



February 23, 2018

The Honorable Lamar Alexander
Chair
Committee on Health, Education, Labor and
Pensions
United States Senate
428 Senate Dirksen Office Building
Washington, DC 20510

The Honorable Patty Murray
Ranking Member
Committee on Health, Education, Labor,
and Pensions
United States Senate
428 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Alexander and Ranking Member Murray:

The National Association of College and University Business Officers (NACUBO) is a nonprofit professional organization representing chief administrative and financial officers at more than 1,900 colleges and universities across the country. NACUBO's mission is to advance the economic vitality, business practices, and support of higher education institutions in pursuit of their missions.

NACUBO is keenly interested in ensuring that students receive an education worth their time and money—and in working with you to ensure the avenues you are exploring for reauthorizing the Higher Education Act meet that objective.

Without legislative text to respond to, we have focused our comments on some of our concerns with H.R. 4508, the Promoting Real Opportunity, Success, and Prosperity through Education Reform (PROSPER) Act, approved by the House Committee on Education and the Workforce. NACUBO's members, who include chief financial officers and student financial services administrators (bursars), have raised notable concerns with two specific provisions of the PROSPER ACT, "aid like a paycheck" and the return of Title IV funds; we elaborate below.

We have recently urged Sen. Alexander, in response to a white paper on risk sharing, to ensure that such "skin in the game" measures do not make it costlier for an institution to provide a quality education, and do not create a disincentive for institutions to expand access to high-risk student populations. And, while NACUBO supports simplification of the student aid programs, we also urge you to carefully consider the value of the campus-based programs which are a prime example of risk sharing. Institutions provide considerable resources to support these programs, which are essential to filling gaps in funding for the neediest students.

Further, NACUBO fully endorses the seven principles presented by the American Council on Education:

- Do no harm. Reauthorization of the HEA should be used to clearly and unambiguously improve student aid for students.

- The HEA should continue to promote access to postsecondary education and encourage completion.
- Terms, conditions, and loan limits for federal student loans matter.
- Institutions should be responsible for defining their mission and the nature of their academic programs.
- The bill should make efforts to reduce fraud and abuse where it exists, and should not take steps that will increase the likelihood of fraud or abuse.
- The federal government should encourage experimentation and expansion of new learning opportunities to promote quality and efficiency.
- Streamline regulations and reduce regulatory burden in a manner that allows institutions to meet their obligations to students and taxpayers without imposing unnecessary cost or the diversion of resources.

Aid Like a Paycheck

The PROSPER Act would change the way federal loans and grants are disbursed outlining a process known colloquially as “aid like a paycheck.” Rather than students receiving all of their aid at once, under this proposal aid would be disbursed throughout the term in smaller amounts. The provision allows for unequal disbursements to enable students to meet upfront obligations for tuition and fees, books, and other early expenses, and then require remaining Title IV aid to be disbursed periodically, providing smaller credit balance refunds to the student much like a paycheck. Supporters of this proposal argue that this would help students better budget their funds.

“Aid like a paycheck” may be a useful tool for some students. However, NACUBO encourages you to provide this avenue as an option for schools and students to use at their discretion, rather than mandate a new student account procedure.

While conceptually intriguing, NACUBO urges you to consider complicating factors in practice. NACUBO questions how such disbursements interplay with other aid received by students. Currently, aid is disbursed once per term and a credit balance refund, if available, is issued to the student. A credit balance is the amount left in the student’s account after all payments—institutional aid, state aid, and payments from other sources, including loan proceeds—have been applied to institutional charges. Not all aid comes from Title IV; under long-standing policy a credit balance is only considered a Title IV credit balance if the student’s Title IV aid exceeds institutional charges (regardless of other sources of funds). Thus, unless students and schools voluntarily decided to disburse all credit balances under the same scheme, for those with payments from multiple sources, it could be quite confusing to both parties to disburse Title IV aid on a different schedule.

We further note that because the PROSPER Act eliminates subsidized loans, it is unclear when interest on unsubsidized loans would be charged. Would the interest begin to accrue for each disbursement when it is made, or would it begin to accrue for the full loan amount when the first disbursement is made?

While the proposal allows for a larger, initial disbursement, what about cases where students need their entire credit balance refund at the beginning of the term? It is not uncommon for some students to have housing or other large expenses they need to address early in a term. What if the remaining credit balance is relatively small? Is it in anyone’s interest to pay out \$200 in four installments? If the amounts

of aid to disburse are standardized for all students, some may be left without sufficient funds when they are needed. If schedules are individualized, costs and complexities to the institutional offices charged with making payments to students may well be overwhelming.

