Student Aid Policy Analysis

Analysis of FY2011 Gainful Employment Data

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On Tuesday, June 26, 2012, the US Department of Education released gainful employment data for FY2011.[1] This data release was informational, not effective for sanctions, to provide colleges with preliminary data as they work toward compliance with the gainful employment regulations that went into effect on July 1, 2012.[2] This paper provides an analysis of the FY2011 gainful employment data.

The key findings of this paper are as follows:

- The overall triple-failure[3] rate is 5.2%, with a triple-failure rate of 5.8% among programs at for-profit colleges. The overall double-failure rate is 27.3% (31.0% among just for-profit programs).
- The informational data release excluded results for many small programs, since it did not implement the expansion of the cohort from two years to four years required for programs with 30 or fewer borrowers. The overall triple-failure rates are likely to increase by 1% to 3% when small programs are included in the official data releases.
- 43.0% of programs at for-profit colleges failed the loan repayment rate thresholds, 11.1% failed the debt-service-to-earnings ratio threshold and 58.3% failed the debt-service-to-discretionary-earnings ratio threshold.
- The combination of low loan repayment rates with low debt-service-to-earnings ratios is consistent with high unemployment rates. When unemployed borrowers are missing from Social Security Administration earnings data, the highest debt figures are discarded. This is a consequence of the lack of matched student-level earnings and debt data. The combination could also be caused by borrowers who have trouble managing money. For example, borrowers who live paycheck-to-paycheck may run out of money before paying their student loan bills.
- The high debt-service-to-discretionary-earnings ratio failure rate is due in part to the disproportionate prevalence of certificate and associate degree programs, which tend to have lower earnings (and hence lower discretionary earnings). Certificates represented 3/5 of the programs and Associate's degrees represented 1/4 of the programs, together accounting for almost 7/8 of the programs.
- More than a quarter (28.5%) of gainful employment programs report no discretionary earnings among all students; 5.2% of programs at public colleges, 28.2% of programs at non-profit colleges and 30.4% of programs at for-profit colleges report zero discretionary earnings.

[1] http://federalstudentaid.ed.gov/datacenter/gainful1.html

[2] A US District Court decision on June 30, 2012, overturned the loan repayment rate because of a lack of reasoned decision-making in arriving at the 35 percent threshold and blocked the other debt measures because of the intertwined nature of the three debt measures. This decision, which is discussed in this paper, is unlikely to permanently block implementation of the gainful employment debt measures.

[3] A triple failure is a failure to satisfy the thresholds on any of the three debt measures.

- Failure rates for certificate programs at for-profit and non-profit colleges are similar, both with much higher failure rates than at public colleges. This suggests that the failure rates may have more to do with debt than with other factors.

- Triple-failure rates are 1.4% among certificate programs, 13.8% among Associate's degree programs and 11.0% among Bachelor's degree programs.

- Two thirds of triple failures occurred among Associate's degree programs, one sixth among certificate programs and one fifth among Bachelor's degree programs.

- The percentage of programs with no failures is highest among post-baccalaureate certificate programs. 3/10 of certificate and Associate's degree programs, 1/2 of Bachelor's degree programs, almost all post-baccalaureate certificate programs, 4/5 of Master's degree programs and 9/10 of doctoral degree programs had no failures.

- Incremental changes in the thresholds (1% or 2.5%, depending on the debt measure) increase the triple-failure rate by about 3.6%. The limited sensitivity to threshold changes suggests that year-over-year changes in performance will be gradual after the initial efforts to improve performance.

- If the three debt measures were replaced with just the debt-service-to-earnings ratio, the program failure rates would almost double from a triple-failure rate of 5.2% to 10.0% (from 5.8% to 11.1% among programs at for-profit colleges).

- Of the programs that failed two debt measures, 84.5% weren't double failures because of the debt-service-to-earnings ratio, 15.0% because of the loan repayment rate and 0.6% because of the debt-service-to-discretionary-earnings ratio.

- Nursing programs were among the best performing of all the programs.

- When a program is offered at both the Associate's degree and certificate level, in most cases the certificate version has a lower triple-failure rate, sometimes significantly lower.

This paper also provides data concerning the performance of programs at publicly-traded for-profit colleges and discusses college concerns about data quality.

BACKGROUND

Most programs at for-profit colleges and non-degree certificate programs at public and non-profit colleges are subject to the gainful employment rules. The gainful employment rules require a program to pass at least one of three debt measures. A program that fails to satisfy any of the three debt measures for three out of four consecutive years will lose eligibility for federal student aid. The soonest any program could lose eligibility is in FY2015, based on having a triple failure in each of FY2012, FY2013 and FY2014.

The three debt measures include two debt service ratios and a loan repayment rate:

- The **loan repayment rate** (LRR) measures the percentage of federal student loan dollars that are actively being repaid a few years after the program's students separate from the institution (including students who complete the program and students who drop out). Loan dollars for borrowers who are in an in-school or military deferment are excluded. The program must have a LRR of 35% or more to pass this debt measure.

- The **debt-to-earnings ratio** (DTE) measures the ratio of the annual repayment burden to the annual earnings for students who graduate from a program. The debt service is based on the median total debt (including federal and private student loans), assuming the characteristics of an unsubsidized Stafford loan (e.g., 6.8% interest rate) with a repayment term based on the degree level, with a 10-year term for certificate 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 program must have a DTE ratio of at most 12% to pass this debt measure.

- The **debt-to-discretionary-earnings ratio** (DTDE) measures the ratio of the annual repayment burden to the annual discretionary earnings for students who graduate from a program. The debt service calculation is the same as for the debt-to-earnings ratio. Discretionary earnings is the amount by which the higher of median and mean earnings exceeds 150% of the poverty line. The program must have a DTDE ratio of at most 30% to pass this debt measure.

The cohort of borrowers used in all three debt measures are based on the third and fourth federal fiscal years prior to the most recently completed federal fiscal year. The cohort may be expanded to the fifth and sixth federal fiscal years for programs with 30 or fewer borrowers in the cohort. The cohort is based on the sixth and seventh fiscal years for medical and dental school programs where graduates are required to complete a residency and internship.

FAILURE RATES

Overall, 193 programs at 93 colleges failed all three debt measures, representing 5.2% of programs with data for all three debt measures. All of the programs with triple failures were programs at for-profit colleges, representing 5.8% of programs at for-profit colleges.

Small programs with 30 or fewer students were marked as "N/A" in the FY2011 data release for the loan repayment rate and/or debt ratios, as appropriate. The FY2011 data release did not expand the scope for small programs to a four-year cohort, so the official data releases in FY2012 and subsequent years are likely to have an increased number of programs with data. Of the 13,772 programs in the FY2011 data release, 3,696 (26.8%) had data for all three debt measures,[4] 919 (6.7%) had a loan repayment rate but no debt ratios, 1,809 (13.1%) had debt ratios but no loan repayment rate and 7,348 (53.4%) did not have data for any of the three debt measures.

The next table shows the failure rates based on control of institution. The failure rates for the individual debt measures are based only on programs for which there is data for all three debt measures.

Institutional Control	Fail LRR	Fail DTE	Fail DTDE	Fail None	Single Failure	Double Failure	Triple Failure
Overall Total	40.5%	10.0%	53.8%	34.8%	31.2%	28.7%	5.2%
Public	12.7%	0.0%	4.9%	84.0%	14.6%	1.5%	0.0%
Non-Profit	34.5%	0.9%	36.4%	55.5%	17.3%	27.3%	0.0%
For-Profit	43.0%	11.1%	58.3%	30.2%	33.0%	31.0%	5.8%

[4] The US Department of Education reported a total of 3,695 programs, not 3,696. However, the data release appears to include 3,696 records with a value for each of the three debt measures. The difference appears to occur in the programs which pass the loan repayment rate but not the debt to earnings ratios, where the US Department of Education lists 158 programs while the data release lists 159 programs.

