

April 28, 2015

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:

On behalf of the undersigned associations, we write to offer our comments on the white paper on risk-sharing/skin-in-the-game proposals that was released by your committee. As you work towards a comprehensive reauthorization of the Higher Education Act, we appreciate your thoughtful and transparent efforts to improve the vital relationship between higher education and the federal government.

Fundamentally, our member colleges and universities are deeply invested in seeing their students succeed. In most cases, the price of tuition to a student is less than the cost an institution incurs to provide an education, representing a strong commitment to our students' success. The overwhelming majority of institutions demonstrate this commitment in a variety of ways, reflecting the great diversity of structure and mission that is a hallmark of the American higher education system. As a result, institutions are eager to work with all stakeholders on ways to better align federal policy with the common goal of improving outcomes for every student. We welcome scrutiny of our efforts, and would support the implementation of effective new measures to provide additional assurances that taxpayer funds are being well-used.

Unfortunately, that viewpoint is not represented in the proposals identified in the white paper. Many of these proposals appear to be predicated on the assumption that institutions need to be compelled to address issues such as over-borrowing and student completion, and that only the federal government is able to determine (and implement) a system that will force them to do so. It is troubling that the strategy identified in the white paper would "require all colleges and universities to share in the risk of lending to student borrowers," even when the overwhelming majority of institutions have been excellent stewards of public support. Far from incentivizing positive behaviors, this approach will

Risk-Sharing and Skin-in-the-Game Proposals

April 28, 2015

instead penalize all students and institutions in attempt to address the behaviors of a handful of bad actors.

The white paper identifies a number of concepts for the implementation of a risk-sharing system. While there is great variety in the details of these concepts, they break down into three general categories:

Participation Fees – Under this concept, the federal government would mandate that institutions pay a fee to participate in the federal aid programs. This may take the form of a per-borrower fee or as a percentage of aid awarded, but would represent an annual payment to the federal government.

Default Penalties – This concept envisions institutions repaying some percentage (with the ranges mentioned varying from 10% to 100%) of the dollar amount of their former students' defaulted loans.

Institutional Loan Guarantees – Unlike the other two concepts, this concept envisions institutions being responsible for some (or all) of the capital and interest on the loans borrowed by their students.

Regardless of the structure, if mandated, all of these concepts envision a system whereby institutions are responsible for assuming significant increases in both cost and risk as a condition of their participation in Title IV programs. We do not believe this approach will meet the goals sought, but rather will ultimately result in all students paying more for their college education. Even new and promising practices such as loan guarantees, are still experimental and would not work for everyone. Certainly, their creativity and flexibility would be lost through a federal mandate.

The obvious (and counterproductive) implication of the adoption of any such approach will be for either corresponding increases in costs for all students, or reductions in services and educational offerings as institutions struggle to balance the financial burdens imposed by this new federal mandate.

Other, less obvious implications will have equally severe consequences. A system that does not impose upfront participation fees, but instead threatens penalties for default rates will have negative consequences for institutions' credit ratings. Even assuming the damage to an institution's credit rating that would be imposed by the assumption of greater, and unknowable, risk would not preclude those institutions from securing credit, it will undoubtedly increase the costs of borrowing, particularly as these annual risks will be multiplied across the lifetime of the financing sought.

Similarly, institutions with open-access admissions policies, or those who serve a large number of low-income students, could reasonably decide that the additional cost and risk associated with participation in federal student lending would be too onerous, and would instead choose to withdraw from the federal loan programs entirely. Such a response would either preclude low-income students from attending the institution of their choice or force them to pursue private lending, with the associated increase in cost and loss of

Risk-Sharing and Skin-in-the-Game Proposals

April 28, 2015

protections that low-income borrowers with poor or limited credit typically experience. Previous federal efforts have already resulted in these consequences. Numerous community colleges have made the decision to drop participation in federal student loans rather than run the risk of losing eligibility for Pell Grants and other aid.

