Accountability in Higher Education: Questions and Potential Solutions

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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

Department of Education accountability today

Item	Authorization	Institutions subject to it	Number of recently affected schools
Withdrawal rates	Regulatory	First-time entrants	Unknown
Accreditation	Statutory	All institutions	36 denied or terminated since 2014
Financial responsibility scores	Regulatory	Private institutions	187 had failing scores
90/10 Rates	Statutory	For-Profit institutions	17 did not meet 10% target
Program reviews and audits	Statutory	All institutions	A few hundred program reviews each year
Cohort default rates	Statutory; one-year cutoff regulatory	All institutions in federal loan programs	10 institutions
Gainful employment	Regulatory	Career training programs	2,042 programs at 777 institutions

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

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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

Sector	# Schools	# Borrowers	% Schools	% Borrowers
Public 4-year	1	1,095	0.2%	0.1%
Private Nonprofit 4-Year	11	8,871	1%	1%
Private For-Profit	384	324,060	24%	23%
Public 2-Year	41	44,802	6%	6%

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.

3-Year Loan Repayment Rate by Entering Cohort

2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
63.5	54.2	47.9	43.2	40.7	38.1	38.3

Source: https://robertkelchen.com/2017/09/28/examining-trends-in-student-loan-repayment-rates/

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

		Did not default	Did not default or use an in-school deferment	Did not default, use an in-school or economic hardship deferment	
	Defaulted	At least 1 in-school deferment	At least 1 economic hardship deferment	Dropped Out	Completed
Public 4-Year	30.4	44.7	5.7	4.5	11.9
Private Nonprofit 4-Year	36.4	45.7	5.6	2.1	9.1
Public 2-Year	31.3	35.5	6.8	11.1	8.5
Private For-Profit	57.6	21.3	12.5	5.3	2.9

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

% of term finished	Current law Aid Kept by School	PROSPER Act Aid Kept by School
0 to 25%	Proportional (e.g. if completed 10%, return 90%, complete 28% return 72%	0%
25 to 50%		25%
50% to 60%		50%
60% to 75%	0%	50%
75% to 99%	0%	75%
100%	0%	100%

CAP

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

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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

