American Association of Community Colleges
Association of Community College Trustees

April 24, 2015

The Honorable Lamar Alexander
Chairman
Senate Committee on Health, Education, Labor and Pensions
SD-430 Dirksen Senate Office Building
Washington, DC 20510

Re: Risk-Sharing/Skin-in-the-Game Concepts and Proposals

Dear Chairman Alexander:

The American Association of Community Colleges (AACC) and the Association of Community College Trustees (ACCT), representing more than 1,100 community colleges and the more than 7 million credit students they educate, are pleased to offer comments on the above-referenced white paper. The public and policymakers are rightly focused on the cost and value of college, and the paper raises important issues about the allocation of responsibility for financing college, as well as institutions' obligation to provide students a quality education. By all measures community colleges are the most affordable sector in postsecondary education. Community college leaders have long worked to institute tuition and student aid policies that help students minimize debt, and actively embrace the goal of promoting student success.

Community colleges do not support the proposed "skin in the game" or a risk-sharing-type tax on federal student loan defaults. This document outlines our perspectives on why such a policy would damage our institutions' ability to serve students, and is conceptually ill-suited to those colleges.

Federal Loans and Community College Students

Any new policies addressing risk sharing for student loan defaults must factor in current borrowing across higher education. In the fall of 2014, the average tuition and fees for a full-time, full-year community college student was $3,347—barely one third of average 4-year public tuition and fees ($9,139), and almost $12,000 less than the average tuition charged at for-profit colleges ($15,230). Public subsidies contribute to these low tuitions, but they stem from the fact that community colleges deliver education at a lower unit cost than other sectors.

Low community college tuitions and grant assistance have resulted in far lower levels of debt than in other sectors of higher education. Only 17% of all community college students take out federal loans. Only 9.6% of student borrowers at public 2-year institutions take out loans $2,500 in excess of annual tuition, when factoring in grants. Most community college associate degree awardees (59%) leave college with no debt whatsoever, while only 9% have debts of $20,000 or more. In fact, federal borrowing by our students is declining.

Cost-Sharing by State and Local Governments Helps Minimize Borrowing

The relatively low tuition paid by community college students is due to two primary factors. The first is the support the institutions receive from state and local governments. While declining as a share of institutional revenues, with much of the slack being made up for by students, these revenues nevertheless supply 51% of all annual community college expenditures.
Any framework of institutional risk sharing for student loan defaults or other Title IV expenditures should reflect this financial commitment. From our perspective, this massive public support represents risk sharing by state and local governments in community colleges and their students. The colleges are creatures of these public entities, which have what anyone could reasonably define as "skin in the game" when it comes to institutional success. In addition, colleges now often must return funds to the government under the Return of Title IV provisions for students who do not complete their programs.

Reducing Community College Defaults

A central theme of the white paper is that colleges should have greater investment in preventing student loan defaults. For decades, community college officials have expressed concern about the potential impact of borrowing on their students, and have tried to limit it. In recent years this concern has waxed as a higher percentage of students have taken out federal loans and defaults have burgeoned.

Institutions have an essential role in helping students avoid default, and a number of proven practices, including better counseling and enhanced tracking of students, can help. But by themselves, community colleges cannot prevent all defaults. A number of government actions are necessary. We strongly support giving colleges the authority to develop policies to reduce loan maximums for groups of students based on factors such as course load, program of study, or level of academic preparation, while maintaining authority for financial aid administrators to exercise professional judgment to revise these limits upward to the legal limit in specific circumstances. We also support a limit on aggregate borrowing based on program length, so that students enrolled in programs that are associate degree-granting or shorter would not be eligible for the maximum amount allowable for a baccalaureate program.

Moreover, colleges do not have primary responsibility for collecting loan payments. It is imperative that the federal government address subpar servicing of federal student loans in order to scale back the current number of students in default. In addition, the myriad of confusing repayment options and corresponding paperwork have left many borrowers in plans ill-suited for them. In fact, many community colleges have had to contract out, usually at great expense, with third-party servicers to work with borrowers in danger of default. It is highly regrettable that institutions need to devote their limited resources to pay third parties for services that should be provided by the original federal contractors.

