Proposed Gainful Employment Regulation Impact Analysis

OIRA Discussion Session

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KAPLAN

The proposed Gainful Employment regulation:

- Does not distinguish between programs that prepare students for gainful employment and those that do not
- Would dramatically harm the Administration's goal of increasing the number of college graduates among low-income Americans
- Would do lasting damage to the U.S. economy

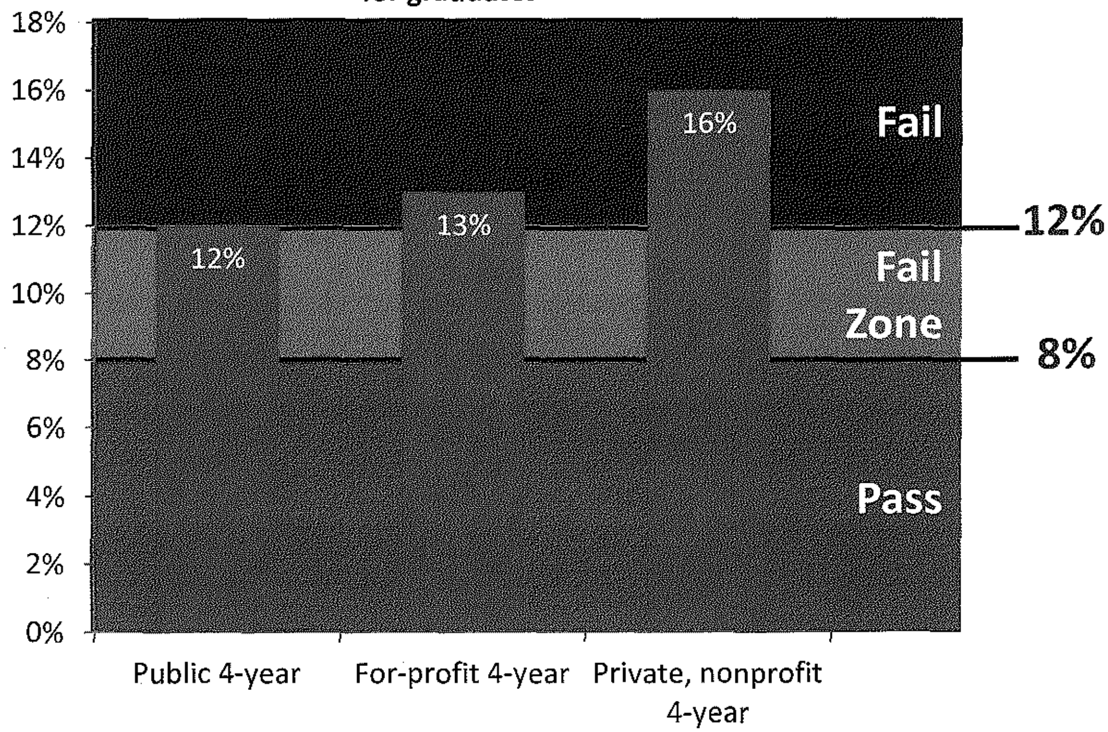
There are better ways to:

- Incentivize colleges to better serve students
- Protect students and taxpayers

GE regulation does not distinguish between successful and unsuccessful programs

The average student borrower in all sectors has debt-to-income ratios well in excess of 8%

