ENLISTED ASSOCIATION OF THE NATIONAL GUARD OF THE UNITED STATES

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Risk Sharing

Issue: A lack of institutional accountability has incentivized schools in all sectors to raise tuition and enroll more students without regard to a borrower's potential success, contributing to the current student debt crisis. Institutions in every sector have not had "skin in the game" along with their borrowers to ensure they provide an excellent education, and care for their borrowers' future success.

Background: Robust access to federal student aid has encouraged institutions to capture as much student aid as possible. Institutions have artificially inflated tuition costs, since student aid eligibility relies in part on the cost of tuition. Recent studies conducted by the Federal Reserve Bank of New York have shown that for every dollar of available student aid, tuition has risen by 65 cents, requiring borrowers to take out more and more loans to keep up. Furthermore, with the financial information provided by the federal government about applicants, institutions have been able to price discriminate in order to substitute federal grant aid for their own resources.

Federal student aid programs intended for students to "vote with their feet," that is, allow the market to self-correct as students chose high-quality institutions. This is why student aid isn't determined by the school a student wishes to attend, but is a voucher that can be taken to any institution of a student's choice. Competition among schools was intended to be part of the regulatory measures that ensure that higher education remain excellent and pure in its mission. But, students have very little access to information on institutional cost and quality. The lack of transparency from institutions, and students' inability to access meaningful data, has resulted in little to no competition within the higher education market.

Furthermore, existing regulatory measures have fallen short. Accreditation standards rely on peer review from faculty of neighboring institutions, which creates an inherent conflict of interest. To lose accreditation is a death sentence for an institution, so faculty peer review is soft in its assessment at best. On the federal level, the implementation of the Cohort Default Rate in 1990 was somewhat successful at curbing bad actors, but in recent years it has been easily gamed by schools. In recent years, entire industries have come into existence in order to counsel institutions on how to manage their default rates so as not to exceed the default limit within three years. With arbitrary regulatory measures on the books that focus on outdated metrics, it's time for reform.

Finally, only 11 institutions have ever lost Title IV eligibility from among the 6,700 higher education institutions that are eligible for Title IV funds because of violating cohort default rates. Clearly, current regulation standards have not been adequate in order to enforce reform.

Recommendation:

Students from lower-income families who attend high-repayment schools do nearly as well as their higher-income peers, suggesting that the characteristics of the institution affect loan outcomes above and beyond what would be predicted based on the backgrounds of their students.

Therefore, we urge Congress to support the introduction of Risk-Sharing at institutions across all sectors to reform their practices in order to focus on instructional quality and post-graduate success by:

- Dropping the Three-Year Cohort Default Rate and adopting the Five-Year Cohort Repayment Rate;
- Developing standards for the establishment of "Peer Groups" in order to group similar colleges together, and to regulate the performance of these institutions based upon the averages within their cohort;[1]
- Applying the moderate threshold that an institution's cohort to have paid down 20% on the principle of their loans within five years;[2]
- Adopting a sliding scale of penalties for underperforming institutions that become more severe the more an institution underperforms;
- Awarding high-performing institutions with additional resources from the revenue generated by Risk-Sharing; and
- Awarding high-performing institutions for every Pell Grant eligible student they enroll.

Lastly, we invite the investigation of exemptions or amendments to the 20% five-year threshold among schools that heavily utilize their own endowments to aid their students, since this is already a type of "skin in the game."

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[1] Criteria for grouping could include: Selectivity, Percentage of Pell Grant Students, Type of Degree Offered (Certificate, Associates, Bachelors), Amount of Available Resources, Percentage of Endowment Used for Aid, Etc.

[2] This is based upon Brookings's Risk Sharing Proposal, which does not account for "Peer Groups." Nonetheless, it is a helpful benchmark with which to judge various Peer Group outcomes. We recommend the ability to tailor this benchmark with the hope that all cohorts reach this standard.