TESTIMONY OF SHEILA C. BAIR, PRESIDENT

WASHINGTON COLLEGE

BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON OVERSIGHT

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Chairman Roskam, Ranking Member Lewis, and members of the Committee, it is a pleasure to be here. About a year ago, I became the President of Washington College, a private, nonprofit liberal arts college in Chestertown, on Maryland's Eastern Shore. Of our 1481 undergraduates, 90 percent of them receive some form of need-based financial aid or merit-based scholarship assistance, but like college students nationwide, is never enough to cover the cost of their college education. For those who must borrow, the national average debt load upon graduation is $28,950. Though this level of borrowing can be justified based on the increased earnings potential that comes with a four-year degree, I am very proud that we were able to reduce our 2016 seniors' average debt levels by 10% through increased scholarship funding during the first year of my presidency.

Since accepting the presidency of Washington College, I have been monitoring the growing problem of student loan debt in our country, which now exceeds $1.3 trillion. Unfortunately, I see many parallels to the sub-prime mortgage crisis. **Lack of underwriting standards** means that we're not considering whether the borrower can repay. **With negative amortization**, some repayment plans have students falling farther behind because their payments aren't enough to cover the compounding interest**; growing loan default and non-payment rates** force taxpayers to pick up the bill. **Government programs** intended to increase college access and affordability have not achieved their purpose.

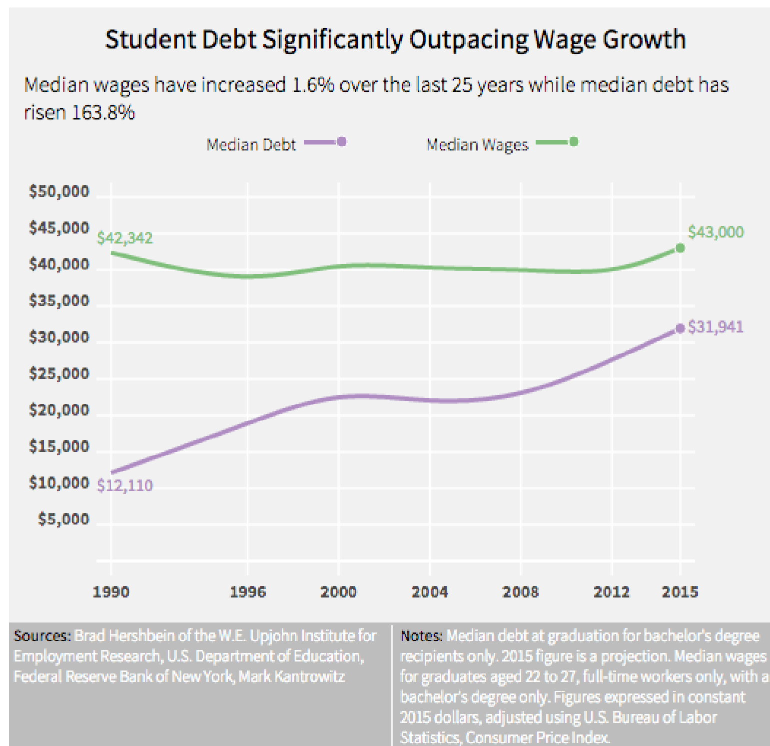
This hearing on college endowments and their relationship to the affordability issue is timely as students around the country are returning to campus, and we are in the middle of College Savings Month. To any new parents in the chamber, start saving now!