Average ratio of monthly loan payment to income[1] for graduates



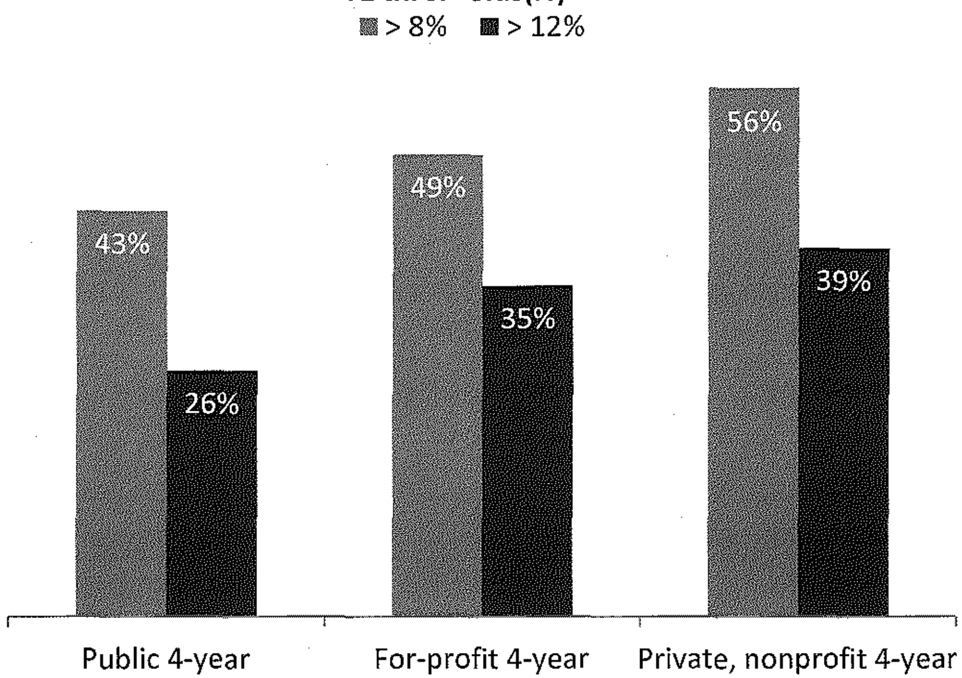
GE would devastate any sector to which it applied.

1) Source: US Department of Education, National Center for Educational Statistics 2008/2009 Baccalaureate and Beyond Longitudinal Study; Average monthly loan payment as a percentage of monthly income among first-time bachelor's degree recipients who borrowed for their undergraduate education, and were in repayment 1 year after graduation.

GE regulation does not distinguish between successful and unsuccessful programs

About half of student borrowers nationally, across sectors, have debt-to-income ratio above 8% (and about a third above 12%)

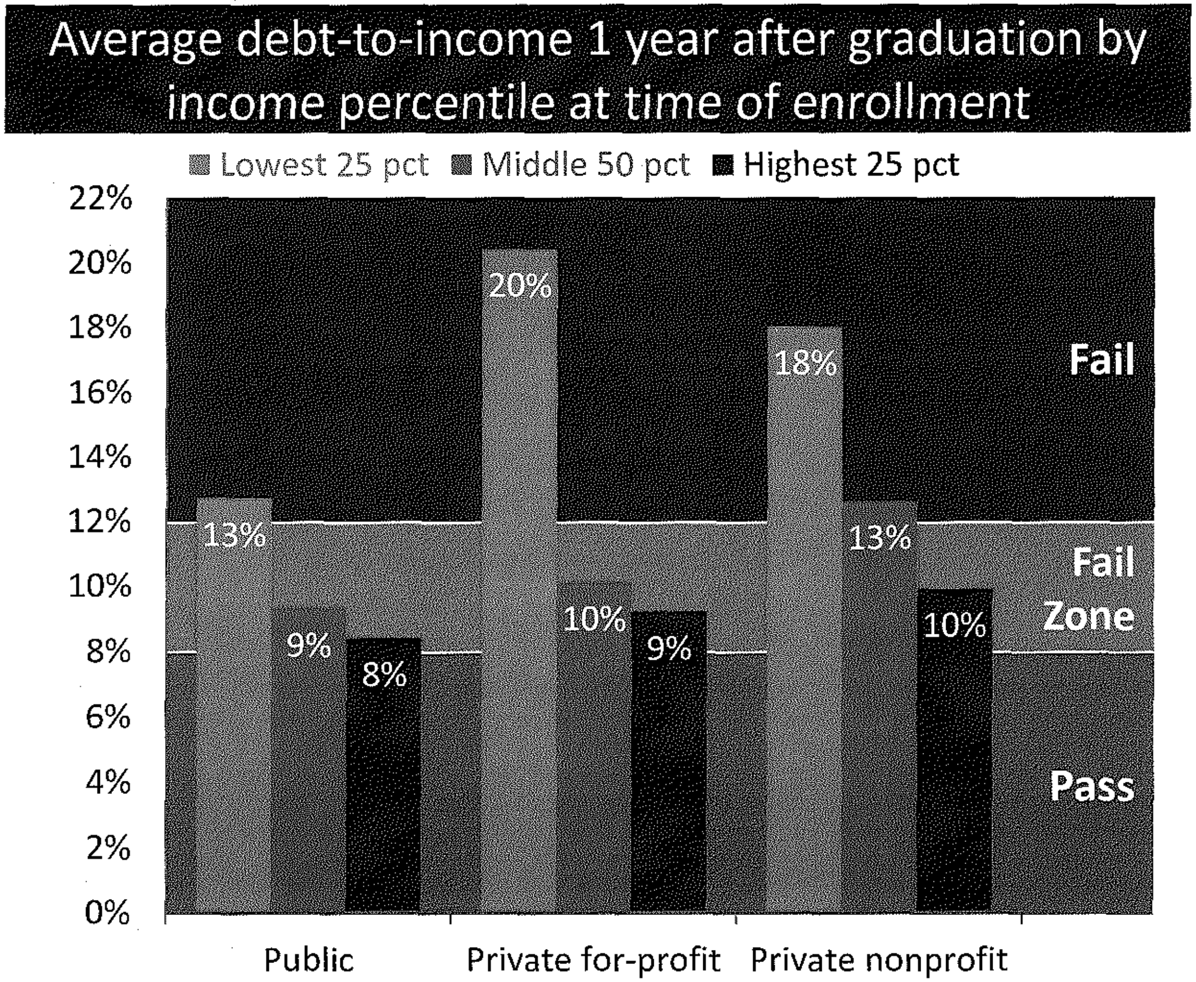
Percentage of graduates with debt burdens above GE thresholds(%)[1]



