

Strategies for Complying with Gainful Employment by Reducing Debt and Improving College Completion Rates

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Publisher of Fastweb.com and FinAid.org

June 28, 2011

The new gainful employment regulations¹ establish affordable debt restrictions on almost all programs at for-profit colleges and on certain non-degree certificate programs at public and non-profit colleges. While these rules do not currently apply to Associate's degrees, Bachelor's degrees and more advanced degrees at public and non-profit colleges, this exclusion may eventually change. Extending the rules to all programs at all colleges would require an act of Congress. But Congress is likely to see the gainful employment rules as a ready-made solution the next time constituents complain about above-average tuition inflation at public and non-profit colleges.² The US Department of Education could decide to incorporate institutional loan repayment rates into College Navigator or another tool to help families make informed decisions concerning their choice of college.³ Accordingly, it would be advisable for all colleges, regardless of whether they are subject to the new gainful employment rules or not, to implement strategies to enhance their compliance with the new rules. This paper discusses strategies for complying with the gainful employment rules by reducing student debt, increasing post-graduation income and improving college completion rates.

GAINFUL EMPLOYMENT REQUIRES PASSING ONE OF THREE DEBT MEASURES

The gainful employment regulations establish three metrics for measuring whether a college's students are burdened with too much debt.

- **Loan Repayment Rate.** The loan repayment rate is effectively a performing assets ratio. It is a dollar-weighted ratio that measures the percentage of the original loan balances at repayment (including capitalized interest) that are actively being repaid a few years after the cohort enters

¹ The June 2, 2011 US Department of Education press release announcing the final rule is available at www.ed.gov/news/press-releases/gainful-employment-regulations. The final regulations can be found at Federal Register 76(113):34386-34539, June 13, 2011, www.federalregister.gov/a/2011-13905.

² Liberal arts programs may provide more benefits than just a job. But to the extent that students in liberal arts programs borrow to pay for their education, there is an expectation that the students enrolled in these programs will be able to obtain employment with income sufficient to repay the debt after graduation. The nature of the education program is a weak justification for graduating students with more debt than they can afford to repay.

³ The regulations give the US Department of Education the authority to disseminate the three debt measures and other objective metrics as it sees fit. The US Department of Education is more likely to release institutional loan repayment rates for all colleges than debt-to-income ratios because it can calculate institutional loan repayment rates without additional information from the colleges. For example, the August 13, 2010 data release after publication of the gainful employment NPRM included data for all OPEIDs, not just those of institutions that are subject to the gainful employment rule. While the loan repayment rates are imperfect, they are much less prone to manipulation than cohort default rates and provide a more realistic assessment of the repayment behavior of a college's borrowers. As such, the loan repayment rates present a better picture for consumers and policymakers of the extent to which each college's graduates and dropouts are struggling to repay their debt.

repayment. The cohort includes all borrowers entering repayment on their federal student loans, including both borrowers who dropped out and borrowers who graduated. Active repayment is defined as a decrease in the total loan balance (including principal, capitalized interest and accrued but unpaid interest) during the most recent federal fiscal year. Loans that are delinquent or in default are considered to be non-performing. Loans in a deferment or forbearance status, except for loans in an in-school or military deferment, are also considered to be non-performing. Parent PLUS loans, loans in an in-school or military deferment, and loans that are subject to a death or disability discharge are excluded from the loan repayment rate calculation. Loans that are interest-only or negatively amortized may be counted as performing loans, but only up to 3% of the denominator in the loan repayment rate. Borrowers who are pursuing public service loan forgiveness are also considered to be actively repaying their loans. A program with a loan repayment rate of at least 35% is considered to have satisfied the requirement to provide training that leads to gainful employment in a recognized occupation.

- **Debt-Service-to-Income Ratio.** The debt-service-to-income ratio calculates the ratio of the monthly loan payments to monthly earnings a few years after the cohort graduated. The cohort includes only borrowers who graduated and excludes borrowers who dropped out. The debt includes all student loan debt, including federal student loans, private student loans and institutional payment plans, but is optionally capped at each borrower's total tuition and fees. The monthly loan payments are based on the median debt for the cohort and are calculated by assuming the fixed interest rate on an unsubsidized Stafford loan, currently 6.8%. The loan term is based on the degree program, with a 10-year term for certificate programs (including post-baccalaureate certificate programs) and Associate's degree programs, a 15-year term for Bachelor's and Master's degree programs and a 20-year term for doctoral and first-professional degree programs. The earnings are based on the greater of the mean or median annual earnings for the cohort as reported by the Social Security Administration (SSA). (If SSA does not have data for one or more students in the cohort, the US Department of Education will exclude a similar number of the highest debt figures before calculating the median debt.) Earnings data may alternately be based on state data or survey data, subject to strict data quality standards. Earnings data may also be based on Bureau of Labor Statistics (BLS) data during the first three years of phase-in for the gainful employment rule. A program with a debt-service-to-income ratio of at most 12% is considered to have satisfied the requirement to provide training that leads to gainful employment in a recognized occupation.⁴
- **Debt-Service-to-Discretionary-Income Ratio.** The debt-service-to-discretionary-income ratio is similar to the debt-service-to-income ratio, but the denominator is based on monthly discretionary income instead of monthly income. Monthly discretionary income is defined as the amount by which annual earnings exceeds 150% of the poverty line, divided by 12. A program with a debt-service-to-discretionary-income ratio of at most 30% is considered to have satisfied the requirement to provide training that leads to gainful employment in a recognized occupation.⁵

⁴ Multiply the monthly loan payment by 100 to calculate the minimum annual salary needed to repay the debt at a 12% debt-service-to-income ratio.

⁵ Note that graphs of the maximum debt under the debt-service-to-income and debt-service-to-discretionary-income ratios intersect at 250% of the poverty line. When income exceeds 250% of the poverty line, the debt-service-to-discretionary-income ratio will dominate the calculation of the maximum permissible median debt. Below this threshold the debt-service-to-income ratio dominates the calculation of the maximum permissible debt.

The cohorts for all three debt measures are normally based on the third and fourth federal fiscal years prior to the most recently completed fiscal year. For programs with 30 or fewer borrowers in the cohort, the cohort will be expanded to include the fifth and sixth fiscal years. (If the expanded cohort still has 30 or fewer borrowers, the program is treated as though it had passed the debt measures, similar to the small school exception for cohort default rates. While this excludes a significant number of programs which otherwise would have been subject to the gainful employment rule, in aggregate these programs represent a small percentage of total student enrollment in gainful employment programs.⁶) For medical and dental school programs where graduates are required to complete a residency and internship, the sixth and seventh fiscal years are substituted for the third and fourth fiscal years.

