

118TH CONGRESS
2D SESSION

H. R. 7831

To impose a financial penalty on certain institutions of higher education with high percentages of students who default or make insufficient payments on Federal student loans, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 26, 2024

Ms. VAN DUYNE introduced the following bill; which was referred to the Committee on Education and the Workforce, and in addition to the Committee on Ways and Means, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To impose a financial penalty on certain institutions of higher education with high percentages of students who default or make insufficient payments on Federal student loans, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Preventing Financial
5 Exploitation in Higher Education Act”.

1 **SEC. 2. INSTITUTIONAL ACCOUNTABILITY FOR DE-**
2 **FAULTED, DELINQUENT, AND UNDERPAID**
3 **STUDENT LOANS.**

4 Part D of title IV of the Higher Education Act of
5 1965 (20 U.S.C. 1087a et seq.) is amended by inserting
6 after section 454 the following:

7 **“SEC. 454A. INSTITUTIONAL ACCOUNTABILITY FOR DE-**
8 **FAULTED, DELINQUENT, AND UNDERPAID**
9 **STUDENT LOANS.**

10 “(a) IN GENERAL.—In accordance with subsection
11 (b), a covered institution of higher education shall pay to
12 the Secretary—

13 “(1) a penalty based on the institution’s cohort
14 default rate for each fiscal year;

15 “(2) a penalty based on the institution’s cohort
16 delinquency rate for each fiscal year; and

17 “(3) a penalty based on the institution’s cohort
18 underpayment rate for each fiscal year.

19 “(b) PHASE-IN OF COHORT DEFAULT RATE PEN-
20 ALTY.—

21 “(1) FISCAL YEAR 2024.—A covered institution
22 of higher education—

23 “(A) with a cohort default rate (as cal-
24 culated under section 435(m)) for fiscal year
25 2024 that is 11 percent or more, shall pay to
26 the Secretary a penalty in an amount equal to

1 30 percent of the total outstanding balance of
2 principle and interest due on all loans under
3 this part that are included in the calculation of
4 such cohort default rate for such fiscal year;

5 “(B) with a cohort delinquency rate (as de-
6 termined by the Secretary) for fiscal year 2024
7 that is 10 percent or more shall pay to the Sec-
8 retary a penalty in an amount equal to 28 per-
9 cent of the total outstanding balance of prin-
10 ciple and interest due on all loans under this
11 part that are included in the calculation of such
12 cohort delinquency rate for such fiscal year; and

13 “(C) with a cohort underpayment rate (as
14 determined by the Secretary) for fiscal year
15 2024 that is 9 percent or more shall pay to the
16 Secretary a penalty in an amount equal to 26
17 percent of the total outstanding balance of prin-
18 ciple and interest due on all loans under this
19 part that are included in the calculation of such
20 cohort underpayment rate for such fiscal year.

21 “(2) FISCAL YEAR 2025.—A covered institution
22 of higher education—

23 “(A) with a cohort default rate (as cal-
24 culated under section 435(m)) for fiscal year
25 2025 that is 10 percent or more, shall pay to

1 the Secretary a penalty in an amount equal to
2 28 percent of the total outstanding balance of
3 principle and interest due on all loans under
4 this part that are included in the calculation of
5 such cohort default rate for such fiscal year;

6 “(B) with a cohort delinquency rate (as de-
7 termined by the Secretary) for fiscal year 2025
8 that is 9 percent or more, shall pay to the Sec-
9 retary a penalty in an amount equal to 26 per-
10 cent of the total outstanding balance of prin-
11 ciple and interest due on all loans under this
12 part that are included in the calculation of such
13 cohort delinquency rate for such fiscal year; and

14 “(C) with a cohort underpayment rate (as
15 determined by the Secretary) for fiscal year
16 2025 that is 8 percent or more, shall pay to the
17 Secretary a penalty in an amount equal to 24
18 percent of the total outstanding balance of prin-
19 ciple and interest due on all loans under this
20 part that are included in the calculation of such
21 cohort underpayment rate for such fiscal year.

22 “(3) FISCAL YEAR 2026.—A covered institution
23 of higher education—

24 “(A) with a cohort default rate (as cal-
25 culated under section 435(m)) for fiscal year

1 2026 that is 9 percent or more, shall pay to the
2 Secretary a penalty in an amount equal to 26
3 percent of the total outstanding balance of prin-
4 ciple and interest due on all loans under this
5 part that are included in the calculation of such
6 cohort default rate for such fiscal year;

7 “(B) with a cohort delinquency rate (as de-
8 termined by the Secretary) for fiscal year 2026
9 that is 8 percent or more, shall pay to the Sec-
10 retary a penalty in an amount equal to 24 per-
11 cent of the total outstanding balance of prin-
12 ciple and interest due on all loans under this
13 part that are included in the calculation of such
14 cohort delinquency rate for such fiscal year; and

15 “(C) with a cohort underpayment rate (as
16 determined by the Secretary) for fiscal year
17 2026 that is 7 percent or more, shall pay to the
18 Secretary a penalty in an amount equal to 22
19 percent of the total outstanding balance of prin-
20 ciple and interest due on all loans under this
21 part that are included in the calculation of such
22 cohort underpayment rate for such fiscal year.