GE would devastate any sector to which it applied.

Source: US Department of Education, National Center for Educational Statistics 2008/2009 Baccalaureate and Beyond Longitudinal Study; Percentage of first-time bachelor's degree recipients with ratio of monthly payments to monthly income over 8% / 12% among those who borrowed for their undergraduate education and were in repayment 1 year after graduation.

GE regulation would disparately impact low-income students

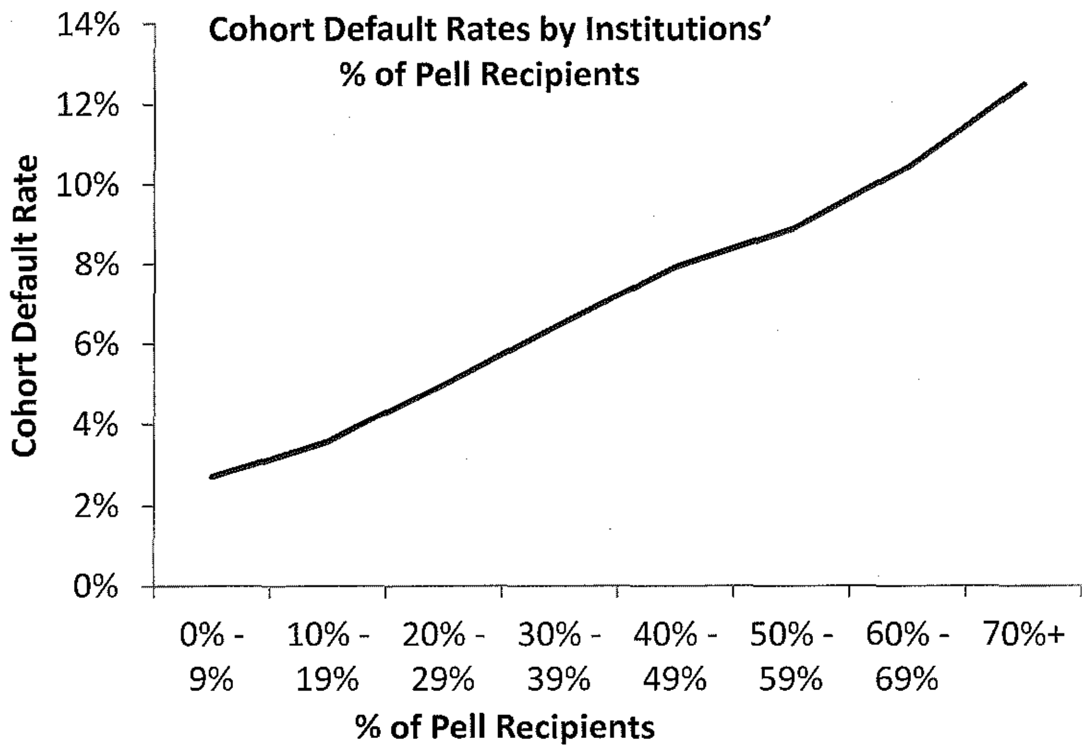


Across sectors, independent students who start out with lowest income have the highest debt-to-income ratios after graduation

Source: US Department of Education, National Center for Educational Statistics 2008/2009 Baccalaureate and Beyond Longitudinal Study; Average monthly loan payment as a percentage of monthly income among first-time bachelor's degree recipients who borrowed for their undergraduate education, and were repaying their loans 1 year after graduation. Independents income percentile at time of enrollment (2006)

