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1111 Franklin Street
Oakland, California 94607-5200
Phone: (510) 987-9074
Fax:(510) 987-9086
http://www.ucop.edu

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The Honorable Arne Duncan
The Honorable Eric H. Holder, Jr.
The Honorable Eric K. Shinseki
The Honorable Jack Lew
Director Cecilia Muñoz
Director Richard Cordray

Dear Colleagues:

As you know, President Obama has asked higher education leaders to bring him ideas about education reform. On behalf of the ten campuses and the nearly 230,000 students at the University of California, I write to recommend the federal government convene an interagency working group to explore ways to increase accountability for the federal student aid dollars received by *all* participating institutions, including public and private universities, and for-profit and non-profit colleges.

Officials from the White House, the U.S. Departments of Education, Treasury, Justice, and Veteran Affairs, as well as representatives from the Consumer Financial Protection Board, the Federal Trade Commission and others, should investigate and develop comprehensive policies that will realistically protect students, expand opportunities for educational success, and save federal dollars that can be used to provide additional aid to deserving students.

Special attention should be directed to the institutions that have low graduation rates and high student loan default rates. For example, students who attend for-profit colleges represent only ten percent of the total postsecondary population, but they receive approximately 25 percent of total Department of Education student aid funds. In addition, those ten percent account for nearly half of all student loan defaults. Twenty-two percent of students enrolled in for-profit colleges will default within three years. In comparison, the default rates for UC's campuses are among the lowest in the country. UC's three-year loan default rate is 3.9 percent.

It is time to target the federal government's efforts where they can do the most good. Instead of a broad "gainful employment" rule, an interagency working group could propose actions under existing authority without new rules and/or legislation that would allow the federal government to take more immediate and effective steps to preserve and protect our nation's student financial aid system. Drawing upon the best practices in California and emerging across the country, the working group could:

- Utilize metrics that take full advantage of information that higher education institutions already provide federal agencies on a regular basis. This includes expanded data the federal government has as a result of requiring schools to monitor individual limits on Pell Grants and subsidized student loans, as well as quarterly reconciliation statistics that could be used to create a "loan-repayment rate" that is difficult to manipulate.
- Investigate the use of current cohort default rates together with the percent of enrolled students borrowing, as California is doing (described below), to identify and curtail abuses in the short run, and to suspend institutional participation at schools with high cohort default rates.
- Analyze and publicize information that can be derived from the minimal "gainful employment" thresholds that were originally devised for Higher Education Act Title IV participation.
- Develop policies and guidance that would end the flow of federal taxpayer dollars to institutions where students have high student loan debt and little prospect of repaying what they owe, and instead assure that federal dollars support students who are enrolled in successful programs and institutions.
- Explore ways to improve outreach efforts to specific populations, including veterans, to ensure they have relevant information about institutional accountability and how their military and veterans benefits coordinate with student financial aid.

A new standard recently implemented in California demonstrates that it is possible to improve the effectiveness of publicly-funded student aid programs using information schools already provide, and to do so in a practical and meaningful way.

In the 2011-12 State budget, the California State Legislature adopted tightened eligibility standards for colleges participating in the Cal Grant program, the State's need-based educational aid program. The new standards require institutions, where at least 40 percent of enrolled students borrow student loans, to have a six-year graduation rate of at least 30 percent and a federal three-year cohort loan default rate of less than 15.5 percent in order to participate in the Cal Grant program. The State Legislative Analyst's Office (LAO) reported that 80 percent of California's for-profit colleges (154 schools) were disqualified from participating in the Cal Grant program under the new State standards, even though most continue to be eligible for the federal student aid programs. This resulted in a savings of $50 million and protected students by reducing the financial incentives to enroll in institutions that were disqualified from the Cal Grant program. The LAO suggested improvements to the participation rules, including the use of a Loan-Repayment Rate (LRR) and a debt-to-income ratio to gauge school performance (instead of a cohort default rate that can be easily manipulated) and a recommendation that the 30 percent six-year graduation rate be implemented for all participating Cal Grant schools.

The new standards implemented in California easily apply to federal financial aid programs and, if implemented, would improve college outcomes for students. Following the results in California, low-income students, who may be eligible for educational support, are more likely to enroll in institutions where student loan default rates are lower and where completion and graduation rates are comparatively higher. Implementing new standards, parallel to those set in California, would directly align with President Obama's higher education initiatives to improve accessibility, affordability, and accountability.

I am committed to working with you to protect students and the federal investment in student aid. I appreciate your consideration of these immediate recommendations, and I pledge my time and support to help meet our mutual longer-term goals for maintaining the U.S. position as the world leader in higher education excellence.

Yours very truly,

Janet Napolitano
President

cc: Members, Federal Trade Commission