INSTITUTIONAL RISK-SHARING PROPOSALS
Concerns and Alternatives

Background

The concept of "institutional risk-sharing" has gained currency as a means to hold colleges and universities more accountable for student outcomes and rising student loan debt through the introduction of several Congressional bills and a white paper.[1] In general, these various proposals – under consideration as part of the reauthorization of the Higher Education Act – would require institutions to make financial payments to the U.S. Department of Education based on the extent to which students are not repaying their federal student loans.

Key Concerns

UNCF has significant concerns about how institutional risk-sharing proposals would impact minority education.

- ***Risk-sharing would have a chilling effect on higher education access and completion for low-income, first-generation and minority students who face the greatest challenges to college attainment***.
    - Financial penalties based on cohort default rates or low rates of repayment are likely to lead some institutions to adjust their admission standards to focus on those students who are most likely to succeed. This will reduce college opportunity for the most vulnerable students who stand to gain the most from a college education.

- ***Risk-sharing would lead to increased tuition and/or reduced student services***.
    - In order to pay risk-sharing penalties, institutions – especially those that prioritize enrollment of low-income, first-generation and minority students – would likely be forced to increase tuition and/or shift resources away from vital academic and student services. Either way, students would be disadvantaged.

[1] *S. 1102*, introduced by Senator Jack Reed (D-RI); S. *1939*, introduced by Senator Jeanne Shaheen (D-NH); and *Risk-Sharing/Skin-in-the-Game Concepts and Proposals*, released by Senate Health, Education, Labor and Pensions Committee Chairman, Senator Lamar Alexander (R-TN).

- ***Risk-sharing would penalize colleges and universities when students do not repay their federal education loans, even though federal student loan servicing and collection is the responsibility of the U.S. Department of Education and its contractors***.

    - Institutions have no control over how the loans of their students and graduates are serviced. Loan servicing is entirely managed by the U.S. Department of Education and their contractors. With significant concerns being raised about subpar federal student loan servicing, institutions should not be held financially liable for what is out of their control. Concerns voiced about the Department's loan servicing include:
        - The Department's own Office of Inspector General stated in its May 2014 semiannual report to Congress that the Department lacked a comprehensive plan or strategy to prevent student loan defaults, and therefore may not be apt to make strategic and informed decisions about the effectiveness of default prevention initiatives.[2]
        - The Consumer Financial Protection Bureau found that federal contractors charged with collecting on student loans provided conflicting, inaccurate and deceptive information to borrowers (including misleading borrowers on late fees), steered borrowers away from income-based repayment plans and failed to allow borrowers to rehabilitate defaulted student loans.[3]
        - According to the U.S. Government Accountability Office, while 51 percent of Direct Loan borrowers are eligible for income-based repayment, only about 15 percent participate in these repayment plans. [4]
        - One federal student loan collection contractor reported that it does not get into direct contact with 90 percent of students who default on their loans.[5]

- ***Risk-sharing would have a disproportionately negative impact on Historically Black Colleges and Universities (HBCUs).***

    - The historic, core mission of HBCUs is to serve low-income, first-generation and minority students who face challenges to college entry and completion. Risk-sharing would undermine this long-standing commitment to higher education opportunity and, in effect, penalize HBCUs for ensuring the hardest-to-serve students have access to postsecondary education.
    - Further, HBCUs are more likely to face risk-sharing penalties simply because they serve a high proportion (80 percent) of students who must borrow to attend college – a much greater student borrowing rate than the average 59 percent borrowing rate at all public and

[2] U.S. Department of Education Office of Inspector General. *Semiannual Report to Congress, No. 70*. 2015.
[3] Consumer Financial Protection Bureau. *Student loan servicing: Analysis of public input and recommendations for reform* and *Supervisory Highlights, Issue 9*. 2015.
[4] U.S. Government Accountability Office (GAO 15:663). *Federal Student Loans: Education Could Do More to Ensure Borrowers Are Aware of Repayment and Forgiveness Options.* 2015.
[5] Remondi, Jack. "Repaying Student Loans," The New York Times. 2015.