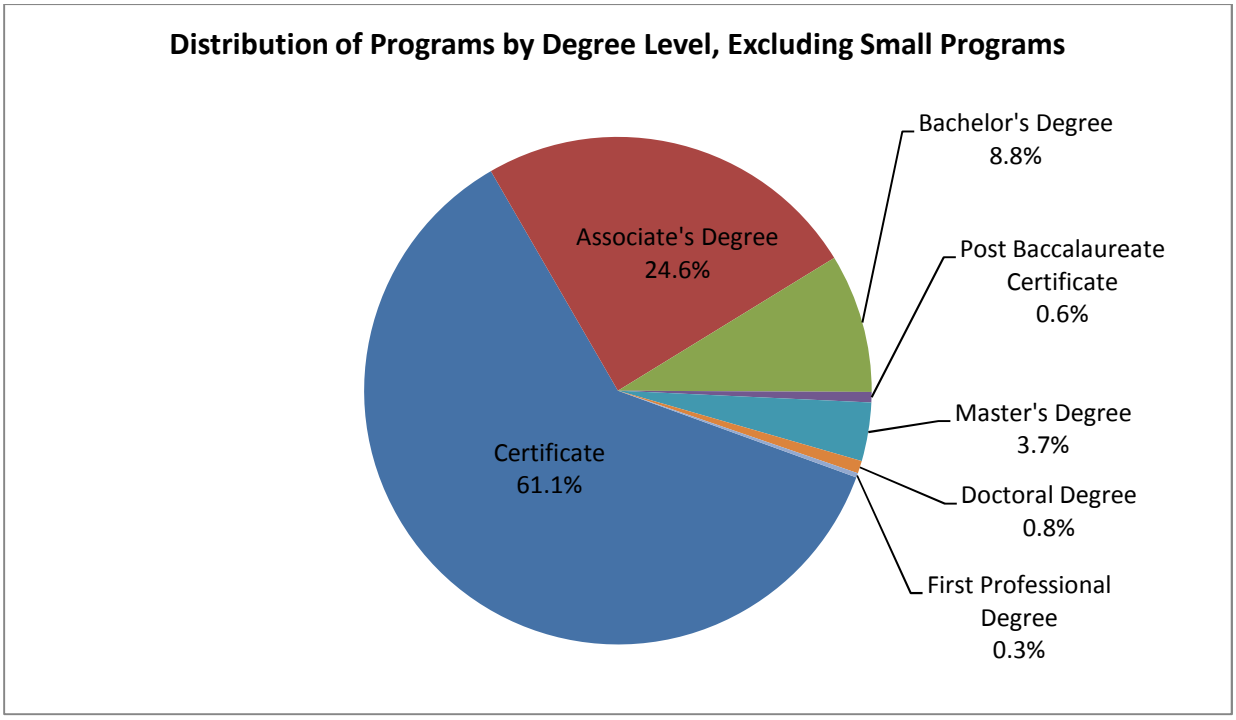
The next table shows the failure rates based on control of institution, but with failure rates based on all programs with data for each individual debt measure, not just those for which there is data for all three debt measures. These failure rates are higher, suggesting that the failure rates for the official data to be released in FY2012 will be higher when more of the small programs are included in the offical gainful employment data. Triple-failure rates may be 1% to 3% higher with the inclusion of small programs. Of course, some programs may improve performance in response to the FY2011 informational data release.

Institutional Control	Fail LRR	Fail DTE	Fail DTDE
Overall Total	54.5%	10.5%	60.9%
Public	20.9%	0.0%	10.8%
Non-Profit	50.0%	0.9%	56.4%
For-Profit	57.4%	11.6%	65.1%

Causes of a High DTDE Failure Rate

The high DTDE failure rate is due in part to the disproportionate prevalence of Certificate and Associate's degree programs among the gainful employment programs. Approximately 7/8 of the programs are Certificate or Associate's degree programs, regardless of whether small programs are included or excluded. This will bias the results toward lower earnings, since these credential levels yield lower income than more advanced degrees.

This next chart and table show the distribution of programs within the gainful employment data by degree level. The results are similar regardless of whether small programs are included or excluded, but with a slight shift toward certificate programs when small programs are included.



Distribution of Programs by Degree Level	Excluding Small Programs	Including Small Programs
Certificate	61.1%	73.4%
Associate's Degree	24.6%	15.1%
Bachelor's Degree	8.8%	6.1%
Post Baccalaureate Certificate	0.6%	2.6%
Master's Degree	3.7%	2.2%
Doctoral Degree	0.8%	0.4%
First Professional Degree	0.3%	0.2%
Certificate + Associate's Degree	85.7%	88.4%

The lower income among lower degree levels contributes to higher DTDE failure rates, especially among the for-profit colleges, as demonstrated by the following table. Notice how the Bachelor's degree programs have a lower DTDE failure rate than Associate's degrees and Associate's degrees have a lower DTDE failure rate than Certificate programs.

DTDE Failure Rates by Credential Level	Public	Non-Profit	For-Profit
Certificate	4.9%	42.6%	69.7%
Associate's Degree	0.0%	0.0%	52.6%
Bachelor's Degree	0.0%	0.0%	36.7%

DTDE failure rates are also higher than DTE failure rates because discretionary earnings are lower than earnings. Overall, 28.5% of gainful employment programs report no discretionary earnings among all students, with 5.2% of programs reporting zero discretionary earnings at public colleges, 28.2% of programs at non-profit colleges reporting zero discretionary earnings and 30.4% of programs at for-profit colleges reporting zero discretionary earnings.

As noted in a previous paper, the maximum allowable debt under a DTDE debt measure exceeds the maximum allowable debt under a DTE debt measure only when income exceeds 250% of the poverty line.[5] So it is not surprising that DTDE failure rates would be higher, since the DTDE debt measure mainly benefits programs whose graduates earn a higher income, such as graduates with more advanced degrees.[6] More than 95% of programs have median earnings below 250% of the poverty line, suggesting that very few programs have an opportunity for the DTDE ratios to dominate the DTE ratios.

Failure Rates by Degree Level

Overall failure rates are not comparable according to control of institution, because the gainful employment rules apply only to non-degree certificate programs at public and non-profit colleges, but to most programs at for-profit colleges. However, when the analysis is restricted to certificate programs, the

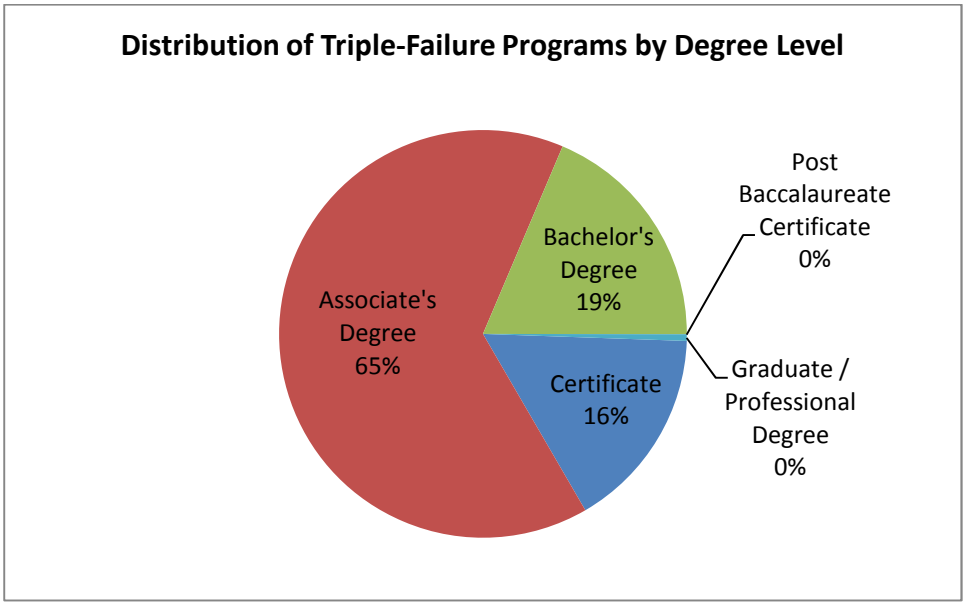
[5] Mark Kantrowitz, *Strategies for Complying with Gainful Employment by Reducing Debt and Improving College Completion Rates,* June 28, 2011 (footnote 5 on page 2). www.finaid.org/educators/20110628debtstrategies.pdf

