# Higher Education Reform and Opportunity (HERO) Act

The federal government's role in higher education has been disastrous. Below are two consequences of its involvement:

*Increased Costs* - Rising higher education costs have saddled Americans with $1.75 trillion in student debt.[1] As of 2021, the average student loan debt was $37,574.[2] From 1986 to 2019, the average cost of attending an institution of higher education increased from $4,885 (in today's dollars) to $24,623. Some argue this increase is due to decreased state funding.[3] However, this explanation ignores a more compelling cause of tuition increases: the federal government's increased role in funding. The more the federal government has subsidized higher education through loans and grants, the more colleges have raised prices because they know the government will face political pressure to pony up the money. One recent study estimates that tuition has increased 64 cents per dollar increase in per-student federal borrowing.[4] Taxpayers foot these higher costs, while colleges continue to expand in size, building massive stadiums, acquiring land, and acting more like hedge funds than schools.

*Stifled Innovation* - As the education market increasingly moves toward innovations like distance learning, competency-based offerings, and professional certification exams, federal accreditation remains tied to the antiquated exclusivity of the static, four-year, residential institution. For example, in 2013, Bellevue University set up an online competency-based program called Flexxive to reach individuals who could not access brick-and-mortar classrooms. While the program received positive reviews[5] for providing students with personal attention, the Department of Education subjected the program to intense scrutiny, claiming that it did not meet the standards for "substantive interaction" necessary to qualify students for financial aid.[6]

To address these harms, Sen. Lee plans to reintroduce his Higher Education Reform Opportunity (HERO) Act to reduce the federal government's involvement in higher education and student loans. This bill would free states to establish their own accreditation systems and cap the amount of money the federal government can loan. These reforms would lower the cost of higher education and lead to greater innovation as colleges and universities return to focusing on serving students.

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[1] Board of Governors of the Federal Reserve System (US), Student Loans Owned and Securitized [SLOAS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/SLOAS, April 2, 2023.
[2] Melanie Hanson, "Average Student Loan Debt," Education Data Initiative, January 22, 2023.
[3] Michael Mitchell, Michael Leachman, Matt Saenz, "State Higher Education Funding Cuts Have Pushed Costs to Students, Worsened Inequality," Center on Budget and Policy Priorities, October 24, 2019.
[4] Black, Sandra and Turner, Lesley J. and Denning, Jeffrey, Plus or Minus? The Effect of Graduate School Loans on Access, Attainment, and Prices (May 2023). NBER Working Paper No. w31291, Available at SSRN: https://ssrn.com/abstract=4461641 or http://dx.doi.org/10.2139/ssrn.4461641
[5] Paul Fain, "Rise of Customized Learning," Inside Higher Ed, March 5, 2013.
[6] Horn, Michael B. and Dunagan, Alana. *Innovation and Quality Assurance in Higher Education.* The Christensen Institute. (June 2018).



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**Title I – Student Loan Reform.**

- Simplifies Federal Student Loans into a single option and phases out Federal loan forgiveness and repayment programs. Dependent undergraduate students would have access to $30,000 for their entire program of study with a 15-year repayment period. Higher funding amounts are available to independent undergraduate students ($60,000) and graduate students ($74,000). These caps and extended repayment periods would lead to lower tuition and lower monthly payments.
- All current federal loan recipients would be grandfathered under existing program specifications for the remainder of their course of study if they graduate before September 30, 2028.

**Title II – Accreditation Reform.**

- Allows states to create an alternative accreditation system to include any institution that provides postsecondary education courses or programs that can be applied to a degree, credential, or professional certification. To participate, states would submit an alternate accreditation plan to the Secretary of Education.
- Would permit states to establish their own minimum program length, clock hour requirements and accreditation standards such as curricula, faculty, facilities, and degree objectives.

**Title III – Transparency Reform.** Students do not have access to easily understandable data when determining which higher education institution will give them the best return on their investment. Students should be able to visit college websites and easily view data, including graduation and loan repayment rates, disaggregated by program or major.

- Requires institutions of higher education participating in federal student loan programs to publish relevant outcome information in a readily accessible format.

**Title IV – Accountability Reform.** The average national student loan default rate is 9.7 percent.[7] Yet the current loan system doesn't effectively require university accountability to lower tuition and verify that their students are best able to repay the loans they take out.

- Creates a new financial skin-in-the-game requirement for universities, requiring them to repay an annual fine based on the overall amount of outstanding federal student loans for which students are not making regular, on-time payments. The percentage an institution would be liable for is equal to 15% minus the average national unemployment rate for that year.
- Universities would receive $400 per Pell Grant graduate.

[7] https://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html



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