Without further consideration of other student account factors, the “Aid Like a Paycheck” proposal could add more complexity for institutions and students alike.

Return of Title IV Funds

The PROSPER Act would modify the current policy on returning “unearned” Title IV funds when students withdraw before completing a term in several ways:

- Rather than being prorated for the first 60 percent of the term, aid would be earned in quarters, so that a student who withdrew before completing 25 percent would not be entitled to any aid, a student who withdrew between 25 and 49 percent of the period would earn only 25 percent of her awarded aid, and so on. Only students who completed a term would be entitled to the full amount of aid awarded.
- Institutions would have to return unearned aid without regard to whether the aid had been retained by the school to cover institutional charges or paid out to the student to cover living expenses. Institutions could not collect more than 10 percent of the amount returned to ED from the student, regardless of how much of the aid had been paid directly to the student. It is unclear how this constraint interacts with an assurance that the institution is free to enforce its own refund policy.
- The order in which funds are returned to Title IV programs is reversed, with funds going back first to the Pell Grant program and last to repay loans.

Lower-cost institutions, especially open access community colleges, will be disproportionately impacted because amounts to be returned by the school are based on total aid (rather than the amount retained by the school to cover institutional costs) and do not consider the amount of aid paid to the student for non-institutional costs (such as tuition and fees). Very simply, for such students, schools are required to return funds they do not have and are restricted in their ability to recover from the student.

It is not unusual for schools, particularly public ones, to allow students a risk-free period until the end of drop/add during which they can withdraw without owing tuition and fees to the institution. Under this proposal, if the student received a credit balance refund payment, however, the school would be required to repay that amount—leaving the school with no recourse and opening up a potentially lucrative avenue for fraud.

As we have noted in response to risk sharing proposals, here too, is a policy that penalizes schools for enrolling at-risk students and is likely to discourage their admittance. Low-income students drop out for many reasons, often relating to financial strain, family responsibilities, and other causes unrelated to the quality of the education offered by their school.

One public university with an enrollment of 44,000 students estimated that these changes would result in more than doubling the amount of unearned aid it would need to return, for an overall cost of \$1.5 million more than under current rules (out of \$4.5 million in aid disbursed to approximately 750 aided students who withdrew in a recent year).

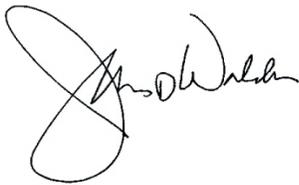
Students, too, will be left holding the bag under this proposal. For example, the more money a student ends up owing to the school when they drop, the harder it is for the student to reenroll and complete their education. Funds returned to the federal government, under the PROPSEER Act, would be applied first against grants rather than paying down loans, leaving students with more debt—current rules repay loans first.

Risk Sharing

We have attached our comments on risk-sharing but will stress again that institutions that continue to accept high-need borrowers must commit to student success to mitigate their future default risks. These commitments do not come without costs and require investment of institutional resources. Further, open access institutions like community colleges, who frequently serve first-generation students, would be hit particularly hard by proposed risk sharing models. The committee should explore more ways to reward institutions that invest in vulnerable populations.

NACUBO welcomes the opportunity to further discuss the issues raised here and other proposals you are considering as you take steps to reauthorize the Higher Education Act.

Sincerely,

A handwritten signature in black ink, appearing to read "John Walda". The signature is fluid and cursive, with a large loop at the beginning and a smaller loop at the end.

John Walda
President and Chief Executive Officer

Attachment: Feb. 15, 2018 Letter to Sen. Alexander re: risk sharing



February 15, 2018

Senator Lamar Alexander
Chairman
Committee on Health, Education, Labor and Pensions
United States Senate
428 Senate Dirksen Office Building
Washington, DC 20510

Dear Chairman Alexander:

The National Association of College and University Business Officers (NACUBO) is a nonprofit professional organization representing chief administrative and financial officers at more than 1,900 colleges and universities across the country. NACUBO's mission is to advance the economic vitality, business practices, and support of higher education institutions in pursuit of their missions.

Those missions, rooted in teaching and education as well as the pursuit of research and community service, are costly endeavors. NACUBO shares your concerns with ensuring students receive an education worth their time and money. Many policy discussions have, rightly, gone into great depth of consideration of the costs students and families face, as well as the resulting student loan debt. It is not a small task to devise a measure to ensure that students leave an institution of higher education better off than they would otherwise be, and not face a difficult financial future due to student loan debt.

