S. HRG. 114–624

REAUTHORIZING THE HIGHER EDUCATION ACT: EXPLORING INSTITUTIONAL RISK-SHARING

HEARING

OF THE

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

UNITED STATES SENATE

ONE HUNDRED FOURTEENTH CONGRESS

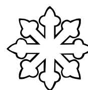
FIRST SESSION

ON

EXAMINING REAUTHORIZING THE HIGHER EDUCATION ACT, FOCUSING ON EXPLORING INSTITUTIONAL RISK-SHARING

MAY 20, 2015

Printed for the use of the Committee on Health, Education, Labor, and Pensions



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U.S. GOVERNMENT PUBLISHING OFFICE

94–783 PDF WASHINGTON : 2017

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REAUTHORIZING THE HIGHER EDUCATION ACT: EXPLORING INSTITUTIONAL RISK-SHARING

WEDNESDAY, MAY 20, 2015

U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:09 a.m. in room 430, Dirksen Senate Office Building, Hon. Lamar Alexander, chairman of the committee, presiding.

Present: Senators Alexander, Cassidy, Murray, Casey, Whitehouse, Warren, Franken, Baldwin, Bennet, and Murphy.

OPENING STATEMENT OF SENATOR ALEXANDER

The CHAIRMAN. Good morning. The Senate Committee on Health, Education, Labor, and Pensions will please come to order.

This is our third hearing in this Congress. We had a number in the last Congress on the reauthorization of the Higher Education Act. This morning we're exploring the concept of institutional risk-sharing in higher education, whether colleges and universities should have what some might call "skin in the game" on student borrowing.

Senator Murray and I will each have an opening statement. We will introduce our panel of witnesses. After our witness testimony, Senators will each have 5 minutes of questions.

We're pleased to have Senator Reed with us. He has indicated that his schedule permits him to wait until after each of us have our opening statements. Then we will go to you and to our other witnesses, and then we'll have the questions.

Despite considerable demand by some Senators, I'm going to place you under the witness protection program and you'll not be quizzed by Senator Whitehouse and Senator Warren.

[Laughter.]

Senator REED. Thank you very much, Mr. Chairman. Thank you.

The CHAIRMAN. We welcome you here, and I understand you ran a 5K already today. Is that right?

Senator REED. Just a typical day in the life of—yes.

[Laughter.]

The CHAIRMAN. Senator Reed—I'll introduce him in a minute—was a member of this committee, and he and others of us worked together on this idea of "skin in the game," as we call it. It's very helpful to have him come back.

It's never easy to pay for college, but Federal taxpayers have made it easier than many people think. About half of our country's 22 million undergraduate college students have a Federal grant or loan to help pay for college. Nearly 9 million receive a Federal Pell Grant of up to $5,700, which they don't have to pay back. For low-income students, this is enough to make each year of community college tuition free, with some money left over. The average community college tuition is $3,347 per year.

It's also enough to get a head start on a 4-year degree. The average tuition and fees at a public 4-year university, which 38 percent of students attend, is $9,100 a year. Add up the community colleges and the 4-year institutions that are public, and that's about 75 percent of our students.

In addition to these Pell Grants, next year taxpayers will lend about 8 million undergraduate students $100 billion in new student loans at an interest rate of 4.29 percent. Students do have to pay back these loans.

Federal loans are easy to obtain. It doesn't matter what your credit rating is, and the terms for paying them back are generous. You can pay your loans back like a mortgage over 10 years, or you can enter a program that allows you to pay it back as a percentage of your income over 20 years. And if the loan isn't paid off after 20 years, it's forgiven.

While we hear a lot about students with debt of more than $100,000, that's only 4 percent of student loans, and more than 90 percent of those are graduate students.

The average debt for an undergraduate student with a 4-year college degree is about the same as an average auto loan in the United States, around $27,000. For that investment, the College Board says you'll earn an extra $1 million over your lifetime.

Still, some students have trouble paying back their debt. According to the Department of Education, of the more than 41 million borrowers without standing student debt, about 7 million, or 17 percent of those borrowers, are currently in default, meaning they haven't made a payment on their loans in at least 9 months. The total amount of loans currently in default is $106 billion, or about 9 percent of the total outstanding balance of Federal student loans.

While the information isn't easily available, as Senator Warren has pointed out, over the long haul the Federal Government collects on most of these debts one way or the other.

It's clear that some students borrow too much, and this hearing is about how do we discourage that. We're looking at several ways to do it. The FAST Act, which several members of the committee have introduced, would ensure that part-time students aren't able to borrow as much as a full-time student. I'm exploring recommending a change that would give colleges the authority to counsel student loan borrowers more frequently, or even limit the amount of money students might borrow, and today we're talking about a third way to address over-borrowing; that is, ensuring that colleges have some responsibility to or vested interest in encouraging students to borrow wisely, graduate on time, and be able to repay what they've been loaned.

If colleges have this incentive, it may not only help students make wiser decisions about borrowing, it could help reduce the cost

of college, thereby reducing debt. For example, colleges might encourage students to complete their education more quickly. Today, nearly half take longer than 6 years to complete any degree or certificate, or never finish at all. Completion is important. Nearly 70 percent of those who default on their Federal student loans never finish their education.

At the University of Tennessee in Knoxville, they're now saying to students you're going to pay for 15 hours every semester whether you take it or not. That's three more than Federal student aid requirements insist on. The chancellor told me this week that most students are now taking 15 hours, and the graduation rate is going up.

I've also encouraged colleges and universities to explore 3-year degrees. Last week I spoke at a community college in Tennessee, Walters State, where one of the graduates was also graduating from high school that week. By getting both degrees and entering Purdue University next year, the second semester of the second-year class saved him an estimated, $65,000.

Colleges might find efficiencies and savings. The former president of George Washington University once told me this. He said, "You could run two complete colleges with two complete faculties in the facilities now used half the year for one." That's without cutting the length of students' vacations, increasing class sizes, or requiring faculty to teach more.

Dartmouth saves $10 to $15 million a year by requiring one mandatory summer session. Southern New Hampshire's College for America just began offering a $10,000 Bachelor Degree. Our FAST Act proposes year-round Pell Grants, which would speed up the time to finish a student's education, and therefore less debt. Perhaps we might remind ourselves to stop allowing new Medicaid mandates to force States to spend money on Medicaid that might otherwise be spent on higher education, thereby keeping tuition down.

The Federal efforts to deal with this issue haven't worked very well. In 1990, the first and only debt-related accountability was put in statute. Colleges with more than 30 percent of borrowers defaulting over a 3-year period or more than 40 percent over a 1-year period are ineligible to receive Federal student aid dollars, but a college with an 18 percent cohort default rate is treated just the same as one with a 27 percent rate, so this may not work that well.

Second, the recent gainful employment regulation from this administration is already a failure. It's a clumsy 945-page regulation defining just two words, targeting only one section of higher education. It establishes a complicated and arbitrary definition of what an affordable amount of debt is.

Senator Reed, who will be testifying shortly, believes that some colleges and universities should be responsible for a portion of the defaulted loans of students. It's an important framework worth considering. Others may have different ideas about a skin-in-the-game policy. For me, what is clear is that, as a matter of principle and fairness, all institutions, whether public, private, or for-profit, should participate. I don't believe any institution, whether public or private, not-for-profit or for-profit, should be exempt from any

requirement that we may add to discourage over-borrowing and reduce college costs.

It might be appropriate to consider establishing multiple models of risk-sharing so that institutions with different missions and different student populations have different ways to comply.

We have a distinguished panel. I look forward to their thoughts.

Senator Murray.

OPENING STATEMENT OF SENATOR MURRAY

Senator MURRAY. Well, thank you very much, Mr. Chairman.

Senator Reed, it's great to see you here. I look forward to your testimony. Thank you for the work you've been doing on this issue.

I want to thank all of our witnesses who are here today. We look forward to hearing from you.

Clearing pathways for more Americans to attend and succeed, both in college and beyond, is, of course, important for our students, but it's also a critical part of building an economy that works for all of our families, not just the wealthiest few. A highly educated workforce is good for our country. It strengthens the middle class; it strengthens the workforce we'll need to compete in the 21st century global economy. We should work on ways to help more students earn their degree and gain a foothold into the middle class.

Each year, Federal taxpayers invest $150 billion in our higher education system. I welcome this hearing as a way to talk about holding institutions of higher education more accountable to ensure students and taxpayers get a good return on their investment. The crushing burden of student debt is going to be a major focus for me in our conversations on reauthorizing the Higher Education Act.

When it comes to students who rely on loans to afford the rising cost of college, we have a lopsided accountability system. Right now, colleges and universities receive the up-front benefit of money provided by those Federal student loans, but students and taxpayers are the ones who bear nearly all the risk and the consequences of default regardless of whether the college or university served students well or kept their debt levels affordable.

We've seen cases recently where some institutions have a pattern of frequent student defaults or of pushing students toward short-term solutions like deferment or forbearance where their debt continues to balloon. Yet, the institution itself bears little responsibility for their students' outcomes.

I am open to hearing more about options like risk-sharing to ensure colleges and universities have a stake in their students' success, debt levels, financial literacy, and ability to repay.

Of course, there are key protections that need to be in place. For example, we should recognize that risk-sharing could lead some institutions to become more exclusive to reduce their risk. Any proposal would have to be carefully crafted to avoid unintended consequences and should reward institutions that remain accessible and affordable. Any risk-sharing proposal that comes before this committee should not be a way to roll back other accountability measures.

We should continue to hold schools accountable for career education programs that can leave students with worthless credentials

or with debt they can't repay. We should continue to target our existing accountability requirements to our colleges that have unacceptably high default rates and students leaving with high loan debt. We should close loopholes to rules that are supposed to prevent colleges from receiving more than 90 percent of their income from the Federal Government.

Quality programs and institutions should always have students or employers willing to invest in them. In fact, accountability is also an important component of some of the broad themes I'm going to be very focused on in our discussion of reauthorizing the Higher Education Act.

For example, all students should have access to a safe learning environment. I hope this committee will focus on making sure that colleges and universities are doing their part to prevent sexual violence, assault, and bullying on campus. Sexual assault turns students' lives upside-down, and we have to do more to stop this crisis and prevent it in our Nation's schools. This is going to be a top priority for families and students across the country and for me.

We need to make college more affordable. This is first on the minds of students and families. As I've mentioned, I believe the Federal Government has a role to play in holding States accountable for maintaining investments in higher education. More students from all walks of life should have strong, clear pathways into and through higher education. As students and families shop for college, they should have access to key information on the academic quality, affordability, and outcomes of the colleges and universities they're interested in.

Students across the country today are working really hard. They are investing in higher education so they can have a solid place in the middle class. We need to make sure we protect those students and protect the integrity of the Federal taxpayer dollars with strong accountability.

I'm looking forward to today's hearing about ideas and feedback from our panels and our witnesses. Again, thank you all for being here.

The CHAIRMAN. Thank you, Senator Murray.

To introduce our first panel, which has one witness, I'll call on Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Chairman.

I'm honored to introduce my senior Senator. The committee knows him well because he served with great distinction on this committee for many years.

When Senator Reed became a powerful chairman on one of the subcommittees of the powerful Appropriations Committee, he vacated his seat on the HELP Committee, and I was able to fill it. It can accurately be said that I have the Reed seat on the HELP Committee, and I appreciate very much the work that Jack has done in this area to align the incentives of those who invest in and run our higher education facilities with the interests of students, who want to have good outcomes in their lives.

A business model that is successfully concluded when the Federal checks are cashed is not an adequate business model for higher education.

The people of Rhode Island are very proud of our senior Senator, Jack Reed, and I'm pleased to introduce him to the committee.

STATEMENT OF SENATOR REED

Senator REED. Thank you very much. Thank you, Mr. Chairman, for providing this opportunity.

Senator Murray, thank you for your leadership, particularly on this issue, which is critical.

I want to thank Senator Whitehouse. Yes, I've served on the committee, but I've already been eclipsed by Senator Sheldon Whitehouse of Rhode Island. Thank you.

Sheldon, I will admit that we both will forever dwell in the shadow of Claiborne Pell. That is one of the realities of the U.S. Senate and our history.

Again, thank you for inviting me to testify on what I believe is a critical area of needed reform for our student aid programs and higher education more broadly, requiring our colleges and universities to bear greater responsibility for student loan debt. Chairman Alexander has already taken a very thoughtful approach to looking at this issue, as have others on the committee, and I thank you all for your leadership.

We all know that post-secondary education is required for most family sustaining middle-class jobs and that an educated workforce is essential to a modern, productive economy. Yet, just as there is growing recognition that post-secondary education is indispensable in the modern economy, families are being required to shoulder growing debt burdens that severely impact the lives of borrowers to the point of threatening access to college and restricting our Nation's economic growth potential.

According to a recent analysis of student loan debt by the Federal Reserve Bank of New York, between 2004 and 2014 there was an 89 percent increase in the number of student loan borrowers, and a 77 percent increase in the average balance size. This is not only in absolute terms, but the trend line is very disturbing about what's happening.

Today, over 40 million Americans have student loan debt, with the outstanding balance exceeding $1.2 trillion. This is a growing drag on our economy. As student loan debt has grown, young adults have put off buying homes or cars, starting a family, saving for retirement, or launching new businesses. They have literally mortgaged their economic future.

We know that student loan borrowers are struggling, and defaults are on the rise. The Federal Reserve Bank of New York reported that the number of borrowers who default each year has increased from about a half-million 10 years ago to 1.2 million annually in 2011 and 2012. Only 37 percent of borrowers are current on their loans and actively paying down their debt.

We cannot tackle the student loan debt crisis without States and institutions also stepping up and taking greater responsibility for college costs and student borrowing. Institutions of higher education can take action to reduce the likelihood that a student will default on a loan. However, under current law, there is little incentive for them to do so until default rates reach excessive levels, such as their 3-year cohort default rate exceeds 30 percent for 3

years, as the Chairman mentioned. In other words, nearly one in three students would have to default by their third year of repayment before an institution would be obligated to take any action.

The financial crisis showed us what happens when certain players in the system can reap the rewards of easy credit without having to bear any of the consequences of making reckless, risky decisions. The players that created and sold exotic financial products got rich, while middle-income families lost their homes and taxpayers had to bail out the financial system. They got the check and we got the bill. I don't think that's right, and I think good business dictates another approach.

We only have to look at Corinthian College to see that we face a similar problem in the higher education sector. Students have been left in the lurch and taxpayers on the hook because of a business model based on maximizing enrollment and student loan revenue with little responsibility or little regard for the outcomes.

I introduced the Protect Student Borrowers Act with Senators Durbin, Warren and Murphy—and I want to thank Senator Warren for her great leadership on this issue and many other issues—to ensure that institutions take greater financial responsibility when it comes to student loan debt by setting stronger market incentives for colleges and universities to provide better and more affordable education to students, which will in turn help put the brakes on rising student loan debt. And I want to underline, emphasize "market incentives," because the market can be made to work for us.

We introduced this legislation to move the conversation forward, beyond whether institutions should bear greater responsibility for student loan debt to how to design a system that puts the right market incentives in place for them to assume such responsibility. The Protect Student Borrowers Act would hold colleges and universities accountable for student loan defaults by requiring them to repay a percentage of defaulted loans. Only institutions that have 25 percent or more of their students borrowing would be included in this risk-sharing based on their cohort default rate. So we've established a limit. If we don't have an institution that relies on student loans, we're not going to get you involved in detailed regulation. If you have heavy student borrowing, you should be into this system.

Risk-sharing requirements would kick in when the default rate of these institutions exceeds 15 percent. As the institution default rate rises, so too would the institution's risk-share payment. It makes sense. If they're doing their best to try to control the default rate, then they should be protected. If they're doing poorly, they should pay more and more.

These payments would be invested in helping struggling borrowers, preventing future default and delinquency, and reducing shortfalls in the Pell Grant program. We need to tackle student loan debt and college affordability from multiple angles, and we need all stakeholders in the system to do their part. With the stakes so high for students and taxpayers, it is only fair that institutions bear some of the risk in the student loan program.

I commend Chairman Alexander and Senator Murray for putting this topic on the reauthorization agenda. I look forward to working

closely with this committee and our colleagues, and I am sure that with your leadership, we will reach success.

Thank you very much, Mr. Chairman.

[The prepared statement of Senator Reed follows:]

PREPARED STATEMENT OF SENATOR REED

I would like to thank Chairman Alexander, Ranking Member Murray, and the members of the committee for inviting me to testify on what I believe is a critical area of needed reform for our student aid programs and higher education more broadly—requiring our colleges and universities to bear greater responsibility for student loan debt. Chairman Alexander has taken a very thoughtful approach to looking at this issue—as have others on this committee, and I thank you all for your leadership.

We all know that postsecondary education is required for most family sustaining, middle-class jobs, and that an educated workforce is essential to a modern, productive economy.

Yet, just as there is growing recognition that postsecondary education is indispensable in the modern economy, families are being required to shoulder growing debt burdens that severely impact the lives of borrowers to the point of threatening access to college and restricting our Nation's economic growth potential.

According to a recent analysis of student loan debt by the Federal Reserve Bank of New York, between 2004 and 2014, there was an 89 percent increase in the number of student loan borrowers and a 77 percent increase in the average balance size. Today, over 40 million Americans have student loan debt, with the outstanding balance exceeding $1.2 trillion.

This is a growing drag on our economy. As student loan debt has grown, young adults have put off buying homes or cars, starting a family, saving for retirement, or launching new businesses. They have literally mortgaged their economic future.

We know that student loan borrowers are struggling. And defaults are on the rise. The Federal Reserve Bank of New York reported that the number of borrowers who default each year has increased from about half a million 10 years ago to 1.2 million annually in 2011 and 2012. Only 37 percent of borrowers are current on their loans and actively paying down their debt.

We cannot tackle the student loan debt crisis without States and institutions also stepping up and taking greater responsibility for college costs and student borrowing.

Institutions of higher education can take action to reduce the likelihood that a student will default on a loan. However, under current law there is little incentive for them to do so until default rates reach excessive levels such as their 3-year cohort default rate exceeding 30 percent for 3 years. In other words, nearly one in three students would have to default by their third year in repayment before an institution would be obligated to take action.

The financial crisis showed us what happens when certain players in the system can reap the rewards of easy credit without having to bear any of the consequences of making reckless, risky decisions. The players that created and sold exotic financial products got rich while middle-income families lost their homes and taxpayers had to bail out the financial system.

We only have to look at the collapse of Corinthian Colleges to see that we face a similar problem in the higher education sector. Students have been left in the lurch and taxpayers on the hook because of a business model based on maximizing enrollments and student loan revenue—with little responsibility for outcomes.

I introduced the Protect Student Borrowers Act with Senators Durbin, Warren, and Murphy to ensure that institutions take greater financial responsibility when it comes to student loan debt by setting stronger market incentives for colleges and universities to provide better and more affordable education to students, which will in turn help put the brakes on rising student loan defaults.

We introduced this legislation to move the conversation forward—beyond whether institutions should bear greater responsibility for student loan debt to how to design a system that puts the right market incentives in place for them to assume such responsibility.

The Protect Student Borrowers Act would hold colleges and universities accountable for student loan defaults by requiring them to repay a percentage of defaulted loans. Only institutions that have 25 percent or more of their students borrow would be included in this risk sharing based on their cohort default rate. Risk-sharing requirements would kick in when the default rate exceeds 15 percent. As the institutional default rate rises, so too would the institution's risk-share payment. These payments would be invested in helping struggling borrowers, preventing future default and delinquency, and reducing shortfalls in the Pell Grant program.

We need to tackle student loan debt and college affordability from multiple angles. And we need all stakeholders in the system to do their part. With the stakes so high for students and taxpayers, it is only fair that institutions bear some of the risk in the student loan program.

I commend Chairman Alexander and Senator Murray for putting this topic on the reauthorization agenda. I look forward to working closely with this committee and our colleagues on refining the risk-sharing concept and including tough, fair, and workable provisions in the Higher Education Act to ensure that we truly have shared responsibility for student success.

Thank you.

The CHAIRMAN. Thanks, Senator Reed. Thank you for taking time to come today. I know you have a busy schedule and you have to leave now, but let me invite you, even though you're not a member of the committee, to stay involved with us as we work through the reauthorization of the Higher Education Act. This is an important contribution, and if we're able to work out some fair way to do it, it would be a real change in our student loan program. Thanks very much.

I will ask our second panel to come forward, and while you're coming I'll introduce you.

Our first witness is Dr. Andrew Kelly, resident scholar and director of the Center for Higher Education Reform at the American Enterprise Institute. Dr. Kelly's work is focused on innovation in higher education, financial aid reform, and the politics of education policy.

Our next witness is Mr. Robert Silberman, executive chairman of Strayer Education. Mr. Silberman leads Strayer University, a 123-year-old regionally accredited university serving approximately 41,000 working adults across the country. He is a graduate of Dartmouth College, received his Master's Degree in International Relations from Johns Hopkins. From 1989 to 1993 he served in several senior positions in the U.S. Department of Defense, including Assistant Secretary of the Army.

