



### **Higher Education Accountability**

The Senate Committee on Health, Education, Labor and Pensions is working on a reauthorization of the Higher Education Act. The law dates to 1965 and has been reauthorized 8 times. The last reauthorization occurred in 2008.

This white paper provides an overview of the federal accountability requirements that currently exist in higher education and considers a number of concepts or proposals for updating the measures.

**Goal:** Update the federal accountability measures for institutions of higher education to ensure that students are receiving an education worth their time and money.

**Strategy:** Modernize and simplify the federal requirements for institutions of higher education to participate in the federal student loan program by creating more effective accountability measures focused on the repayment of federal student loans.

### **Federal Government Support for Higher Education**

Each year, federal taxpayers provide significant sums of money to support higher education through various student financial aid programs authorized under Title IV of the Higher Education Act of 1965. In the 2016-17 school year, the federal government provided approximately \$123 billion in financial aid to help nearly 13 million students pay for college.<sup>1</sup> This financial aid consisted of nearly \$28 billion in Pell and other grants – which are scholarships based on need and which students do not repay; nearly \$94 billion in federal student loans – which students and parents must pay back; and nearly \$1 billion in federal work study assistance – which is a program that allows students to earn money to pay for college that they do not repay.

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<sup>1</sup> U.S. Department of Education, “Annual Report FY 2017,” Federal Student Aid, 2017, <https://www2.ed.gov/about/reports/annual/2017report/fsa-report.pdf>.

Policymakers generally support spending these public funds because the benefits of higher education are not realized only by the individual, such as in increased job prospects and higher earnings, but society benefits as well. Individuals with higher levels of education lead healthier and more active lifestyles, are more civically engaged, vote more regularly, and they are also more likely to be employed, pay more in taxes, and rely less on government assistance programs.<sup>2</sup>

### **Accountability Requirements for Title IV Participation**

Given the volume of taxpayer funding for higher education and the positive benefits of a quality education for individuals and society, the federal government is right to be concerned about accountability for all institutions of higher education. Historically, the federal government has largely funded individual students to enter the marketplace of colleges and universities and allowed federal funds to follow the student to the institution of their choice rather than directly funding individual college operations. To a large extent, this marketplace approach has worked well as our nation's 6,000 diverse colleges compete for students, and students "vote with their feet" to raise standards, quality, and performance.

However, higher education does not operate in a perfect marketplace. According to a recent Urban Institute paper written by a bipartisan group of economists and higher education experts, "market forces do not provide adequate consumer protection in an industry characterized by complexity, incomplete information, inexperienced consumers, and third-party payments that cover a significant share of costs for many students and many providers."<sup>3</sup> In other words, reasonable federal requirements on the allocation of billions of taxpayer dollars can and should exist to correct any market failure.

To ensure proper use of taxpayer dollars in federal student aid programs, policymakers established a framework of three actors: states, accrediting agencies, and the federal government. Collectively, these three actors have become known as the "triad," with each actor playing a different role in overseeing our nation's diverse set of higher education institutions. In general, for a college to be eligible to accept students using federal financial aid, the institution must be authorized or approved to operate by a state, be accredited by a federally recognized accrediting agency, and meet basic federal requirements.

### **Federal Requirements**

While accreditors are responsible for ensuring academic quality and states are charged with basic authorization and consumer protection issues, Congress, through laws, and the U.S. Department of Education, through regulations implementing the laws Congress has passed, have established a set of federal requirements focused on proper stewardship of taxpayer dollars. In law, Congress

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<sup>2</sup> Jennifer Ma, Matea Pender, and Meredith Welch, "Education Pays 2016: The Benefits of Higher Education for Individuals and Society," The College Board, 2016, <https://trends.collegeboard.org/sites/default/files/education-pays-2016-full-report.pdf>

<sup>3</sup> Sandy Baum, Douglas N. Harris, Andrew Kelly, and Ted Mitchell, "A Principled Federal Role in Higher Education," Urban Institute, September 2017, [https://www.urban.org/sites/default/files/publication/93291/a\\_principled\\_federal\\_role\\_in\\_higher\\_education\\_1\\_2.pdf](https://www.urban.org/sites/default/files/publication/93291/a_principled_federal_role_in_higher_education_1_2.pdf)

has created a “program participation agreement,” which acts as a contract between the U.S. Department of Education and schools. The U.S. Department has also added additional measures of accountability through the regulatory process. Among the many requirements in the U.S. Department of Education’s regulations and in a college’s program participation agreement for colleges to access taxpayer monies, three accountability requirements are most significant: cohort default rates, the 90/10 rule, and the gainful employment rule.

