The New Gainful Employment Rules and Strategies for Compliance

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Publisher of Fastweb and FinAid

October 24, 2011

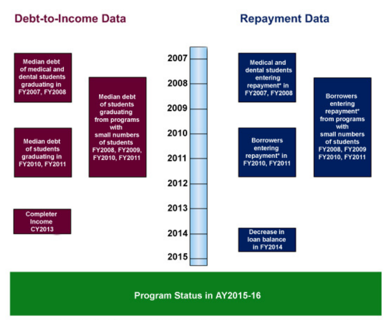
Gainful Employment Final Regulations

- Rule applies at the program level, not institution
- Three strikes rule
  - Program loses aid eligibility if it does not pass at least one debt measure for three out of four consecutive years
- Three debt measures (affordable debt limits)
  - Loan repayment rate ≥ 35% (LRR)
  - Debt-service-to-income ratio ≤ 12% (DS2I)
  - Debt-service-to-discretionary-income ratio ≤ 30% (DS2DI)
- DS2DI permits higher median debt than DS2I when income is over 250% of the poverty line

Affordable Debt Restrictions

Loan Repayment Rate	Debt to Income Ratios
Fiscal Year (October to September), repayment measured in most recent fiscal year.	Debt measured based on Fiscal Year (October to September) and income based on most recent Calendar Year.
Borrowers in 3rd and 4th Years of Repayment (6th and 7th for Medical/Dental)	Borrowers in 3rd and 4th Years of Repayment (6th and 7th for Medical/Dental)
Completers and dropouts	Just completers
Federal student loans, including Stafford and Grad PLUS. Excludes Parent PLUS.	Federal and private student loans incurred at the same or related institution. Median debt, max of average or median income.

Measurement Period for FY2014



*Excludes borrowers in an in-school or military deferment status, receiving a death or disability discharge, or pursuing PSLF

Changes from NPRM to Final Rule

- Yellow “Restricted Zone” becomes fully eligible
  - Increases debt-to-income thresholds by 50% from 8% to 12% and 20% to 30% and decreases loan repayment rate threshold from 45% to 35%
- Eliminates persistence of interest problem
  - Loan repayment rate based on changes in loan balance (P+I) instead of principal balance (P)
- Borrowing for living expenses will be excluded
  - Individual student debt figures for debt-to-income ratios will be capped at tuition and fees
- Exceptions for small programs (< 30 borrowers)

Borrowing Beyond College Charges

- Students at for-profit colleges are twice as likely to borrow beyond institutional charges.
- Pell Grant recipients (26.9% vs. 14.9%)
- Private student loan borrowers (58.8% vs. 11.6%)
- Parent PLUS loan (65.8% vs. 16.3%)
- Mainly colleges costing less than $10,000.
  - Perpetual students represent 3.6% to 11.3% of Pell Grant recipients.

Type of College	Debt > Tuition + $2,500
Public	16.5%
Non-Profit	16.5%
For-Profit	34.8%

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

More Changes to Final GE Rule

- Counts interest-only and negatively-amortized
  - Up to 3% shift in loan repayment rate for borrowers paying less than the interest or interest-only
- LRR counts public-service loan forgiveness
- Income based on earnings from SSA
  - Max of mean and median earnings
  - A count of students with no earnings data will be provided to DoE who will remove top debt figures
  - Alt: state-based, survey (reliability), BLS (transition)
  - During three-year phase-in, may use BLS data
- First year cap of 5% on eligibility loss by P/NP/FP

Allows Colleges More Time to Comply

- Phase-in with no immediate loss of eligibility
  - Must fail all three metrics for three out of four years to lose eligibility, with earliest loss occurring in FY2015
- Only limited retroactivity
  - All three metrics based on borrowers in the 3rd and 4th years of repayment, excluding 1st and 2nd years
  - Medical and dental students based on 6th and 7th years, bypassing internships and residencies
  - During transition, considers 1st and 2nd years if better
- Elimination of persistence of interest
  - Immediate credit for changes in default management

Gainful Employment Disclosures

- First failure requires disclosures and 3-day waiting period before enrollment
  - How much program missed the mark for each metric
  - Program's plans for improvement
- Second failure in 3 years adds more disclosures
  - Debt may be unaffordable
  - Program may lose eligibility; transfer options
- US Department of Education may choose to disclose any/all metrics as it sees fit
  - May create tools to help students compare programs

Impact of Final Rule

College Type	Fail Once	Fail Three Times
Total	8%	2%
Public	3%	1%
Non-Profit	5%	1%
For-Profit	18%	5%

