Agenda

What the Department of Education does today

Discussions in Congress

Principles and ideas for reform
Defining federal accountability

Provisions that affect institutions’ performance affects their ability to receive federal financial aid

Not talking about:

• General requirements that apply to all firms—e.g. labor laws
• Requirements where performance doesn’t matter—e.g. binge drinking or copyright policies
<table>
<thead>
<tr>
<th>Item</th>
<th>Authorization</th>
<th>Institutions subject to it</th>
<th>Number of recently affected schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withdrawal rates</td>
<td>Regulatory</td>
<td>First-time entrants</td>
<td>Unknown</td>
</tr>
<tr>
<td>Accreditation</td>
<td>Statutory</td>
<td>All institutions</td>
<td>36 denied or terminated since 2014</td>
</tr>
<tr>
<td>Financial responsibility scores</td>
<td>Regulatory</td>
<td>Private institutions</td>
<td>187 had failing scores</td>
</tr>
<tr>
<td>90/10 Rates</td>
<td>Statutory</td>
<td>For-Profit institutions</td>
<td>17 did not meet 10% target</td>
</tr>
<tr>
<td>Program reviews and audits</td>
<td>Statutory</td>
<td>All institutions</td>
<td>A few hundred program reviews each year</td>
</tr>
<tr>
<td>Cohort default rates</td>
<td>Statutory; one-year cutoff regulatory</td>
<td>All institutions in federal loan programs</td>
<td>10 institutions</td>
</tr>
<tr>
<td>Gainful employment</td>
<td>Regulatory</td>
<td>Career training programs</td>
<td>2,042 programs at 777 institutions</td>
</tr>
</tbody>
</table>
Observations

Large focus on finances—90/10, responsibility scores, audits and program reviews

Student outcomes mostly relate to loans

Not particularly punitive

Nothing on completion, access, or equity
The result

Too much of accountability can feel burdensome or nitpicky without tackling larger challenges
Discussions in Congress
The two R’s

Repayment rates

Risk sharing
Repayment rates

Cohort default rates do not catch full suite of loan issues
Why cohort default rates come up short

How many schools failed the default rate test in 1994?
1,028

How many borrowers in FY2014 repayment cohort from the 10 schools that failed default test?
~1,500

How many borrowers default each year?
~1 million
PROSPER Act repayment rates

At least 45% of borrowers in each program must be in a “positive repayment status” by the end of the second fiscal year after entering repayment.

Positive repayment status:
• Paid off or closed
• Current or less than 90 days late
• In-school or military deferment
PROSPER Act Estimated effects

FOIA’ed data sent from ED to Congress

FY 2012 cohort measured in FY 2014 – institutional level only
## PROSPER Act Estimated effects

<table>
<thead>
<tr>
<th>Sector</th>
<th># Schools</th>
<th># Borrowers</th>
<th>% Schools</th>
<th>% Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public 4-year</td>
<td>1</td>
<td>1,095</td>
<td>0.2%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Private Nonprofit 4-Year</td>
<td>11</td>
<td>8,871</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Private For-Profit</td>
<td>384</td>
<td>324,060</td>
<td>24%</td>
<td>23%</td>
</tr>
<tr>
<td>Public 2-Year</td>
<td>41</td>
<td>44,802</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>
PROSPER Act Observations—Program level

Program results vary by graduates, do they for dropouts?

How do we determine programs for dropouts?

Do we need distinctions among all liberal arts majors?

Program-level cohort sizes may work against equity
College Scorecard repayment rate

**College Scorecard:** Percentage of borrowers who have not defaulted and reduced their original principal balance by at least $1.

<table>
<thead>
<tr>
<th>3-Year Loan Repayment Rate by Entering Cohort</th>
</tr>
</thead>
<tbody>
<tr>
<td>--------</td>
</tr>
<tr>
<td>63.5</td>
</tr>
</tbody>
</table>

Repayment rate discussion

We don’t have a full understanding of “why” students are not repaying

Issues of how students move through higher ed complicates repayment

IDR can create false failures

Is non-repayment really worse than default?
Percentage of borrowers who owed more than originally borrowed 12 years after entering college

