SHARE THE RISK OF FEDERAL STUDENT LOAN DEFAULT

Record-high student loan debt impacts one in six adult Americans.[1] Colleges and universities benefitting from federal student loan programs should share the risk of student loan default with the American taxpayer.

Quick Take

Student loan debt is the highest in our nation's history.

Colleges, universities, and other institutions of higher education who financially benefit from federal student loans should share a portion of the risk.

BACKGROUND

Colleges, universities, and other institutions of higher education (IHE) benefit tremendously from federal programs. In Fiscal Year (FY) 2018, the Federal Government spent $69.7 billion on postsecondary education, and an additional estimated $35.4 billion on research at educational institutions.[2] By any standard, higher education is a massive economic enterprise. Combined spending of all degree-granting institutions of higher education (IHE) for the 2016 to 2017 academic year reached $608 billion or 3.1 percent of U.S. gross domestic product (GDP).[3]

Federal loan dollars represent a significant source of revenue for IHEs as students use them to pay for tuition, fees, room and board, and other expenses. According to Federal Student Aid, "approximately 6,000 postsecondary institutions…participate in the federal student aid programs."[4]

The Department of Education estimates that approximately 26 percent of federal undergraduate student loans in 2018 will default, nearly half of student borrowers will negatively amortize within five years,[5] and a plurality of student loan borrowers will never repay their loans.[6]

Under federal law, "schools may lose their ability to participate in federal student aid programs if a significant percentage (thirty percent or more) of their borrowers default on their student loans within the first 3 years of repayment."[7] However, the three-year cohort default rate measure of accountability has serious limitations. According to an April 2019 Government Accountability Office (GAO) report, "Schools are seldom held accountable for their students' defaults, in part because of the high rate of borrowers in long-term forbearance."[8] Loan forbearance helps borrowers avoid short-term default, but the result is frequently delayed default outside the three-year window where IHE's are accountable.[9]

In the FY2020 budget proposal, the Trump administration proposed creating "an educational finance system that requires postsecondary institutions that accept taxpayer funds to have skin in the game through a student loan risk-sharing program."[10]

CONSTITUTIONAL AUTHORITY AND REPUBLICAN PRINCIPLES

The Constitution gives Congress the authority to tax and spend for the general welfare.[11] IHE's that benefit from federal loan programs should share in the risk of default facing American taxpayers.

POLICY SOLUTIONS

Congress may vote to reauthorize the Higher Education Act in the 116th Congress. S. 2124, the Skin in the Game Act, would hold IHEs participating in the student loan program liable to pay off half of defaulted student loans.[12]

Regardless of the exact percentage or the mechanisms for applying shared responsibility, IHEs must shoulder an increased amount of the risk for federal loan defaults. Doing so also requires Congress to address the underlying factors leading to high numbers of federal student loan defaults.

Please contact Cameron Smith or Kelsey Wall with the Republican Policy Committee at (202) 225-4921 with any questions.

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[1] David P. Smole, Cong. Research Serv., IF10158, A Snapshot of Federal Student Loan Debt (2019), https://fas.org/sgp/crs/misc/IF10158.pdf.

[2] National Center for Education Statistics, 2020-009, *Digest of Education Statistics 2018*, *Table 401.10* (December 2019), https://nces.ed.gov/programs/digest/d18/tables/dt18_106.10.asp.

[3] National Center for Education Statistics, 2020-009, *Digest of Education Statistics 2018*, *Table 106.10* (December 2019), https://nces.ed.gov/programs/digest/d18/tables/dt18_106.10.asp.

[4] Federal Student Aid, *Fiscal Year 2018 Annual Report* (2018), https://www2.ed.gov/about/reports/annual/2018report/fsa-report.pdf.

[5] Negative amortization occurs when the net loan balance increases during repayment due to interest charges larger than loan payments.

[6] Sheila Blair and Preston Cooper, *The Future of Income-Share Agreements Policy and Politics* 6, The Manhattan Institute (Mar. 2019), https://www.manhattan-institute.org/future-income-share-agreements-to-finance-higher-education.

[7] U.S. Gov't Accountability Off., GAO-18-163, *Federal Student Loans: Actions Needed to Improve Oversight of Schools' Default Rates* (2018), https://www.gao.gov/products/GAO-18-163.

[8] U.S. Gov't Accountability Off., GAO-19-484T, *Higher Education: Opportunities to Strengthen Federal Accountability* (2019), https://www.gao.gov/assets/700/698170.pdf.

[9] *Id.*

[10] Office of Mgmt. & Budget, *A Budget for a Better America: Promises Kept. Taxpayers First* 2 (2020), https://www.whitehouse.gov/wp-content/uploads/2019/03/budget-fy2020.pdf.

[11] U.S. Const. Art. I, Sec 8, Clause 1.

[12] S. 2124, 116th Cong. (2019).