101: FEDERAL ACCOUNTABILITY IN HIGHER EDUCATION

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WHY DO WE HAVE A FEDERAL HIGHER EDUCATION ACCOUNTABILITY SYSTEM?

Federal accountability measures are intended to hold institutions of higher education accountable for student outcomes; protect taxpayers' **$120 billion annual investment in student aid**; ensure institutions of higher education are providing a high-quality education; and assure that students are receiving a return on investment based on their field and level of experience.

THE DEPARTMENT OF EDUCATION OVERSEES THE OPERATIONS AND ADMINISTRATION OF FEDERAL FINANCIAL AID AND OTHER PROGRAMS AT 6,000 COLLEGES AND UNIVERSITIES

$1.5 trillion in federal student loan debt, **among 42 million student and parent borrowers**[1]

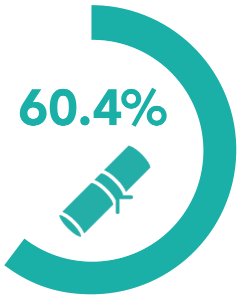
IN THE 2017-2018 ACADEMIC YEAR, THE FEDERAL GOVERNMENT ALLOCATED

$28.2 billion in Pell Grants → **to 7 million students**[2]

over $135 billion in total grants and loans to students[3]

Quality and outcomes vary across institutions of higher education, and many of today's students still struggle to earn a degree or credential and repay federal student loans.

Fall 2010 Cohort



60.4% of students completed a postsecondary degree or credential within

8 YEARS[4]

10.8% of student borrowers who entered loan repayment in 2015 defaulted within

3 YEARS[5]

SIGNIFICANT ACCOUNTABILITY MEASURES

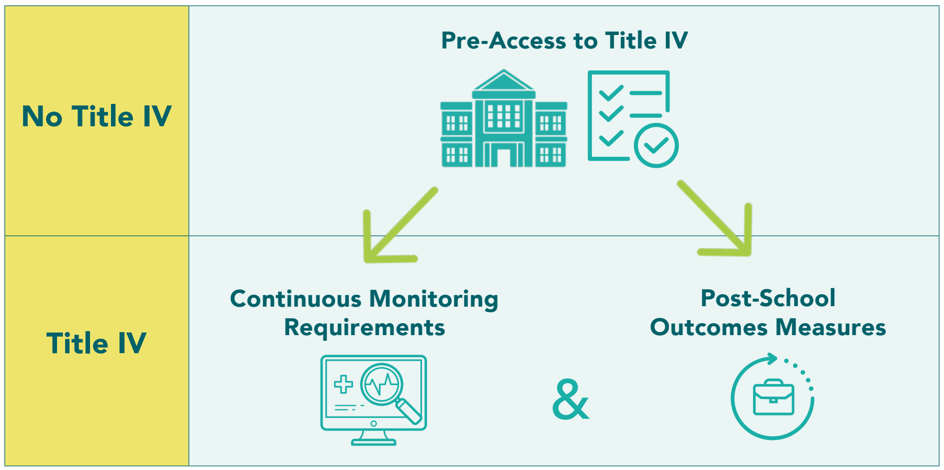
Pre-Access to Title IV — institutions of higher education must meet the following requirements before gaining access to federal student aid programs.

	DEFINITION	HOW THE PROCESS WORKS
Accreditation	A process used to assess academic and instructional quality of an institution of higher education and programs at those institutions.	National and regional accreditors need to be approved by the U.S. Department of Education (ED) to grant approval for institutions participating in the federal student aid programs. Each accreditor sets its own standards. When accreditors decide that an institution does not meet their standards, accreditors can warn or sanction an institution, place an institution on an improvement plan, or remove an institution's accreditation. Institutions that lose accreditation cannot access federal financial aid until they obtain approval from an accrediting agency again.
Withdrawal Rate	A measure of how many students who start at an institution and drop out before the end of the year without graduating.	This measure is intended to protect against providing federal financial aid to institutions with high dropout rates. Institutions of higher education participating in federal student aid programs for the first time are required to have withdrawal rates below 33 percent.[6]