Compliance with gainful employment requirements is defined in terms of a three strikes rule. A program that does not satisfy at least one of the three debt measures in a given fiscal year is considered to have failed to satisfy the gainful employment requirements for that fiscal year. If the program fails to satisfy the gainful employment requirements for three out of four consecutive fiscal years, it loses eligibility for federal student aid for at least three years.

PRIORITIZING AMONG THE THREE DEBT MEASURES

There is no single strategy that will ensure compliance with the gainful employment regulations. The best approach is to employ multiple strategies, each of which will contribute a little to compliance. But a college might not have enough resources to pursue every strategy, in which case they may have to prioritize which strategies to pursue.

Most strategies for complying with the gainful employment rules will yield improvements in all three debt measures.

Improvements in the debt-to-income ratios may be easier to target than improvements in the loan repayment rates. The debt-to-income ratios measure whether the borrower can afford to repay the debt, while the loan repayment rates measure whether the borrower is actually repaying the debt.

Using the Missouri data set with the 12%, 30% and 35% thresholds, most for-profit colleges will fail the loan repayment rate thresholds but most will pass at least one of the debt-to-income ratio thresholds.⁷

- 75.6% of for-profit college programs fail the 35% loan repayment rate threshold, and 24.4% pass.
- 67.6% of for-profit college programs pass the 12% debt-service-to-income threshold.
- 35.8% of for-profit college programs pass the 30% debt-service-to-discretionary-income threshold.
- 71.6% of for-profit college programs will pass either the 12% debt-service-to-income threshold or the 30% debt-service-to-discretionary-income threshold.

⁶ Overall, 62.0% of programs subject to the gainful employment rules will be excepted by the small numbers provision. This will exclude 68.1% of gainful employment programs at public colleges, 75.6% of gainful employment programs at non-profit colleges and 39.5% of gainful employment programs at for-profit colleges. These excepted programs necessarily represent a small share of student enrollment in gainful employment programs, less than 8% of the overall total and less than 13% at public colleges, less than 12% at non-profit colleges and less than 2% at for-profit colleges.

⁷ Note that the published Missouri data set does not incorporate all of the changes in the final rule, such as the small program exception and the cohort changes, so the pass rates will likely be higher than these estimates.

Of the 24.4% of programs that pass the loan repayment rate threshold, 90.7% also pass at least one of the debt-to-income thresholds. (In contrast, of the 71.6% that pass at least one of the debt-to-income thresholds, only 31.0% also pass the loan repayment rate threshold.) The overlap between the programs that pass the loan repayment rate threshold and the programs that pass the debt-to-income thresholds varies according to the degree program.

- Of the 17.4% of for-profit college certificate programs that pass the loan repayment rate threshold, 100% also pass one or more of the debt-to-income ratio thresholds.
- Of the 16.5% of for-profit college Associate's degree programs that pass the loan repayment rate threshold, 92.3% also pass one or more of the debt-to-income ratio thresholds.
- Of the 56.5% of for-profit college Bachelor's degree programs that pass the loan repayment rate threshold, 76.9% also pass one or more of the debt-to-income ratio thresholds.

Although this demonstrates that the loan repayment rates do not add much information beyond the debt-to-income ratios, colleges may need to focus more on improving loan repayment rates during the initial three-year phase-in period. There is still some retroactivity during the phase-in period. For example, the FY2012 debt measures will be based on borrowers from the FY2008 and FY2009 cohorts, the FY2013 debt measures will be based on borrowers from the FY2009 and FY2010 cohorts and the FY2014 debt measures will be based on borrowers from the FY2010 and FY2011 cohorts. Almost all of the borrowers from these cohorts have already graduated. It is not possible to reduce the debt at graduation for a student who has already graduated. So even though the debt-to-income ratios will ultimately be easier to satisfy than the loan repayment rates, colleges will need to focus more on improving loan repayment rates during the phase-in of the new gainful employment rules.

There are additional important differences between the loan repayment rate and the debt-to-income ratios that will affect the ability of colleges to improve their performance under these debt measures. The loan repayment rate includes both completers and dropouts, while the debt-to-income ratios include only completers. The loan repayment rate includes only federal student loans (including Stafford and Grad PLUS loans, but not Parent PLUS loans), while the debt-to-income ratios also include private student loans and institutional financing and installment plans. The debt-to-income ratios are affected by the borrower's earnings (the maximum of the mean and median), while the loan repayment rate is not. The debt-to-income ratios are based on median debt, while the loan repayment rates are an average that is weighted by the amount of debt. These differences yield different levers for improving program performance under the gainful employment rules.

STRATEGIES FOR IMPROVING PROGRAM AND INSTITUTIONAL PERFORMANCE

Fundamentally, all strategies for improving program and institutional performance under the gainful employment regulations fall into one or more of three categories: reducing debt, increasing income and pipeline enhancement. Pipeline enhancement conceives of the path from enrollment to graduation as a pipeline with input flows, internal flows, internal leaks and output flows, and attempts to improve the completion rates.

Pipeline Enhancement

Colleges should identify and experiment with predictors of completion, employment and repayment. Given a data warehouse of student characteristics and outcomes, conditional probabilities may be used to calculate the probability of each outcome given each characteristic. The characteristics may then be

ranked by sorting them according to the conditional probabilities. This could be used to identify at-risk students to better target them for support services as well as academic and career counseling. For example, national statistics demonstrate that students who are single parents are more likely to drop out and default on their loans. If difficulty in obtaining reliable childcare is a contributing factor (e.g., the student has to miss class because the babysitter is sick), providing on-campus childcare facilities could improve academic performance and completion rates.

A common error in efforts to identify predictors of default is to evaluate the prevalence of a characteristic among the borrowers who default as opposed to the conditional probabilities of default. For example, an analysis might find that two-thirds of students who default are female. This result has no predictive value because two-thirds of all students are female. Rather than calculate the probability that a student who defaulted is female, a proper analysis calculates the probability that a female student will default. Given two events, A and B, the conditional probability of A given B is $P(A | B) = P(A \cap B) / P(B)$. In other words, divide the number of students with the characteristic who defaulted by the total number of students with the characteristic. Thus one should calculate $P(\text{default} | \text{female})$ and not $P(\text{female} | \text{default})$.

