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Colleges Should Cosign Student Loans

> Risk sharing is coming, argues Carlo Salerno, and Congress can improve accountability by obligating colleges to help repay the debt they ask students to take on.

By Carlo Salerno

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More than 16 million students are enrolled in the nation's higher education institutions today. But only about 60 percent will walk away with a degree, and more than half will leave college with an average of over $33,000 in federal student loan debt. We know that many borrowers, graduates or not, will struggle to find career-based employment. We also know millions of them will, at some point, end up delinquent or in default on their loan debt.

Such statistics have frustrated scholars and policy makers to the point that institutional risk sharing -- financially incentivizing or penalizing colleges for student outcomes -- is one of the few things a hyperdivided Congress has seemed to find agreement around, even if the "how" part lacks similar consensus.

New ideas are warranted, and sometimes we miss the simple ones hiding right under our noses. Risk sharing is inevitable, and Congress can use the opportunity to radically alter the way American higher education does business. How? By just requiring colleges and universities that participate in

the federal government’s Title IV aid program to cosign the student loans that they expect their students to take out.

The premise is simple. Colleges and universities should maintain reasonably priced academic programs that don’t overload students with debt and help them secure career-related employment. If not, they will be contractually obligated to step in and help repay part of the loans that they induced those students to take on to begin with.

Where skin in the game is the objective, this may be the government’s most effective lever. Practically no institution can afford to not give their students access to federal grant and loan dollars. A single industrywide metric also means no sector or institution type would be unaccountable, and since these are federal loans, institutions wouldn’t be able to selectively pick which loans they would and would not be on the hook for.

It is an idea with the potential to reshape everything from how institutions train students to how the sector’s financed to how best we can align training with employers’ 21st-century work-force needs.

Students would benefit from all kinds of new academic and career support services, as colleges would be incentivized to help graduates and dropouts alike find and secure well-paid employment. It would drive institutions to actively flag students who may be struggling and direct resources toward helping them get over the finish line in the least time and at the lowest cost. Again, every dollar of potentially wasteful or unnecessary spending is a dollar that institutions could potentially find themselves on the hook for later.

For Congress and the U.S. Department of Education, making colleges and universities cosigners streamlines the mess student loan servicing has

become. The whole purpose of cosigners is to ensure the debt gets repaid, which means defaults technically should go to zero. What's more, institutions would be strongly incentivized to keep track of those students who leave -- the difficult and expensive skip-tracing part of today's loan servicing. They would also be encouraged to actively work to ensure former student borrowers were aware of, and successfully got into, loan repayment plans that minimized the chance that payments would be missed.

In the absence of having to track down or force distressed defaulters to pay up, several billion dollars that the Department of Education spends on default collection activities would go away almost overnight.

A policy like this clearly requires give and take. No institution would absorb all that added financial liability without wanting to become more selective about whom they admit. The notion of taking a chance on promising low-income students, for example, could become a much harder philosophy to follow.

There would also be operational trade-offs. Institutions would rightly expect more flexibility to vary degree and certificate course requirements -- think three-year bachelor's degrees -- and definitely want greater control over how much federal student loan money their students could take on. The burden of paying for living costs would almost certainly shift to being financed by private loans and other family resources.

The impact and effects would also differ by sector. Open-admissions institutions like public community colleges would surely resist, although many already balk at letting their students take out federal student loans. At the same time, a change could disproportionately force a large swath of private nonprofit colleges with low enrollments, not very selective admissions policies

and high tuition discount rates to either retool completely or potentially close up shop.

Again, however, these are trade-offs, and none are necessarily insurmountable. States concerned that their public institutions would be driven to limit access to low-income students could shield those institutions by increasing state appropriations or need-based grant aid to reduce both total borrowing and repayment risk exposure. What's more, the federal government could further reduce low-income student borrowing by shifting dollars saved from loan servicing into larger per-student Pell Grant awards.

The two biggest worries -- first, borrowers willing to just let their payments lapse, and second, institutions becoming reluctant to take on low-income students -- are both solvable. As to the former, it's as easy as making institutions only responsible for covering a percentage of the debt, rather than the total balance. Concerns about access will be mitigated by the fact that colleges and universities wouldn't pay full price for losses but instead end up buying private insurance at a fraction of that cost to cover potential losses. A side benefit? The premiums charged to colleges would end up making terrific market signals of institutional quality.

A policy like this can be designed in a variety of practical ways to ensure the risks of failure get shared appropriately between students and higher education providers. The key point is that the federal government already has the levers it needs to ensure student financial success, raise completion rates and incentivize training that aligns with labor market needs. What Congress should do now is simplify and realign its student loan program so that everyone that program benefits also ends up being accountable for it.

Bio

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