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July 31, 2015

The Honorable Richard Durbin
United States Senate
S-321 U. S. Capitol
Washington, DC 20515

Dear Senator Durbin:

I want to thank you for the time you spent with me and my team on June 16th to discuss the higher education legislative priorities of UNCF and our 37 member institutions. During our meeting, you requested additional feedback on the institutional risk-sharing proposal incorporated in S. 1102, the Protect Student Borrowers Act of 2015.

As we mentioned in our meeting, UNCF disagrees with the premise of codifying institutional risk-sharing within federal legislation because of its likely detrimental impact on Historically Black Colleges and Universities (HBCUs) and other institutions that predominantly serve economically and academically disadvantaged students. In particular, UNCF opposes using cohort default rates (CDRs) as a proxy to determine institutional effectiveness. The CDR does not take additional, relevant factors into account and disproportionately places HBCUs at risk of sanctions by virtue of the fact that a much greater share of HBCU students must borrow to afford a four-year college degree compared to students at all public and private not-for-profit colleges and universities (80 percent vs. 59 percent).[1] Moreover, by requiring HBCUs to divert limited financial resources to risk-sharing fines, this framework would punish current students attending already low-resourced HBCUs based on whether former students repaid their student loans.

While we fundamentally disagree with S. 1102, we greatly appreciate the fact that the bill partially acknowledges the key role that HBCUs (and other minority-serving institutions) play in providing educational opportunity to at-risk students by providing permissive authority for the U.S. Secretary of Education (Secretary) to reduce risk-sharing penalties case-by-case for Title III institutions based on certain criteria. In addition, we support section 4 of the bill, which lists a number of criteria that the Secretary shall take into consideration in awarding contracts and cooperative agreements for default prevention and management to institutions that have large numbers of percentages or student loan borrowers who have a risk factor associated with higher default rates on federal student loans – i.e., *those borrowers who are low-income or first-generation students, or who lack of a secondary school diploma.*

Although S. 1102 provides the Secretary with the authority to waive risk-sharing penalties for HBCUs and specifically recognizes that certain student characteristics are associated with

[1] UNCF Frederick D. Patterson Research Institute. Data compiled from the Integrated Postsecondary Education Data System.

higher student loan defaults, *HBCUs would still be at risk of financial penalties simply by virtue of serving a large share of students with these risk factors (i.e., low-income or first-generation status, or academically underprepared)*. Notably, in the 2013-2014 academic year, 71 percent of students at four-year HBCUs came from low-income families and received Pell Grants compared with only 40 percent of students at four-year public and private not-for-profit institutions.[2] Further, we know that low-income students often come to college less academically prepared than their more advantaged peers.[3] In sharp contrast to HBCUs, elite institutions who largely serve students whose success is often preordained have little or no exposure to the significant penalties that are outlined in this bill. For this reason, we believe that HBCUs deserve a complete exemption from risk-sharing penalties to avoid jeopardizing their historic mission to provide educational opportunity to students who otherwise would not be able to obtain a postsecondary education.

HBCUs are further worthy of exemption from risk-sharing penalties given *their relatively small size and the small proportion of total student loan volume they represent*. According to the U.S. Department of Education Federal Student Aid's data on Direct Loan volume for the 2013-2014 award year, HBCUs account for approximately $2 billion of the nearly $83 billion in loan volume under the undergraduate and graduate loan programs. This is less than 2.5 percent of the entire loan volume of these programs and therefore cannot be a significant contributor to the total dollar amount of loans that are in default. Moreover, while a substantial proportion (80 percent) of students at four-year HBCUs must borrow loans to attend college because of their economic status, their cumulative loan debt at graduation is only slightly above the national average for students at all four-year public and private not-for-profit institutions ($28,947 vs. $27,265)[4] – reflecting the relative affordability of HBCUs.

Building upon the recognition in S. 1102 that some student factors lead to higher student loan default rates, we believe the legislation should also give HBCUs credit for certain institutional factors that demonstrate that HBCUs already have skin-in-the-game. For example, HBCUs do a good job of keeping their *cost of attendance relatively low*. In the 2013-2014 academic year, the average total price for an in-state student living on campus at a four-year HBCU was $23,231, which is 31 percent below the $33,546 average total price for a student at all public and private not-for-profit institutions.[5] Historically, HBCUs have been committed to keeping their institutions affordable and accessible. In doing so, HBCUs have prioritized their students, over raising prices.

