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HIGHER EDUCATION

Opportunities to Strengthen Federal Accountability

Statement of Melissa Emrey-Arras, Director,
Education, Workforce, and Income Security

GAO-19-484T

GAO Highlights

Highlights of GAO-19-484T, a testimony before the Subcommittee on Higher Education and Workforce Investment, Committee on Education and Labor, House of Representatives

April 2019

HIGHER EDUCATION

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Why GAO Did This Study

In fiscal year 2018, nearly 13 million students and their families received over $122 billion in federal assistance to help them pursue higher education through programs authorized under Title IV of the Higher Education Act of 1965, as amended. Education administers these programs, and is responsible, along with accreditors and states, for maintaining accountability and protecting the federal investment in student aid for higher education.

This testimony summarizes the findings and recommendations from GAO's prior reports, issued between 2014 and 2018, examining Education's role in: (1) recognizing accrediting agencies, (2) overseeing the financial condition of schools, and (3) overseeing schools' student loan default rates. This statement also updates the status of selected recommendations and a matter for congressional consideration.

View GAO-19-484T. For more information, contact Melissa Emrey-Arras at (617) 788-0534, or emreyarrasm@gao.gov.

What GAO Found

GAO has identified opportunities to strengthen federal higher education accountability in three areas: educational quality, financial stability, and federal student loan defaults.

Educational quality. Accreditors—independent agencies responsible for ensuring that schools provide a quality education—must be recognized by the Department of Education (Education) as reliable authorities on educational quality. The accreditors can issue sanctions, including terminations and probations, to schools that do not meet accreditor standards. However, GAO previously found that schools with weaker student outcomes were, on average, no more likely to be sanctioned by accreditors than schools with stronger student outcomes, and Education does not make consistent use of sanction data that could help it identify insufficient accreditor oversight. In 2014, GAO recommended that Education use accreditor data in its recognition review process to determine whether accreditors are consistently applying and enforcing their standards to ensure schools provide a quality education. Education agreed with the recommendation, but has yet to use this data in this manner.

Financial stability. Education uses a financial composite score to measure the financial health of schools participating in federal student aid programs, and increases its oversight of schools when it identifies concerns to protect against the risk of school closures. School closures, although rare, can result in hundreds of millions of dollars in unrepaid federal student loans and displacement of thousands of students. However, the composite score has been an imprecise risk measure, predicting only half of closures from school years 2010-11 through 2015-16. This is due in part to the fact that the composite score does not reflect changes in accounting practices and standards, relies on outdated financial measures, and is vulnerable to manipulation. Despite these limitations, Education has not updated the composite score since it was first established more than 20 years ago. In 2017, GAO recommended that Education update its financial composite score. Education has proposed some revisions, but changes have not yet been implemented to protect students and taxpayers against financial risks.

Student loan defaults. According to federal law, schools may lose their ability to participate in federal student aid programs if a significant percentage of their borrowers default on their student loans within the first 3 years of repayment. However, GAO previously found that some schools managed these default rates by hiring consultants that encouraged borrowers with past-due payments to put their loans in forbearance, an option that allows borrowers to temporarily postpone payments and bring past due loans current. Although Education officials and student loan experts said forbearance is intended to be a short-term option, GAO's analysis of Education data found that 20 percent of borrowers who began repaying their loans in 2013 had loans in forbearance for 18 months or more. These borrowers defaulted more often in the fourth year of repayment, when schools are not accountable for defaults, suggesting long term forbearance may have delayed—not prevented—default. In 2018, GAO suggested that Congress consider statutory changes to strengthen schools' accountability for student loan defaults. Legislation has not yet been enacted.

Chairwoman Davis, Ranking Member Smucker, and Members of the Subcommittee:

I am pleased to be here today to discuss the federal government's role in ensuring accountability in higher education. In fiscal year 2018, nearly 13 million students and their families received over $122 billion in federal assistance to help them pursue higher education through programs authorized under Title IV of the Higher Education Act of 1965, as amended (Higher Education Act).[1] The Department of Education (Education) administers these programs, and is responsible with the rest of the "triad"—school accreditors and states—for maintaining accountability and protecting the federal investment in higher education. Among Education's responsibilities, which are specified in the Higher Education Act and related regulations, are recognizing accreditors determined to be reliable authorities on educational quality, determining which schools are financially responsible and can participate in federal student aid programs, and ensuring that participating schools comply with related laws, regulations, and policies. However, recent news reports about students attending low quality schools, an increasing number of schools closing due in part to financial difficulties, and the substantial amount of student loans in default have raised questions as to whether this existing accountability system is sufficient for protecting students and taxpayers.