[6] The DTDE debt measure might matter more if Congress were to extend the gainful employment measures to all programs at public and non-profit colleges, not just non-degree certificate programs.

failure rates demonstrate similar patterns at non-profit and for-profit colleges, much inferior to the performance at public colleges. For example, the double-failure rates for certificate programs are 31.9% at non-profit colleges and 36.2% at for-profit colleges, much worse than the 1.5% double-failure rate at public colleges. The failure rates for loan repayment rates for certificate programs are 58.5% at non-profit colleges and 51.6% at for-profit colleges, compared with 20.7% at public colleges. The triple-failure rates for certificate programs at all types of colleges are low (0.0% at non-profit colleges, 1.6% at for-profit colleges and 0.0% at public colleges) because the DTE failure rates are low among all the colleges (1.1% at non-profit colleges, 3.1% at for-profit colleges and 0.0% at public colleges). This suggests that the differences in failure rates between public and private colleges may have more to do with the amount of debt than other factors, such as educational quality.[7]

The main exception to the similar performance of non-profit and for-profit certificate programs occurs with the DTDE failure rates, which are 64.9% at non-profit colleges, 80.7% at for-profit colleges and 10.9% at public colleges. That suggests that the income distribution among graduates from certificate programs is skewed lower among graduates from for-profit colleges than among graduates from non-profit colleges. This could be due to demographic differences, such as poverty levels in the student's home town. Low income students are more likely to enroll in colleges that are closest to where they live and work, and to stay in the same areas after graduation, as opposed to moving to where the jobs are.

The next chart demonstrates that the majority of triple failures occurred among Associate's degree programs. This is largely due to the lower tendency among Certificate programs to fail the DTE ratio and the greater tendency among Associate's degree programs to fail the loan repayment rate.



[7] There is an implicit assumption that programs at non-profit colleges are of the same or superior quality as programs at public colleges. This assumption has largely gone untested, with little or no direct measurement of educational quality. However, the stark contrast between performance on the debt measures at public vs. non-profit colleges, which is similar to the stark contrast between performance on the debt measures at public vs. for-profit colleges, suggests (but does not prove) that the differences in performance may depend on characteristics shared by both non-profit and for-profit colleges, such as higher net price and higher debt levels.

The next three tables show the triple-failure rates, double-failure rates, and single-failure rates by degree level and type of college. The triple-failure rates for first professional degree programs may not be meaningful given the small number of such programs.

Triple-Failure Rates by Credential Level	All Colleges	Public	Non-Profit	For-Profit
Certificate	1.4%	0.0%	0.0%	1.6%
Associate's Degree	13.8%	NA	NA	13.8%
Bachelor's Degree	11.0%	NA	NA	11.0%
Post Baccalaureate Certificate	0.0%	0.0%	0.0%	0.0%
Master's Degree	0.0%	NA	NA	0.0%
Doctoral Degree	0.0%	NA	NA	0.0%
First Professional Degree	10.0%	NA	NA	11.1%
Overall	5.2%	0.0%	0.0%	5.8%

Double-Failure Rates by Credential Level	All Colleges	Public	Non-Profit	For-Profit
Certificate	31.9%	1.5%	31.9%	36.2%
Associate's Degree	28.6%	NA	NA	28.6%
Bachelor's Degree	21.4%	NA	NA	21.4%
Post Baccalaureate Certificate	0.0%	0.0%	0.0%	0.0%
Master's Degree	5.8%	NA	NA	5.8%
Doctoral Degree	0.0%	NA	NA	0.0%
First Professional Degree	30.0%	NA	NA	22.2%
Overall	28.7%	1.5%	27.3%	31.0%

Single-Failure Rates by Credential Level	All Colleges	Public	Non-Profit	For-Profit
Certificate	36.4%	14.7%	20.2%	40.2%
Associate's Degree	26.8%	NA	NA	26.8%
Bachelor's Degree	17.7%	NA	NA	17.7%
Post Baccalaureate Certificate	4.2%	0.0%	0.0%	16.7%
Master's Degree	14.5%	NA	NA	14.5%
Doctoral Degree	10.0%	NA	NA	10.0%
First Professional Degree	60.0%	NA	NA	66.7%
Overall	31.2%	14.6%	17.3%	33.0%

The next table shows the percentage of programs that pass all three debt measures by degree level and type of college. The high pass rates for post-baccalaureate certificates may be due to selection bias (i.e., the better students may be more likely to pursue these certificates) or it may be due to the post-baccalaureate certificates adding credentials that may make the students more marketable, helping them get better jobs. Some colleges may respond by adding post-baccalaureate certificate programs at low cost.[8]

[8] This can be an effective way of targeting subsidies at the borrowers who graduate, thereby excluding borrowers who drop out. This can increase the income of completers without the cost of reducing tuition to all borrowers.

Programs with No Failures by Credential Level	All Colleges	Public	Non-Profit	For-Profit
Certificate	30.3%	83.8%	47.9%	22.0%
Associate's Degree	30.8%	NA	NA	30.8%
Bachelor's Degree	49.8%	NA	NA	49.8%
Post Baccalaureate Certificate	95.8%	100.0%	100.0%	83.3%
Master's Degree	79.7%	NA	NA	79.7%
Doctoral Degree	90.0%	NA	NA	90.0%
First Professional Degree	0.0%	NA	NA	0.0%
Overall	34.8%	84.0%	55.5%	30.2%

The next three tables provide detail concerning the separate failure rates for each of the three debt measures by degree level and type of college.

Failed Loan Repayment Rate by Credential Level	All Colleges	Public	Non-Profit	For-Profit
Certificate	48.2%	20.7%	58.5%	51.6%
Associate's Degree	79.2%	NA	NA	79.2%
Bachelor's Degree	50.8%	NA	NA	50.8%
Post Baccalaureate Certificate	29.2%	50.0%	0.0%	100.0%
Master's Degree	18.1%	NA	NA	18.1%
Doctoral Degree	20.0%	NA	NA	20.0%
First Professional Degree	20.0%	NA	NA	22.2%
Overall	54.5%	20.9%	50.0%	57.4%

Failed DTE Ratio by Credential Level	All Colleges	Public	Non-Profit	For-Profit
Certificate	2.6%	0.0%	1.1%	3.1%
Associate's Degree	21.9%	NA	NA	21.9%
Bachelor's Degree	33.9%	NA	NA	33.9%
Post Baccalaureate Certificate	0.0%	0.0%	0.0%	0.0%
Master's Degree	7.2%	NA	NA	7.2%
Doctoral Degree	6.7%	NA	NA	6.7%
First Professional Degree	70.0%	NA	NA	66.7%
Overall	10.5%	0.0%	0.9%	11.6%

Failed DTDE Ratio by Credential Level	All Colleges	Public	Non-Profit	For-Profit
Certificate	71.8%	10.9%	64.9%	80.7%
Associate's Degree	53.7%	NA	NA	53.7%
Bachelor's Degree	37.9%	NA	NA	37.9%
Post Baccalaureate Certificate	4.2%	0.0%	6.3%	0.0%
Master's Degree	7.2%	NA	NA	7.2%
Doctoral Degree	0.0%	NA	NA	0.0%
First Professional Degree	70.0%	NA	NA	66.7%
Overall	60.9%	10.8%	56.4%	65.1%

Tolerance to Changes in Debt Measure Thresholds

Each of the three debt measures has an associated threshold that must be satisfied. For example, the loan repayment rate must be at least 35%, the debt-to-earnings ratio must be at most 12% and the debt-to-discretionary-earnings rate must be at most 30%.