The use of conditional probabilities may contribute to colleges adopting more selective admissions policies. Since high school GPA and SAT/ACT admissions test scores have been shown to be predictive of success in college, establishing minimum thresholds on these standards will likely increase retention and completion rates. Colleges could substitute their own short admissions or IQ tests for the standardized tests if taking such tests (and their fees) represented too great a barrier to entry, especially for low-income and non-traditional students. Emotional IQ tests and personality tests could be used to assess the student's commitment to obtaining a college degree and their resilience in the face of obstacles, and accordingly may be predictive of persistence and completion. Simple versions of these tests could be implemented using a forced sorting task, such as choosing 5 of a set of 25 descriptive adjectives, or using multiple choice tests. Since students who pass ability-to-benefit (ATB) tests instead of obtaining a high school diploma or GED are less likely to graduate and more likely to default, some colleges may stop accepting ATB tests in lieu of a high school diploma or GED. Greater selectivity improves performance under the debt measures in part by reducing the enrollment by at-risk students.

Colleges could address the risk factors by establishing try-before-you-buy policies and orientation programs, such as those established by the University of Phoenix and Kaplan. The goal of these no-cost programs is to ensure that students have and/or develop the skills needed to succeed in the classroom and to assess student commitment to completing a college education. But they also enhance compliance with the gainful employment rules by increasing the likelihood that students who will eventually drop out do so before they borrow, not afterward. Dear Colleague Letter GEN-11-12 discusses the impact of such trial or conditional enrollment periods on eligibility for federal student aid.⁸ Colleges could also use front-loading of grants to minimize the debt of students who drop out near the beginning of the college program. Another approach involves developing a refund policy that reduces or eliminates the debt of students who drop out, especially students who withdraw during the first semester, such as requiring the refund to be applied first to education loans, similar to the prioritization inherent in the return of Title IV aid (R2T4) regulations in 34 CFR 668.22(i).

Proactive intervention can improve completion rates. But proactive intervention is expensive, so colleges may use the conditional probabilities to target proactive intervention to the students who are at greatest risk. Many students, especially independent students, do not have a parent or other family members

⁸ <http://ifap.ed.gov/dpccletters/GEN1112.html>

nagging them about their academic performance or helping them avoid the obstacles that interfere with academic performance. Most federal intervention programs are focused on improving access to higher education and stop their support as soon as the student passes through the ivy-covered gates. Other programs, such as the Federal Student Aid Information Center (1-800-4-FED-AID) are necessarily reactive. They do not reach out to at-risk students to help them navigate the path to graduation, but instead wait for the student to call for help. The students at greatest risk are precisely the ones who are least likely to call a toll-free hotline. Proactive intervention goes beyond normal academic advising by anticipating and identifying the obstacles that interfere with student success, by reaching out to the students who are at risk and by helping these students overcome the obstacles. Small community-based efforts have demonstrated that such efforts can have a big impact on outcomes.

The conditional probabilities may also help colleges target their advertising and lead generation activities based on effectiveness with regard to the 90/10 rule and gainful employment rules. Both the 90/10 rule and the gainful employment rules involve lagging indicators, so conditional probabilities can help by identifying earlier predictors. Examples include analyzing advertising campaigns according to whether the student is more likely to graduate, less likely to over-borrow and less likely to default or be delinquent. The new incentive compensation rules that go into effect on July 1, 2011 do not allow colleges to pay each lead source at a different rate based on these quality measures. However, nothing in the new regulations prevents a college from ending relationships with low-quality lead sources.

Larger colleges with multiple campuses can use similar techniques to improve educational quality for programs with larger enrollments by adopting an optimization framework. In such an A/B testing framework a subset of the college's campuses can implement different approaches, allowing the college to continually compare the effectiveness of new curricula and pedagogical methods based on outcomes. The experiments must involve enough students to yield statistically significant results, and the students should be randomly distributed according to demographic factors to ensure an apples-to-apples comparison. Then the more effective solutions can be adopted by all the campuses.

Colleges may try changing program length in order to decrease student debt or increase completion rates. The Missouri data suggests that Associate's degree programs are more likely to be affected by the gainful employment rules than certificate or Bachelor's degree programs. For example, the Missouri data (adjusted for the 12%, 30% and 35% thresholds, but not for the change in the loan repayment rate's repayment term assumptions) suggests that up to 15.9% of certificate programs, 38.0% of Associate's degree programs and 21.7% of Bachelor's degree programs will fail all three debt measures. With the increase in the repayment term assumption from 10 years to 15 years for Bachelor's degree programs, only 13.0% of Bachelor's degree programs will fail all three debt measures. Some colleges may try changing the program length of their Associate's degree programs in order to improve compliance with the gainful employment rules. Converting an Associate's degree program into a Bachelor's degree program will probably not be effective, despite the increase in the repayment term assumption from 10 years to 15 years. The 15-year term for Bachelor's and Master's degree programs allows 29.6% higher debt than the 10-year term used with Associate's degree and certificate programs and the 20-year term for doctoral and professional degree programs allows 50.8% more debt than a 10-year term. But increasing the program length from an Associate's degree to a Bachelor's degree doubles the program duration from two years to four years and accordingly will double the debt. The increase in program length would have to be accompanied by a substantial increase in income (at least 54% under the debt-service-to-income ratio) to compensate for the higher debt. Compressing an Associate's degree program into a certificate is

more likely to be an effective solution since it will decrease the time to graduation, thereby increasing completion rates, and it will also substantially reduce the debt at graduation.

Other strategies that can improve completion rates include:

- Adding or increasing application fees can help filter out less-committed students. Since the fees are paid in cash, they may also help the college comply with the 90/10 rule.
- Students who dropped out but are close to completion could be encouraged to re-enter, perhaps by offering discounted tuition. Some community colleges are boosting their degree attainment rates by identifying students who completed the requirements for a degree or certificate but transferred without obtaining the credential. Helping near-miss students finish their education is a more meaningful solution.

