Student Aid Policy Analysis

Summary of Gainful Employment Policy Analysis Papers

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EXECUTIVE SUMMARY

The US Department of Education's gainful employment proposals provide a good structure for establishing affordable debt restrictions, but these proposals should be tweaked as follows to address several flaws:

- Switch from 8% and 12% debt-service-to-income ratio thresholds to 10% and 13.8% thresholds to permit improved effectiveness from a financial literacy perspective.
- Base the loan repayment rate calculations on the sum of principal plus interest as opposed to just the principal balance to address the persistence of interest problem.
- Exclude minority students and Pell Grant recipients from the loan repayment rate and debt-to-income ratio calculations in order to avoid penalizing colleges for enrolling at-risk students.
- Permit the use of a prior 4-year period (P4YP) with the loan repayment rate, similar in concept to the prior 3-year period with the debt-to-income ratios, with programs that rely on the P4YP restricted to the higher 45% loan repayment rate. This will allow loan repayment rates to more accurately reflect long-term repayment behavior for medical and law schools.
- Disclose the gainful employment metrics on College Navigator and the FAFSA to allow the metrics to influence college choice.
- Use a 3-year phase-in period instead of a 1-year phase-in period to allow colleges to adapt to the changes.
- Conduct a study for direct measurement of educational quality and its impact on job placement and salaries in order to validate the gainful employment metrics.
- Congress should consider expanding the gainful employment affordable debt restrictions to apply to all programs at all colleges, not just for-profit colleges and vocational programs.
- Congress should consider repealing or modifying the 90/10 rule to eliminate a conflict with the gainful employment rules.
- Congress should establish lower aggregate loan limits for shorter Associate's degree and Certificate programs. Congress should also provide colleges with the authority to adopt lower loan limits based on field of study and degree program.
- The US Department of Education should publish more data concerning delinquency, deferment and forbearance rates, repayment plan utilization, cohort default rates, lifetime default rates and defaulted loan recovery rates. The US Department of Education should provide research-level access to NSLDS.

KEY FINDINGS

Impact on At-Risk Populations

- **Impact on minority students.** There is a very strong inverse correlation between the percentage enrollment of minority students at a college and the college's loan repayment rate, regardless of the type of college. The average loan repayment rate is 30% at colleges with more than two-thirds minority enrollment, compared with 62% at colleges where less than a tenth of the students are minorities. Colleges that enroll few minority students will generally have loan repayment rates in the fully eligible range while colleges that enroll mostly minority students will generally have loan repayment rates in the ineligible range. Minority students contribute 26.2% to the loan repayment rate and non-minority students contribute 65.2% to the loan repayment rate with an R^2 of 98.7%. This suggests that a low loan repayment rate may be caused, at least in part, by the demographics of the students enrolled in a college and not just due to differences in educational quality. More than half of minority students (57.0%) who are enrolled at for-profit colleges are enrolled at colleges with ineligible loan repayment rates under 35%. Almost a third of minority students (30.0%) who are enrolled at for-profit colleges are enrolled at colleges with restricted loan repayment rates between 35% and 45%. Shifting minority student enrollments from for-profit colleges to community colleges will cause the loan repayment rates at community colleges to decrease significantly. Assuming no change in state appropriations, it would also likely lead to significant increases in tuition rates and student debt at community colleges, perhaps by as much as 40% and 75%, respectively.

- **Impact on Pell Grant recipients.** There is a very strong inverse correlation between the percentage enrollment of Pell Grant recipients at a college and the college's loan repayment rate, regardless of the type of college. The average loan repayment rate is 26% at colleges where more than two-thirds of the students receive Pell Grants, compared with 66% at colleges where less than a tenth of the students receive Pell Grants. Colleges with 40% or more Pell Grant recipients are unlikely to satisfy the 45% loan repayment rate threshold. Pell Grant recipients contribute 5.2% to the loan repayment rate and non-recipients contribute 74.3% to the loan repayment rate with an R^2 of 99.6% at colleges with 70% or fewer Pell Grant recipients. More than half of Pell Grant recipients (52.3%) who are enrolled at for-profit colleges are enrolled at colleges with ineligible loan repayment rates under 35%. More than a third of Pell Grant recipients (34.2%) who are enrolled at for-profit colleges are enrolled at colleges with restricted loan repayment rates between 35% and 45%.

