

## National Association of Independent Colleges and Universities

## FOR IMMEDIATE RELEASE

October 13, 2011

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## Statement by the National Association of Independent Colleges and Universities on the U.S. Department of Education's Financial-Responsibility List

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Note: Below, NAICU comments on what the U.S. Department of Education's financial-responsibility list means for consumers considering private nonprofit colleges, and expresses concern about the underlying test's accuracy. The test, which was created to evaluate the financial health of colleges participating in the federal Title IV student aid programs, has come under increased scrutiny.

Students who attend, or are considering attending, one of the private nonprofit institutions on the list, should not rule out a college simply because it is listed. As <u>noted</u> by the Education Department:

"The composite financial score is not a reflection of the quality of education at a given school, and a school that does not achieve a passing financial composite score will be monitored more closely by the Department to determine if additional protections are needed."

Being on the list means the college must agree to additional reporting, financial aid monitoring, or administrative oversight requirements to be in compliance; or post a letter of credit to ensure the safety of federal student aid.

Inclusion on the list does not mean a college is in danger of closing. The overwhelming majority of institutions that have appeared on the list in previous years continue to provide a quality education to their students. Students and parents who are concerned about a college's inclusion on the list should talk to the school about the reasons for it.

Like many families, businesses, and other organizations, all colleges are addressing the challenges brought by the nation's financial crisis and ongoing economic uncertainty. Colleges on the list, and others nationwide, are taking proactive steps—including cutting costs and enhancing efficiency—to improve their balance sheets.

The number of private nonprofit colleges listed as failing the Education Department's "financial-responsibility test" increased from FY 2009 to FY 2010. This was unexpected given the rebound in the stock market and growth in university endowments during FY 2010. The increase in the



number of private nonprofit colleges listed coincides with an increase in the overall number of private nonprofit colleges assessed by the department in FY 2010. While the number of private nonprofit colleges that failed the department's test grew by 5.2 percent, the overall number evaluated by the department increased at a higher rate of 7.6 percent.

It must be noted that the list is under <u>increased scrutiny</u> by accounting experts who believe department financial analysts are not always using the right accounting definitions, and are inconsistent in how they interpret and apply standards.

While we support the federal government's goal of identifying institutions in dire financial straits so that Title IV funds are not lost or misappropriated, we question whether the current responsibility test does that. For example, although the endowments held by hundreds of private colleges and universities are a critically important source of future equity and stability, formulas used by department financial analysts inappropriately penalized institutions that weathered endowment value deflation during the 2008 market collapse.

To address these concerns about the existing procedures, a task force made up of NAICU, the National Association of College and University Business Officers, the Council of Independent Colleges, state independent college associations, college officials, and independent accounting experts is studying the accuracy and reliability of the financial responsibility test. It expects to have recommendations next year, and hopes to engage federal officials in a conversation about how the test might be improved.

It is imperative the department's test accurately reflect an institution's financial standing. The special controls and reporting requirements, and possible letter of credit, imposed on these institutions by the department, are only appropriate when necessary to protect students and taxpayers. Otherwise, such restrictive measures divert, if not waste, important institutional resources needed for educational purposes.

NAICU serves as the unified national voice of independent higher education. With more than 1,000 member institutions and associations, NAICU reflects the diversity of private nonprofit higher education in the United States. NAICU members enroll 90 percent of all students attending private institutions. They include traditional liberal arts colleges, major research universities, church- and faith-related institutions, historically black colleges, Hispanic-serving institutions, single-sex colleges, art institutions, two-year colleges, and schools of law, medicine, engineering, business, and other professions.

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