Our third witness is Jennifer Wang, policy director for Young Invincibles. In her role at Young Invincibles, Ms. Wang advocates for health care and education-related policy that expands economic opportunity for young adults. She earned her undergraduate degree from the University of California at Los Angeles, her law degree from the University of Iowa.

I'm going to ask Senator Casey to introduce our final witness.

STATEMENT OF SENATOR CASEY

Senator CASEY. Thank you, Mr. Chairman.

Mr. Chairman, I'm pleased to have the opportunity to introduce Dr. Douglas Webber. Dr. Webber serves as assistant professor at Temple University in Philadelphia, PA, and as a research fellow at the Institute for the Study of Labor. He's been a leading voice in the economics of higher education, and he's extensively published on issues ranging from the gender pay gap to the economic benefits of college. His work has appeared in scholarly journals such as the Journal of Policy Analysis, Labor and Economics, and the Economics of Education Review, as well as other media outlets such as the Chronicle of Higher Education.

Dr. Webber holds a Bachelor's Degree in Economics and Mathematics from the University of Florida, as well as a Master's and Ph.D. in Economics from Cornell University. Prior to becoming Professor at Temple, he worked as an economist at the Center for Economic Studies at the U.S. Census Bureau. Dr. Webber's contributions over the years have provided much of the foundation for the discussions we'll have today, and I look forward to his testimony.

Thank you, Dr. Webber.

The CHAIRMAN. Thanks, Senator Casey.

Why don't we start with Dr. Kelly. We'll work right down the line. If each of you could summarize your comments in about 5 minutes, that will give the Senators more time to have a conversation with you.

Dr. Kelly.

STATEMENT OF ANDREW P. KELLY, A.B., M.A., Ph.D., DIRECTOR, CENTER FOR HIGHER EDUCATION REFORM, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Mr. KELLY. Good morning, Chairman Alexander, Ranking Member Murray, and distinguished members of the committee. Thank you for giving me the opportunity to share my views on risk-sharing in higher education.

As Chairman Alexander introduced me, my name is Andrew Kelly. I'm the director of the Center on Higher Education Reform at the American Enterprise Institute, a non-profit, non-partisan re-

search organization based here in Washington, DC. My comments today are my own and do not necessarily reflect the views of AEI.

Before discussing risk-sharing, it is important to provide some context. For the past half-century, the primary focus of Federal student aid programs has been ensuring college access through grants and loans. While this policy has increased enrollments, it has also weakened incentives for institutions to promote student success and contain costs. The result is evident in lackluster graduation rates, skyrocketing prices, and high delinquency rates on student loans.

This is true, in part, because the mechanisms designed to hold institutions accountable for poor performance have fallen short of expectations. Consider, for example, the Federal Government's primary means of ensuring that student aid flows to quality programs, the cohort default rate. The measure is easily gamed because colleges are held harmless for any loan defaults that occur outside of a 3-year window. This creates an incentive to enroll borrowers in forbearance on deferment to keep them from defaulting, but those borrowers do not make any progress in paying down their loans. As a result, just eight institutions were subject to sanction in 2013.

The rule is also binary in nature, meaning colleges just below the Federal standard continue to have full access to Federal aid programs, while those just above lose eligibility entirely. Those institutions whose default rates are high but below the threshold have little reason to improve. Under existing policies, then, most colleges bear little risk if their students can't repay their loans.

A risk-sharing policy would change that equation. Colleges and universities that receive Federal loans would be on the hook financially for a portion of the loans their students failed to pay back. The intent of a risk-sharing policy is to give all colleges, not just those with the highest default rates, stronger incentives to serve students well and keep tuition low. The idea here is to change college behavior by changing the incentives they face, not by imposing top-down mandates about whom colleges must enroll and how much they charge.

Institutions may respond to risk-sharing systems in different ways. Schools would likely be more conscientious about not enrolling students with little chance of success. While this would often be an improvement in consumer protection, it also has consequences for college access that I will discuss later.

The truth is, the most important predictor of loan repayment is degree completion. Colleges that wish to improve their risk profile would respond by restructuring the student experience so as to maximize success. Researchers and institutions are learning more about interventions and practices that improve retention and completion rates, and school leaders can use this information to reform their institutions.

Finally, schools would have additional incentive to contain costs, as higher tuition levels will make it more difficult for students to repay their loans.

There are a number of design principles to consider here. First, leaders might consider moving away from default rates, which are imperfect measures of loan performance. Existing protections help

borrowers avoid defaulting, but that does not mean that they are making progress in paying down their loans. A measure of repayment progress would provide a more comprehensive picture of loan performance.

Second, the simplest design would be to charge schools a flat percentage of non-performing loans. Alternatively, a sliding scale of penalties would punish poor performing institutions more severely, but designers should avoid arbitrary thresholds that divide otherwise similar institutions.

Third, risk-sharing payments may not need to be that large to get the attention of schools. One study of the mortgage market found sizable differences in loan performance with risk retention as low as 3 percent. Too large a payment risks putting colleges that could otherwise improve out of business before they have the chance to do so.

Fourth, an ideal risk-sharing system would apply equally across all institutions regardless of tax status or other factors such as borrowing rates. We should have high expectations for all colleges, not a risk-sharing system riddled with exemptions for particular types of institutions.

I'll conclude with two important caveats. First and most importantly, risk-sharing raises legitimate questions about access for low-income students. Ideally, Federal aid policy would encourage students to enroll in institutions at which they are likely to be successful. Right now, colleges have an incentive to fill seats, but that is often access in name only. Risk-sharing would both encourage institutions to think carefully about who they are well-equipped to serve and ensure the students they do enroll are successful.

To ensure continued access, however, policymakers should consider paying institutions a bonus for every Pell Grant recipient they graduate. Such a bonus would help balance the risk of enrolling low-income students.

Second, a risk-sharing system should recognize that many factors are outside of an institution's control. For instance, colleges cannot limit how much students borrow over the cost of tuition, meaning a poorly designed risk-sharing system would hold them accountable for behavior they cannot control. An ideal risk-sharing policy would find a way to disaggregate tuition and living expenses. Likewise, colleges cannot control economic trends that control loan repayment. Therefore, policymakers could tie a risk-sharing formula to the national unemployment rate to take account of economic conditions.

I appreciate the opportunity to provide feedback, and I look forward to the discussion.

[The prepared statement of Dr. Kelly follows:]

PREPARED STATEMENT OF ANDREW P. KELLY, A.B., M.A., PH.D.

SUMMARY

Federal student aid programs have increased college access, but lackluster outcomes and skyrocketing tuition suggest that they do not provide colleges with incentive to promote student success and college affordability. In the search for reforms that would improve those incentives, leaders on both sides of the aisle have shown interest in the concept of risk-sharing, under which colleges who participate in the Federal loan program would be on the hook financially in the event their students fail to pay back their loans.

The intent of a risk-sharing policy is to give all colleges—not just those with the highest default rates—stronger incentive to consider changes to institutional practice, resource allocation, and tuition pricing that would lower the probability that borrowers experience problems in repaying their loans. Risk-sharing is thus designed to change institutional behavior by holding colleges accountable for student outcomes. Colleges would have the flexibility to figure out the best way to ensure that students can repay their loans.

Institutions may respond to a risk-sharing system in different ways. Schools would likely be more careful about enrolling students who have little chance of success. While this would be an improvement in consumer protection, it also has consequences for college access. But the most important determinant of loan repayment is degree completion, and colleges that wish to improve their risk profile would respond by restructuring the student experience so as to maximize success. Researchers and institutions are learning more about interventions and practices that improve retention and completion rates, and school leaders can use this information to improve.

There are a number of design principles the committee could consider when thinking about the structure of a risk-sharing policy. First, leaders might consider moving away from cohort default rates, which are imperfect measures of school quality and loan performance, and toward other options like a measure of repayment progress. Second, the simplest design would be to charge schools a flat percentage of non-performing loans. A sliding scale of penalties would punish poor-performing institutions more severely, but designers should avoid sharp thresholds. Third, risk-sharing penalties may not need to be large to get the attention of schools. Fourth, an ideal risk-sharing system would apply equally across all institutions regardless of tax status or other factors such as borrowing rates. Fifth, the system should account for the many factors outside an institution's control such as economic conditions.

There are a few caveats to a risk-sharing policy. The potential consequences for access must be taken seriously. In many cases, encouraging institutions to think twice about enrolling students that are unlikely to be successful is not a bad thing, and those students would still have access to institutions that would serve them better. In order to ensure access, leaders could consider paying institutions a bonus for every Pell Grant recipient they graduate.

Colleges also have justifiable concerns that risk-sharing would hold them accountable for behaviors they have no control over. In light of this, an ideal risk-sharing policy would find a way to disaggregate loans that paid for tuition and loans that paid for living expenses. Policymakers might also consider giving institutions some control over how much students are able to borrow above the cost of tuition.

INTRODUCTION

Good morning, Chairman Alexander, Ranking Member Murray, and distinguished Members of the committee, and thank you for giving me the opportunity to share my views on the concept of risk-sharing in higher education.

My name is Andrew Kelly and I am the director of the Center on Higher Education Reform at the American Enterprise Institute, a non-profit, non-partisan public policy research organization based here in Washington, DC. My comments today are my own and do not necessarily reflect the views of AEI.

I'm here today to discuss how the Federal Government can give the colleges and universities it helps to finance a greater stake in student success and college affordability. Specifically, the question before us today is how a risk-sharing policy, where colleges would bear some financial responsibility for a portion of the Federal loans that their students do not repay, might better align the incentives of colleges, students, and taxpayers. This idea has received increasing attention from both sides of the aisle of late, and it is an opportune time to discuss it.

Today I will start by briefly outlining the problems with our current approach to determining student aid eligibility, explaining the principles of risk-sharing and why I believe it would represent an improvement over the status quo, and discussing basic policy design principles the committee could consider. I will conclude with some important caveats that we must keep in mind.

Over the past half-century, Federal higher education policy has been focused on ensuring college access for qualified students who would otherwise be unable to attend due to financial constraints. To achieve this goal, the Federal Government makes available grants and loans to any eligible student pursuing education after high school.

This is an admirable objective. After all, the average return to completing a degree or certificate remains robust, lower income Americans who earn a degree are

more likely to experience upward mobility, and a more-educated population helps grow the economy.[1]

Evidence suggests that Federal need-based grants encourage enrollment among low-income students,[2] and the marked increase in college access at all income levels reflects the expansion of the Federal student aid system. In 1972, the year the Pell Grant was created, 49 percent of recent high school graduates went on to enroll in postsecondary education; by 2012, 66 percent had done so.[3]

However, Federal policy has paid less attention to whether these student aid investments promote student success and encourage colleges to keep their tuition affordable. On each of these measures, the trends are far from encouraging. Research shows that college completion rates have declined over time,[4] and just over half of the students who start a degree or certificate graduate within 6 years.[5] Completion rates are much lower among disadvantaged students.[6]

Meanwhile, the sticker price of tuition at public 4-year colleges has more than tripled since the early 1980s. Though net prices have increased more slowly, family incomes have not kept pace, putting college out of reach for many and forcing others to take on large amounts of debt. In 2013, 70 percent of graduates from public and nonprofit colleges had student loan debt, and the average borrower owed just under $30,000.[7] Those who take on debt but do not graduate often have the most difficulty repaying their loans. The effective delinquency rate on student loans, after excluding students who are not required to make payments, is over 30 percent, about as high as it was on subprime mortgages during the housing crisis.[8]

Borrowing itself is not inherently bad: if a loan enables an individual to pursue a high-quality postsecondary credential that he or she would not otherwise have been able to afford, then the loan is advancing economic opportunity. But when students borrow for programs that are unlikely to deliver a positive return on investment, it is easy for them to find themselves in the worst place of all: saddled with debt but without a credential to advance their career. The ranks of these borrowers are growing.

Faced with these trends, policymakers are now asking how Federal student aid policy can encourage colleges to provide a quality education at an affordable price.

Leaders of both parties have acknowledged that these are not entirely, or even mostly, questions about how much we spend, but about how we change the incentives that existing programs create for colleges. There is a growing consensus in States and at the Federal level that improving student success and college affordability requires reforms that better align the incentives of institutions and students. A host of initiatives, from outcomes-based funding in the States to President Obama's college ratings to the recent white papers released by this committee, fit under this broad category.

A key question is whether existing Federal policies provide colleges with enough of a stake in student success. To be sure, the policymakers who designed the student aid system a half-century ago did not ignore these questions. They set up a three-pronged quality assurance regime—known as the "triad"—to govern eligibility for Federal aid programs. Today, institutions must be accredited by a recognized organization, authorized by any State they operate in, and must meet Federal standards for financial viability, student loan default rates, and, in the case of for-profit institutions, the proportion of their revenue that comes from non-Federal sources (the "90/10 rule").

Above these quality assurance standards, market competition is supposed to discipline providers. Policymakers decided to give aid directly to students as a portable voucher, allowing them to "vote with their feet" and reward schools that offer affordable, high-quality programs. In the aggregate, these choices are supposed to hold eligible colleges and universities accountable for their performance.

These quality assurance mechanisms have failed to protect consumers or taxpayers, however.[9] Low levels of consumer information about costs and quality, coupled with a dearth of clear, comparable data on those dimensions, blunts market accountability.[10] Basic information on out-of-pocket costs, the percentage of students who complete a degree, or the likely return on investment at different programs is incomplete or unavailable. Programs with high price tags and poor outcomes continue to attract students and taxpayer dollars.

The triad has also proven ineffective in its gatekeeping role. According to the most recent data available from the Integrated Postsecondary Education Data System (IPEDS), over 1,300 aid-eligible 2- and 4-year colleges graduated less than 30 percent of their first-time, full-time students in 150 percent of the normal time to degree. When it comes to finishing on time, more than 750 4-year colleges had 4-year completion rates of 20 percent or lower. Similarly, among those institutions receiving Federal loan dollars, nearly 500 schools had 3-year Cohort Default Rates (CDR) of 25 percent or higher in 2014.

Each part of the triad has its own shortcomings. Accreditation reviews rely on faculty from other institutions to evaluate their peers, creating a conflict of interest. It is also a binary measure, and the high stakes of revoking a school's accreditation mean it rarely happens. A Government Accountability Office (GAO) analysis found that just 1 percent of accredited institutions lost their accreditation over a 4½-year period.[11] State regulations vary considerably across the country, and few States authorize institutions on the basis of their student outcomes.

At the Federal level, the primary mechanism for holding colleges accountable—the Cohort Default Rate—successfully curbed the worst instances of fraud and abuse when first introduced in the 1990s. But the policy is flawed. First, it is easily gamed. So long as students default outside of the 3-year window, colleges are held harmless for that failure, creating incentive to get students just over that 3-year threshold. Indeed, when the Department of Education shifted from 2-year to 3-year default rates, loan performance was much worse in the 3-year window. The average default rate jumped 4.6 percentage points.

Second, the rule is binary in nature: colleges whose default rates are just below the Federal standard (40 percent in a given year or 30 percent over 3 consecutive years) continue to have full access to Federal aid programs. Those institutions that are close to the threshold likely have incentive to improve in order to avoid sanction in the future. But the mass of institutions with default rates that are high but still below the thresholds bear no responsibility for loans that go into default. There is nothing magical about the thresholds, yet policy treats colleges on either side of them completely differently.

Third, the binary element also makes the measure extremely high-stakes; losing access to title IV aid would essentially be a death sentence for colleges. An entire industry has evolved to help colleges manage their defaults within the 3-year window, and institutions have a host of opportunities to challenge and appeal the Department of Education's ruling. Policymakers have been reticent to sanction schools under the policy. Just eight institutions were subject to sanction in 2013.[12] This past year, the Department of Education revised the default rates of a subset of institutions on the basis of concerns about inadequate loan servicing, effectively saving them from sanction.[13]

Thus, existing policies have given rise to a system where colleges that effectively originate student loans bear little of the risk if borrowers are then unable to pay those loans back. This creates little incentive for poorly performing colleges to keep tuition low, enroll students who are likely to be successful, or change institutional practice so as to maximize student success.

To be clear: student success is a joint product of student effort and institutional practice. And institutions have only limited control over whether students arrive prepared for college, how much students decide to borrow above the cost of tuition, or their behavior during and after college. I discuss these caveats below.

But evidence suggests that colleges do have an effect on student success;[14] that institutions who adopt research-based interventions can improve retention and completion rates;[15] and that it is possible to contain costs without sacrificing quality.[16] The question is how to structure Federal policies to encourage colleges to focus effort and resources on these goals.

RISK-SHARING

A risk-sharing policy would change these incentives for all colleges. Risk-sharing here refers to a policy that would require all colleges who participate in the Federal loan program to retain some portion of the risk that their students will be unable to repay their loans. Specifically, colleges would be on the hook financially to pay back a fraction of the loans that their students fail to repay. In the parlance of other lending markets, colleges would have some "skin in the game" when it comes to student loans.

The intent of such a policy is to give all colleges—not just those with the highest default rates—stronger incentive to consider changes to institutional practice, resource allocation, and tuition pricing that would lower the probability that borrowers experience problems in repaying their loans. Risk-sharing is thus designed to change institutional behavior by holding colleges accountable for student outcomes, not dictating specific changes from Washington. Colleges would maintain the flexibility to figure out how best to accomplish student success goals.

How might such a policy play out in higher education? It is worth noting that the concept of risk-sharing has received significant attention in other lending markets, particularly in the context of home loans. Evidence from the period before and after the financial crisis suggests that the loan portfolios of mortgage lenders who had some skin in the game—as little as 3 percent of the risk—performed better than

those who did not.[17] In a comparative study of loan performance in the Veteran's Affairs (VA) and Federal Housing Administration (FHA) loan programs, researchers at the Urban Institute found that VA loans were less likely to default than FHA loans. The researchers hypothesize that the fact that lenders in the VA program have skin in the game likely explains some of the difference in performance (though they caution that they establish a correlation, not causation).[18]

Because similar variation is not present in Federal student loans, it is more difficult to project how this policy would play out in American higher education. But a recent paper by Temple University economist Douglas Webber attempted to simulate how different types of institutions might respond to a risk-sharing system, namely whether they would price risk-sharing into their tuition costs. Webber's simulation suggests that a risk-sharing system where colleges had to pay back 20 percent or 50 percent of defaulted loans would "bring about a sizable reduction in student loan debt," though at the cost of "modestly higher tuition rates."[19] Webber shows that if colleges were able to reduce their default rates even 10 percent, the reduction in loan debt would be even larger.

Webber's simulation of a 10 percent reduction in default rates is likely a conservative estimate of the extent to which proactive institutions could improve loan repayment rates. Indeed, there are a number of strategies colleges could pursue in this regard.

First, broad-access colleges could raise entrance standards and be more careful about enrolling students who have little chance of success. This would be an improvement in consumer protection; students should not enroll at an institution that cannot serve them effectively. But such a response also has consequences for access that I discuss below.

Second, some colleges will likely change their pricing and enrollment policies to minimize the number of students that wind up with debt but no degree. One approach is to implement a free or low-cost "trial period" that allows students to test the waters before they take on any debt. For instance, in the aftermath of the Obama administration's effort to regulate for-profit colleges, Kaplan University introduced a free, 3-week trial.[20] Another option is to have students start taking courses with a lower-cost provider before transferring those credits to the home institution. Western Governors University has partnered with online course provider StraighterLine to provide this kind of low-risk on-ramp for prospective students.[21]

Third, and most importantly, colleges will have incentive to restructure the student experience in ways that maximize student success. The most effective way to help students avoid repayment problems is to help them complete a credential with labor market value.[22] A series of rigorous, randomized evaluations has provided evidence that different interventions can raise retention and completion rates—personalized coaching, performance-based grant aid, full-time enrollment in a "structured pathway."[23] A comprehensive intervention that combined many of these strategies doubled graduation rates among remedial students at the City University of New York.[24] Improvements are possible, provided colleges have an incentive to adopt evidence-based strategies. Having skin in the game could provide that incentive.

DESIGN PRINCIPLES

There are a number of design principles and caveats that the committee could consider when thinking about the structure of a risk-sharing policy. I start with four design principles and conclude with two important caveats.

First, leaders might consider moving away from cohort default rates as the key measure. On the one hand, putting institutions on the hook for a fraction of defaulted dollars is transparent, simple, and clearly pegged to a defined outcome. But default rates are highly imperfect measures of institutional quality and loan performance.[25] Options like forbearance, deferment, and income-based repayment help students avoid defaulting even if they are not making progress in paying back their loans. As an alternative, policymakers could use a measure of repayment progress, such as cohort's loan balance that remains unpaid after the standard 10-year repayment period.

Second, in terms of the structure of penalties, the simplest approach would be to charge institutions a flat percentage of non-performing loans, perhaps excluding institutions whose repayment rates are above a certain threshold. For example, institutions might pay a flat percentage of a cohort's loan balance that remains at the end of the standard 10-year repayment window. Alternatively, a sliding scale of penalties that increased as repayment rates worsened would punish poor-performing institutions more severely, but policymakers would want to avoid a system that ratchets up penalties at particular thresholds in a way that creates large discontinuities.