- **Minority student enrollment statistics.** For-profit colleges have 45.0% minority student enrollment, compared with 32.7% at public colleges and 26.5% at non-profit colleges.

- **Pell Grant recipient enrollment statistics.** 52.9% of students enrolled at for-profit colleges received a Pell Grant, compared with 22.7% at public colleges and 23.7% at non-profit colleges. At 2-year institutions 64.0% of students enrolled at 2-year for-profit colleges received a Pell Grant, compared with 20.0% of students enrolled at community colleges. At 4-year institutions 42.9% of students enrolled at 4-year for-profit colleges received a Pell Grant, compared with 24.3% of students enrolled at 4-year public colleges and 23.3% of students enrolled at 4-year non-profit colleges.

- **Enrollment of at-risk students.** For-profit colleges enroll a higher-risk mix of students than public and non-profit colleges. Risk factors that affect persistence and attainment account for 60.1% of the difference in default rates between for-profit and non-profit colleges and 38.6% of the difference in default rates between for-profit colleges and public colleges. Pell Grant recipient status accounts for 32.9% of the difference in default rates between for-profit and non-profit colleges and 30.7% of the difference in default rates between for-profit and public colleges. Whether the parents received at least a Bachelor's degree accounts for 18.1% of the difference in default rates between for-profit and non-profit colleges and 7.9% of the difference in default rates between for-profit and public colleges. Dependency status accounts for 17.2% of the difference in default rates between for-profit and non-profit colleges and 14.3% of the difference in default rates between for-profit and public colleges. For-profit colleges enroll a much greater proportion of independent students than non-profit and public colleges.

Excessive Debt

- **Probability of graduating with excessive debt.** 22.0% of graduates from for-profit colleges graduated with excessive debt, compared with 10.9% of graduates from non-profit colleges and 3.6% of graduates from public colleges.

- **Distribution of borrowers with excessive debt.** Of students who graduate with excessive debt relative to the degree or certificate received, 33.8% are at public colleges, 25.5% are at non-profit colleges and 40.7% are at for-profit colleges.

Persistence of Interest

- **Delayed credit for changes in borrower repayment behavior.** Interest that capitalizes in the middle of the fiscal year and accrued but unpaid interest must be paid off in full before the principal balance can be reduced. This persistence of interest means that colleges do not get immediate credit for all borrowers who are making payments that exceed the new interest that accrues.

Missouri Data Set: Severe Impact on For-Profit Colleges

- **Decimation of for-profit higher education.** The Missouri data set demonstrates a more severe impact on for-profit colleges than previously noted, suggesting that 26.1% of programs will become ineligible and 30.1% would be restricted. 15.9% of Certificate programs, 38.0% of Associate's degree programs and 21.7% of Bachelor's degree programs will become ineligible. 20.3% of Certificate programs, 35.4% of Associate's degree programs and 47.9% of Bachelor's degree programs will become restricted.

- **Missouri data set not necessarily predictive.** The Missouri data set may not be predictive of national statistics, as Missouri has significantly lower minority student enrollment, suggesting that Missouri loan repayment rates may be 5.3% higher than the national average. This corresponds to estimated national ineligibility rates that are about 2.3% higher than in the Missouri data set. The Missouri data set is also more heavily weighted toward graduate student enrollment and less heavily weighted toward for-profit colleges. The Missouri data set also excludes non-profit colleges, cosmetology programs and small programs with 5 or fewer exiters.

- **Limited value of Missouri data at the program level.** When disaggregated by CIP Code Family, the Missouri data set is statistically significantly only for Business, Health Professions, Engineering and Education. It is not statistically significant when disaggregated by CIP4 Code.

- **Most for-profit colleges fail the loan repayment rate thresholds.** 93.8% of for-profit college programs in the Missouri data set fail the 45% loan repayment rate threshold. 75.6% fail the 35% loan repayment rate threshold. Of the for-profit colleges that are fully eligible, all passed at least one of the debt-to-income ratios. This means that the loan repayment rate does not distinguish among the fully eligible institutions, since there are no institutions that passed only the loan repayment rate thresholds.

<u>Debt Warnings</u>

- **Most for-profit colleges would have to issue debt warnings.** 93.8% of for-profit college programs would be required to issue debt warnings based on the Missouri state data, compared with 43.2% of public college programs.