Therefore, we are greatly concerned about the financial impact of any such policies on students. These additional expenditures could arguably have merit if they resulted in meaningful changes to student outcomes. However, this is not the case. As outlined in the white paper, the goal of such efforts would be to incentivize institutions to reduce student borrowing and improve student outcomes. These are two important, but substantively different, goals and it makes sense to examine the likely impact of these proposals on each goal separately.

Reducing Borrowing

The theory behind risk-sharing proposals as a solution to over-borrowing is that institutions will move to reduce borrowing amounts for their students out of fear of penalties and fees if they default. Currently, however, institutions have significant limitations on their ability to curb over-borrowing, as the right to borrow federal dollars is an entitlement.

These limitations include not only the ability to limit borrowing, but also the ability to require additional counseling to borrowers that have been identified as at-risk. This creates the unfortunate scenario of institutions being responsible for their default rates, but having no practical tools at their disposal to limit borrowing or better prepare students for repayment. Institutions similarly have little ability to influence the behavior of borrowers after they have left the institution. This is particularly true for students who leave without a credential, often times without even letting the institution know. Furthermore, as the white paper notes, the vast majority of defaulters have outstanding debts well below current aggregate borrowing limits, thus suggesting that over-borrowing is not necessarily the leading cause of default.

Such proposals, by adding additional cost, risk and burden to institutions will necessarily result in corresponding increases in costs to students, as institutions attempt to maintain services. This is particularly true for public institutions, which often have little control over the institutional support provided by the state. State disinvestment in higher education is the greatest driver of increased costs (and associated increased borrowing). It is also true for private, non-profit colleges, particularly those who are tuition driven and serve high percentages of students with need. There would be no other means of paying for the increased costs than to raise tuition.

Improving Student Outcomes

Financial aid programs were created to ensure that students had equal access to higher education, regardless of their economic circumstances. This system is predicated on the basic concept that students share in the responsibility for their education, and that

Risk-Sharing and Skin-in-the-Game Proposals

April 28, 2015

providing opportunity is a more valuable policy goal than limiting risk. The adoption of risk-sharing proposals would do much to reverse those longstanding principles.

As we mentioned previously, any changes to the financial aid system on the order of magnitude proposed in the white paper are likely to produce significant unintended consequences. Tying new risks and costs to the profile of students admitted creates a negative incentive for enrolling low-income students, who are already proportionally less likely to complete than their better-off peers. The most obvious and damaging of these unintended consequences would be that some institutions would seek to minimize their exposure by becoming more selective based on likelihood of completion and family income.

The white paper partially addresses concerns over limiting access to low-income students by suggesting that “institutions can minimize their risk by deploying more resources into academic or other support services to drive on-time completion, success, and ultimately repayment of loans.” We agree that increased investment in student support programs such as TRIO would have a strongly beneficial impact on low-income student success. Realistically, though, imposing significant new fees or penalties will reduce institutions’ ability to provide or expand these critical programs.

Recommendations

Rather than impose burdensome, expensive and counterproductive measures such as those discussed in the white paper, there is a great deal that the federal government can do to streamline federal policy and stimulate increased investment by all stakeholders.

An obvious example would be a meaningful commitment to the campus-based aid programs. These programs were created with the specific goal of ensuring that all stakeholders (students, institutions, states and the federal government) were invested in the success of each student. An important feature of campus-based aid programs is that institutions must have “skin-in-the-game” by providing matching contributions to leverage the federal investment. Despite their demonstrated effectiveness, these programs have seen their support reduced (SEOG), eroded (Perkins) or eliminated (LEAP). Even though there have been no new capital contributions to the Perkins Loan program since FY2005, institutions have continued to invest in the program on their own, demonstrating their commitment to their students. Similarly, the federal TRIO programs, with over 2,800 programs in operation on college campuses, have a demonstrated record of success in helping low-income students access and complete postsecondary education. Congress could do much to correct perceived lack of participation by states and institutions by revitalizing these programs, rather than proposing punitive new measures.

