

Using a Student Default Risk Index (SDRI) to Improve Institutional Accountability and Reward Colleges

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THE SDRI, EXPLAINED

To ensure that available federal aid dollars are spent wisely, colleges' eligibility for federal aid should be more closely tied to the risk to students in enrolling and the risk to taxpayers in investing, with rewards for colleges where risks are low. This could be done using a new measure called the Student Default Risk Index (SDRI).

Currently, the federal government uses cohort default rates (CDRs) to assess college eligibility for federal student aid funding from the U.S. Department of Education (Title IV funding). Colleges with CDRs above certain thresholds may face sanctions that end their eligibility for federal aid. However, the meaning and utility of CDRs are limited by the fact they exclude any student who does not borrow. For instance, if only two out of 100 students at a college borrow, the fact that one of them defaults may not represent problems with the education received by the other 99 students.

The Student Default Risk Index (SDRI) corrects for this by multiplying each school's CDR by the share of students at that school who borrow federal loans. By incorporating the share of students who borrow into the measure, the SDRI more accurately conveys a student's risk of default at a given school.

AN EXAMPLE

For example, consider two schools with CDRs of 20 percent (see below). At the first school, 90 percent of students borrow, so roughly 18 out of every 100 enrolled students end up in default on student loans shortly after entering repayment. At the second school, only five percent of students borrow, so only one out of 100 students end up in default within the same time period. The CDRs are the same, but the extent of the schools' default problems is quite different.

	CDR	Borrowing Rate	Students' Risk of Default	SDRI
College 1	20%	90%	18%	18
College 2	20%	5%	1%	1

USING IT TO ASSESS RISKS & REWARDS

Because it applies equally to all colleges and is inclusive of all students, the SDRI is more robust than the CDR and could be used to:

- **Reward colleges with very low SDRI with additional flexible funding based on their low-income student enrollment.** Such a policy would encourage colleges to enroll low-income students, help them apply for aid, and support them in enrolling full time.
- **Provide greater flexibility to innovate to schools with strong track records.** To foster innovation and focus oversight where it is most needed, more policies should take into account how well colleges serve students in terms of access, affordability, and success (defined as completion with a quality degree, without burdensome debt).
- **Sanction colleges based on their SDRI rather than their CDR** to more accurately reflect the degree of risk schools pose to students and taxpayers.
- **Require risk-sharing by colleges on the margins of Title IV eligibility if they receive a majority of their revenue from federal aid.** Currently, eligibility for federal aid is all or nothing, with no form of risk-sharing in place, regardless of how much taxpayer funding a school receives. To further improve institutional accountability, colleges that rely heavily on federal aid and have SDRI approaching the cutoff should be required to pay a fee that would be used to fund financial aid and counseling activities.

For specific proposals on how to use the SDRI, see [Aligning the Means and the Ends: How to Improve Federal Student Aid and Increase College Access and Success](#).