Drawing on our prior work on ensuring accountability in the higher education system, my remarks today address Education's role in (1) recognizing accrediting agencies, (2) overseeing the financial condition of schools, and (3) overseeing schools' student loan default rates. My testimony is based on our prior reports on these topics issued between 2014 and 2018 and cited throughout this statement. We used multiple methodologies to develop the findings, conclusions, and recommendations for these reports. A more detailed discussion of the objectives, scope, and methodologies, including our assessment of data reliability, is available in each report.

The work upon which this statement is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

[1] Pub. L. No. 89-329, 79 Stat. 1219, 1232, codified as amended at 20 U.S.C. §§ 1070-1099d.

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Education's Oversight of Accreditation

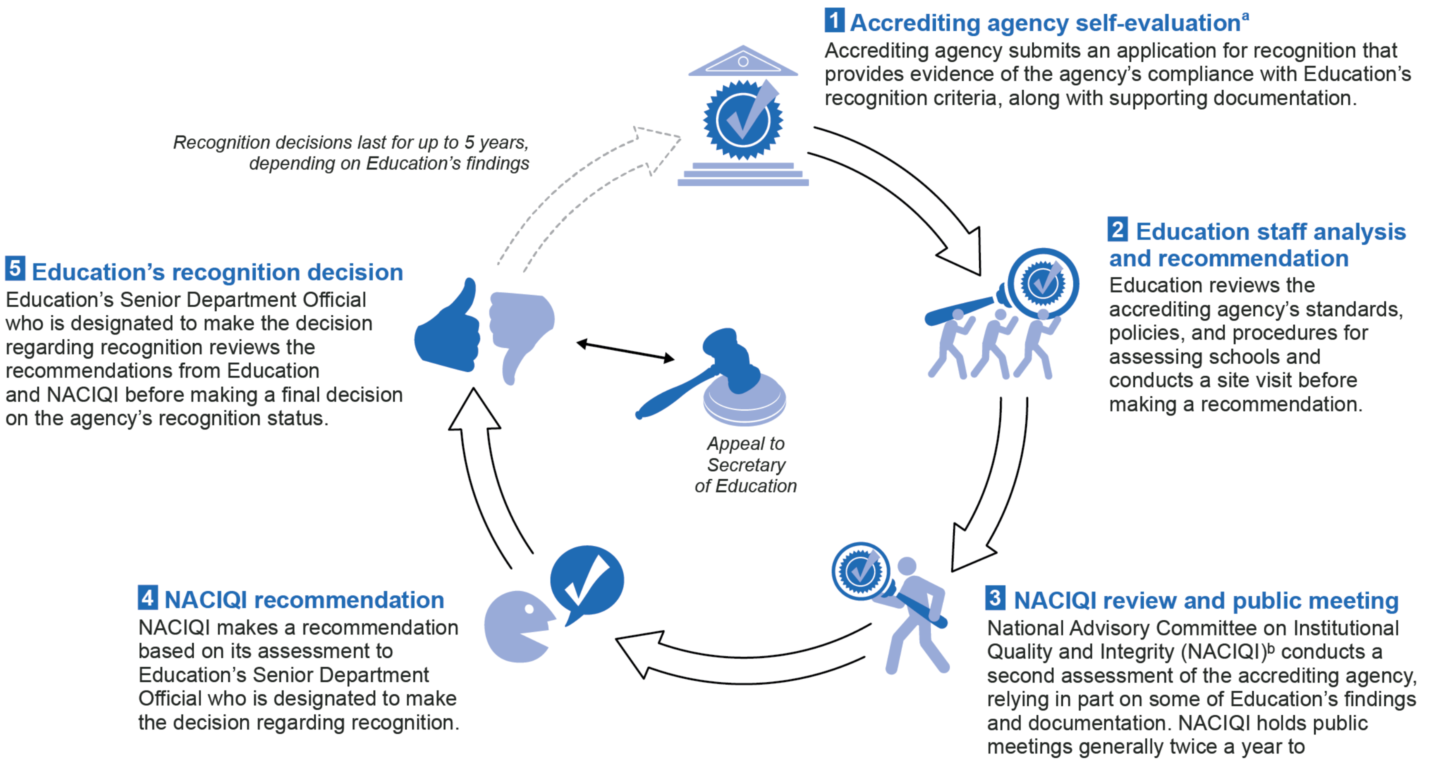
The primary purpose of accreditation is to help ensure that schools provide a quality education to students. Accrediting agencies, also known as accreditors, are generally nongovernmental, nonprofit entities that work with Education and states as part of the "triad" that oversees postsecondary schools participating in federal student aid programs. The Higher Education Act and Education's regulations require accreditors to meet certain criteria and have certain operating procedures in place to be "recognized" by Education as reliable authorities on assessing academic quality (see fig. 1).[2] Accreditors must have their recognition renewed by Education at least every 5 years.[3] To recognize an accrediting agency, Education officials and the National Advisory Committee on Institutional Quality and Integrity (NACIQI), which advises the Secretary of Education on accreditation issues, review among other things whether the accreditor applies its own standards, policies, and procedures when they accredit schools.[4]