Third, while it is difficult to forecast in advance, it is my opinion that risk-sharing penalties need not be particularly large to get the attention of schools. One study of the mortgage market found marked differences in loan performance with risk retention as low as 3 percent.[26] In higher education, the system should be designed to provide schools with an incentive to focus on student success, but penalties should not be so large as to summarily put schools out of business simply because they have cash-flow issues.

Fourth, it would be ideal to create a system that is simpler, more transparent, and that applies equally across all institutions regardless of tax status or other factors such as borrowing rates. We should have high expectations for all institutions, and a risk-sharing system can help achieve that goal so long as it is not riddled with provisions that exempt particular types of institutions.

Fifth, there are clearly many factors outside an institution's control—such as economic recessions. Tying the risk-sharing formula to the national unemployment rate, for instance, and exempting a fraction of non-performing loans from an institution's calculation based on that index, would help account for this risk.

CAVEATS

Now for the caveats. The most obvious criticism is that risk-sharing will reduce access for low-income students. This is a likely outcome at some schools, and must be taken seriously. But it's important to note that, in many cases, encouraging institutions to think twice about enrolling students that are unlikely to be successful is not necessarily a bad thing. For years, colleges have knowingly enrolled such students in order to capture additional student aid money, a practice that members of this committee criticized during prior hearings on for-profit colleges.[27] It is also important to note that these students would still have access to institutions where they are more likely to be successful. Federal policy should encourage students to enroll in institutions that are prepared to serve them.

But it is true that increased selectivity could keep out students that would benefit from schooling on the basis of their characteristics. Therefore, policymakers should consider offering institutions a bonus for every Pell Grant recipient they graduate. Such a reward would help balance the potential risk of enrolling low-income students.

Colleges also have justifiable concerns that risk-sharing would hold them accountable for behaviors they have no control over. For instance, colleges cannot limit how much students are allowed to borrow over the cost of tuition, meaning a poorly designed risk-sharing system would put them on the hook for loans that were not used to pay tuition. In light of this, a risk-sharing policy should only hold colleges responsible for a portion of the total sum of unpaid loan dollars. The penalty formula could multiply that sum by the ratio between tuition and living costs for that cohort. Similarly, colleges should not be punished for ineffective loan servicing.

Alternatively, the committee might consider giving schools the power to limit student borrowing under certain circumstances. For guidance on this issue, policymakers could look to the Department of Education's current experimental sites project that empowers selected colleges to limit borrowing.[28]

I appreciate the opportunity to provide feedback. I am enthusiastic about the committee's focus on this topic and believe a well-designed risk-sharing system can help to better align the incentives of institutions and their students.

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The CHAIRMAN. Thanks, Dr. Kelly.

Mr. Silberman.

STATEMENT OF ROBERT S. SILBERMAN, B.A., M.A., EXECUTIVE CHAIRMAN, STRAYER EDUCATION, INC., HERNDON, VA

Mr. SILBERMAN. Thank you, Chairman Alexander and Ranking Member Murray and other distinguished members of the committee. It's an honor to be here today with your committee, and I appreciate you asking for my views on this important issue.

The institution I have the privilege to represent, Strayer University, has been educating students for 123 years. It is accredited by the Middle States Commission on Higher Education, the same accrediting body that accredits Princeton, Georgetown, Johns Hopkins, the University of Maryland, and other outstanding schools in the mid-Atlantic region.

Strayer University currently educates 41,000 adult students, primarily in Bachelor and Master Degree programs in business, accounting, and information technology. Our numerous successful graduates include members of the military such as retired Assistant Commandant of the Marine Corps, General Robert Magnus; senior Federal Government officials such as Hon. Kathryn Medina, former Executive Director at the U.S. Office of Personnel Management; and thousands of senior business executives from industries and companies all over the country.

I note that the former chairman of your committee, Senator Tom Harkin, said in his recent extensive report that our

> "institution's performance, measured by student withdrawal and default rates, is one of the best of any examined, and it appears that students are faring well at this degree-based college."

I recount all this not just because I'm obviously proud of our university, our students and our alumni, but more importantly to illustrate that Strayer University, in all relevant respects, is com-

parable to all other non-profit universities which are accredited by Middle States.

I firmly believe that to be effective, the statutory framework governing institutions of higher education should apply even-handedly to all schools that participate in the title IV loan program. Rising student debt and defaults affect every sector of higher education and are not necessarily the result of an institution's tax status.

Excessive student debt places a significant burden not just on the student, but on our country as well, as approximately $100 billion of student loans are currently in default. The existing statutory framework does not, in my judgment, create the appropriate incentives for those who are best positioned to prevent and reduce such student loan defaults, the colleges and universities which originate the loans. Instead, when a student defaults, the educational institution retains the money it received as tuition, while the taxpayers and the student are left to pay the price.

Under current law, the primary debt-related measure governing colleges and universities is the cohort default rate. It is a blunt instrument, as my colleague has mentioned and Senator Alexander as well, that eliminates access to title IV funds only when a school reaches a 30 percent default rate for an extended period of time, and even then an excessively high default rate only cuts off future funds and does nothing to require the school to repay any of the title IV money it has already received.

There are several steps which I believe Congress can take to correct this misalignment of incentives which arise from the current system. These include, first, grant universities the flexibility to delay disbursement of title IV funds until later in an academic term, after it is clear that a student is succeeding academically. Several speakers have already mentioned the fact that the primary indicator of a student successfully paying off their debt is student completion.

Second, for those universities whose cohort default rates are worse than the national average of similar institutions, limit the award of title IV funds to such universities to no more than they received in the prior year. Let's not compound the problem and make the situation worse by continuing to fund institutions that are below the average.

Third, implement a method in which educational institutions share in the financial risk of defaults on student loans which are used to pay tuition to those institutions. As we've heard, Senator Reed, Senator Durbin and Senator Warren have proposed legislation that would create such a system. While the details of their proposal should be subject to the debate and negotiation and compromise necessary to create effective legislation, I personally believe their bill is a good start.

And finally, any legislative proposal that requires colleges and universities to share in the financial risk of student defaults should allow those institutions to limit student borrowing. Students may currently borrow, regardless of necessity, roughly double the cost of tuition, fees, and books through cost-of-attendance loans. As such, the system permits, and indeed encourages, over-borrowing and taking on debt that is not directly tied to an education.

Universities should be permitted to set borrowing limits at their tuition costs only. Likewise, a risk-sharing system should allow originating institutions to consider and evaluate a student's individual default risk at the time of enrollment and financial aid application, as long as that is based on an academic preparation, which seems to be a very direct indicator of success.

Legislation should permit and encourage academic institutions to implement commonsense measures to increase the likelihood that students successfully complete their studies and that students do not take on more debt than they ultimately will be able to repay.

Thank you, Mr. Chairman, for your leadership on this important issue, and I look forward to continue working with your committee. I have submitted a more detailed written statement which I would ask to be entered into the record and would be pleased to answer any questions at the appropriate time.

[The prepared statement of Mr. Silberman follows:]

PREPARED STATEMENT OF ROBERT S. SILBERMAN, B.A., M.A.

EXECUTIVE SUMMARY

Strayer University, a 123-year-old university accredited by the Middle States Commission on Higher Education, currently educates 41,000 adult students, primarily in bachelor and master degree programs in business and information technology. Strayer University agrees that Congress should improve the framework that governs taxpayer money disbursed under Title IV of the Higher Education Act.

There should be a unitary system of regulation that applies to all institutions that receive title IV loans as tuition. Non-profit institutions, such as Southern New Hampshire University, and Arizona State University, are increasingly marketing their online programs—not to better serve their existing students but rather to grow their enrollment of "non-traditional" working adult students. Thus, any risk associated with high enrollment-growth models is no longer unique to one segment of higher education. An effective framework for regulatory oversight should not include or exclude institutions on the basis of their source of funding. In addition, we recommend the following concrete steps for reform:

1. *Allow institutions to consider default risk in enrollment and financial aid grants.* Legislation should permit, and indeed encourage, institutions to implement common sense measures to increase the likelihood that students can successfully complete their studies and will not take on debt that they ultimately will be unable to repay.

2. *Grant institutions greater flexibility to delay disbursements.* The current CDR regulation requires institutions with a CDR at 15 percent or greater to delay disbursements for 30 days to first-year, first-time subsidized and unsubsidized Direct Loan borrowers. Legislation should expand on this, to allow institutions to delay disbursements until a student demonstrates ability to succeed in a program.

3. *Allow institutions to set different costs of attendance for students.* The current system allows the possibility that students will over-borrow, by allowing them to take financial aid for more than just the cost of an educational program. Institutions should be permitted to set borrowing limits for non-residential students at institutional costs only.

4. *Limit growth of institutions that have high cohort default rates.* Legislation could limit the amount of title IV funds awarded to an institution with a CDR equal to or greater than the national average of its peer institutions, (based upon the risk profile of the students served) to no more than the amount awarded to the institution in the previous year.

5. *Impose Risk-Sharing Payments on Institutions.* Finally, a viable risk-sharing proposal could build off of the sanctions imposed for high CDRs, but hold institutions accountable prior to reaching the 30 percent ineligibility threshold. One option is to require that any institution, regardless of its funding source, remit a risk-sharing payment when its CDR hits 15 percent. Thus, if the alumni of an educational institution default on more than $0.15 for every $1.00 borrowed, then the institution should share equally with taxpayers the cost of those defaults above the $0.15. This risk-sharing mechanism (sometimes referred to colloquially as "skin in the game") will help correct the current misalignment of incentives between educational institu-

tions and the Federal Government, and avoid the wealth transfer from the taxpayer to the educational institution, which occurs in the case of excessive student defaults.

Chairman Alexander, Ranking Member Murray, and committee members: Thank you for the opportunity to comment on ways to create a more effective system of higher education oversight and accountability, and for your leadership on this important issue.

Strayer University is a 123-year-old university that is accredited by the Middle States Commission on Higher Education, the same regional body that accredits Princeton, Georgetown, the University of Maryland, and the other outstanding schools in the Mid-Atlantic States. We currently educate 41,000 adult students, primarily in bachelor and master degree programs in business and information technology. Our countless successful graduates include Retired Assistant Commandant of the Marine Corps, General Robert Magnus, who received his MBA in 1998, Hon. Kathryn Medina, who received her Bachelor of Business Administration in 2004 and recently stepped down as an Executive Director at the U.S. Office of Personnel Management, and numerous senior business executives in all industries.

Strayer University agrees that Congress can and should improve the framework that governs taxpayer money disbursed under Title IV of the Higher Education Act ("HEA"). We outline below some suggestions for a comprehensive legislative proposal aimed at (1) giving institutions the flexibility to mitigate the risk of student loan defaults and (2) imposing upon institutions that fail to sufficiently mitigate defaults certain growth limitations and risk-sharing obligations.

In order to meet the goal of a better prepared workforce, our Nation needs a diversity of institutions that serve both traditional college students, and older working adults that did not have the opportunity to benefit from a higher education directly after graduating from high school. The country benefits from a system that offers students a wide array of educational options that can meet their varied needs. As such, the goal of any legislative proposal should not be arbitrary standards aimed at one sector of higher education, but targeted measures designed to protect students and taxpayers by incentivizing sound educational practices and eliminating entities providing a sub-par education.

We believe any legislative proposal should establish a simple, unitary, system of regulation that applies to all institutions that receive title IV loans as tuition. The problem of excessive student debt affects every sector of higher education and is not a result of an institution's tax status. Some commenters on the current student debt crisis have suggested that for-profit institutions are uniquely incentivized toward rapid enrollment growth, which in turn leads to high rates of default. However, more and more "traditional" non-profit institutions, such as the University of Maryland University College, Southern New Hampshire University, and Arizona State University, are taking their programs online—and marketing them aggressively—not to better serve their existing students but rather to grow their enrollments by competing for the growing population of "non-traditional" working adult students. They are undertaking these programs either by working with private sector online service providers (many of whom are themselves profit-seeking), or by building the capacity in-house. As such, any risk associated with high enrollment-growth models can no longer be argued to be unique to one segment of higher education. Therefore an effective framework for regulatory oversight should not include or exclude institutions on the basis of their source of funding.

Congress has addressed the public policy issue of unmanageable student debt, and the resulting taxpayer risk from student loan defaults, through the provisions of the HEA that relate to an institution's Cohort Default Rate ("CDR"). In 2008, Congress revamped the CDR, in order to cure perceived inadequacies, and expanded the measurement window from 2 years to 3.

Under the current legislatively approved CDR framework, Congress has identified CDRs of 30 percent or higher as problematic, by instituting a tiered system of consequences:

- If the rate is equal to or greater than 30 percent in a given fiscal year, the institution must establish a "default prevention task force" and submit to the Department a default improvement plan ("Plan").
- If the rate is equal to or greater than 30 percent for 2 consecutive years, the institution must revise and resubmit the Plan.
- If the rate is equal to or greater than 30 percent for 2 out of 3 consecutive years, the Department may subject the institution to provisional certification.
- If the rate is equal to or greater than 30 percent for 3 consecutive years, the institution becomes ineligible to participate in the Direct Loan program and Federal Pell Grant Program.

In addition, if an institution's CDR equals or exceeds 15 percent, the institution must delay for 30 days disbursements to first-year, first-time subsidized and unsubsidized Direct Loan borrowers.

More can be done to hold institutions accountable. But recent attempts to revisit the issue of student debt and to accomplish the goal of accountability have focused on regulatory changes that develop new metrics, applied only to certain institutions, absent congressional input. Instead, Congress should work off of the framework for calculating CDRs to establish accountability.

RECOMMENDATIONS

Congress should build on its existing legislative and regulatory framework in two ways: first, by giving educational institutions more authority to mitigate the risk of student defaults; and second, by requiring those educational institutions to share the financial risk in those circumstances where student defaults reach unacceptable levels. I outline below concrete steps to effectuate these reforms:

(1) *Allow institutions to consider default risk in enrollment and financial aid grants.* Any legislative effort seeking to hold institutions accountable for student loan defaults must not hamstring institutions from implementing their own safeguards against such defaults. Legislation should permit, and indeed encourage, institutions to implement common sense measures to increase the likelihood that students can successfully complete their studies and will not take on debt that they ultimately will be unable to repay. For instance, based upon our years of operation in the sector and our own internal research, analysis and experience, we have learned that students lacking in basic math and English skills are exponentially more likely to drop or fail out of undergraduate programs and therefore pose undergraduate student loans default risks. Indeed, Strayer University is so confident of this conclusion that we have established a requirement that students who cannot demonstrate proficiency in basic math and English skills must pass a non-credit bearing introductory course in those subjects before they can enroll in college-level, title IV-eligible course work at our institution. Simply put, inadequate preparation is the root cause of students being unable to meet their educational goals and thus these students are the most likely to default on their student loans. Numerous examples of basic aptitude tests already exist and can be utilized by institutions to establish a prospective student's preparation for course work. Congress may therefore consider establishing or recognizing a national eligibility test for institutions to determine that students have the basic skills to perform college-level work, particularly math and English skills, before allowing title IV funds to be lent to the student. Such a test would help ensure that title IV funds are only used to support students having the requisite basic skills to succeed at college-level work.

(2) *Grant institutions greater flexibility to delay disbursements.* The current CDR regulation requires institutions with a CDR at 15 percent or greater to delay disbursements for 30 days to first-year, first-time subsidized and unsubsidized Direct Loan borrowers. Legislation should expand on this, to allow institutions to determine other instances in which it is advisable to delay disbursements until a student can establish that he or she has the ability to succeed in a program.

(3) *Allow institutions to set different costs of attendance for students.* The current system allows the possibility that students will over-borrow, by allowing them to take financial aid for more than just the cost of an educational program. Under the financial aid system, a student's aid package can include borrowing for the cost-of-living. Although such borrowing may make practical sense for traditional students who enter college at the age of 18 and are away from home, it does not always translate to the population of older students returning to school later in life who are already working adults. As such, the system permits, and indeed in some instances encourages, over-borrowing and taking on debt that is not directly tied to an education. Institutions should therefore be permitted to set borrowing limits at institutional costs only, which would grant access to title IV funds for non-residential students for tuition expenses only.

(4) *Limit growth of institutions that have high cohort default rates.* Recent regulatory measures have recognized that institutions should be required to seek approval prior to expanding their programs or campuses if they have not met certain standards. While this is laudable, growth restrictions could be stronger and should be reasonably tied to the congressionally created framework, not separate independently created metrics. For instance, legislation could limit the amount of title IV funds awarded to an institution with a CDR equal to or greater than the national average of its peer institutions, (based upon the risk profile of the students served) to no more than the amount awarded to the institution in the previous year.

Notably, we recommend basing this growth limitation on a national average CDR rather than on a pre-determined threshold to account for many of the criticisms currently made against the existing CDR framework. Critics of that framework contend that it does not properly take into account economic factors that can, for a period of time, affect repayment rates without having any bearing on the level of education provided by an institution. Institutions should be held accountable to students and taxpayers for the value of the instruction they provide. But institutions should not be required to meet a potentially arbitrary benchmark when economic conditions are such that unemployment is high and wages stagnant or in decline. Basing the limitation on a national average adjusts for these situations that are beyond an institution's control. Moreover, using a national average also inhibits the ability of institutions to manipulate their CDRs by managing defaults based on a static target for compliance.

(5) *Impose Risk-Sharing Payments on Institutions.* Finally, a viable risk-sharing proposal could build off of the sanctions imposed for high CDRs, but hold institutions accountable prior to reaching the 30 percent or higher threshold at which the potential for ineligibility is triggered. One option would be a requirement that any institution, regardless of its funding source, remit a risk-sharing payment when its CDR hits 15 percent. But while the CDR is based on the percentage of student borrowers who have defaulted, irrespective of the amount on which they have defaulted, the risk-sharing payment should be based on a percentage of the actual dollar figures in default. As such, once it is determined that an institution has a borrower-based CDR equal to or greater than 15 percent, the Department should compute the percentage of actual dollars defaulted based on the total amount of dollars disbursed by the institution in that year. If more than 15 percent of the total dollars disbursed are in default, institutions should be required to remit a risk-sharing payment equal to 50 percent of the total defaulted dollars above the 15 percent threshold, i.e., a true risk-share between taxpayers and institutions.

Illustration:

- Institution has a 15 percent borrower-based CDR, and disbursed $500,000,000 to students in the cohort.
- Students in the cohort defaulted on a total of $100,000,000, or 20 percent of total dollars disbursed.
- The risk-sharing payment is based on the difference between $100,000,000 (20 percent) and $75,000,000 (15 percent) = $25,000,000.
- The institution's 50 percent of the risk equals a payment of $12,500,000 to the Treasury.

The simple theory here is that if the alumni of an educational institution default on more than $0.15 for every $1.00 borrowed, then the institution should share equally with taxpayers the cost of those defaults above the $0.15. This risk-sharing mechanism (sometimes referred to colloquially as "skin in the game") will help correct the current misalignment of incentives between educational institutions and the Federal Government, and avoid the wealth transfer from the taxpayer to the educational institution, which occurs in the case of excessive student defaults. In order to protect taxpayers, all funds collected from risk-sharing payments should be used exclusively to off-set defaults in the title IV program, rather than to create funding for any other governmental expenditure.

Thank you for the opportunity to share with you these thoughts on how to establish a higher education accountability system that is both effective and fair. We believe the actual numerical triggers and percentages of students loan defaults subject to any risk sharing should be subject to debate and compromise in order to create the most effective system. However, the principles behind any equitable and effective system are fairly straightforward. All parties who share in the gains from the student loan system should share in any losses the system creates. Strayer takes seriously both our responsibility to provide our students with a quality education and our duty to be good stewards of taxpayer money. I look forward to working with you to ensure fulfillment of both these goals.

The CHAIRMAN. Thanks, Mr. Silberman.

Ms. Wang.

STATEMENT OF JENNIFER WANG, POLICY DIRECTOR, YOUNG INVINCIBLES, WASHINGTON, DC

Ms. WANG. Thank you, Chairman Alexander, Ranking Member Murray, and the committee, for the opportunity to appear before you today. My name is Jennifer Wang, and I'm the policy director

of Young Invincibles. We are a national non-profit that works to expand economic opportunity for young people through research and advocacy.

As this committee works to reauthorize the Higher Education Act, it's critical that young adult voices get heard throughout the process. With $1.2 trillion in student debt and over 40 million student loan borrowers nationwide, Congress can use HEA reauthorization as an opportunity to protect the investments of students and taxpayers.

At Young Invincibles, we support aligning and improving Federal incentives to elevate institutions' interests in reducing the burden of student debt and improving access and success, especially among low-income and underrepresented students. Right now, the system is set up so that students bear all of the risk of a poorly performing institution, with little information available to them about career outcomes.

Our generation knows we need higher education to be successful, and we stand ready to take on responsibility for our education. However, institutions must also take responsibility for student success. To improve educational outcomes and control the growing volume of student debt, Congress must align institutional behavior with student interests.

We recommend adopting the following goals to protect students and taxpayers.

First, require that institutions be on the hook for student success such that institutions that do not leave their students better off than high school graduates must improve or risk title IV eligibility.