<u>Default Rates vs. Debt-to-Income Ratios</u>

- **Default rates correlate with debt-to-income ratios.** Default rates increase with increases in debt, debt-to-income ratios, debt-service-to-income ratios and debt-service-to-discretionary-income ratios and with decreases in income and discretionary income. The default rates increase monotonically, but the rate of increase slows at a 10% debt-service-to-income ratio and at a 35% debt-service-to-discretionary-income ratio.

<u>Default Rates vs. Loan Repayment Rates</u>

- **Loan repayment rates set ceilings on default rates.** Only 2 of 2,702 institutions with loan repayment rates of 45% or more have a 2-year cohort default rate above 25%. Similarly, only 3 of 946 institutions with loan repayment rates of 35% to 45% have a 2-year cohort default rate above 30%. No institutions with loan repayment rates of 45% or more have a 3-year cohort default rate above 43%. Similarly, no institutions with loan repayment rates of 35% to 45% have a 3-year cohort default rate above 50%. Most colleges with a trial 3-year cohort default rate of 30% or more will not have loan repayment rates above the 35% threshold on eligibility.

<u>Loan Repayment Rates vs. Graduation Rates</u>

- **Loan repayment rates correlate with graduation rates.** Colleges with graduation rates of 40% or higher are likely to satisfy the 45% loan repayment rate threshold.

<u>Small Programs</u>

- **Statistics for programs with small numbers of completers or exiters are not statistically significant.** The gainful employment NPRM does not adequately address situations in which a program has a small number of students and/or completers. With the cohort default rate Congress allows colleges with less than 30 borrowers entering repayment to base the cohort default rate on the three most recent award years. The proposals for the loan repayment rates and debt to income ratios use 3 or more years. However, the use of programs as opposed to institutions sifts the data with a finer mesh, potentially yielding results that are not statistically significant. The US Department of Education noted this problem in its August 13, 2010 data release, warning that "Extreme caution should be exercised in instances where small numbers of borrowers entering repayment are observed." This is more of an issue for the debt to income ratios since the data sets may be smaller due to the limitation to just the students who complete the program. Moreover, while the Social Security Administration will report average earnings data for each program in part to protect the privacy of the college's former students, if a program has only one completer the average earnings will equal that student's actual earnings. The Missouri data suppressed information when the program involved five or fewer completers.

Program-Specific Impact Results

- **Some loan repayment rates do not reflect long-term repayment behavior.** Medical schools have low loan repayment rates because medical school graduates routinely defer repaying their loans during the residency and internship, when salaries are low compared with their debt. Law school graduates may delay repaying their student loans while studying for the bar and for a few years while they gain experience clerking for a judge or working as a prosecutor or public defender (but short of the ten years required for public service loan forgiveness).

- **Some certificate programs may satisfy debt-to-income thresholds despite providing little value.** Some certificate programs, such as cosmetology programs, are likely to satisfy the gainful employment proposals despite having high cohort default rates and low loan repayment rates. Even though debt levels are high for the short duration of the certificate program, total debt is low on an absolute basis, so these programs will qualify under the debt to income ratios even if the graduates work minimum wage jobs. Low-cost programs may be prone to fraud where the student uses the student aid for living expenses and not for an educational purpose (e.g., the student chooses a program to maximize the cash refund and not because of a genuine interest in the educational program).

Impact of a Recession on Debt-to-Income Ratios

- **External factors, such as recessions, may affect compliance.** Unemployment benefits are not considered earnings. As such, the debt to income ratios will increase during a recession or other economic downturn.

Tools for Understanding Changes in the Thresholds

- **Impact of debt-service-to-income ratio on ineligibility.** Each 1% increase in the debt-service-to-income ratio threshold from 6% to 15% decreases the percentage of programs that are ineligible by about 4%.

- **Impact of debt-service-to-income ratio on full eligibility.** Each 1% increase in the debt-service-to-income ratio threshold from 6% to 15% increases the percentage of programs that are fully eligible by about 6%.

- **Higher loan repayment rate thresholds do not affect for-profit college eligibility.** Increasing the loan repayment rate threshold above 45% has no impact on the status of for-profit college programs because for-profit colleges with a high loan repayment rate almost always also satisfy the debt-service-to-income ratio thresholds. Only at lower loan repayment rates do the debt-service-to-income ratios differentiate among for-profit colleges. Increases in the loan repayment rate thresholds, however, would affect the eligibility of programs at public colleges.

