Plymouth Institute for Free Enterprise

Make Colleges Share Student Loan Risk

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TOPLINE: Congress should require universities to share in the losses on the degrees they sell and stop lending taxpayer money for degrees that don't pay off.

BACKGROUND: Congress has turned the federal government into one of the largest lending institutions in the U.S. and has cornered the market on student lending for higher education. However, this has created an environment where universities often game these subsidies and pad their own finances at taxpayer expense while bearing none of the loan default risk. This has reduced incentives for students to pursue the most worthwhile degrees and left many students with crippling debt. A New York Fed staff report estimates that about 60 cents of each additional subsidized-loan dollar is absorbed into tuition.

Action Items (Congress):

- **Universities should be required to share the risk on federal student loans** and be liable for some of the default risk for degrees they offer while also working to **wind down federal subsidization of student loans altogether**.
- **A clear and practical national framework should be created for income sharing agreements (ISA).**
    - While ISAs are legal, they face tremendous regulatory uncertainties that make them largely impractical today. A clear national framework would allow students to work with universities, financial institutions, and other firms to exchange shares of future earnings for the immediate ability to finance their education without having to take on large debts.

How It Would Make Life More Affordable:

- Universities that share in losses have a direct financial stake in whether their programs pay off. They would stop viewing subsidized loans as free money regardless of whether they adequately serve their students. This would direct students to the best degrees and boost long-run earnings for students.
- Practical ISAs would give students more options to finance higher education and would allow them to do so without having to take on prohibitive levels of debt before they enter the workforce.
- These reforms would remove the spigot that has allowed universities to ramp up higher education costs at taxpayer expense.

Related Legislation: College Cost Reduction Act (H.R. 6951 [118th Congr.]); ISA Student Protection Act of 2023 (S. 136 [118th Congr.]).

BOTTOMLINE: Taxpayers have been forced to fund universities that have inflated costs and lack incentives to ensure degrees are worthwhile. Universities should be required to bear some of the risk of default, and students should have access to practical ISAs to give them more control over their own future.