Second, craft a policy that encourages institutions to lower the cost of attendance.

And third, in the worst instances, require institutions to provide borrowing relief.

I must point out, risk-sharing cannot be a substitute for existing protections like the 90/10 rule or the gainful employment rule. These protections prevent the most unscrupulous actors from taking advantage of students. We also believe that institutions must not threaten to pass the so-called cost of risk-sharing on to its students.

We have crafted a proposal that uses a repayment rate of at least 45 percent based on earnings of high school graduates. Our analysis of 2013 current population survey data estimates that roughly 46 percent of young adults with a high school diploma could possibly afford some level of student debt payments. We set this threshold because higher education should leave young people with more opportunities for employment than if they tried to navigate the job market with just a high school degree. Institutions that cannot meet this threshold should not remain eligible for title IV aid.

Under our proposal, 45 percent of graduates must be able to pay at least $1 on their loans toward principal. Simply assessing whether graduates are in repayment may not be sufficient because we believe that repayment protections exist for the borrower, not the institution.

This committee should keep in mind also that students make sacrifices to attend college that are not limited to tuition, cost of

attendance, and debt. Therefore, we urge the committee to craft a policy that encourages completion in a reasonable amount of time with a degree that helps students succeed in the workforce and does not saddle students with overly burdensome debt.

It is important that the committee build some form of borrower relief into any risk-sharing proposal because it is currently the student loan borrower who is ultimately held accountable for a school's failure. As it stands, we do not have a market-oriented system for mitigating risk, and without borrower relief, institutions have little to no financial stake in student success. Losing title IV eligibility is a check on revenue for institutions, but it does nothing to help borrowers who attend failing programs already burdened with debt they cannot possibly afford to repay.

A preferred solution in the worst scenarios is to discharge the debt of students who attend failing institutions, reinstate any lost Pell Grant eligibility, and recover as much lost funding as possible from the institution, not the student.

We also urge the committee to explore risk-sharing policies that will incentivize institutions to improve rather than simply avoid enforcement.

I want to close on a student story. Mike DiGiacomo, a U.S. Army veteran who went to Gibbs College in Massachusetts, enrolled after the school used questionable recruitment practices. He now has more than $85,000 in student loan debt. He thought his degree would help him find a job in his field of study. He says his school did not adequately prepare him for the workforce. He has faced several months of unemployment, and he struggles to repay his student loans. We urge the committee to prevent these types of situations.

Thank you for the opportunity to speak here today, and I look forward to the discussion.

[The prepared statement of Ms. Wang follows:]

PREPARED STATEMENT OF JENNIFER C. WANG

SUMMARY

Young Invincibles supports the goal of aligning and improving Federal incentives to elevate institutions' interests in reducing the burden of student debt and improving student access and success, particularly among low-income and underrepresented students. To improve postsecondary outcomes and control the growing volume of student debt, Congress must align institutional behavior with student interests.

We recommend the following main goals for creating a risk-sharing framework to protect students and taxpayers:

1. Institute a repayment rate metric to ensure that institutions leave their students better off than high school graduates or risk title IV eligibility.
2. Craft a policy that encourages institutions to lower cost of attendance and tighten revenue standards.
3. Require institutions to provide borrower relief.

We also urge the committee to keep the following flags in mind:

- Risk-sharing must not be a substitute for existing protections, like the 90/10 rule or the Gainful Employment rule. These rules exist to prevent the most unscrupulous actors from taking advantage of students, and in fact, should be strengthened in the face of widespread bad practices. Closing the GI bill loophole and establishing an 85/15 rule are essential pieces of any risk-sharing regime to ensure program quality and protect students and taxpayers.
- Institutions must not threaten to pass the so-called "cost" of risk-sharing onto students. It is the role of this committee to ensure that institutions do the right

thing by strengthening existing regulations while preventing institutions from evading rules meant to protect students.

- Risk-sharing policies should incentivize institutions to improve, rather than simply avoid enforcement. Ideas for promoting institutional improvement include rewarding institutions that do the best job of educating students, particularly Pell students and students from underrepresented communities, and connecting them with real career opportunities. Along these lines, institutions with high repayment rates deserve credit for doing a good job, and we encourage the committee to explore well-targeted methods of encouraging institutions to do better, starting with the students who need it most.

Thank you, Chairman Alexander, Ranking Member Murray, and the committee for the opportunity to appear before you today. My name is Jennifer Wang, and I am the policy director of Young Invincibles, a non-profit, non-partisan organization that works to expand economic opportunity for young adults. As this committee seeks to reauthorize the Higher Education Act, it is essential that the voices of young adults be heard throughout the process. With $1.2 trillion in student debt and over 40 million student loan borrowers nationwide, Congress must use Higher Education Act reauthorization as an opportunity to protect the investments of students and taxpayers.

Young Invincibles supports the goal of aligning and improving Federal incentives to elevate institutions' interests in reducing the burden of student debt and improving student access and success, particularly among low-income and underrepresented students. In our work directly with young people, we frequently hear from students across the country about how lofty promises from the worst acting institutions turn into mountains of debt with few job prospects in sight. Right now, the system is set up so that students bear all of the risk of a poorly performing institution, with little information available to them about career outcomes. Our generation knows we need higher education to be successful, and we stand ready to take on responsibility for our education. However, institutions must also take responsibility for student success. To improve postsecondary outcomes and control the growing volume of student debt, Congress must align institutional behavior with student interests.

We recommend the following main goals for creating a risk-sharing framework to protect students and taxpayers:

1. Institute a repayment rate metric to ensure that institutions leave their students better off than high school graduates or risk title IV eligibility.
2. Craft a policy that encourages institutions to lower cost of attendance and tighten revenue standards.
3. Require institutions to provide borrower relief.

To be clear, we believe that risk-sharing must not be a substitute for existing protections, like the 90/10 rule or the Gainful Employment rule. These rules exist to prevent the most unscrupulous actors from taking advantage of students. We also believe that institutions must not threaten to pass the so-called "cost" of risk-sharing onto students. It is the role of this committee to ensure that institutions do the right thing by strengthening and existing regulations while preventing institutions from evading rules meant to protect students.

1. Institute a repayment rate metric to ensure that institutions leave their students better off than high school graduates or risk title IV eligibility.

Under the Higher Education Act, institutions already have a skin in the game requirement for a narrow subset of programs. However, this committee should broaden institutional accountability to all program types at all institutions, so that all schools are on the hook for producing strong student outcomes. Our recommendation is based on the following concept: in order to receive Federal financial aid, institutions should create education programs that make their graduates, on average, better off than high school students. Students attend post-secondary programs in order to improve their economic chances. Taxpayers also invest in post-secondary career programs, in part, to achieve the economic gains everyone benefits from when more members of society have a postsecondary credential. To achieve this, we recommend using a repayment rate metric of at least 45 percent, with the goal of phasing in a 50 percent standard.

We suggest using a repayment rate metric because we believe that they are a better indicator of student success upon leaving a program than cohort default rates. They are less subject to manipulation because borrowers who leave school must ac-

tually repay student debt, rather than simply avoid default using forbearance or deferment. Repayment rates also more closely measure success than default rates, which only measure the frequency of the worst possible repayment outcomes.

We crafted our 45 percent repayment rate metric using census data to estimate the economic success of an institution's graduates compared to high school graduates nationally in the context of repayment rates. People with only a high school diploma earn significantly less than individuals with a post-secondary credential. This does not imply that no one with only a high school diploma ever achieves financial success, but it does indicate that the chance of doing so with only a high school diploma is sufficiently small that obtaining a postsecondary credential is highly advisable.

We based our calculation on the discretionary income thresholds present in the current debt-to-earnings metrics and those set by Congress for income-based repayment plans. Essentially, Congress has already based policy around the idea that individuals earning less than 1.5 times the Federal poverty level cannot afford even minimal payments on Federal student loans. Conversely, we assume for the purposes of our calculation, that individuals earning more than this amount could at least make some student loan payment. From this baseline, we further eliminated people qualifying for social safety net benefits or who are active in the armed forces.

We also constrained our analysis to young adults aged 25–34 years old because older workers typically earn much higher salaries due to their previous work experience. Although we know that some institutions typically enroll many students who do not come straight from high school, we know that many of these students are still in their young adult years. We also feel it is appropriate to compare college graduates to a population of high school graduates near to when those graduates actually left high school.

Our analysis of 2013 Current Population Survey (CPS) data estimates that 46.2 percent of young adults with a high school diploma could possibly afford some level of student debt payments. We would recommend initially reducing the threshold to 45 percent, to account for additional populations of borrowers we cannot account for due to limitations in CPS data (e.g., borrowers engaged in national service may defer their payments). However, we urge the committee to explore phasing the rate up to 50 percent in later years, as Senator Alexander's white paper suggests.

We note that this is a low bar but one with economic support. We are also certain that many of the high school graduates earning more than 150 percent of the Federal poverty would struggle with debt payments, particularly if they had high levels of student debt. For comparison, doing the same analysis for bachelor's level graduates would produce a repayment rate of greater than 70 percent. However, we do not seek to set an unreasonable standard for institutions, particularly institutions with high populations of non-traditional students, or institutions where the vast majority of students do not borrow.

In addition to encouraging institutional accountability using a repayment rate, we suggest that the committee use the following rule when assessing whether an institution passes: that 45 (and eventually 50 percent) of their graduates are able to pay at least $1 on their loans toward principal. Simply assessing whether 45 or 50 percent of graduates are in repayment may not be sufficient because at institutions where students take on substantial debt, some may have very low payments or payments of zero under income-based or income-contingent repayment. We believe that IBR should be a protection for the borrower, not the institution.

For example, if a school performs poorly, many of its borrowers could end up making very low payments or no payments and receiving high levels of student loan forgiveness under IBR or PAYE. This would mean that the Federal Government would be covering for an institution's poor performance in these instances. Giving an institution credit for any type of payment, low or zero, masks that they are leaving borrowers with a lot of debt that they can never repay. As such, requiring that borrowers pay at least some principal in a given year ensures that borrowers are actually learning and earning enough to make progress on their debt.

We also encourage this committee to exclude failing institutions from title IV aid using a repayment rate metric. The structure of our repayment metric sets a minimum standard for school performance for receiving Federal financial aid. We believe a post-secondary institution that receives title IV aid must perform better, on average, than the average secondary school. There is no reason that taxpayers and the government should continue to support institutions that fails to produce graduates that are no better than those with a high school diploma. We also encourage this committee to explore risk-sharing ideas that encourage institutions to improve.

Along with a repayment rate metric, we also recommend lifting the ban on a student unit record to allow for a policy to account for a diverse set of job outcomes. Under current law, the Census and its response data would not be able to answer

labor outcomes by institution, or even sector. For a fully functional risk-sharing system that is useful to students and taxpayers, Congress must lift the ban on a unit record system to examine these outcomes. This way, the committee could build in questions about school type, and program type into the data. This is vital information that we know students say they need in order to make informed choices about where to go to school and how to pay for it.

2. Craft a policy that encourages institutions to lower cost of attendance and tighten revenue standards.

The costs of a college degree are rising, but that trend overlooks opportunity costs when assessing how much a degree actually costs. The opportunity costs of going to college are great, and go beyond what a student pays in tuition, fees, and living expenses. The average full-time college student forgoes over $9000 in earnings for each year she spends in school. That number increases to nearly $16,000 for students in college who do not or cannot work while enrolled. Most students today also do not graduate from college in 4 years and can forego over $93,000 in income. Combine this figure with how much debt the average college graduate now has due to rising college costs, and the need for risk-sharing becomes even more necessary for today's student, who is sacrificing both time and money to pursue an education.

Tuition alone is also no longer an accurate measure of the rising cost of college. Living expenses are essential expenses for students, and the economic reality for most students is that they must take on additional student loan debt to pay for living expenses in order to attend and complete college. This is particularly true at certain institutions that serve larger proportions of low-income, independent students, who cannot rely on savings or family support. A risk-sharing framework must take this necessary borrowing into account in addition to opportunity cost, and factor in the full cost of attendance into account when crafting a risk-sharing framework.

In our work with students, we have also heard that some institutions require that students purchase expensive products from the institution in order to enroll in a course. This behavior can significantly increase the amount of debt that students who attend these programs incur. To ensure institutions are held accountable for the additional debt, we strongly recommend that Congress keep institutions fully accountable to the realities of being a student today: by including books, supplies, and equipment in any risk-sharing calculation for cost of attendance. We hope that this will prevent institutions from passing on the "costs" of risk-sharing onto students in ways other than raising tuition.

Ideally, any risk-sharing proposal would take into account the full cost of attendance and keep institutions accountable to students for this amount. We urge the committee to craft a proposal that incorporates this idea into its framework. This committee should also keep in mind that the sacrifices that students make to attend college are not limited to tuition, cost of attendance, and debt. Therefore, we encourage this committee to craft a policy that encourages completion in a reasonable amount of time, with a degree that helps students succeed in the workforce, that does not saddle students with overly burdensome debt.

We also urge the committee to explore market-based policies that help curb unscrupulous practices that raise costs for students or encourage aggressive marketing. One idea is to restore the 90/10 rule to 85/15, such that institutions subject to this rule must derive at least 15 percent of institutional revenue from non-Federal student aid programs. This rule is appropriate in risk-sharing because taxpayers should not foot the bill for well-known aggressive recruitment tactics at institutions looking to derive more revenue from certain students, like student veterans. Institutions that offer a quality education at a reasonable price are well-respected by students, employers, and aid providers, and should not have trouble meeting this standard.

Of course, Congress should explore other risk-sharing proposals that can lower the total cost of attendance at all types of institutions and programs. We believe that every type of institution, regardless of its tax status, must play a proactive role in addressing cost of attendance, and urge Congress to financially encourage such behavior. In addition to narrowing generous cost of attendance policies, Congress could also encourage institutions to refocus funds toward instruction and keep institutions on the hook for extraneous student debt not related to instruction. These are commonsense, market-oriented reforms designed to encourage institutions to adapt to reflect the realities of being a student today.

3. Require institutions to provide borrower relief.

Risk-sharing cannot exist without some form of borrower relief because it is currently the student loan borrower who is ultimately held accountable for an institution or program's failure. As it stands, we do not have a market-oriented system for mitigating risk, and without borrower relief, institutions have little to no financial stake in student success. Accountability in the form of loss of title IV eligibility is a check on revenue for institutions, but it does nothing to borrowers who attended failing programs, already burdened with debt they cannot possibly afford to repay. Institutions cannot continue to receive all of the benefit in Federal financial aid revenue should a program succeed, while borrowers and taxpayers bear the burden should the program fail.

Congress owes these students who attend failing institutions and programs some form of insurance. Requiring schools to fund borrower relief ensures that schools must take into account the risk to students when creating programs. Our preferred solution in the worst scenarios is to discharge the debt of students who attend failing schools, reinstate any lost Pell grant eligibility, and recover as much lost funding as possible from the institution, not the student.

This is the fairest resolution for four reasons. First, because it is the student who took on loans for an education in what we know is a low-information environment, Congress must also ensure that students are not harmed by the financial distress resulting from when programs are less than ideal. Second, a full loan discharge would allow students the option to pursue an education that actually makes a difference in their lives rather than struggle to repay debt for a program that does not adequately prepare them to start a career and repay their debt. Third, the institution is ultimately responsible for the failed program, and should compensate taxpayers for as much of the lost investment as possible. Fourth, Congress must reinstate Pell eligibility for students who institutions are deemed as failing. This is critical to maintaining college access. It is fundamentally unfair to disqualify hard-working low-and moderate-income students who do the right thing by attending college only to receive little education and few job prospects. In the worst cases, students could be lured into bad programs, use up their Pell dollars attending poorly performing programs, and have no second chance at success. Reinstating Pell eligibility would give students a fair opportunity to work hard, complete a degree, and start a career.

We also urge the committee to explore risk-sharing policies that will incentivize institutions to improve, rather than simply avoid enforcement. Ideas for promoting institutional improvement include rewarding institutions that do the best job of educating students, particularly Pell students and students from underrepresented communities, and connecting them with real career opportunities. Along these lines, institutions with high repayment rates deserve credit for doing a good job, and we encourage the committee to explore well-targeted methods of encouraging institutions to do better, starting with the students who need it most.

As with any other postsecondary education reform, we urge the committee to prioritize student access and success over all else. Reforms must not impede access or place the needs of institutions over students and families. Thank you for the opportunity to speak here today, and I look forward to the discussion.

The CHAIRMAN. Thank you, Ms. Wang.

Dr. Webber.

STATEMENT OF DOUGLAS A. WEBBER, B.A., M.A., Ph.D., ASSISTANT PROFESSOR, TEMPLE UNIVERSITY, PHILADELPHIA, PA

Dr. WEBBER. Chairman Alexander, Ranking Senator Murray, and distinguished members of the committee, thank you very much for having me to this important hearing. As a researcher who strives to do relevant policy research in the area of higher education, it is truly an honor to be here today. Thank you very much to Senator Casey for that generous introduction.

For reasons relating to fairness, efficiency, and economic incentives, I am in favor of all institutions participating in Federal student aid programs being subject to risk-sharing requirements. Similar to the proposal of Senator Reed, I'm in favor of imposing a penalty on institutions equal to a proportion of the student loan debt that is defaulted upon by prior students.

However, I believe that this penalty should be paid by all institutions rather than just those above a certain threshold. The simple reason is that we want to target the penalty at those institutions that are most contributing to our current national student debt crisis. These are not necessarily the institutions with the highest cohort default rates.

For instance, certain segments of the community college sector have very high default rates, but since the tuition at these schools is generally low, their contribution to the national student debt is smaller than would be imagined.

Additionally, just because an institution has a modest overall default rate does not mean that there is not substantial room for improvement. Consider a hypothetical university with a major degree program in which students default 50 percent of the time. This university should not escape a penalty because the rest of the institution has a lower default rate that brings the institutional average under 15 percent. All institutions in all of their offered programs should be incentivized to consider the future debt levels and labor market outcomes among their students. This means allowing students to complete their program in a timely manner, without incurring unsupportable debt levels, and teaching students skills that are valuable in today's competitive labor market.

One potential concern related to implementing a risk-sharing policy is that it could possibly put upward pressure on tuition rates. I examined this issue in a recent research paper which attempts to quantify the tuition response to risk-sharing penalties should they be imposed. In this research I used administrative data on each institution which receives title IV funding over a 25-year period to essentially estimate features of the cost structure for each institution and calculate from their point of view a financially optimal tuition response to the increased cost of risk-sharing. I estimated these both for a 20 percent and a 50 percent risk-sharing penalty.

Throughout my research I tried to make assumptions about institutions' behavior which would lead to the worst-case outcome for students. I make these assumptions because I believe that policymakers should be risk averse when considering such substantial policy changes.

I find that the typical institution would implement only a modest tuition increase of approximately 1 percent under the 20 percent risk-sharing penalty and 2 percent under the 50 percent penalty. The only institutions which would implement appreciably larger increases in tuition are those which have high tuition, high rates of borrowing, and high default rates; in other words, those institutions contributing the most to our current student debt problem.

It is my judgment that these modest increases in tuition are far outweighed by the powerful incentives they will provide institutions to invest in their students' economic futures. I want to reiterate that these figures assume worst-case scenario and that the legislation has absolutely no impact on incentivizing institutions to reduce defaults. Since institutions are likely to devote more energy toward reducing student debt as a result of this policy, I would anticipate that the actual tuition increases would be even smaller.

Finally, I wanted to mention that coupling a risk-sharing policy with the reforms discussed in other hearings, such as easing the accreditation requirements and providing in particular detailed consumer information at both the institution and major degree program level, would also alleviate upward pressure on tuitions resulting from a risk-sharing policy.

To summarize my testimony, I am strongly in favor of instituting a risk-sharing program which incentivizes all institutions to invest more heavily and efficiently in labor market outcomes of their students.

Thank you very much for having me here today.

[The prepared statement of Dr. Webber follows:]

PREPARED STATEMENT OF DOUGLAS A. WEBBER, B.A., M.A., PH.D.

EXECUTIVE SUMMARY

This testimony discusses the issue of risk-sharing in the market for student higher education loans. I focus my testimony on the appeal of such a policy relative to the current system, a basic structure for how a new accountability system could be implemented, and the costs/benefits of this system based on my own research.

- The appeal of a risk-sharing policy:
  - Student loan debt is a growing problem for both students and the overall health of the national economy.
  - Risk-sharing incentivizes institutions to invest more in their students' future economic well-being by requiring institutions to bear some of the financial costs associated with the defaulted loans.
  - Risk-sharing provides these incentives to all institutions and students, rather than the few worst performing institutions (as is currently the case).
- The basic structure of the risk-sharing policy I support:
  - A financial penalty paid by institutions equal to a fraction (e.g., 20 percent) of the value of defaulted student loans by their past students.
  - More straightforward than the current system, without the need for ad hoc adjustments.
  - Other implementations, such as an Unemployment Insurance-type system are discussed.
- Costs and benefits of risk-sharing policy:
  - Modest projected increases in tuition: 1 percent (2 percent) for most institutions under a 20 percent (50 percent) risk-sharing penalty.
  - Only institutions which have high tuition, high rates of student borrowing, and high default rates (i.e., those institutions contributing the most to the growth in student debt) would see higher increases (2.5 percent –4.5 percent).
  - The above figures assume there is no incentive effect of risk-sharing by institutions. As the incentive effect increases, the projected increase in tuition diminishes.
  - Unintended negative consequences of risk-sharing (such as increased tuition) would be diminished when coupled with many of the reforms discussed in the other hearings on the reauthorization of the Higher Education Act (e.g., consumer information and accreditation).

