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EXECUTIVE SUMMARY

A POLICYMAKER'S GUIDE TO
Using New Student Debt Metrics to Strengthen Higher Education Accountability

EXECUTIVE SUMMARY

College remains an essential path to economic security and a better life. Yet, tens of millions of college graduates need student loans to pay for college, and for a generation of students, borrowing for college has become the norm.

Loans help students enroll and persist in college and student debt pays off over time for most students who complete a quality credential, especially for those who complete a bachelor's degree at a public or non-profit college. But, high default and delinquency rates, escalating loan balances for those who rely on income-drive repayment (IDR) as a safety net to make payments more manageable, and potentially long-term impact on careers and financial security underscore that for some students, federal debt doesn't pay off at all, and for still others, the payoff is much less than the norm. Moreover, the burdens of student debt fall most heavily on low-income students and underrepresented students of color, reinforcing long-time educational and economic inequities.

The Need to Strengthen Protections for Students Who Borrow to Attend College

Although colleges cannot guarantee success, too many of them routinely and disproportionately enroll students who ultimately experience adverse debt outcomes. Better identifying these colleges is key to effectively addressing the student debt crisis, including its inequitable impacts.

Accountability rules like Cohort Default Rates (CDR) and the recently repealed Gainful Employment (GE) rule define minimum standards to identify those colleges or programs that routinely leave students worse off. Not only do these rules protect students from the worst-performing colleges, but evidence suggests both that many colleges improve the value they offer students in response to these standards and that, among colleges that do not improve, students have access to better options at alternate programs and colleges. Now, however, policymakers need new ways to hold colleges accountable to complement the CDR.

Consequences of the COVID-19 pandemic add even more urgency to strengthen college accountability and meaningfully protect millions of students from severe, long-term struggles with student debt. To support borrowers during the COVID-19 pandemic, the federal government has provided historic student loan repayment relief that temporarily suspends payments on most federal student loans. This relief has provided vital help for borrowers with eligible loans. However, at least four-years of CDRs will be impacted by the payment pauses, and some colleges with bad outcomes, that would otherwise have high CDRS, may avoid sanctions. Surging enrollment at online programs may also lead to lower quality offerings and worsening loan outcomes, once temporary relief is lifted.

Three Debt Metrics that Could Move the Dial on Borrower Success

Debt metrics can be used to measure several different outcomes that indicate student and borrower success. These outcomes roughly fall into four categories, each of which points to ways students struggle to repay their debt, and ways colleges can change the likelihood that they struggle: successful degree completion, ability to use college's credentials to obtain a well-paying job, adequate progress on loan repayment, and manageability of student debt.

This paper explores three debt metrics that could strengthen the existing accountability system: **debt-to-discretionary earnings ratios, earnings net of expected debt payments thresholds,**

and repayment rates. Each should be considered for use alongside the existing CDR. These metrics seek to set a minimum standard where students are left better off after borrowing to attend college, are supported by a range of experts in the field, and are operationally viable. However, each has its strengths and weaknesses.

For each metric, the paper uses existing data and research to analyze its strengths and weaknesses, including whether using the metric alongside CDRs, to help determine institutional access to Federal Student Aid, could credibly be expected to lead to changes in college behavior and improve borrower outcomes. We also discuss thresholds that policymakers could consider setting as minimum standards for each metric.

SUMMARY OF DEBT METRICS

Metric	Definition used for this report	Example thresholds
Debt-to-discretionary earnings	Ratio of the median annual loan payments among students who graduated, compared to those same former students' average discretionary annual income. Discretionary income is the higher of the mean or median annual earnings less than 150% of the Federal Poverty Line for a one-person family.	20 percent (pass GE) 30 percent (fail GE)
Earnings net of debt payments	How much money will remain from students' earnings after they make their expected student loan payments.	$19,140 (150% of the Federal Poverty Line for one-person family) $28,000 (typical earnings of high school graduate) $35,000 (CEW Georgetown definition of a "good job")
Repayment rate*	Percentage of all borrowers whose loan balances decreased by at least $1 among all borrowers who entered repayment, including non-completers.	15 percent (Hatch/Shaheen proposal) 35 percent (2011 GE rule) 45 percent (PROSPER Act) 50 percent (considered for GE rule)

* This paper also discusses alternative variations, such as "dollar-based" and "cohort-based" repayment rates.

Challenges in Developing and Using Debt Metrics for Accountability

Although debt metrics are critical to strengthening protections for student-borrowers and taxpayers, policymakers must make difficult decisions in developing and fitting debt metrics together to trigger accountability sanctions. To name just a few challenges, metrics should ideally lead to responses from colleges that improve student outcomes and affordability, adequately mitigate disproportionate impacts on low-income students and underrepresented students of color, measure financial health for all borrowers and loan types (including non-completers and private loans), and reliably signal performance in both good and bad economic times. On top of that, policymakers must grapple with how quickly metrics can measure borrowers' financial health after students leave college, how well metrics cover most colleges and programs after statistical exclusions, and how metrics interact with student loan repayment options—including IDR.

Most crucially, policymakers must develop metrics and accountability systems that are not overly influenced by racial and economic disparities outside the control of colleges. Low-income students and students of color have the most to gain from federal accountability policies that guard against colleges that consistently produce poor outcomes, and at the same time, maintain access to high-quality options. Still, they also have the most to lose from poorly designed accountability systems that could adversely impact equitable college access.