23 “(4) FISCAL YEAR 2027.—A covered institution
24 of higher education—

1 “(A) with a cohort default rate (as cal-
2 culated under section 435(m)) for fiscal year
3 2027 that is 8 percent or more, shall pay to the
4 Secretary a penalty in an amount equal to 24
5 percent of the total outstanding balance of prin-
6 ciple and interest due on all loans under this
7 part that are included in the calculation of such
8 cohort default rate for such fiscal year;

9 “(B) with a cohort delinquency rate (as de-
10 termined by the Secretary) for fiscal year 2027
11 that is 7 percent or more, shall pay to the Sec-
12 retary a penalty in an amount equal to 22 per-
13 cent of the total outstanding balance of prin-
14 ciple and interest due on all loans under this
15 part that are included in the calculation of such
16 cohort delinquency rate for such fiscal year; and

17 “(C) with a cohort underpayment rate (as
18 determined by the Secretary) for fiscal year
19 2027 that is 6 percent or more, shall pay to the
20 Secretary a penalty in an amount equal to 20
21 percent of the total outstanding balance of prin-
22 ciple and interest due on all loans under this
23 part that are included in the calculation of such
24 cohort underpayment rate for such fiscal year.

1 “(5) FISCAL YEAR 2028.—A covered institution
2 of higher education—

3 “(A) with a cohort default rate (as cal-
4 culated under section 435(m)) for fiscal year
5 2028 that is 7 percent or more, shall pay to the
6 Secretary a penalty in an amount equal to 22
7 percent of the total outstanding balance of prin-
8 ciple and interest due on all loans under this
9 part that are included in the calculation of such
10 cohort default rate for such fiscal year;

11 “(B) with a cohort delinquency rate (as de-
12 termined by the Secretary) for fiscal year 2028
13 that is 6 percent or more, shall pay to the Sec-
14 retary a penalty in an amount equal to 20 per-
15 cent of the total outstanding balance of prin-
16 ciple and interest due on all loans under this
17 part that are included in the calculation of such
18 cohort delinquency rate for such fiscal year; and

19 “(C) with a cohort underpayment rate (as
20 determined by the Secretary) for fiscal year
21 2028 that is 5 percent or more, shall pay to the
22 Secretary a penalty in an amount equal to 18
23 percent of the total outstanding balance of prin-
24 ciple and interest due on all loans under this

1 part that are included in the calculation of such
2 cohort underpayment rate for such fiscal year.

3 “(6) FISCAL YEAR 2029 AND SUBSEQUENT FIS-
4 CAL YEARS.—A covered institution of higher edu-
5 cation—

6 “(A) with a cohort default rate (as cal-
7 culated under section 435(m)) for fiscal year
8 2029 or any fiscal year thereafter that is 6 per-
9 cent or more, shall pay to the Secretary a pen-
10 alty in an amount equal to 20 percent of the
11 total outstanding balance of principle and inter-
12 est due on all loans under this part that are in-
13 cluded in the calculation of such cohort default
14 rate for such fiscal year;

15 “(B) with a cohort delinquency rate (as de-
16 termined by the Secretary) for fiscal year 2029
17 or any fiscal year thereafter that is 5 percent
18 or more, shall pay to the Secretary a penalty in
19 an amount equal to 18 percent of the total out-
20 standing balance of principle and interest due
21 on all loans under this part that are included
22 in the calculation of such cohort delinquency
23 rate for such fiscal year; and

24 “(C) with a cohort underpayment rate (as
25 determined by the Secretary) for fiscal year

1 2029 or any fiscal year thereafter that is 4 per-
2 cent or more, shall pay to the Secretary a pen-
3 alty in an amount equal to 16 percent of the
4 total outstanding balance of principle and inter-
5 est due on all loans under this part that are in-
6 cluded in the calculation of such cohort under-
7 payment rate for such fiscal year.

8 “(c) EFFECT ON DEFAULT STATUS OF BOR-
9 ROWER.—The payment of a penalty under this section by
10 a covered institution of higher education shall have no ef-
11 fect on the rights or obligations of a borrower of a loan
12 that is included in the calculation of the institution’s co-
13 hort default rate, cohort delinquency rate, or cohort un-
14 derpayment rate for purposes of such penalty.

15 “(d) DEFINITIONS.—

16 “(1) COHORT DELINQUENCY RATE.—The term
17 ‘cohort delinquency rate’ means the percentage of
18 Federal student loan borrowers included in a cohort
19 under subsection (b) who have failed to make pay-
20 ments on one or more of the Federal student loans
21 used for attendance at the institution concerned for
22 between 31 and 360 days (inclusive).

