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Seven Essential Policies for a Higher Education Act Reauthorization

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Policies that will bring meaningful and needed change to the higher education sector should be at the center of Congress's reauthorization of the Higher Education Act (HEA). Today, Americans hold $1.4 trillion[1] in outstanding student loan debt as tuition continues to rise and students struggle to gain skills that are well-matched to the job market.

Policymakers should include the following seven reforms in any reauthorization of the HEA in order to drive down college costs, protect taxpayers, and catalyze new delivery models in postsecondary education.

1. Decouple Federal Financing from Accreditation

Today's college graduates struggle to translate college classes into a gainful career, dealing with a "mismatch between education and employment, holding jobs that do not require a costly college degree."[2] Although most people enter college hoping their degree will lead to a good job, in 2010, 48 percent of college graduates were in jobs that did not require a college degree.[3]

The ossified accreditation system does little to connect higher education to the needs of the workforce or give students any meaningful indicator of college quality. Moreover, very few colleges that are poorly performing ever lose accreditation, and, by extension, access to federal aid. As University of Ohio economist Richard Vedder explains:

> It is 5.3 miles from the U.S. Capitol to the University of the District of Columbia (UDC). Federal-government data suggest that only 5.7 percent of full-time students at UDC graduate in four years at this fully accredited school, and that well over 18 percent of borrowers default on their loans within three years, considerably above the already-high national average of 13.7 percent. Why does UDC receive the same level of accreditation as, say, nearby Georgetown or Johns Hopkins?[4]

The Higher Education Reform and Opportunity (HERO) Act, introduced by Senator Mike Lee (R–UT) and Representative Ron DeSantis (R–FL), would go a long way in alleviating many of the problems plaguing the existing accreditation system, on which access to federal student aid is conditioned. The proposal would effectively allow states to opt out of the current de facto federal system of accreditation and to instead recognize their own accreditors, including businesses, nonprofits, or other entities with specific knowledge of the subject area being taught.

For example, the University of Texas could opt out of the federal structure and recognize Apple as an accreditor. Apple could then, in turn, credential the computer science curriculum at the university, putting its imprimatur on the computer science program. This transparent method of credentialing would better ensure that the skills learned at universities have application in the job market. This freedom from fed-

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eral bureaucracy would also open the doors for badly needed innovation in the higher education sector.

2. Consolidate Federal Loans into a Single Loan Program

The federal government is now responsible for over 90 percent of all student loans, completely dominating the higher education financing market and creating little space for private lenders to compete. Evidence suggests that easy access to federally subsidized loans has led to rampant increases in college costs.[5]

In order to put downward pressure on college tuition prices and make room for the private market, policymakers should consolidate the five current federal loan programs into a single loan option. As Heritage Foundation research has outlined,[6] this loan should be issued under the current terms of the graduate Stafford loan, which would provide access to students and protect American taxpayers from paying for overgenerous subsidies.[7] Additionally, the streamlined federal loan should be limited through an annual and a lifetime cap to limit excessive borrowing and mitigate against tuition inflation.

3. Make Space for Private Lending by Eliminating the PLUS Loan Program

The Parent PLUS program, which provides loans to parents of undergraduate students, and the graduate PLUS program, which lends to graduate students, are two of the greatest drivers of student loan debt. The PLUS loan program allows parents and students to borrow up to the full cost of college attendance. Students who attend law school, for example, may find themselves more than $200,000 in debt upon graduation, financed through a combination of the Stafford loan program and the Grad PLUS program.

Policymakers should eliminate the PLUS loan program for both graduate students and parents of undergraduate students, and thus curtail one of the major causes of tuition inflation. This elimination would be a meaningful first step in pursuing policies that lower the cost of college attendance.

4. Eliminate Loan Forgiveness

Rather than explore policy reforms that would help lower the price of college, lawmakers have been putting a Band-Aid on the problem by expanding loan forgiveness options. Loan forgiveness removes the financial responsibility of repaying a loan from the student who signed a contract to repay it, and transfers that responsibility to American taxpayers. Additionally, loan forgiveness creates perverse incentives in the student loan market, leading students to make certain financial decisions with the knowledge that someone else may pick up the tab.

A recent report from the Government Accountability Office found that loan forgiveness programs will cost American taxpayers $108 billion over the next 10 years. Public service loan forgiveness alone, which discharges the loans of students who enter work in the public sector after 10 years, will cost $24 billion over the next 10 years.[8] Policymakers should discontinue this costly and inequitable practice.