private not-for-profit colleges and universities.[6] Elite institutions that have the resources to subsidize students to reduce student debt would largely escape risk-sharing requirements.
    - HBCUs already struggle with limited operating resources and small endowments and, thus, have little or no financial cushion to absorb risk-sharing penalties. The average endowment across all HBCUs is only $28 million[7] and 14 HBCUs have endowments that are less than $2 million. By contrast, average and median 2014 endowment assets were $113 million and $615 million, respectively, across 854 institutions participating in an annual survey conducted by the National Association of College and University Business Officers. [8]

- ***HBCUs already have "skin-in-the-game."*** Because of their historic commitment to serving academically and economically underprepared students, HBCUs already have a strong incentive to keep college affordable – in order to ensure that these students are not priced out of postsecondary education.

    - Despite limited resources, HBCUs have a track record of keeping costs low for their students. During the 2013-2014 academic year, the average total price for an in-state student living on campus at an HBCU was *31 percent below* the average total price for such a student at all public and private not-for-profit institutions.[9]
    - HBCUs use their limited resources to provide their students – 71 percent of whom come from low-income families and are typically less academically prepared – with the supports needed to succeed.[10]
    - HBCUs invest more in their students with their limited resources. HBCUs and other minority-serving institutions spend an average of $11,057 per full-time student for instruction,[11] whereas four-year public and for-profit institutions spend $9,630 and $3,575 per student, respectively.[12]
    - As a result, black graduates of HBCUs fare remarkably better in life and the workplace after graduation than their peers at other institutions – 55 percent of black HBCU graduates say their college prepared them well for post-college life versus 29 percent of black non-HBCU graduates.[13]

---

[6] UNCF Frederick D. Patterson Research Institute. Data compiled from the Integrated Postsecondary Education Data System.
[7] U.S. Department of Education, White House Initiative on Historically Black Colleges and Universities. Historically Black College and Universities Data Dashboard. 2014.
[8] National Association of College and University Business Officers and Commonfund Institute. *U.S. and Canadian Institutions Listed by Fiscal Year (FY) 2014 Endowment Market Value and Change in Endowment Market Value from FY2013 to FY2014 (Revised February 2015).*
[9] UNCF Frederick D. Patterson Research Institute. Data compiled from the Integrated Postsecondary Education Data System.
[10] UNCF Frederick D. Patterson Research Institute. *Understanding HBCU Retention and Completion*. 2012.
[11] Center for American Progress. *Lessons Learned: Implications from Studying Minority-Serving Institutions*. 2014.
[12] *The Condition of Education*, 2015.
[13] Gallup, Inc. *Gallup-USA Funds Minority College Graduates Report*. 2015.

UNCF Recommendations

UNCF makes the following recommendations for alternative solutions to institutional risk-sharing:

- HBCUs should be exempted from risk-sharing penalties, given the small proportion of federal student loan volume that HBCU students represent ($2 billion of the total $83 billion federal student loan volume, or less than 2.5 percent[14]), the already low cost of attendance at HBCUs and the limited resources with which HBCUs serve their students.
- Rather than punitive fines, policy-makers should adopt an incentives-based approach that minimizes negative consequences for at-risk students and rewards institutions, like HBCUs, that are primarily serving this population. For example, additional federal funding could be provided to institutions based on the number or percentage of Pell students they graduate.
- Grant institutions greater flexibility and discretion to limit student borrowing for students based on objective criteria, such as program of study.
- Develop targeted solutions to reduce the numbers of borrowers who do not complete college – a major contributor to student loan defaults, such as increasing Pell Grants to cover a greater share of student financial need and restoring Pell Grants for summer study.
- 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.
- Increase financial literacy for students and make repaying student debt manageable for borrowers by instituting automatic income-based repayment participation for all borrowers upon leaving school. Automatic deduction of student loan payments through employer payroll withholding would ensure timely loan repayment and virtually eliminate loan defaults.
- Currently, interest rates and origination fees for federal student loans exceed the federal government's cost of borrowing, providing a profit to the government. UNCF supports lowering these excess borrowing 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.

[14] UNCF analysis of U.S. Department of Education Federal Student Aid Title IV Program Loan Volume Reports found at https://studentaid.ed.gov/sa/about/data-center/student/title-iv.