GE regulation would disparately impact low-income students

Strong correlation between loan default and income level



Across sectors, students with lowest income would be disproportionately impacted by the programmatic CDR measure

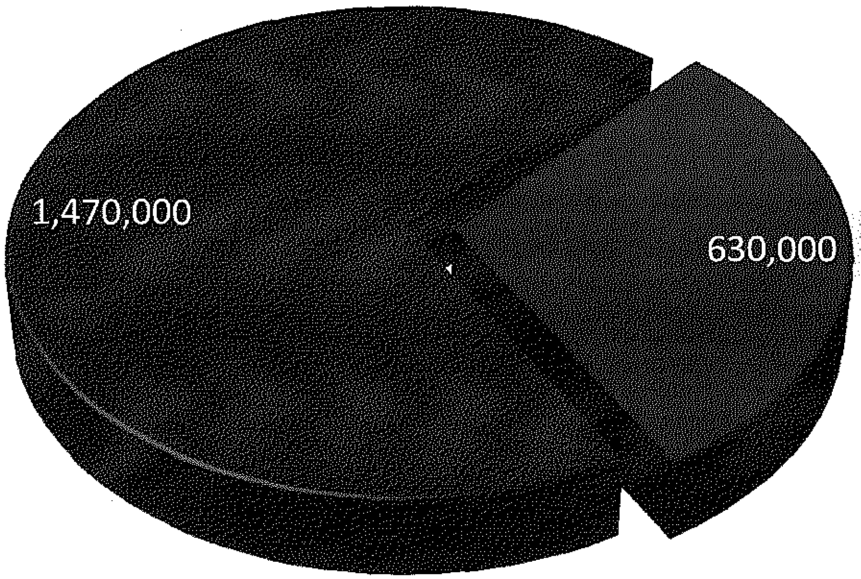
"In sum, the empirical evidence suggests that default rates are not good vehicles for assessing the quality of institutions or of various types of loans."
-- The Journal of Student Financial Aid, Vol. 39, 2009

Source: U.S. Department of Education, Three-year Official Cohort Default Rates for Schools
Corroborating research: *The Impact of Loan Repayment Rates on Minority Students*, September 27 2010, Mark Kantrowitz; *The Impact of Loan Repayment Rates on Pell Recipients*, September 1 2010, Mark Kantrowitz; *What Maters in Student Loan Default: A Review of the Research Literature*, 2009, Gross, Cekic, Hossler, Hillman; Student Outcome Vary at For-Profit, Nonprofit, and Public Schools, December 2011, GAO

GE regulation would do lasting damage to the U.S. economy

It would cost the taxpayers an incremental $5.2 billion per year to serve displaced students in public sector institutions

For-Profit Sector Students



		Incremental annual taxpayer cost per enrollee		Incremental annual taxpayer cost
630,000	X	$8,219 [2]	=	$5.2 billion

States have not demonstrated a willingness to incur the multibillion dollar cost of adding capacity to serve the displaced students.

[1] Source: U.S. Department of Education; HIGHER EDUCATION-Negotiated Rulemaking 2013-2014 -- Gainful Employment; Materials provided by the Department to the negotiating committee prior to Session 3 (Posted December 11, 2013)

[2] Source: *The Public Cost of Higher Education: A Comparison of Public, Private Not-For-Profit, and Private For-Profit,* August 2010, Robert D. Shapiro, Nam D. Pham; Average difference in cost to serve between public 2yr&4yr institutions vs. for-profit sector.