- **Distribution of defaults by debt-service-to-income ratio thresholds.** 46% of all defaults in the Missouri data set occur with an 8% or higher debt-service-to income ratio threshold, 27% with a 10% threshold, 15% with a 12% threshold and 5% with a 15% threshold.

- **Dollars correlate well with borrowers.** There is a very strong correlation between the percentage of borrowers who are making payments to principal and the loan repayment rate, with an average variance of 2.5% and a standard deviation of 3.8%. Thus the decision to use dollars in a performing assets ratio definition of the loan repayment rate, as opposed to number of borrowers, does not yield a significant difference.

- **Mean earnings more favorable to colleges than median income.** The use of mean earnings as opposed to median income in debt-to-income ratios is the equivalent of a 0.8% to 2.6% point decrease in a 12% debt-service-to-income ratio.

- **Institution level is a weak proxy for degree program.** It is important to compare sector performance according to the cross product of institution control and degree program, and not the cross product of institution control and institution level. Otherwise, the results are not comparable on an apples-to-apples basis. Only 51% of completions at for-profit 4-year colleges are for Bachelor's degrees, compared with 95% at public 4-year colleges and 96% at non-profit 4-year colleges. Instead, 43% of completions at for-profit 4-year colleges are for Associate's degrees and 6% are for non-degree certificates. Similarly, only 63% of completions at for-profit 2-year colleges are for Associate's degrees, compared with 89% at public 2-year colleges and 89% at non-profit 2-year colleges. Instead, 37% of completions at for-profit 2-year colleges are for non-degree certificates.

KEY RECOMMENDATIONS

Adjusting Thresholds

- **Slight increases in thresholds may improve the financial literacy impact.** Increasing the debt-service to income threshold on eligibility from 8% to 10% and the threshold on ineligibility from 12% to 13.8% while keeping the debt-service-to-discretionary income and loan repayment rate thresholds unchanged would increase the percentage of programs that are fully eligible from 43.8% to 54.5%, decrease the percentage of programs that are restricted from 30.1% to 29.0%, and decrease the percentage of programs that are ineligible from 26.1% to 16.5%. It is easier for families to calculate 10% of income than 8% of income because a 10% threshold just shifts the decimal point. The 13.8% threshold is the equivalent of the rule of thumb that total education debt at graduation should not exceed the expected starting salary, a more effective rule of thumb in financial literacy training than arbitrary percentages because it yields a simple comparison as opposed to a calculation.

Impact on At-Risk Students

- **Evaluate impact on at-risk student populations.** The US Department of Education should evaluate the potential impact of the gainful employment proposals on minority students, low-income students, first-generation college students and other at-risk student populations.

- **Exclude at-risk students from metric calculations.** The US Department of Education should consider excluding at-risk students and/or Pell Grant recipients from the loan repayment rate, cohort default rate and debt to income ratio calculations in order to avoid penalizing colleges for serving at-risk student populations and to permit better differentiation of colleges according to educational quality. Otherwise the easiest way for a college to comply with the proposed gainful employment regulations will involve increased selectivity. This will exclude students who are more likely to default on their loans, negatively impacting access to postsecondary education by at-risk students.

Loan Repayment Rate

- **Prior 4-year period.** Colleges should be allowed to base the loan repayment rate on either the four most recent federal fiscal years or the prior set of four fiscal years (i.e., years 5 through 8). If the college chooses the prior four year period, it should be required to comply with the stricter 45% loan repayment rate threshold. This recommendation is similar to the accommodation in the gainful employment NPRM for debt to income ratios, where a program may be evaluated based on the prior three year period but held to the stricter 8% and 20% debt to income ratios.

Small Programs

- **Roll up program statistics to institution level for small programs.** The US Department of Education should consider modifying the proposed rules to calculate loan repayment rates and debt to income ratios at the institution level when the institution's individual programs lack sufficient exiters and completers to yield statistically significant results. This will also address privacy concerns when a program has a small number of exiters or completers.