The upcoming reauthorization of the Higher Education Act is a good opportunity to review, modify, or eliminate these accountability provisions as they may have become dated, poorly focused, or ineffective.

### *Cohort Default Rates*

Cohort default rates have been the cornerstone of federal accountability since their introduction in the Omnibus Reconciliation Act of 1990. Under the cohort default rate requirement, a college’s eligibility to receive federal funds under Title IV of the Higher Education Act is based on whether a certain percentage of its student loan borrowers default after leaving school within a specified time period. This was intended to address concerns that some colleges, mainly for-profit colleges, were leaving students with debt and no valuable education. Cohort default rates are currently the only accountability measurement that looks at if students are paying back their federal loans. Today, colleges and universities whose default rates remain above 30 percent for three years, or rise above 40 percent in a single year, may lose eligibility to participate in Title IV student aid programs.

Despite being a cornerstone of higher education accountability, sanctions are rarely applied. In the U.S. Department of Education’s announcement of cohort default rates, using the FY 2014 cohort, only 10 institutions – out of approximately 6,000 schools – were sanctioned for rates that exceeded federal thresholds, and over the preceding 3 years a total of only 46 were sanctioned.<sup>4</sup> Even when sanctioned, institutions facing a potential loss of eligibility are afforded generous appeal processes that result in minimal consequences. The number of institutions actually kicked out of the federal student aid program is shockingly small. According to a Congressional Research Service analysis of the U.S. Department of Education data, since 1999, only 11 colleges and universities have been removed from the Title IV student aid programs because of high cohort default rates.

The cohort default rate requirement does not provide meaningful incentives for colleges to improve their default rates. Schools are treated the same regardless of whether their annual default rates are 1 percent or 29 percent, just below the threshold for sanction. An analysis by the Center for American Progress’s Ben Miller shows how low a bar cohort default rates are. In 2014, the schools that failed the cohort default rates measure had just 1,593 borrowers (0.03 percent of all borrowers) and 583 defaulters (0.1 percent of all defaulters).<sup>5</sup> And in 2017, over

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<sup>4</sup> U.S. Department of Education, “U.S. Department of Education Releases National Student Loan FY 2014 Cohort Default Rate,” September 27, 2017, <https://www.ed.gov/news/press-releases/us-department-education-releases-national-student-loan-fy-2014-cohort-default-rate>.

<sup>5</sup> Robert Kelchen, “It’s Time to Move Beyond Cohort Default Rates,” September 27, 2017, <https://robertkelchen.com/2017/09/27/its-time-to-move-beyond-cohort-default-rates/>.

\$400 million in federal funds (0.3 percent of all federal funds) went to schools with a cohort default rate between 30 and 40 percent.<sup>6</sup> These statistics indicate that cohort default rates are a low bar for performance that hold very few institutions accountable for the number of students that default on their loans.

In addition, cohort default rates do not show a complete picture of student loan repayment. Avoiding default is not synonymous with repaying one's loans. In fact, 12 percent of federal loans held by students who have graduated or left school are in default. Comparably, nearly 26 percent are in either forbearance or deferment, which are statuses in law that allow borrowers to defer payments for reasons such as military deployment, returning to school, or economic hardship. Another 9 percent of borrowers are delinquent on their loan payments.<sup>7</sup>

This adds up to nearly half of all borrowers not making any payments on their student loans. Included in the other half that are considered to be making payments are borrowers whose incomes are low enough or whose debt is high enough to qualify them for a payment plan based on their income. If these borrowers make very low incomes, their payments may be zero.

Research by Robert Kelchen of Seton Hall University and Amy Li of the University of Northern Colorado found that the percentage of borrowers who did not repay even \$1 of the principal on their loans three years after leaving school was between 39 and 47 percent for the three groups of borrowers studied. The default rate for those same groups of borrowers ranged from 6 to 8 percent.<sup>8</sup> Close to half of the students studied were only making interest payments on their loans, but cohort default rates do not track this information. The focus on cohort default rates fails to account for and hold schools responsible for the large share of borrowers who are not in default, but are still struggling or unable to repay their loans.

