Gainful Employment

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Last rule prompted positive changes by for-profit colleges

- Free trial programs
- Lowered or froze prices
- Changed curriculum

- By contrast, other efforts like cohort default rates or 90/10 focus on finding loopholes in formula

- Retroactive scholarships remain a potential issue

- No guarantee changes last if pressure abates

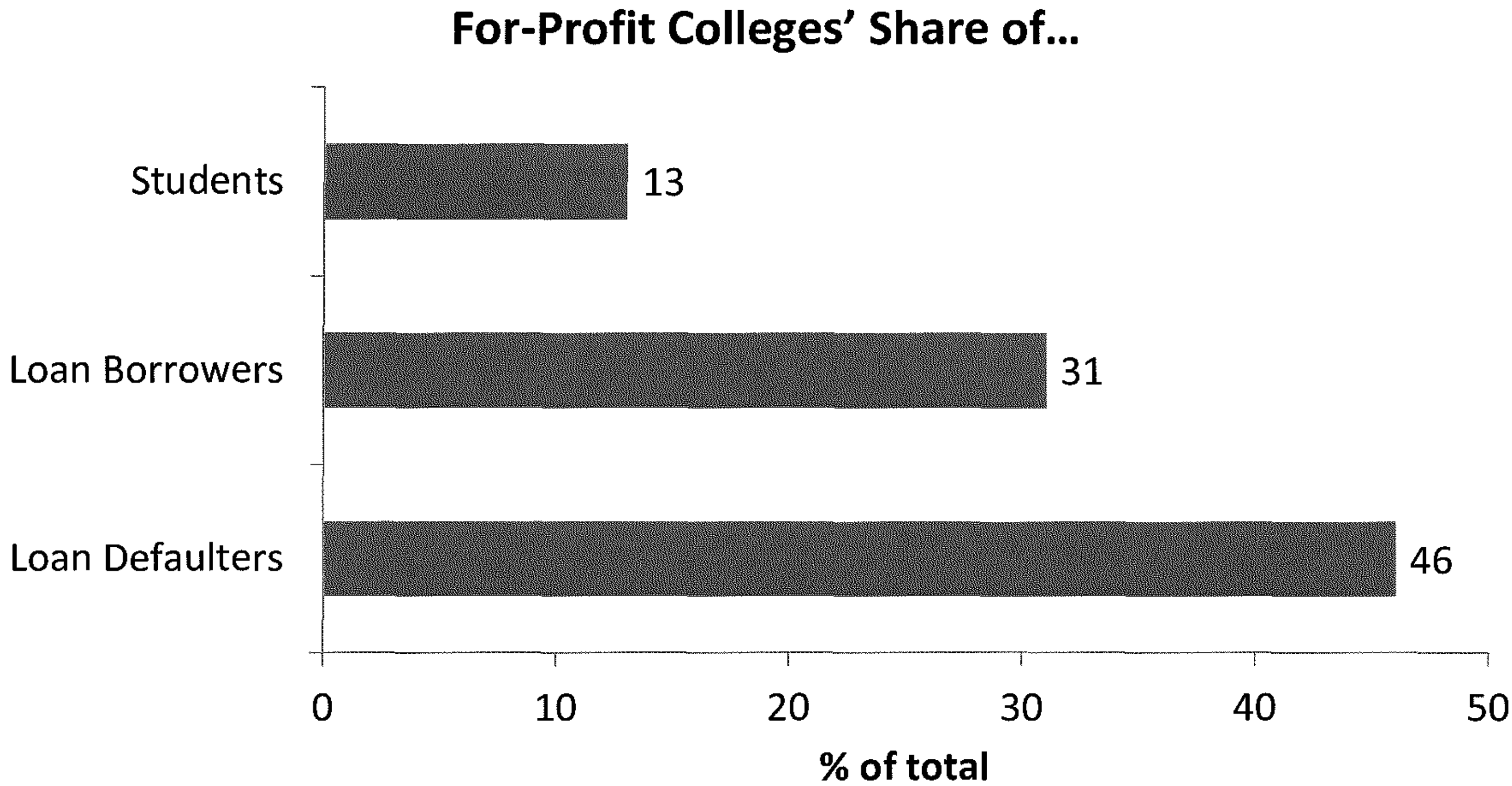
Access ≠ Acceptance

- The Higher Education Act states that federal aid is a student entitlement, not an institutional right (20 USC §1087b (b))
- The focus on completion means that simply enrolling anywhere can no longer be considered access
- The significant collection powers and difficulty of discharging loans in bankruptcy means access to loans for low-quality programs can be very damaging to the student

