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BACKGROUNDER

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Higher Education Act Re-Authorization Offers Improvements—But Falls Short of Needed Policy Reforms

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Abstract

The House Committee on Education and the Workforce recently introduced a proposal to re-authorize the Higher Education Act (HEA) of 1965. The proposed re-authorization, titled the Promoting Real Opportunity, Success, and Prosperity through Education Reform (PROSPER) Act, makes important policy reforms to protect students and taxpayers. However, this proposal does not go far enough to drive down the cost of college by reducing federal lending and other higher education subsidies, or through meaningful reforms to accreditation. Policymakers should strengthen the HEA re-authorization proposal by pursuing policies that rein in federal student aid and reform the ossified accreditation system.

American students are currently struggling under high tuition, $1.4 trillion in outstanding student loan debt, and limited education options that do not always coincide with the needs of the economy. Additionally, many college campuses have become breeding grounds for policies that limit freedom of speech. Congress should pursue policies that bring college prices down through market-driven loan options, decreased regulation, and a modern accreditation system that makes space for innovation and competition in higher education.

To begin to address some of these issues, the House Committee on Education and the Workforce recently introduced a proposal to reauthorize the Higher Education Act (HEA) of 1965. The proposed re-authorization, titled the Promoting Real Opportunity, Success, and Prosperity through Education Reform (PROSPER) Act, makes important policy reforms to protect taxpayers. However, this pro-

Key Points

- American students are struggling under high tuition, massive amounts of student loan debt, and limited education options. Many college campuses have become breeding grounds for policies that limit freedom of speech, such as through restrictive free speech zones.
- The proposed re-authorization of the Higher Education Act (HEA) of 1965, titled the Promoting Real Opportunity, Success, and Prosperity through Education Reform (PROSPER) Act, makes important policy reforms to protect students and taxpayers.
- However, the PROSPER Act does not go far enough to drive down the cost of college by reducing federal lending and other higher education subsidies, or through meaningful reforms to accreditation.
- Laudably, the PROSPER Act would eliminate loan forgiveness and the in-school interest subsidy on federal loans and would protect the First Amendment rights of students. Policymakers should strengthen the HEA re-authorization proposal by pursuing policies that address higher education policy issues at their core.

This paper, in its entirety, can be found at **http://report.heritage.org/bg3278**

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posal does not go far enough to drive down the cost of college by reducing federal lending and other higher education subsidies, or through meaningful reforms to accreditation. Going forward, policymakers should strengthen the HEA re-authorization proposal by pursuing policies that rein in federal higher-education subsidies and reform the ossified accreditation system.

"One Grant," "One Loan," and "One Work Study"

One of the more significant policy shifts in the proposal is the consolidation of the current federal student aid programs into three simplified options: "one grant," "one loan," and "one-work study."

One-Grant Component. The "one-grant" portion of this proposal reauthorizes the Pell Grant program, which offers financial assistance to low-income students. Under the PROSPER Act, Pell Grant awards would be distributed to students on a weekly or monthly basis. The one-grant proposal includes fraud protections, which would prohibit students from receiving Pell Grants if they have not taken any credit hours after three payment periods. Fraud protections could help to ensure that the $27 billion per year distributed in Pell Grants,[1] which are not loans and therefore and are not repaid, are used properly.

One-Loan Component. The PROSPER Act would eliminate the direct loan program as currently structured and would collapse the current federal student aid options into the "one-loan" program. However, the one-loan language is a bit of a misnomer. One loan would exist for each type of borrower, meaning undergraduate students, graduate students, and parents of undergraduate students.