### *90-10 Rule*

Another requirement – the 90-10 rule – was enacted by Congress in the 1992 reauthorization of the Higher Education Act. Originally introduced as the 85-15 rule in 1992 and changed to 90-10 in 1998, it requires that at least 10 percent of a for-profit institution's revenue come from non-federal sources. The rule was intended to ensure that for-profit programs are of sufficient quality to attract additional investment from the students themselves, and that for-profit colleges do not rely solely on government funding.<sup>9</sup>

Proponents of the 90-10 rule argue that it is a market-based accountability test because it requires someone other than the federal government to be willing to pay for a student's program or credential, and that schools with high 90-10 ratios are poor quality schools. According to The

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<sup>6</sup> Michael Itzkowitz, "Why the Cohort Default Rate is Insufficient," Third Way, November 7, 2017, <http://www.thirdway.org/report/why-the-cohort-default-rate-is-insufficient>.

<sup>7</sup> Federal Student Aid Data Center, "Federal Student Aid Portfolio Summary," <https://studentaid.ed.gov/sa/about/data-center/student/portfolio>.

<sup>8</sup> Robert Kelchen and Amy Li, "Institutional Accountability: A Comparison of the Predictors of Student Loan Repayment and Default Rates," *The ANNALS of the American Academy of Political and Social Science*, April 27, 2017, <http://journals.sagepub.com/doi/full/10.1177/0002716217701681>.

<sup>9</sup> Mark Kantrowitz, "Consequences of the 90/10 Rule," Edvisors.com, August 19, 2013, <https://www.edvisors.com/media/files/student-aid-policy/20130819-90-10-rule.pdf>.

Institute for College Access and Success, “federal taxpayers should not be propping up low-quality schools. If a college offers a quality education at a competitive price, someone other than the federal government [...] will be willing to pay for attendance at the school.”<sup>10</sup>

However, this rule has also been shown to be problematic for accountability purposes.

Notwithstanding the fact that taking out loans is evidence of a student’s willingness to pay for attendance, what 90-10 really measures is the socioeconomic status of students enrolled at the school, not the quality of the institution. Additionally, 86 percent of first-time, full-time undergraduates at 4-year institutions and 79 percent of first-time, full-time undergraduates at 2-year institutions received federal financial aid in 2014-2015, demonstrating that students who have the resources to contribute personal or family funds or secure private loans to cover the full cost of higher education are a small minority.<sup>11</sup> A report by higher education finance expert Mark Kantrowitz that applied 90-10 to all colleges (not just for-profits, as the rule stipulates) estimated that 80 percent of public two-year colleges and 40 percent of public four-year colleges would fail the rule if it applied to them.

Unless we believe that nearly all of our nation’s two-year schools are low quality, these findings suggest that 90-10 is neither a good accountability tool nor a measure of quality, but merely an indicator of the level of government support for low- and middle-income students.

The 90-10 rule’s applicability only to for-profit institutions—perhaps based on an aversion to allowing corporations to generate more than 90 percent of their revenue from the federal government—is policy worthy of debate. However, if an institution produces valuable outcomes for its students, including that students are able to graduate, get a job, and repay their federal loans, then concerns over the volume of taxpayer dollars as a percentage of revenue becomes less meaningful as an accountability measure.

### *Gainful Employment Rule*

In 2010, the U.S. Department of Education added another institutional eligibility requirement through a 945-page regulation aimed at accountability for all programs at for-profit colleges and certain education programs offered by non-profit institutions. The rule defined a phrase in the Higher Education Act of 1965 that requires certain education programs “to prepare students for gainful employment in a recognized occupation.” In defining the phrase “gainful employment,” the U.S. Department of Education established Title IV eligibility based on whether borrowers in a particular program had too much debt relative to their earnings. Specifically, the Department set the standard that a borrower’s debt cannot be more than 8 percent of his or her income. Programs with an average debt-to-income ratio greater than 8 percent are considered failing and may lose eligibility to participate in federal student aid programs.

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<sup>10</sup> The Institute for College Access & Success, “Q&A on the For-Profit College ’90-10 Rule,” January 25, 2016, [https://ticas.org/sites/default/files/pub\\_files/90-10\\_qa\\_0.pdf](https://ticas.org/sites/default/files/pub_files/90-10_qa_0.pdf).