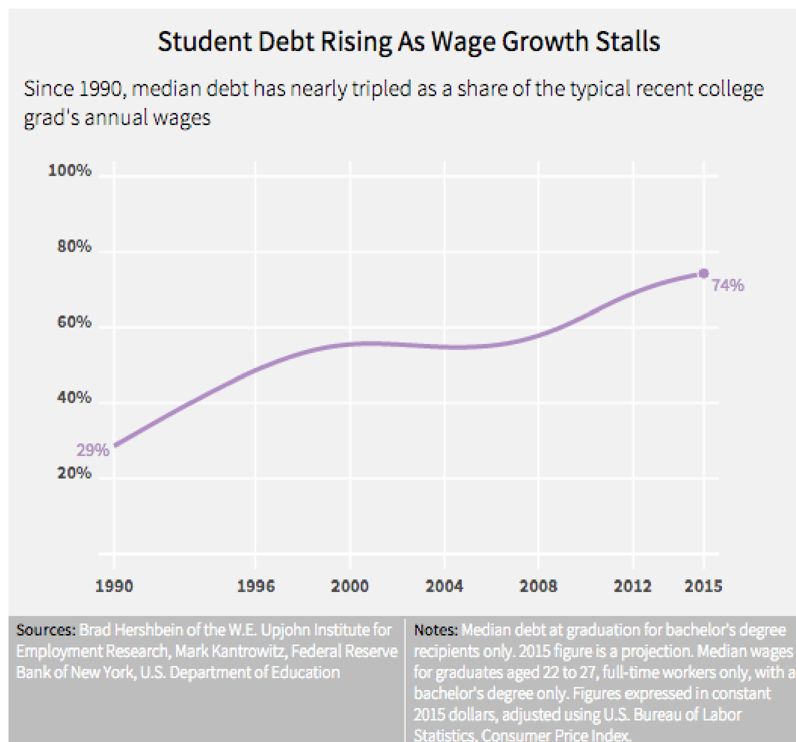
The cost of higher education has increased more rapidly than that of food, shelter, and medical care for the current generation of college students. Tuition at private four-year colleges has increased an average of 4.7% a year since 2000. This far outpaces the average inflation of 2.2% over this time period.

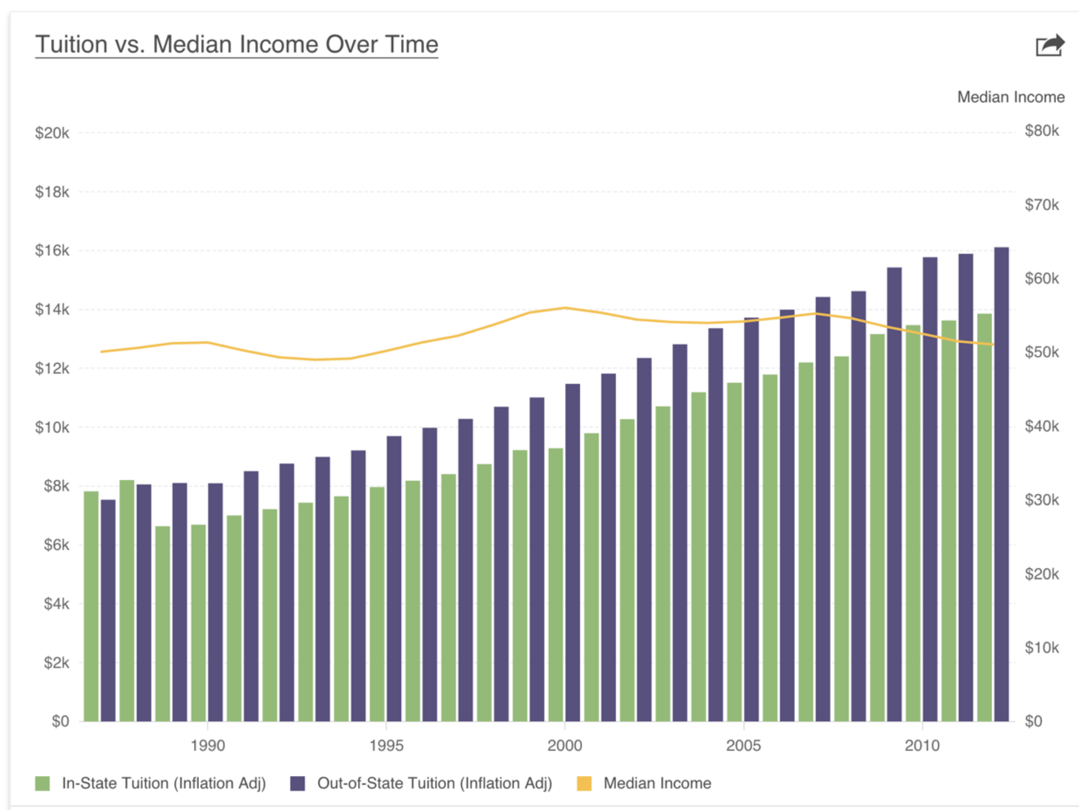
When compared to wage growth, the differential is even more startling. I want to put in perspective just how much college tuition has increased using the entering class at Washington College as the example. At the time these freshmen were born, median college tuition at private non-profit colleges was $15,380. Now the median is $32,405.