With the consolidation of federal loans, the "one-loan" program effectively eliminates the PLUS Loan program. PLUS loans, which allow parents of undergraduate students and graduate students to borrow from the federal government up to the full cost of attendance at a university, have been identified as one of the most significant drivers of tuition inflation, student debt, and family debt.[2] However, the proposal missed the opportunity to eliminate parent borrowing and significantly rein in graduate-student borrowing. While the elimination of the PLUS Program ends the unwise practice of virtually unlimited federal lending, the loan cap of $138,500 placed on the Graduate Stafford loan program is increased to $150,000 under the proposed federal one-loan program. The federal government would also still lend to the parents of undergraduate students, which further enables universities to increase prices while encouraging family-level debt.

Evidence suggests that it is increased access to federal student aid that has led to increased tuition prices.[3] It is unfortunate that this proposal feeds tuition inflation by continuing to allow parent borrowing and setting caps on graduate student borrowing extremely high. This proposal additionally increases borrowing caps for undergraduate students. Under current law, dependent undergraduate students can borrow $31,000 while independent undergraduate students can borrow $57,500. The PROSPER Act increases those caps to $39,000 and $60,250, respectively.

The proposed federal one-loan program simplifies the existing nine convoluted repayment systems into two options: a standard 10-year repayment plan or an income-based repayment (IBR) option. Students who choose to participate in the standard 10-year repayment plan will pay 120 equal loan payments over 10 years. Students who opt in to the IBR plan would repay the principal and interest that they would have paid under a standard 10-year plan, with interest that accumulates in excess of that amount being forgiven.[4] While, thanks to the elimination of

1. College Board, "Total Pell Grant Expenditures and Number of Recipients Over Time," Trends in Higher Education, 2017, https://trends.collegeboard.org/student-aid/figures-tables/pell-grants-total-expenditures-maximum-and-average-grant-and-number-recipients-over-time (accessed December 21, 2017).
2. Preston Cooper, "How Unlimited Student Loans Drive Up Tuition," *Forbes*, February 22, 2017, https://www.forbes.com/sites/prestoncooper2/2017/02/22/how-unlimited-student-loans-drive-up-tuition/2/#6dbe0d9d15d8 (accessed December 22, 2017).
3. Mark J. Warshawsky and Ross Marchand, "Dysfunctions in the Federal Financing of Higher Education," Mercatus Center at George Mason University *Working Paper*, January 2017, https://www.mercatus.org/system/files/mercatus-warshawsky-financing-higher-education-v1.pdf (accessed December 22, 2017).
4. Allesandra Lanza, "Potential Effects of PROSPER Act on Student Loans," *U.S. News & World Report*, December 13, 2017, https://www.usnews.com/education/blogs/student-loan-ranger/articles/2017-12-13/potential-effects-of-prosper-act-on-student-loans (accessed December 22, 2017).

TABLE 1

PROSPER Act Compared to Current Law

	CURRENT LAW		PROSPER ACT	
	Aggregate Lending Caps	Interest Rate	Aggregate Lending Caps	Interest Rate
Dependent Undergraduates	$31,000	10–Year Treasury +2.05%	$39,000	10–Year Treasury +2.05%
Independent Undergraduates	$57,000	10–Year Treasury +2.05%	$60,250	10–Year Treasury +2.05%
Graduate Students	$138,500	10–Year Treasury +3.6%	$150,000 ($28,500/year)	10–Year Treasury +3.6%
Graduate PLUS	Cost of attendance	10–Year Treasury +4.6%	Program eliminated	Program eliminated
Parent PLUS	Cost of attendance	10–Year Treasury +4.6%	One-loan program allows parents to still borrow $56,250 ($12,500/year)	10–Year Treasury +4.6% (under one-loan program)

SOURCES: U.S. House of Representatives, "PROSPER Act," https://edworkforce.house.gov/uploadedfiles/prosper_act_bill_text.pdf (accessed January 3, 2017), and U.S. Department of Education, https://studentaid.ed.gov/sa/types/loans/subsidized-unsubsidized (accessed January 3, 2017).