Reducing Debt

A previous paper demonstrated that students at for-profit colleges are twice as likely as students at public and non-profit colleges to borrow beyond institutional charges, as illustrated by the table to the right.⁹ The final gainful employment

| Type of College | Debt > | Debt > |
|-----------------|-------------------|----------------------------|
| | Tuition + \$2,500 | Tuition – Grants + \$2,500 |
| Public | 16.5% | 20.4% |
| Non-Profit | 16.5% | 34.8% |
| For-Profit | 34.8% | 47.4% |

rule addressed this by providing colleges with the option of capping individual student debt amounts at total tuition and fees, so that the excess debt doesn't count toward the median debt figures. Even so, it is still beneficial for a college to try to get students to minimize their debt, since students who over-borrow are more likely to get into financial difficulty and ultimately fail to repay their student loans. Also, the cap is based on tuition, not tuition minus grants, so a student who receives grants can still end up borrowing beyond institutional charges even with the debt cap. Finally, compliance with the 90/10 rule still requires colleges to reduce the percentage of institutional charges that are met with federal student aid, including federal education loans.

Pell Grant recipients are more likely to borrow beyond institutional charges than non-recipients (26.9% vs. 14.9%), as are private student loan borrowers (58.8% vs. 11.6%) and recipients of Parent PLUS loans (65.8% vs. 16.3%). Receipt of a Pell Grant or private student loan is more likely to have an impact on borrowing beyond institutional charges than receipt of a Parent PLUS loan because the Parent PLUS loans represent a much smaller subset of student aid funding. Two thirds (63.1%) of students at for-profit colleges received a Pell Grant in 2007-08, compared with about a quarter of students at non-profit colleges (26.3%) and public colleges (23.0%). Two-fifths (42.5%) of students at for-profit colleges received a private student loan, compared with a quarter (24.3%) of students at non-profit colleges and less than a tenth (8.7%) of students at public colleges. Only 5.2% of students at for-profit colleges received a Parent PLUS loan, compared with 8.5% of students at non-profit colleges and 2.7% of students at public colleges. These figures represent 21.8%, 13.0% and 5.0% of students eligible to receive Parent PLUS loans, respectively, based on dependency status.

Given a maximum unsubsidized Stafford loan of \$9,500 to \$12,500 for an independent student and a maximum of \$5,550 in Pell Grants, borrowing beyond institutional charges mostly means private and Parent PLUS loans for students at higher-cost colleges. The higher loan limits in these loan programs

⁹ Mark Kantrowitz, *Borrowing in Excess of Institutional Charges*, April 28, 2011. www.finaid.org/educators/20110428debtbeyondtuition.pdf

mean that colleges lose some control over borrowing when students consider these loans in order to borrow beyond institutional charges. Once they take the first step toward borrowing from one of these loan programs, it is a slippery slope toward borrowing excessively.¹⁰ One strategy for reducing excessive debt is to target students who are borrowing from private and Parent PLUS loan programs for more aggressive debt counseling that encourages them to minimize their debt and discusses the consequences of taking on too much debt. Students should have a goal of graduating with the least amount of debt possible. If a student's need to borrow beyond institutional charges is unavoidable, the colleges are likely to encourage the student to borrow from the Parent PLUS loan program, if eligible, instead of private student loans because Parent PLUS loans don't count for debt-to-income ratios while private student loans do.¹¹ Parent PLUS loans are also less expensive in the long term and have better repayment terms.¹²

Colleges are also likely to encourage students to exhaust their federal Stafford loan eligibility before resorting to private student loans, since the federal student loans cost less than private student loans in the long term and have more flexible repayment terms. The lower interest rates reduce delinquency and default rates because every 1% increase in the interest rate increases the monthly payment by about 5% on a 10-year term, about 9% on a 20-year term and about 12% on a 30-year term. This strategy doesn't affect the debt-to-income ratios because those measures assume the 6.8% interest rate on an unsubsidized Stafford loan even for higher-cost private student loans. However, it can improve the loan repayment rate by making it easier for borrowers to afford to repay their student loans.

Encouraging dependent students to borrow from the Parent PLUS loan program by including a Parent PLUS loan amount on the financial aid award letter (often referred to as "packaging PLUS") is potentially problematic.¹³ While this may encourage the students to borrow from less expensive federal education loans instead of private student loans, it may also lead to increased overall borrowing. A targeted approach like the one adopted by Barnard College¹⁴ and Colorado State University¹⁵ may be more effective in reducing private student loan borrowing without unnecessarily increasing borrowing from the Parent PLUS loan program.

¹⁰ It is also possible that cause and effect are reversed, where the students who need to borrow beyond institutional charges are more likely to borrow from the PLUS and private student loan programs.

¹¹ Only about a quarter (23.9%) of undergraduate students at for-profit colleges are dependent and hence eligible for the Parent PLUS loan. This compares with half (54.2%) of undergraduate students at public colleges and two-thirds (65.6%) of undergraduate students at non-profit colleges. 31.1% of students in certificate programs at for-profit colleges, 21.6% of students in Associate's degree programs at for-profit colleges and 16.9% of students in Bachelor's degree programs at for-profit colleges are dependent. Even among the dependent students at for-profit colleges, many are functionally independent without any support, financial or otherwise, from their parents. So encouraging students to borrow from the Parent PLUS loan program instead of private student loan programs is going to be less effective at for-profit colleges than at non-profit and public colleges. But it is still beneficial.

¹² Private student loans may be less expensive than Parent PLUS loans for borrowers with excellent credit for the next few years because interest rates are at historic lows. But most low-income students enrolled at for-profit colleges do not have excellent credit and the lower monthly payments will be short-lived.

¹³ There are similar concerns about listing the unsubsidized Stafford loan on financial aid award letters. However, the unsubsidized Stafford loan is more limited, in contrast with the PLUS loan which is available up to the full cost of attendance minus other aid received.

¹⁴ Scott Jaschik, *Bucking the Tide on Private Loans*, Inside Higher Ed, July 16, 2007. www.insidehighered.com/news/2007/07/16/barnard

¹⁵ Lindsey Luebchow, *Colorado Does Student Loans Right*, New America Foundation, August 23, 2007. www.newamerica.net/blogs/education_policy/2007/08/colorado_state

Another factor that potentially contributes to borrowing beyond institutional charges is enrollment status. Federal Stafford loan limits are not currently prorated according to enrollment status. When a student is enrolled part-time, less of their debt is required for tuition and fees. This means that students who are enrolled part-time are more capable of borrowing for non-institutional charges. Colleges can reduce the debt associated with students who are enrolled part-time by counseling them to minimize their debt and by recruiting more full-time students.

