

# INSTITUTIONAL RISK-SHARING

As Congress and the higher education community work toward the reauthorization of the Higher Education Act (HEA), broad themes and proposals have emerged. One underlying concept is accountability, with a particular focus on sharing the “risk” in the federal student aid programs between the federal government and institutions. Incentivizing creative and effective ways to improve success and completion is a positive step—far preferable to negative and punitive measures. More fundamentally, however, we are not convinced that an emphasis on risk-sharing takes into account the responsibilities for at-risk students that institutions already assume, or that risk-sharing measures proposed to date would provide more incentives than disincentives.

## Sharing the Risk in Higher Education

While policymakers continue to emphasize the need for additional “skin-in-the-game” for institutions, many fail to recognize that schools already take on significant risk when utilizing scarce resources on students who have been deemed at-risk. Institutions commit seats and provide remediation for students who need extra investment to benefit from higher education. In addition, colleges and universities provide—as possible—generous grant aid and participate in the Perkins Loan and Federal Work-Study programs, which entail risk-sharing in the form of institutional contributions and administrative expenses. Some institutions forgo even the minimal administrative expense allowance for these programs or overmatch with their own funds in order to maximize the amount of aid available to needy students.

Institutions have a vested interest in the success of their graduates, but to tie an institution’s eligibility for federal aid dollars to the repayment behavior of its current and former students can be problematic. Some institutions, particularly community colleges, have “open enrollment” policies and do not select which students are admitted. Their mission is to serve their communities by providing unconditional access, and affording support services to students with insufficient academic preparedness. Further, once a student leaves an institution, schools have no control over the actions or inactions a student takes regarding repayment, including the relationship between a loan servicer and student. As a result, a poorly designed risk-sharing system could have the perverse incentive of increasing the number of institutions (most likely community colleges) that choose not to participate in the federal loan programs. Colleges that are not open enrollment might become more selective in their admissions policies. These unintended results would reduce access for students and/or necessitate a greater reliance on private borrowing where consumer protections are inferior to federal loans.

## NASFAA Risk-Sharing Recommendations

- Provide institutions with the tools to curb student indebtedness.

In a 2015 white paper on risk-sharing, Sen. Lamar Alexander (R-TN) included “reducing excessive student borrowing” among his goals for risk-sharing proposals. One way to reduce excessive student borrowing is to provide student financial aid administrators on campus the authority to limit loan borrowing for certain categories of students and the authority to mandate additional counseling. Currently, institutions do not have the full capability to deny a student a loan or better prepare student borrowers, yet still remain on the hook for any future default.

- Support the Campus-Based Aid Programs.

Under the three federal campus-based aid programs, which include the Federal Perkins Loan Program, the Federal Work-Study (FWS) Program, and the Federal Supplemental Educational Opportunity Grant (FSEOG) Program, institutions match at least one-third of federal contributions they receive with their own funds. These programs stretch federal investment further and represent true risk-sharing in that institutions put their own dollars on the line to support students with need in their pursuit of higher education. Over the years, funding for these programs has remained relatively flat as the cost of higher education increases.

- Extend the Federal Perkins Loan Program.

Of note, Congress should support the Federal Perkins Loan Program, perhaps the original risk-sharing program, before it expires on September 30, 2017. To participate in the program, institutions contribute at least one-third of the funds to establish a revolving loan fund to serve students with unmet need. Over the years, institutions have contributed significant institutional resources to their revolving loan funds to support their students. It is ironic that at a time with such a great focus on risk-sharing Congress is trying to eliminate an effective risk-sharing program.

## Risk-Sharing Resources for NASFAA Members

- [Sen. Alexander White Paper on Risk-Sharing](#) and [NASFAA Reply](#)

The second of three HEA reauthorization white papers released by Sen. Lamar Alexander (R-TN) in 2015 calls for a realignment and improvement of federal incentives “so that colleges and universities have a stronger vested interest and more responsibility in reducing excessive student borrowing and prioritizing higher levels of student success and completion.” The report adopts a strategy of designing “market-based accountability policies that require all colleges and universities to share in the risk of lending to student borrowers.”

In response, NASFAA outlined its priorities and perspectives on accountability in a letter to the Senator.

- NASFAA Editorial: [Calls for ‘Skin in the Game’ in Higher Education Ignore an Existing, Effective Program](#)

NASFAA President Justin Draeger published an op-ed in *The Hill* newspaper on legislative proposals around accountability and the inherent risk-sharing components of the Federal Perkins Loan Program.

- Risk-Sharing Legislation Introduced in the 114<sup>th</sup> Session of Congress

Since the start of the 114<sup>th</sup> Session of Congress in 2015, several proposals have been introduced to implement a higher education risk-sharing system.

- [NASFAA Legislative Tracker: Quality & Accountability](#): The NASFAA Legislative Tracker includes all pieces of legislation introduced in this session of Congress related to student aid. The quality and accountability page includes legislative proposals that look to hold institutions or individuals responsible for their actions or performance, including several “risk-sharing” proposals.
- [Protect Student Borrowers Act](#): This bill would require institutions of higher education with cohort default rates at 15% or higher to pay a certain percentage of the total amount of loans made to students in default. Payments would be used to rehabilitate certain loans, develop programs to assist borrowers in default, and offset any future shortfalls in the Pell Grant program. The bill was introduced by Sen. Reed (D-RI) with Sens. Warren (D-MA), Durbin (D-IL), and Murphy (D-CT) in the Senate and by Rep. Carney (D-DE) in the House.
- [Student Protection and Success Act](#): This bill would implement an institutional risk-sharing model where eligibility for student aid funding would depend on cohort repayment rates. Sens. Shaheen (D-NH) and Hatch (R-UT) introduced the bill.

- Other Risk-Sharing Resources

- [Risk-Sharing Proposals Would Have Negative Consequences for Students and Institutions](#), Published by American Council on Education on 4/29/15
- [Proposing a Federal Risk-Sharing Policy](#) by Robert Kelchen, Published by Lumnia Foundation on 9/9/15
- [Share the Risk on Student Loans](#) by Andrew Kelly, Published by American Enterprise Institute on 9/7/16