<table>
<thead>
<tr>
<th></th>
<th>Defaulted</th>
<th>Did not default</th>
<th>Did not default or use an in-school deferment</th>
<th>Did not default, use an in-school or economic hardship deferment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public 4-Year</td>
<td>30.4</td>
<td>44.7</td>
<td>5.7</td>
<td>4.5</td>
</tr>
<tr>
<td>Private Nonprofit 4-Year</td>
<td>36.4</td>
<td>45.7</td>
<td>5.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Public 2-Year</td>
<td>31.3</td>
<td>35.5</td>
<td>6.8</td>
<td>11.1</td>
</tr>
<tr>
<td>Private For-Profit</td>
<td>57.6</td>
<td>21.3</td>
<td>12.5</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Did not default
Did not default or use an in-school deferment
Did not default, use an in-school or economic hardship deferment

Dropped Out
Completed
Designing a better repayment rate

Measure default, repayment of non-defaulters, and combined rate

Measure three full years in repayment and track balance after any subsequent enrollments

Count payments at all schools where borrowers have loans

Study prevalence of negative amortization on IDR to determine if separate test needed for % of students on IDR
Risk sharing

PROSPER Act—modified Return to Title IV

Other ideas
Case for risk sharing

Students must repay loans, taxpayers suffer losses, risk not held as much by school

Financial penalties could encourage better behavior than all-or-nothing measures like default rates
Big questions remain

What problem is it solving?

How would schools respond?

How do you avoid unintended consequences?
## PROSPER Act Risk sharing

Create a schedule for aid return when students drop out mid-term

<table>
<thead>
<tr>
<th>% of term finished</th>
<th>Current law Aid Kept by School</th>
<th>PROSPER Act Aid Kept by School</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 25%</td>
<td>Proportional (e.g. if completed 10%, return 90%, complete 28% return 72%)</td>
<td>0%</td>
</tr>
<tr>
<td>25 to 50%</td>
<td></td>
<td>25%</td>
</tr>
<tr>
<td>50% to 60%</td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>60% to 75%</td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>75% to 99%</td>
<td>0%</td>
<td>75%</td>
</tr>
<tr>
<td>100%</td>
<td>0%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Other risk sharing ideas

Typically based on either default or repayment rates

Key design questions:
• Pay portion of each balance? (e.g. 5% of each loan in default)
• Pay share that increases as results worsen? (e.g. 5% if default rate between 20 and 25%, then 10% if above that)
• Offer bonuses or risk adjust?
Other items

Likely see ideas from the left for demographic subgroups

Accreditation—differentiated reviews

Any push on earnings would likely be just disclosure
Principles and ideas for improving accountability
What’s the purpose of federal accountability?

Protect taxpayer money

Statement of values, goals, and aspirations for federal aid and incentives to achieve them

What are those goals?

- Access
- Completion
- Equity
- Post-school success
- Quality
1) Measure student outcomes we care about

Access

Completion

Loan success

Post-school success
2) Emphasize equity
% of 2002 High School Sophomores earning an associate degree or more by 2012

- White: 56 (12.8 earned AA, 43.2 earned BA)
- Black: 33.1 (12.6 earned AA, 20.5 earned BA)
- Hispanic: 30.4 (14.9 earned AA, 15.5 earned BA)
- Low SES: 22.9 (12.8 earned AA, 10.1 earned BA)
- High SES: 78.6 (9.2 earned AA, 69.4 earned BA)
Overall Earned Bachelor's Degree

Default Rate By 12 Years After Entry, 2003-04 Cohort

Source: Author analysis of data from National Center for Education Statistics, “2003-04 Beginning Postsecondary Students Longitudinal Study.”
Median percentage of loan balance owed 12 years after entry, 2003-04 cohort

Source: Author analysis of data from National Center for Education Statistics, “2003-04 Beginning Postsecondary Students Longitudinal Study.”
3) Upfront and ongoing accountability matter too

Too much outcomes work chases down problems that stronger upfront protections should have stopped

Ongoing accountability can discourage problems
4) Consequences can’t be all or nothing

Loss of financial aid is a “Nuclear Option”

Can only be used in most egregious circumstances

Can feel like an empty threat

Allows for encouraging improvement
5) Differentiate accountability

Some things are common across higher education—e.g. loan performance

Others are unique risks—e.g. finances and for-profit colleges

We do not have one triad
Implementing these principles

Separate default rates and Pell eligibility
Judge Pell on withdrawal rates
Track measures by equity groups
Vary performance goals by institutional groupings
Implementing these principles

Adopt interim steps into and out of the aid programs
• Allow grant access before loans
• Use disclosures, letters of credit, growth limitations, or other financial consequences

Higher standards for change of ownership

More stringent financial conditions at for-profits
Predictions
Predictions

Repayment rate feels likely

There’s appetite around Pell measure but no clear direction

Congress’ desire for accountability is mostly theoretical

Move to “treat all schools equally is very risky”
Questions?

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