Median family income was $40,816 when our entering freshmen were in diapers. If income kept pace with tuition, their parents would be making $85,998 today. Unfortunately, the 2016 comparable income is far short of that—only $53,657. The comparison is even more stark when

looking at real wage growth for college graduates compared to the rise in student debt levels. Drawing from research by the New York Fed and data published by the US Department of Education, one recently published analysis in the Huffington Post showed that real wages for the typical college graduate have risen only by 1.6% over the past 25 years, while average student debt for four-year graduates has grown by a whopping 163.8%.







Tuition increases have outpaced the price increases for cars, houses, rent, movie tickets, food, clothing, you name it. More and more families perceive that they are being priced out of the college market, and many actually are. Yet a college degree is more indispensable for today's job market than ever before. College graduates outnumber high-school educated workers in the workforce for the first time in our history. And since the recovery, only jobs for college graduates have rebounded. Jobs for high school graduates that were eliminated in the recession have not come back.[1]

Some argue that America and the world are on the verge of a third industrial revolution in which a college degree will be essential. While as many as 47 percent of jobs in our country will be taken over by computers and robots within the next 20 years, just as many new types of jobs will be created.[2] In health care, diagnostics tasks are already being computerized. Computerization is entering the realms of legal and financial services. Advances in user interfaces enable computers to respond directly to a range of human requests. Think Siri.

But while technological advances are contributing to declining costs in robotics, robots are still unable to match the depth and breadth of human perception. To succeed in this marketplace, the new workforce must have the ability to think critically, and analyze complicated problems, and communicate clearly—all skills we teach at liberal arts colleges like Washington College.

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[1] "America's Divided Recovery: College Haves & Have Nots," Anthony P. Carnevale, Tamara Jayasundera, Artem Gulish, Georgetown Center on Education and the Workforce, 2016.

[2] "The Future of Employment: How Susceptible Are Jobs to Computerization?" Carl Benedikt Frey, Michael A. Osborne, University of Oxford, September 2013.
http://www.eng.ox.ac.uk/about/news/new-study-shows-nearly-half-of-us-jobs-at-risk-of-computerisation
(http://www.nigeltodman.com/The_Future_of_Employment.pdf)

Generalist work requiring a high degree of social intelligence—jobs in business, management, finance, education, healthcare, and the arts—are at a very low risk of being computerized. (*Frey*, p. 40). We don't want to limit choice, which is the strength of our higher education system; some of the free tuition proposals would do just that.

In order to grow the middle class, our economy needs many more students earning college degrees so that they can perform the jobs our economy requires. Yet its cost is moving beyond the reach of too many families. Study after study has shown that the cost of college—affordability—is the top deciding factor for almost every student.

In research conducted for Washington College by Hanover Research in 2016, 81 percent of the respondents surveyed said that cost is either very or extremely important. Affordability is far and away more important than campus atmosphere, location, quality of athletic programs, or student-faculty ratios.

Sallie Mae just released a national study, "How America Pays for College," that came to the same conclusion.[3]

The Committee invited me to appear today to talk about what we are doing at Washington College about affordability. There is no single solution to the problem; we've adopted a multi-pronged approach.