An earlier gainful employment proposal involved stricter thresholds of 45%, 8% and 20%, respectively. Those thresholds would have yielded an overall triple-failure rate of 18.3%, with a 20.4% triple-failure rate among programs at for-profit colleges, and a 0.0% triple-failure rate among programs at public and non-profit colleges.

To evaluate the sensitivity of the triple-failure rates to these thresholds, triple-failure rates can be calculated for each 2.5% increment in the loan repayment rate threshold, 1% decrement in the DTE thresholds and 2.5% decrement in the DTDE thresholds.

The next table shows the impact of each 1% and 2.5% adjustment in the three thresholds for programs at for-profit colleges.

Triple-Failure Rates at For-Profit Colleges by Credential Level	Threshold Change Multiplier				
	0	1	2	3	4
Certificate	1.6%	3.1%	4.4%	7.1%	12.0%
Associate's Degree	13.8%	20.8%	27.2%	32.7%	39.5%
Bachelor's Degree	11.0%	14.4%	17.1%	21.7%	25.4%
Post Baccalaureate Certificate	0.0%	0.0%	0.0%	0.0%	0.0%
Master's Degree	0.0%	1.4%	1.4%	2.2%	2.9%
Doctoral Degree	0.0%	0.0%	0.0%	0.0%	3.3%
First Professional Degree	11.1%	11.1%	11.1%	22.2%	22.2%
Overall	5.8%	9.0%	11.7%	15.3%	20.4%

The overall triple-failure rate increases by about 3.6% for each adjustment to the threshold. The triple-failure rates among Associate's degree programs are more sensitive to threshold adjustments than the triple-failure rates among Bachelor's degree programs. The triple-failure rates among certificate programs are the least sensitive to threshold adjustments.

This demonstrates that there is no cliff effect in the choice of thresholds. The programs are not bunched up against the thresholds. Small changes in the thresholds yield small incremental changes in the performance measures. Year-over-year changes in program performance, aside from initial efforts to comply with the gainful employment rules, should be gradual in nature.

Reasons Why Programs Satisfy the Debt Measures

As demonstrated above, the triple-failure rate among all programs is 5.2%, while the DTE failure rate among all programs is 10.0%. Similarly, the triple-failure rate among programs at for-profit colleges is 5.8%, while the DTE failure rate is 11.1%. This suggests that if the loan repayment rate and DTDE debt measures were discarded, leaving just the DTE ratio, the one-year program failure rates would almost double. (If just the DTDE debt measure were discarded, the one-year program failure rates would increase by only 0.2%.)

The high degree of dependency of the debt measures on the DTE ratio is confirmed by an analysis of the reasons why programs that failed two debt measures weren't triple failures. As the next table demonstrates, 84.5% of the programs that failed two debt measures did not fail the DTE ratio and 15.0% did not fail the loan repayment rate, while the contribution of the DTDE ratio to pass rates is minimal.

Reasons for Double Failures Not Being Triple Failures, by Institutional Control	% of Programs Failing Two But Not			% of Double Failures That Did Not Fail		
	LRR	DTE	DTDE	LRR	DTE	DTDE
Overall Total	4.3%	24.3%	0.2%	15.0%	84.5%	0.6%
Public	0.0%	1.5%	0.0%	0.0%	100.0%	0.0%
Non-Profit	0.9%	26.4%	0.0%	3.3%	96.7%	0.0%
For-Profit	4.7%	26.0%	0.2%	15.3%	84.1%	0.6%

Programs by Triple Fail Rates

Among programs at for-profit colleges, the following programs had the highest triple-failure rates. The following tables report the percentage of programs with triple failures, not the number of programs with triple failures. So while Medical/Clinical Assistant programs had the greatest *number* of triple failures at 30 programs, the triple-failure rate is 8.3% because it is among the more common programs with 363 programs. Likewise, Cosmetology/Cosmetologist programs come in second with 14 triple failures, but with a triple-failure rate of 3.8%. Other programs with 4 or more triple failures but triple-failure rates below 15% include Massage Therapy/Therapeutic Massage (5 programs, 2.6%), Medical Insurance Coding Specialist/Coder (5 programs, 7.0%) and Interior Design (4 programs, 10.5%).

Program's CIP Name	Triple-Failure Rate
Digital Arts	100.0%
Music Management and Merchandising	100.0%
Teacher Assistant/Aide	100.0%
Criminalistics and Criminal Science	75.0%
Photographic and Film/Video Technology/Technician and Assistant	66.7%
Securities Services Administration/Management	60.0%
Acting	50.0%
Commercial and Advertising Art	40.0%
Computer Engineering Technology/Technician	40.0%
Business, Management, Marketing, and Related Support Services, Other	36.4%
Fashion/Apparel Design	36.0%
Cooking and Related Culinary Arts, General	33.3%
Radio and Television Broadcasting Technology/Technician	33.3%
Barbering/Barber	26.7%
Fashion Merchandising	26.7%
Criminal Justice/Law Enforcement Administration	26.1%
Cinematography and Film/Video Production	23.8%
Criminal Justice/Safety Studies	22.9%
Legal Assistant/Paralegal	20.8%
Computer Programming/Programmer, General	20.0%
Health/Health Care Administration/Management	20.0%
System, Networking, and LAN/WAN Management/Manager	20.0%
Culinary Arts/Chef Training	17.0%
Radio and Television	16.7%
Restaurant, Culinary, and Catering Management/Manager	16.7%

Among the more popular programs at for-profit colleges, the following programs had the best performance. Nursing is clearly among the most effective programs.

Program's CIP Name	Triple-Failure Rate	Double-Failure Rate	Single-Failure Rate
Registered Nursing/Registered Nurse	0.0%	0.0%	13.0%
Diagnostic Medical Sonography/Sonographer and Ultrasound Technician	0.0%	0.0%	16.7%
Cardiovascular Technology/Technologist	0.0%	0.0%	20.0%
Licensed Practical/Vocational Nurse Training	0.0%	0.0%	29.4%
Truck and Bus Driver/Commercial Vehicle Operator and Instructor	0.0%	0.0%	30.0%
Diesel Mechanics Technology/Technician	0.0%	0.0%	31.3%
Licensed Practical/Vocational Nurse Training (LPN, LVN, Cert., Dipl, AAS)	0.0%	0.0%	39.3%
Aesthetician/Esthetician and Skin Care Specialist	0.0%	0.0%	65.6%
Respiratory Care Therapy/Therapist	0.0%	5.3%	31.6%
Nursing/Registered Nurse (RN, ASN, BSN, MSN)	0.0%	10.0%	10.0%
Accounting	0.0%	10.0%	33.3%
Surgical Technology/Technologist	0.0%	10.6%	40.4%
HVAC and Refrigeration Maintenance Technology/Technician	0.0%	11.4%	31.4%
Radiologic Technology/Science – Radiographer	0.0%	11.8%	11.8%
Electrical, Electronic and Communications Engineering Technology/Technician	0.0%	11.8%	23.5%
Business Administration, Management and Operations, Other	0.0%	14.3%	14.3%
Information Technology	0.0%	15.8%	31.6%
Cosmetology and Related Personal Grooming Arts, Other	0.0%	17.6%	76.5%
HVAC and Refrigeration Engineering Technology/Technician	0.0%	18.5%	33.3%
Electrician	0.0%	20.0%	26.7%
Airframe Mechanics and Aircraft Maintenance Technology/Technician	0.0%	21.4%	28.6%
Autobody/Collision and Repair Technology/Technician	0.0%	25.0%	8.3%
Network and System Administration/Administrator	0.0%	25.0%	31.3%
Automobile/Automotive Mechanics Technology/Technician	0.0%	25.6%	15.4%
Computer and Information Sciences and Support Services, Other	0.0%	28.6%	28.6%

The degree level makes a difference in the programs with the best and worst performance. For example, Medical/Clinical Assistant programs have a 29.2% triple-failure rate among Associate's degree programs, but only a 1.6% triple-failure rate among certificate programs. Likewise, Culinary Arts/Chef Training programs have a 24.1% triple-failure rate among Associate's degree programs, but a 5.6% triple-failure rate among certificate programs. The next table shows programs available at ten or more colleges at the certificate and Associate's degree levels where triple-failure rates differ significantly according to degree level. This suggests that colleges may be able to improve pass rates for some programs by downgrading them from an Associate's degree to a certificate and/or by cutting the cost of the programs.

