February 15, 2018

The Honorable Lamar Alexander
Chairman
Senate Committee on Health, Education, Labor and Pensions
United States Senate
Washington, DC 20510

Dear Chairman Alexander:

On behalf of the National Association of Student Financial Aid Administrators (NASFAA), I thank you for the opportunity to comment on the Committee’s recent white paper focused on higher education accountability. We appreciate the Committee’s interest in ensuring a shared responsibility between the federal government, institutions, and students, and believe that each partner having appropriate “skin-in-the-game” is crucial to the success of our nation’s higher education system.

Below we offer principles for the Committee to consider when exploring higher education accountability. These principles outline our thoughts on the most effective forms of risk-sharing and outline some serious concerns about the potential unintended consequences of setting up an accountability structure that does not take into account the many institutions that already assume a great deal of risk by enrolling at-risk students.

1. Congress should acknowledge, and try to work within, existing institutional risk-sharing.
   What is lost and overlooked in the conversation about risk-sharing is that many schools already assume risk by committing seats and resources to at-risk populations. Lower completion/graduation rates, higher need for preparatory coursework, more personal attention, more need for all forms of aid (including loans that may increase the school’s default rates), and loss of revenue if a student drops out are all existing risk factors that schools assume.

   Schools are already subject to rules requiring them to return funds for students who leave before completing the term. In fact, assumptions underlying the Return of Title IV Funds (R2T4) process often result in schools reimbursing Title IV programs out of the institution’s own coffers, which often is not recouped by the school, all because it is in the best interest of the student. The financial incentive to retain students is already
built-in since schools cannot simply fill a vacated seat midterm with another paying student.

Further, the narrative that institutions do not have enough accountability is perplexing considering colleges and universities provide more grant aid than any other source of aid, including the federal government. In award year 2016-17, schools awarded 47 percent of all grant aid, while the federal government only accounted for 32 percent of overall grant aid.\(^1\) Surely this investment constitutes institutional “skin-in-the-game” and a commitment to serving students.

Related, institutions have provided monetary or in-kind matches (often in excess of what the law requires) for decades in the campus-based programs: the Federal Supplemental Opportunity Grant (FSEOG), Federal Work Study (FWS), and the now-defunct Perkins Loan Program. We have been frustrated by the Congressional interest in institutional risk-sharing and the simultaneous strong interest in eliminating the very programs that already require skin-in-the-game. The campus-based programs are an effective, self-sufficient example of skin-in-the-game programs that help millions of students each year. We urge Congress to think about the value of these programs and the inherent risk-sharing their structure provides.

2. **Congress should give great attention to the potential unintended consequences on the most vulnerable students.**

As we noted above, institutions have a vested interest in the success of their students, but to tie financial incentives or eligibility for federal aid dollars to the repayment behavior of its current and former students, as some proposals have suggested, can be problematic. Some institutions, particularly community colleges, have “open enrollment” policies and therefore do not select which students are admitted. Their mission is to serve their communities by providing unconditional access and provide services to students with insufficient academic preparedness. Further, once a student leaves an institution, schools have limited to no control over whether students repay their loans, nor do they have control over influence over the relationship between servicers and a 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, choking college access to thousands of students who would not be able to attend without those dollars. Colleges that are not open enrollment might become more selective in their admissions policies, thereby

shutting out riskier populations. These unintended results would reduce access for students or necessitate a greater reliance on private borrowing where consumer protections are inferior to federal loans.

3. **Congress should consider a “carrot” versus “stick” approach to accountability.**

Negative and punitive risk-sharing measures do not recognize the complex reasons for failure. We encourage Congress to instead incentivize creative and effective ways to improve success and completion. We believe this would be a positive, preferable step, and would encourage meaningful changes in institutional behavior.

There are numerous ways such a program could be structured. Examples include additional federal funds that would be available to institutions who enrolled and graduated a certain number of Pell students or had a Cohort Default Rate (CDR) below a certain level. Another example can be found in the “Pell Bonus” provision of the House Republican PROSPER Act. The Pell Bonus would offer an additional $300 per year to students who are on track to achieve 30 or more credits per award year. While this proposal is specifically aimed at students, the approach of incentivizing versus penalizing is one that should be modeled with institutions.

We appreciate the opportunity to offer considerations for the design of accountability provisions in legislation to reauthorize the Higher Education Act, and we look forward to working with you and your staff to enhance our nation’s higher education system and support its neediest students.

Regards,

Justin Draeger, President & CEO

cc: Ranking Member Patty Murray and Members of the Senate Committee on Health, Education, Labor, and Pensions

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