Session #32

A New Experimental Site:
Institutional Investment in Student Success

Michael Brickman
U.S. Department of Education

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Federal Student Aid
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Experimental Sites Initiative (ESI)

- Authorized in Section 487A(b) of the Higher Education Act of 1965, as amended
- Give the Secretary authority to waive, for a “limited number” of institutions, requirements under Title IV
- Designed to inform future legislation or regulation
- Allows the Department to refine new ideas and test them against real world challenges
- Highlights promising ideas to help build public support
Current ESI Experiments

- Federal Work Study *(new)*
- Second Chance Pell *(new cohort)*
- Loan Counseling
- Limiting unsubsidized loan amounts

Concluding in the 2019-20 Award Year

- Prior Learning Assessment
- Competency-Based Education
- Limited Direct Assessment
- Educational Quality through Innovative Partnerships (EQUIP)
- Federal Work Study (FWS) for Near-Peer Counseling
Notable Statistics
Notable Statistics: Student Debt

$1,606,500,000,000

Outstanding Student Debt*

*as of June 2019
Notable Statistics: Default Projections

38.2%

Percent of students who first borrowed in 2004 projected to default by 2023
49%
Percent of students that have made no principal payments 5 years after graduation
11% 

Percent of business leaders satisfied that higher education is producing graduates with . . . “the skills and competencies my business needs”
Notable Statistics: Field of Study

51%

Percent of American adults who would change their degree, institution, or field of study
Institutional Investment in Student Success
Experiment Goals

• Give institutions the tools to responsibly limit borrowing and student debt.

• Allow students to finance all costs (including for workforce-relevant programs) with one affordable repayment.

• Allow institutions to invest in their students’ success (greater risk and greater reward).
Waivers – Keeping it Simple

• **Limiting Borrowing:** HEA sec. 479A(c) - On a case-by-case basis, an eligible institution may refuse to certify a statement that permits a student to receive a loan under part B or D, or may certify a loan amount or make a loan that is less than the student’s determination of need (as determined under this part), if the reason for the action is documented and provided in written form to the student.

• **Repaying Loans:** HEA sec. 435(m)(2)(B) - A loan on which a payment is made by the school, such school’s owner, agent, contractor, employee, or any other entity or individual affiliated with such school, in order to avoid default by the borrower, is considered as in default for purposes of this subsection.
A. **Limiting Borrowing**: An institution may limit borrowing across all Direct Loan programs (Direct Subsidized, Direct Unsubsidized, Parent PLUS, Graduate PLUS) with different terms by program.

B. **Repaying Loans**: An institution may repay a student’s loans for any reason.

C. **Institutional Financing Option**: An institution may utilize both waivers to develop an institution designed & managed financing program for students.
A. Limiting Borrowing

• A participant may limit borrowing across all Direct Loan programs (Direct Subsidized, Direct Unsubsidized, Parent PLUS, Graduate PLUS).

• Limits may be the same across the board or varied by:
  o Academic program (informed by College Scorecard),
  o Credential level (e.g. degree or certificate), and
  o Year in the program (e.g. freshmen or sophomores).

• Institutions that limit borrowing on a case-by-case basis would need to follow existing regulations and could not otherwise set different terms within the same program.
B. Repaying Loans

• Participants may repay a student’s loans without triggering a default.

• Participants may wish to offer a “satisfaction guarantee,” incentives for progressing in their program, or other benefits to students.

• To avoid misuse of the waivers, participants will not be allowed to participate in the experiment if they have:
  • A cohort default rate above 30% in the past 3 years
  • Violations of the 90/10 provision in the past 3 years
  • A Composite Score of less than 1.0
  • Other criteria
C. Institutional Financing Options

• An institution may utilize both waivers to create a financing program for students designed and managed by the institution.

• Participants assume a student’s Federal student loan repayment obligation.

• Participants collect student payments and repay ED, as a lump sum or on a Standard, Graduated, or Extended repayment.

• Third-party investment and servicers allowed.

• Financing must provide unique benefits to students not available in the Direct Loan program.
**ED** provides a Direct Loan to a Student and signs revised PPA with an institution.

The **Student** signs the Direct Loan over to the institution and agrees to make payments to the institution.

The **Institution** provides the student with institutional financing and repays the Direct Loan to **ED**.
Protecting Students

- Discrimination based on race, national origin, religion, sex, marital status, age, or handicapped status is prohibited.
- Institutional financing program terms must adhere to all other applicable Federal or State laws that apply to consumer credit.
- Revised counseling must be appropriate to innovative financing models.
- Terms must apply equally to similarly situated students.
- Students must retain deferment, forbearance, and discharge rights.
- Direct Loan liability cannot be returned to the student, even if the institution closes.
- No unreasonable repayment terms can be established (such as unfair interest rates, fees, or other financing terms).
- The Secretary retains full discretion to reject unfair plans.
Institutions May Balance Their Investment and Risk

Direct Loan Funds + Institution/Private Contribution = Institutional Financing Option
Benefits of the Experiment

• Institution-led innovation, not another Federal financing program
• Taxpayer savings due to reduced default
• Student peace of mind: Institutions could offer one financial instrument, one affordable repayment, all costs covered
• Explore new institutional financing options for students
• Risk sharing without Congressional action, risk and reward
• Allow schools to limit debt
• Partnerships allow institutional financing to become lifelong learning accounts
• Revolving/evergreen funds so institutional aid goes further
How to Apply

• **Wait for Federal Register notice inviting letters of interest**
• The letter of interest must be on institutional letterhead and be signed by the institution’s president or chancellor.
• Provide institutional contact information and OPEID.
• Address the information contained in the notice including how waivers will be used and how any institutional financing programs will be structured.
• Submit applications before the deadline.
• Details in this presentation are subject to change.
• **Full instructions are included in the Federal Register notice.**
Questions and Answers

Michael Brickman
Senior Advisor
Office of the Under Secretary
Michael.Brickman@ed.gov
202-453-6364