INSTITUTIONAL INVESTMENT IN STUDENT SUCCESS EXPERIMENT
UNITED STATES DEPARTMENT OF EDUCATION

Introduction

Student debt has risen steadily in recent years leading to greater scrutiny on institutions of higher education. Increasingly, there are calls for them to have "skin in the game" so that they are held accountable for their students' post-graduation success. However, the Higher Education Act (HEA) and Department regulations provide institutions with few tools to proactively and effectively minimize debt and improve students' long-term return on investment.

Using its authority under the HEA, the Department is launching an Experimental Site to test the efficacy of providing institutions with more tools to limit student borrowing and serve as a partner in helping students manage their repayment obligations.

Elements of the Experiment

***Institutional Partnerships in Loan Repayment*:**

Just as tuition discounting and institutional scholarship funds have always permitted an institution to redistribute the cost of attendance among a larger group of students, or to take a risk position in a student's decision to enroll at the institution, so too can post-enrollment scholarships or performance-based payments encourage institutions to better target aid to those most likely to benefit from it and to take a larger risk position in their students' success. Yet such repayment programs have been discouraged by the Department and, in some instances, an institution's effort to help a student repay his or her loans has been counted as a default for purposes of calculating the institution's Cohort Default Rate.

In addition, a number of institutions are experimenting with alternative college financing options, such as performance-based funding or earnings-based repayment models, either to replace or supplement Federal student loans. Such programs enable institutions to better align cost structures with earnings outcomes, to enhance a student's educational return on investment, and to reduce the fear of daunting repayment obligations for students who are debt averse. It is also likely that these programs incentivize institutions to ensure that students have the best possible outcomes, continuing through graduation and into the labor market.

However, some institutions do not offer those options until a student has declared a major, or they offer it only to supplement Federal borrowing. This means that the student could be left with *both* a student loan repayment obligation *and* an alternative financing obligation. Having to make both payments could undermine the benefits otherwise provided by the alternative financing, including earnings-based repayment programs. In addition, for debt averse students, it may not be helpful to have access to non-loan institutional financing if the student will be required to depend on loans during the early years of their college enrollment, when the risk is the highest. Finally, while some institutions might want to offer non-loan financing to their students, they cannot move away from the Federal aid program all at once, but instead need to gradually shift the balance to alternative financing as early participants begin to make their payments to the institution.

In this experiment, an institution would be permitted (at the request of the borrower) to take on the repayment obligation for a student's Federal loans, either by paying the loan balance in full through a lump sum payment or by assuming the repayment obligation on behalf of the borrower through a standard, graduated, or extended repayment plan. In return, the borrower would repay the institution based on a predetermined methodology, such as by providing the institution a share of the borrower's earnings. Under such a plan, an institution has skin in the game because it is financially tied to the borrower's return on their educational investment. Taxpayers will also be protected because an institution is more likely to meet their repayment obligations than a student who may struggle to meet multiple debt obligations and pay basic living expenses. By allowing borrowers to roll loans into institutional financing options, borrowers will have just one payment to make each month rather than trying to divide their income between two different types of payments.

In order to protect students, the Department will carefully review the terms and implementation of institutional financing options, as outlined in greater detail below.

***Limiting Borrowing*:**
Many institutions of higher education have asked Congress and the Department to provide them with the authority to limit Federal student loan borrowing. Institutions have correctly pointed out that many students overborrow while in school to finance expenses that are not critical to their educational needs or simply to receive a larger stipend.

Currently, institutions may only limit student borrowing on a case-by-case basis, but not based on a student's course of study or likely earnings. The Department will waive this restriction under this experiment. This waiver may be used on its own or as part of an institutional financing option to limit student borrowing in addition to an institutional financing option.

Ensuring Student Protections
In the case of the institutional financing option, participation is voluntary for students and they will still have the ability to choose Federal Direct Loans instead of an institutional financing option. Institutional financing options must maintain the opportunity for forgiveness in the case of a student's total and permanent disability, death, or, under certain circumstances, if the institution closes. Students must also receive relevant counseling that explains the institutional financing option as well as benefits and drawbacks as compared with a Direct Loan.

In the case of borrowing limits, to ensure that academic "red-lining" is not occurring, the institution would be permitted to implement borrowing limits under this experiment based only on the following factors:

1. by academic program, informed by median program-level earnings of prior graduates published in the expanded College Scorecard, or a similar data source;
2. by enrollment status, such being enrolled full-time or less than full-time;
3. by academic progression, based on the number of credits a borrower has completed (e.g. achieving status as a sophomore);
4. for housing, if the institution does not provide or manage student housing or students are enrolled primarily in distance learning;
5. to reduce reliance on graduate PLUS borrowing;
6. to limit or prevent borrowing by parents; or
7. to prevent the misuse of borrowing rules to obtain larger cash stipends.

Institutions may not otherwise vary borrowing limits or institutional financing option terms for students enrolled in the same cohort in the same academic program. The Department will prohibit institutions from discriminating based on race, national origin, religion, sex, marital status, age, or handicapped status, as prohibited under the HEA. The Department will also reject, at the Secretary's discretion, applications that provide unfair terms for students. A Direct Loan refinanced into an institutional financing option can never be returned to the student, even if the institution closes.

Conclusion:

The Department believes that by providing students with more higher education financing options, institutions can take a larger risk position in student outcomes in a proactive way, and more carefully align pricing structures with projected student earnings to ensure the highest return on investment for students. We prefer such voluntary programs to punitive actions that penalize an institution for borrower behaviors they cannot control. This experiment will test the effectiveness of alternative models and inform future policymaking on the risks and benefits of expanding an institution's ability to limit borrowing (except when individual circumstances justify case-by-case loan limit increases). Institutions will also be able to participate actively in student loan repayment, including through post-enrollment scholarship and performance-based funding opportunities, as well as by rolling Federal student loans into alternative financing programs. The Department is hopeful that institutions of higher education that are serious about reforming the current higher education finance system will submit applications to participate in this experiment.