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loan forgiveness, students will now have to pay off the remaining balance on that loan, ending interest payments after 10 years further distorts the market price of education. Such policies have led to the 283 percent increase in higher education spending since 1970.[5] However, the proposal would also eliminate the taxpayer-funded in-school interest subsidies that currently exist, shifting all loans from the subsidized to unsubsidized category, which will better protect taxpayers and limit distortions in the higher education pricing market.

Finally, the lending portion of the proposal takes a considerable step in the right direction on the elimination of loan forgiveness. Although the increase in aggregate borrowing caps should be set at a lower level, the elimination of loan forgiveness is a long-overdue policy reform that will offer American taxpayers needed relief. Under current law, students who participate in the direct loan program can have their loans forgiven after 20 years of payments. Public service employees (those who work for the government of other public and nonprofit organizations) have the remaining balance of their loans forgiven after only 10 years of repayments.[6] The elimination of loan forgiveness (for students who begin borrowing in 2019 and later) is welcome news for American taxpayers, who were poised to lose $108 billion over the next 10 years due to loan forgiveness programs, according to the Congressional Budget Office (CBO).[7]

5. National Center for Education Statistics, *Digest of Education Statistics*, Table 106.20. "Expenditures of educational institutions, by level and control of institution: Selected years, 1899–1900 through 2015–16," https://nces.ed.gov/programs/digest/d16/tables/dt16_106.20.asp?current=yes (accessed December 22, 2017).
6. Federal Student Aid, "Public Service Loan Forgiveness," https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service (accessed December 22, 2017).
7. U.S. Government Accountability Office, "Federal Student Loans: Education Needs to Improve Its Income-Driven Repayment Plan Budget Estimates," *Report to the Chairman, Committee on the Budget, U.S. Senate*, GAO–17–22, November 2016, p. 51, http://www.gao.gov/assets/690/681064.pdf (accessed December 22, 2017).

One-Work-Study Component. Changes to the federal work study program included in the PROSPER Act make it easier for students to apply for jobs off campus, specifically private-sector jobs that may be more applicable to their coursework. While this is an improvement to the program, the federal government should have no role in subsidizing employment while in school. A superior policy route would be to eliminate the federal work study program in its entirety.

Going forward, policymakers should put far stricter loan limits on federal student loan borrowers and dramatically limit federal lending to make space for competition from private lenders. However, the elimination of loan forgiveness and the elimination of the in-school interest subsidy is great news both for American taxpayers, who have been picking up the tab for defaulted student loans, and for future students who want to see their college tuition prices kept in check.

Accreditation

The current outdated accreditation system maintains the higher education status quo, which leaves behind many students who either cannot afford to go to college (either due to financial constraints or time constraints) or would be better served by a streamlined, skills-based option. The federal government plays an enormous role in the accreditation process by holding the power to determine who can be an accreditor. The House proposal does not take significant action to reduce the federal government's role in the accreditation process.

Although the proposal does not remove federal intervention in accreditation, in order to incorporate career and skills-based learning into higher education, the PROSPER Act allows universities to create partnerships with new providers. This provider could be, for example, an industry leader or a local proprietary school. Students can then take advantage of these partnerships by taking courses from the partnering institution using their federal aid. Additionally, this proposal requires that a member of the business community sit on each accreditation board. While these are policies that make a concerted effort to connect higher education to the needs of an evolving workforce, this proposal does not decouple federal financing from accreditation—a critical first step in moving away from the current de facto federal system of accreditation.

A better policy would allow states to opt out of the de facto federal accreditation structure altogether and allow states to recognize institutions and industries that can accredit and credential individual courses and courses of study. This policy, proposed in the Higher Education Reform and Opportunity (HERO) Act introduced by Representative Ron DeSantis (R–FL) and Senator Mike Lee (R–UT), would allow the business community or those with specific career knowledge to accredit individual courses and courses of study. Additionally, the HERO Act gives students the flexibility to use their federal aid for specific courses, rather than aid being conditioned on a student attending a degree-terminal institution.

