

OUTCOMES-BASED ACCOUNTABILITY:



Holding institutions accountable for successful student loan repayment

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Each year, \$120 billion in federal student aid flows through eligible institutions of higher education to help students pay for college. Our country's federal student loan debt now totals over \$1.5 trillion, and over 1 million students default on loans each year. Today's students should—at the very minimum—trust that eligible institutions will provide them with high-quality student outcomes. Students should expect that completion from a program or institution that accepts their federal financial aid will

- **leave them better off after leaving school than when entering;**
- **help them gain access to professions that reward having a college credential; and**
- **lead to earnings that are appropriate for their field and level of experience.¹**

The process of deeming an institution “eligible” for their students to receive federal student aid happens through what federal policymakers and other stakeholders coin the higher education “Triad”—state authorizing entities, the U.S. Department of Education (ED), and accrediting agencies. ED certifies and ensures compliance with administrative and fiscal rules according to the Higher Education Act (HEA); states authorize institutions that are operating in such state; and accrediting agencies determine and set standards that pertain to institutional and academic quality.²

Further, federal requirements are designed to hold institutions accountable for certain outcomes—including cohort default rates, accreditation, and financial responsibility scores.

REQUIREMENTS TO PARTICIPATE IN FEDERAL STUDENT AID PROGRAMS:

- 1 Approval, including an examination of an institution's financial capabilities, by the U.S. Department of Education (ED)**
- 2 Authorization to operate as an institution of higher education by the institution's state**
- 3 Institutional accreditation by an accreditor recognized for these purposes by ED**



¹ Higher Learning Advocates and the Center for American Progress, “GATEKEEPING AND CONTINUOUS IMPROVEMENT: A framework for federal oversight and improvement of higher education” https://higherlearningadvocates.org/wp-content/uploads/2018/12/Gatekeeping-and-Continuous-Improvement_v.F.pdf

² Higher Learning Advocates, “101: Higher Education and the Triad” <https://higherlearningadvocates.org/wp-content/uploads/2018/02/higher-ed-and-the-triad.pdf>

EXISTING QUALITY ASSURANCE AND ACCOUNTABILITY MEASURES:

Title IV Eligibility

Accreditation
Withdrawal Rates³
State Authorization



Monitoring

Financial Responsibility Scores
90/10 Ratios
Program Reviews
Financial & Compliance Audits



Outcomes⁴

Cohort Default Rates (CDR)



These requirements are all pieces of a puzzle created at different points in time to improve student outcomes; yet in practice, they haven't fulfilled their intent. Siloed requirements, low thresholds, and a misguided focus on inputs over outcomes has failed to lead to a coherent system of effective, outcomes-based accountability.

► CONSUMER PROTECTION AS BASIC ACCOUNTABILITY

Students—as the ultimate consumers in higher education—should be protected by federal law from fraudulent entities, bad actors, and institutions who consistently produce abysmal outcomes. Some existing regulations—like financial responsibility requirements—are designed to ensure institutions meet baseline standards, or “set a floor” for accountability, to best serve today's students.

However, many existing accountability metrics have thresholds that are easy to meet and do little to help with awareness of the performance of institutions other than the worst performing. If institutions meet the threshold, they are eligible to receive federal student aid; if they don't, they cannot accept federal student aid. With such a high consequence of failure, there are few incentives to set thresholds for metrics above bare minimums. As a result, these metrics as a whole aren't doing a great job at helping institutions improve their student outcomes.

► MEASURING LOAN REPAYMENT AND DEFAULT

Cohort Default Rate metric falls short, but is still needed.

One of the primary accountability metrics used by the federal government is the cohort default rate (CDR)—a measurement that takes into account how many students default on a federal student loan within three years of leaving a certain institution

of higher education. The rule requires institutions to maintain less than a 40 percent cohort default rate for any single year, or 30 percent for any three consecutive years, in order to continue to qualify for federal student aid.

³ Withdrawal rates are only measured during the initial Title IV eligibility process.

