Student Loan Forgiveness Programs

Updated October 25, 2005

Gail McCallion
Specialist in Labor Economics
Domestic Social Policy Division
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. Many bills that would expand existing loan forgiveness, service payback programs or extend them to additional occupational groups have been introduced in the 109th 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 child care 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) to 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 applied only to new borrowers on or after October 1, 1998, who borrowed before October 1, 2005. In the 109th Congress, bills introduced to reauthorize the Higher Education Act, H.R. 609 and S. 1614, would make those provisions permanent.

This report will be updated to reflect congressional action.
Contents

Department of Education: Student Loan Forgiveness Programs ............... 2
 Federal Family Education Loans (FFEL) and William D. Ford Direct Loan
 Program (DL) ............................................. 2
 Pre-Existing Loan Forgiveness for Teachers ................................. 2
 Expanded Loan Forgiveness for Teachers in P.L. 108-409 ............... 3
 Loan Forgiveness for Child Care Providers ................................. 4
 Loan Forgiveness Provisions in H.R. 609 and S. 1614 ............... 5
 Federal Perkins Loans .................................................. 6

Additional Large Federal Loan Forgiveness/Service Payback Programs ...... 9
 Programs for Federal Employees ......................................... 9
 For Military Employees .................................................. 9
 For Civilian Employees .................................................. 9
 Programs for Medical and Health Researchers and Professionals .... 10

State Programs .................................................................... 11

Policy Issues ....................................................................... 12

List of Tables

Table 1. Student Loan Forgiveness Programs Administered by the U.S. Department
 of Education ................................................................. 7
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, as well as in the current Congress.

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
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.

---

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.


3 As well as portions of consolidation loans attributable to these underlying loans.
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 (continued...)

$5,000 in total loan principal and interest forgiveness after five consecutive years of 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 pre-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 the loan forgiveness provisions in effect prior to the enactment of P.L. 108-409. 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 expanded 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) in elementary schools, after five years of

---

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 (continued...)
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 Child Care Providers.** The 1998 reauthorization of the HEA also incorporated a demonstration loan forgiveness program for child care providers. The program was authorized for five years with $10 million authorized for its first year, FY1999. The program received no appropriations in the first two years after its authorization (1999 and 2000); it subsequently 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), were eligible for this loan forgiveness. Eligible child care providers were required to 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 age five or younger, and provides service in a low-income community.5

Child care providers were 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 were not sufficient to fund all eligible applicants in a given fiscal year, loan forgiveness was to be given on a first-come first-served basis, with priority given to borrowers who received forgiveness under the program in the prior fiscal year. However, in practice, the full $3 million in funding was not distributed because there were insufficient numbers of eligible child care workers. In addition, some of those who were granted loan forgiveness did not complete five years of consecutive service, and consequently were not eligible for a full five years of loan

---

4 (...continued) 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.”

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.
forgiveness. ED estimates the total number of participants in the program at 154, with approximately $900,000 in total loan forgiveness committed.6

**Loan Forgiveness Provisions in H.R. 609 and S. 1614.** Both the House Committee on Education and the Workforce, and the Senate Health, Education and Labor Committee have ordered reported legislation, H.R. 609 and S. 1614, respectively, which would reauthorize the Higher Education Act. Both bills include new student loan forgiveness provisions.

H.R. 609, the College Access and Opportunity Act of 2005, would make permanent the expanded loan forgiveness (up to $17,500) authorized by P.L. 108-409, and it would extend this forgiveness to credentialed reading teachers who serve in high-poverty schools. H.R. 609 also includes a new provision that would cancel the student loan indebtedness for survivors of victims of the September 11, 2001 attacks. And it would provide an alternative certification method for individuals deemed highly qualified to teach in private schools.

In addition, H.R. 609 would authorize loan forgiveness of up to $5,000, subject to appropriations, for service in areas of national need. This loan forgiveness would be available for early childhood educators, librarians, highly qualified teachers of bilingual education, and first responders (firefighters, police officers, emergency medical technicians) serving in low income communities. Loan forgiveness would also be available for nurses serving in clinical settings or as teachers in an accredited school of nursing; specified foreign language specialists; speech-language pathologists with a graduate degree serving in eligible schools; and child welfare workers with a degree in social work or a related field with a focus on serving children and families. The Secretary of the U.S. Department of Education would be granted the authority to designate additional individuals (who have completed a baccalaureate or advanced degree in a relevant area) to serve in areas of national need.

Finally, H.R. 609 would increase the total percentage of Perkins loan amounts eligible for forgiveness from 50% to 100% for active-duty military personnel.

S. 1614, the Higher Education Amendments of 2005, would also make permanent the expanded loan forgiveness (up to $17,500) authorized by P.L. 108-409 for highly qualified teachers of mathematics and science in secondary schools, and for special education and related specialists.