The financial aid award letter can be an important tool for getting students to borrow less by raising awareness of the amount of debt the students will be accruing.¹⁶ Financial aid award letters should clearly distinguish loans from grants and include interest rates, monthly loan payments and total payments assuming a 10-year repayment term adjacent to the loan. Since students often treat loan limits as targets, financial aid award letters should use lower suggested loan amounts (say, half the annual limits) to set a lower target. Financial aid award letters should also report the student's previous cumulative debt (including interest) and a projection of debt at graduation, as well as providing estimated monthly loan payments. Debt at graduation can be projected by multiplying the first year's debt by the length of the program or by using historical data. The projected debt at graduation should be compared with the student's expected starting salary as a sanity check on the amount of debt. More frequent feedback about debt will increase the sensitivity to over-borrowing and help students minimize their debt.

Colleges might try reducing debt at graduation by cutting tuition. Normally, reducing tuition is not a very effective method of reducing debt. Based on data from the 2007-08 National Postsecondary Student Aid Study (NPSAS), a \$1 decrease in tuition reduces average debt by about 30 cents.¹⁷ However, the gainful employment rules provide colleges with the option to cap individual student debt figures by the total tuition and fees for each student, so that they won't be penalized when students borrow beyond institutional charges. Depending on the percentage of students who borrow beyond tuition and fees, this might provide colleges with a potentially greater benefit in reducing debt at graduation. For example, if half of the students borrow beyond tuition and fees, a \$1 decrease in tuition will reduce average debt by 50 cents.¹⁸ The tuition cap gives colleges a more direct incentive to reduce tuition and fees.

Colleges can increase the effectiveness of tuition cuts in reducing debt at graduation by targeting them at the students who borrow beyond tuition and fees. Lower-income students, such as Pell Grant recipients, are more likely to borrow beyond tuition and fees. So colleges might establish differential tuition rates based on the student's family income or expected family contribution (EFC).¹⁹

¹⁶ Mark Kantrowitz, *Proposal for Standardization of Financial Aid Award Letters and Net Price Calculators*, ACSFA Hearing, March 17, 2011. www.finaid.org/educators/20110317awardletters.pdf

¹⁷ This analysis is synthetic, in that it compares average tuition for colleges within a narrow range of tuition rates with the average per-student debt at those colleges in a specific year, as opposed to tracking how year-over-year tuition increases at each college correlates with increases in student debt.

¹⁸ According to Mark Kantrowitz, *Borrowing in Excess of Institutional Charges*, April 28, 2011 (www.finaid.org/educators/20110428debtbeyondu tuition.pdf), 34.8% of students at for-profit colleges borrow at least \$2,500 in excess of institutional charges. 38.4% of students at for-profit colleges borrow at least \$1,000 in excess of institutional charges and an estimated 41% borrow any amount in excess of institutional charges. These figures represent national averages, so some colleges will have higher borrowing rates and some colleges will have lower borrowing rates. Students at public and non-profit colleges are less likely to borrow beyond tuition and fees, in part because these colleges enroll fewer low-income students.

¹⁹ The 90/10 rule does not give for-profit colleges credit for most institutional scholarships and grants. So while public and non-profit colleges might target financial aid at needy students by awarding grants based on the

The limitation of the debt-to-income ratios to students who graduate may cause colleges to target tuition cuts to students who are more likely to graduate, such as students in the final year of enrollment. (This approach is also less expensive to the colleges than across-the-board tuition cuts for all students.) However, the incentive compensation rules that go into effect on July 1, 2011 preclude colleges from offering a tuition rebate for on-time graduation.²⁰ On the other hand, the incentive compensation regulations do not prevent colleges from offering loan repayment assistance programs (LRAP), such as programs offered by law schools to encourage graduates to pursue careers in public service and public-interest law. Thus there is a fine line between what is and isn't acceptable under the incentive compensation rules, and it is often unclear whether any particular program will cross the line. For example, it is unclear whether a college could incentivize the earnings surveys discussed in 34 CFR 668.7(g)(3) by providing every respondent with an iTunes gift card or randomly selecting one respondent to receive an iPad.²¹ The incentive compensation rules will make it more complicated for colleges to use targeted tuition reductions to reduce debt at graduation for just the students who will be graduating.

Current guidance published by the US Department of Education in the Federal Student Aid Handbook precludes colleges from limiting federal Stafford loan debt to institutional charges or from limiting unsubsidized Stafford loan borrowing by independent students.²² The authority to reduce loan limits is on a case-by-case basis. Colleges cannot have a policy or practice that routinely reduces the loan limits.²³ However, colleges do have the authority to review borrowing on a case-by-case basis and an obligation to refuse to certify loans when they have evidence that the student does not intend to repay the loans. If a college asks a student if he or she intends to repay their student loans and the student says "no," the college should not certify the loans. Besides asking the students directly about their intentions, colleges

student's EFC (a high cost/high aid model), the gainful employment and 90/10 rules may encourage for-profit colleges to charge differential tuition where the tuition rate is based on the student's income or EFC. Similarly, the tuition cap in the gainful employment rule is based on tuition and fees, not tuition and fees minus grants, so colleges will get more of a benefit from reducing tuition than from increasing grants, even though both approaches reduce the net price.

²⁰ The US Department of Education wrote in the preamble of the discussion of the new incentive compensation rules that "we believe that paying bonuses to recruiters based upon retention, completion, graduation, or placement remain in violation of the HEA's prohibition on the payment of incentive compensation" and the regulations define the scope as applying to activities "at any point in time through completion of an educational program." This effectively precludes colleges from providing students with a tuition rebate or other rewards for graduating. The US Department of Education's position is that rewarding increases in graduation rates is the equivalent of providing a bonus for success in securing enrollments since "unless the student enrolls, the student cannot successfully complete an educational program." The US Department of Education expressed concern especially with regard to short-term, accelerated programs, where enrollment might be only a few months away from graduation.

²¹ An incentivized survey is much more likely to satisfy the NCES response rate requirements than one which is not incentivized.

²² Colleges should also avoid considering any borrower characteristic that has been accorded protected status when deciding to reduce loan limits. These characteristics include race, color, religion, national origin, sex, marital status, age, disability status, income and receipt of public assistance. Colleges should review their decisions after the fact to ensure that they do not "constitute a pattern or practice that denies access" to these borrowers. The reference to "a pattern" in the US Department of Education guidance effectively requires a statistical review of the effect of the exercise of the authority to reduce loan limits.