<sup>11</sup> Molly Sarubbi and Sarah Pingel, “How States Use Federal, State and Institutional Aid to Pay for College: A Primer for State Policymakers,” Education Commission of the States, January 2018, [https://www.ecs.org/wp-content/uploads/How\\_Students\\_Use\\_Federal\\_State\\_and\\_Institutional\\_Aid\\_to\\_Pay\\_for\\_College..pdf](https://www.ecs.org/wp-content/uploads/How_Students_Use_Federal_State_and_Institutional_Aid_to_Pay_for_College..pdf)

While the gainful employment rule started a constructive conversation on rethinking benchmarks around loan debt for participating in Title IV, it too has flaws as an accountability measurement.

One of gainful employment's primary shortcomings is that it does not apply to all programs at all colleges and universities. Although the Higher Education Act of 1965 defines Title IV eligibility differently for career programs and non-career programs, we should want all programs to produce good outcomes for students. If policymakers have a concern that certain programs are leaving students with too much debt relative to income, then all programs should be held to that same standard. In a *New York Times* op-ed titled "Programs That Are Predatory: It's Not Just at For-Profit Colleges," Kevin Carey of New America writes, "it might make more sense to expand the regulations to include for-profit and nonprofit colleges alike" for both student protection and affordability concerns.<sup>12</sup>

The gainful employment rule was supposed to ensure that "bad actors can't take advantage of people trying to better their lives," in the words of former U.S. Secretary of Education Arne Duncan.<sup>13</sup> Harvard's failing gainful employment program is a telling example of how this rule has had unintended results. It is hard to imagine that policymakers would have considered Harvard University a "bad actor," but its graduate program in theatre failed the gainful employment test in 2017 as students were devoting 44 percent of their discretionary income to loans taken out to pay the \$63,000 tuition.

Part of the reason for the unintended results may be because of shortcomings in how the Department decided what level of debt to income was too much. The drafters of the gainful employment rule decided on an 8 percent debt to income threshold, primarily based on a report by the Urban Institute's Sandy Baum and Carleton University's Saul Schwartz that said 8 percent was generally accepted as the maximum percentage of income that people should put towards student loan repayment.<sup>14</sup>

But shortly after the original gainful employment regulations were released in 2010, Baum and her Urban Institute colleague Michael McPherson reflected on the Baum and Schwartz paper and the new regulations. They wrote, "Much of the discussion about these [gainful employment] rules confounds manageable debt levels for individuals with appropriate standards for institutions."<sup>15</sup>

This 8 percent standard does not make sense in the context of loans for higher education. A borrower with a 13 percent debt-to-income ratio may very well be making loan payments, while a borrower with a 7 percent debt-to-income ratio may not be making loan payments. But under

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<sup>12</sup> Kevin Carey, "Programs That Are Predatory: It's Not Just at For-Profit Colleges," *New York Times*, January 13, 2017, <https://www.nytimes.com/2017/01/13/upshot/harvard-too-obamas-final-push-to-catch-predatory-colleges-is-revealing.html>.

<sup>13</sup> Kelly Field, "Secretary of Education Promises 'Thoughtful' Gainful Employment Rule in Next Couple of Months," *The Chronicle of Higher Education*, April 5, 2011, <https://www.chronicle.com/article/Secretary-of-Education/127017>.

<sup>14</sup> Sandy Baum and Saul Schwartz, "How Much Debt Is Too Much? Defining Benchmarks for Manageable Student Debt," The College Board, 2006, <https://files.eric.ed.gov/fulltext/ED562688.pdf>.

<sup>15</sup> Sandy Baum and Michael McPherson, "Gainful Employment," *The Chronicle of Higher Education*, September 8, 2010, <https://www.chronicle.com/blogs/innovations/gainful-employment/26770>.

the gainful employment rule, the first borrower's payments are considered unaffordable, and his or her program could be deemed ineligible, because of an arbitrary "affordability" standard.

However, the gainful employment regulation did start a constructive conversation about establishing performance-based standards on student lending. Banks and other financial institutions regularly look at income or other measures to assess people's ability to repay a loan for everything from a house to a car and the government, acting as a lender for student loans with taxpayer dollars, should not be immune to similar considerations.

