

STATEMENT OF
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UNITED STATES DEPARTMENT OF EDUCATION
BEFORE THE HOUSE COMMITTEE ON VETERANS AFFAIRS
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY
UNITED STATES HOUSE OF REPRESENTATIVES

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Chairman Levin, Ranking Member Bilirakis, members of the Committee. Thank you for the opportunity to appear before you today on behalf of the U.S. Department of Education (the Department) Office of Federal Student Aid (FSA).

Our veterans and their families represent the best of this country, and the education benefits they receive as a result of their service are hard-earned and well-deserved. Veterans use their education benefits to pursue credentials that will allow them to transition their military profession to the civilian world, pursue career advancement, or adjust to the new realities of life following service-related injuries and disabilities. In some instances, military spouses utilize these education benefits to advance their own career opportunities, which may have taken a back seat to the demands of military life. It is essential that veterans have the freedom to pursue the educational opportunities of their choice, at the institutions they believe will best serve their interests and needs. And it is important that institutions deliver on their promises to provide these students with a good opportunity to learn and succeed.

Although veterans are not limited in using their benefits to programs and institutions that participate in the Department of Education's Federal Student Aid programs, which are authorized under Title IV of the Higher Education Act, or institutions or programs that are accredited by an agency recognized by the Secretary of Education, we know that many veterans view Title IV participation and accreditation as a stamp of approval that allows them to invest wisely in programs that will meet their needs. Therefore, while Title IV and Veterans Affairs (VA) benefits programs are operated independently, there is considerable overlap between the populations of students served.

Since the inception of the Servicemen's Readjustment Act of 1944 – the G.I. Bill – colleges and universities have played an important role in expanding educational opportunities for veterans to assist them transitioning to and succeeding in the civilian workforce. It is now well recognized that the G.I. Bill is largely responsible for providing unprecedented access to higher education and home ownership among the many WWII veterans.

Most institutions have embraced the opportunity to serve military veterans and recognize the unique talents and experiences they bring to the classroom. Some institutions have worked hard to create veteran-friendly policies that include awarding academic credit for learning that took place during their military service and accepting credits toward degree requirements that may

have been earned at several different institutions as the servicemember has moved around the country and the world. Veteran-friendly institutions create campus or on-line learning environments that provide a sense of community to these students, honor the veterans' contributions, recognize their unique challenges, hire faculty and staff who are military veterans, offer academic programs that provide clear pathways from military to civilian careers, provide flexible scheduling that is attractive to otherwise busy adults, and value the sacrifices veterans and their families have made and their unselfish love of country.

Unfortunately, some institutions have closed abruptly and without warning and, consequently, have been unable to deliver on the promises they made to students. Changes in population demographics coupled with low unemployment has forced the merger of some institutions and the closure of others and may lead to additional closures in the future. Some college closures are well-planned and orderly, meaning the institution provides an opportunity for currently enrolled students to complete their programs or transfer to a comparable program at a similar institution.

Precipitous closures are highly disruptive to students and may leave them unable to complete their program or earn a credential. The Department is working to develop new policies and practices to identify troubled institutions earlier and to ensure the students have more advanced notice and options when a school closes.

With respect to federal student loans, when an institution closes, students who did not complete their program of study because the school closed while they were enrolled or who left the institution no more than 120 days prior to closure, and who did not complete the program of study through a teach-out at another institution, are entitled to a closed school loan discharge. Students who apply and are eligible for closed school discharges are relieved of their responsibility for repaying any of the federal student loans associated with the enrollment at the closed school. Because students are limited in the number of Pell grants they may receive, the Department also restores eligibility for students who received Pell grants during their enrollment at the closed school. Regulations implemented in late 2018 also provide "automatic" closed school loan discharges for any borrower who enrolled at the time of an institution's closure or up to 120 days prior to the institution's closure, and who did not enroll at another Title IV-participating institution within three years. These discharges are provided to eligible students without requiring them to submit an application.

Although school closures are frequently the result of financial challenges, there are instances in which a school closes because its accreditor withdraws accreditation, or a State removes the institution's authorization to operate with the State. While the Department may end an institution's participation in Title IV, it does not have the authority to close an institution or to prevent it from offering educational opportunities to students.