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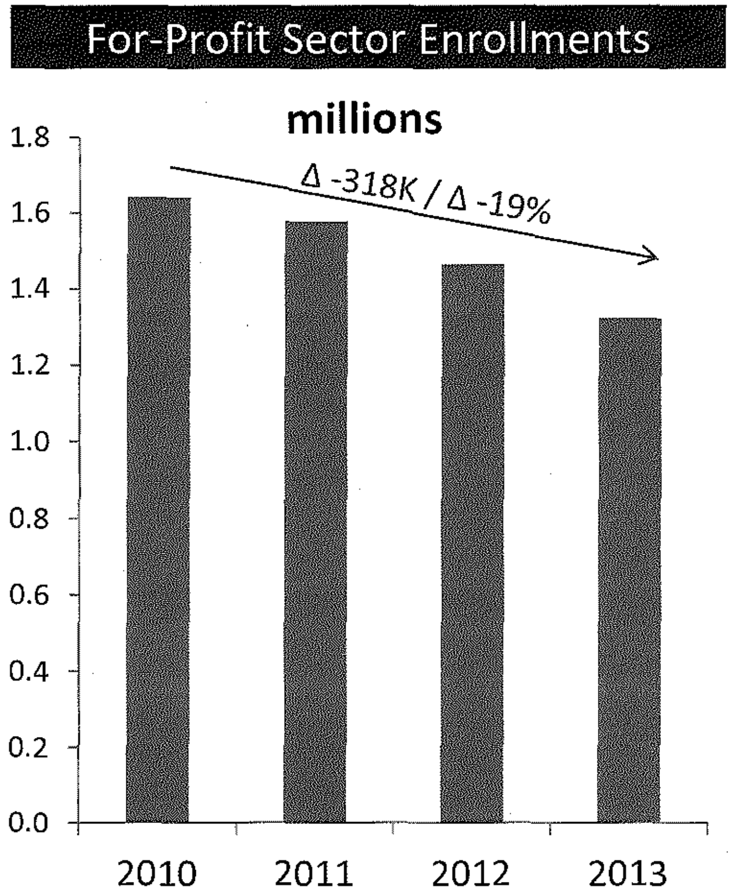
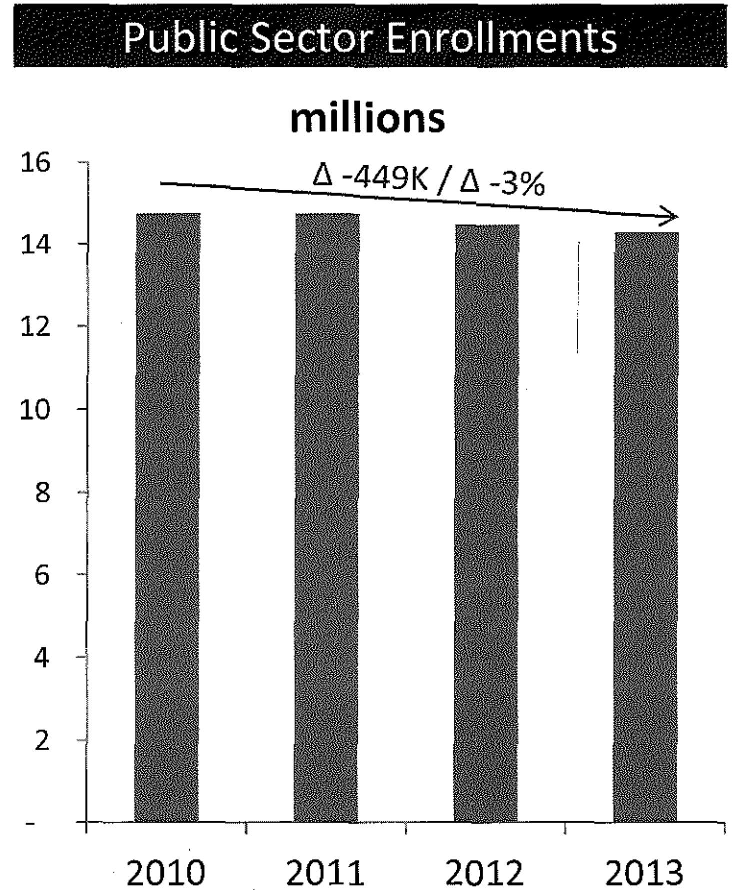


Community colleges have not been able to absorb students already displaced by drop in for-profit enrollments



Source: National Student Clearinghouse Research Center, Term Enrollment Estimates 2013, Term Enrollment Estimates 2012; Title IV, Degree-Granting Institutions. For-Profit sector enrollments, as stated in the report, are for 4-year institutions.