Triple-Failure Rate by Program CIP Name	Certificate	Associate's Degree
Accounting Technology/Technician and Bookkeeping	0.0%	11.8%
Baking and Pastry Arts/Baker/Pastry Chef	0.0%	10.0%
Culinary Arts/Chef Training	5.6%	24.1%
Legal Assistant/Paralegal	0.0%	32.3%
Massage Therapy/Therapeutic Massage	0.6%	22.2%
Medical Administrative/Executive Assistant and Medical Secretary	2.2%	16.7%
Medical Office Assistant/Specialist	2.8%	16.7%
Medical/Clinical Assistant	1.6%	29.2%
Interior Design	9.1%	13.0%

The next table shows the worst and best performing of the most common[9] programs for each degree level. The worst performing programs in this table are limited to programs with a triple-failure rate of 15.0% or higher. The best performing programs were limited to programs with a 0.0% triple-failure rate and less than a 15.0% double-failure rate.

Best and Worst Programs Program CIP Name	Degree Level	Triple-Failure Rate
Accounting	Associate's	0.0%
Accounting	Bachelor's	0.0%
Aesthetician/Esthetician and Skin Care Specialist	Certificate	0.0%
Airframe Mechanics and Aircraft Maintenance Technology/Technician	Certificate	0.0%
Animation, Interactive Technology, Video Graphics and Special Effects	Bachelor's	15.4%
Barbering/Barber	Certificate	26.7%
Business, Management, Marketing, and Related Support Services, Other	Associate's	36.4%
Cinematography and Film/Video Production	Bachelor's	15.4%
Criminal Justice/Law Enforcement Administration	Associate's	36.4%
Criminal Justice/Safety Studies	Associate's	16.7%
Culinary Arts/Chef Training	Associate's	24.1%
Diagnostic Medical Sonography/Sonographer and Ultrasound Technician	Certificate	0.0%
Diesel Mechanics Technology/Technician	Certificate	0.0%
Electrical, Electronic and Communications Engineering Technology/Technician	Associate's	0.0%
Fashion/Apparel Design	Associate's	38.5%
Fashion/Apparel Design	Bachelor's	36.4%
Graphic Design	Associate's	18.4%
HVAC and Refrigeration Maintenance Technology/Technician	Certificate	0.0%
Legal Assistant/Paralegal	Associate's	32.3%
Licensed Practical/Vocational Nurse Training (LPN, LVN, Cert., Dipl, AAS)	Certificate	0.0%
Massage Therapy/Therapeutic Massage	Associate's	22.2%
Medical Administrative/Executive Assistant and Medical Secretary	Associate's	16.7%
Medical Office Assistant/Specialist	Associate's	16.7%
Medical/Clinical Assistant	Associate's	29.2%
Registered Nursing/Registered Nurse	Associate's	0.0%
Respiratory Care Therapy/Therapist	Associate's	0.0%
Securities Services Administration/Management	Associate's	45.5%
Surgical Technology/Technologist	Certificate	0.0%
Truck and Bus Driver/Commercial Vehicle Operator and Instructor	Certificate	0.0%
Web Page, Digital/Multimedia and Information Resources Design	Associate's	30.0%
Web Page, Digital/Multimedia and Information Resources Design	Bachelor's	0.0%

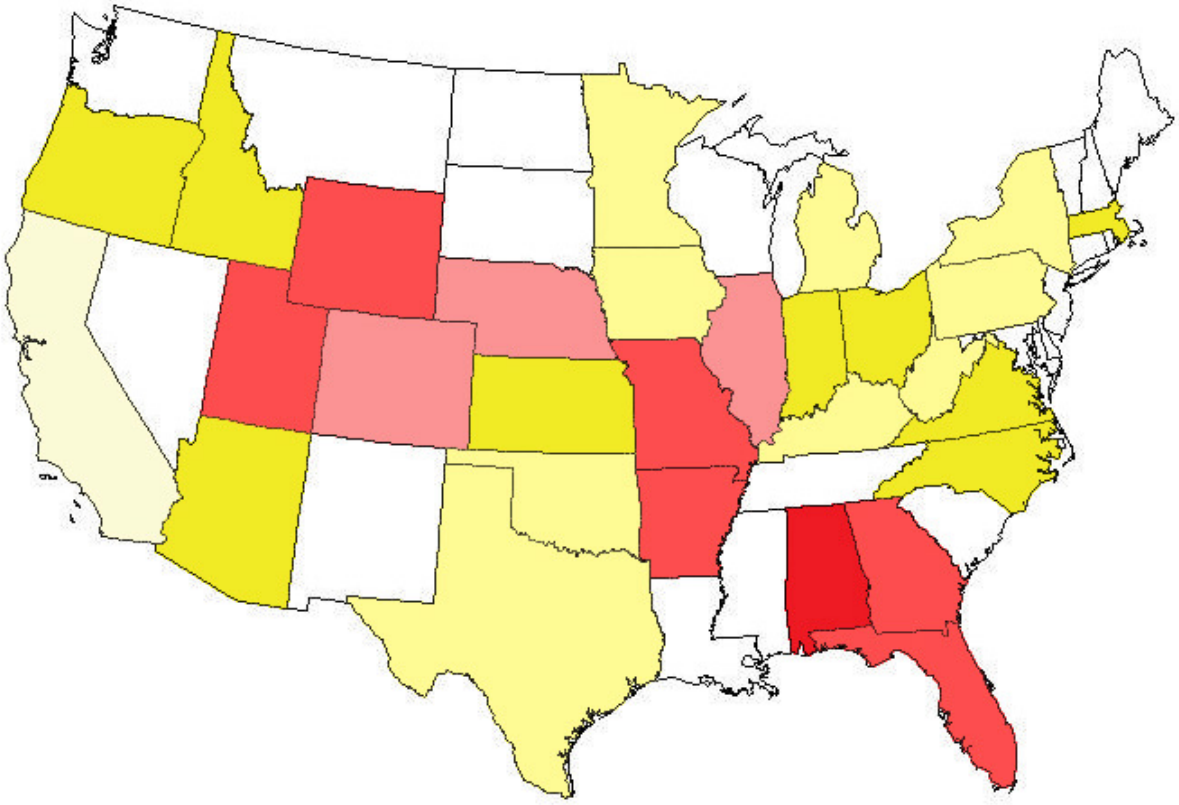
Triple-Failure Rates by State

The following table shows the percentage of programs with a triple failure disaggregated by state. Although Wyoming has one of the highest triple-failure rates, the small number of programs in that state may make the results for that state less significant.

[9] Defined as including at least 10 programs.