Main points

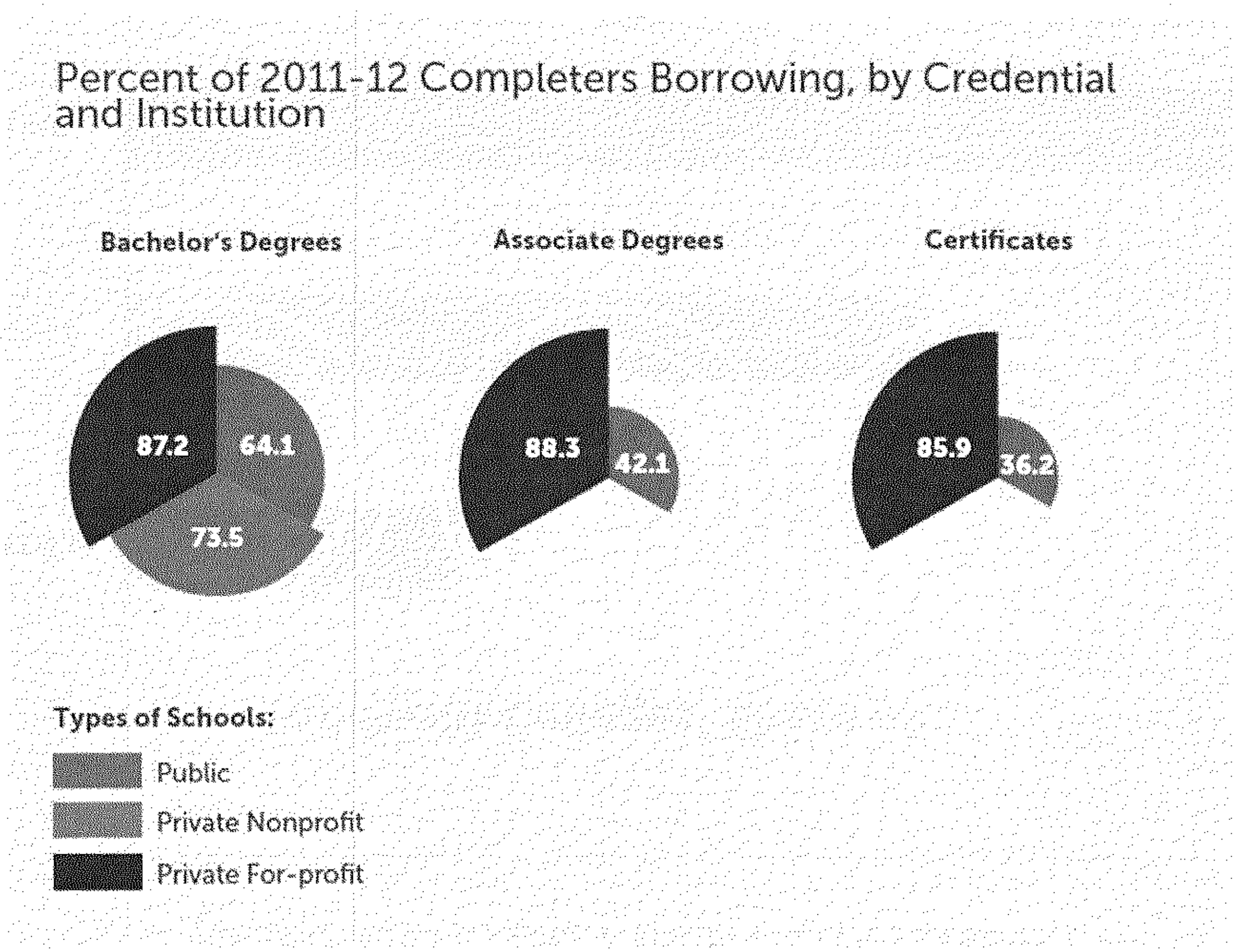
- Importance of "zone"
- Not enough protection against low earning programs
- Role of Discretionary DTE
- Need for program approval
- Other tweaks
- Be wary of inaccurate data

But concerns remain



Source: New America analysis of data from the Integrated Postsecondary Education Data System and FY2010 cohort default rates from the Office of Federal Student Aid