First, we are increasing philanthropy. Earlier this summer, we celebrated a record year for fundraising, bringing in almost $23 million and increasing alumni participation in annual giving by four percentage points. That's a pretty big deal, and we hope to repeat that jump this year. With our encouragement, most of our major gifts last year were for scholarships, and all of our smaller gifts to The Washington Fund are used for financial aid. If a gift is unrestricted, it is used for scholarships. I like to say that giving to endow a scholarship is more enduring than giving to bricks and mortar. We need both, but we always need more scholarships. Buildings require maintenance and upkeep, which is expensive and can also drive up costs and consume endowment spending.

I believe scholarship giving is the most prestigious form of college philanthropy.

Every year, Washington College provides more than $25 million in grants and scholarships, with 90 percent of students on the receiving end. Financial aid is especially vital for first-generation college students, whose families often require the most assistance in paying for their education.

This is why we started **George's Brigade.**

This initiative—a full scholarship program for high-performing, first-generation students whose families would otherwise not have the resources to pay for a private liberal arts education—is intended to improve college accessibility and tackles the problems of high student loan debt and college affordability at the same time. Members of George's Brigade will have their full financial needs met, including room and board. If students wish to borrow for incidental expenses, the program requires that they limit their loans to $2,500 per year. This will allow them to receive an excellent education and to launch their careers without the burden of large amounts of debt. I think this loan restriction is important because one of the worst outcomes for any student is to borrow a lot of money and not complete a degree.

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[3] "How America Pays for College," www.salliemae.com/plan-for-college/how-america-pays-for-college/ 2016.

An exceptional feature of George's Brigade is that it allows students to apply and be admitted in small groups from the same community or school so that they have companions to share their transition to college life. The initiative includes special programming, events, mentoring, and career counseling for the enrolled students. The first group of George's Brigade—16 students from across the country (including seven from Baltimore)—are part of the Class of 2020.

Since its inception in late 2015, George's Brigade has received support from a variety of sources. Of the $4 million committed so far, $2.85 million is endowed. With each successive year, as we raise additional scholarship dollars, George's Brigade will continue to grow in strength and numbers.

Dam the Debt, another program in our arsenal, reduces the debt of all Washington College graduating seniors holding federally subsidized loans in their final semester. The program is unlike any other debt reduction initiative in that students will not have to pay taxes on the money they are given. As a result of Dam the Debt, 119 qualifying seniors from 15 states received enough money to erase the federally subsidized loans they had taken out in Spring 2016. Amounts varied depending upon the students' loans, but the average reduction was $2,630. It is a back-ended scholarship, a reward for graduating. Students told me this was vastly more useful than the typical graduation gift of a paperweight or a pen.

Savers' Scholarship. Just two weeks ago, Washington College launched the Savers' Scholarship to make college more affordable. This pilot program will reward families who have saved money for their children's education. Our scholarship will match the amount that families contribute from a 529 college savings plan or an Educational Savings Account, up to $2,500 per year, to pay for their student's tuition. I know that 529 plans are typically used by upper middle-income families, and I think that is ok. I know from personal experience that when a family has to save for two or three kids going to college, it really takes financial planning. This program is a way to reward that foresight and behavior.

Tuition Freeze. Finally, we are freezing tuition—a rare trend among liberal arts colleges. We are among a very small fraction of colleges that do so. And we are currently evaluating our budget and projections to limit the need for future tuition increases. This year, we are welcoming one of the largest, most academically gifted, and most diverse entering classes ever. With a four percent increase in the percentage of freshmen students returning for their sophomore year, I have to think that the freeze and our other affordability programs have something to do with those successes.

Income Share Agreements

I am inspired by the President of Purdue, Mitch Daniels, who has been a leader in college affordability for public universities. He has compiled an amazing track record, having frozen tuition for five consecutive years. He has also launched a new program of income share agreements, or ISAs. I believe ISAs hold great promise as a pathway to a truly debt-free education and hope that Congress would seriously consider adoption of an ISA program as an alternative, if not a replacement, for the current debt-driven federal system.