Continuous Monitoring Requirements — institutions of higher education must meet these requirements annually to continue to have access to federal student aid programs.		
	DEFINITION	**HOW THE PROCESS WORKS**
90/10 Rule	For-profit institutions participating in federal student aid programs must receive ten percent of their revenue from sources outside of Title IV, and this rule caps the percentage of revenue from federal student aid funds at ninety percent.	If an institution of higher education has more than 90 percent of their revenue from title IV sources for two consecutive years, then the institution can lose access to federal financial aid for at least two years.
Financial responsibility composite score	For-profit and non-profit institutions of higher education are required to annually submit financial statements to ED to demonstrate that they are maintaining the standards of financial responsibility necessary to participate in Title IV programs.	The composite score is comprised of three ratios: primary reserve ratio, an equity ratio, and a net income ratio. These ratios gauge the financial health of an institution of higher education, not the educational quality of the institution. The scale of the score can range from negative 1.0 to positive 3.0. If an institution of higher education has a score of 1.5 or greater, then the institution is considered to be financially responsible, but if an institution's score is less than 1.0, then the institution is subject to sanctions.[7]
Program Reviews	The Office of Federal Student Aid (FSA) at the U.S. Department of Education conducts program reviews to ensure institutions of higher education are meeting FSA requirements for institutional eligibility, financial responsibility, and administrative capability.	Reviewers evaluate the school's compliance with FSA requirements, assess liabilities for errors in performance, and identify actions the school must take to improve its future administrative capabilities. After completing a program review, FSA issues a report that includes each finding identified in the program review report, the school's response, and ED's final determination. If the program review reveals problems, the institution may be required to pay back some amount of financial aid dollars that reviewers decided were misspent or the institution could be required to change a given practice to avoid future problems.
Financial and compliance audits	An independent, private auditor conducts an external review of an institutions finances or compliance with federal aid rules.	Compliance audits differ by type of institution. At for-profit institutions, auditors review a random sample of student files to ensure that the institution complies with financial aid awarding and eligibility rules. Public and non-profit institutions submit a single audit that reviews an institution's finances and covers all types of federal assistance received. Financial audits provide information needed to calculate 90/10 rates and financial responsibility scores. Based on the audit findings, institutions may be subject to additional monitoring or compliance requirements.

Post-School Outcomes Measures — institutions are required to show that their students are meeting certain performance metrics in order to continue to participate in the federal student aid program.

	DEFINITION	HOW THE PROCESS WORKS
Cohort Default Rate	The percentage of an institution's borrowers who enter repayment on federal student loans during a particular federal fiscal year and default on their federal student loans within the first three years of repayment.	If an institution of higher education default rate exceeds 40 percent in one year and/or exceeds 30 percent for three consecutive years, then the institution is subject to sanctions and can lose access to federal student aid programs.[8]
Gainful Employment	Under Title IV of the Higher Education Act (HEA), an educational program at an institution of higher education defined in section 102 must lead to a degree that prepares students for "gainful employment in a recognized occupation."	In 2014, ED published final regulations defining the term "gainful employment" which requires any non-degree program offered by nonprofit or public institutions and all programs offered at for-profit institutions to meet minimum thresholds with respect to debt-to-income rates of their graduates.[9] However, after repeated rulemaking, ED is in the final stage of repealing the rule in 2019.



[1] Federal Student Aid Data Center. Federal Student Aid Portfolio Summary, 2019, Second Quarter. https://studentaid.ed.gov/sa/about/data-center/student/portfolio

[2] Trends in Student Aid. College Board. 2018. Figure 20B. https://trends.collegeboard.org/sites/default/files/2018-trends-in-student-aid.pdf

[3] Trends in Student Aid. College Board. 2018. Figure 3. https://trends.collegeboard.org/sites/default/files/2018-trends-in-student-aid.pdf

[4] Completing College: Eight Year Completion Outcomes for the Fall 2010 Cohort. 2019. National Student Clearinghouse Research Center. https://nscresearchcenter.org/signaturereport12-supplement/

[5] Official Cohort Default Rates for Schools. Last updated October 2018. U.S. Department of Education. https://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html

[6] Federal Student Aid Handbook. 2016-2017 Introduction to FSA Handbook Volume 2: School Eligibility and Operations. June 2016. https://ifap.ed.gov/fsahandbook/attachments/1617FSAHbkVol2.pdf

[7] https://studentaid.ed.gov/sa/about/data-center/school/composite-scores

[8] New ED Data Show National Student Loan Cohort Default Rate Drops 6 Percent. 2018. National Association of Student Financial Aid Administrators.

[9] New ED Data Show National Student Loan Cohort Default Rate Drops 6 Percent. 2018. National Association of Student Financial Aid Administrators.

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