CLASP
Policy solutions that work for low-income people

Necessary Conditions for Risk-Sharing policies to Protect Low-Income Students

Risk-sharing proposals are designed to transfer some of the student loan risk currently held by the individual and the government to institutions, giving them "skin in the game." Since institutions currently don't bear any of the financial consequences if an individual defaults, this should be an attempt to curb some of the recent abuses by some bad actors. Policymakers and advocates have advanced differing proposals for risk sharing systems. However, by putting institutions on the hook for some of the risk, these policies could unintentionally lead to harming the very students they are trying to protect. Any risk-sharing policy needs to be carefully analyzed to ensure they meet the following conditions:

1. The proposal focuses on protecting students, especially low-income and under-prepared students, from institutions that may not serve them well.

2. The proposal will not reduce access for low-income and under-prepared students because institutions have monetary incentives to increase selectivity.

3. The proposal is not a one-size fits all approach to all institutions with differing missions and populations.

4. The proposal will not reduce funding for community colleges and non-selective four-year institutions simply because of the low-income and under-prepared student populations they serve.

5. The proposal will not reduce funding for Historically Black Colleges and Universities (HBCUs), Hispanic Serving Institutions (HSIs), and other Minority Serving Institutions (MSIs), many of which are under-resourced and often serve first-generation or underprepared students.

6. The proposal will include a bonus payment as a reward for positive outcomes for at-risk students that is large enough to overcome unintended consequences to serve low-income students and the institutions that serve them. There will be evidence that the bonus is large enough.

7. The proposal will protect against gaming the system, as so many for-profit colleges have done under the cohort default rate.

In the absence of these safeguards and careful consideration of unintended consequences CLASP does not support risk sharing as a means to provide accountability when it comes at the price of low income students.

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