²³ This unfortunately prevents colleges from adopting across-the-board policies that reduce the loan limits for borrowers according to enrollment status, year in school, field of study or degree programs. Colleges can still reduce loan limits based on excessive debt or high projected debt-to-income ratios, but the decision must be made on a case-by-case basis, relative to the individual borrower's circumstances.

can use other means to evaluate the student’s attitudes toward debt and the likelihood they will repay the debt.²⁴ To impress upon the student the seriousness of borrowing, the college could require students to sign a pledge to repay debt (perhaps as part of an honor code) and have the signature witnessed by a notary.

Another approach to limiting borrowing is to start with a minimal cost of attendance (student budget) and to require students to document actual costs as part of an appeal for increases. The added bureaucracy will ensure that students who don’t really need the extra funding will not seek an adjustment to the cost of attendance. When reviewing appeals, the college financial aid office should distinguish between needs and wants, and should not make adjustments for lifestyle choices.

Colleges should proactively counsel students about minimizing debt, both before the student borrows and after the student enters repayment.²⁵ The goal of this counseling is to help students deal with problems sooner, before they've had time to grow. If the college has limited counseling resources, they should target students for aggressive debt counseling based on a variety of risk factors, such as annual borrowing in excess of \$5,000,²⁶ excessive debt for the student’s enrollment status, major or degree, and borrowing from private student loan programs. Students who have changed majors, attended multiple prior institutions or have defaults at prior institutions should also be targeted for aggressive counseling because they are at high risk of over-borrowing.²⁷

Targeting students with the highest debt for aggressive counseling will have the biggest impact on loan repayment rates, since loan repayment rates are dollar-weighted. The following chart shows the maximum impact on the loan repayment rate of shifting borrowers from a non-paying to a paying status based on percentile debt data from the 2007-08 NPSAS.

| Degree Program | Top 10% | Bottom 10% | Top 25% | Bottom 25% |
|--------------------|---------|------------|---------|------------|
| Total | 26.0% | 1.8% | 50.8% | 7.4% |
| Certificate | 25.4% | 2.3% | 48.1% | 8.9% |
| Associate’s | 21.5% | 2.0% | 44.3% | 8.5% |
| Bachelor’s | 18.5% | 2.9% | 39.2% | 12.1% |

This strategy will have less of an impact on the debt-to-income ratios because those ratios are based on median debt at graduation. Getting students who have or who are predicted to have the highest debt to reduce their debt slightly will not shift the median. Targeting students who have or are predicted to have debt near the median to reduce their debt will likely shift the median by opening up a gap around the median.

²⁴ Colleges should be careful when considering a borrower's credit history, since credit history can be discriminatory in effect. Any consideration of credit history should provide an exception for extenuating circumstances that were beyond the borrower's control.

²⁵ The risk of losing aid eligibility for a program makes it financially worthwhile for a college to communicate with its alumni about their loans instead of relying on the minimal due diligence performed by loan servicers.

²⁶ Debt during the first year is predictive of debt at graduation. Students who borrow the most during their first year are likely to have the greatest amount of debt at graduation.

²⁷ A student who has changed majors or transferred multiple times may be attempting to bypass the 150% timeframe limitation.

When counseling students about debt it is important to understand the psychology of the borrower. For example, students pay more attention when the total interest paid over the life of the loan exceeds the amount borrowed. This is due to a logical fallacy where the students feel cheated because they are paying back more than they borrowed.²⁸ This phenomenon can be used to make students pay more attention to their debt by providing repayment examples where the total interest exceeds the amount borrowed. The total interest will exceed the amount borrowed for federal loans with a 25-year term (6.8% and 7.9% interest rates), for private student loans with a 10% interest rate and a 20-year term and for private student loans with a 16% interest rate and a 10-year term. It is also best to avoid examples that require calculation or interpretation, since that is less tangible. Where possible, it is better to do the calculation for the student. Counseling is also more effective when it is personalized to the borrower's specific circumstances. For example, it is better to show students the monthly loan payment than the interest rate, because the interest rate is more abstract, and to show them the monthly payment based on their projected debt at graduation.²⁹ A rule of thumb that is based on comparing debt at graduation with the student's expected starting salary is more effective than statements concerning the debt-service-to-income ratio because it is easier to apply and interpret. Likewise, simple sayings like "live like a student while you are in school so you don't have to live like a student after you graduate" are more memorable and more likely to sink in.

Teaching students about smarter borrowing can reduce their debt and reduce the likelihood of delinquency and default. Ideally all incoming students should be required to undergo financial literacy training in the first semester, either as a series of counseling sessions or as a course required as part of the core curriculum.³⁰ This will help them make smarter borrowing decisions and better manage their financial life after they graduate. The time for students to figure out how they will repay the debt is before they incur it, not after they graduate, because there are more opportunities to deal with debt before graduation.

Some colleges have started requiring students to prepare a budget and a workable repayment plan before they can borrow. It is best to start with a descriptive budget, where the students track and categorize their spending for a month, as opposed to a prescriptive budget. Just being aware of their spending will help them cut unnecessary spending. After the students have learned about budgeting they can start thinking about how to economize on bigger ticket items such as room and board, cars, cell phones and cable TV. Then they can move on to other tips on cutting costs, such as trimming discretionary spending, buying used textbooks, and substituting lower cost and free items for higher cost budget items. Credit cards should be avoided as much as possible, because spending \$500 with a credit card feels the same as

²⁸ With any student loan with a positive interest rate, the total payments will exceed the amount borrowed. But students seem to pay much more attention when the total payments double the amount borrowed. The logical fallacy occurs because borrowers don't seem to pay as much attention when total interest is slightly less than the amount borrowed.

²⁹ Given two repayment plans, students will almost always choose the repayment plan with the lower monthly payment even if they can afford to pay more. This can be addressed by showing the borrower the total payments over the life of the loan with each option, since reducing the monthly payment usually involves a big increase in the total payments over the life of the loan. Choosing a longer repayment term can double or even triple the total interest paid over the life of the loan. For example, switching a Federal Unsubsidized Stafford loan from a 10-year term to a 20-year term will cut the monthly payments by about a third, but it will also increase the total interest paid over the life of the loan by a factor of 2.2. Borrowers in a 20-year or longer repayment term will still be repaying their own student loans by the time their children enroll in college.