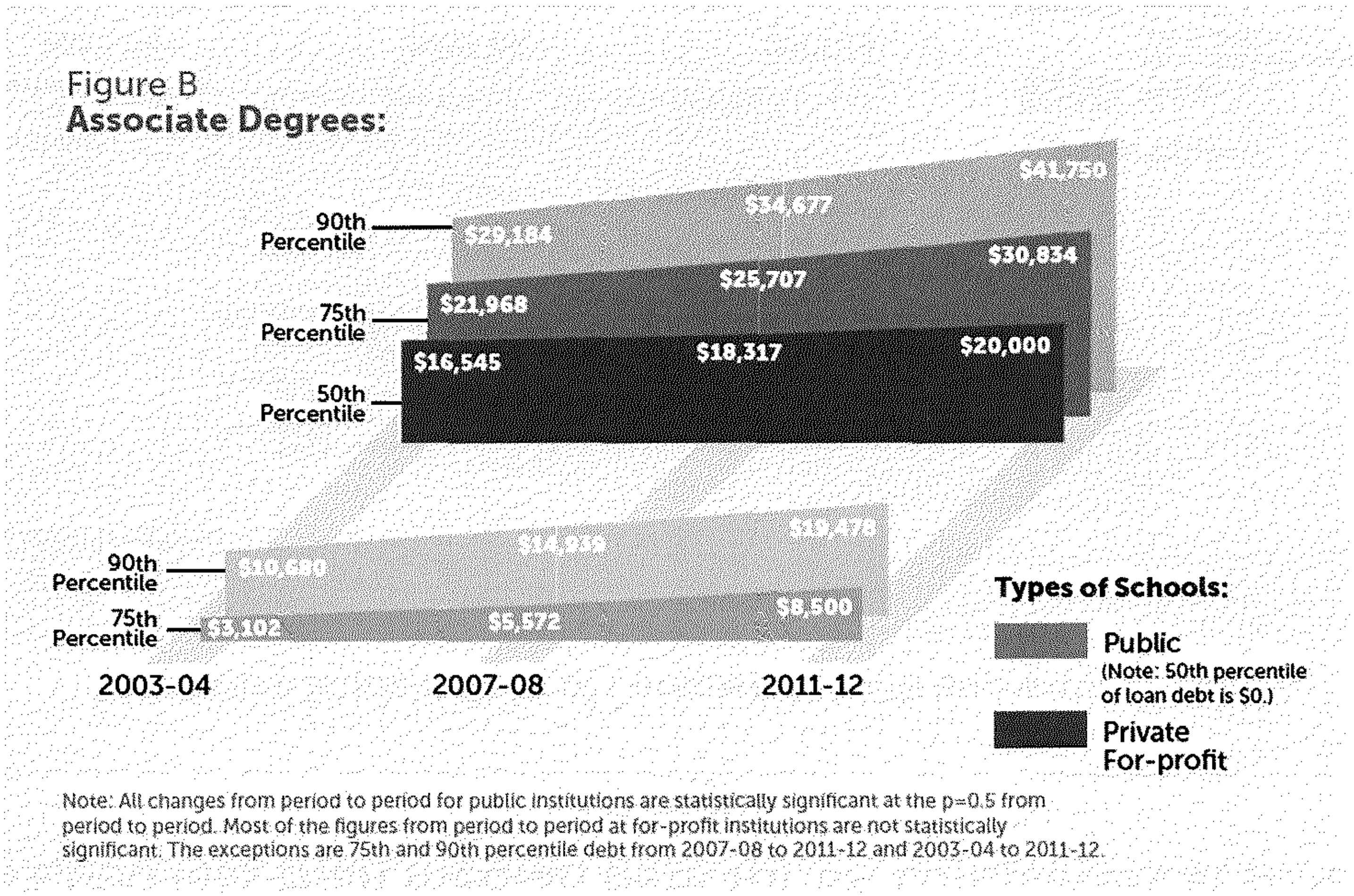
High borrowing rates



Source: New America analysis of data from 2011-12 National Postsecondary Student Aid Study

Median debt for AA grad from a for-profit is equal to 90th percentile debt for public AA grad