Rather than using a government definition of what is an "acceptable" amount of debt, federal policymakers should explore whether measures of actual loan repayment are more useful for determining whether to continue to allow student loans to pay for specific programs or institutions.

### **Trends and Factors Driving The Need For A New Paradigm for Title IV Eligibility**

For many years, student access to higher education has been the central focus of federal higher education policy, and the triad that oversees our nation's higher education system has always kept that goal in mind. When President Lyndon B. Johnson signed the original Higher Education Act of 1965 into law, he envisioned a future where "a high school senior anywhere in this great land of ours can apply to any college or any university in any of the 50 states and not be turned away because his family is poor."

Looking ahead to 2018 and beyond, federal policymakers should continue to emphasize the goal of student access to higher education. However, federal policymakers should begin asking with greater emphasis: how do you measure success for federal accountability purposes?

To be clear, when discussing success or even accountability, our intent is to ensure students are getting a quality education that prepares them for successful futures and taxpayers are getting value for the more than \$120 billion invested in higher education. It is not the intention to debate whether the federal government should exert control over, or set minimum thresholds for, college graduation rates, completion rates, or any student learning measure. This is not an attempt to start a conversation on higher education's version of K-12's No Child Left Behind Act, which focused on testing, assessments, and other measures of school success. Accreditors, as another leg of the triad, are responsible for determining acceptable indicators of quality and student learning.

The focus for federal policymakers is to examine whether students are able to repay billions of taxpayer dollars in student loans and are taking out those loans for programs that are priced too high, give students no material economic benefit, or set them up for decades of debt.

A number of trends and factors are driving the conversation around rethinking accountability and how the federal government allocates taxpayer money for higher education.

### *Taxpayer Exposure to Federal Student Debt/Default*

To any budget cruncher or fiscal hawk, total aggregate federal student loan debt is an eye-popping number. The federal government's outstanding loan portfolio for higher education stood at nearly \$1.4 trillion in fiscal year 2017, increasing \$75 billion from the previous year.<sup>16</sup> In 2017, student loan debt was the second highest amount of debt Americans owed to creditors, surpassing credit card and auto loan debt and second only to mortgage debt.<sup>17</sup>

While this debt figure looks alarming, not all debt is created equal, and on balance, education debt is generally considered a good debt. A 2014 report from the Georgetown University Center on Education and the Workforce found that college educated individuals can make approximately \$1 million more over a lifetime than individuals who didn't go to college.<sup>18</sup> With that context, the average student loan debt per borrower of \$29,000—roughly the same amount as an average new car loan—seems like a smart investment.

Nevertheless, these large numbers force policymakers to consider the massive taxpayer exposure and liability, and the financial burden on students and their families.

Given that nearly 90 percent of all student loan dollars are held by the federal government,<sup>19</sup> policymakers should be even more concerned with repayment of this debt, and particularly with some students borrowing money that they will never be able to repay.

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<sup>16</sup> U.S. Department of Education, "Annual Report FY 2017," Federal Student Aid, 2017, <https://www2.ed.gov/about/reports/annual/2017report/fsa-report.pdf>.

<sup>17</sup> Erin El Issa, "2017 American Household Credit Card Debt Study," NerdWallet, <https://www.nerdwallet.com/blog/average-credit-card-debt-household/>.

<sup>18</sup> Anthony P. Carnevale, Stephen J. Rose, and Ban Cheah, "The College Payoff: Education, Occupations, Lifetime Earnings," The Georgetown University Center on Education and the Workforce, November 2014, <https://cew.georgetown.edu/wp-content/uploads/2014/11/collegepayoff-complete.pdf>.

<sup>19</sup> The College Board, "Total Federal and Nonfederal Loans over Time," <https://trends.collegeboard.org/student-aid/figures-tables/total-federal-and-nonfederal-loans-over-time>.

A basic assumption in any loan program is that the amount borrowed will ultimately be repaid with interest. That is not the case in higher education:

- 43 million borrowers currently have outstanding federal student loans;<sup>20</sup>
- 8 million borrowers, or about one in six people with federal student loan debt, were in default in 2016;<sup>21</sup>
- the total amount of defaulted debt topped \$137 billion in 2016 and rose by 14 percent from the previous year;<sup>22</sup> and finally,
- of borrowers who entered repayment in 2005, only 37 percent made all their payments on time, 23 percent entered deferment or forbearance, 26 percent became delinquent but did not default, and 15 percent defaulted within five years.<sup>23</sup>

These liabilities to the taxpayer and, more importantly, consequences for the borrower should prompt federal actors to act.