Despite fiscal constraints from keeping their tuitions relatively low, HBCUs deliver *high quality academic programs* that lead to student success. The vast majority of HBCUs voluntarily undergo the more rigorous peer review required for regional, rather than national, accreditation for continuous improvement of their educational programs, most of which lead to baccalaureate degrees rather than to associate's degrees and certificates. Moreover, HBCUs have a strong track record of creating campus environments that engage and support students. As a result, after controlling for student socioeconomic status and level of academic preparedness, HBCUs outperform other institutions in producing graduates by 14 percentage points.[6]

HBCUs produce well-educated graduates despite a *relatively low level of institutional resources per full-time student*. Average institutional expenses per enrolled full-time student at four-year HBCUs are approximately $25,000, one-quarter of that for all four-year public and private not-for-profit

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[2] Ibid.
[3] UNCF Frederick D. Patterson Research Institute. *Understanding HBCU Retention and Completion*. 2012.
[4] The Institute for College Access & Success. College InSight, http://college-insight.org.
[5] UNCF Frederick D. Patterson Research Institute. Data compiled from the Integrated Postsecondary Education Data System.
[6] UNCF Frederick D. Patterson Research Institute. *Understanding HBCU Retention and Completion*. 2012.

institutions.[7] HBCUs do not have multi-billion dollar endowments, huge benefactors or charge exorbitant tuition. At the same time, our schools prioritize spending for instruction, and keep "frills" to a minimum. It is important to note that four-year public and private not-for-profit institutions spend $9,630 and $16,515 respectively per full-time student for instruction, three and four times the amount ($3,575) spent by for-profit institutions.[8] HBCUs share this same commitment to instruction over other expenses, despite not having the same level of institutional resources available to other colleges. This is evidenced by the $11,057 per full-time student for instruction spent by minority-serving institutions overall.[9]

To summarize, UNCF and our member institutions remain concerned that the risk-sharing approach embodied in S. 1102 would have considerable, negative consequences. Because the Secretarial waiver authority is permissive and might not be granted, this legislation as currently drafted would likely penalize HBCUs for their ongoing work to increase the number of college graduates comprised of students from lower socioeconomic statuses who are less academically prepared for postsecondary education. Equally problematic, the legislation, if enacted, would motivate other institutions to reject, en masse, at-risk students who are more likely to default on student loans. Thus, we do agree with one aspect of testimony on risk-sharing presented by Andrew Kelly, director of the Center on Higher Education Reform at the American Enterprise Institute, at the May 20, 2015 Senate Health, Education, Labor and Pensions Committee hearing, who explained that incentives should be incorporated into any risk-sharing proposal to minimize negative consequences for at-risk students. We note that one incentives-based approach, similar to the "Pell Bonus" award President Obama has recommended, would be to provide additional federal funding to institutions based on the number or percentage of Pell students they graduate. Such an incentive would focus on rewarding institutions for their success in educating and graduating low-income students.

Finally, while we understand that your goal is to develop a risk-sharing regime that applies to all institutions, we urge you to consider a more narrowly tailored approach by focusing on institutions that have engaged in documented, exploitive practices that fail to serve students and taxpayers well. These are the institutions that have demonstrated that an additional level of scrutiny and greater liability related to student loan repayment are warranted.

Again, we thank you for the opportunity to comment on S. 1102 and welcome the opportunity to work with you regarding our concerns.

Sincerely,

Michael L. Lomax, Ph.D.
President and CEO
UNCF

cc: Senator Lamar Alexander (R-TN)
Senator Patty Murray (D-WI)
Senator Jack Reed (D-RI)
Senator Elizabeth Warren (D-MA)
Senator Chris Murphy (D-CT)

[7] UNCF Frederick D. Patterson Research Institute. Data compiled from the Integrated Postsecondary Education Data System.
[8] National Center for Education Statistics. *The Condition of Education*. 2015.
[9] Center for American Progress. *Lessons Learned: Implications from Studying Minority-Serving Institutions*. April 10, 2014.