Better for Advanced Degrees

- Repayment term assumptions for debt-to-income ratios based on level of degree program
  - Certificate and Associate's degree 10-year
  - Bachelor's and Master's degrees 15-year
  - Doctoral and Professional degree 20-year
  - 12% / 15-year equivalent of 15.6% / 10-year
  - 12% / 20-year equivalent of 19.0% / 10-year
- Elimination of yellow zone expands eligibility more for more advanced degrees
  - 47.9% for Bachelor's, 35.4% for Associate's and 20.3% for Certificate according to Missouri data

Impact of GE on For-Profit Colleges

- Most for-profit colleges fail the loan repayment rate threshold according to the Missouri data set
  - 75.6% fail 35% threshold
- Most for-profit colleges pass at least one debt-to-income ratio threshold
  - 67.6% pass 12% threshold
  - 35.8% pass 30% threshold
  - 71.6% pass either 12% or 30% thresholds

Degree Program	Percent Ineligible (Missouri Data Set)
Certificate	15.9%
Associate's	38.0%
Bachelor's	21.7%
Overall	26.1%

- Debt-to-income may be easier to target than LRR
  - **Of 24.4% who pass LRR, 90.7% also pass D2I**
  - Of 71.6% who pass D2I, 31.0% also pass LRR

Strategies for Improving Compliance with Gainful Employment Regulations

No Magic Bullet to Help Compliance

- There is no single strategy that will ensure compliance with the gainful employment regulations.
- The best approach is to employ multiple strategies, each contributing a bit to compliance
- Debt-to-income ratios may be easier to target than loan repayment rates.
  - Debt-to-income ratios measure whether the borrower can afford to repay the debt.
  - Loan repayment rates measure whether the borrower is actually repaying the debt.

Strategies for Regulatory Compliance

- Identify and experiment with predictors of completion, employment and repayment
- Target at-risk students for intense counseling and support services (e.g., on-campus childcare for students who are single parents)
- Adopt more selective admissions policies (minimum high school GPA, SAT/ACT tests, short admissions tests, IQ/personality tests, test of commitment, disallow ATB tests)
- Add/increase application fees (paid in cash, filters out less committed students, helps 90/10)

More Strategies for GE

- Establish try-before-you-buy policies and orientation programs so that students who will drop out do so before they borrow, not after
- Recruit more full-time students because they are less likely to borrow for non-institutional charges
- Target lead generation based on 90/10 and GE impact, such as completion rates
- Improve educational quality through an optimization framework (A/B testing)
- A $1 cut in tuition cuts average debt by ~ 30¢

Prefer Gift Aid Over Debt

- Encourage students to apply for scholarships and state grants
  - Teach them how to improve their chances of winning a scholarship or grant
- Promote the use of college savings plans to avoid debt
- Encourage the use of short-term tuition installment plans as less expensive than debt
- Encourage part-time student employment to reduce debt but discourage full-time work

Third Party Payer Programs

- Employer-paid tuition reimbursement
- Vocational rehabilitation
- Veterans and members of military (DANTES)
- Other workforce and job-training programs (WIA)
- International students

Award Letter Tips to Cut Borrowing

- Clearly distinguish loans from grants.
- Include interest rates, monthly loan payments, and total payments using a 10-year repayment term adjacent to the loan.
- Use suggested loan amounts that are half the annual limits. This sets a lower target.
- Include previous cumulative debt (including interest) and a projection of debt at graduation (including estimated monthly loan payments).
  - Compare debt at graduation with expected starting salary.

Smarter Borrowing

- Require incoming students to undergo financial literacy training in the first semester
- Require a budget before you can borrow
- Encourage borrowers to pay the interest during in-school and grace periods to reduce debt at graduation by up to 20%.
  - Try to pay something even if you can't afford to pay the full interest that accrues.
- Encourage Parent PLUS loans instead of private student loans by packaging PLUS

Limit Borrowing

- Can't limit debt to institutional charges or limit borrowing by independent students
- But can review borrowing on case-by-case basis
  - Ask the students if they intend to repay debt
  - Evaluate attitudes toward debt, likelihood of repaying
- Begin with a minimal cost of attendance, requiring students to document actual costs as part of an appeal for increases
  - Distinguish between needs and wants in granting appeals. Do not adjust for lifestyle choices.
- 30-day delay for first-time first-year borrowers

Aggressive Counseling

- Proactively counsel students about minimizing debt and the risks of deferment vs. repayment
- Target students for aggressive debt counseling
  - Annual borrowing > $5,000
  - Excessive debt for enrollment status, major, degree
  - Borrowing from private student loan programs
  - Changing majors or attended multiple prior institutions
- Targeting highest debt first will have biggest impact on loan repayment rates
- Measure SAP more frequently