If the goal of this effort is to reduce student borrowing and/or default, then any changes to the financial aid system need to look at the process holistically. Imposing new cost, risk and burden on institutions will not meet this goal. Instead, Congress must build partnerships that will incentivize increased state funding; ensure the availability of sufficient grant aid to low-income students and restructure the borrowing and repayment processes to limit the cost to students. This can be done through streamlining of income-

Risk-Sharing and Skin-in-the-Game Proposals

April 28, 2015

based repayment plans, the elimination of origination fees, lower interest rates on student loans and allowing for a broader ability for borrowers to discharge loans in bankruptcy. In addition, the myriad problems with servicing of student loans must be addressed. Our members have long supported the creation of a unified portal for borrowers to manage all of their loans and repayment options. In combination with greater efforts by the Department to hold servicers more accountable, such measures would go a long way to reducing default.

Alternatively, if the goal of this effort to punish poor-performing institutions, then any changes to the Higher Education Act need to meaningfully target institutions with demonstrated levels of high borrowing and high default across their student populations and deny them access to Title IV aid programs. It makes no sense to add significant new expense and burden to institutions where no problems exist. While the white paper rightfully questions the effectiveness of existing provisions that bar poor-performing institutions from participation in Title IV aid programs as being burdensome, poorly-targeted and expensive, it simultaneously proposes extending a new federal measure to all institutions, regardless of performance, that will add significant new costs and administrative burden. Employing a risk-based assessment that would target institutions with a demonstrated failure to effectively serve students and be responsible stewards of taxpayer funds, and removing their eligibility to participate in Title IV programs entirely would be a far more effective approach. The reauthorization of the Higher Education Act provides an opportunity to examine the current system of safeguards, and replace them with a stronger, more streamlined measure.

Most important, if the aim of any changes is to incentivize greater institutional responsibility for student borrowing and student outcomes, then institutions must be granted the authority necessary to truly address these issues. Any reauthorization of the HEA should provide financial aid administrators the ability to set borrowing limits at lower levels and to require additional counseling for groups of students based on factors such as the particular program of study, course load or level of academic preparation.

Our members are dedicated to providing their students with the best opportunity for success and welcome strengthened accountability. We take these obligations to our students seriously, and understand the necessity of maximizing the financial support they are provided by the federal government. However, we would be seriously concerned with any effort to employ risk-sharing measures such as those proposed in the white paper.

We believe that any changes to the Title IV programs must account for both the incentives provided and the likelihood of unintended consequences. If these changes are solely punitive in nature, adding significant new costs, risks and burdens to participation, they are likely to only produce negative outcomes. In order to effectively meet their goals, and properly incentivize better outcomes for all students, any changes must be carefully targeted to incent and reward positive changes, while simultaneously penalizing only those institutions that fail to serve their students.

We thank you for your consideration of these comments, and look forward to working with you further as you advance a reauthorization of the Higher Education Act.

Risk-Sharing and Skin-in-the-Game Proposals
April 28, 2015

Sincerely,



Molly Corbett Broad
President

On behalf of:

American Association of Colleges of Nursing
American Association of Colleges of Osteopathic Medicine
American Association of Collegiate Registrars and Admissions Officers
American Association of Community Colleges
American College Personnel Association
American Council on Education
American Dental Education Association
American Indian Higher Education Consortium
APPA, Leadership in Educational Facilities
Association of American Medical Colleges
Association of American Universities
Association of Catholic Colleges and Universities
Association of Community College Trustees
Association of Jesuit Colleges and Universities
Association of Public and Land-grant Universities
Council for Christian Colleges and Universities
Council for Opportunity in Education
Council of Independent Colleges
EDUCAUSE
Hispanic Association of Colleges and Universities
National Association for Equal Opportunity in Higher Education
National Association of College and University Business Officers
National Association of Independent Colleges and Universities
National Association of Student Financial Aid Administrators
National Association of Student Personnel Administrators
UNCF