³⁰ Such a class could go beyond the usual financial literacy topics to include discussions of entrepreneurship and how to start, fund and grow a company in addition to discussing personal finance and money management.

spending \$5. It is very easy to spend beyond your means with a credit card, especially if you carry a balance.³¹

The best interests of colleges in complying with the gainful employment rules are generally aligned with the borrower's best interests. For example, colleges will emphasize repayment over deferments and forbearances because the loan repayment rates do not give colleges any credit for deferments and forbearances. But this will also save the borrower money, because interest continues to accrue on unsubsidized loans during a deferment and on all types of loans during a forbearance. If unpaid, the accrued interest is capitalized by adding it to the loan balance. This just digs the borrower into a deeper hole without providing real long-term relief. Borrowers should avoid extended periods of nonpayment because it significantly increases the amount of debt. Negative amortization is extremely harmful to a borrower's financial health, making it more difficult for the borrower to repay the debt. If a borrower must use a forbearance because he or she can't afford to make a monthly payment, a partial forbearance in which the borrower is paying at least the interest that accrues is better than suspending payments completely.

Even an in-school deferment can cause harm to the student's financial health if the student doesn't pay the interest on unsubsidized loans as it accrues. Capitalizing the interest can increase the size of the loan by as much as 20% by the time the borrower enters repayment. The capitalized interest will add significantly to the cost of the loan because the borrower will be paying interest on interest. Students should be encouraged to pay the new interest as it accrues in order to keep the loan from growing any larger. It's less than \$5 a day for the first two years for a student who borrows to the Stafford loan limits for independent students. If a student can't afford to pay the full interest as it accrues, they should try to pay something. Every dollar of student loan money, including capitalized interest, will cost about two dollars by the time the debt is repaid.³² So paying the interest during the in-school deferment is a good way to double the power of your money.

The gainful employment regulations cap the contribution of borrowers in negatively amortized and interest-only repayment plans to no more than a 3% point increase in the loan repayment rate. This approximates the natural utilization of such plans by borrowers in financial distress. Accordingly, it will preclude colleges from encouraging borrowers to use these repayment plans as a way of manipulating the cohort default rate and the loan repayment rate. Colleges will encourage borrowers to repay their loans in repayment plans where the monthly payments exceed the new interest that accrues, such as standard repayment and extended repayment (and graduated repayment for undergraduate students), since those borrowers will be counted as actively repaying their loans in the loan repayment rate. Only the income-contingent repayment and income-based repayment plans may be negatively amortized. The graduated repayment plan can be interest-only only during the first two years of repayment and only for borrowers with an average interest rate greater than 6.95%.³³ This occurs only when the borrower has Grad PLUS

³¹ The Credit CARD Act of 2009 made it more difficult for students under age 21 to obtain a credit card. However, a loophole allows credit card issuers to treat financial aid (including student loans) as a resource available to repay the credit card debt, bypassing the age restriction.

³² \$1 borrowed at 6.8% interest costs \$1.38 when repaid over a 10-year term, \$1.83 when repaid over a 20-year term and \$2.35 when repaid over a 30-year term. At 7.9% interest it costs \$1.45, \$1.99 and \$2.62, respectively. At 10% interest it costs \$1.59, \$2.32 and \$3.16, respectively. With the typical mix of interest rates, loan fees, in-school deferments and loan terms, the average cost per dollar borrowed is about \$2.

³³ Mark Kantrowitz, *Interest-Only and Negatively Amortized Loan Repayment Plans*, November 2, 2010. www.finaid.org/educators/20101102interestonlyrepayment.pdf

loans, since the Stafford and Perkins loans have interest rates below this threshold. Thus undergraduate students cannot be making interest-only payments under the graduated repayment plan.

There are a variety of other strategies for reducing debt at graduation, such as substituting gift aid, savings plans and installment plans for loans, increasing the FAFSA completion rate, encouraging part-time student employment and increasing the use of employer-paid tuition.

Colleges should encourage students to substitute scholarships, grants and other forms of gift aid for debt. Colleges could encourage or even require students to apply for scholarships and state grants before relying on loans. There are a variety of free scholarship matching services, such as Fastweb.com, that can help students find scholarships for which they are eligible. Colleges could also run workshops to help the students improve their chances of winning these scholarships and grants.³⁴ Colleges could promote the use of college savings plans to avoid debt as part of their community outreach, since it is literally cheaper to save than to borrow. Short-term tuition installment plans that split the tuition bill into 9-12 equal monthly payments are a less-expensive alternative to borrowing. Such tuition installment plans are less prone to default than student loans, and can reduce student debt at graduation.

Colleges should set a goal of reaching a 100% FAFSA completion rate for all incoming students to ensure that they get all the need-based aid for which they are eligible. In 2007-08, 95.4% of students at for-profit colleges submitted the Free Application for Federal Student Aid (FAFSA), demonstrating that this is an achievable goal.³⁵ In contrast, public colleges have a 52.1% FAFSA completion rate and non-profit colleges have a 71.7% FAFSA completion rate. There is a lot of room for improvement, especially at the 2-year institutions where community colleges have a 43.9% FAFSA completion rate compared with a 98.9% FAFSA completion rate at 2-year for-profit colleges.

Encouraging students to pursue part-time employment can help them reduce the need to rely on student loans. Students can earn up to \$5,250 in 2011-12 and \$6,000 in 2012-13 before the income hurts their eligibility for need-based student aid. But it is important to keep the work burden low during the school year, as working more than 12 hours a week hurts graduation rates. Working full-time cuts graduation rates for students pursuing Associate's degrees and Bachelor's degrees roughly in half as compared with students who work part-time. Based on the 2009 Beginning Postsecondary Students longitudinal study (BPS:04/09), 32.1% of students who worked full-time in 2003-04 graduated with a Bachelor's degree by 2009, compared with 60.6% of students who worked part-time. Similarly, 13.7% of students who worked full-time in 2003-04 graduated with an Associate's degree by 2009, compared with 22.0% of students who worked part-time. Working full-time may reduce the need to borrow, but it also hurts completion rates because it takes too much time away from academics.

Third-party payer programs can also reduce the need to borrow. These include employer-paid tuition reimbursement, vocational rehabilitation, veteran's education benefits, and other workforce and job-training programs (WIA).

Colleges should encourage borrowers to take advantage of auto-debit and prompt payment discounts and the student loan interest deduction, since these benefits reduce delinquency rates. Public service loan forgiveness is also treated favorably by the gainful employment rules.

³⁴ The author of this student aid policy analysis paper is publisher of Fastweb.com and also the author of the bestselling book *Secrets to Winning a Scholarship*.