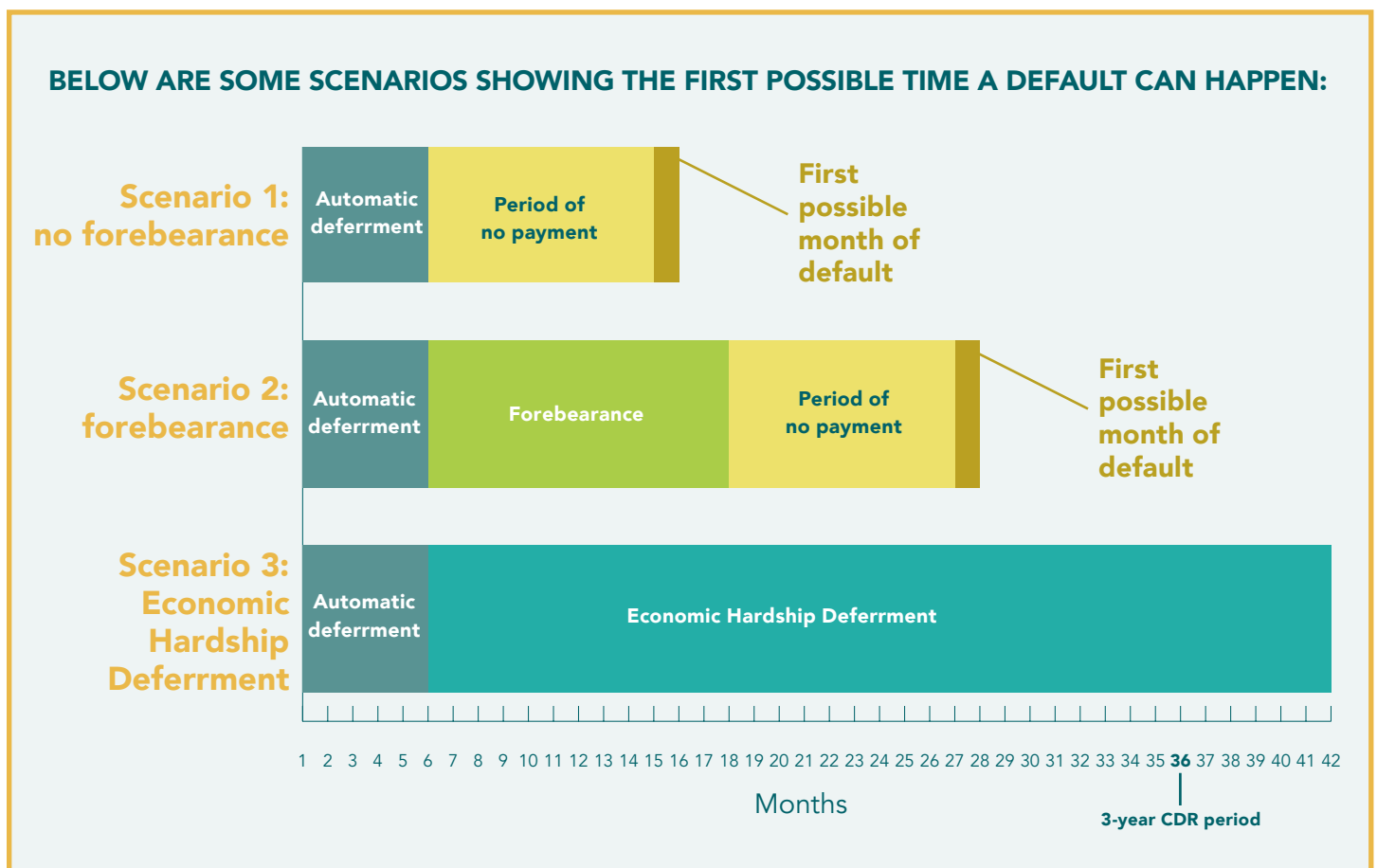
⁴ In 2014, ED published final regulations defining the term Gainful Employment. However, after repeated rulemaking, ED is in the final stage of repealing this rule in 2019.

Cohort Default Rate (CDR)

An institution's CDR is calculated by dividing the number of students who entered repayment during a cohort year and defaulted on a student loan during the three-year cohort default rate period by the total number of students that entered repayment status. For example, the most recent cohort default rates for institutions were released in September 2018 and included data from fiscal years 2013-2015.

$$\text{CDR} = \frac{\# \text{ of } \text{students who entered repayment during a cohort year and defaulted on a student loan during the cohort period}}{\text{total } \# \text{ of } \text{students that entered repayment status}}$$

A note about default: A borrower has officially defaulted on their student loan when they have not made a payment for 270 days—or nine months. However, the clock does not start right away. All borrowers receive an automatic six-month deferment when they leave an institution of higher education. Further, the student loan programs offer borrowers who have trouble repaying their debts opportunities to delay repayment for a period of time without risking delinquency and ultimately default—called deferment and forbearance.⁵



Only a small number of institutions actually fail CDR. Deferments and forbearances meant as benefits for struggling borrowers delay the possibility of a default happening within the three-year CDR window.

⁵ For more on deferment and forbearance, see: <https://studentaid.ed.gov/sa/repay-loans/deferment-forbearance#what-are>

Additionally, many institutions who have high—but not failing—CDRs hire firms to help ensure students who are delinquent on student loan repayment do not reach default status on such loan within this three-year time period. When the current means of calculating the CDR took effect in 2014, only 21 of 6,000 eligible schools failed to meet the metric. And despite failing to meet the requirement, a large number of those schools still remain eligible for federal student aid today. To further water down CDR's efficiency, Congress has an unfortunate

history of offering one-off legislative exemptions for schools who failed CDR.

While this metric falls short of fully assessing student loan repayment outcomes, measuring and holding institutions accountable for high rates of default among its students is an important tool. An accountability system should include this measure or a similar measure that ensures schools with high default rates don't maintain access to federal student aid.

