NACUBO

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NACUBO Executive Summary

Return of Title IV Funds in the PROSPER Act (HR 4508)

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 per term.** A student who withdrew before completing 25 percent of a term 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.**

NACUBO Concerns

The proposal opens up a potentially lucrative avenue for fraud—and leaves schools with no recourse. 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. Under this proposal, if the student received a credit balance refund payment, however, the school rather than the student would be required to repay that amount.

Schools are required to return funds they do not have and are restricted in their ability to recover from the student. Amounts to be returned to ED 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.

Policies that penalize schools for enrolling at-risk students are likely to discourage their admittance. Low-income students drop out for many reasons, often relating to financial strain, family responsibilities, and other causes not related to the quality of the education offered by their school.

The proposal will leave students with more debt. Returned funds would be applied first against grants, rather than paying down interest-generating loans—current rules repay loans first. Data shows that students who do not complete their education are the most likely to default.

Lower-cost institutions, especially open access community colleges, will be disproportionately impacted. One public university with an enrollment of 44,000 estimated that these changes would result in more than doubling of the amount of unearned aid it needed 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).

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