[2] 20 U.S.C. § 1099b(a), (c); 34 C.F.R. pt. 602. Education is required to publish a list of accrediting agencies that the Secretary recognizes as reliable authorities on the quality of education or training provided by the schools they accredit. 20 U.S.C. § 1001(c).

[3] See 20 U.S.C. § 1099b(d).

[4] NACIQI advises the Secretary of Education on matters related to postsecondary accreditation and the eligibility and certification process for postsecondary schools to participate in federal student aid programs. NACIQI is comprised of 18 members. The Secretary of Education appoints six members, and the leaders of both the House of Representatives and the Senate each appoint six members. NACIQI members are appointed on the basis of, among other things, their technical qualifications, professional standing, and demonstrated knowledge in the fields of accreditation and administration in higher education. 20 U.S.C. § 1011c.

Figure 1: Education's Process for Recognizing Higher Education Accrediting Agencies



Source: GAO analysis of information from the Department of Education and relevant federal law and regulations. | GAO-19-484T

[a] Recognition Process: 34 C.F.R. Part 602, Subpart C.

[b] NACIQI advises the Secretary of Education on matters related to postsecondary accreditation and the eligibility and certification process for postsecondary schools to participate in federal student aid programs. The House of Representatives, the Senate, and Education each appoint six of NACIQI's 18 members. NACIQI members are appointed on the basis of, among other things, their technical qualifications, professional standing, and demonstrated knowledge in the fields of accreditation and administration in higher education. 20 U.S.C. § 1011c.

While Education is required to determine whether accrediting agencies have standards for schools in certain areas, such as student achievement and curricula, before recognizing them, the accrediting agencies are responsible for evaluating member schools to determine if they meet the accreditors' standards. The specific standards that accreditors develop in these areas can differ, and accreditors may also establish additional standards in areas not required by law.[5] When schools do not meet

[5] 20 U.S.C. § 1099b(g).

accreditor standards, accrediting agencies may impose sanctions, such as placing a school on probation or terminating the school's accreditation.

Education's Oversight of College Finances

Education conducts annual reviews of the financial condition of all schools participating in federal student aid programs to determine if they are financially responsible, based on criteria and processes established in federal law and regulations.[6] The specific financial responsibility standards that apply to each school depend on the school's ownership type, and the bulk of Education's financial oversight efforts focus on private nonprofit and for-profit schools.[7]