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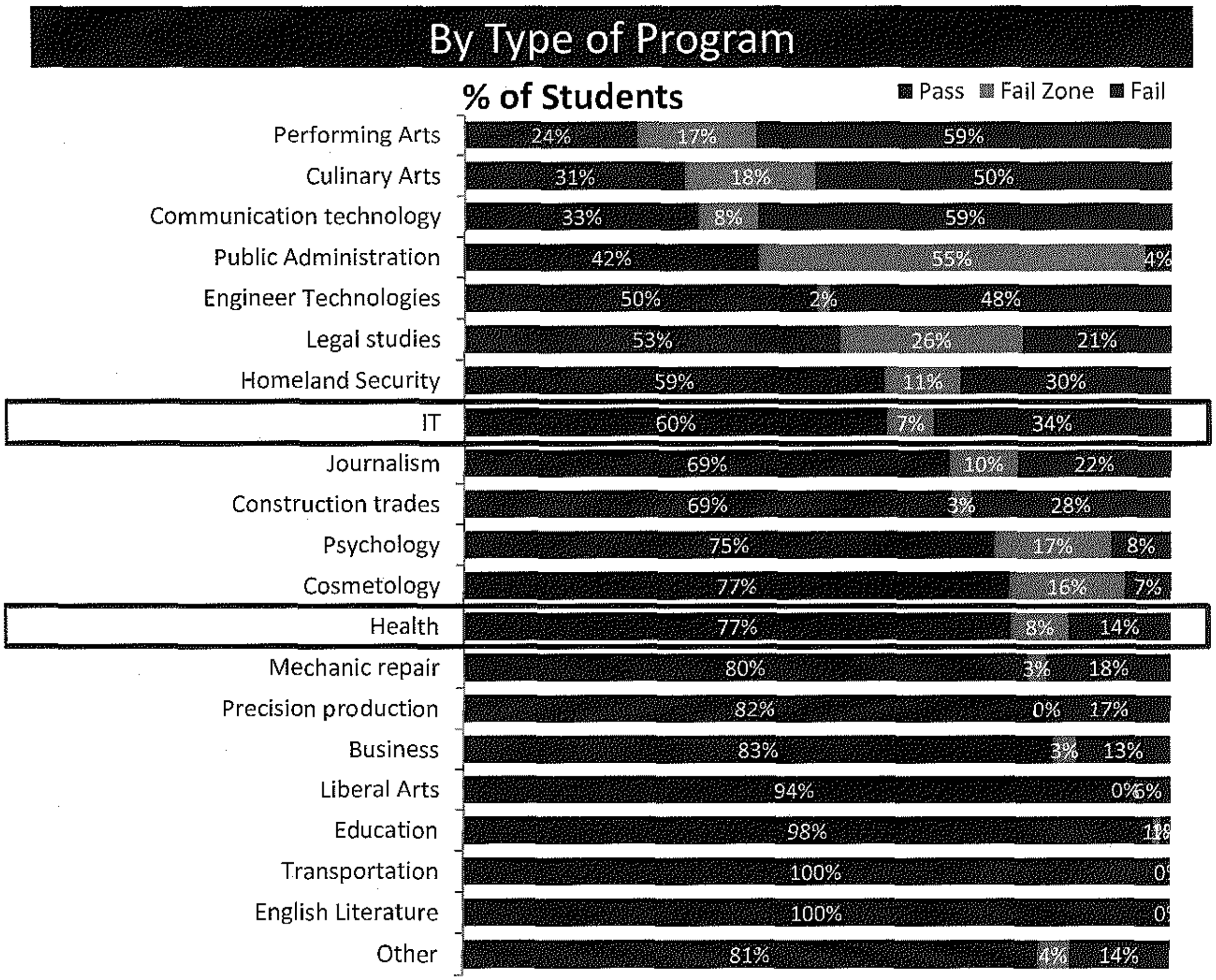

GE will impact critical areas needed for economic growth

Source: U.S. Department of Education; *HIGHER EDUCATION*-Negotiated Rulemaking 2013-2014 -- Gainful Employment; Materials provided by the Department to the negotiating committee prior to Session 3 (Posted December 11, 2013)

There is a better way

The President's higher education policy for all institutions other than for-profits focuses on the right issues, by seeking to incentivize:

- Quality of outcomes
- Affordability
- Accessibility for low-income students

That is the right conversation for all of higher education, one we are glad to engage in.

If the Department insists on its current Gainful Employment course, the damaging elements can be mitigated by:

- Adjusting Debt-to-Income ratio to capture outliers.
  (Recommendation: 15% debt-to-annual earnings, 30% debt-to-discretionary earnings)
- Incentivizing excellence for low-income students by comparing institutions with comparable student populations (consistent with the President's PIRS [College Ratings] proposal).
- Offering alternative routes to compliance
  (Recommendation: risk-free trial period; make pCDRs or other metric an alternate rather than additional route)
- Permitting institutions to help students reduce debt by limiting student loan amounts.
- Including technical adjustments to calculations to better align with student reality *(e.g., 10/15/20 year amortization; minimum program size 30)*