Persistence of Interest

- **Base loan repayment comparison on principal plus interest, not just principal.** The loan repayment rate calculation should be based on comparisons of the sum of the principal balance and the accrued but unpaid interest on the loans as opposed to comparisons of just the principal balance. This will help determine whether the borrower is paying down the total loan balance; whether the payments exceed the new interest that accrues. Loans in deferment or forbearance will naturally continue to be excluded from the numerator in the loan repayment rate, since borrowers in deferment or forbearance do not make any payments on their loans. Likewise, borrowers in income-contingent repayment or income-based repayment who are making a zero monthly payment or a payment that is less than the new interest that accrues (i.e., negatively amortized) will not be counted in the numerator because the total loan balance will be increasing. This change addresses only the persistence of interest problem, when it is due to uncapitalized accrued but unpaid interest and when it is due to the midyear capitalization of interest.

Three-Year Phase-In

- **Phase-in implementation to permit colleges to adapt to regulatory changes.** The gainful employment NPRM should be phased in after a three-year delay, effective July 1, 2014, as opposed to the current proposal for a one-year delay, to provide enough time for the colleges to adapt to the new regulatory requirements. Without such a delay, the scope of the current loan repayment rate proposal includes some borrowers who will have already separated from the colleges on the date the regulations become effective. It is much more difficult for a college to influence repayment behavior of borrowers after they have already left the college. Such a delay is not without precedent. For example, when Congress decided to switch from a 2-year cohort default rate to a 3-year cohort default rate as part of the Higher Education Opportunity Act of 2008, it delayed the effective date for sanctions until three years of official 3-year cohort default rates were available. Congress also delayed the switch to 3-year cohort default rates until FY2009 even though it could have started the switch in FY2007.

Direct Measurement of Educational Quality

- **Conduct study to evaluate differences in educational quality.** None of the available financial metrics, including the percentage Title IV aid (90/10 rule), cohort default rates, loan repayment rates, debt-service-to-income ratios or debt-service-to-discretionary-income ratios directly measures educational quality. Current public policy assumes that these metrics correlate well with educational quality. Perhaps they do, to some extent. After all, if a student can't get a job, he can't repay his student loans. But there is little or no credible evidence to confirm or contradict this assumption. The US Department of Education should address this by conducting an experimental study to directly measure educational quality. The study would involve a large, statistically significant sample of randomly selected Associate's degree and Bachelor's degree recipients from every type of college (disaggregated by level and control) for some of the most popular majors. The study should test and evaluate the student's mastery of the subject matter. The study design should be carefully controlled to minimize the impact of confounding factors such as income, first-generation college student status, independent student status and minority student status. The students should also be tracked longitudinally to evaluate the correlation of their performance on the subject matter proficiency tests to job placement rates, loan repayment rates, cohort default rates and income. This will help answer the question whether each type of college is providing an education of genuine value in the marketplace.

Counseling Prospective Students

- **Disclose gainful employment metrics through existing US Department of Education consumer counseling tools.** In addition to requiring colleges to disclose the three metrics in all communications with prospective students, whether online, in print or in person, the US Department of Education should itself disclose the loan repayment rates and debt to income ratios to students. When the US Department of Education began disclosing graduation rates as part of FAFSA on the Web, it caused high school seniors to rank graduation rates higher among their college selection criteria, as demonstrated by the Fastweb and Maguire Associates College Decision Impact Survey. The US Department of Education should consider disclosing the loan repayment rates and debt to income ratios on the FAFSA and on the College Navigator web site to enable students to compare colleges based on the affordability of the student debt. They should disclose the metrics for all colleges, including for-profit, non-profit and public colleges, not just programs that are currently subjected to the statutory gainful employment requirements. Perhaps the disclosure can use a green (eligible zone), yellow (restricted zone) and red (ineligible zone) color coding scheme to help families interpret the metrics. The US Department of Education does not need any statutory or regulatory authority in order to disclose this data.

Recommendations Requiring Statutory Changes

- **Apply gainful employment to all programs at all types of colleges, including public and non-profit colleges.** The proposed regulatory definition of gainful employment will apply only to for-profit colleges and certain vocational training programs at public and non-profit colleges because of the statutory language. However, Congress should consider applying these affordable debt restrictions to all colleges. Just because a college lacks an overt profit motive does not mean that it should be permitted to routinely graduate students with excessive debt. Students at for-profit colleges may be more likely to graduate with excessive debt, but excessive debt occurs at public and non-profit colleges too. Applying the gainful employment rules to all colleges would help ensure an improvement in outcomes for the students affected by the proposed rules.