Chairman Alexander, Ranking Member Murray, and distinguished members of the committee, thank you for inviting me to this important hearing. As a researcher who strives to do policy relevant work in the area of higher education, this is truly an honor.

My name is Doug Webber, and I am currently an assistant professor in the Department of Economics at Temple University and a Research Fellow at the Institute for the Study of Labor. My main areas of research are the economics of higher education and labor economics. I have Bachelor's degrees in Economics and Mathematics from the University of Florida, and Masters and Ph.D. degrees from Cornell University. During my last 2 years of graduate study, I also worked as an Economist at the U.S. Census Bureau's Center for Economic Studies.

National student loan debt currently tops $1.3 trillion, the vast majority of which is backed by the Federal Government. At a macroeconomic level, student loan debt

has been compared to the housing bubble of last decade. At a microeconomic level, many individuals are burdened by debt, which has been shown to negatively impact many measures of well-being[1] in addition to the clear strain on financial security. It is thus in the best interest of students and the economy as a whole for the committee to adopt the reforms discussed in the various hearings on the reauthorization of the Higher Education Act.

My testimony today focuses on the economic motivation and social appeal of a risk-sharing program, how it might be structured, and possible implications for institutions and students based on my own research.

While there are many factors which contribute to an individual defaulting on his or her student loan debt, some proportion of the fault must lie with the institutions that accept the loan-bearing students. It is important to state that there need not to be fraudulent intent or even poor teaching for institutions to be responsible for some share of the blame. For example, students may be pushed into certificate or major programs which are intellectually stimulating, but have poor job prospects upon graduation, without being given adequate information by their school.

Under the current system, if a student defaults, the institution bears no responsibility in terms of repaying the loan. Thus, the institutions reap the benefits of these loans, i.e., they are able to extract revenues, but they pay none of the costs when the loan is not repaid. Instead, the burden falls on the American tax payer. Furthermore, the current incentive system, which restricts access to Federal student aid if cohort default rates fall above certain thresholds based on cohort default rates, effectively only applies to a handful[2] of schools with the highest default rates. Under this system, the vast majority of schools have no direct financial stake in their students' outcomes once students are no longer enrolled.

In a well-functioning market, a "skin in the game" incentive system would be less critical because market forces would drive out any institutional bad actors and force the remaining schools to operate efficiently and in their students' best interest. However, the market for higher education is far from perfect, characterized by a substantial lack of consumer information, a large growth in administrative bureaucracy,[3] and sometimes wasteful spending.[4]

HOW TO STRUCTURE A RISK-SHARING SYSTEM

For reasons relating to fairness, efficiency, and economic incentives, I am in favor of all universities which participate in Federal student aid programs being subject to risk-sharing requirements. While the majority of policy discussions tend to focus on for-profit colleges, all institutions lack sufficient incentives to address the issue of student loan defaults, and thus we should consider all institutions in our policy response.

I believe this is the correct policy response in terms of efficiency for two reasons: requiring all institutions to participate (1) reduces government monitoring costs/ time, and (2) reduces the ability of institutions to escape risk-sharing costs by "gaming" the system.[5]

As for economic incentives, the gains to society of preventing one default are the same whether that default is prevented at a school with a 25 percent default rate and 80 percent borrowing or an institution with a 3 percent default rate and 5 percent borrowing. By requiring all schools to be subject to risk-sharing, everyone will be incentivized to reduce their students' default probabilities.

I support using the dollar-based cohort default rate[6] both as the metric and also as the key determinant of liability. For example, each school might be required to

[1] Reduced financial security has been found to impact a wide range of important decisions such as marriage, fertility, occupation, and many others.

[2] See *https://kelchenoneducation.wordpress.com/2014/09/24/analyzing-the-new-cohort-default-rate-data/*.

[3] See *http://necir.org/2014/02/06/new-analysis-shows-problematic-boom-in-higher-ed-administrators/*.

[4] See *http://www.nytimes.com/2014/09/21/fashion/college-recreation-now-includes-pool-parties-and-river-rides.html?__r=0*.

[5] See *https://www.insidehighered.com/news/2015/05/13/sec-charges-itt-fraud-over-student-loan-programs* for one such example.

[6] While my research focuses on the use of cohort default rates, other metrics such as the repayment rate may also be attractive to policymakers. For example, the risk-sharing penalty could be 20 percent of the value of student loans which are currently delinquent. If the committee prefers this metric, I would stress that the penalty must be smaller than the one they would prefer using cohort default rates to avoid placing too much financial strain on institutions. Furthermore, complications could arise when deciding how to handle accounts which are

Continued

pay a risk-sharing penalty equal to 20 percent of the value of the student loans which have gone into default in the past year. The primary reason I support this approach is that it sidesteps many of the problems we currently see plaguing the accountability system using cohort default rates as the metric. Considerable time and money has been spent trying to create a system which makes schools accountable, but does not unfairly penalize schools which happen to fall on the bad side of blunt metrics. For instance, some schools with very small class sizes have exceeded the current default rate standards simply by random chance.[7] Moreover, a program with 30 total students (10 defaulting) has an entirely different implication for taxpayers' financial responsibility from a program with 30,000 students (8,000) defaulting). Between these two schools, clearly the government should be more concerned about the latter, even though the cohort default rate is lower (33.3 percent versus 26.6 percent).

By basing the metric and penalties on the dollars defaulted, the rules can be made more straightforward (and thus easier to identify and enforce) without the need to create the numerous exceptions[8] and complicated rules under the current model.

I am strongly in favor of a monetary penalty (based on the dollars defaulted) rather than restrictions on access to financial aid programs or enrollment. Restricting Federal aid is a very blunt policy instrument which is more likely to lead to unintended consequences (e.g., lack of access for at-risk groups) than a monetary penalty tied to the number of dollars defaulted upon. Furthermore, all-or-nothing penalties are rarely the best policy option since they only incentivize institutions near the threshold, and produce highly unequal punishments for similar schools who happen to fall on different sides of the cutoff.

RESEARCH ON RISK-SHARING

Opponents of risk-sharing proposals are correct to note that a potential unintended consequence of the system I described is an increase in tuition rates. This fear served as the motivation for recent research I conducted examining the impact of a risk-sharing program on institutional decisionmaking.

In my research,[9] I analyze the impact of a hypothetical risk-sharing program which imposes a penalty of 20 percent or 50 percent of the dollars defaulted upon by previous students using administrative data from the Integrated Postsecondary Data System (IPEDS). This was accomplished in several steps: (1) I estimated cost functions[10] for institutions which receive title IV funding. Most importantly, I estimated the cost to each institution of educating the last student, known as the "marginal cost" in economics. (2) I assumed that each institution would respond in a financially optimal way to the imposition of risk-sharing penalties (in other words, institutions would raise tuition so as to maximize profits). This step requires knowledge of an institution's cost structure (estimated in the first step) and the demand curve (specifically a quantity known in economics as the "demand elasticity") faced by each institution. Rather than estimate these demand curves using my data, which are not well-suited for this type of analysis, I run my statistical analysis separately using low, medium, and high estimates of the demand elasticity found in the literature.[11] (3) I calculated what the optimal tuition response (i.e., how much institutions would increase their tuition) would be when either a 20 percent or 50 percent risk sharing penalty were imposed on schools.

It is important to note that throughout my paper I try to make assumptions which would lead to the worst-case scenario in terms of tuition increases. I make these assumptions because I believe that policymakers should be risk averse when making decisions which have such broad impacts. For instance, I assume that students who default have not repaid any of their loan balance. Furthermore, I begin by assuming that institutions will do absolutely nothing to lower their default rates, and thus there is no incentive effect of risk-sharing. In this way, the results represent an upper bound in terms of negative tuition consequences.

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delinquent (and thus cause a penalty to be paid), but then return to good standing at a later date.

[7] Small programs are more likely to occasionally surpass any threshold which is based on a percentage based only on bad luck.

[8] See *https://www.insidehighered.com/news/2014/09/24/education-dept-tweaks-default-rate-calculation-help-colleges-avoid-penalties*.

[9] See Webber (2015b).

[10] This was accomplished using a panel data extension of the method pioneered in Cohn, et al. (1989).

[11] See Long (2004).

I find that for the vast majority of institutions, tuition increases would be fairly modest. The predicted median increase in tuition would be roughly 1 percent under a 20 percent risk-sharing penalty, and 2 percent under a 50 percent risk-sharing penalty. Only schools which satisfy all three of the following conditions appear to be at risk for appreciably higher tuition increases: high default rates, high tuition, and high rates of student borrowing. The median tuition increase for these institutions would be closer to 2.5 percent and 4.5 percent respectively under a 20 percent and 50 percent penalty. The virtue of these results is that only the schools which are causing the most harm would be appreciably impacted by a risk-sharing program. Furthermore, these figures would certainly be lower if there is any incentive effect associated with the penalties.

It should also be noted that there are numerous policies and mechanisms through which individual schools could address student debt. These include, but are not limited to, policies which impact graduation, time to degree,[12] internships, choice of major, or teaching quality. Institutions would be free to determine which of these avenues is most efficacious and cost-efficient given their specific resources and needs.

Additionally, there are many potential reforms which have been discussed in other hearings on the Higher Education Act that would reduce or eliminate upward pressure on tuition when coupled with a risk-sharing program. For example, a majority of Associate's Degree programs require at least 65 or 66 credits to obtain a degree, two full classes above the norm of 60. Many of these programs require more than 70 credits.[13] This growth in required classes has been seen even in general education programs, where it is difficult to argue that the extra courses serve a crucial role in students' future careers. Depending on the State and specific program, this could be due to accreditation regulations or institution-level bureaucracy. Longer programs increase the likelihood of student default both because of larger student loans taken out and a lower probability of graduation. Reforms which allow and encourage institutions to be more efficient in producing graduates would simultaneously ease upward pressure on tuition due to risk-sharing policies and reduce future student loan defaults.

Another set of reforms which would prevent tuition increases relates to the consumer information focus of the Higher Education Act reauthorization. There are enormous differences in earnings across different majors.[14] For example, the median graduate with a degree in economics earns roughly $1 million more over their lifetime[15] than the median college graduate with a management degree. There are many students whose education does not pay off until very late in life or ever.[16] Yet students and parents, in particular more vulnerable students and parents, often do not have the facts necessary to make arguably the most important financial decisions in life: (1) which school to attend and (2) what major to select. Providing labor market and student loan outcomes, in an easy to understand format, at the institution and program level would enable students to make informed decisions and could drastically lower the number of future loan defaults (and thus alleviate upward pressure on tuition from a risk-sharing program).

The way in which a risk-sharing proposal is operationalized is critical to its success. For example, it has been proposed that risk-sharing could be implemented through a system akin to Unemployment Insurance (UI) rather than the penalty structure described above. While it is true that a perfectly designed insurance system could have the same incentive effects as a penalty based on the number of dollars defaulted upon, I caution against an insurance system for two reasons. First, administrative cost and complexity should be minimized to make risk-sharing as straightforward and efficient as possible; a UI-like system might be counterproductive in this respect. Second, an insurance system, almost by definition, leads to cross-subsidization. In this case, schools with a small number of dollars defaulted would effectively subsidize those schools with a high number of defaults. There are positives and negatives to this sort of subsidization. On one hand, it would dampen the incentive effect of risk-sharing at the schools that are performing very well in terms of their default rates. On the positive side, it could ensure that risk-sharing

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[12] For instance, Temple University President Neil Theobald introduced an innovative program entitled "Fly in Four", which provides grants to students in exchange for meeting regular progress to degree benchmarks and a promise not to work more than 10 hours per week during enrollment. *http://chronicle.com/blogs/headcount/temple-u-program-will-help-students-work-fewer-hours-graduate-on-time/37593*.

[13] See Johnson, et al. (2012).

[14] See Webber (2014).

[15] *http://www.cla.temple.edu/economics/files/2014/04/Expected-lifetime-earnings-All1-copy.pdf*.

[16] See Webber (2015a).

penalties are not so severe as to cripple an institution's finances following a particularly bad year (of course this could also be accomplished by putting a cap on the penalty). Regardless, cross-subsidization is something that the committee should keep in mind when deciding how to implement risk-sharing proposal.

It should also be noted that another potentially negative unintended consequence of risk-sharing is that institutions could effectively credit rate their students applications, and refuse to admit those students who are most likely to default. A common refutation of this concern is that "if the students are likely to default, then they obviously didn't benefit from the education, and shouldn't have gone in the first place." While it is certainly true that some individuals are best served not spending considerable time and money getting advanced degrees, the possibility that schools could discriminate in the admissions process is still something society has an interest in protecting against. Fortunately, the risk-sharing program I am advocating for is unlikely to substantially incentivize this behavior as long as the penalty is not set too high (I would recommend no higher than 50 percent). The reason is that there are typically not binding enrollment constraints at the type of universities which are most impacted by risk-sharing (high default rate, high borrowing, and high tuition). In the absence of a binding enrollment constraint, a school will not turn down an applicant for financial reasons as long as it is still profitable on average to admit that applicant (even if he or she does indeed default). In other words, the tuition must be greater than the sum of the cost of educating the student and the expected risk-sharing penalty. This is the case at more than 95 percent of institutions based on the findings from my paper.

There are similar calls for risk-sharing in the Pell Grant system. Since Pell Grants cannot be defaulted upon, this might involve comparing the labor market outcomes of Pell recipients against some benchmark. While I am strongly in favor of implementing risk-sharing in the student loan market, I am much more apprehensive about its application to the Pell system. The students receiving Pell Grants are among the most vulnerable to discrimination, and their success in higher education is arguably more beneficial to society as a whole than any other group. For these reasons I would only support a risk-sharing program applied to Pell Grants if it also contained substantial protections for this vulnerable student population.

To summarize my testimony, a risk-sharing policy which imposes a financial penalty on institutions based on the number of dollars defaulted upon will provide powerful financial incentives for all institutions to improve the labor market outcomes of their students, while specifically targeting the institutions which are most responsible for our national growing student debt burden. The most effective and efficient risk-sharing policy would be coupled with reforms aimed at accreditation and consumer information to reduce the risk of unintended adverse consequences for students.

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The CHAIRMAN. Thank you very much, Dr. Webber.

Thanks to all the witnesses.

This is an important subject. It's one on which the committee is looking for answers, and for my way of thinking, it's one we're likely to very seriously consider incorporating.

I also think it's one where we need to be careful because when we're talking about such large amounts of money and so many indi-

viduals, there are almost certain to be unintended consequences from whatever we do, so I'd like to do it carefully.

Dr. Webber, for example, you talked about one unintended consequence which you found in your research paper might be that we might raise tuition. Another might be that we might find schools dropping out of the loan program. For example, Tennessee has 13 community colleges. Four do not participate, two are dropping out now. The tuition at Tennessee community colleges is now free. In California, Texas and Florida, it's basically free if you're low income because of the Pell Grant.

Are we likely to see—would one effect of a risk-sharing program be to cause many of the 2,000 community colleges, for example, to drop out?

Dr. WEBBER. That's absolutely a potential worry. While I haven't examined that specific outcome in my research, that is essentially the next step—calculating how likely it is based on the current financial situations of these schools that the cost would essentially push these institutions over the edge. While I don't have an answer on the——

The CHAIRMAN. Well, we'd be interested in your next research.

Dr. WEBBER. Absolutely.

The CHAIRMAN. Mr. Silberman, let me ask you another question. One suggestion that several of us have made is that part-time students are entitled to the same amount of loan that a full-time student is. A low-income student might get a Pell Grant for up to $5,600, and then be entitled to a full loan. Should we make more of a difference between part-time and full-time students in terms of the amount of aid that they're eligible to receive?

Mr. SILBERMAN. I would say yes, Senator. The basic premise is that we ought to give universities the opportunity to limit the amount of debt that students take on, and in circumstances where students are attending only part time and essentially don't need living expenses if they're full-time working and going to school part-time, then I think giving the universities the opportunity to limit that would be an excellent mechanism for trying to lower overall student debt.

The CHAIRMAN. Is it your experience that the Federal law gets in the way of the ability of colleges and universities to provide as much counseling as they would like to? Is that correct? Do you find that a problem, or is it just that universities just aren't doing a very good job of providing counseling to students about how much borrowing they should do?

Mr. SILBERMAN. I'm not aware of ways in which the Federal law keeps us from doing the proper amount of counseling. I mean, I feel like at Strayer University we have an adequate counseling program and we're very focused on it, so I'm not aware of that, sir. Certainly to the degree that it would exist, then I would recommend that it be changed. I mean, giving universities the opportunity to counsel students on the impact of the loans they take on is an important part of getting them enrolled.

The CHAIRMAN. Dr. Kelly, what do you think about the idea of giving individual campuses the opportunity to decide how much of a Federal student loan a student might be entitled to? Aren't there some risks with that? I mean, you might say that even in a great

university, you might not want to loan as much to a drama major as an engineering graduate. You might do it by category, or you might even say that the risk-sharing doesn't cut in until you borrow more than the amount of tuition, say if you're at a community college and you already have a Pell Grant, and you even can get up to $5,600 for a $3,700 tuition and fee bill. Then you come back around and you say, "well, I'm also entitled to a $5,000 or $6,000 loan." What is your thinking about that?

Mr. KELLY. With any risk-sharing policy, it's absolutely critical to find a way to disaggregate the cost that institutions can control from those that they can't control. As you say, colleges don't have control over how much students borrow for living expenses.

There are two options. One would be to apply whatever the risk-sharing formula is to a subset of the loan balance, the outstanding loan balance. That would sort of separate out the loans that went to tuition. Another option is to allow colleges to limit student borrowing.

I would just say the Department of Education currently has an experimental sites project underway right now that is allowing some community colleges and, I believe, a couple of for-profits to limit borrowing. I would look there for examples as to whether this policy is working effectively.

The CHAIRMAN. Thank you, Dr. Kelly.

Senator Murray.

Senator MURRAY. Thank you very much, Mr. Chairman.

Thank you all for your testimony today.

Ms. Wang, let me start with you. I believe that we need to work on ways to make college more affordable for all of our students and families. As we consider this concept of risk-sharing, it's really critical that we keep in mind the importance of maintaining access and preserving affordability and rewarding institutions that are serving the most underrepresented communities in our country and setting up students for success.

In your testimony, you recommend the creation of a risk-sharing system that can actually lower the total cost of attendance at all institutions of higher education. Can you take a minute and elaborate more on the ways in which expanding current accountability measures could potentially make higher education more affordable?

Ms. WANG. Sure. Currently we have a 90/10 rule. We believe that this committee could debate returning to an 85/15 rule to ensure further accountability, particularly at career education programs.

I want to touch on the point that you mentioned on maintaining access, because we are first and foremost also interested in maintaining access and success. I believe that any risk-sharing proposal that the committee debates should take that into account by not only imposing a rule on institutions but also encouraging them to improve and create a well-targeted mechanism that actually incentivizes institutions to treat their lower-income students, their Pell students, and particularly their underrepresented students well and connect them with real careers. There are current rules we can strengthen, as well as new ideas.

Senator MURRAY. OK, thank you.

Dr. Webber, one of my top priorities as we work to reauthorize the Higher Education Act is going to be to reduce the crushing bur-

den of student debt. We know that student loan debt has now hit historic highs. More than 40 million Federal and private student loan borrowers collectively owe more than $1.2 trillion. That's rather stunning.

I wanted to ask, how do risk-sharing proposals like yours have the potential to reduce loan debt for the students?

Dr. WEBBER. In terms of a risk-sharing policy like this, it would incentivize schools in whatever way is best for them that could reduce their own students' debt. For instance, in many schools there has been a large increase in the requirements for particular programs, the number of credits. The average community college program, while the norm is certainly 60 credits, the average program now requires at least 65 to 66 credits to receive an AA degree, and this even applies to general education. In many schools, it's above 70.

Certainly some of these are due to accreditation requirements. Some of this is just because schools are potentially trying to push new classes. This both increases the time to a degree, and it also increases the student loan debt that students are taking on. It also reduces the likelihood that these students will eventually graduate.

Furthermore, many of the programs described in the consumer information hearing would allow students and their parents to make more informed choices and would therefore lead to less debt taken on. Basically anything that incentivizes schools to find ways to help their students' future labor market outcomes.

Senator MURRAY. OK, thank you.

Mr. Silberman, Strayer University markets heavily to prospective students so you can maintain and grow your enrollment. In your testimony, you noted that many colleges and universities have an incentive to increase enrollments rapidly, and that carries with it some risk for students and institutions. Do you believe that Federal financial aid funds should be used to pay for advertising and marketing campaigns, and is that an appropriate use of Federal taxpayer dollars?