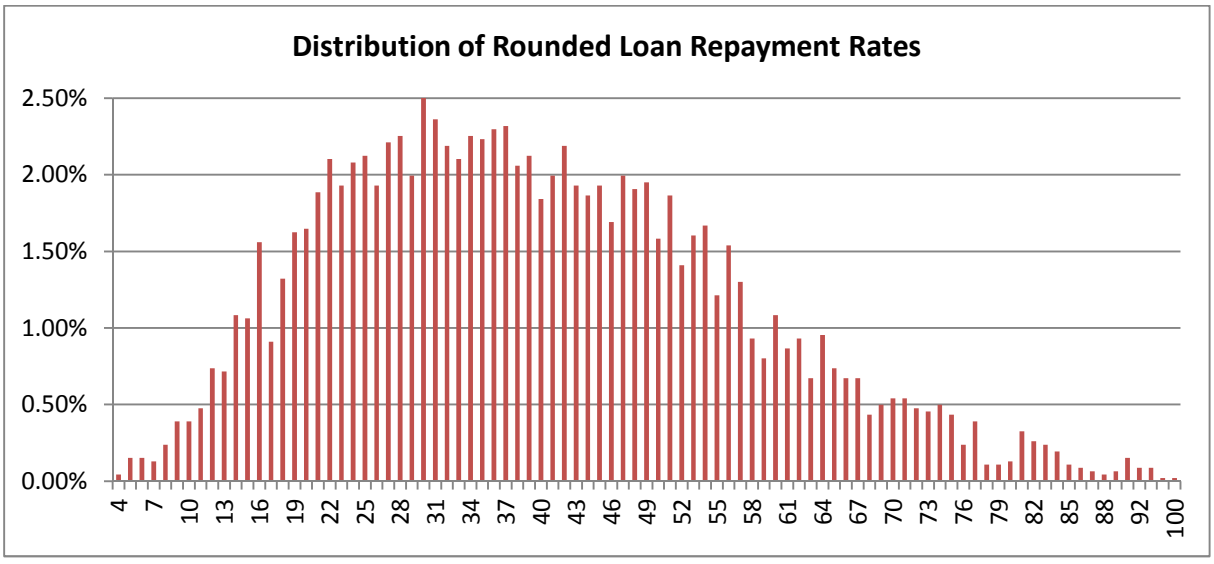
State	Triple-Failure Rate	Number of Failed Programs	Total Number of Programs
AL	18.5%	5	27
FL	15.8%	43	273
UT	15.8%	6	38
MO	15.5%	16	103
WY	14.3%	1	7
GA	13.6%	9	66
AR	13.3%	2	15
NE	12.5%	2	16
CO	11.8%	14	119
IL	11.5%	19	165
VA	8.5%	7	82
OH	8.2%	9	110
NC	5.6%	1	18
OR	5.5%	3	55
ID	4.8%	1	21
KS	4.8%	1	21
AZ	4.6%	11	240
MA	4.5%	3	66
IN	4.3%	3	70
NY	3.7%	8	217
KY	3.7%	1	27
WV	3.7%	1	27
PA	3.5%	10	285
MI	3.4%	2	59
OK	2.6%	1	38
TX	2.5%	5	203
MN	1.7%	3	177
IA	1.4%	1	71
CA	1.0%	5	513
NJ	0.0%	0	91
LA	0.0%	0	55
WA	0.0%	0	54
CT	0.0%	0	52
TN	0.0%	0	52
WI	0.0%	0	50
MD	0.0%	0	48
NH	0.0%	0	24
DC	0.0%	0	21
RI	0.0%	0	17
SD	0.0%	0	15
SC	0.0%	0	13
ME	0.0%	0	10
NV	0.0%	0	10
AK	0.0%	0	5
DE	0.0%	0	5
ND	0.0%	0	5
MS	0.0%	0	4
NM	0.0%	0	4
VT	0.0%	0	3
HI	0.0%	0	2
MT	0.0%	0	2

As this heat map illustrates, states in southern and central US have the highest triple-failure rates, while the east and west coasts have lower triple-failure rates. This may correlate well with unemployment statistics.



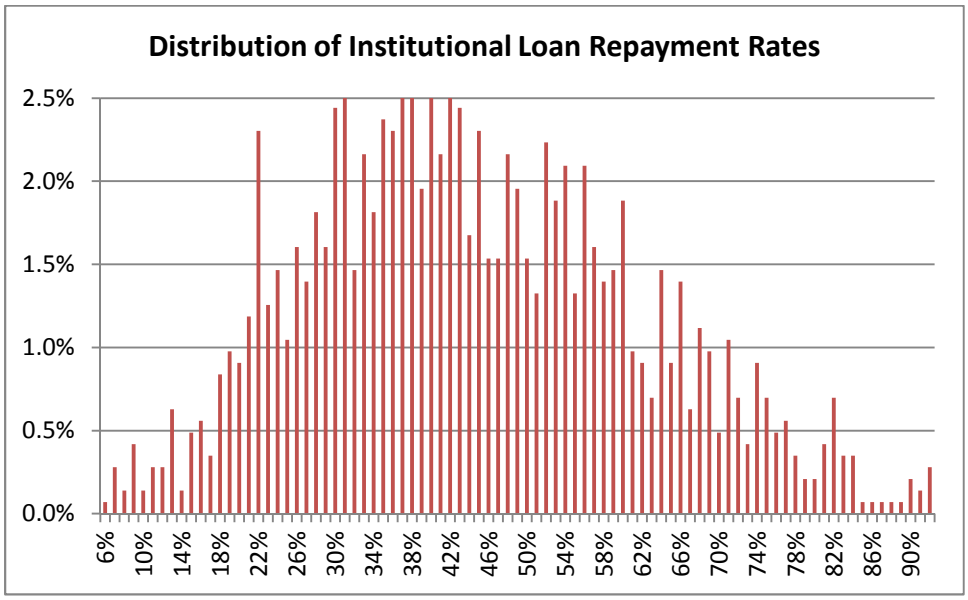
DISTRIBUTION OF DEBT MEASURES

This chart shows the distribution of program loan repayment rates. It demonstrates rightward skew in the distribution, with an average of 39.6% (standard deviation 17.0%) with a median of 37.8%.

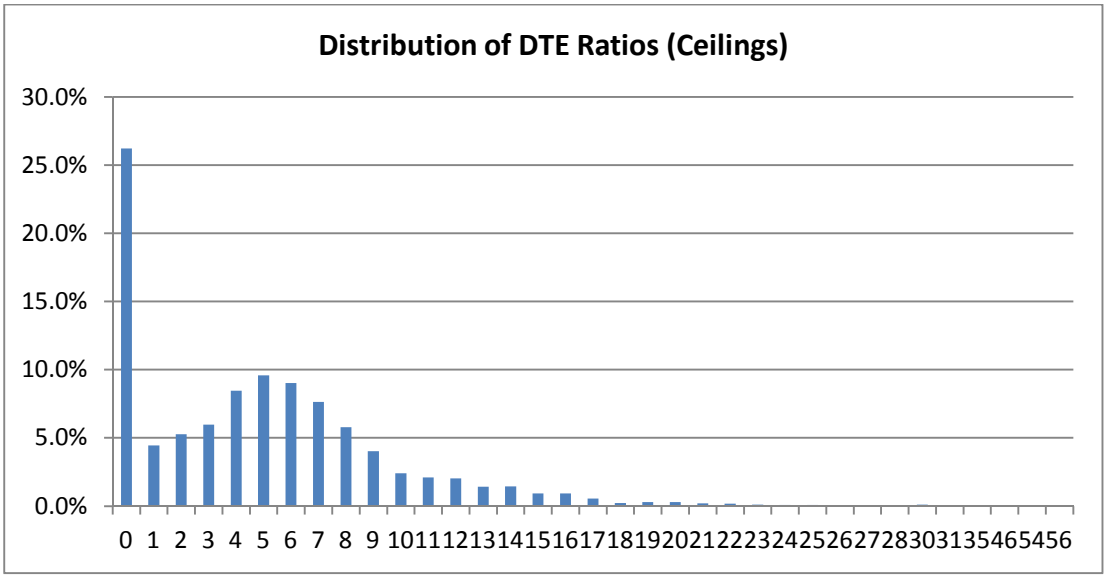


Unfortunately, the US Department of Education did not release institutional loan repayment rates for all colleges, the way it did in the 8/13/2010 data release. There is enough data in NSLDS to calculate institutional loan repayment rates (but not program-specific loan repayment rates) without needing any information from the colleges. The benefit of providing institutional loan repayment rates for all colleges is that it would help set the loan repayment rates for the programs that are subject to the gainful employment rules in a greater context.