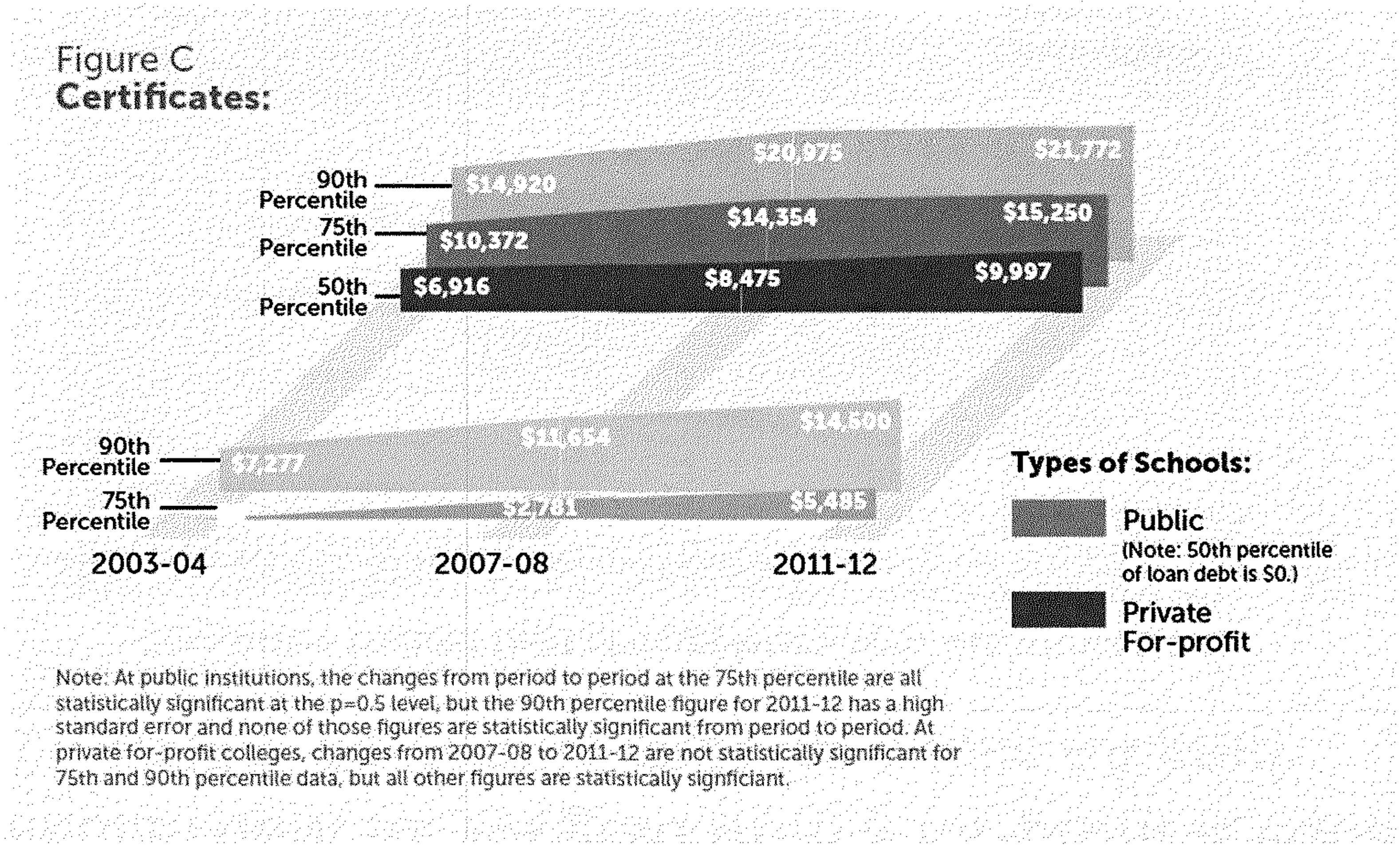
Cumulative Student Debt of Completers (with and without debt)



Source: New America analysis of data from 2011-12 National Postsecondary Student Aid Study

Median debt for certificate completers at for-profit colleges is ~$1,000 less than median debt for BA completers at public colleges

Cumulative Student Debt of Completers (with and without debt)



