total repayment as well as the length of time needed to fully repay - our scenario looks at a graduate with an $8,000 loan balance. If the borrower chose to enter standard repayment over ten years, total payment on that $8,000 principal with interest would be equal to $10,042.[52]

Now assume this borrower enrolled in Pay As You Earn automatically after graduation, and started with a $15,000 salary and increasing six percent annually. Under this scenario, repayments would not begin until year 10 (according to the salary growth) and total payments over twenty years would equal $6,167, or a reduction of $6,240.

$10,042 - $6,240 = $3,802.

Debt Reduction: 62 percent[53]

ii. Bring Down Interest Rates Through Refinancing - Proposals like Sen. Elizabeth Warren's Bank on Students legislation would allow federal borrowers to refinance at today's lower rates and allow private borrowers to refinance with a federal servicer. The ability of a debtor to refinance their private debt into federal loans also makes them eligible for income-based repayment, bringing down monthly payments even further.

Savings: This Warren legislation produces 10-year savings of $22 billion.[54]

Scenario: A student borrowed $30,000 in federal student loan debt, paying on a 10-year repayment rate and with an interest rate of 6.8 percent, This student could expect to pay a total of $41,429 in principle and interest. After one year of maintaining good standing in standard repayment, the student refinances the loan at 3.86 percent, roughly today's interest rate. This refinancing results in total principle and interest and a small administrative fee of $37,296.[55]

$41,429 - $4,133 = $37,296

Debt Reduction: 10 percent.

iii. Reform Loan Servicer and Debt Collection Practices - Servicers and debt collectors have financial incentives, but these financial incentives do not always match the borrower's best interest – instead, many servicers are out for their own bottom line and may take action that actually harm borrowers. We must align financial incentives and remove bad servicers from getting federal contracts in order to improve the borrower experience, help curb default and delinquency, prevent overpayment, and the use of forbearance and deferment when it is not best for the borrower.

It is unknown how much this will save borrowers overall, but we do know there is substantial savings on the table for borrowers. For instance, overpayment was estimated to have cost borrowers $22 million from just one servicer alone (Sallie Mae).[56]

iv. Bolster Consumer Protections for Private Student Debt - Private student loans often lack consumer protections that federal student loan borrowers have. For instance, many private borrowers do not have access to income-based repayment. Others have very high interest rates. Consumer protections for private student loan borrowers should 1) ensure that borrowers know the difference between federal and private loans; 2) ensure that borrowers have access to better repayment options, and 3) restore bankruptcy protections for those truly struggling. There are an estimated $8.1B in defaulted private loans,[57] though it is unknown whether this could all be prevented by consumer protections.

v. Launch a Borrower Bill of Rights - Student loan borrowers need the best information in the right format, but currently lack good information about their student loans. Keeping borrowers better informed about their student loans could help curb default. A new Education Department complaint system collecting grievances filed by students and borrowers are referred to regulators and law enforcement agencies could help with this problem.

With the cost of college skyrocketing and student loans growing, student loan borrowers deserve an advocate on their side. The Consumer Financial Protection Bureau has a student loan ombudsman to help curb unscrupulous practices within the student loan industry. The Department of Education should create a Consumer Advocate within the agency to represent and protect the student borrower's interests.

vi. Give Schools Skin in the Game - To increase accountability and curb unnecessary debt, we propose a system of risk sharing that 1) ties a school's access to Title IV aid to a baseline threshold that measures how well borrowers are repaying their student loans (specifically ensuring that graduates are at least better off than high school students); 2) requires that institutions hold some responsibility in for repaying students' loans even if they meet that baseline threshold, but their graduates are still struggling; 3) and requires schools to provide debt relief to students who attend failing schools. With such commonsense safeguards, schools will be more likely to do their part to ensure that students will be more likely to enroll in affordable programs, complete in a reasonable amount of time, and reap the rewards in the workforce.

Conclusion

Fixing our higher education system will require action from all stakeholders – smart investments by state and federal governments; better performance by institutions; and reforms to our draconian laws facing struggling debtors. But in taking bold action, candidates can bring back the promise of a debt-free, quality degree, while cutting current debt-levels in half for today's struggling borrowers.

End Notes

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3. Ibid.

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8. Young Invincibles estimated this cost by applying the 59 percent increase of the maximum Pell award to the current cost of the program. This estimate does not include any growth in recipients, but rather estimates the immediate cost.

9. The Institute of College Access & Success, "Quick Facts About Student Debt", accessed May 13, 2105, http://ticas.org/sites/default/files/pub_files/Debt_Facts_and_Sources.pdf.

10. Assuming the net annual gain of $3,409 for a maximum Pell recipient is wholly applied to a reduction in debt taken out by the average Pell grant recipient.

11. Department of Education, "Calculating Pell Grant Awards", 3-27, https://ifap.ed.gov/sfahandbooks/attachments/0708FSAHbkVol3Ch3finalAug7.pdf, accessed May 12, 2015.

12. Cost of year-round Pell for the 2011-2012 school year, Congressional Budget Office, The Pell Grant Program: Recent Growth and Policy Options, (Washington DC: 2013), 16, Table 3 Effects on the Pell Grant Program in Award Year 2010–2011 Caused by Selected Legislated Changes to the 2006–2007 Rules, https://www.cbo.gov/sites/default/files/44448_PellGrants_9-5-13.pdf.

13. The number of Pell recipients has actually decreased since the 2010-2011 school year, which might cause this to be an inflated estimate. Furthermore, because only one year of year-round Pell data is available, we are unable to determine if the extra summer awards were used to supplant further Pell awards.

14. Ibid, the average award when year-round Pell was in effect. This estimate does not encapsulate the making Pell year-round under the increases proposed under (i).

15. Healey C. Whitsett and Rory O'Sullivan, *Lost Without a Map: A Survey about Students' Experiences Navigating the Financial Aid Process*, (Philadelphia, PA: NERA Economic Consulting, 2012), 18, accessed April 30, 2015, http://www.younginvincibles.org/2012/10/lost-without-a-map-a-survey-about-students-experiences-navigating-the-financial-aid-process/.

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