PREPARED STATEMENT OF

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Before the

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

Of the

UNITED STATES SENATE

On

REAUTHORIZING THE HIGHER EDUCATION ACT

EXPLORING INSTITUTIONAL RISK-SHARING

May 20, 2015

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, the Honorable 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 two years to three.

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

- If the rate is equal to or greater than 30% 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% for two consecutive years, the institution must revise and resubmit the Plan.
- If the rate is equal to or greater than 30% for two out of three consecutive years, the Department may subject the institution to provisional certification.
- If the rate is equal to or greater than 30% for three 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%, 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% 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 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% 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%. 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%, 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% of the total dollars disbursed are in default, institutions should be required to remit a risk-sharing payment equal to 50% of the total defaulted dollars above the 15% threshold, i.e., a true risk-share between taxpayers and institutions.

Illustration:

- Institution has a 15% 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% of total dollars disbursed
- The risk-sharing payment is based on the difference between $100,000,000 (20%) and $75,000,000 (15%) = $25,000,000
- The institution's 50% 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.

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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.