

### **Incentive Compensation**

Incentive compensation refers to the practice of institutions offering a “commission, bonus, or other incentive payments based directly or indirectly on success in ensuring enrollments or financial aid to any persons or entities engaged in any student recruiting or admission activities or in making decisions regarding the award of student financial assistance.”<sup>i</sup> The use of incentive compensation—tying a recruiter’s pay to the number of students they enroll—by institutions often results in abusive tactics, as it places the financial interests of recruiters before the students’ educational and financial interests.

Since the 1950s, NACAC has prohibited its members from using incentive compensation when recruiting students. After recurring instances of abusive recruitment practices as a component of fraud in the federal student aid programs, Congress implemented a ban on this form of payment in the 1992 Higher Education Act reauthorization. NACAC strongly supports the federal ban on the use of incentive compensation to recruit students and believes the prohibition is an essential component of the federal student assistance program integrity measures.

### **Protecting Students and Taxpayers**

Banning the use of incentive compensation protects students from predatory practices. When incentive compensation is allowed, unscrupulous institutions have consistently engaged in predatory practices fueled by monetary incentives, all of which are well-documented:

- Create a high-pressure sales environment in which recruiters operate under ‘boiler-room’ conditions;
- Create a false sense of urgency among students, suggesting that admission is selective (when it is not) or that space in classes is limited (when it is often not);
- Use tactics intended to pressure and shame students into enrolling;
- Misrepresent multiple aspects of their programs, including the cost of a certificate or degree; graduation and/or job placement rates; a program’s or college’s accreditation and/or the student’s ability to sit for licensing exams; and the ability to transfer credits to another institution;
- Encourage students to take out more loans than necessary.

Such predatory recruitment practices are predictable whenever steps are taken to weaken the federal ban on incentive compensation. As a result, students who fall victim to these practices are often left with no degree, significant debt and no way to pay back their loans; they are often worse off than if they never enrolled in the first place. In addition, taxpayers are left to foot the bill for loan defaults or discharges.

### **Federal Policy Regarding Incentive Compensation**

Congress first enacted the HEA ban on incentive compensation in the 1992 reauthorization. In 2002, the Department of Education created 12 “safe harbors” that effectively gutted the incentive compensation statute, and contributed to fraud and abuse on a scale not previously experienced in the federal student aid programs. In 2010, the Department of Education eliminated the safe harbors in response, and issued regulations that remain in place to ensure program integrity.

**NACAC opposes any effort to weaken or eliminate the ban on incentive compensation, which will only serve to reignite a well-established cycle of fraud and abuse, harm students, and jeopardize scarce taxpayer funds.**

---

<sup>i</sup> Title 34 Code of Federal Regulations (C.F.R.) Section (§) 668.14(b)(22)(2016)  
United States Code (USC) Section 20 USC 1094(a)(20)) (1994)