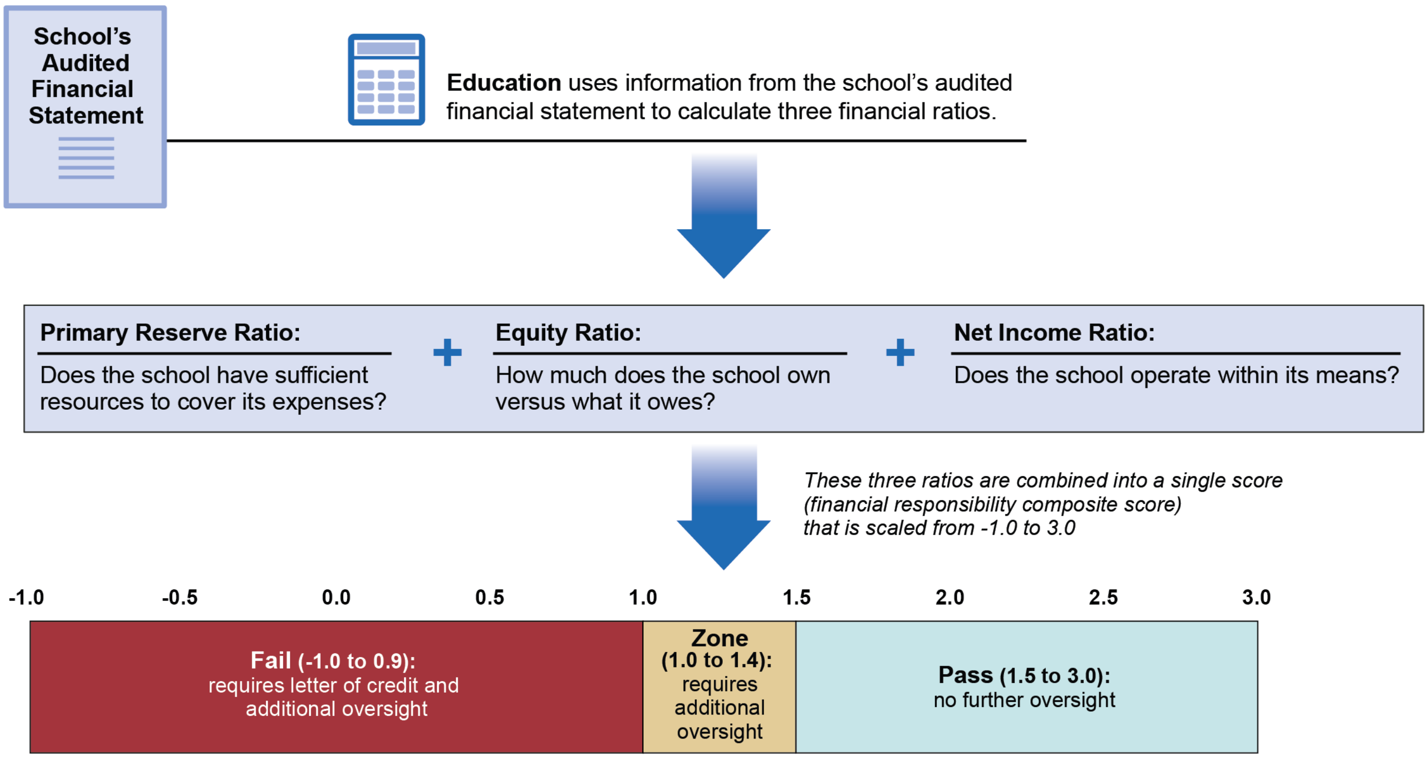
One key financial responsibility standard that Education uses to assess nonprofit and for-profit schools is a financial composite score that is calculated for each school based on items drawn from the school's audited financial statements. The composite score—a metric for evaluating a school's financial condition—uses a formula based on three financial ratios.[8] A passing score is 1.5 to 3.0; a "zone" score is from 1.0 to 1.4, and a failing score is from -1.0 to 0.9. (See fig. 2)

[6] See 20 U.S.C. § 1099c(c); 34 C.F.R. §§ 668.15, 668.171 – 668.175, and apps. A-B.

[7] We previously reported that public schools are not required to meet some of the financial responsibility standards that apply to nonprofit and for-profit schools if they demonstrate that their liabilities are backed by the full faith and credit of a state or other government entity, but that public schools must still submit financial statements to Education and meet other standards.

[8] Education uses slightly different formulas when calculating these ratios for nonprofit and for-profit schools. See 34 C.F.R. § 668.172 and appendices A - B.

Figure 2: Summary of Education's Annual Calculation of a Financial Responsibility Composite Score for Schools Participating in Federal Student Aid Programs



Source: GAO analysis of Department of Education information. | GAO-19-484T

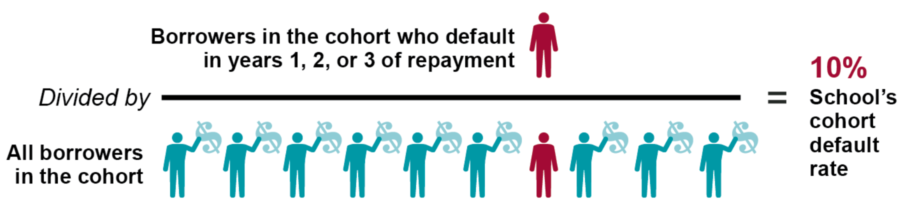
Notes: Education uses slightly different formulas when calculating these ratios for nonprofit and for-profit schools. See 34 C.F.R. § 668.172 and appendices A - B. Education does not typically calculate a composite score for public schools.