▶ STRONGER ACCOUNTABILITY—ADDING A PROGRAM-LEVEL COHORT REPAYMENT RATE (CRR)

How institutions are held accountable for defaults can be strengthened by coupling a new program-level cohort repayment rate (CRR) with the existing institution-based CDR to determine eligibility for federal student aid. A program-level CRR would allow institutions and policymakers to earlier identify programs that don't lead to successful repayment.

Defining Cohort Repayment Rate:

A program's CRR would be the percentage of borrowers in a three-year cohort who have reduced the principal balance of their loan by at least one dollar within three years after entering repayment.

Both completers and non-completers (those that left school without earning their credential or degree), regardless of the repayment plan of the borrower—including any of the income-driven repayment plans—would be included in the CRR calculation. A program at an institution must have a CRR above 35 percent to remain eligible for federal student aid. If a program at an institution fails to meet this CRR threshold, or is close to failing the threshold, a plan should be implemented with a focus on improvement. If a program fails to meet the threshold for three consecutive years, the program would lose eligibility to receive federal student aid.

▶ COUNTING ALL BORROWERS

Designing and implementing a new and effective metric, such as a program-level CRR, can be complex, and many factors must be considered. It is critical to carefully design a program-level CRR that would be difficult for colleges to manipulate without actually improving their outcomes.⁶ Below are some key issues regarding which borrowers to count in CRR calculations.

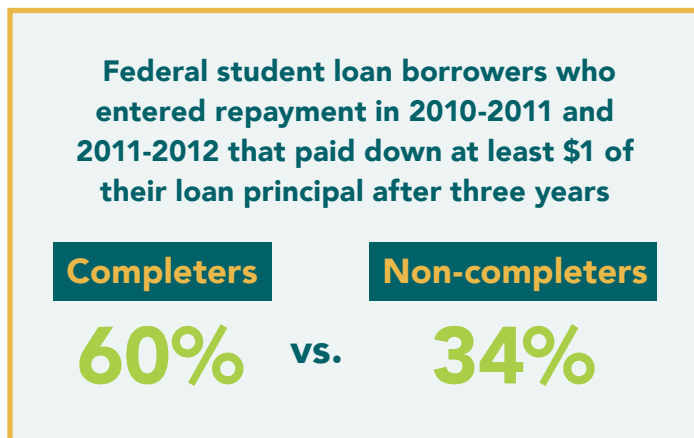
What about borrowers in IDR programs that don't require payments toward principal balance?

Some borrowers in IDR programs may not be required to make payments or may only be required to make minimum payments that pay down interest accrued on their loan(s) and not their principal loan balance. Borrowers in IDR programs should be counted in an institution's CRR even though their repayment plan may not require the

⁶ Higher Learning Advocates, "Exploring Key Questions: Program-level Repayment for Higher Education Accountability" by Dr. Robert Kelchen <https://higherlearningadvocates.org/wp-content/uploads/2018/11/HLA-Program-Level-Repayment-11-18.pdf>

level of payment necessary to reduce principal. The lack of sufficient earnings under an IDR plan to reduce the principal balance of a loan reflects on the value gained by the borrower from an institution's program.

Sixty percent of federal student loan borrowers who entered repayment in 2010-2011 and 2011-2012 after earning a degree or credential had paid down at least \$1 of their loan principal after three years. Only 34 percent of noncompleters had paid down at least \$1 of their loan principal after three years.



By defining a successful CRR as one that requires borrowers to pay down at least \$1 in principal, the measure would more accurately represent whether borrowers are “repaying” their loans.

► CONCLUSION

While the current institutional cohort default rates should be maintained, program-level cohort repayment rates (CRRs) are necessary to hold institutions accountable for loan repayment by borrowers. The addition of this metric will place a much needed emphasis on borrowers paying down the principal of their loan.

End Note: While this paper has focused on the importance of measuring loan repayment rates, this should not be the sole accountability metric for the federal student aid programs. A system of accountability should take into account loan repayment, but also add metrics to gauge whether students are gaining value from their institutions by completing and maximizing or growing their earnings. Future papers from Higher Learning Advocates will explore the use of completion and earnings as other essential metrics with which to hold institutions accountable.

However, this policy recommendation should not be enacted with the intent to penalize students who opt-into IDR programs. Instead, the goal of such policy is to reflect on an institution's programs and whether borrowers receive value from them. If Congress were to exclude IDR borrowers with negative amortization in the CRR calculation, then the 35 percent threshold should be raised to 45 percent.

What about students who switch programs?

Thirty percent of first-time students switch majors within three years—so how do we properly attribute these students to particular programs of study? Policymakers are also lacking clear data on how institutions categorize students who have not yet declared a major and drop out—and if those students are placed in general studies programs more often than not, how would such programs be treated in a program-level repayment rate?

Better data is needed to understand how institutions treat students who are undecided in their major, or in a general studies major, and drop out. Time thresholds or percentages should be utilized to solidify to which program a student belongs. We recommend that a student only be attributed to a program if they attend the program for two or more semesters or completed 15 credits in a particular program.

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