1. Student Loan Hero, "A Look at the Shocking Student Loan Debt Statistic for 2017," September 13, 2017, https://studentloanhero.com/student-loan-debt-statistics/ (accessed September 21, 2017).
2. Allie Bidwell, "Millions of Graduates Hold Jobs that Don't Require a College Degree, Report Says," *The Chronicle of Higher Education*, January 28, 2013, http://www.chronicle.com/article/Millions-of-Graduates-Hold/136879 (accessed September 21, 2017).
3. Ibid.
4. Richard Vedder, "To Improve Higher Education, Scale Back Federal Involvement," *National Review Online*, April 2, 2015, http://www.nationalreview.com/article/416356/improve-higher-education-scale-back-federal-involvement-richard-vedder (accessed September 21, 2017).
5. Mark J. Warshawsky and Ross Marchand, "Dysfunctions in the Federal Financing of Higher Education," Working Paper, Mercatus Center at George Mason University, January 2017, https://www.mercatus.org/system/files/mercatus-warshawsky-financing-higher-education-v1.pdf (accessed September 21, 2017).
6. Jamie Bryan Hall and Mary Clare Amselem, "Time to Reform Higher Education Financing and Accreditation," Heritage Foundation *Issue Brief* No. 4668, March 28, 2017, http://www.heritage.org/education/report/time-reform-higher-education-financing-and-accreditation (accessed September 21, 2017).
7. The Graduate Stafford loan program currently issues loans with a 3.5 percent interest rate, plus the 10-year Treasury rate, with interest accruing while a student is enrolled.
8. Jason DeLisle, "The Spiraling Costs of a Student Loan Relief Program," *Politico*, July 21, 2017, http://www.politico.com/agenda/story/2017/07/21/public-service-loan-forgiveness-cost-double-000478 (accessed September 21, 2017).

5. Move from the Fair Credit Reform Act to Fair Value Accounting

American taxpayers deserve to know just how much money is going into federal student loan programs. However, the Congressional Budget Office (CBO) uses the outdated accounting measure outlined in the Fair Credit Reporting Act (FCRA), which does not give an accurate estimate of the total cost of federal loans programs.

Fair value accounting (FVA), on the other hand, is widely accepted by economists to predict accurately the true cause of a program. FVA takes market risk into consideration, without which the costs of federal student loans on American taxpayers would be largely understated. As the American Enterprise Institute's Preston Cooper described,

> Under CBO's standard accounting the government makes a profit on four out of five federal student loan programs (the exception subsidized loans for undergraduates). Under fair-value accounting, however, the government takes a loss on four of the five programs.[9]

6. Transfer Pell Grant Funding from Mandatory to Solely Discretionary Spending

Pell Grant funding should be reserved for America's neediest students. Prior to 2008, funding for Pell Grants was entirely discretionary, meaning that appropriations were subject to annual congressional review and oversight. However, under the Obama Administration, a portion of Pell shifted to mandatory spending within the federal budget.[10] The discretionary component applies to the maximum award that a student receives, which is determined in each year's appropriations. However, Pell Grant funding has a mandatory "add-on" meant to supplement the funding determined in the discretionary appropriations. For example, in 2016–2017, the maximum Pell Grant for any student was $4,860, but with the mandatory add-on of $955, the maximum amount a student could actually receive was a grant of $5,815.

Congress should review the Pell Grant program annually and appropriate funds based on the needs of the current population. In addition, Congress should restore Pell grant funding to discretionary appropriations in their entirety to ensure that these grants are narrowly tailored to serve the neediest students.

7. Eliminate the In-School Interest Subsidy

Subsidized Stafford loans do not accrue interest while a student is in school. This overly generous benefit is very costly to American taxpayers. According to the CBO, eliminating the in-school interest subsidy would save American taxpayers $23.4 billion over the next 10 years.[11]

A college loan is designed to give students access to financing that will enable them to pay tuition and fees towards earning a college degree. Low-income students have access to federal student aid, but there is no reason to provide in-school interest subsidies that make eligible students' loans more generous after the completion of college. Congress should eliminate the in-school interest subsidy.

Conclusion: Time for Structural Reforms to the HEA

Congress should not miss the opportunity to enact meaningful higher education reform in the reauthorization of the Higher Education Act. The seven reforms laid out in this *Issue Brief* are important steps toward mitigating ever-inflating college costs, protecting taxpayers, and making space for market-based solutions that provide additional higher education options to students.

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9. Preston Cooper, "Federal Student Loans Will Cost Taxpayers $170 Billion," *Forbes*, April 10, 2016, https://www.forbes.com/sites/prestoncooper2/2016/04/10/federal-student-loans-will-cost-taxpayers-170-billion/#19efc08062a9 (accessed September 21, 2017).
10. Congressional Budget Office "Restrict Pell Grants to Neediest Students," *Options for Reducing Deficit: 2017 to 2026*, December 8, 2016, https://www.cbo.gov/budget-options/2016/52218 (accessed September 21, 2017).
11. Congressional Budget Office, "Restrict Pell Grants to the Neediest Students—CBO's Estimate of the President's Fiscal Year 2018 Budget," https://www.cbo.gov/system/files/115th-congress-2017-2018/dataandtechnicalinformation/52891-education.pdf (accessed September 21, 2017).