Schools that receive a zone or failing composite score, or do not meet one or more of the other financial responsibility standards, may continue to participate in federal student aid programs if they agree to additional oversight. Education may place these schools under heightened cash monitoring (increasing schools' reporting requirements and postponing the timing for receiving federal student aid payments), or require schools to post a letter of credit (a financial commitment from a bank to protect Education against potential liabilities should the school close), or a combination of the two.

Education's Oversight of School Default Rates

Education may rescind a school's ability to participate in federal student aid programs if a significant percentage of its borrowers—generally, 30 percent or more of borrowers for 3 consecutive years or more than 40 percent in 1 year—default on their federal student loans within the first 3 years of repayment. This calculation is called the cohort default rate. To compute a school's cohort default rate, Education divides the number of student loan borrowers in a cohort—those entering repayment in the same fiscal year—who have defaulted on their loans in the initial 3 years of repayment by the total number of a school's student loan borrowers in that cohort (see fig. 3).[9] The cohort default rate does not hold schools accountable for borrowers who default after the initial 3 years. Borrowers in deferment and forbearance—options that allow borrowers to temporarily postpone monthly payments— are considered to be "in repayment" and current on their loans for the purpose of calculating a school's cohort default rate, even though borrowers in these loan statuses are not expected to make any monthly payments.[10]

Figure 3: Example of Calculation of School Cohort Default Rate for Federal Student Loans



Source: GAO analysis of Department of Education information. | GAO-19-484T

Note: For the cohort default rate calculation, a cohort includes borrowers who enter repayment in the same fiscal year. For example, the 2015 cohort includes borrowers who enter repayment in fiscal year 2015 (October 1, 2014 to September 30, 2015).

[9] Repayment generally refers to the period in which borrowers are responsible for repaying their loan(s). Repayment typically begins after a 6-month grace period after a student graduates, drops below half-time enrollment, or leaves school. Cohort default rates are based on the number of borrowers who enter repayment in a given fiscal year; a borrower with multiple loans entering repayment in the same fiscal year from the same school will be included in the formula only once.

[10] Under deferment, the interest generally does not accrue on subsidized loans, but it continues to accrue on unsubsidized loans. Eligible borrowers can also postpone or reduce loan payments through either a general or mandatory forbearance; however, interest on the loan continues to accrue in each type. Most borrowers choose general forbearance, which, unlike most types of mandatory forbearance and deferment, can be issued by their loan servicer over the phone with no supporting documentation.

Education Does Not Use Available Data to Identify Weaknesses in Accreditor Oversight of Schools' Academic Quality

We have previously reported on a number of challenges with the accreditation system's oversight of academic quality. Although Education is prohibited from specifying the specific content of accreditor standards, the agency is responsible for assessing whether accreditors are effectively overseeing schools' academic quality as part of their criteria for recognizing accreditors. Our 2014 analysis found that schools with weaker student outcomes were, on average, no more likely to be sanctioned by accreditors than schools with stronger student outcomes, and that the proportion of their member schools that accreditors sanctioned varied.[11] For example, our analysis of Education's sanction data from October 2009 through March 2014 found that two accreditors sanctioned less than 2 percent of their member schools during this time frame, compared to 41 percent sanctioned by another accreditor. Our 2017 report also discussed challenges with the accreditation system's oversight of academic quality.[12] For example, some experts and literature stated that accreditors may be hesitant to terminate schools' accreditation when they identify issues because such action would adversely affect schools' eligibility for federal student aid programs.

Despite inconsistencies in accreditors' use of sanctions, our 2014 report found that Education did not systematically examine data on accreditor sanctions that could have helped it identify insufficient accreditor oversight and thereby reduce potential risk to students and federal funds. Accreditors provide Education with records of terminations and probations.[13] However, Education officials told us that they had not used this sanction information for oversight of accreditors because Education's regulations did not have specific criteria that require them to do so. While Education is not required to use sanction data or analyze accreditor sanctions as part of the accreditor recognition process, we found that it could be useful for Education to consider these data when evaluating whether accreditors meet prescribed criteria, such as whether they consistently apply and enforce standards. Federal internal control standards call for federal agencies to track data to help them make

[11] GAO, *Higher Education: Education Should Strengthen Oversight of Schools and Accreditors*, GAO-15-59 (Washington, D.C.: Dec. 22, 2014).