### *Generosity of Federal Loan Program*

Another factor influencing the discussion around accountability is the generosity of the federal student loan program. Under the federal student loan program, an applicant:

- does not have to pass a credit check or an ability to benefit review;
- receives a below market interest rate;
- has access to repayment plans that allow a low monthly payment (\$0 is even permissible); and
- may have a loan that can be forgiven after 10 years (public service) or 20 years (income-based) with no penalty.

These terms have developed as Congress has passed laws and reauthorizations of the Higher Education Act without fully considering the interactive effects of each policy decision.

Policymakers should be alarmed at a November 2016 Government Accountability Office (GAO) report that revealed that the U.S. Department of Education increased its estimate of the cost of federal direct loans in income-driven repayment plans. The latest estimate is that loans from fiscal years 1995-2017 will cost the government \$74 billion. This equates to \$21 forgiven for every \$100 loaned.<sup>24</sup> GAO attributed the underestimate to higher-than-expected borrower enrollment in income-based repayment plans and the impact of rising college costs on student borrowing.

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<sup>20</sup> Federal Student Aid Data Center, “Federal Student Aid Portfolio Summary,” <https://studentaid.ed.gov/sa/about/data-center/student/portfolio>.

<sup>21</sup> Kim Clark, “A Record Number of People Aren’t Paying Back Their Student Loans,” *TIME*, March 14, 2017, <http://time.com/money/4701506/student-loan-defaults-record-2016/>.

<sup>22</sup> Kim Clark, “A Record Number of People Aren’t Paying Back Their Student Loans,” *TIME*, March 14, 2017, <http://time.com/money/4701506/student-loan-defaults-record-2016/>.

<sup>23</sup> Alisa F. Cunningham and Gregory S. Kienzl, “Delinquency: The Untold Story of Student Borrowing,” Institute for Higher Education Policy, March 2011, [http://www.ihep.org/sites/default/files/uploads/docs/pubs/delinquency-the\\_untold\\_story\\_final\\_march\\_2011.pdf](http://www.ihep.org/sites/default/files/uploads/docs/pubs/delinquency-the_untold_story_final_march_2011.pdf).

<sup>24</sup> United States Government Accountability Office, “Education Needs to Improve Its Income-Driven Repayment Budget Estimates,” November 2016, <https://www.gao.gov/assets/690/681064.pdf>.

## **Principles and Specific Proposals For An Updated Accountability Framework**

These trends and factors present an opportunity for policymakers to rethink aspects of the federal student loan program. When designing a new framework for allocating billions of taxpayer-backed loans to students, policymakers should consider a blank slate, by eliminating the current federal requirements of cohort default rates, 90-10, and gainful employment and starting fresh with a framework based on the following principles:

### 1) Return on Investment for Students and Taxpayers Matters

Congress should recognize that the federal government should not promote access to programs and institutions where students leave with excessive or unmanageable debt – debt that is almost entirely financed by taxpayers. Access to such programs and institutions does not benefit students, and it doesn't live up to the trust that taxpayers have placed in policymakers and the government to run the student loan program properly. That trust means taxpayers will lend money for students to obtain a quality education that increases their economic prospects and ability to contribute to society, with the expectation that they will repay their loans after they complete their education.

### 2) Programs of Study Matter

Historically, the federal government has determined “institutional” eligibility standards for participation in federal grants and loans. This approach has worked well, but we should design a new model that takes a more nuanced approach.

Different programs of study unlock different employment options upon completion. Sanctioning an entire institution for poor performance risks hampering programs at that institution that do provide robust returns to students. Conversely, giving an institution a passing grade for its overall performance risks sweeping serious programmatic problems under the rug. By evaluating individual programs instead, the federal government can help students and institutions target resources more effectively.

Federal policymakers have made some advances to move in the right direction but more can be done to improve accountability in higher education, specifically in moving towards use of a college's loan repayment rate as a measure of accountability. Similar to how cohort default rates measure the number of students in default, Congressional proposals have focused on measuring the number of students who are repaying their loans.