- **Repeal or modify the 90/10 rule.** The combination of gainful employment with the 90/10 rule forces colleges into a Catch-22 situation. Compliance with the 90/10 rule will conflict with the gainful employment rules because the 90/10 rule unintentionally induces colleges to increase tuition rates beyond the maximum available federal student aid, while compliance with the gainful employment rules will require colleges to keep tuition increases in sync with starting salaries. Encouraging tuition reductions is better public policy than encouraging tuition increases. It may be necessary for Congress to repeal or modify the 90/10 rule.

- **Establish lower aggregate loan limits for shorter programs. Provide colleges with more control over loan limits.** The debt-service-to-income thresholds effectively establish program-specific borrowing limits, but do not give the colleges the controls needed to enforce these limits. Current subregulatory guidance precludes colleges from establishing lower loan limits based on field of study and degree program. Section 479A(c) of the Higher Education Act of 1965 provides colleges with the authority to "certify a loan amount or make a loan that is less than the student's determination of need (as determined under this part), if the reason for the action is documented and provided in written form to the student" on a case-by-case basis, so long as this action does not discriminate on the basis of race, national origin, religion, sex, marital status, age, or disability status. However, the US Department of Education has issued subregulatory guidance that limits the ability of colleges to use this authority. Specifically, on page 3-94 of the 2009-2010 Federal Student Aid Handbook, the US Department of Education writes "Also note that your school cannot engage in a practice of certifying Stafford loans only in the amount needed to cover the school charges, or to limit unsubsidized Stafford borrowing by independent students." Between this guidance and the case-by-case restriction, colleges are precluded from adopting lower loan limits for students according to field of study or degree program. This is particularly problematic for colleges that offer Associate's degree programs and Certificate programs because the Stafford loan program has a single set of aggregate loan limits for all undergraduate degree programs. While these aggregate loan limits may be appropriate for Bachelor's degree programs, the limits are too high for Associate's degree and certificate programs. The 150% timeframe Satisfactory Academic Progress (SAP) restriction does not preclude students who transfer from one college to another or switch degree programs from accumulating an excessive amount of debt for an Associate's degree or Certificate. Congress should consider adopting separate lower aggregate loan limits for Associate's degree and Certificate programs and providing colleges with the authority to set lower loan limits based on the field of study and/or degree program.

Facilitating Further Analysis of Institutional and Program-Specific Performance

- **Delinquency, deferment and forbearance rates.** The US Department of Education should publish delinquency, deferment and forbearance rates for each cohort and for all borrowers nationally and disaggregated by institution type, by institution control and degree program and by specific college. This data should also be disaggregated by whether the student did or did not complete the educational program. This will better inform analysis of the differences between loan repayment rates and cohort default rates.

- **Repayment plan utilization.** The US Department of Education should publish statistics concerning the number and percentage of borrowers in each repayment plan nationally and disaggregated by institution type, by institution control and degree program and by specific college. The statistics concerning the income-contingent and income-based repayment plans should specify the number and percentage of borrowers who are making a zero monthly payment and the number and percentage of borrowers who are negatively amortized. This data should also be disaggregated by whether the student did or did not complete the educational program.

- **Defaulted loan recovery rates.** The US Department of Education should publish annual recovery rates for defaulted loans nationally and disaggregated by institution type, by institution control and degree program and by specific college. The recovery rates should report both the percentage of dollars and the percentage of defaulted borrowers, as well as the average and mean amount recovered. This data should also be disaggregated by whether the student did or did not complete the educational program.

- **Cohort default rates by borrowers, loans and dollars.** In addition to reporting cohort default rates, which are based on the number of borrowers defaulting on their education loans, the US Department of Education should report the number of loans and the dollar balance outstanding on the defaulted loans for each cohort.

- **Lifetime default rates by borrowers, loans and dollars.** The US Department of Education should report actual lifetime default rates based on the number of borrowers, number of loans and principal balance of loans in default for each of the last 20 cohorts.

- **Total defaults, disaggregated.** The US Department of Education should publish annually the percentage of all student loan debt outstanding that is in default (by dollars, by number of loans and by number of borrowers), overall and disaggregated by institution type, by institution control and degree program and by specific college.

- **Research level access to NSLDS.** The US Department of Education should provide researchers with a data analysis system (DAS) to annual snapshots of the National Student Loan Data System (NSLDS). Analysis of NSLDS data could yield valuable information about borrowing trends and predictors of default and could help identify methods of reducing default rates. This could save the federal government billions of dollars in student loan defaults and improve college retention and graduation rates. This DAS should be similar to the one available for the National Postsecondary Student Aid Survey (NPSAS), which adequately protects the privacy of individual students.