[12] GAO, *Higher Education: Expert Views of U.S. Accreditation*, GAO-18-5 (Washington, D.C.: Dec. 22, 2017).

[13] Accreditors are required to notify Education of all terminations and probations that they issue. 20 U.S.C. § 1099b(a)(7).

decisions, as well as conduct ongoing, consistent monitoring to identify weaknesses.[14] Since accreditors are gatekeepers for tens of billions of dollars in federal student aid from Education, as well as the key oversight bodies for ensuring academic quality at schools, we found that failure on the part of Education to spot weaknesses in accreditors' processes could result in poor quality schools gaining access to federal funds.

To strengthen Education's oversight of accreditors, we recommended in 2014 that Education draw upon accreditor data to determine whether accreditors are consistently applying and enforcing their standards to ensure that the education offered by schools is of sufficient quality.[15] For example, Education could systematically use available information related to the frequency of accreditor sanctions or could do additional analyses, such as comparing accreditor sanction data with Education's information on student outcomes, to inform its recognition reviews. Education agreed with this recommendation and initially started to track the number of accreditor sanctions issued by each accrediting agency. However, Education has since questioned the usefulness of this information and has not yet used this sanction data to inform its discussions of accreditor recognition and oversight. We continue to believe that implementing the recommendation could help inform Education's reviews of accreditors and ultimately reduce potential risk to students and federal funds. For example, analyses of accreditor sanction data could help reveal patterns in individual accreditor behavior and the extent to which they are consistently enforcing standards. This recommendation remains open and we will continue to monitor Education's efforts in this area.

[14]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sep. 10, 2014).

[15]GAO-15-59

Limitations in Education's Financial Oversight Metric Hinder Its Ability to Identify At-Risk Schools

Holding schools accountable for their financial condition can help protect taxpayers and students against the risk of school closure, but the limitations of Education's financial composite score hamper its effectiveness at identifying at-risk schools. Although a relatively small number of schools close each year, these closures can affect tens of thousands of students and result in hundreds of millions of dollars in financial losses for the federal government and taxpayers from unrepaid student loans. However, we reported in 2017 that Education's composite score has been an imprecise predictor of school closures.[16] Half the colleges that closed in school years 2010-11 through 2015-16 received passing financial composite scores on their last assessment before they closed.[17] For example, 58 of the 96 schools that closed in school year 2015-16 had recently received passing scores. Closures can be difficult to predict in part because each school faces its own unique challenges, both financial and nonfinancial, that can eventually push it into financial trouble. Education's composite score is not designed to account for nonfinancial risks; however, it is a primary means of securing financial protections in the form of a letter of credit from schools at risk of closure.

The composite score's inconsistent performance in identifying at-risk schools is due in part to limitations of the underlying formula and the fact that it has remained unchanged for more than 20 years. The composite score is based on common financial ratios that Education selected in 1997 after consulting with an accounting firm, school officials, and other experts. However, the composite score formula has not been updated since then and several experts and school officials we interviewed identified three key weaknesses:

- **Accounting changes:** The composite score has not kept pace with changes since 1997 in accounting practices and standards, creating ambiguity and making it more difficult to apply the formula in a uniform manner. Accounting practices and standards are periodically updated, for example, to improve the comparability and usefulness of financial reporting. When these updates diverge from the components and

[16] GAO, *Higher Education: Education Should Address Oversight and Communication Gaps in Its Monitoring of the Financial Condition of Schools*, GAO-17-555 (Washington D.C.: Aug. 21, 2017).

[17] In addition, some schools with failing composite scores may not be at immediate risk of closure. For example, almost 80 percent of the schools that failed the composite score in school year 2010-11 were still operating more than five years later (as of June 2016).

definitions in Education's composite score, certain components of the composite score are no longer directly linked to items on schools' audited financial statements. These accounting changes can also cause large shifts in schools' composite scores. For example, administrators at one school we talked to said changes to state laws have affected how some schools categorize their endowment holdings in financial audits, and that this had the effect of reducing the school's composite score from passing to not passing. However, Education has not updated the composite score formula to ensure the score is a reliable measure of financial health.