Mr. SILBERMAN. I'm not sure there's a way to actually distinguish. In other words, the revenue that comes into a university, whether it comes from however students are paying their tuition, it then is used by the university to run its programs. I would not characterize our expenditures on advertising as heavy, certainly relative to other universities around the country. It's not clear to me how you would differentiate or disaggregate dollars that are associated with title IV loans to students from other ways in which students pay.

I do think that the amount of a university's expenditures on its instructional and educational costs is a relevant factor, and it's certainly one that we look at closely to make sure that we are achieving the learning outcomes for our students. Ultimately, that's what it should be measured on. If the students that you're enrolling are succeeding in their studies and ultimately are accruing the benefit of the investment they make in education through improvements in their lives, then the system is working. Then it's valuable. From that standpoint, I think that's the best way to measure it.

Senator MURRAY. OK, thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Cassidy has asked that we go next; and, Senator Whitehouse, you would be next.

STATEMENT OF SENATOR WHITEHOUSE

Senator WHITEHOUSE. Thanks very much.

First of all, Chairman, thank you for this hearing. This is a really important question of how you align the incentives between the folks who operate the higher education institutions and the folks who attend them to make sure that everybody is pulling in the same direction, toward student success. As I think Dr. Kelly opened up and said, there are not adequate incentives right now for institutions to promote student success.

If you're going to align incentives toward student success, you have to have some kind of a definition of what student success looks like, and that has been a very challenging question for the Department of Education in its administrative efforts. Is there a way to make that an easier question, or is that necessarily just going to be a difficult question? What would be, in your view, the simplest benchmarks for that student success?

We'll start with Dr. Kelly, Mr. Silberman, and go right across.

Mr. KELLY. One of the benefits of a risk-sharing system that would judge institutional performance on the basis of whether students are able to pay back their loans is a basic baseline for student success. It's what the Federal Government as a lender should be interested in evaluating, frankly.

There are lots of other definitions of student success that consumers will have. Some people want to make a lot of money in their career. Some people want to have a fulfilling career in public service, and different departments in different institutions will provide those things.

What's critical in all of this is to have outcomes, student outcomes that are not necessarily within the institution's control, and by that I mean not just completion and not just assessments on the campus but actual labor market outcomes. Of course, institutions could print a bunch of diplomas and certificates that may not be worth much, so we need a validated third-party signal of success.

Senator WHITEHOUSE. Looking beyond just payment rates.

Mr. KELLY. There's room to look beyond payment rates. The Federal Government's basic interest is in lending to programs that allow students to repay their loans. That's a baseline. That consumers are going to have different definitions of success beyond that.

Senator WHITEHOUSE. Mr. Silberman.

Mr. SILBERMAN. I would agree with Dr. Kelly. When running an educational institution, the first measure of success that we look at is our students' achievement learning outcomes and are they progressing toward the fulfillment of their degrees, and then graduating.

The degrees that we offer tend to be more commercially focused—business administration, finance, accounting, information technology—so those tend to lend themselves to success in the marketplace after they've received their degrees. There is no reason why universities can't offer degrees that are of more esoteric interest and purposes.

Ultimately, the Federal Government's interest is as a lender, and so the repayment of the loans that are issued to students to pay for their tuition is an important metric of success. I've always felt that way.

Senator WHITEHOUSE. I've just got a minute left, so let me actually interrupt and ask the second question I wanted to get to since it's you, you're the person I wanted to ask.

Very often, what we hear from the higher ed community, particularly the for-profit higher ed community, is, hey, if you ask us to share the risk of student performance, then what we're going to do is we're going to limit ourselves to low-risk students, the ones who are most likely to perform, and that's going to limit the access of folks who we perceive to be higher-risk students, and that's not good for particularly first-generation college attenders and so forth.

How do you react to that theory?

Mr. SILBERMAN. Well, you haven't heard that from us, Senator.

Senator WHITEHOUSE. Good.

Mr. SILBERMAN. We have better learning outcomes than most public institutions, and 40 percent of our students are Pell eligible, 40 percent of the overall students, 60 percent of our undergraduate students. We've always, for over 100 years, served an under-served, under-privileged, working-adult student who needs to go back to school. There's no reason why you can't achieve solid learning outcomes and ultimately have your graduates perform well in the marketplace and be held accountable for those standards.

It's true to say, as you've heard from other panelists here, that there is a tradeoff between concepts of risk-sharing and access. Institutions will not be able to uniformly just deal with the idea that we're held accountable at a level and that individual tradeoffs that are made every single day are going to err toward more responsibility toward students.

Ultimately what we should be looking for is that students who are enrolled in universities have an adequate chance of succeeding, they're adequately prepared, and that they're in college for the right reasons, and that therefore gives them a chance to succeed. Not every student will succeed. If the institution has any academic standards, you're going to have some academic failures. That's the nature of it. It's a bit of a tradeoff, but there's no reason why the tradeoff can't be made.

Senator WHITEHOUSE. Thank you very much.

My time has expired. Again, thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Whitehouse.

Senator Warren.

STATEMENT OF SENATOR WARREN

Senator WARREN. Thank you, Mr. Chairman.

Right now, colleges that offer a high-quality education and colleges that offer a low-quality education have essentially the same access to Federal loan money, and this easy access to student loan dollars give colleges far less incentive to contain costs, far less incentive to improve educational quality, and far less incentive to discourage students from taking on too much debt.

We also have seen some recent reports that some for-profit colleges that serve veterans, students who are the first in their family

to attend college, are even willing to commit outright fraud in order to get access to Federal loan dollars.

One important part of the solution is to give colleges some skin in the game on student loan repayment. As Senator Reed testified, he and Senator Durbin and I have been working on a bill on this for a long time, a risk-sharing bill, and I'm very pleased that the Chairman is considering whether or not we should do risk-sharing as we do the Higher Education Act.

What I want to think about, though, is what the tradeoffs are in the Act when we do that. Dr. Webber, I've looked at your work about modeling out the impact of risk-sharing, and you've made it clear that you believe it could reduce student default rates, student loan default rates. I know that you also support risk-sharing, Dr. Kelly, and you point out that this kind of proposal could replace some existing regulations.

In principle, I agree. Smarter, simpler rules that align market incentives are better than complex technocratic rules that don't change incentives, but it's critical we get the details right. This is where my question focuses.

Dr. Webber, when you considered the impact of risk-sharing, did you assume that the current Higher Ed regulations would remain in place?

Dr. WEBBER. I did.

Senator WARREN. Did your research reach any conclusions on whether implementing risk-sharing would make other Federal regulations unnecessary?

Dr. WEBBER. No. That was—the nature of the research was because I was trying to evaluate a hypothetical. I can really only handle one hypothetical at a time.

Senator WARREN. Fair enough, fair enough. Good to move only one variable at a time. OK.

Dr. Kelly has argued that instituting risk-sharing on student loan repayment, the Federal Government might be able to do away with certain key accountability measures, as Ms. Wang discussed, like cohort default rates, the 90/10 rule, and the gainful employment regulation. I just want to think about what we know about the impact of those Higher Ed regulations.

Dr. Webber, you noted in your research that when strict default standards were put in place back in 1991, that cohort default rates dropped 33 percent in a single year. Would you be concerned about rolling back a measure that had such a substantial and positive impact?

Dr. WEBBER. Well, first I would say that also happened to take place during an economic recovery.

Senator WARREN. Fair enough.

Dr. WEBBER. There was some tinkering.

I would certainly be concerned. However, I feel that, as Dr. Kelly had mentioned before, the access to title IV funding is a very blunt measure that only incentivizes a very specific type of institution that is above the 30 percent threshold. It does absolutely nothing for those under it. We could actually even keep the existing regulation and just add incentives for those under the threshold.

Senator WARREN. All right. That's a very helpful point. Thank you, Dr. Webber.

I just want to be clear on this. Simple, structural rules to help this market work better is something that both Democrats and Republicans should support. Before we even consider eliminating any of the rules that have actually helped stem the rising tide of defaults, we should be certain that we are putting in place a stronger system that will help students. There may be a path here, but we want to be very careful that we are not making things worse.

Thank you, Mr. Chairman.

The CHAIRMAN. Thanks, Senator Warren.

Senator Cassidy is in an overwhelming bipartisan mood this morning.

[Laughter.]

The CHAIRMAN. We now go to Senator Franken.

STATEMENT OF SENATOR FRANKEN

Senator FRANKEN. He's doing something that's exemplary, which is he's in listening mode. He got here because we're all busy, and he got after a lot of the testimony, et cetera, and I admire that. You're in a listening mode, and that's clear, and we should all learn from the Senator.

Mr. Silberman, Senator Harkin was very critical of for-profits, and you read a quote from him about Strayer that was very complimentary, so clearly you're doing something right. According to a 2009 HELP Committee report, I just want to go through some of the spending on how Strayer spent money.

Per student, $2,448 on marketing in 2009. You made $4,520 per student on profit and spent $1,329 per student on instruction.

As I said, Chairman Harkin said nice things about this school, so you got good results. I want to just put these numbers in perspective, $1,329 per student on instruction. The University of Minnesota spends $13,247 per student on instruction, about 10 times as much.

This seems to be a pattern. Does the spending, does that reflect most for-profit schools? I just want to emphasize again that you quoted Senator Harkin saying good things about you.

Mr. SILBERMAN. Right. Senator, you have me at a bit of a disadvantage since I don't see what you're quoting from, but I can tell you that——

Senator FRANKEN. It's a 2009——

Mr. SILBERMAN. If you'd let me finish, Senator. We spent significantly more than $1,300 per year per student on instruction. Fifty-five percent of our expense is in instructional educational costs. Off the top of my head, our expense over the previous year is about $350 million, which means that we're spending close to $180 million per student in instructional cost, and we have about 40,000 students. That's well more than $1,300.

I don't have that report. I'm glad to take a look at it and correct it.

Senator FRANKEN. OK.

Mr. SILBERMAN. The last point I would make, though——

Senator FRANKEN. I don't have much time, so I just want to develop this. You may dispute these numbers. This is in a 2009 HELP Committee report.

There is a pattern in for-profit schools of spending a lot more on marketing than public universities, of course, and colleges, and also private but not for-profit schools, non-profit. The claim is that, from for-profit schools, there's a high default rate because they have a non-traditional sort of student, and I understand that. That kind of cuts both ways, because when these schools tend to spend so much on marketing on non-traditional students, that means their parents didn't go to college and there may be a lack of sophistication, that these students may be more susceptible to marketing, seeing a 30-second commercial which looks like non-traditional kids, you get a great education and do great in your career.

The schools will have incredible default rates. I'm not talking about your school now, but this happens all the time in the for-profits. This cost-sharing is a very, very good idea.

There's another area that for-profits—and, Ms. Lang, you talked a little bit about going to an 85/15. One of the things about the 90/10 rule that has gotten a little cockeyed is using the GI bill money toward the 10 percent. We've heard some horror stories about veterans who are targeted, including Holly Petraeus telling me about someone with TBI recruited out of a hospital, a veterans hospital to a school.

What do you think about the idea of not having that go to the 10 but have that go to the 90, the GI bill money?

Ms. WANG. We hear from veterans all the time about this instance. In fact, the story that I shared about Mike DiGiacomo owing $85,000 as a veteran because he went to a school that didn't prepare him, unknowingly went to a school that wouldn't prepare him. There is certainly room for more accountability with the 90/10 rule.

Senator FRANKEN. OK.

Well, my time is up. Thank you.

The CHAIRMAN. Thank you, Senator Franken.

Senator Cassidy.

Senator CASSIDY. I'll go once more.

The CHAIRMAN. That's all right.

Senator Casey.

Senator CASEY. Mr. Chairman, thank you for having the hearing, and I want to thank our witnesses, especially Dr. Webber, because you're from Temple. We also appreciate the work that you've done.

To prove that we even read footnotes around here, I want to direct your attention to a footnote that involves Temple. Your testimony in Footnote 12 says,

> "Temple University President Neil Theobald introduced an innovative program entitled 'Fly in 4' which provides grants to students in exchange for meeting regular progress to degree benchmarks and have promised not to work more than 10 hours per week during enrollment."

Can you talk a little bit more about that program?

Dr. WEBBER. Sure, absolutely. Certainly there are many universities around the country which are rightly concerned with the time it takes to get a degree, as this is one of the key factors in the student loan debt. However, one of the really innovative parts of this program is that it incentivizes—it asks students to commit to not working more than 10 hours per week, which is important because

research has found that for students who work effectively more than 10 hours per week, their likelihood of eventually graduating decreases substantially.

Combining this with meeting every single semester, meeting benchmarks toward progress to a major, combined with additional grants to the student which reduces their student loans, it's potentially—now, these students who are in the Fly in 4 program have just been—they're only 1 year into it, so it's hard to evaluate the long-term effects, but it has the potential to be hopefully a model program for a lot of other universities.

Senator CASEY. I asked you, but I would also open it up to the panel. How can we do a better job of incentivizing colleges and universities to invest in similar programs like Fly in 4? Do you have any sense of that in terms of incentives?

Dr. WEBBER. In general, because there are so many different mechanisms through which students' loan debt could be reduced, the incentive system like the one proposed today would allow schools to make the right choice for them, that for some schools time-to-degree is a problem. For others it might be the actual graduation rate. For others it might be tuition rates. A general system such as the risk-sharing penalties we described would let schools make their own choice as to what is best for them.

Senator CASEY. Ms. Wang.

Ms. WANG. I agree. There's also some innovation that this committee could consider around how we can best incentivize institutions to not just enroll more Pell students and underrepresented students and first-time college students but also to help them succeed while they're in school and prepare them adequately or very well to compete in the marketplace.

One idea is to reward institutions that are doing the best job of preparing, graduating, and putting forward students into the economy that are going to compete well in the workforce, with particular attention paid to Pell students and underrepresented students. We know that these students succeed, and the research shows that students, even though they might be low income, even though they might be Pell students, if the institution has the best practices, those students absolutely succeed. That's where the research is, and it's not about student characteristics. It's about good practices at the institution.

Senator CASEY. Thank you.

Mr. Silberman and Dr. Kelly, we've got 32 seconds.

Mr. KELLY. I would say that a risk-sharing system is designed precisely to incentivize this kind of behavior, and we are learning a lot from researchers and institutions that are innovating on their own campuses about what it takes to prepare students, even the most at-risk students and the students that are typically the hardest to educate.

The City University of New York just launched a really impressive experiment that has doubled graduation rates for developmental education community college students. So we're learning more. We need incentives for people to adopt promising practices.

Mr. SILBERMAN. I would just very briefly say that the use of innovation is key to everything that we do. As Senator Franken said, we're generally teaching non-traditional students, students who

come with less academic background. Both the use of teaching methodologies and technology is crucial to us achieving our mission, and we live that every day.

Senator CASEY. Thanks very much.

The CHAIRMAN. Next is either Senator Baldwin or Senator Cassidy.

[Laughter.]

STATEMENT OF SENATOR CASSIDY

Senator CASSIDY. Thank you, Senator Franken, for your gracious comments. I want to thank my colleagues because you all thought deeply about this, and so I have been listening, and I've learned. Thank you.

Dr. Kelly, I could ask this of anyone, but I'll start with you. I spoke once to a university president, and he said actually kids will enroll, go to a week's worth of classes, get their Pell Grants, and never show up to classes again. He's a university president. Is there a frequency distribution of dropouts?

Mr. Silberman, in the first 3 weeks you have some sort of process.

Is there a frequency distribution where, my gosh, we've got 20 percent of the people dropping out within a month, but then it tails off? Or is it uniform? Do you follow what I'm saying? How much of this—is the student, really, the problem? I'm just asking.

Mr. KELLY. I would defer to my colleague here to speak about his own institution's pattern. My sense is that, yes, most dropouts take place early on in a student's career.

Senator CASSIDY. "Early on" means either in the first year, in which case perhaps the child is not well-prepared in basic math, or it could be in the first 3 weeks, because the word on the street is that you can sign up for classes, get a Pell Grant and, boom, buy a car, but never show up to classes again.

Mr. KELLY. With existing Federal data, it's difficult to know at what point in time the actual dropout is taking place. I will say this is partly, to tack onto my colleague, part of what we need to figure out is how to give people access to very low cost and very low risk, maybe even trial periods, to see whether this is right for them. They can avoid debt that way.

Senator CASSIDY. I get that totally. That assumes good will on the part of the student.

Mr. KELLY. Sure.

Senator CASSIDY. Again, I don't know if there is bad will. Because I was told this anecdotally by a person who cares about it deeply, it comes to mind.

Mr. Silberman, do you have any thoughts on that?

Mr. SILBERMAN. Particularly when you run what aspires to be an open-access university, where you're really just trying to make sure there's adequate preparation but you're not accepting or crafting a student body around exclusivity, you run into the risk that certain students or prospective students are not serious students. That's what our enrollment and admissions process is designed to ferret out—to establish the seriousness of the student.

Senator CASSIDY. Let me ask, you put in that 3-week trial period and you have a controlled experiment. You have before the 3-week

trial period, and you have an after the 3-week trial period. Can you give us any insight as to your default rate as you went to your 3-week trial period?

Mr. SILBERMAN. We actually don't have a 3-week trial period, and the reason that we don't, Senator, is that our view is that our admissions process is rigorous enough that by the time we enroll the student, we're convinced that the student is capable and serious about succeeding.

The trial period in some cases is a replication or a replacement for a more rigorous admissions process.

Senator CASSIDY. Got you. Let me ask, so you found that, and I don't mean to be rude, we just have limited time. You mentioned that the basic math and poor English language skills, I gather you've done some sort of analysis and these are the two variables that pop out.

Mr. SILBERMAN. Correct.

Senator CASSIDY. Are those remediable, or should every institution be looking at that same thing? And if this is the risk factor, then that person should go into some sort of remediation before being allowed to matriculate into the broader curriculum?

Mr. SILBERMAN. Well, it's even more severe for our students because they're actually 35 years old and they've been out of high school for 15 to 20 years.

Senator CASSIDY. You say that, and that's intuitive, but do you actually have data to show that if the child or the person enrolls right out of high school, they would do better than someone 35?

Mr. SILBERMAN. Well, on average, yes.

Senator CASSIDY. I just say that because if you have poor math skills and language skills, it may suggest that you weren't a very good high school student.

Mr. SILBERMAN. In our case, we have to establish that through a high school transcript to make sure that they have a valid high school degree. In general, skills in math and English do deteriorate for the number of years that you're outside the classroom. The benefit that we have is that our students tend to be more mature, obviously, and more serious. We're dealing with an easier student to teach.

The answer to your first question is yes. Our statistical analysis going back 15 years shows that the single most likely predicate or the most reasonable predicate to academic success is math and English skills, and in our case if a student doesn't establish that, either through an SAT score or transferring college-level credit, we require them to take a remedial course before they can enroll in college-level work.

Senator CASSIDY. Mr. Webber, this is not something you've done research on, but I would just be interested in your thoughts, or anyone's thoughts. Perhaps a university could be less at risk if they put in a best practices, and that might be a remediation for math or English. You mentioned in your research, the footnotes of 14 through 16, about how best practices have been shown. Ma'am, you also showed this.

Thoughts about saying, "Listen, you're on the hook, but you're less on the hook if you can document you've done best practices." Would that be a reasonable approach?

Mr. SILBERMAN. Absolutely.

Senator CASSIDY. Any other thoughts on that? Is that practical, or is that something that likewise would be gamed for bureaucratic overreach?

Mr. SILBERMAN. I'm just going to say that the key attribute for me in terms of the success of a regulatory or legislative structure is its simplicity. To the degree that you keep it simple and it's easy to follow, then I think it has a very high chance of success, and I think best practices should be rewarded. In many cases, though, the best practices will just devolve into the academic outcomes and the financial outcomes in terms of the default rates.

Senator CASSIDY. I yield back, and thank you.

The CHAIRMAN. Thank you, Senator Cassidy.

Senator Baldwin.

STATEMENT OF SENATOR BALDWIN

Senator BALDWIN. Thank you, Mr. Chairman. I want to thank you for convening today's hearing and this continuing set of conversations about reauthorization of the Higher Education Act. I certainly appreciate Senator Reed being here earlier to talk about his leadership on today's topic, and our panelists. Thank you all for being here.

We've heard a lot about the need for colleges and universities to have skin in the game when it comes to student loan debt and default rates, with a focus on accountability metrics, and I wanted to take the opportunity to highlight a risk-sharing program that's been in place for many years, the Federal Perkins Loan program. In this campus-based loan program, participating schools share the risk by providing a one-third match to the Federal funding, and loans are made using funds repaid from previous borrowers, which encourages the institution to keep their default rates as low as possible.

As a campus-based program, Perkins also allows institutions to target aid to those students most in need. In my home State of Wisconsin, the Perkins program provides more than 15,000 students, those students having exceptional need, with more than $28 million in aid, and the default rate has been less than 8 percent.

This program has been successfully helping students since 1958 but will expire this September if Congress does not take action to continue it.

I want to start with Ms. Wang and Dr. Webber, if you could speak to the importance of the Perkins Loan program both in helping low-income students and in providing a model of institutions engaging in risk-sharing. Are there ways we could build on this longstanding program?