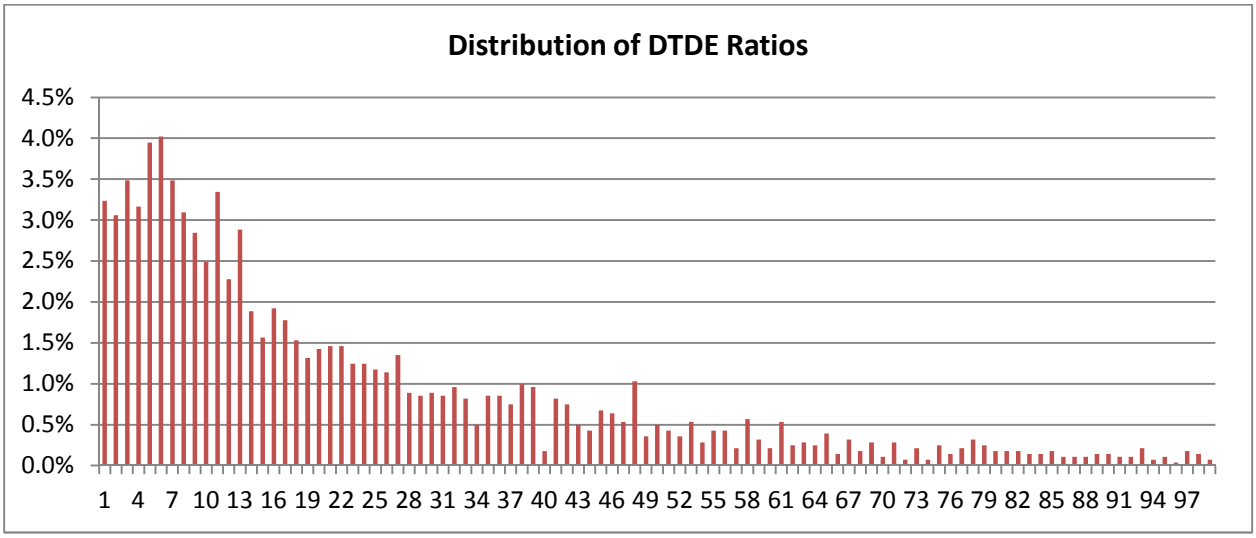
The next chart rolls up the loan repayment rate data in the FY2011 informational release from the program-specific level to the institutional level. This is not necessarily the same as institutional loan repayment rates, since the data for small programs with N/A results is not included. The average is 44% with a standard deviation of 17%. The median is 43%.



The next chart shows the distribution of debt-service-to-earnings ratios, rounded up (ceilings). The average is 4.6% with a standard deviation of 4.7%. The median is 4.0%.



The next chart shows the distribution of debt-service-to-discretionary-earnings ratios. DTDE ratios of zero are omitted from the graph because they account for about a third of the total (33.9%) and would mask the detail for the other ratios. Values at 100.0% are also excluded because discretionary earnings of zero are treated as yielding a DTDE ratio of 100.0% in the FY2011 information release. DTDE ratios are also capped at 999.9%. It is therefore meaningless to report the average and standard deviation. However, the median is 16.0%.



PERFORMANCE OF PUBLICLY-TRADED FOR-PROFIT COLLEGES

The next table summarizes the performance of programs at publicly-traded for-profit colleges.

Percentage of Programs Company	Stock Symbol	Triple-Failure Rate	Double-Failure Rate	Single-Failure Rate	Failed No Debt Measures
American Public Education Inc.	APEI	0.0%	0.0%	0.0%	100.0%
Apollo Group Inc.	APOL	1.5%	0.0%	16.4%	82.1%
Bridgepoint Education Inc.	BPI	0.0%	0.0%	0.0%	100.0%
Capella Education Company	CPLA	0.0%	0.0%	6.7%	93.3%
Career Education Corporation	CECO	17.8%	32.4%	22.2%	27.6%
Corinthian Colleges Inc.	COCO	14.1%	44.7%	27.2%	14.1%
DeVry Inc.	DV	0.0%	33.9%	23.2%	42.9%
Education Management Corp.	EDMC	7.9%	27.6%	24.3%	40.2%
Grand Canyon Education Inc.	LOPE	0.0%	0.0%	0.0%	100.0%
ITT Corporation	ITT	0.0%	13.0%	30.4%	56.5%
Lincoln Educational Services Corp.	LINC	0.0%	40.4%	15.7%	43.8%
National Amer. Univ. Holdings, Inc.	NAUH	0.0%	0.0%	25.0%	75.0%
Strayer Education Inc.	STRA	0.0%	0.0%	70.6%	29.4%
Universal Technical Institute Inc.	UTI	0.0%	0.0%	18.2%	81.8%
Washington Post Co. (Kaplan)	WPO	2.3%	51.9%	21.4%	24.4%

The next table shows the reasons why programs with double failures did not become triple failures. A significant percentage of CECO and EDMC programs with double failures did not become triple failures because of the loan repayment rate, not just because of the DTE ratio. This is in contrast with COCO, DV, ITT, LINC and WPO, where the double failure programs did not become triple failures primarily because of the DTE ratios.

Company	Stock Symbol	% of Programs Failing Measure			% of Programs Failing Two But Not		
		LRR	DTE	DTDE	LRR	DTE	DTDE
American Public Education Inc.	APEI	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Apollo Group Inc.	APOL	35.8%	1.5%	1.5%	0.0%	0.0%	0.0%
Bridgepoint Education Inc.	BPI	33.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Capella Education Company	CPLA	13.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Career Education Corporation	CECO	63.8%	36.8%	56.2%	17.8%	14.6%	0.0%
Corinthian Colleges Inc.	COCO	92.7%	14.4%	70.0%	0.0%	44.4%	0.3%
DeVry Inc.	DV	46.4%	1.8%	50.0%	1.8%	32.1%	0.0%
Education Management Corp.	EDMC	48.6%	34.1%	44.9%	24.8%	2.8%	0.0%
Grand Canyon Education Inc.	LOPE	25.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ITT Corporation	ITT	78.3%	0.0%	17.4%	0.0%	13.0%	0.0%
Lincoln Educational Services Corp.	LINC	52.8%	0.0%	51.7%	0.0%	40.4%	0.0%
National Amer. Univ. Holdings, Inc.	NAUH	62.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Strayer Education Inc.	STRA	88.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Universal Technical Institute Inc.	UTI	0.0%	0.0%	18.2%	0.0%	0.0%	0.0%
Washington Post Co. (Kaplan)	WPO	74.0%	3.1%	64.9%	0.8%	51.1%	0.0%

The next table presents the average institutional debt measures for each of the publicly traded companies, excluding programs for which the specific debt measure wasn't reported.

Average Debt Measures Company	Stock Symbol	LRR	DTE	DTDE
American Public Education Inc.	APEI	59.7%	0.0%	0.0%
Apollo Group Inc.	APOL	47.9%	3.9%	5.5%
Bridgepoint Education Inc.	BPI	50.3%	3.6%	6.0%
Capella Education Company	CPLA	49.6%	0.4%	0.5%
Career Education Corporation	CECO	39.8%	9.2%	22.5%
Corinthian Colleges Inc.	COCO	26.3%	7.9%	34.3%
DeVry Inc.	DV	40.8%	7.1%	14.6%
Education Management Corp.	EDMC	42.0%	8.6%	19.5%
Grand Canyon Education Inc.	LOPE	60.0%	2.9%	3.9%
ITT Corporation	ITT	32.5%	4.6%	8.6%
Lincoln Educational Services Corp.	LINC	35.8%	5.1%	19.0%
National Amer. Univ. Holdings, Inc.	NAUH	43.2%	4.2%	6.5%
Strayer Education Inc.	STRA	32.4%	3.2%	4.6%
Universal Technical Institute Inc.	UTI	55.9%	4.5%	12.0%
Washington Post Co. (Kaplan)	WPO	33.6%	5.1%	15.7%

CONCERNS ABOUT DATA QUALITY

Several colleges of all types, not just for-profit, have reported that the median debt levels in the gainful employment data release were lower than they expected. Although lower debt levels makes it easier for a college to pass the DTE and DTDE thresholds, the colleges are concerned that if there are errors in the data, subsequent corrections could cause programs to lose eligibility for federal student aid.