- **Reengineer NSLDS.** The US Department of Education should consider reimplementing NSLDS using a modern SQL database like Oracle. This would make it easier to analyze trends in loan repayment rates and default rates through simple SQL code statements instead of complex COBOL programs.

- **Periodic study of income and earnings of recent college graduates.** The US Census Bureau and the US Bureau of Labor Statistics should be encouraged to study the income and earnings of recent college graduates by educational attainment and occupation. Actual institution-specific and program-specific earnings data is superior to previous proposals concerning the use of 25th or 50th percentile US Bureau of Labor Statistics (BLS) occupation wage data. However, if BLS occupation wage data were to be used, it can be merged with US Census Bureau income by educational attainment data by multiplying the median BLS data by 3/4 for Certificates, 7/8 for Associate's degrees, 1 for Bachelor's degrees, 1-1/4 for Master's degrees, 1-1/2 for Doctoral degrees and 1-3/4 for Professional degrees. Ultimately, though, it would be better to have the data be measured directly through the use of actual wage data.

<u>Clarifications of Proposed Regulatory Language</u>

- The proposed regulations at 34 CFR 668.7(c)(2) should clarify whether the median is measured against all completers, including those that graduate with no debt, or just the completers who graduate with some debt.

- The proposed regulations at 34 CFR 668.7(c)(2) should clarify whether the average earnings data will include completers who earned zero income. The Social Security Administration does not necessarily have earnings data for completers who earned zero income, but this can potentially be inferred from the lack of earnings data for a given completer.

- The proposed regulation at 34 CFR 668.7(a)(3)(iii) should define the word "prior" or otherwise clarify whether the earnings year, which is defined in 34 CFR 668.7(a)(3)(v) as a calendar year, and the three-year period (3YP), which is defined in terms of award year, can overlap or not. For example, is the award year 2008-09 prior to calendar year 2009, even though the award year ends in the middle of the calendar year?

- The proposed regulation at 34 CFR 668.7(c)(2) specifies that Parent PLUS loans are excluded. The term "private educational loans" should be replaced with the term "private student loans" to clarify that parent-only private education loans, such as the recently created Wells Fargo Student Loan for Parents, or not included.

- The proposed regulations at 34 CFR 668.7(b)(3) should clarify that qualifying for Public Service Loan Forgiveness includes borrowers who are in the middle of the required service, not just those who have completed the service requirement, and should discuss how these borrowers will be identified (e.g., from the borrower's employer as reported to the Social Security Administration).

- The proposed regulations should clarify that the loan repayment rates do not include debt from unrelated prior or subsequent institutions. The draft regulation at 34 CFR 668.7(c)(2) specifies this for the debt to income ratios but not for the loan repayment rates.

- The proposed regulations should perhaps distinguish between undergraduate and graduate/professional debt at the same or related institution for borrowers who received a Bachelor's degree before enrolling in a graduate or professional degree program. Otherwise this provides a disincentive for graduate and professional degree programs that will preclude them from enrolling their own Bachelor's degree recipients.

- The proposed regulations should discuss how a college may regain eligibility after becoming ineligible.

- The discussion of the debt warning disclosure in the third column on page 43623 of the Federal Register states "An institution must provide the warning if the program’s repayment rate is less that 45 percent and, using 3YP and, if applicable, P3YP, the debt-to-income ratio is greater than 8 percent of average annual earnings or 20 percent of discretionary income." The intention is that a program that does not satisfy both the 45% loan repayment rate threshold and at least one of the preferred debt to income ratios will be subjected to the warning requirement. The quoted language should be corrected to read "An institution must provide the warning if the program’s repayment rate is less that 45 percent or, using 3YP and, if applicable, P3YP, the debt-to-income ratio is greater than both 8 percent of average annual earnings and 20 percent of discretionary income."

- The proposed regulations at 34 CFR 668.7(d) regarding the debt warning disclosure state "unless the program has a loan repayment rate of at least 45 percent and an annual loan payment that is at least 20 percent of discretionary income or 8 percent of average annual income." This should be corrected to state "unless the program has a loan repayment rate of at least 45 percent and an annual loan payment that is at most 20 percent of discretionary income or 8 percent of average annual income."

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