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Risk-Sharing Proposals Harm Opportunity

The Problem

The College Cost Reduction Act, introduced in January 2024 by Rep. Virginia Foxx, is an attempt to overhaul the federal student loan system. Yet the bill proposes an especially punitive version of a policy proposal that has been discussed for over a decade: risk-sharing. The CCRA would require institutions to submit annual "risk-sharing" payments to the federal government in accordance with a share of debt held by former students who are delinquent on their loans or utilize loan relief programs. Risk-sharing assumes that colleges allow taxpayer-funded student aid to flow to students who are too "risky" for such an investment.

This risk-sharing scheme has been incorporated into the Republican reconciliation bill that cuts aid for working families to pay for tax cuts for billionaires. The reconciliation bill's risk-sharing approach differs slightly from the CCRA's because it also makes cuts to student loan repayment programs. Borrowers' use of student loan repayment and forgiveness programs is one of the variables used to calculate the risk-sharing fees institutions must pay. Consequently, the risk-sharing payment totals under the reconciliation bill will differ somewhat from the estimates made based on the CCRA. Unfortunately, at the time of this writing, no modeling or cost analysis has been released by the authors of the reconciliation bill.

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While there are some ways student loan repayment and earnings can be used to assess institutional effectiveness (for example, the AFT has been a longtime supporter of the gainful employment rule), the CCRA's risk-sharing model punishes students instead of supporting them.
Much like tariffs, there is a real risk of these fees being passed on to students in the form of higher costs and/or loss of access to education.

The CCRA's especially blunt version of risk-sharing poses a distinct risk to public service professions such as teaching and mental health counseling. The Institute for College Access and Success writes, "Our analysis shows that for public service fields like social work and teaching, lower pay—often determined by state and local governments and largely outside the control of colleges—would result in substantial liability for colleges offering these critical programs. Many colleges may seek to minimize this liability by limiting access to or even eliminating such programs."[1]

[1] "How the College Cost Reduction Act Could Threaten the Teacher Pipeline" (The Institute for College Access & Success, September 2024), https://ticas.org/affordability-2/how-the-college-cost-reduction-act-could-threaten-the-teacher-pipeline/.

As the nation's largest higher education union, we well know that workers in these fields, who are predominantly women, are not paid what they are worth. Yet there is no "accountability" proposal for this skewed labor market or even an attempt to credit colleges and universities for the huge social benefits these professions create.

Yet another analysis of the CCRA, by The Century Foundation, demonstrates the disastrous potential of risk-sharing to minority-serving institutions. It says that under the CCRA, "594 out of the 662 Title III and V institutions (90 percent) [have] to make a risk-sharing payment. Additionally, 358 of the MSIs that have to make risk-sharing payments will end up with a median overall loss of $511,692."[2] Historically Black Colleges and Universities that are 1890 land-grant institutions face especially steep penalties: "[T]he 19 HBCU 1890 land-grant universities will annually experience a $1.7 million loss of revenue due to risk-sharing. In other words, on average, the financial impact on a full-time student attending an 1890 institution will be a $422 loss of aid due to risk-sharing."[3] The fact that institutions established to provide Black students with equal access to high-quality agricultural science programs are considered especially risky **is the clearest example of the CCRA's backward policy that redistributes federal funding away from the public good. The CCRA is either deliberately embracing or ignoring the problem of further stratifying higher education into haves and have-nots.**

Potential Solutions

The Accelerated Study in Associate Programs at the City University of New York is a great example of a program that supports instead of punishes. ASAP knocks down barriers for students by providing block scheduling, intensive advising and tutoring, a MetroCard, free textbooks and a grant that lowers tuition to zero. The three-year graduation rate for this program has risen to 40 percent; enrollment in bachelor's degree programs is up as well. Although all of this comes at a cost of only about $4,000 per student, ASAP must struggle each year to find state, local and philanthropic investments to keep the program running.

Other risk-sharing policy proposals have recognized the range of higher education institutions in the United States. Former Sen. Lamar Alexander of Tennessee released a white paper on risk-sharing in 2015 that inspired a great deal of conversation in policy circles, including a series of research papers on higher education risk-sharing commissioned by the Center for American Progress. Two of these papers stand out as having meaningfully grappled with the complexity of applying risk-sharing fees over a vast and diverse country: "A Flexible Risk Retention Model for Federal Student Loans," by Barmak Nassirian and Thomas L.

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[2] Denise A. Smith, "The College Cost Reduction Act Would Be Harmful to HBCUs, MSIs, and Their Students," The Century Foundation, February 18, 2025, https://tcf.org/content/commentary/the-college-cost-reduction-act-would-be-harmful-to-hbcus-msis-and-their-students/.

[3] Smith, "The College Cost Reduction Act Would Be Harmful to HBCUs, MSIs, and Their Students."

Harnisch of the American Association of State Colleges and Universities , and "Designing and Assessing Risk-Sharing Models for Federal Student Aid," by Nicholas W. Hillman of the University of Wisconsin-Madison.[4][5] While neither proposal is perfect, both represent a good faith effort that is lacking in the CCRA proposal.

Another approach is to take a closer look at the time students spend in college. Instructional spending is one metric that can help students and policymakers alike estimate the educational value being provided to students, or, as The Century Foundation's online calculator puts it, the "bang for your tuition buck."[6] Instead of focusing on a particular output of higher education, such as loan repayment, instructional spending looks at a critical input that varies considerably across institutional type, geography and modality. Instructional spending provides important transparency to students who may struggle to parse what resources are directed to their actual education, especially in a large university with multiple missions. Instructional spending can help policymakers diagnose the reason for troubling outputs and better prepare students for their next stage of life. The National Center for Education Statistics' current Integrated Postsecondary Education Data System has some limitations when it comes to tracking instructional spending, and the tracking of critical services that help students succeed, such as academic advising, is even murkier,[7] but such metrics are critical when assessing the value of college.

<u>Conclusion</u>

Risk-sharing, especially the punitive and without-context vision put forward in the CCRA, is a serious threat to opportunity. Higher education has long been one of the strongest paths to the middle class in the United States. Instead of focusing on the very real problems in higher education that sometimes result in students not being able to make their student loan payments, risk-sharing encourages colleges to view students with suspicion to protect their budgets. The consequences will be particularly dire for critical public service

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[4] Barmak Nassirian and Thomas L. Harnisch, "A Flexible Risk Retention Model for Federal Student Loans" (American Association of State Colleges and Universities, 2016), https://www.luminafoundation.org/files/resources/A.Flexible.Risk.Retention.Model.pdf

[5] Nicholas W. Hillman, "Designing and Assessing Risk-Sharing Models for Federal Student Aid" (University of Wisconsin-Madison, 2016), https://www.luminafoundation.org/files/resources/Designing%20and%20Assessing%20Risk-Sharing%20Models.pdf.

[6] Stephanie Hall, "How Far Does Your Tuition Dollar Go?" The Century Foundation, January 14, 2022, https://tcf.org/content/commentary/how-far-does-your-tuition-dollar-go/.

[7] John J. Cheslock, "Examining Instructional Spending for Accountability and Consumer Information Purposes," The Century Foundation, February 28, 2019, https://tcf.org/content/report/examining-instructional-spending-accountability-consumer-information-purposes/.

careers that help our communities thrive. Policymakers must reject this framework and focus on real solutions for higher education access and affordability.