Target Highest Debt Borrowers First

- Since the loan repayment rate is dollar-weighted, targeting the highest debt borrowers for aggressive counseling will have the most impact
- Chart shows maximum impact on LRR of shifting borrowers from non-paying to paying status

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%

More Strategies for GE

- Reduce program length from Associate's degree to Certificate to reduce borrowing
- Add inexpensive follow-on programs to help improve marketability and earning potential
- Target tuition cuts based on projected salary, likelihood of graduation, final year of enrollment
- Eliminate underperforming programs that are unlikely to improve (e.g., low/declining wages)
- Encourage dropouts who are close to completion to reenter (offer discounted tuition)

Better Job Placement Services

- Help more students get jobs, especially higher-paying jobs
- Teach graduating students how to get a job, business etiquette, how to ask for a raise
- Encourage students to move to where the jobs are instead of staying in local impoverished neighborhoods
- Establish employer advisory boards
- Survey employers periodically about any needs that are not being met by current graduates

Smarter Repayment

- Emphasize repayment over deferments and forbearances to avoid negative amortization
  - Avoid extended periods of nonpayment because it significantly increases the debt
  - Encourage use of partial forbearance over full
  - Public service loan forgiveness
- Auto-debit discounts and student loan interest deduction reduce delinquency
- Encourage unemployed graduates to volunteer with AmeriCorps, since the education awards can be used to repay federal education debt

Strategies for Counseling Students about Debt

Good Debt vs. Bad Debt

- Education debt might be considered by some to be good debt, because it is used to invest in your future.
- Yet too much of a good thing can be harmful.
- Live like a student while you are in school so you don't have to live like a student after you graduate.

Avoid Excessive Debt

- Total education debt should be less than expected starting salary, and ideally less than half your starting salary.
- If you borrow more than your starting salary, you will need to use an alternate repayment plan to afford your monthly loan payments.
  - This means you will still be repaying your own student loans by the time your children enroll in college.
  - Extending the repayment term will double or even triple the total interest paid over the life of the loan.
  - You may be forced to abandon your dreams by the need to repay your debt.

Debt Counseling to Reduce Debt

- If you borrow more than $10,000 for each year in school, you will graduate with more debt than 90% of college graduates/your peers.
- Multiply the monthly loan payment by 100 to calculate the annual salary needed to repay the debt at 12% debt-service-to-income ratio.
- Each 1% increase in the interest rate yields about a 5% increase in the monthly loan payment for a 10-year term, 9% for a 20-year term and 12% for a 30-year term.

Instill Fear of Too Much Debt

- If you borrow more than twice your expected starting salary, you will be at high risk of default.
- Students who graduate with excessive debt or who default on their loans are more likely to be depressed.
- They often delay getting married, having children, buying a car, buying a home and saving for retirement.
- Borrowing excessively can be like having a mortgage without owning a home.

Consequences of Default

- If you default, the government can garnish up to 15% of your wages and offset your income tax refunds, without a court order.
- The government can garnish Social Security benefit payments and intercept lottery winnings.
- You will find it more difficult to get credit cards, auto loans and home loans. It can affect your ability to get a job or rent an apartment.
- Student loans are almost impossible to discharge in bankruptcy. You are more likely to get cancer or die in a car crash than to have your student loans discharged in bankruptcy.

Top Tips for Minimizing Student Debt

- These tips are useful for counseling students on ways to minimize debt.
- These tips also translate into tools colleges can use to reduce student debt.

Minimizing Debt Tips #1

- It's cheaper to save than to borrow.
- Search for scholarships on free web sites like Fastweb.com.
- Enroll at a less expensive college.
- Live at home with parents or share housing costs with a roommate.
- Tuition installment plans are a cheaper alternative to borrowing the money through student loans.
- Don't switch majors or transfer colleges.
- Work part-time during the school year and full-time during the summer to earn money for college.

Minimizing Debt Tips #2

- Borrow federal first. Federal loans are cheaper, more available and have better repayment terms. Federal loans are eligible for public service loan forgiveness.
- Every dollar you borrow will cost you about two dollars by the time you've repaid the debt. So before you spend student loan money on anything, ask yourself if you'd still buy it at twice the price.
- Pay the interest on unsubsidized loans during the in-school and grace periods to prevent the loan balance from growing larger. This can reduce the balance at repayment by up to 20%. Try to pay something even if you can't afford to pay the full interest that accrues.

Minimizing Debt Tips #3

- After you graduate, accelerate repayment of the highest interest rate loan first.
- Claim the student loan interest deduction on your federal income tax return.
- Sign up for auto-debit with electronic billing to get a reduction in your loan's interest rate. Borrowers with auto-debit are much less likely to miss a payment.