However, NACUBO wishes to place some of your focus on the cost of providing a worthy education. Looking at K-12 spending (based on 2015 data from the National Center for Education Statistics), states spent on average \$12,903 per student. But that ranges dramatically. New York spends on average \$20,744 per student, while Utah spends \$6,751. While students and families do not *pay* tuition to attend public elementary and secondary schools, there is still a cost—just as there are costs to providing postsecondary education. Public elementary and secondary education costs are borne by the taxpayer (and many K-12 advocates argue that local school districts are underfunded). Postsecondary education is typically much costlier to deliver.

NACUBO is concerned that current risk-sharing discussions have not fully taken into account the cost of providing higher education. Efforts to address accountability, particularly when examining whether higher education is *worthy*, must also consider the perverse relationship these risk-sharing proposals can have on the costs of delivering quality higher education programs.

Under the accountability measures outlined in your white paper, institutions that continue to accept high-need borrowers must commit to student success to mitigate their future default risks. Such commitment is not free; but rather involves an investment of institutional resources. Additional monetary outlays increase the overall cost structure that tuition and fees will need to fund. Simply put, it is hard to see how these accountability measures will lower costs—and where new revenue will come from to fund such investments. States have little appetite to charge the public more for tuition and fees

and have declining or limited room in their budgets to increase appropriations (support) for higher education.

Alternatively, your accountability measures may deter institutions from accepting higher need borrowers purely from a risk management perspective. This contradicts the goal of expanding college access. Open access institutions like community colleges, who frequently serve first-generation students, would be hit particularly hard by this provision. Rather than creating what could amount to a punitive system, the Committee should explore more ways to reward institutions that invest in vulnerable populations.

It is NACUBO's belief that any attempts to tie more institutional accountability to a student's eventual financial success should seek to do so without making it costlier for an institution to provide such an education, and should certainly not create a disincentive for institutions to expand access to high-risk student populations.

It is important to note that colleges and universities are already seeking best practices and investing in them. While many are quick to criticize spending at college campuses as, "administrative bloat," a closer look at institutional spending reveals that schools are investing heavily in student services. A 2014 study by the Delta Cost Project at the American Institutes for Research found that, "Colleges and universities have invested in professional jobs that provide non-instructional student services, not just business support. Across all educational sectors, wage and salary expenditures for student services (per FTE staff) were the fastest growing salary expense in many types of institutions between 2002 and 2012." Non-faculty staff may include professionals in financial aid and academic advising, counseling and health services and other specialized areas ranging from athletics to student-veterans support programs, where wise investments can have positive impacts on both completion and student success.

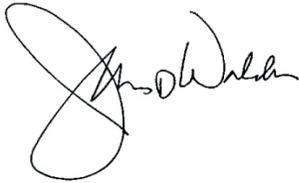
An additional area of concern lies in the fact that the proposals you are exploring require colleges and universities to face new liabilities on loans that these institutions do not actually own and in situations where schools have no power to make credit decisions or any determinations regarding borrowers. Further, because schools do not own or manage these loans, they have no service control over, including debt collection. In what other financial transaction would a party without control over a loan or the authority to collect somehow be held financially liable for the borrower default? Postsecondary institutions should not be held financially liable for the default rate of loans over which they have no tangible control in any sense up to and including the time the borrower is approved for the loan, the period in which they begin repayment, and their eventual loan repayment or loan default.

NACUBO recognizes that the ability of a student to repay their federal student loans after receiving a sound college education is important, both to Congress and to institutions of higher education. Rather than create a new, costly, and punitive system to achieve this shared goal, we urge you to explore ways to help institutions demonstrate the investments colleges and universities are already making in student success.

Further, because a student's ability to repay their loans relies on employment opportunities and economic conditions, we urge you to consider whether federal policy mechanisms can incentivize additional parties (e.g. employers, and state and local governments) to share the responsibility of student-to-employment success.

NACUBO welcomes the opportunity to further discuss college access, affordability, student completion and loan repayment rates with the Committee. Congress, working in conjunction with the higher education community, has an opportunity to improve the long-term financial stability of student borrowers without harming the institutions that educate them. We look forward to exploring these opportunities with you so we can continue to ensure America's legacy as providers of high quality higher education.

Sincerely,

A handwritten signature in black ink, appearing to read "John Walda". The signature is stylized with a large, looping initial "J" and a cursive "Walda".

John Walda
President and Chief Executive Officer