A review of the data, including anonymized student level data supplied by some colleges, suggests the following possible explanations:

1. **Tuition and fee caps reducing debt figures.** Consistent with the regulations, when a student borrows beyond institutional charges, the debt is reduced to match the tuition and fees. The reduction is based on cumulative tuition and fees and cumulative debt across the total enrollment period, not annual subtotals. The reduction varies by college and program, but is in the ballpark of 10% to 25%. Some colleges said that the tuition totals seemed low, but this may be due to transfer students having lower tuition at the institution.

2. **Lack of earnings data from the Social Security Administration (SSA).** The gainful employment process involves the calculation of mean and median earnings figures by SSA for each program. SSA also reports the number of students for whom earnings data is unavailable. Since SSA is unwilling to share individual earnings information, the US Department of Education addresses the lack of earnings data by discarding the same number of borrowers with the highest debt figures before calculating the DTE and DTDE ratios. The results are therefore consistent with high unemployment rates. If a program has a large number of unemployed graduates, it could yield a passing DTE ratio due to significantly lower debt figures but a failing loan repayment rate with much higher debt figures.

3. **Confusion of mean with median.** Student loan debt has a skewed distribution, since debt below the median can't drop below zero, while debt above the median can be much higher, sometimes even greater than twice the median. Accordingly, the median debt is almost always lower than the mean debt.

4. **Omitting zeroes from calculation of means and medians.** The average debt among students graduating with debt is much higher than the average debt among all students. If zeroes are omitted from the calculation of means and medians, it restricts the results to just students who graduated with debt. This can yield debt figures that are double or even triple the mean and median debt figures that include the zeroes.

5. **Reporting errors by colleges.** The gainful employment file structures and reporting requirements are complicated. It is possible that some colleges may have errors in the data they reported to the US Department of Education.

The student level data confirms that the DTE and DTDE figures are based on just completers with dropouts excluded and that the loan repayment rates are based on both completers and dropouts. Students in a military or in-school deferment were also properly excluded from the calculations.

Some colleges have said that their programs had more than 30 completers yet still have an N/A in one or more of the debt measures. They hypothesized that the N/A occurred because the programs had median debt levels of zero. 95.6% of programs with zero median debt for private, institutional and federal loans had at least one N/A in the debt measures, 59.5% of programs with non-zero median debt for at least one type of debt had at least one N/A in the debt measures, similar to the 59.8% of programs with an N/A in at least one of the three debt medians. Of the programs with no N/A in any of the three debt measures, 10.4% had an N/A in the median debt levels, 6.3% had zero median debt for private, institutional and federal loans, and 83.4% had non-zero median debt in at least one type of debt. The informational data release did not expand the cohort to four years for small programs, so it is possible that the conflict is due to the difference between cohorts that are expanded and cohorts that are not expanded.

US DISTRICT COURT OVERTURNS GAINFUL EMPLOYMENT DEBT MEASURES

Judge Rudolph Contreras of the U.S. District Court for the District of Columbia issued a ruling[10] on Saturday, June 30, 2012, that overturned part of the US Department of Education's Gainful Employment regulations.

The court found that the loan repayment rate metric was arbitrary, due to a lack of "reasoned decision-making" in arriving at the 35% threshold for the metric. The debt-service-to-earnings ratio and debt-service-to-discretionary-earnings ratios both involved a reasoned basis because of a reference to expert recommendations. While some might argue that the expert recommendations were flawed, the two metrics were nevertheless a product of reasoned decision-making and so cannot be considered arbitrary. However, the 35% threshold in the loan repayment rate was not similarly justified. The arguments advanced in the final rule could have been used to justify any particular threshold. The court cited discussions that suggest that the threshold was chosen primarily for its effect, corresponding to the bottom quartile of performance, without any independent justification of its relationship to gainful employment.

Accordingly, the court found that there was no evidence of reasoned decision-making in arriving at this particular threshold for the loan repayment rate and decided to vacate this aspect of the regulation and to remand the regulation to the US Department of Education. Because the other two debt measures and the program approval rule are intertwined with the loan repayment rate, the court vacated them as well.

The most straightforward way of justifying the 35% threshold is by linking the loan repayment rate (LRR) to the cohort default rate (CDR) threshold established by Congress, but modifying the cohort default to measure "former students [who] are, in fact, struggling to repay their loans"[11] by considering borrowers who are delinquent, in the economic hardship deferment, in a forbearance or negatively amortized under income-based repayment in addition to borrowers who are in default. In effect the loan repayment rate is an inverse or dual to the cohort default rate, but considers all signs that a borrower is struggling to repay his or her loans. This yields the following formula:

LRR = 100% – CDR – Economic Hardship Deferment – Forbearance – Delinquent – IBR/ICR

The calculation can then be based on the following data and the Congressional standard for the cohort default rate:

- Colleges with a two-year cohort default rate of 25% or more for three years in a row lose eligibility for Title IV federal student loans.[12] This threshold will increase to 30% in FY2012 with the switch to three-year cohort default rates, as enacted by section 436(a) of the Higher Education Opportunity Act of 2008 (P.L. 110-315).

[10] https://ecf.dcd.uscourts.gov/cgi-bin/show_public_doc?2011cv1314-25

[11] *Program Integrity: Gainful Employment - Debt Measures,* Federal Register 76(113):34395, bottom of second column, June 13, 2011.

[12] Section 435(a)(2) of the Higher Education Act of 1965, 20 USC 1085(a)(2). See also http://www.finaid.org/loans/cohortdefaultrates.phtml.

- 16.8% of borrowers in the FFEL program and 17.3% of borrowers in the Direct Loan program are in an economic hardship deferment, if borrowers in an in-school deferment are excluded from the denominator.[13]

- 11.8% of borrowers in the FFEL program and 10.0% of borrowers in the Direct Loan program are in a forbearance, if borrowers in an in-school defermen are excluded from the denominator.[14]

- Approximately 12% to 13% of federal loan borrowers are delinquent.[15]

- Approximately 1.1% of borrowers were interest only or negatively amortized in IBR or ICR at the time the regulation was published. The regulation specified that negatively amortized borrowers in IBR or ICR to the extent that they represented a disproportionate share of borrowers, which the final rule set at 3%.

Thus:

LRR = 100% - 25% - 17% - 11% - 12% - 0% = 100% - 65% = 35%

While the US Department of Education did not articulate this argument in the final rule, it hinted at it in its criticism of the cohort default rate, saying "Moreover, the default rate does not take account of the possibility that many students are struggling to repay their loans, such as those receiving economic hardship deferments or who are in income-based repayment."

Note, however, that this justification for the 35% threshold does not include a tolerance to ensure that only the "most clearly problematic programs" are affected, similar to the 50% tolerances that were added to the DTE and DTDE thresholds, increasing them from 8% and 20% to 12% and 30%. It might therefore be necessary for the US Department of Education to reduce the 35% threshold by one third to 23% so that the 35% standard is 50% greater than the resulting threshold. This would reduce the overall triple-failure rate to 3.1% (3.4% for for-profit colleges). With the inclusion of small programs, which will increase the triple-failure rate, the end result may then be a triple-failure rate of about 5%, as previously predicted by the US Department of Education.

Alternately, the US Department of Education could discard the loan repayment rate and argue that the other two debt measures can suffice on their own. About 15% of programs with double failures weren't triple failures because of the loan repayment rate. Without the loan repayment rate, 10.5% of programs overall and 11.6% of programs at for-profit colleges would fail the debt measures, about double the current triple-failure rate.[16]

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[13] Mark Kantrowitz, *What is Gainful Employment? / What is Affordable Debt?*, March 1, 2010. Revised March 11, 2010. (Addendum, April 27, 2010.) Page 10. http://www.finaid.org/educators/20100301gainfulemployment.pdf

[14] Ibid.

[15] Ibid.

[16] These figures assume that only the DTE ratio is used. However, the DTDE ratio contributes much less than 1% to the pass rates.