Ms. Wang.

Ms. WANG. Absolutely. I want to echo your concern about the Perkins Loan expiring, and this committee should dedicate some time and think through how we can best continue loan programs that are there for students to maintain or even increase access. We have believed for some time that loans were created for low-income and in some cases middle-income families to be able to attend school. I have concerns about loan programs, cutting off access if they end, and I also have concerns about loan limits because we

have heard from students that some of them don't have enough funds to complete, and we have heard in some instances that they drop out because they don't want to turn to private student loans. Absolutely, we need to maintain that access for students.

Senator BALDWIN. Dr. Webber.

Dr. WEBBER. Since Ms. Wang has correctly mentioned the importance of the Perkins student loan, I'll just briefly mention from a risk-sharing standpoint.

The broad structure of the Perkins Loan system absolutely could be used as a basis for risk-sharing. Personally, and I'm certainly not an expert on the Perkins Loan system, but it's my understanding that the actual bite in terms of the penalties for students who default, that you actually need to have a substantial number and dollar amount of defaults before there are penalties for the institution. I would certainly be in favor of strengthening those. Is it a viable method for implementing risk-sharing? Yes, I absolutely believe it is.

Senator BALDWIN. I only have a minute left and I wanted to turn to the question that Senator Franken was dealing with when he ran out of time. I guess it's going to happen again, but the discussion of the 90/10 rule and its exclusion of education support provided from the GI bill and the Department of Defense Tuition Assistance Program.

Could you speak to the importance of properly accounting for all of our student financial aid dollars? Is there any reason why these Defense and GI bill dollars should remain outside of the current or some future iteration of the 90/10 rule?

I would again ask Dr. Webber and Ms. Wang for a response.

Ms. WANG. Sure. Certainly, like I said before, There needs to be more accountability in this space, because we do hear about marketing practices and in some instances phone calls at all hours of the day when veterans are looking to go back to school. We know that some institutions do target veterans. Some institutions do target low-income students. Others we have heard target single mothers for their aid dollars. I agree that there needs to be more accountability in this space, absolutely.

Dr. WEBBER. I'll defer to Ms. Wang since this is not an area of my research and I wouldn't want to speak about something that I'm not as informed on.

Senator MURPHY. That never stops us.

[Laughter.]

The CHAIRMAN. That's true.

Senator Baldwin, thank you very much.

Senator Murphy.

STATEMENT OF SENATOR MURPHY

Senator MURPHY. Thank you very much, Mr. Chairman.

I know at most of these hearings we thank the Chairman for having the hearing, but I mean it sincerely this time in that this is a really important idea or set of ideas that we're talking about, and the testimony was absolutely excellent.

The CHAIRMAN. Thanks. We'll give Senator Murray some credit because this has the advantage of being a bipartisan idea, really, that we're heard. Thanks.

Senator MURPHY. I take the caution of adverse consequences seriously, but we always have to consider the adverse consequences of doing nothing. Dr. Kelly's own testimony speaks to the absurdity of the existing system when 1,300 colleges are graduating less than 30 percent of students, when 750 are graduating less than 20 percent. Doing nothing just isn't an option.

Mr. Silberman, I credit you for being here and being progressive as compared to the rest of the for-profit community in your call for action. I wanted to press you a little bit more on some of the line of inquiry you got from Senator Murray and Senator Franken.

There's just a fundamentally different structure of expenses at for-profit universities, and that's borne out by the data. In 2009, $3.2 billion was spent on instruction writ large across the industry, while $3.6 billion was spent on profit and $4.2 billion was spent on marketing. I don't think you would see that share in the private sector between instruction and marketing. The average president or CEO salary in the for-profit world is $7.3 million. The average salary in the not-for-profit world is $400,000.

We wouldn't be as worried about that if the outcomes were similar, but basically every study looking at graduation rates or dropout rates suggest that they are twice that at the for-profit university than they are at the not-for-profit university.

It's kind of hard to ask you to answer for the sins of the industry, especially when you're here in part because you have been singled out as an institution that's doing better than the average.

I guess I'm hearing your testimony to say that you shouldn't worry about the way in which for-profit universities spend money as long as you get the outcome measurements right, and I want to make sure that I'm hearing you correctly because when you're talking about universities that are essentially accepting 90 percent of their money from the U.S. taxpayers and then spending it in ways that are just mismatched with how not-for-profit universities spend their money and getting much worse results, that is why you hear us saying wait a second, we should be having a conversation about how this money is spent, whether or not it makes sense for U.S. taxpayers to be spending money that leads to salaries in the $7 million range.

I hear you to be saying, listen, just get the metrics right as to the results and don't worry about how the money is spent. I want to give you sort of a second crack at that answer because you're hearing a consistency of concern about how money is spent at the for-profit college level.

Mr. SILBERMAN. Well, Senator, to the degree that there are concerns, and there may indeed be legitimate concerns, I would certainly suggest that that same degree of concern should be applied across the not-for-profit sector. There are institutions that are—you have to understand that, for the most part, entities like Strayer University, as Senator Franken said, are serving non-traditional students. They're serving students for whom the opportunity to go to college wasn't routinely part of their planning or their decision-making process.

There are other not-for-profit universities who address those same types of students in an open-access manner and indeed have much higher rates of growth, particularly over the last couple of

years. I personally think that dictating the percentage of revenue that can be used in various expense sub-categories is over-engineering and is unlikely to be successful. I would say that to the degree that you think it's necessary, it ought to apply to not-for-profit universities as well.

Senator MURPHY. Agreed. I appreciate that, and that's why we need to get the metrics of accountability right, because I agree that it's hard to do that kind of micro-managing.

Very quickly, Dr. Kelly, you talked about making the marketplace work better. Would a unitary student record help the ability to track a student's performance income after graduation? Would that help try to make the market work better by giving better information to students?

Mr. KELLY. This is an issue we've written about in our work. Informed consumers are critical to a functioning market, and it is our opinion in my work that a student record data system would provide information that we currently can't get otherwise, and I look forward to discussing that further.

Senator MURPHY. You concur, Dr. Webber?

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Murphy.

Senator Bennet

STATEMENT OF SENATOR BENNET

Senator BENNET. Thank you, Mr. Chairman. Thanks for holding the hearing, and thanks to the witnesses for being here.

Sign me up for whatever we're going to do here to figure out how we're going to reform the student financial aid program. Even before we get to that, we have this incredible challenge of the cost of college. There are examples all over the country of places that have done a good job taking down cost. Colorado Mesa University in Grand Junction is one of those, and I know there are others as well. They are exceptions that belie the rule.

When you look at the numbers, in the 1970s when you were going to college, the State covered roughly 75 percent of what college would cost, and you had to pick up the other 25 percent. Somehow, you were going to figure it out, work study or other kinds of things. Pell Grants in 1976 covered 67 percent of what it cost to go to the average college in the United States. That number today is 27 percent.

I saw a new study out of Pew, I think it was, or the University of Pennsylvania recently that showed us that in 2012, if you're in the bottom quartile of income earners in this country, the average cost of college after you've accounted for student aid cost is roughly 85 percent of your income, whereas if you're in the top quartile you're at 15 percent.

So for whatever reason, the level of your income that's required to pay for college—that's not a very eloquent way of saying it. The purchasing power that's needed to afford an average college today is dramatically higher than it was 30 years ago or 40 years ago.

What are the causes of that, and how can we approach financial aid at the Federal level, at the State level, at the local level, to incentivize costs to actually start to come down instead of continuing to rise? Because that is what's driving the fundamental

burden that our students face, I would argue an incredible inequity, because if you are a family in poverty or a lower income family and you've got to consume 85 percent of your income to get your kid through college, there's a reason they're not going to finish, whereas if you can only spend 15 percent of your income, you're going to be better off.

I'm going to start with Dr. Kelly and just come down the panel.

Mr. KELLY. Sure. I'll say two things quickly so my fellow panelists can get in, too.

Two things, the risk-sharing system here would put some pressure on colleges to contain costs, because the more students have to pay and the more they have to borrow, the harder it will be for them to pay back their loans, and you'll be penalized for that. This will put pressure on colleges to both think about how they are pricing programs, but also think about innovations within the institution that will allow people to finish more quickly and so on.

I do think we have to talk, though—and I know this is an issue you care deeply about—about the supply side constraints, namely we have a regulatory framework that regulates access to this market that is biased in favor of the bundled, expensive college model. It basically judges providers on the basis of how much they look like a college. We need to lower those supply side barriers and let in more low-cost competition. That would have the effect that you're looking for.

Senator BENNET. Let me say, as we get into the Higher Ed reauthorization, that's something that I'd be interested in spending more time on.

Mr. Silberman.

Mr. SILBERMAN. I fully agree, Senator, with Dr. Kelly. The key to lowering cost is innovation. We have tremendous opportunities in higher education now with technology and the use of online methodologies to achieve, indeed, higher learning outcomes at lower cost.

I also agree that, actually, a risk-sharing mechanism and the overall management of the student loan system is a means of controlling cost because it's certainly been a means of inflating cost. Easy credit has led to higher tuition, it's as simple as that.

Ms. WANG. I would say that I have a lot of concerns about the current pathway that States are on in disinvesting in higher education, because we know that the majority of students actually attend public institutions, and if you went to my college in the 1980s, it was extremely affordable. You could cover the cost working full-time over the summer and have money left over to spend, in addition to what it cost to go to college. That concept is laughable for my generation because the number of options out there for students and families that are affordable and high-quality are dwindling.

Institutions must play a role in lowering the cost of college, and States have to play a role in boosting what they're investing in college, because it's the student and the family that ends up making up that cost difference.

Dr. WEBBER. I could talk about the causes of the increase in tuition for more than an hour, which is negative 500 times what I have left. Let me just say that I'd be happy to follow up with you

and talk about all of this, because there's a lot of nuance in terms of what has led to the substantial increases in the cost of higher education over the last 20 or 30 years that are important to understand.

Senator BENNET. I'd look forward to having that conversation.

I am out of time, but I would say in closing that one of the most depressing things I hear in my town halls is we can't afford to send our kid to the best college they got into. I mean, that is so contrary to the interests of our families and so contrary to the interests of the country.

Mr. Chairman, I'd say also that part of this springs from the fact that we have a federalist system here that we've got to figure out. We have decisions to make at the State level, and we have decisions made here, and too often we don't look to see how those things are syncing up. Thank you.

The CHAIRMAN. Thank you, Senator Bennet.

Well, thanks to Senator Baldwin and Senator Bennet—and to all who have been here—we've had great participation—and to the witnesses.

You can see that there's a lot of interest here in this subject, and that it's a bipartisan interest. We've had some really good success with our elementary and secondary education act in operating that way.

As one of the Democratic Senators said, sometimes if you get the incentives right, the regulations aren't as necessary, although Senator Warren did point out we shouldn't just rip out the regulations without thinking about it.

Although on the other hand, we've had a distinguished group of higher education officials come in and tell us, in response to something Senators Bennet, I and Mikulski and Burr asked for, that higher education today is a jungle of red tape.

One of my objectives in this reauthorization is to simplify—Mr. Silberman mentioned about simplicity in regulation—and make good adjustments.

One of the things we do have to be careful about here is that if we adjust incentives, we're adjusting a very big incentive. We're shooting with a very big weapon here. I mean, the taxpayer spends $100 billion a year of new money every year on student loans. We make just a little bit of an adjustment here, it might make a massive adjustment among the 6,000 institutions and the 22 million undergraduates every year, half of whom have a Federal grant or a loan to help pay for.

That doesn't mean we shouldn't do it. We've heard discussion about making it easier for campuses to do better counseling. There are some Federal laws and regulations that get in the way of that. We've heard about making a difference between what part-time students and full-time students can borrow. We're talking here about the risk-sharing as a way not just to reduce and discourage over-borrowing but generally giving campuses an incentive to reduce their expenses, and in that way help reduce the amount of borrowing a student would need to do.

An example of what incentives can do, is the example at the University of Tennessee-Knoxville, which is a very simple one, where the State has said we want to see more students graduate in 4

years, and that campus has said our way of doing that is to say you can take fewer than 15 hours if you want to, but you're going to pay for 15 hours. More students are taking 15 hours.

There may be a lesson for us, because the State put a broad goal. It allowed the campuses to respond to the incentive, which was the State will deliver more money based upon what the graduation rate is. Each campus came up with its own way. When they adjusted their incentives a little bit, the students paid a lot of attention.

I would like to ask the witnesses, after hearing what we said today, and seeing the level of interest of the Senators, if you would like to respond to us, even if it's a short statement, that says upon hearing what you said, here are the three or four things I would do in order about risk-sharing. I would certainly do this, I would probably do this, I would think about this and maybe do this. That would be helpful to us because you're the experts about that.

There's a possibility that when we get into risk-sharing, we may conclude that there might be multiple options for different kinds of institutions, and we have to think about the one option that some institutions might take, which is not to participate in the loan program. That's very possible, particularly among community colleges.

This has been a very, very helpful hearing. I would like to end where I started, and since I'm the only one here, I can just say whatever I want to.

[Laughter.]

It's nice to be the chairman every now and then.

Sometimes we send the wrong message to students of all ages who want to go to college. As I said at the beginning, it's never easy to pay for college, but it's easier than many people say or think. I mean, half our college students, undergraduates, have a Federal grant or loan to help pay for college. Nine million receive a Pell Grant of up to $5,700. That makes community college free in California, Texas and Florida, three of our largest States, with money left over. It's free in Tennessee because of what the State is doing.

You can afford to go to school because if you're low-income, you can get up to $5,600 to pay for a tuition that averages $3,700, depending on your level of income. Then on top of that, you're entitled to a Federal loan to help you pay for other expenses. As has been said, 75 percent of our students go to public institutions, and at the 4-year institution the average tuition is $9,139.

There are many things happening to make access to college affordable for students, and perhaps risk-sharing might be one more.

The other thing I'd add, I hear it often said, isn't it terrible that student loans add up to $1.2 trillion. Maybe it is, maybe it isn't. Maybe that's good. Maybe that means we have lots of students going to lots of institutions and getting ready to improve their lives.

The average student loan for a person with a 4-year undergraduate degree is $27,000. That's almost exactly the average of a car loan, an average car loan in the United States. The total amount of student debt is about $1.2 trillion in the United States. The total amount of auto debt for households is $955 billion. It's about the same, and I don't hear anybody running around saying we need to stop driving cars because auto debts are so high.

With an auto loan, your car depreciates, and your college degree hopefully appreciates. At least that's the experience most of us have.

If we can think of a careful way to adjust this $100 billion that we spend every year in a way that causes our 6,000 institutions, at least those that participate in the Federal student loan program, to do a better job of discouraging over-borrowing, reducing their costs, and thereby making it unnecessary for students to borrow so much, that could be a very important part of our reauthorization of the Higher Education Act, and your contributions today have been very, very helpful.

The hearing record will remain open for 10 days to submit additional comments and any questions for the record that Senators might have.

The next hearing of this committee on the reauthorization of the Higher Education Act will occur on Wednesday, June 3, at 10 a.m., in Dirksen 430.

Thank you for being here. The committee will stand adjourned.

[Additional Materials follows.]

ADDITIONAL MATERIAL

STRAYER EDUCATION, INC.,
HERNDON, VA 20171,
June 9, 2015.

Hon. LAMAR ALEXANDER, *Chairman,*
Committee on Health, Education, Labor, and Pensions,
U.S. Senate,
428 Dirksen Senate Office Building,
Washington, DC 20510.

Hon. PATTY MURRAY, *Ranking Member,*
Committee on Health, Education, Labor, and Pensions,
U.S. Senate,
428 Dirksen Senate Office Building,
Washington, DC 20510.

DEAR CHAIRMAN ALEXANDER AND RANKING MEMBER MURRAY: Thank you again for inviting me to testify at the committee's May 20, 2015 hearing on Reauthorizing the Higher Education Act. I am writing today to correct a statement made by Senator Al Franken at the hearing, specifically that in 2009 Strayer University "spent $1,329 per student on instruction." In fact, in 2009 Strayer University spent $6,862 per student on instruction or educational activities. I respectfully request that this response be included in the hearing record.

I believe Senator Franken's confusion may have resulted from then-Chairman Tom Harkin's July 30, 2012 report, *For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success* (hereinafter, "Report"). The Report stated that in fiscal year 2009, Strayer spent $1,329 per student on instruction. *See* Report at 725. However, that Report erroneously relied on a restrictive definition of what constitutes spending on "instruction"—relying only on one category of data reported to the Department of Education's Integrated Postsecondary Education Data System ("IPEDS"). *See id*. at 725 n.2713. According to IPEDS, Strayer spent $50,657,281 on such "instruction" in 2009. *See id*. App'x 21.

IPEDS also reports institutions' spending on "academic support," which includes "support services that are an integral part of the institution's primary mission of instruction." *See* Glossary, Integrated Postsecondary Educ. Data Sys., Nat'l Ctr. for Educ. Statistics, *http://nces.ed.gov/ipeds/glossary/*. By relying on the "instruction" figure alone, the Report captured only a portion of Strayer's spending on student instruction. For instance, the "instruction" category excludes spending on academic administration (*e.g.*, academic deans) and also certain information technology expenses related to instruction. *See id*. Those expenses are housed, instead, under "academic support." *Id.*

As outlined in our SEC filings, Strayer University spent $218,551,000 on instruction and education in fiscal year 2009, and an additional $43,072,000 on educational administration. This $261,623,000, when divided by the 38,128 students Strayer University educated in 2009, results in $6,862 spent per student on instruction, well above the $1,329 quoted by Senator Franken. In addition, as opposed to non-profit universities, which rely on government funding and tax subsidies, Strayer University also paid $1,800 per student in Federal and State taxes in 2009.

Strayer has been committed to devoting significant resources to educating its diverse student body throughout its 123-year history and will continue to do so in future years. As the Report itself recognized, Strayer's performance "is one of the best of any company examined, and it appears that students are faring well at this degree-based for-profit college." Report at 713.

Thank you for the opportunity to share these thoughts. I look forward to the opportunity to continue working with the committee.

Very truly yours,

ROBERT S. SILBERMAN,
Executive Chairman.

RESPONSE TO QUESTIONS OF SENATOR MURKOWSKI BY ANDREW P. KELLY, A.B., M.A., PH.D.

Question 1. During the recent recession, and even now, many recent graduates have been unable to find jobs simply because employers in their fields were/are not hiring. Many Americans who were repaying their loans prior to the recession lost their jobs and their ability to repay. Should a college be held responsible for bor-

rowers who were well-educated in fields that normally would have high demand during a recession?

Answer 1. Ensuring that colleges are held accountable for outcomes they plausibly have some control over is critical to the success of any risk-sharing system. Outcomes for individuals who graduate in the midst of a recession are likely to reflect, in part, economic trends that colleges have little control over. Therefore, a risk-sharing system should adjust for economic fluctuations. One way to accomplish this is to condition the risk-sharing formula on the national unemployment rate for young workers. For instance, the formula could exempt a particular portion of unpaid loan debt as follows: multiply the cohort's loan balance by the national unemployment rate, and then force colleges to pay penalties on the unpaid balance above that amount. Under such a scenario, the higher the unemployment rate, the greater the exemption, thereby shielding colleges from a soft economy.

Question 2. Some proposals have suggested that colleges be penalized for offering majors in low-demand fields. Who would decide what a low-demand field is? Would such a determination be made on a regional, statewide, or national basis? Would such a policy make it difficult or impossible for a college to offer a degree in, for example, Alaska Native Studies, Inupiaq, or Tribal Justice—majors offered by the University of Alaska Fairbanks that are important to many Alaskans? What about Museum Studies, which is a valuable and respected field but may not pay as much as, for example, engineering? Should the Federal Government have the authority to put pressure on a university's decision about what majors best serve the needs and interests of the regions and students they serve?

Answer 2. The beauty of a risk-sharing system is that it does not micromanage colleges with rules from Washington. Instead, it sets up an outcomes-based system that frees colleges to reach the outcomes in the way they see fit. When it comes to low-return majors, colleges will likely have a decision to make: lower the tuition that students have to pay to access that major (and therefore lowering the amount they have to borrow that they may not be able to pay back) or modify or eliminate the program. The key insight here is that we ought not to lend large sums of money to pay for programs that are unlikely to allow graduates to pay back their loans; doing so sets graduates (and, more so, drop-outs) up for financial hardship. To the extent there are majors that are low-return but critical to society—perhaps the majors listed in the question—then we should subsidize those programs directly, not lend money to finance them. A risk-sharing system would encourage colleges to think carefully about what programs they offer and at what price.

Question 3. Alaska is one State that is fortunate to have a Tribal College and University—Ilisagvik College located in Barrow up on the North Slope. Ilisagvik, like many TCUs, does not participate in Federal student aid programs. As these institutions expand from 2-year colleges that primarily offer certificates and associate degrees to 4-year colleges, participation in title IV student aid programs becomes more attractive. At the same time, TCUs generally offer open enrollment and attract students who too often were not well-prepared for college by low performing BIE and public schools. In addition, many TCUs offer programs of study related to local priorities, such as Native language revitalization and tribal governance that may not lead to high-paying jobs—especially in regions where there is little economic activity. My question is this: given these facts, how could the risk sharing proposals outlined here today avoid negative consequences for TCUs and the student populations they serve?