Reducing the Regulatory Burden on Proprietary Colleges

In response to the growth of for-profit institutions of higher education, which often provide skills-based training to students, the Obama Administration placed significant regulations on this sector. These regulations, directed at career colleges, limited the ability of proprietary schools to grow, innovate, and offer competitive options for students who seek a high-quality alternative to the four-year bachelor's degree.

The PROSPER Act would repeal regulations that are not sector-neutral in their application. Notably, the proposal would repeal the gainful employment regulation, which required that for-profit institutions meet student employment metrics not required of nonprofit schools. Additionally, this proposal would repeal restrictions on distance learning that curtail the ability of online schools to serve students regardless of their geographical location.

This marks a needed shift in policy from the previous administration, which used the power of the Department of Education to pick winners and losers in higher education. Students are better off when they have more education options from which to choose. Repealing burdensome regulations is a significant step toward achieving a diverse and competitive higher education market.

College Dashboard

Title I of the PROSPER Act would charge the Secretary of Education with the creation of a College Dashboard. Similar to the College Scorecard launched under the Obama Administration, the new College Dashboard would publish institutional data in order to create transparency for students who are shopping for colleges. While increased access to such metrics can provide additional information to consumers, this is done properly in the private market. Several private entities already research, publish, and rank colleges and are transparent in their methodology. Additional federal involvement in the collection and publication of data on colleges could further distort the market by placing a federal imprimatur on colleges that adhere to a limited set of outcome metrics, to the exclusion of other worthwhile providers and options.

Freedom of Speech

Students today, particularly those with conservative or libertarian views, routinely find that their First Amendment right to freedom of speech is jeopardized the moment they step onto a college campus. One prominent example of this is the relegation of speech at some colleges to restrictive "free speech zones." It is counter to the ideals of the American commitment to freedom of speech that taxpayer-funded universities are hostile to the First Amendment and intellectual curiosity. The HEA reauthorization proposal would require that schools make public their policies regarding free speech. If, for example, a school has rigorous speech codes or "free speech zones," students will be made aware of such policies before they apply. This policy would require schools to demonstrate, up-front, that the institution adheres to the First Amendment of the U.S. Constitution.

Religious Liberty

Unfortunately, freedom of speech is not the only First Amendment right under attack on college campuses. This proposal would prohibit colleges and universities from discriminating against any student organization for religious reasons. Additionally, this bill would require that accreditors recognize and respect the religious mission of schools.

More to Be Done

In order to truly lower college costs and offer more options to students, policymakers should consider the following policies:

- **Decouple federal financing from accreditation.** Reforming the outdated, *de facto,* federal accreditation system is key to unlocking true innovation in higher education. The HERO Act would allow states to opt out of the current accreditation system and recognize their own accreditors. HERO creates opportunities for creative partnerships with the business community, and would enable students to craft a customized higher-education experience that better prepares them to pursue their life and career goals. This approach offers better options for students and taxpayers.

- **Eliminate parent borrowing and significantly lower graduate student aggregate borrowing caps.** To spark market competition in higher education and lower tuition prices, the federal government must significantly reduce its role in student lending. While this proposal ends the unwise practice of unlimited lending in the PLUS loan program, American taxpayers and students would be better off with far lower borrowing caps and the elimination of parent borrowing on behalf of their undergraduate student.

- **Transfer accounting practices from Federal Credit Reform Act accounting to fair-value accounting.** Congress should use fair-value accounting, a method widely accepted by economists, to more accurately determine the cost of federal student lending programs. The Federal Credit Reform Act used by the CBO does not take into account market risk and therefore underestimates the true cost of the federal government's expenditures each year on federal student aid programs.

Critically, the PROSPER Act would eliminate loan forgiveness and the in-school interest subsidy on federal loans and would protect the First Amendment rights of students. However, going forward, Congress should pursue policies that address higher-education policy issues at their core.

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