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Will Higher Education Prosper from the PROSPER Act?

HIGHER EDUCATION, NOT-FOR-PROFIT
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Last week, while most Americans were following Congress' latest actions on tax reform, the U.S. House of Representatives Committee on Education and the Workforce issued a sweeping proposal that will have broad implications on higher education. The PROSPER Act, or Promoting Real Opportunity through Education Reform Act, is aimed at promoting innovation, access, and completion; simplifying and improving student financial aid; empowering students and families to make better-informed decisions; and ensuring strong accountability from institutions of higher education.

The proposed PROSPER Act will have broad implications to higher education as it is currently written. The proposed Act will both eliminate several current provisions, as well as significantly overhaul the current Federal Student Financial Aid System. The significant provisions being eliminated are:

- Public Service Loan Forgiveness – The current Public Service Loan Forgiveness program forgives federal student loans for borrowers who are employed full-time in an eligible public service job who make 120 eligible on-time payments over 10 years. Since its inception in 2007, over 600,000 borrowers have signed up for the program.
- 90/10 Rule – Under current rules, for-profit institutions cannot receive more than 90% of their revenue from Title IV (Federal student financial aid programs) aid.
- Gainful Employment Rule – This current rule set minimum thresholds for graduates of for-profit institutions to meet certain debt-to-income ratios. In addition, the act prohibits any future Education Department Secretary form issuing new regulations related to gainful employment, the definition of a credit hour, or from creating an institutional rating system.
- Federal State Authorization for distance education – Under current rules, an institution is required to obtain approval of each state where they serve students. Under the PROSPER Act, institutions will only be required to demonstrate approval in each State in which it maintains a physical location.

The PROSPER Act's provisions will create significant changes to the Federal Student Financial Aid Programs. The Act aims to encourage innovation, and flexibility, as well as career and vocation programs. Some of the significant provisions are:

- Pell Program – The bill would create an additional Pell award option through which students who take 15 or more credits per semester would receive an additional $300 in Pell dollars per award year.
- Federal Work Study – The PROSPER Act will increase available Federal Work Study grants

for undergraduates by phasing out graduate student eligibility. In addition, the Act proposes a new Apprenticeship Grant program, which will focus on business to institution partnerships, and will provide access to Pell Grants for students who are pursuing certificate or vocational programs.

- Consolidation of Financial Aid Model – The Act will move to a “one grant, one loan” model, which could eliminate subsidies for certain programs. The Direct Loan program will be replaced with the Federal ONE Loan Program, effective July 1, 2019.
- Changes to Student Loan Repayment – Student loan repayment options will be limited to only two options: a standard 10-year plan and an income-driven plan. Under current income-driven payment plans, after 20 or 25 years, borrowers would qualify for forgiveness, but the PROSPER act would be eliminate forgiveness. Interest payments however, will be capped after 10 years under the proposal
- Borrowing Limits – The PROSPER Act limits the amount of federal student loans undergraduates can borrow to $39,000 and limits the amount graduate students could borrow to $150,000. Borrowers in certain medical programs, however, will be eligible to take out more loans. Parents of students will be eligible to borrow $12,500 per student per year.
- Risk Sharing – Under the bill, the percentage of federal financial aid earned would be based on a quarterly assessment versus the current day-by-day assessment. The amount of aid earned would be based on only percentages of zero, 25%, 50%, and 75% of aid, depending on withdrawal date. In addition, institutions will be 100% responsible for student withdrawals through the first 25% of their payment period, thus introducing an element of risk sharing to institutions. In addition is a proposed elimination of the cohort default rate metric, which measures the rate of default within the first two years, in favor of a program-level repayment rate. Also, programs would be penalized if their three-year repayment rates fell below 45%, and would no longer be eligible for Federal grants and loans.

As you would expect, the PROSPER Act, has both proponents and critics. Critics argue that the bill ultimately benefits for-profit institutions by eliminating standards previously set. Critics of the bill are also concerned about the removal of existing subsidies for existing programs, and the borrowing limits established under the proposed act. Proponents of the bill argue that the Act will create more innovation in higher education, as well as address the overall affordability of higher education. In addition, proponents believe that this will help limit the overall responsibility that the U.S. government will have to fund higher education. No matter what side you are on, it is clear that institutions of higher education need to continue to monitor the PROSPER Act and its proposed changes, as they promise to be significant and have an immediate impact on Federal financial aid programs.

For the latest on the PROSPER Act, follow the Committee’s page: https://edworkforce.house.gov/prosper/

For more information on the potential impact of the PROSPER Act, please contact Schneider Downs.

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