April 24, 2015

The Honorable Lamar Alexander
Chairman
Committee on Health, Education, Labor and Pensions
U.S. Senate
428 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Alexander:

We are writing on behalf of the nation's 106 historically black colleges and universities (HBCUs) and 85 predominately black institutions (PBIs) to provide comments on the *Risk-Sharing/Skin-in-the-Game, Concepts and Proposals paper*. We appreciate the opportunity to provide our views on these issues.

Each year, HBCUs and PBIs collectively educate more than 700,000 students, who are primarily first-generation, low-income and/or minority students, at tuitions substantially less than those charged by other four-year public and private, nonprofit institutions. Our institutions offer great value to their students, communities and taxpayers. Thus, we are very concerned that the risk-sharing concepts proposed in this paper would threaten their ability to serve these students, who as you know are underrepresented in American higher education.

Comments on Risk-Sharing Concepts and Proposals

The federal government's traditional and primary role in postsecondary education has focused on helping students with limited financial means achieve their full potential by earning college credentials. In essence, for 50 years, the federal government has valued college access and opportunity over risk by providing access to student loans with minimal restrictions to students who otherwise would not be able to afford college. This public policy is sound because borrowing a reasonable amount to obtain a postsecondary degree is, generally, in the best economic interests of these students, and taxpayers benefit as well. The evidence in support of these facts is clear. According to The College Board, during a 40-year full-time working life, the median earnings of bachelor's degree recipients are 65 percent higher than the median earnings of high school graduates, and the earnings payoff is even higher for those with advanced degrees. Taxpayers benefit because college graduates are employed more, earn more, save more and engage more in civic activities; thus, they require less in taxpayer-supported services.

Asking institutions to "assume a liability" for their former students' repayment of loans would work against the public interest, by reducing access to education for students at the academic and economic margins who stand the most to gain from postsecondary education. Such a policy would provide an incentive for some institutions to cut access for such students who are less likely to complete their degrees and more likely to borrow in order to attend college. Continuation of persistent disparities across demographic groups in college participation would be just one undesirable outcome.

A second undesirable outcome of institutional risk-sharing would be disproportionate financial penalties/fees assessed on HBCUs and PBIs. HBCUs and PBIs both historically, and in alignment with institutional missions, enroll a vastly higher proportion of low-income students who face greater challenges to college completion than traditional students at other four-year public and private nonprofit institutions. In 2013, 71 percent of four-year HBCU enrollment and 58 percent of PBI enrollment was comprised of Pell Grant recipients versus 40 percent at all four-year public and private nonprofit institutions. This nearly unique aspect of HBCUs and PBIs puts them at much greater risk of the penalties/fees associated with the suggested institutional-risk sharing approaches. This risk is amplified because these and other institutions have little control over who borrows, how much they borrow or who collects on their loans. Not only would risk-sharing have severe financial consequences for these institutions, it also would be counterproductive for the students enrolled since the additional financial burden imposed on institutions would have to be passed on to students.

HBCUs and PBIs already have a strong financial incentive to see their students persist and complete college; this is particularly true for small private HBCUs that are tuition dependent and receive few state or local subsidies. HBCUs lose revenue when students drop out.

HBCUs and PBIs also have a strong vested interest in reducing excessive student borrowing and reducing student loan defaults, in part, because they face severe sanctions if their cohort default rates exceed 30 percent for three consecutive years. In fact, they face a *greater risk* of loss of Title IV eligibility than other institutions because they disproportionately serve low-income students who must rely on federal loans, and borrow greater amounts, than other students in order to attend college. HBCUs and PBIs with small enrollments, in particular, are placed in jeopardy because a small number of students who default can easily push these colleges over the 30 percent threshold – jeopardizing the entire institution.

Further, the U.S. Department of Education's poor performance in managing student loan servicing contractors put HBCUs and PBIs in even greater jeopardy because students with delinquent loans were not allowed to rehabilitate their loans and were not counseled properly about options for income-based student loan repayment. It is imperative that the federal government address subpar servicing of federal student loans in order to reduce student loan defaults. Many of these institutions have had to contract, usually at great expense, with third party servicers to work with borrowers in danger of default, diverting limited resources from student academic and support services. Institutions should not need to devote their limited resources to pay third parties to manage the student loan collection responsibility of the federal government.

In addition to compliance with Title IV cohort default rate requirements, institutions face other heavy compliance burdens as documented in *Recalibrating Regulation of Colleges and Universities,* the report of the Task Force on Federal Regulation of Higher Education. This is especially true for many HBCUs and PBIs, which are under-resourced. Rather than adding to this load with a new and costly federal risk-sharing regime that would create negative incentives, we recommend that Congress consider other measures that would prove more effective at addressing concerns about student borrowing and loan debt.

Suggested Alternatives

As you review legislative options for Higher Education Act reauthorization, the UNCF, Thurgood Marshall College Fund (TMCF) and National Association for Equal Opportunity in Higher Education (NAFEO) encourage you to consider the following alternative options in lieu of institutional risk-sharing proposals:

- Grant institutions greater flexibility and discretion to limit student borrowing for students based on objective criteria, if the institution believes that that level of borrowing is against the students' interest. This would directly respond to the levels of debt that your paper suggests is problematic.

- Make income-based student loan repayment universal and automatic for borrowers upon leaving school and deduct student loan repayments through employer withholding. This would virtually eliminate student loan defaults and further lower taxpayer risk.

- Incentivize schools to provide additional loan counseling/financial literacy education to students, as well as to undertake initiatives that enhance student retention and, conversely, reduce dropouts and associated loan defaults. As you know, students who leave college with debt but not a degree are the students most likely to default on their loans. This unacceptable outcome could be diminished by authorizing incentive funding to be allocated to institutions that can demonstrate improved outcomes on a variety of measures, such as the number of Pell recipients who persist beyond freshman year and graduate. Such awards would need to be large enough to incentivize change. Incentive awards to improve student persistence and retention to HBCUs and PBIs would also recognize the additional costs associated with educating students of least advantage and the need for additional assistance to institutions doing the heavy lifting in educating low-income students.

- Exempt HBCUs and PBIs from any risk-sharing requirements, given both their historic commitment to serving disadvantaged students and the large share of their enrollments comprised of such students. This would ensure that these institutions are able to maintain their missions and continue their contributions toward national college attainment goals.

- Currently, interest rates and origination fees for federal student loans exceed the federal government's cost of borrowing, providing a profit to the government. We support lowering these excess costs that make college more expensive than necessary for students and families. However, another option is to use the excess revenue to establish a federal student loan insurance fund for defaulted loans.

As you continue to consider proposals for the reauthorization of the Higher Education Act, we would welcome the opportunity to work with you regarding our concerns and suggestions. Please feel free to contact us or Cheryl L. Smith, Senior Vice President of Public Policy and Government Affairs at UNCF, at 202.810.0334 or cheryl.smith@uncf.org, Edith Bartley, Vice President of Government Affairs at TMCF, at 202.391.0751 or edith.bartley@tmcfund.org, or Carol Page, Chief Executive Officer to the President & CEO at NAFEO, at 202.552.3300 or cpage@nafeo.org.

Sincerely,

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cc: The Honorable Patty Murray, Ranking Member