If we want access to college financing to be broadly accessible, we should move away from a debt financing model to an equity financing model as represented by ISAs. Currently, federal loans are granted with no underwriting. As a result, many students and their families receive

loans they have no realistic hope of repaying. We are not doing these young people any favors by giving them loans that they cannot afford, that they cannot discharge in bankruptcy, and that could be a drag on their financial well-being even into retirement. It would be much better to move to an equity financing model, where students are required to pay a small percentage of their income up to a certain cap, over longer period of time, instead of a frequently unaffordable fixed payment loan amortized over the current ten-year period.

Under the equity financing model, graduates are always guaranteed an affordable payment and are given the benefit of time to progress in their career with accompanying higher income levels to make it easier to give taxpayers a reasonable return on their investment. Graduates entering higher-paying professions will pay back more and pay it back faster than graduates entering lower-paid professions—both with the certainty as to when their obligations will end. To its credit, the Administration has launched various income-based repayment options for students who cannot afford the standard ten-year repayment term on a federal loan, however, these are still debt obligations and frequently require a significant portion of disposable income as a monthly repayment. The options are confusing and complex, and some involve negative amortization features. The nonpayment rates are high even when students are given these alternatives.

I would encourage Congress to at least consider authorizing a pilot program allowing students to opt out of their loans and into ISAs. I would also encourage building ISA payments into the payroll tax system so that they are automatically made each pay period. This would greatly reduce the high rate of defaults and non-payments we currently see in the federal loan programs. An ISA would reduce stress for students, eliminate servicing issues, and eliminate a substantial risk to the taxpayers.

As exemplified by Purdue, colleges are also moving forward with ISAs on their own, and I support legislation to clarify legal, tax, and consumer protection issues surrounding this novel, affordable approach to college financing.

Increased scholarship funding, promoting ISAs, and limiting tuition increases—these are policies and strategies to keep a college education within the reach of the typical American family, even without the federal government picking up the tab.

Such initiatives are particularly important to the future of small liberal arts colleges like ours. It is essential to preserve the liberal-arts tradition, which differentiates the American higher education system from others and is one of the reasons why our system is the envy of the world. This is not an inexpensive way to educate young people—we offer small class sizes, low faculty-to-student ratios, experiential learning, and international exchange opportunities — but these are essential to the education of students who can think critically, communicate, and adapt to the ever-changing world economy that we live in. I am proud of the leadership role we have played in defending the liberal-arts tradition, while at the same time pioneering ways to make it more affordable.

IF I HAD A BILLION-DOLLAR ENDOWMENT

The Committee is right to be looking at college endowments. I can think of no better purpose for endowment income than scholarships. I would love to have a billion-dollar endowment. A 5% draw of $50 million would cover 80% of our budget and we would slash tuition accordingly. Regrettably, our endowment is considerably smaller—just $200,319,335. We adhere to a 5%

spend rate. In fact, over the last few years, our Board has authorized a 5.5% rate. Nearly 60% of our endowment draw is dedicated to scholarships, and I hope that percentage will increase even more during my presidency.

The rest of the endowment spending is used for endowed chairs, program funds, building maintenance, prizes and awards, non-scholarship athletics, lectures, and library books.

Congressman Tom Reed has been working on a bill, the Reducing Excessive Debt and Unfair Costs of Education Act, which proposes to require colleges with endowments larger than $1 billion to allocate 10 to 25% of their income for financial aid, or lose their tax-exempt status. I think this is certainly more than reasonable, though it would be better for colleges to adopt such a policy on their own. It saddens me that Congress would need to require colleges to do something so obviously in the best interests of their students.

The Education Trust recently released *A Glimpse inside the Coffers*, a report that examines endowment contributions and spending at some of the nation's wealthiest nonprofit, private institutions. Among the findings is that more than half of them are not spending endowment income at the 5% rate that is required of private foundations. If the 35 educational institutions with endowments larger than $500 million that are spending below 5% increased their spending rates to 5%, they would generate an extra $418 million that could be used for scholarships. I can't think of a better use of the money, and I can't think of a better time to do it than now.

Thank you for inviting me to the Committee. I would be happy to answer questions.