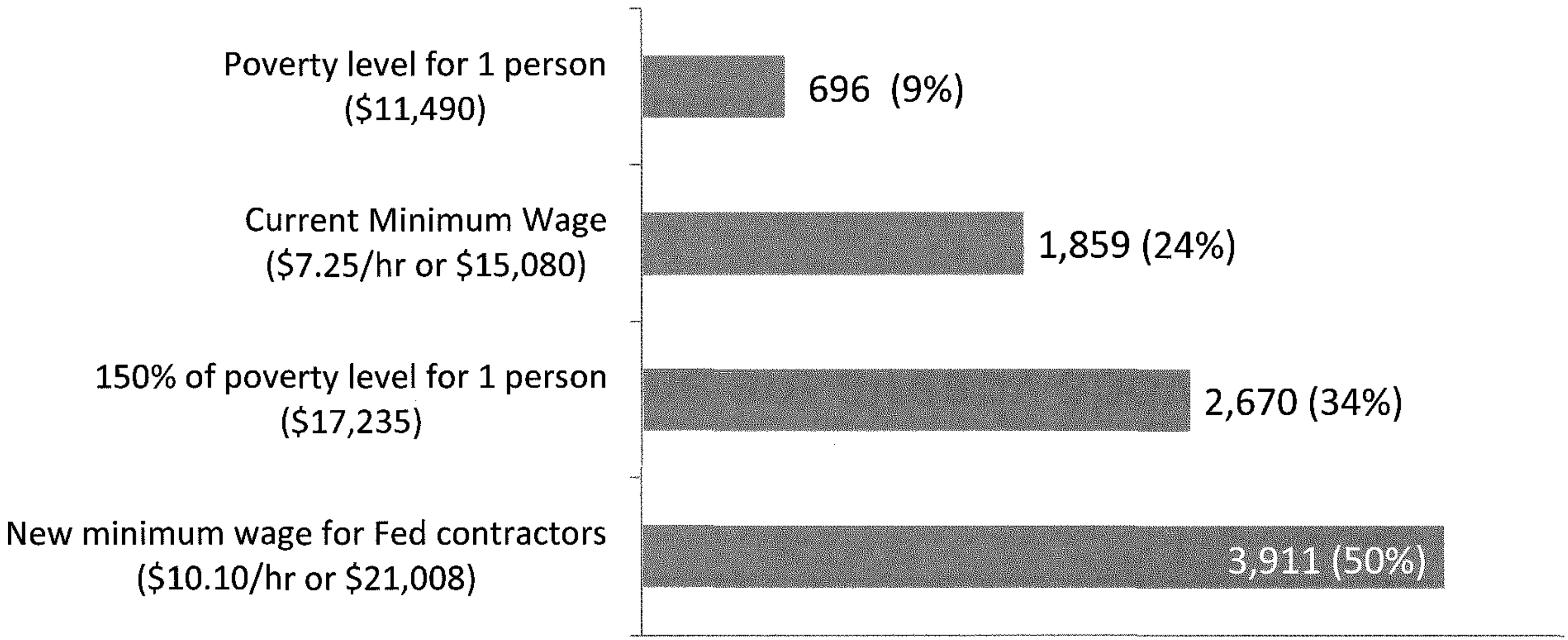
Source: New America analysis of data from 2011-12 National Postsecondary Student Aid Study

Middle “zone” is important

- Programs over 8% of annual or 20% of discretionary income are already above recommended levels
- Someone with a discretionary debt burden of 20% would have a partial financial hardship under IBR
- New mortgage requirements include a 43% monthly debt-to-earnings and include student loan debt in that calculation

Low Economic Return

Of 7,798 programs with average debt>0, the number that had annual earnings below...



Source: New America analysis of data from the U.S. Department of Education. Minimum wage calculations are annualized earnings of $7.25 and $10.10 an hour. Includes public, private nonprofit, and private for-profit programs.

Draft reg text allows programs with extremely low earning to pass

- Almost one-third of passing programs with average debt greater than zero have no discretionary earnings
- Nearly two-thirds of programs with average earnings at the poverty level and some debt still pass
- Because programs are judged on higher of mean and median, we know at best half the students at these programs have earnings below these levels

Programs with Average Debt>0, By Income Level and Status on Debt-to-Earnings Tests

Income Level	# Programs	% Passing	% Zone	% Failing
100% of Poverty	696	65	25	10
Minimum Wage	1,860	71	21	8
150% of Poverty	2,670	74	18	8

Source: New America analysis of data from the U.S. Department of Education.

Discretionary DTE plays minimal accountability role

- Programs that pass discretionary almost universally pass annual
- Discretionary results only help a tiny fraction of programs

Result	% of Programs
Pass only because of annual (pass annual, fail or zone discretionary)	24%
Pass only because of Discretionary (pass discretionary, fail or zone annual)	1%
Zone only because of Annual (zone annual, fail discretionary)	11%
Zone only because of discretionary (zone discretionary, fail annual)	<1%

IBR doesn't affect GE results, GE considers higher debt levels acceptable

- Congress says a partial financial hardship occurs if loan payments are above 10-15% of your annual earnings less 150% of the poverty level adjusted for family size.