- **Outdated financial measures:** The composite score does not incorporate new financial metrics that would provide a broader indication of schools' financial health. For more than 20 years, the composite score formula has remained unchanged as the field of financial analysis has continued to evolve with new measures becoming important as economic conditions change. For example, liquidity (i.e., access to cash) has become an important financial measure since the 2007-09 economic downturn, when some schools had trouble meeting payroll and fulfilling contractual obligations. More sophisticated methodologies used by credit rating agencies have sometimes resulted in assessments of a school's financial condition that are strikingly different from the school's composite score. For example, in 2016, two credit rating agencies assigned non-investment grade (i.e., junk bond) ratings to 30 schools that received passing composite scores from Education.
- **Vulnerability to manipulation:** We previously reported that the composite score can be manipulated by some schools that take on long-term debt (e.g., loans with terms in excess of 12 months) because these debts can increase a school's composite score and help it avoid requirements to post a letter of credit. Long-term debt usually represents a long-term investment in a school's campus and buildings, and the composite score formula treats this type of debt in a positive manner.[18] An accountant for multiple schools told us that some schools have taken advantage of this provision and taken on a million dollars in debt in order to obtain a passing composite score. Corinthian Colleges, which closed in 2015, also exploited this

[18] Education included long-term debt in the formula for the primary reserve ratio (which measures whether a school has sufficient resources to cover its expenses) to address concerns that schools would be discouraged from making investments in capital improvements if these funds were not counted in the ratio, according to Education guidance. See Dear Colleague Letter GEN-01-02.

vulnerability to boost its composite score and avoid having to post a letter of credit that could have been used by Education to cover some of the hundreds of millions in student loan discharges resulting from the school's closure, according to company documents and Education documents and officials.

These three weaknesses with the financial composite score hamper Education's ability to effectively fulfill its statutory responsibility to determine whether schools participating in federal student aid programs are financially responsible. Identifying and responding to risks is a key component of federal internal control standards, but Education's financial composite score formula has remained unchanged for over 20 years despite significant changes in the financial landscape of higher education.[19]

To address these limitations, we recommended in our 2017 report that Education update the composite score formula to better measure schools' financial conditions and capture financial risks. Education generally disagreed with this recommendation and stated that the issues identified in our report did not necessarily mean that the composite score was an unreliable measure of schools' financial strength. Since our report was issued, new regulations have gone into effect specifying that certain financially risky events, such as those related to litigation and certain accreditor actions, will generally trigger a recalculation of a school's composite score.[20] In addition, Education has also published proposed regulations that would update some of the definitions of terms used to calculate a school's composite score to conform with changes in accounting standards and also make an adjustment to how the formula treats long-term debt, which according to Education would be intended to make the formula less susceptible to manipulation.[21] However, Education has not finalized these regulations and has not released a timeline for when it plans to do so, nor has it indicated that it has any broader plans to update the composite score, as we recommended. Since the existing composite score calculation remains unchanged, we are leaving this

[19] GAO-14-704G.

[20] This recalculation is generally based on the existing composite score formula. See 34 C.F.R. § 668.171.

[21] Student Assistance General Provisions, Federal Perkins Loan Program, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program, 83 Fed. Reg. 37,242 (July 31, 2018).

recommendation open and will continue to monitor Education's efforts in this area.

Education's Ability to Hold Schools Accountable for Loan Default is Limited by Schools' Ability to Distort Their Cohort Default Rates

The cohort default rate, which is specified in federal law,[22] is a key measure for holding schools accountable for borrower outcomes and for protecting borrowers and the federal government from the costs associated with default. However, in 2018 we reported that this rate has limitations as an accountability tool.[23] Some schools managed their 3-year cohort default rate by hiring consultants that encouraged borrowers with past-due payments to put their loans in forbearance, an option that allows borrowers to temporarily postpone payments and bring past-due loans current. At five of the nine default management consultants we selected (that served about 800 schools), we identified examples when forbearance was encouraged over other potentially more beneficial options for helping borrowers avoid default, such as repayment plans that base monthly payment amounts on income. Four of these consultants also provided inaccurate or incomplete information to borrowers about their repayment options in some instances.