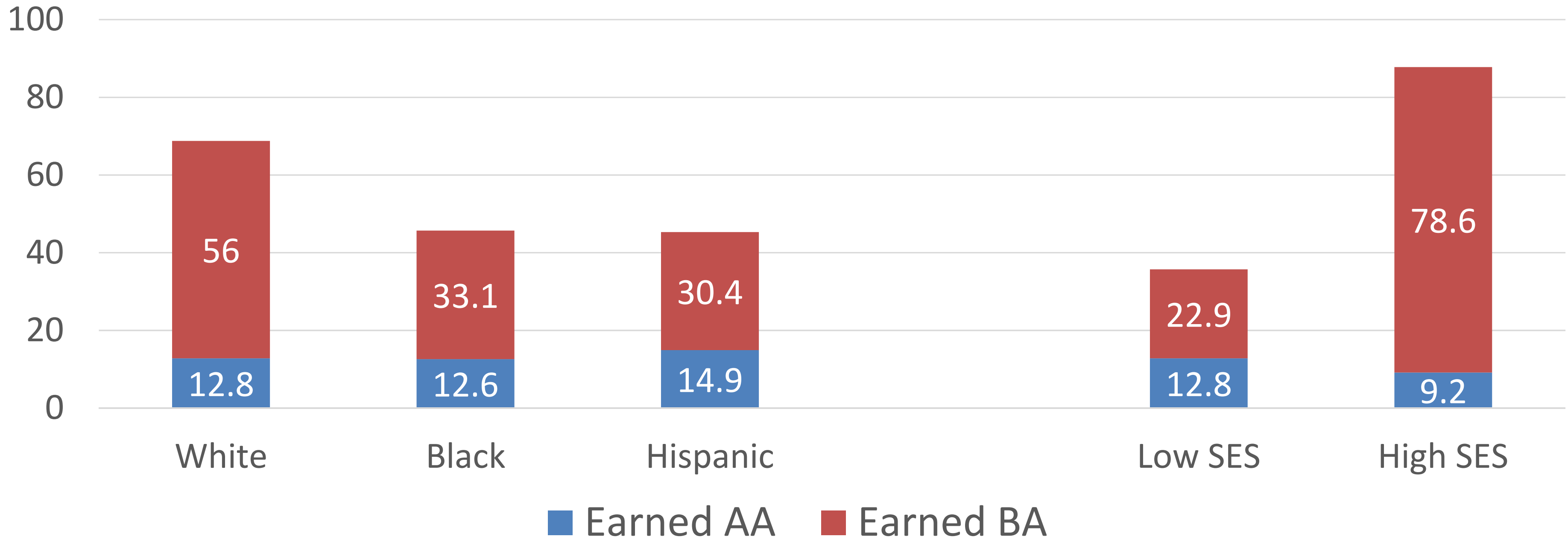
Completion

Loan success

Post-school success

2) Emphasize equity

% of 2002 High School Sophomores earning an associate degree or more by 2012



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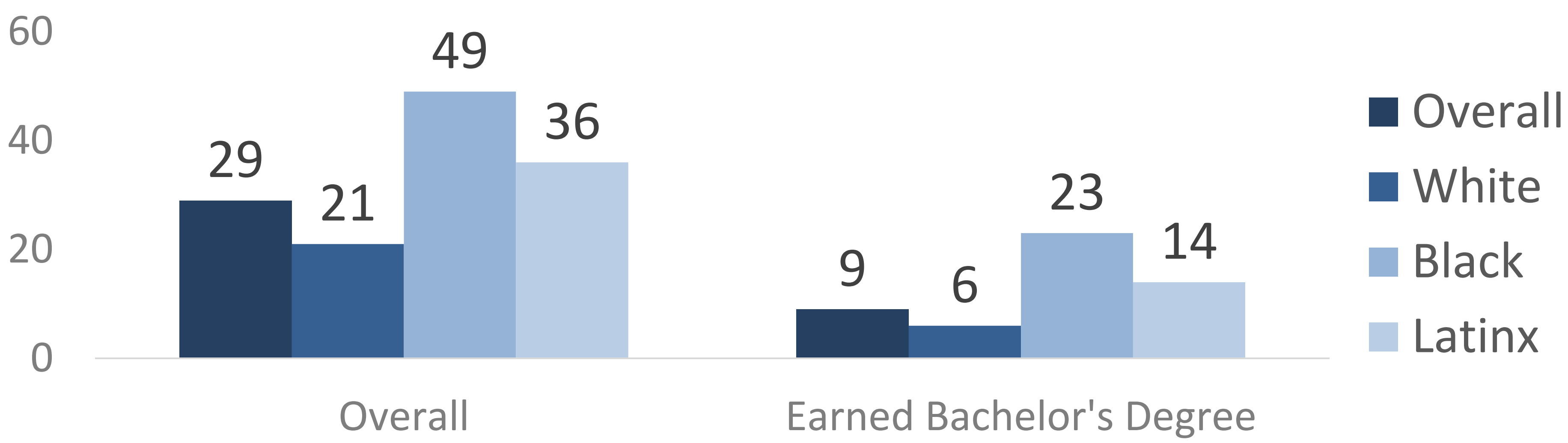
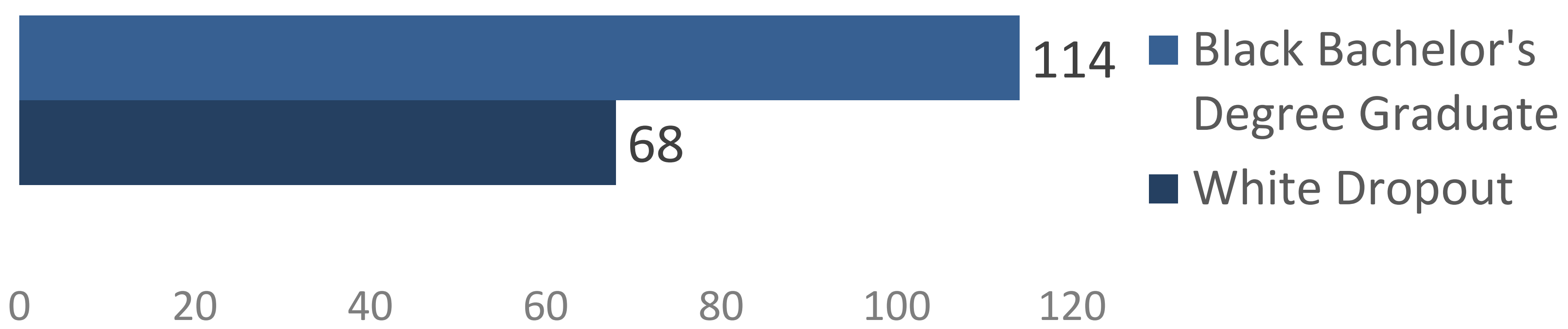
Default Rate By 12 Years After Entry, 2003-04 Cohort



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



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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

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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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