- But the annual earnings test passes programs where everyone needs IBR to stay afloat

- If IBR is a safety net for struggling borrowers, sends odd message to say programs with higher average debt burdens are successful

- Allowing standards lower than what prompts a $0 payment in IBR means a program could be providing gainful employment and have not a single borrower ever make a payment

An alternative role for discretionary DTE

- Use discretionary DTE as the standard for borrower relief or loan reduction plans
- Requiring programs to reduce debt to the discretionary level ensures they will pass annual
- Better aligns requirements with Congressional intent for what is a financial hardship under IBR
- Acknowledges some programs have such low earnings that students cannot tolerate any debt

Program Type Matters

- Some offerings are likely to fail because they are tied to extremely low wages
- These programs are easier to create, but provide less opportunity than similar options
- Ex.: medical assistant vs. licensed vocational nurse

	Medical Assistant	Licensed Vocational Nurse
Job level	Entry	Same
Required education	None or Certificate	Certificate
Likely workplace?	Doctor's office	Health care facility
Median wage (BLS)	$29,370	$41,450
% of completions from for-profit colleges	85%	24%
% failing DTE or pCDR	18%	1%

Program type problems speak to need for strong approval process

- Easy to identify program types that are more likely to fail than others

- Protect against programs guaranteed not to succeed because they lack necessary accreditations

Program cohort default does some things OK but still leaves holes

- Does not capture repayment struggles or all-IBR problem
- Possible alternatives or disclosure items:
  - Withdrawal rate—33% standard and definition exists in §668.16(l)
  - Loan Portfolio Repayment Rate tied to amortization schedule (i.e., how much should be remaining after three years if on a 10-year schedule versus how much is remaining)

Other suggestions

- Include books and supplies in any debt cap
- Consider a cap on living expenses, not full exclusion
- Require commitment to loan reduction plan before using transition periods
- Treat debt removal in non-matching cases like figure skating judging—highest then lowest
- Stick with real numbers—e.g. avoid mixing median debt and mean earnings

Beware misleading comparisons

APSCU

8% Debt-To-Income Ratio is Unrealistic

Bachelor's Degree at 4 year Institutions	Average Cost of Attendance (2011-12)[1]	Average Cumulative Debt at Graduation (2011-12)[2]	Min. Starting Salary to Satisfy Gainful Employment Rule[3]	BLS 25th Percentile Wages- Bachelor's degree (2013)[4]
Private Not-for-Profit	$138,906	$32,308	$40,022	$38,844
Private For-Profit	$88,312	$40,138	$45,545	$38,844

- Excludes Title IV recipients with no debt
- Does not look at lower of mean or median
- Assumes need to pass both debt-to-earnings tests
- Only looks at Bachelor's degrees, which are 6% of GE programs

Necessary Incomes are Much Lower When Using Figures Closer to GE Formulas

Credential	% of GE Programs	Mean Debt	Median Debt	Earnings where Debt = 8%
Certificate	**73%**	**9,517**	**7,600**	**13,119**
Public		6,838	1,834	7,500
Private For-Profit		11,110	9,500	16,398
Associate Degree	**15%**	**8,425**	**3,938**	**11,325**
Public		6,850	2,625	7,500
Private For-Profit		16,928	14,000	24,167
Bachelor's Degree	**6%**	**19,063**	**15,000**	**25,893**
Public		16,402	12,000	20,714
Private Nonprofit		21,903	18,000	31,071
Private For-Profit		25,355	23,000	39,702

- Data are for all completers in 2011-12 that received at least $1 in Pell or Federal Student Loans, assumes 6.8% interest rate over 10 years.
- Data are from 2011-12 NPSAS. PowerStat table IDs: bkbbe24 and bkbbe6a.

The NCES "Degrees of Debt" study is not comparable for GE Purposes

- Common talking point says 26% of bachelor's grads from public colleges and 39% of similar students at nonprofits would fail a 12% DTE test
- This is not an analogous comparison group for GE purposes

	NCES Study	Gainful Employment
Earnings Measurement Window After Graduation	First Year	Third and Fourth Years
Income Source	Primary job	All income from all jobs reported to SSA
Credential levels	Bachelor's only	All types
Completion status	Graduates only	Graduates only
Financial aid status	Student loan borrowers only	Any students who received Title IV grants or loans
Exclusions	Students not paying for any reason	Students in school, or military service, or that are deceased

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