³⁵ Mark Kantrowitz, *FAFSA Completion Rates by Level and Control of Institution*, October 14, 2009. www.finaid.org/educators/20091014fafsacompletion.pdf

Fastweb's quick reference guide on choosing a student or parent loan³⁶ and the quick reference guide on repaying student loans³⁷ provide additional advice on managing and minimizing student loan debt.³⁸

Some colleges at risk of losing federal student aid eligibility may decide to opt out of the federal student loan programs in order to preserve eligibility for the Pell Grant program. Both the gainful employment regulations and the switch to 3-year cohort default rates will be effective for sanctions in 2015. If a college stops providing federal student loans to its students now, while it is still eligible for federal student aid, it may be able to preserve eligibility for the Pell Grant program. But given the retroactivity inherent in both the gainful employment rules and the 3-year cohort default rates, this will mainly apply to colleges that are currently close to the eligibility thresholds but not yet beyond them.

Increasing Alumni Income

There are two components to the debt-to-income ratios, debt and income. The debt-to-income ratios are based on median debt and the greater of the mean and median earnings. Both decreasing debt and increasing income can reduce the debt-to-income ratios. Because the debt-to-income ratios disconnect an individual student's debt from his/her income (i.e., it is a ratio of medians and means, as opposed to a median or mean of ratios), career counseling to help students increase their income will be more effectively focused on students where there is the greatest potential for the greatest increase in income, regardless of their debt level.

Some colleges may add free or low-cost follow-on programs to help their graduates improve their marketability and earning potential. A certificate after the student receives an Associate's degree or Bachelor's degree could provide more specialized training, adding credentials that are attractive to employers. This would also be an effective technique for targeting tuition cuts (and hence debt reductions) to just the students who complete their education.

Colleges may decide to eliminate underperforming programs that are unlikely to improve, such as programs where graduates have low or declining wages.³⁹ The earning potential of a program's graduates may vary significantly according to the location of the campus, since students tend to go to college locally and to remain in the same location after graduation. If the area around the college is impoverished, job prospects for the college's graduates may be similarly impaired.⁴⁰ As a result, colleges should try tailoring the volume of graduates in a field of study to the workforce demand from local employers. Alternately, the colleges could try encouraging graduates to move to where the jobs are more available or offer better pay. Understanding the willingness of their students to relocate may have an impact on decisions concerning the termination of programs on each campus. Not counting distance-learning programs, 88.1%

³⁶ www.finaid.org/loans/ChoosingStudentorParentLoans.pdf

³⁷ www.finaid.org/loans/RepayingStudentLoans.pdf

³⁸ See also www.fastweb.com/financial-aid/articles/3092-how-to-minimize-student-loan-debt.

³⁹ It is also important for colleges to evaluate program performance on a campus-by-campus basis. The gainful employment regulations define a program according to the combination of the institution's six-digit OPEID, the program's six-digit CIP code and the credential level. Some colleges have a unique OPEID for each campus, while others do not. But even at colleges that do not have separate OPEIDs for each campus, a finer-grained review of performance may be beneficial, allowing the colleges to cut a program only at the campuses where it lacks adequate performance. Use a scalpel, not a sledgehammer.

⁴⁰ There is a significant risk that these conditions will lead to a kind of redlining, where colleges abandon financially distressed communities. But colleges can be an engine for economic growth, and impoverished neighborhoods represent an opportunity for improvement.

of students in certificate programs and 90.0% of students in Associate's degree programs live within 50 miles of the college, compared with 54.7% of students in Bachelor's degree programs. Of students with family AGI under \$50,000, 80.7% live within 50 miles of college, compared with 68.2% for families with income between \$50,000 and \$100,000 and 52.0% of families with income over \$100,000.

Colleges can improve their job placement services to try to help more students get jobs, especially higher-paying jobs, by integrating career advising earlier into the academic program. For example, students can compile academic portfolios as they complete major assignments and projects. A career assessment should be performed early in the college career to identify the student's skills, interests and preferences, and to help the student develop any missing marketable job skills, such as business etiquette. A career advising service can teach graduating students how to conduct a job search, how to prepare a resume and cover letter, and how to ace the job interview. Colleges can encourage students to move to where the jobs are instead of staying in local impoverished neighborhoods. They can even teach techniques for improving job performance, impressing one's boss, career advancement and asking for a raise. This will provide the college's graduates with a competitive advantage.

Colleges can also expand relationships with employers to improve borrower repayment behavior. For example, colleges could encourage employers to implement paycheck withholding programs for loan payments. Colleges could establish employer advisory boards and conduct periodic employer surveys to ensure that the needs of employers are being met by current graduates. Unemployed graduates can volunteer with AmeriCorps, since the education awards can be used to repay federal education debt.

PITFALLS IN IMPROVING INSTITUTIONAL AND PROGRAM PERFORMANCE

Colleges must take care to avoid making decisions to cut or modify programs based on data that lacks statistical significance. The gainful employment regulations provide an exception for programs with small numbers of borrowers or completers. If there are 30 or fewer borrowers or completers entering repayment during the third and fourth fiscal years prior to the measurement year, the debt measures will rely on the third, fourth, fifth and sixth fiscal years prior to the measurement year. If there are still 30 or fewer borrowers or completers entering repayment, the program is treated as though it passed the debt measures. However, even with more than 30 borrowers or completers entering repayment, the debt measures may still be highly sensitive to outliers. For example, with only 31 borrowers entering repayment, a shift in the status of just one borrower from a non-paying to a paying status will increase the loan repayment rate by about 3.2%. If this program is expected to have 35 borrowers next year, the sample size of 31 borrowers yields a confidence interval of +/- 6% at the 95% confidence level and +/- 8% at the 99% confidence level. Thus the results for small programs might not be very predictive of performance from one year to the next. To the extent possible, colleges should conduct a similar sensitivity analysis of their performance data before making management decisions. Colleges should also examine the distribution of the individual students to identify outliers, so that they can examine how the performance might change if the outliers were omitted. It would be best to accompany the actual performance metrics with a set of reasonable upper and lower bounds, so that there is a tolerance for annual variation in the numbers.

Credit scores are not an effective means for predicting whether the student will repay his or her student loans. Credit scores might be predictive of whether the student will graduate, since money problems are a leading cause of students dropping out from college, but they are not predictive of repayment behavior after the student graduates. Relying on credit scores is also problematic because credit scores tend to discriminate against minority students. Colleges should not base admissions decisions on the credit scores of prospective students.