S. 1614 includes a new provision that would forgive loan balances that remain after 120 payments for eligible public sector employees repaying their DL loans on an income contingent repayment plan. In order to be eligible, the borrower’s public sector employment must be full-time and span the 10-year period during which the borrower made the 120 payments. Eligible public sector jobs include emergency management, government, public safety, law enforcement, public health, and

---

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 amount has not yet been disbursed.
education (including early childhood education). Eligibility is also extended to lawyers employed by a federal, state, or local government agency; and to employees working for an organization that is exempt from taxation under Section 501(a) of the Internal Revenue Code of 1986.

Finally, S. 1614 would extend Perkins loan forgiveness to additional categories of borrowers who meet eligibility criteria and work as librarians, prekindergarten or child care workers, full-time faculty at tribal colleges or universities, and speech language therapists.

**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. 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.

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,

---


8 Ibid. Perkins loans are also cancelled due to borrower death or disability, but ED is not required to repay institutions for these loans.
- 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.\(^9\)

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

<table>
<thead>
<tr>
<th>Stafford student loans (FFEL and DL)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of service</strong></td>
<td><strong>Forgiveness period</strong></td>
<td><strong>Maximum forgiven</strong></td>
</tr>
<tr>
<td>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).</td>
<td>$17,500 after five years of qualifying service</td>
<td>$17,500</td>
</tr>
<tr>
<td>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.</td>
<td>$5,000 after five years of qualifying service</td>
<td>$5,000</td>
</tr>
<tr>
<td>Child Care Provider Demonstration — for providers serving in child care facility serving low-income community (For new borrowers on or after Oct. 7, 1998).</td>
<td>20% for each of years two and three; 30% for each of years four and five</td>
<td>Up to 100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Perkins Student Loans</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of service</strong></td>
<td><strong>Forgiveness period</strong></td>
<td><strong>Maximum forgiven</strong></td>
</tr>
<tr>
<td>Full-time elementary or secondary school teacher in a school serving low-income students.</td>
<td>15% for each of years one and two; 20% for each of years three and four; 30% for year five and each successive year</td>
<td>Up to 100%</td>
</tr>
<tr>
<td>Full-time Head Start staff</td>
<td>15% for each year of service</td>
<td>Up to 100%</td>
</tr>
<tr>
<td>Full-time special education teacher or qualified provider of early intervention services for the disabled.</td>
<td>15% for each year of service</td>
<td>Up to 100%</td>
</tr>
</tbody>
</table>

## Perkins Student Loans

<table>
<thead>
<tr>
<th>Type of service</th>
<th>Forgiveness period</th>
<th>Maximum forgiven</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member of Armed Forces in area of hostilities</td>
<td>12½% for each of years one through four</td>
<td>Up to 50%</td>
</tr>
<tr>
<td>Vista or Peace Corps volunteer</td>
<td>15% for each of years one and two; 20% for each of years three and four</td>
<td>Up to 70%</td>
</tr>
<tr>
<td>Full-time law enforcement or corrections officer</td>
<td>15% for each of years one and two; 20% for each of years three and four; 30% for fifth year and each successive year</td>
<td>Up to 100%</td>
</tr>
<tr>
<td>Full-time teacher in shortage area</td>
<td>15% for each of years one and two; 20% for each of years three and four; 30% for fifth year and each successive year</td>
<td>Up to 100%</td>
</tr>
<tr>
<td>Full-time nurse or medical technician</td>
<td>15% for each of years one and two; 20% for each of years three and four; 30% for fifth year and each successive year</td>
<td>Up to 100%</td>
</tr>
<tr>
<td>Full-time employee of provider of services to high-risk children and families in low-income communities.</td>
<td>15% for each of years one and two; 20% for each of years three and four; 30% for fifth year and each successive year</td>
<td>Up to 100%</td>
</tr>
</tbody>
</table>

**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.

---

\(^{10}\) 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.
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.

**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); access to educational resources; as well as assistance with loan repayment.

Student loan forgiveness programs constitute a small share of the educational assistance programs available to military personnel. 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.

---


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


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

---

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

Increasing numbers of student loan forgiveness and service payback programs are also being offered by states. 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. Teaching and medical fields were the occupations most frequently targeted; almost 70% of the participants were teachers. 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. ... 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.

---


20 For more information on state programs for teachers, see CRS Report RL32050, Teacher Recruitment and Retention: Federal, State and Local Programs, by Jeffrey Kuenzi.

21 Kirshstein, et al., Workforce Contingent Financial Aid.

22 Ibid.

23 Ibid.
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. The Government Accountability 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). 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. 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.\textsuperscript{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 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.\textsuperscript{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 108\textsuperscript{th} Congress.

As noted above, presently data on these programs’ effectiveness are limited. Some outstanding questions for future research on these programs include acquiring


\textsuperscript{28} Kirshstein, et al., \textit{Workforce Contingent Financial Aid}. 
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).