Although Education officials and student loan experts said that forbearance is intended to be a short-term option, our analysis of Education data found that 20 percent of borrowers who began repaying their loans in 2013 had loans in forbearance for 18 months or more during the 3-year cohort default rate period. Spending this much time in forbearance reduces the potential for borrowers to default within the 3-year period, thus helping improve a school's cohort default rate. However, postponing loan payments through forbearance can increase borrowers' loan costs in the long term. For example, a typical borrower with $30,000 in loans who spends the first 3 years of repayment in forbearance would pay an additional $6,742 in interest, a 17 percent increase, over the life of the loan. In addition, borrowers in forbearance for 18 months or longer defaulted more often in the fourth year of repayment, when schools are not accountable for defaults, than they did during the 3-year period. While forbearance can help borrowers avoid default in the short term, this finding suggests that forbearance may have delayed—not prevented—default, potentially resulting in increased costs to the federal government.

[22] See 20 U.S.C. § 1085(m)(1)(A).

[23] GAO, *Federal Student Loans: Actions Needed to Improve Oversight of Schools' Default Rates*, GAO-18-163 (Washington D.C.: April 26, 2018).

Reducing the number of borrowers in long-term forbearance and directing them toward other options for avoiding default, such as repayment plans that base monthly payment amounts on income, could help reduce the number of borrowers that later default and may eventually save the federal government money. Specifically, for William D. Ford Federal Direct Loans issued in fiscal year 2018, Education estimates that it will not recover over 20 percent of defaulted loans. These unrecovered defaulted loan amounts total an estimated $4 billion, according to our analysis of Education's budget data.[24]

Schools are seldom held accountable for their students' defaults, in part because of the high rate of borrowers in long-term forbearance. To examine the impact of long-term forbearance on schools' 3-year default rates, we recalculated schools' cohort default rates by excluding borrowers who were in forbearance for 18 months or more and who did not default during the 3-year period. We found that over 260 additional schools—receiving a combined $2.7 billion in Direct Loans and Pell Grants in academic year 2016-2017—would potentially have had a default rate high enough to put them at risk of losing access to federal student aid programs.[25]

The reduced effectiveness of cohort default rates as a tool for holding schools accountable creates risks to the federal government and taxpayers, who are responsible for the costs associated with high rates of default. Since the way the cohort default rate is calculated is specified in federal law, any changes to its calculation would require legislation to be enacted amending the law. Our 2018 report suggested that Congress consider strengthening schools' accountability for student loan defaults, for example, by revising the cohort default rate calculation or using other accountability measures to complement or replace the cohort default rate. In the 115th Congress, proposals were introduced to revise, supplement, or replace the cohort default rate, though none of the legislation was enacted. This matter for congressional consideration remains open. We continue to believe that strengthening the accountability measure for loan

[24] The estimate accounts for collection costs and uses a net present value basis to account for the effect of time on the dollar value of missed payments due to default and subsequent default collections. The total estimate of defaulted dollars not recovered does not include Direct PLUS or Consolidation loans, which are other types of federal student loans offered by Education.

[25] Pell Grants are awarded to undergraduate students with financial need to help finance their postsecondary education.

defaults could further protect borrowers and the billions of dollars of federal student aid the government distributes each year.

In conclusion, the large federal investment in higher education makes it essential that the federal government maintain a robust system of accountability to protect students and taxpayers. My statement has highlighted three actions Education and Congress could take to strengthen the existing accountability tools for educational quality, financial sustainability, and student loan defaults. Students deserve to go to schools that provide a quality education and are financially stable. Taxpayers deserve an accountability system that protects federal student aid funds from going to schools that are financially irresponsible or push borrowers into forbearance for long periods in order to reduce the school's cohort default rate. We believe that fully implementing the two recommendations and matter for congressional consideration discussed in this testimony would improve federal accountability, help students, and potentially lead to financial savings for taxpayers.

Chairwoman Davis, Ranking Member Smucker, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact Melissa Emrey-Arras, Director of Education, Workforce, and Income Security, at (617) 788-0534 or emreyarrasm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony include Debra Prescott (Assistant Director), Will Colvin (Analyst-in-Charge), and Brian Schwartz. In addition, key support was provided by Susan Aschoff, James Bennett, Deborah Bland, Marcia Carlsen, Alex Galuten, Sheila McCoy, Jessica Rider, and Walter Vance.

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