Answer 3. Student aid programs should adhere to a "do no harm" policy—a basic commitment to protecting students from incurring debts they likely won't be able to repay. To the extent that Tribal Colleges are publicly valuable—and there are many reasons to believe that they are—then we should subsidize them directly (as we do already) and/or implement a bonus system that rewards colleges for graduating at-risk students.

To be clear, lending money for programs that do not provide sufficient return to pay the money back is not helping students, it is harming many of them, threatening their credit and financial future. Concerns about access are legitimate, but we should use subsidies—not loans—to ensure that programs that are publicly and socially valuable but less so economically are able to provide public value.

Question 4. The purpose of this hearing is to examine whether or not institutional risk sharing will bring down the loan default rates and increase graduation rates. Several witnesses have suggested basing an IHE's "skin in the game" to cohort default rates. Much of the student loan default rate is due to students who are unable, for one reason or the other, to finish their degrees. Perhaps they were not well-prepared for college, or they cannot afford to pay the difference between the financial

aid and the cost of attendance, or some other reason but they drop out owing a debt they are not able to repay because they have not gained the skills that lead to a higher paying job. The crux of the student loan default problem seems, then, to lie with IHEs' inability to assist more students to graduate. Would it not be preferable—instead of limiting enrollment to those students who are likely to graduate or punishing IHEs for low graduation rates—to provide incentives for colleges to increase their graduation rates? Also, would it not be preferable to base institutional risk sharing on the graduation rates of at-risk students, rather than on cohort default rates?

Answer 4. Senator Murkowski is exactly right: research suggests that the most important predictor of default is whether a student finishes their degree. In many respects, the student debt crisis is concentrated among borrowers who take on modest amounts of debt but fail to finish a degree. Ensuring that colleges have incentive to promote student success is crucial, and I share the Senator's sense that the struggles of student borrowers are often caused by the failure to complete.

A risk-sharing system boasts two strengths in this regard: it would hold colleges accountable for outcomes that occur after students have left school, and it frees them to bear the risk as they see fit. On the first strength, contrast that to simply holding colleges accountable for degree completion rates; doing runs the risk of encouraging colleges to simply lower standards and print diplomas. That response would not serve students or taxpayers particularly well. Basing our accountability policies on measures of labor market success helps avoid that perverse consequence.

With respect to the second strength, many colleges will respond to a risk-sharing system by investing in efforts that will boost student success rates. Researchers have uncovered a number of promising innovations that cause students to stay in school and graduate at higher rates, and colleges under a risk-sharing system could learn from that research in changing institutional practice. Curtailing access will only help colleges so much under a risk-sharing scheme. They still need to enroll students to stay in business. In contrast, those that re-orient their efforts around student success will benefit from increased enrollments.

It is also worth noting that my proposal calls for a bonus that would be paid to colleges for every Pell Grant recipient they successfully graduate. This would help ensure that colleges have incentive to enroll low-income students and incentive to help them graduate. Such a bonus would help boost completion rates as the Senator suggests.

RESPONSE TO QUESTIONS OF SENATOR MURKOWSKI BY ROBERT S. SILBERMAN, B.A., M.A.

Question 1. During the recent recession, and even now, many recent graduates have been unable to find jobs simply because employers in their fields were/are not hiring. Many Americans who were repaying their loans prior to the recession lost their jobs and their ability to repay. Should a college be held responsible for borrowers who were well-educated in fields that normally would have high demand during a recession?

Answer 1. We believe that institutions should not be required to meet a potentially arbitrary benchmark when, for example, unemployment is high and wages stagnate or decline. One mechanism for avoiding such a situation would be legislation limiting title IV funds awarded to an institution with a CDR equal to or greater than the national average of its peer institutions (based upon the risk profile of the students served) to no more than the amount awarded to the institution in the previous year. Basing the limitation on a national average, rather than a pre-set threshold, would adjust for economic factors—like a recession—that can periodically affect repayment rates without having any bearing on the level of education provided by an institution or the field of study. Using a national average would have the additional advantage of inhibiting institutions' ability to manipulate their CDRs by managing defaults based on a static target for compliance. We would welcome congressional consideration of this possibility.

Question 2. Some proposals have suggested that colleges be penalized for offering majors in low-demand fields. Who would decide what a low-demand field is? Would such a determination be made on a regional, statewide, or national basis? Would such a policy make it difficult or impossible for a college to offer a degree in, for example, Alaska Native Studies, Inupiaq, or Tribal Justice—majors offered by the University of Alaska Fairbanks that are important to many Alaskans? What about Museum Studies, which is a valuable and respected field but may not pay as much as, for example, engineering? Should the Federal Government have the authority to

put pressure on a university's decision about what majors best serve the needs and interests of the regions and students they serve?

Answer 2. We would not be in favor of a proposal that allows the Federal Government to dictate which programs a college should offer. Any "skin in the game" proposal should leave to universities and colleges the discretion to determine the degrees they offer and to assess the success of their various programs. Rather than including fields of study in title IV eligibility determinations, reform should build on the existing legislative framework and focus on the overall ability of the student cohort to repay debt. Unlike the current CDR approach, which is based on the percentage of student borrowers who have defaulted, irrespective of the default amount, we advocate a risk-sharing payment based on a percentage of the actual dollars in default. One option would be to require such a payment when an institution's CDR hits 15 percent. The Department of Education would then calculate the percentage of actual dollars defaulted based on the total amount of dollars disbursed by the institution that year. If more than 15 percent of the total dollars disbursed were in default, the institution would be required to remit a risk-sharing payment equal to 50 percent of the total defaulted dollars above the 15 percent threshold.

Question 3. Alaska is one State that is fortunate to have a Tribal College and University—Ilisagvik College located in Barrow up on the North Slope. Ilisagvik, like many TCUs, does not participate in Federal student aid programs. As these institutions expand from 2-year colleges that primarily offer certificates and associate degrees to 4-year colleges, participation in title IV student aid programs becomes more attractive. At the same time, TCUs generally offer open enrollment and attract students who too often were not well-prepared for college by low-performing BIE and public schools. In addition, many TCUs offer programs of study related to local priorities, such as Native language revitalization and tribal governance that may not lead to high-paying jobs—especially in regions where there is little economic activity. My question is this: given these facts, how could the risk sharing proposals outlined here today avoid negative consequences for TCUs and the student populations they serve?

Answer 3. To create a better prepared workforce, our country needs a diversity of institutions to meet the educational needs of all our aspiring students, from traditional college students to the older working adults Strayer primarily serves, to the residents of Alaska's North Slope who seek job training and education while strengthening their culture, language and traditions. This is why we believe that any legislative proposal should establish a unitary system of regulation that applies across the board to all institutions that receive title IV loans as tuition. Excessive student debt impacts every sector of higher education and does not result from an institution's tax status. A true risk-sharing regime will require institutions to remit payments based directly on the amount of their title IV dollars that end up in default, so that all institutions participating in title IV programs have the same incentive to decrease student borrowing.

At the same time, all educational institutions need more authority to mitigate the risk of student loan defaults. Institutions should be empowered and encouraged to implement common-sense safeguards to increase the likelihood that students will complete their studies and not take on debt they ultimately will be unable to repay.

Like Ilisagvik, Strayer has an open-access policy and generally serves a population that lacked many of the opportunities traditional undergraduate and graduate students have had. We have identified certain indicators of academic success and failure within this population and crafted policies to address these. For example, based on our own internal research, analysis, and years of experience in this sector, we have learned that students lacking in basic math and English skills are much more likely to drop or fail out of undergraduate programs and therefore pose a high student loan default risk. Accordingly, we now require students who cannot demonstrate these baseline skills to pass a non-credit bearing introductory course before enrolling in title IV-eligible course work at Strayer. Ensuring that title IV funds are used to support students with the basic prerequisites for college-level studies benefits both students and taxpayers, and Congress could consider establishing or recognizing a national eligibility test to determine whether students possess threshold skills before they receive title IV funds.

Question 4. The purpose of this hearing is to examine whether or not institutional risk sharing will bring down the loan default rates and increase graduation rates. Several witnesses have suggested basing an IHE's "skin in the game" to cohort default rates. Much of the student loan default rate is due to students who are unable, for one reason or the other, to finish their degrees. Perhaps they were not well-prepared for college, or they cannot afford to pay the difference between the financial

aid and the cost of attendance, or some other reason but they drop out owing a debt they are not able to repay because they have not gained the skills that lead to a higher paying job. The crux of the student loan default problem seems, then, to lie with IHEs' inability to assist more students to graduate. Would it not be preferable—instead of limiting enrollment to those students who are likely to graduate or punishing IHEs for low graduation rates—to provide incentives for colleges to increase their graduation rates? Also, would it not be preferable to base institutional risk sharing on the graduation rates of at-risk students, rather than on cohort default rates?

Answer 4. Our view is that institutional risk sharing is an equitable mechanism for ensuring that all parties who share in the gains from the student loan system also share in any systemic losses. Basing "skin in the game" on the CDR has the benefit of building on the existing legislative framework, including metrics that higher institutions are already accustomed to monitoring.

By linking risk sharing to actual dollars in default, rather than percentage of student borrowers who have defaulted, our proposal creates a more equitable accounting. For example, a student who drops out early generally defaults on a relatively low amount of title IV taxpayer dollars, as compared to a student who drops out after a few years of coursework.

One reason we have not recommended using The Department of Education published IPEDS graduation rate as a metric is that this rate measures only the percentage of first-time, full-time undergraduate students who begin in the fall, excluding all those students who previously attended another undergraduate institution, are part-time students, or merely started school in a term other than the Fall term. Strayer students tend to be hard-working adults taking classes at night and on weekends while simultaneously managing professional and family obligations, and Strayer students may start in any one of four different quarters throughout the year. As such, this Department of Education IPEDS graduation rate captures only a scant 1.7 percent of our students.

That said, incentives for colleges could be another mechanism for improving the higher education accountability system, and we would look forward to congressional debate and discussion of this potential alternative.

RESPONSE TO QUESTIONS OF SENATOR MURKOWSKI BY JENNIFER WANG

Question 1. During the recent recession, and even now, many recent graduates have been unable to find jobs simply because employers in their fields were/are not hiring. Many Americans who were repaying their loans prior to the recession lost their jobs and their ability to repay. Should a college be held responsible for borrowers who were well-educated in fields that normally would have high demand during a recession?

Answer 1. There have been recent economic challenges presented by the Great Recession that have had a tremendous impact on students and borrowers.[1] The average age of home ownership and marriage has increased in recent years and over half of 18–24 year olds are still living at home with their parents.[2] The 1.3 trillion dollars of student loan debt is a large economic obstacle for our generation, making it harder and harder to achieve the American dream. However, students are still held accountable for the debt they accrue while enrolled in higher education, regardless of the quality of education they received, or if they even received a credential at all. Institutions of higher education should have a financial incentive to do all that they can to improve outcomes for students, for the benefit of both the students and the broader economic health of America. Institutions without skin in the game should not be able to blame the overall state of the economy for not doing all they can to help students achieve gainful employment after graduation. We want to see risk-sharing policies that will incentivize institutions to improve student outcomes as much as they can.

Question 2. Some proposals have suggested that colleges be penalized for offering majors in low-demand fields. Who would decide what a low-demand field is? Would

[1] Catherine Rampell, The Great Recession's Lost Generation? Older Millennials, *Washington Post*, February 2, 2015, *http://www.washingtonpost.com/opinions/catherine-rampell-older-millennials-are-paying-the-price-for-bad-timing/2015/02/02/4ef644c8-ab1c–11e4-ad71-7b9eba0f87d6_story.html*.

[2] Gillian B. White, What Will It Take for Millennials to Become Homeowners?, The Atlantic, October 22, 2014, *http://www.theatlantic.com/business/archive/2014/10/what-will-it-take-for-millennials-to-become-homeowners/381730/*; Kelsey Borresen, 5 Good Reasons to Get Married While You're Young, According to Reasearch, Huffington Post, November 14, 2013, *http://www.huffingtonpost.com/2013/11/14/married-young_n_4227924.html*.

such a determination be made on a regional, statewide, or national basis? Would such a policy make it difficult or impossible for a college to offer a degree in, for example, Alaska Native Studies, Inupiaq, or Tribal Justice—majors offered by the University of Alaska Fairbanks that are important to many Alaskans? What about Museum Studies, which is a valuable and respected field but may not pay as much as, for example, engineering? Should the Federal Government have the authority to put pressure on a university's decision about what majors best serve the needs and interests of the regions and students they serve?

Answer 2. In our discussions with young people, we've learned that they go to college for a variety of reasons, including but not limited to, finding a job after graduation. They also go to learn more about the world around them and specific topics they're interested in, to become a better, more informed citizen, and be exposed to different individuals with different backgrounds whose lived experience can make them a more socially adept, well-rounded individual. Because of this, we do not think the Federal Government should be limiting the choices of institutions of higher education as to what programs they can offer. The preservation of individual choice is a time-tested tenet of higher education in this country.

Question 3. Alaska is one State that is fortunate to have a Tribal College and University—Ilisagvik College located in Barrow up on the North Slope. Ilisagvik, like many TCUs, does not participate in Federal student aid programs. As these institutions expand from 2-year colleges that primarily offer certificates and associate degrees to 4-year colleges, participation in title IV student aid programs becomes more attractive. At the same time, TCUs generally offer open enrollment and attract students who too often were not well-prepared for college by low performing BIE and public schools. In addition, many TCUs offer programs of study related to local priorities, such as Native language revitalization and tribal governance that may not lead to high-paying jobs—especially in regions where there is little economic activity. My question is this: given these facts, how could the risk-sharing proposals outlined here today avoid negative consequences for TCUs and the student populations they serve?

Answer 3. We urge the committee to consider applying financial risk-sharing frameworks to institutions where there is financial risk. If the majority of students at TCUs graduate debt-free, we would contend there is no need to subject the institution to financial skin in the game.

Question 4. The purpose of this hearing is to examine whether or not institutional risk sharing will bring down the loan default rates and increase graduation rates. Several witnesses have suggested basing an IHE's "skin in the game" to cohort default rates. Much of the student loan default rate is due to students who are unable, for one reason or the other, to finish their degrees. Perhaps they were not well-prepared for college, or they cannot afford to pay the difference between the financial aid and the cost of attendance, or some other reason but they drop out owing a debt they are not able to repay because they have not gained the skills that lead to a higher paying job. The crux of the student loan default problem seems, then, to lie with IHEs' inability to assist more students to graduate. Would it not be preferable—instead of limiting enrollment to those students who are likely to graduate or punishing IHEs for low graduation rates—to provide incentives for colleges to increase their graduation rates? Also, would it not be preferable to base institutional risk sharing on the graduation rates of at-risk students, rather than on cohort default rates?

Answer 4. We absolutely agree that institutions should have incentives to improve performance. Ideas for promoting institutional improvement include rewarding institutions that do the best job of educating students, particularly Pell students and students from underrepresented communities, and connecting them with real career opportunities. Along these lines, institutions with high repayment rates deserve credit for doing a good job, and we encourage the committee to explore well-targeted methods of encouraging institutions to do better, starting with the students who need it most.

We also agree that cohort default rates are a blunt instrument that should be supplanted by a better metric for measuring institutional performance. We suggest using a repayment rate metric because we believe that they are a better indicator of student success upon leaving a program than cohort default rates. They are less subject to manipulation because borrowers who leave school must actually repay student debt, rather than simply avoid default using forbearance or deferment. Repayment rates also more closely measure success than default rates, which only measure the frequency of the worst possible repayment outcomes.

In addition to encouraging institutional accountability using a repayment rate, we suggest that the committee use the following rule when assessing whether an institution passes: that 45 (and eventually 50 percent) of their graduates are able to pay at least $1 on their loans toward principal. Simply assessing whether 45 or 50 percent of graduates are in repayment may not be sufficient because at institutions where students take on substantial debt, some may have very low payments or payments of zero under income-based or income-contingent repayment. We believe that IBR should be a protection for the borrower, not the institution.

RESPONSE TO QUESTIONS OF SENATOR MURKOWSKI BY DOUGLAS A. WEBBER, B.A., M.A., PH.D.

Question 1. During the recent recession, and even now, many recent graduates have been unable to find jobs simply because employers in their fields were/are not hiring. Many Americans who were repaying their loans prior to the recession lost their jobs and their ability to repay. Should a college be held responsible for borrowers who were well-educated in fields that normally would have high demand during a recession?

The ideal risk-sharing policy would punish institutions for only the defaults which they are "responsible" for. As your question alludes to, recessions cause more defaults outside the control of universities. I therefore think it is reasonable to tie any potential penalties to some measure of the national labor market. This could be accomplished, for instance, by setting up the penalty structure so that it is based on the average school's default/repayment rate, which would vary with the business cycle.

Question 2. Some proposals have suggested that colleges be penalized for offering majors in low-demand fields. Who would decide what a low-demand field is? Would such a determination be made on a regional, statewide, or national basis? Would such a policy make it difficult or impossible for a college to offer a degree in, for example, Alaska Native Studies, Inupiaq, or Tribal Justice—majors offered by the University of Alaska Fairbanks that are important to many Alaskans? What about Museum Studies, which is a valuable and respected field but may not pay as much as, for example, engineering? Should the Federal Government have the authority to put pressure on a university's decision about what majors best serve the needs and interests of the regions and students they serve?

Answer 2. I would be very much against the Federal or State Governments punishing an institution based on the majors that they choose to offer. First, different States have different labor market needs, and those needs will certainly change over time. Second, as you point out in your question, the process which would determine which majors are "low demand" would likely be flawed and politicized. As outlined in my written testimony, I favor a market-based approach to the issue of student loan debt (and by extension, majors). The issue now is that institutions are not facing appropriate market pressure because they do not bear any of the cost of student default.

Question 3. Alaska is one State that is fortunate to have a Tribal College and University—Ilisagvik College located in Barrow up on the North Slope. Ilisagvik, like many TCUs, does not participate in Federal student aid programs. But as these institutions expand from 2-year colleges that primarily offer certificates and associate degrees to 4-year colleges, participation in title IV student aid programs becomes more attractive. At the same time, TCUs generally offer open enrollment and attract students who too often were not well-prepared for college by low-performing BIE and public schools. In addition, many TCUs offer programs of study related to local priorities, such as Native language revitalization and tribal governance that may not lead to high-paying jobs—especially in regions where there is little economic activity. My question is this: given these facts, how could the risk sharing proposals outlined here today avoid negative consequences for TCUs and the student populations they serve?

Answer 3. The type of institution you describe is certainly an important concern. However, it is important to keep in mind the proposed features of the risk-sharing policy. First, is that there is only a penalty if a student defaults, an extreme event where the student is unable to pay even a small amount of their obligations. Given Ilisagvik College's very low tuition of $2,400 per year, students do not need to have a high paying job in order to repay this type of debt. Based on my research, the only schools which would see meaningful penalties under risk-sharing satisfy each of the following three criteria: high rate of borrowing, high tuition, and high default rate. Ilisagvik obviously does not have high tuition, and since they currently do not participate in title IV programs, they presumably do not have a high rate of bor-

rowing. Hence, Ilisagvik is not the type of school which would feel much, if any, financial stress under a risk-sharing policy.

Question 4. The purpose of this hearing is to examine whether or not institutional risk sharing will bring down the loan default rates and increase graduation rates. Several witnesses have suggested basing an IHE's "skin in the game" to cohort default rates. Much of the student loan default rate is due to students who are unable, for one reason or the other, to finish their degrees. Perhaps they were not well-prepared for college, or they cannot afford to pay the difference between the financial aid and the cost of attendance, or some other reason but they drop out owing a debt they are not able to repay because they have not gained the skills that lead to a higher paying job. The crux of the student loan default problem seems, then, to lie with IHEs' inability to assist more students to graduate. Would it not be preferable—instead of limiting enrollment to those students who are likely to graduate or punishing IHEs for low graduation rates—to provide incentives for colleges to increase their graduation rates? Also, would it not be preferable to base institutional risk sharing on the graduation rates of at-risk students, rather than on cohort default rates?

Answer 4. You are absolutely correct that graduation rates are an important determinant of a college's future default rate. However, as you point out, the learning of relevant skills is another important factor. The goal is not just to incentivize graduation, but to incentivize an investment in students' future financial well-being. While graduation is part of this equation, it is not everything. In addition to learning a skill, for instance, the amount of time it takes to receive a degree is also an important determinant of future debt. The appeal of the risk-sharing program described by the panelists is exactly that it provides an incentive for institutions to do anything in their power to invest in their students' financial futures. In this way, institutions are incentivized to increase graduation rates, as well as improve career placement/internship services, reduce their time to degree, and a multitude of other actions as well. It also allows each school to individually decide the best way to address their students' debt. For some schools, this may be through improving graduation rates, but at other schools it may be through some other channel.

[Whereupon, at 11:58 a.m., the hearing was adjourned.]