When warranted, the Department may place an institution under heightened cash monitoring (HCM) payment method to restrict an institution's ability to draw down federal Title IV funds from the Department's disbursement system. This step enables the Department to provide additional oversight over a variety of financial or federal compliance issues, some of which may be serious and others that may be less troublesome. There are two levels of Heightened Cash Monitoring—HCM 1 and HCM 2. Under HCM 1, an institution draws down federal funds after

it has submitted disbursement records to the Department and disbursed aid to students using its own funds. Under HCM 2, an institution makes disbursements to students using its own funds, and then submits a reimbursement payment request to the Department.

Institutions may be placed on HCM 1 or HCM 2 as a result of compliance issues including accreditation issues, late or missing annual financial statements and or audits, outstanding liabilities owed to the Department, concerns about an institution's administrative capability, concerns about an institution's financial responsibility, and possibly severe findings uncovered during a program review. Thus, HCM, coupled with additional oversight, helps safeguard taxpayer funds and promote institutions' proper stewardship of the federal student financial aid programs, thereby protecting the interest of the nation's students, including those who are veterans.

Two recent closures that have captured considerable news attention involved institutions placed into receiverships in Federal district courts. Such proceedings, which may arise under Federal or state law, have rarely been used by creditors of Title IV eligible institutions and provide creditors with the opportunity to request a court to appoint a "receiver" to manage the assets and liabilities of an institution for the benefit of the creditors. Prior to these proceedings, the Department had had little experience with institutions seeking such protection from creditors. Although the Higher Education Act makes clear that if an institution declares bankruptcy it may no longer participate in Title IV programs, the law is silent on receiverships, as are the Department's regulations. The Department is currently examining the extent to which receiverships affect its ability to provide effective oversight of the Title IV program.

The Department cannot always predict how an institution will respond to certain sanctions, and it cannot always predict which institutions will close. In many cases, for example, institutions have operated for years despite being subject to HCM 2. Further, while in some instances, a single problem may result in the rapid deterioration of an institution's finances, in other instances an institution on the brink of financial disaster may launch a successful fund-raising campaign that saves it. The decision to remove Title IV funding, accreditation or state authorization is difficult, especially because a number of institutions go through periods of financial distress but go on to recover and continue serving students. Even a financially troubled institution may still be providing strong opportunities for the students it serves, including providing the only options available to students in certain geographic areas or the only institution providing programs that prepare students for high-demand fields.

The Department's tools to identify financially unstable institutions primarily depends upon the institution's financial "composite score" which is designed to measure the financial health of an institution. Institutions that fail the composite score test are required to post letters of credit that provide the Department with a guaranteed source of funds to pay an institutions liability stemming from improperly disbursed Federal student aid. In some instances an institution may have already resolved a financial challenge by the time a Letter of Credit (LOC) is provided and in other instances a LOC may be beyond the institution financial wherewithal to obtain, forcing an unstable institution into closure. The Department has, however, routinely worked with institutions experiencing challenges in obtaining letters of credit to find alternatives ways of providing the Department with financial protection.

The Department takes quick action when an institution closes to provide students and related regulatory agencies with the most accurate and timely information possible. Among other things, the Department

- Makes every effort to work with school officials, as well as the school's state authorizing agency(ies) and accreditor(s) to understand and communicate the school's closing closure process, including whether teach-outs will be available and how transcripts will be made available to students;
- Posts fact sheets and other information to [StudentAid.gov/closures](https://studentaid.gov/closures). This portal houses closed school information, common closure-related Q&As including information for students receiving GI benefits, institution-specific fact sheets, and other avenues to access information (webinars and transfer fairs, where applicable);
- Works as closely as possible with impacted state agencies and accreditors to inform them of the Department's web resources for students and ask them to share the resources with students. Often, these partners' closure sites incorporate the Department's closed school loan discharge messaging and include links to Department outreach resources;
- Participates, when possible, in state-sponsored or institution-hosted transfer fairs intended to help students understand their options; and
- Emails directly with students who were enrolled that time of the closure or those who recently withdrew to provide information about their options and direct them to other information and resources.

When working through these steps, the Department considers the VA to be a critical partner and routinely includes the VA in outreach and information sharing efforts. We have enjoyed a cooperative and collaborative relationship with our federal colleagues at VA and we look forward to continuing our partnership.

The Department of Education embraces the responsibility to help student-veterans navigate the higher education system, stands ready to work with Congress, the VA and other agencies on initiatives that put students – including student-veterans – first.

Thank you for the opportunity to testify. I look forward to answering your questions.