Last Congress, Senators Jeanne Shaheen (D-N.H.) and Orrin Hatch (R-Utah) proposed fixing accountability in higher education in the bipartisan Student Protection and Success Act. The legislation would move from a cohort default rate system to a loan repayment rate system. Specifically, eligibility for Title IV would be based on the percentage of students who fail to pay down at least \$1 of their principal loan balance within 3 years – whether because of default, deferment, or having an income too low and result in payments that cannot even cover the accruing interest when enrolled in income-based repayment. Schools whose repayment rates lag

the national average by 10 percent or more over three years would become ineligible to receive Title IV funds, and institutions with low repayment rates would have to pay into a fund supporting institutions that enroll large numbers of low-income students.

The House Committee on Education and the Workforce under Chairwoman Virginia Foxx took a similar approach. The Promoting Opportunity, Success, and Prosperity through Education Reform (PROSPER) Act proposes to eliminate 90-10 and gainful employment, sunset cohort default rates, and move to a programmatic form of loan repayment rates to determine Title IV eligibility. Under the PROSPER Act framework, college programs must have at least 45 percent of their students in “positive repayment status,” defined as not more than 90 days delinquent, over three years to remain eligible to receive Title IV funds.<sup>25</sup> A positive repayment status would include any borrowers who enter income-based repayment. Any program that falls below this threshold for a single year would be required to create a “repayment improvement task force.”

There are other ways to measure loan repayment rates, including looking at how many dollars students are repaying.

A 2017 Hamilton Project proposal by Tiffany Chou of the Department of Treasury, Adam Looney of the Brookings Institution, and Tara Watson of Williams College suggested creating a cohort repayment rate, which would calculate the percentage of federal student loan dollars that have been repaid five years after borrowers leave a school. If any college had a cohort repayment rate below 20 percent (which the authors write is consistent with full repayment in 15 years), the college would be required to pay part of the difference to the federal government. The percentage of outstanding loan dollars that the institution would repay would be higher for lower-performing schools; if repayment rates fell below 15 percent, the institution would repay the entire difference. Graduate and undergraduate loans would be considered separately, and institutions could be exempted or have sanctions reduced if they had very few borrowers. The revenue collected from these institutional payments would then be used to reward institutions with especially high rates of repayment among their low-income students.

It would also be possible to set accountability standards at a program level, rather than an institution level. Experts have shown that a student’s program of study is often more important for student outcomes than the institution attended. Any of the aforementioned proposals could be revised to focus on program-level metrics and sanctions rather than institutional-level ones.

A variation on the Hamilton Project proposal could apply a repayment rate at the program level and calculate the percentage of federal student loan dollars that have been repaid five years after borrowers leave a program. This dollar based approach would avoid some of privacy concerns that could come from using a student based approach to measure repayment at programs that enroll very few students.

In addition, rather than use the Hamilton Project’s 15 year standard, policymakers could assess variations, such as whether a program’s cohort has reduced the balance of the loans. If the balance increased and the program failed, it would be clear that the loans were not being paid

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<sup>25</sup> Promoting Real Opportunity, Success, and Prosperity through Education Reform Act, H.R. 4508, 115<sup>th</sup> Cong. (2017).

down because there was more interest accruing on the loans than principal being paid. Such a standard could clearly identify programs where students cannot keep up with the interest on their federal loans. It would also provide more flexibility for institutions to continue programs where students are able to repay, while either lowering the cost of or eliminating programs that put students in untenable financial situations.

### **Conclusion**

Repayment rates for accountability are a promising move in the right direction. Whether they are measured as the proportion of students in good repayment standing as suggested by members of Congress or by evaluating the amount of loan dollars repaid as suggested by monetary policy experts, the devil will be in the details.

This is the first Higher Education Act reauthorization since the Higher Education Opportunity Act of 2008 and the Health Care and Education Reconciliation Act of 2010, when the federal government became the principal bank for nearly all students. Congress has a responsibility to ask tough questions about how the federal government is protecting both taxpayers and students.

Support for federal loans to students in the name of access remains an important priority, but Congress must also reinforce taxpayers' trust that the loan program will work as promised. The nation needs an educated workforce to advance in a global economy, but taxpayers cannot be expected to continue to lend billions of dollars a year to students at programs that charge too much and do not provide the skills, education, or economic prospects necessary for borrowers to repay their loans.