Potential Impact of Risk-Sharing Tax on Community Colleges

We believe that implementation of risk sharing at community colleges will inevitably result in either increased tuitions or reduced educational services for students, and very likely both. The financial picture at our institutions precludes any other outcome. The evidence is quite clear:

even without risk sharing, community college tuitions have risen by 3.3%, after inflation, in the past year and 18% over the last 5years. On the expenditure side, community colleges have seen reduced expenditures per FTE in the last decade. In fact, community colleges are the only sector of higher education spending less per student than they had 10 years earlier. Community colleges operate on the margins—small declines in revenues, whether due to budget cuts or decreased enrollments, often lead to immediate reductions in personnel and other core services.
Risk sharing will also make it more difficult for institutions to engage in longer-term financial planning. This is because costs of risk sharing will not be known in advance.

Community colleges are, generally speaking, "open door" institutions; they are charged by the public with serving all of those who aspire to higher education. The white paper suggests that risk sharing would "encourage colleges and universities to establish appropriate admissions practices for at-risk or uncommitted students." In other words, the paper envisions altering this fundamental precept of the community college. State policymakers and campus officials therefore would be presented with two unappealing alternatives—turning away from college the students who might potentially benefit, or reducing institutional offerings and/or raising tuitions to meet the costs of "risk sharing."

Risk sharing may be relevant for institutions that rely heavily on federal student aid programs for their revenue, and as such expose both the federal government and their students to great financial exposure. Because community colleges have such low rates of borrowing, we believe that any risk sharing plan must take this strongly into consideration in regards to application, metrics, and liability. Ultimately, any risk-sharing penalty should be targeted to institutions that have high borrowing rates, high rates of default, and the greatest amount of dollars in default.

Comments on Policy Proposals

While we fundamentally oppose the notion of risk sharing for our institutions, we wish to provide comments on some of the proposals discussed in the white paper.

Loan Guarantees on Completion and Retention - The driving concept behind the loan guarantee program is poorly aligned with the mission of community colleges. Unlike traditional students, whose high school, college, and workforce transition is linear, and who enroll in college straight from high school, then attend full-time and graduate on or close to "normal time," many of today's community college students veer from this model. Many community college students delay entry into postsecondary education, attend part time, and work not only to pay for their education but to support themselves and their families. These and other factors often result in stopping and starting their college going, changing programs and often even institutions to accommodate new interests and new demands on their time and resources. Measuring retention and completion in the standard manner, of starting and completing in the same institution within a limited timeframe, is almost meaningless and in fact is harmful for purposes of loan guarantee on completion and retention implementation.

Student Aid Insurance Fund - The proposed federal student aid insurance fund would require institutions to pay an upfront cost or premium based on potential risk. Factors in determining that amount could include completion rates, student withdrawals, as well as the amount of federal financial aid received, including Pell Grants. Community colleges serve a large portion of low-income and academically at-risk students, and this proposal would essentially penalize our institutions for serving this student population. This is not good public policy.

Colleges and Universities Assume a Liability Based on Repayment of Federal Student Loans - Adding a financial penalty or sanction may cause some of our institutions to drop out of the Direct Loan program. Many colleges choose this because of the threat of sanctions related to Cohort Default Rates (CDRs). Community colleges support responsible student borrowing. However, schools have few practical ways to prevent students from over-borrowing. Adding additional penalties without providing federal intervention in regards to over borrowing and a federal coordinated plan to address default will likely increase the number of community colleges who choose not to participate in the federal loan programs. We are hopeful that adoption of a Student Default Risk Index (SDRI) will have a positive impact on participation in the loan programs, and the logic behind the SDRI can be applied in other areas of federal policy.

Alternative Approaches - We encourage Congress to consider a different incentive scheme than the proposed risk sharing, one that provides for positive incentives and concomitant resources to help with college completion and thereby default prevention. A number of models have been suggested, including one offered by our associations, which would give colleges additional funds to help them graduate at-risk students. These funds would be conditioned on colleges providing proof of their commitment to these students and developing realistic methods to achieve greater student success. The Obama Administration has also proposed such a program in its FY 2015 and 2016 budgets. These proposals are grounded in the reality that helping at-risk students graduate takes personal academic counseling and a variety of support services, all of which require resources.

There is consensus among community college leaders of the need to focus on increased student completion. This is a formidable undertaking necessitating substantial institutional change. However, there is no doubt that, as promising practices are developed and shared, efforts to enhance completion will ultimately have a profound positive impact on our students.

We thank you for your support of higher education and are eager to work with you and the members of the HELP Committee to ensure that Title IV funds are spent wisely and effectively.

Sincerely,

Walter G. Bumphus
AACC President and CEO

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