23 “(2) COHORT UNDERPAYMENT RATE.—The
24 term ‘cohort underpayment rate’, means the percent-

1 age of Federal student loan borrowers included in a
2 cohort under subsection (b) who—

3 “(A) are making regular payments on the
4 Federal student loans used for attendance at
5 the institution concerned but for whom the sum
6 all outstanding balances of such loans exceeds
7 the sum of the original loan balances; and

8 “(B) are neither delinquent nor in default
9 on such loans.

10 “(3) COVERED INSTITUTION OF HIGHER EDU-
11 CATION.—The term ‘covered institution of higher
12 education’ means an institution of higher education
13 that is the beneficiary of an endowment fund with
14 total value of \$2,500,000,000 or more.

15 “(4) ENDOWMENT FUND.—The term ‘endow-
16 ment fund’ means a fund that—

17 “(A) is established by State law, by an in-
18 stitution of higher education, or by a founda-
19 tion that is exempt from Federal income tax-
20 ation; and

21 “(B) is maintained for the purpose of gen-
22 erating income for the support of an institution
23 of higher education.

1 “(5) FEDERAL STUDENT LOAN.—The term
2 ‘Federal student loan’ means a loan made under this
3 part.”.

4 **SEC. 3. PROGRAM PARTICIPATION AGREEMENTS.**

5 Section 487(a) of the Higher Education Act of 1965
6 (20 U.S.C. 1094(a)) is amended by adding at the end the
7 following:

8 “(30) The institution will comply with the re-
9 quirements of section 454A.”.

10 **SEC. 4. INCREASED TAX ON NET INVESTMENT INCOME OF**
11 **CERTAIN EDUCATIONAL INSTITUTIONS WITH**
12 **LARGE ENDOWMENTS THAT INCREASE TUI-**
13 **TION.**

14 Section 4968 of the Internal Revenue Code of 1986
15 is amended by adding at the end the following new sub-
16 section:

17 “(e) INCREASED TAX ON CERTAIN APPLICABLE
18 EDUCATIONAL INSTITUTIONS THAT INCREASE TUI-
19 TION.—

20 “(1) IN GENERAL.—In the case of any disquali-
21 fied large applicable educational institution for any
22 taxable year beginning after December 31, 2024,
23 subsection (a) shall be applied by substituting ‘25
24 percent’ for ‘1.4 percent’ for such taxable year.

1 “(2) DISQUALIFIED LARGE APPLICABLE EDU-
2 CATIONAL INSTITUTION.—For purposes of this sub-
3 section, the term ‘disqualified large applicable edu-
4 cational institution’ means, with respect to any tax-
5 able year, any institution if—

6 “(A) such institution is an applicable edu-
7 cational institution for such taxable year,

8 “(B) the average tuition charged to full-
9 time students for semesters during such taxable
10 year exceeds the inflation adjusted base amount
11 for such taxable year, and

12 “(C) the aggregate fair market value (de-
13 termined as of the end of the preceding taxable
14 year) of the assets of such institution (other
15 than those assets which are used directly in car-
16 rying out the institution’s exempt purpose)
17 equal or exceeds \$2,500,000,000.

18 “(3) INFLATION ADJUSTED BASE AMOUNT.—
19 For purposes of this subsection—

20 “(A) IN GENERAL.—The term ‘inflation
21 adjusted base amount’ means, with respect to
22 any applicable education institution for any tax-
23 able year which begins in any calendar year, the
24 sum of—

1 “(i) the base amount of such institu-
2 tion, plus

3 “(ii) the product of—

4 “(I) such base amount, multi-
5 plied by

6 “(II) the cost-of-living adjust-
7 ment determined under section 1(f)(3)
8 for the calendar year in which the tax-
9 able year begins, determined by sub-
10 stituting ‘calendar year 2023’ for ‘cal-
11 endar year 2016’ in subparagraph
12 (A)(ii) thereof.

13 “(B) BASE AMOUNT.—The term ‘base
14 amount’ means, with respect any applicable
15 educational institution, the average tuition
16 charged to specified students for semesters dur-
17 ing calendar year 2024.

18 “(4) APPLICATION TO NEW INSTITUTIONS.—In
19 the case of any applicable educational institution not
20 in existence at all times during calendar year
21 2024—

22 “(A) the base amount with respect to such
23 institution shall be determined with respect to
24 the first full calendar year for which such insti-
25 tution is in existence,

1 “(B) the inflation adjusted base amount
2 shall be determined by using the calendar year
3 preceding such first full calendar year as the
4 year substituted in paragraph (3)(A)(ii)(II),
5 and

6 “(C) paragraph (1) shall not apply to any
7 taxable year beginning before the end of such
8 first full calendar year.

9 Notwithstanding the preceding sentence, if the aver-
10 age tuition charged by any applicable educational in-
11 stitution to specified students during the first full
12 calendar year for which such institution is in exist-
13 ence is higher than such average for any of the 3
14 succeeding calendar years, the base amount and in-
15 flation adjusted base amount with respect to such
16 institution shall be determined in such manner as
17 the Secretary may provide.”.

○