February 15, 2018

VIA HigherEducation2018@helpсенate.gov

The Honorable Lamar Alexander, Chair
The Honorable Patty Murray, Ranking Member
Senate Health, Education, Labor and Pensions (HELP) Committee

Re: Comments on Accountability and the Reauthorization of the Higher Education Act
Requested by the HELP Committee

Dear Senators:

There is agreement among policymakers and researchers that higher education needs more effective regulations to hold higher education institutions accountable if too many of their students do not repay their federal student loans. There are numerous competing, and at times conflicting, proposals on how those regulations should be designed, but we at Nexus Research and Policy Center believe that a consensus is beginning to coalesce around a set of elements that should be a part of any effective accountability framework.

Before we focus on that set of elements, it is worth noting why the accountability provisions of the House Educational and Workforce committee’s Promoting Real Opportunity, Success, and Prosperity through Education Reform (PROSPER) Act lie outside the growing consensus.

First, while PROSPER correctly shifts attention from a focus on institutions to programs and also uses repayment rates in place of Cohort Default Rates, it sets a “trigger” for ending Title IV eligibility if a program’s repayment rate falls below 45 percent for three consecutive years. Our research suggests that this provision could lead to the shuttering of many academic programs in at least 370 public postsecondary institutions that together serve over three million students.
Identifying which programs (and which students) would be at risk under PROSPER is not now possible for us, since programmatic repayment rates over three years are not publicly available. But we can infer some of the possible results of PROSPER’s proposed policy change using available institutional repayment rates. We believe this first step in modeling the effects of PROSPER’s repayment rate approach is instructive: if a college or university has a repayment rate below 45 percent, it is likely that either several very large programs at that institution have failed to meet the cutoff or many smaller ones have.

Further, since we do not have the data needed to measure repayment rates for three consecutive years as called for in PROSPER, we have identified institutions that have repayment rates lower than 45 percent at both year 3 and year 5 as reported in the U. S. Department of Education’s Scorecard.

According to the College Scorecard, around 2,500 institutions had repayment rates below 45 percent in year 3 and year 5—about 40 percent of all institutions receiving federal student aid. Furthermore, given there are almost five million students enrolled in these schools, approximately 25 percent of all students across the nation, 73 percent of whom are in public institutions, could be affected directly or indirectly by PROSPER. Although not all these students will be in failing programs, many would. In addition, consider the impact of the proposed 45 percent repayment rate standard on Historically Black Colleges and Universities (HBCUs) and Hispanic Serving Institutions (HSIs). Of the 101 HBCUs, 82 have repayment rates lower than 45 percent at both the 3- and 5-year mark. Of the 435 HSIs 125 of them—29 percent—also fail to pass PROSPER’s repayment standard.

While these estimates are based on institution level repayment rates—not the programmatic ones that PROSPER calls for—it is not difficult to extrapolate the effects of the proposed accountability scheme on a wide swath of programs and students in these institutions.

Second, we recommend that Congress implement a stronger risk-sharing approach than the one put forward in PROSPER, which only requires institutions to return a percentage of the aid received by students who withdraw during the semester. We believe that a properly structured risk-sharing scheme would incentivize institutions to improve their programs, by

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1 IPEDS (https://nces.ed.gov/programs/digest/d15/tables/dt15_303.10.asp?current=yes) There were a total of 20.2 million fall enrollment in 2014, 14.7 million of which were in public institutions.
tying financial penalties or the loss of Title IV financial aid for offering low-performing programs. In particular, we recommend a risk-sharing approach in which programs, depending on properly defined repayment rates,\(^4\) will be liable for an annual risk-sharing payment that can be up to, say, a maximum of 20 percent of the average amount of student loans that are in default during the three most recent fiscal years for which data are available.

To avoid problems raised by a binary trigger (such as PROPSER’S 45 percent repayment rate threshold), which punish schools for being just under the cut point while leaving those barely above it unpunished with little incentive to improve, we recommend a sliding scale with multiple levels of financial penalties, each level at a set of percentage increments. For example, a program with a repayment rate of 35 percent would be assessed 2 percent of its defaulted loans, while a program with a repayment rate of only 25 percent would be assessed 4 percent.

We also recommend that more than one metric be used to hold programs accountable for their performance. For example, beyond incentivizing programs and their parent institution to practice responsible borrowing counseling through a repayment rate metric, to also incentivize a focus on the success of low income students, up to half of the risk-sharing liability could be based on the program’s Pell student 3-year completion, transfer or graduation rate for less than sub-baccalaureate programs and Pell student 6-year graduation rates for baccalaureate ones.

While fine tuning of any current risk-sharing proposal will be needed, we believe that only when incentives such as these are built into accountability regulations can we realistically expect colleges and universities to be focused on student success, which should be the reason behind any accountability regulation.

We now turn to the emerging consensual elements that should be a part of any effective accountability framework—some of which we have already alluded to.

First, the application of any accountability measure should be delayed for a reasonable period to allow institutions to prepare for it.

Second, three-year cohort default rates should be abandoned in favor of repayment rates in any accountability scheme. But, the repayment metric must be refined to address the problem introduced by those students who, following current law, are in deferment, forbearance, or an income-driven repayment plan, but who thereby end up failing to lower the amount they owe.

Third, any risk-sharing/accountability liability should be calculated on a sliding scale—again, without this some schools are punished for being just under the threshold (leaving room for

\(^4\) On the importance of a proper definition of repayment rate see the Comments on Accountability and the Higher Education Act provided the HELP Committee by Robert Kelchen. Available at https://robertkelchen.com/2018/02/15/comments-on-accountability-and-the-higher-education-act/.
gaming) while leaving those barely above it unpunished and with little or no incentive to improve.

Fourth, given that Pell Grants represent a substantial federal investment, measures of the success of Pell students should be included along with loan repayment rates to help assure colleges are paying attention to the government’s investment in student access and success. In effect, in order to incentivize responsible borrowing and low-income student success, both loans and grants (e.g., Pell Grants) should be included in the metrics to be used.

Fifth, risk adjusted metrics should be used wherever possible to help identify schools that are over- or under-performing relative to the students they serve. The Secretary of Education can be charged with instructing the Commissioner of Education Statistics to convene a technical working group to determine the variables to be included in any risk-adjusted metric.

Sixth, incentives should be composed of both penalties and rewards (“bonuses”). Here we suggest that incentives be linked in such a way as to decrease defaults and increase student success; for example, an increase in repayment rates and a decrease in dropouts (or increases in retention and progression) could each be part of the total calculation leading to a reward (such as a grant, a waiver, or inclusion in a pilot program).

Seventh, both programmatic and institutional metrics should be used. By adding institutional metrics to the mix we can address the problem that arises when dealing with undeclared and major-changing undergraduates and federal Classification of Instructional Programs (CIP) taxonomy issues that arise in how some institutions define their respective programs.

Finally, we believe that the Student Protection and Success Act (S.2231), introduced by Senators Shaheen and Hatch, has much to recommend it, especially if modified in light of the above elements, including the addition of risk-adjusted metrics, a sliding scale, and bonuses focused on needy-students, not on those in already excellent schools.

Sincerely,
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