Higher Education Act Reauthorization Risk Sharing Proposals

Over the last few years, as Congress has contemplated the reauthorization of the Higher Education Act (HEA), one of the ideas that has had the most traction has been increasing the stakes for institutions in the success of their students, often referred to as "skin in the game" or risk sharing. NACUBO believes that attempts to tie more institutional accountability to students' eventual financial success should seek to do so without making it costlier for institutions to provide education and should not create a disincentive for institutions to expand access to high-risk student populations.

We are concerned specifically that risk sharing proposals:

1. Discourage schools from increasing access to higher risk students (who often tend to be lower income/first generation students).
2. Put open-access institutions at a disadvantage even though these schools—primarily community colleges—are often the key to making higher education more affordable for many students.
3. Encourage schools to lower standards and/or program requirements to make it easier for students to stay enrolled, which lowers program quality overall.
4. Penalize institutions in cases where students drop out for personal reasons unrelated to the quality of education offered.
5. Encourage schools to prioritize certain academic programs to the detriment of others, which will eventually lead to a decrease in available fields of study.
6. Incentivize schools to encourage students to game the system, i.e., if an institution has students in a program who haven't borrowed, the school would benefit from offering these students an incentive to take out small loans and repay them immediately to bring up the program's overall repayment rate.
7. Do not consider borrower entitlements, such as deferment and forbearance, that delay repayment for students' benefit. A community college's repayment rate should not be adversely impacted because a former student's repayment has been deferred while they continue their studies at a senior institution. Similarly, four-year colleges and universities should not have their repayment rates adversely impacted every time one of their former undergraduates receives a deferment while pursuing an advanced degree.

PROSPER Act

The Promoting Real Opportunity, Success, and Prosperity through Education Reform (PROSPER) Act, introduced by House Education and the Workforce Committee Chairwoman Virginia Foxx (R-VA) and passed by the committee on a party-line vote in December 2017, proposes a number of new accountability and "risk sharing" measures. **The PROSPER Act proposes that in order for colleges and universities to "share in the risk of non-completion," institutions should bear most of the responsibility for repaying unearned aid when a student withdraws from an institution.**

The PROSPER Act would also replace metrics based on institutional-level cohort default rates with repayment rates at the program-level within institutions. Individual programs could lose eligibility for aid based on the ability of their graduates repay their student loans. The metric would be tied to individuals who are 90 days or more late on repayment as opposed to those actually in default.

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Alexander White Paper

While the Senate Health, Education, Labor, and Pensions Committee has not yet released a comprehensive legislative text for HEA reauthorization, Sen. Alexander (R-TN) has issued an HEA accountability whitepaper in his role as chair. **The whitepaper proposes eliminating the cohort default rate system that has been used for over twenty years and moving to a loan repayment rate system that ties an institution's eligibility for Title IV funds to the percentage of students who fail to pay down at least $1 of their principal loan balance within three years.**

Like the PROSPER Act, the whitepaper proposes creating a separately calculated loan repayment rate for each program offered by an institution. A program with a loan repayment rate of less than 45 percent for three years would lose Title IV eligibility. The whitepaper also suggests creating a new cohort repayment rate whereby the federal government would calculate the percentage of federal student loan dollars that have been repaid by borrowers five years after they leave school. Then, "if any college had a cohort repayment rate below 20 percent, the college would be required to pay part of the difference to the federal government."

Democratic Caucus HEA Reauthorization Principles

Shortly after the release of Sen. Alexander's whitepaper, the Senate Democratic Caucus issued a set of principles to guide the HEA reauthorization process. The principles as outlined are: addressing affordability and student debt, increasing institutional accountability and transparency, increasing access and success, and protecting student safety and rights. While the document emphasizes increasing institutional accountability, it does not spell out specific proposals to do so. Instead, it states that **"colleges with low student loan repayment rates and high default rates should be held accountable for their use of federal student loan dollars, and colleges with poor access, persistence, or completion rates should be accountable for their use of grant aid."**

In July 2018, House Democrats introduced their HEA reauthorization bill, the Aim Higher Act (H.R. 6543). Like the principles issued by Senate Democrats, the Aim Higher Act focuses on improving access to a quality degree, making college more affordable, and increasing completion.

Institutions Already Have Skin in the Game

Colleges and universities invest in their students. According to *Trends in Student Aid 2017*, a study from The College Board, in 2016-17, undergraduate and graduate/professional students received $125.4 billion in grant aid, which is 74 percent more in inflation-adjusted dollars than a decade ago. Colleges and universities provided a significant share of that grant aid. In 2016-17, the federal government provided only 32 percent of all grant aid, while higher education institutions contributed 47 percent. Federal grant aid as a share of total grant aid has declined noticeably over the past few years; in 2010-11, federal grants accounted for 44 percent of the total.

Additionally, 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.