



HOUSE APPROPRIATIONS COMMITTEE

House Bill 1172

Higher Education – Pay It Forward Program and Pay It Forward Fund – Established

March 9, 2021

Unfavorable

Chair McIntosh, Vice Chair Chang and members of the committee, thank you for the opportunity to share our thoughts regarding House Bill 1172. The bill requires the Maryland Higher Education Commission to establish and implement the Pay It Forward Program. The purpose of the fund is to not only facilitate the payment of tuition and fees of students, but also monitor the repayment of those funds paid on their behalf.

The concept of income-contingent repayment of tuition dates back 50 years when first introduced at Yale University in 1971. The program allowed students to attend without paying full costs upfront by pledging a portion of their future income to the university. After completion of the degree (or after the last year of study in case of failure), the student starts repaying 4% of his total income by \$1000 borrowed. This repayment was deducted from the original amount borrowed plus interest (8% at the inception of the scheme but was revaluated every year). Yale eventually abandoned the program because the plan suffered from both adverse selection and competition with other public financing devices for postsecondary education.

The University System of Maryland (USM) acknowledges the need to provide affordable options for students to finance their education. The income-contingent model has proven less than effective for the same reasons it did 50 years ago – no up-front funding to hold institutions harmless, no compulsory requirement that all students participate, and over-representation of students who would otherwise be Pell-eligible and qualified to receive other grant or scholarship support.

The main issue is that Maryland's HBIs have persisted to fulfill their mission to expand educational access for all citizens. Like many HBIs, the key issue is a smaller endowment that hinders the ability to provide financial aid to students. The disproportionately high student loan debts carried by students of color is a barrier to financial freedom and exacerbates the nation's racial wealth gap. Under the income-contingent repayment model, loan debt grows deeper and the wealth gap wider.

Lastly, House Bill 1172 imposes burdensome restraints on the use of funding from private entities who would be in direct contractual relationships with students, prompting a chilling effect on endowment donations, grants and other philanthropic revenue. The language limits an institution's ability to determine students most in need. The bill shifts the focus away from expanding educational access to the restriction of funds to students who might otherwise qualify for

institutional scholarships. It stipulates the creation of additional programmatic requirements that do nothing to eliminate the core issue of student loan debt.

The downsides of the bill far outweigh any intended benefit to the students most in need. The USM urges an unfavorable on House Bill 1172.