Gaps and inconsistencies in publicly available data also make it hard to precisely model the impacts of the three metrics explored in this report, or to definitively recommend a single metric or threshold. Data are critical to understanding the benefits and harm reduction associated with debt metrics, along with impacts on students that historically have had less access to higher education. Currently, repayment rate is the only metric in this paper that has publicly available data for the full universe of colleges participating in federal student aid. Debt-to-discretionary earnings and earnings net of debt payments have data available from GE, but those data do not cover many programs at public and nonprofit four-year colleges, and they are relatively outdated. Still, we believe that examining tangible—though imperfect—information on debt, earnings, and loan repayment can help set a path forward for policymakers interested in developing metrics and thresholds.

Findings

This paper finds earnings net of debt payments to be the most promising option for policymakers to explore using in conjunction with CDR to determine federal aid access and college accountability and oversight. This metric is more likely to result in colleges focusing on strategies to improve completion and credential quality, while it is less influenced by racial disparities and macroeconomic factors external to colleges. This metric is also well-suited for assessing outcomes of all borrowers because it can include private loans and sets a minimum earnings floor that represents a basic income, that even students with little debt should make after college.

Despite their popularity, repayment rates are likely better indicators of strong performance on loan outcomes, rather than barometers of whether colleges fail to meet a minimum bar. Higher repayment rates may help to signal that most borrowers are keeping up with student loan payments, but these rates are also influenced, more than other metrics, by factors external to colleges—such as racial disparities in debt burdens and wealth and interactions between IDR,

family size, and interest rates. However, repayment rates may still add value in combination with other metrics within an accountability system.

Debt-to-discretionary earnings falls somewhere in between earnings net of debt payments and repayment. This metric may lead colleges making efforts to improve credential quality, as well as make their offerings more affordable, so that students leave with less debt. That said, this metric may be a less reliable indicator of borrower health for students who do not graduate and have relatively little debt.

Recommendations

Based on our analysis and findings, we recommend that policymakers develop and implement new metrics to supplement the use of CDR to determine institutional (or programmatic) eligibility for federal aid to improve student debt outcomes. Specifically, we recommend that policymakers:

- **Hold colleges accountable for borrowers' earnings after expected debt payments**. Students enroll in college for many reasons, and not all programs are intended to confer economic returns. However, if a program is financed with student loans, it should at least leave most borrowers with a minimum level of economic security.

- **Set an earnings threshold that measures a minimum level of economic success**. The threshold on earnings net of debt payments could be set at 150 percent of the Federal Poverty Line ($19,140 for a single individual in 2020) or the typical earnings of a young worker with a high school diploma, nationally. Thresholds could be set on a national average of high school earnings ($28,000) or in the college's state averages. A multiple of the Federal Poverty Line would test whether a borrower makes enough after college to make expected student debt payments, without eating into personal living necessities, while a test based on whether. Alternatively, borrowers make at least the earnings of making less than a typical high school graduatesgraduate (with no college degree or certificate) would indicate that borrowers arebe likely financially betterworse off than if they had not attended college.

- **Consider establishing an alternative eligibility measure for federal student aid, such as repayment rate**. Earnings net of debt payments pairs well with repayment rate. The repayment rate would provide an initial filter that would allow institutions that have strong loan payment outcomes to pass the accountability standard, without any adverse sanctions. Earnings net of debt payments would set a minimum standard for colleges that do not pass the repayment rate threshold. These metrics work well together since they both can evaluate the same set of borrowers, respectively, including both completers and non-completers. Fifty percent or 35 percent may be good thresholds for a borrower-based repayment rate to identify colleges with adequate outcomes, that they do not need an assessment on earnings net of debt payments. Colleges would need to pass CDR and existing eligibility standards as well.

- **Ensure earnings data are verified**. Colleges have an opportunity to verify the calculations of CDR, but privacy laws forbid the same process from being used to verify earnings. One federal court has ruled that using tax data to measure earnings did not con-

sider the fact that some colleges produce graduates who are disproportionately likely to understate their income on their tax returns. Policymakers need to use the most accurate and comprehensive earnings data possible and develop an earnings appeals process that allows for reasonable due process, but also ensures institutions cannot game earnings measures by submitting inflated and inaccurate income data for their students, particularly if the accountability framework does not include an alternative mechanism, like a repayment rate.

- **Consider using both institution-level and program-level metrics**. Program-level metrics may help differentiate outcomes within colleges, avoid all or nothing accountability, and mitigate sample-size concerns. Policymakers should consider grouping similar programs or calculating metrics that combine programs in the same credential level. COVID-19 has also led to a surge in online course-taking, and policymakers should consider ways to separate exclusively online programs and hybrid from other programs in the same college.

- **Take changes in economic conditions into account**. Debt metrics should fairly assess college performance during both good and bad economic times. Economic conditions can influence all three debt metrics, and they are particularly important for debt-to-discretionary earnings and repayment rate because of sensitivity to changes in debt amounts and interest rates on top of changes in post-enrollment earnings. Rolling averages can help, and their use is well-established from GE rulemaking. Adjustments to metric rates, or thresholds, based on changing macroeconomic conditions and interest rates are another option. For instance, earnings net of debt payments thresholds could be adjusted based on typical earnings in states or regions that colleges serve.

- **Assess metrics over the shortest time period possible to allow for valid measurement of performance**. Policymakers need to ensure that measurement occurs far enough into repayment that results are stable and reflect current and likely longer-term risk, but also soon enough that performance is reasonably attributed to the actions of colleges or programs. This is especially difficult to achieve for repayment rate because it, on average, increases steadily over time and short-term rates may be less reliable for borrowers enrolled in IDR. All debt metrics should be calculated on exit cohorts, not initial enrollment. The universe of institutions can change too quickly over time for metrics based on initial enrollment to effectively guard against poor outcomes at newly formed or reorganized colleges (or programs). Policymakers should also consider measuring earnings net of debt payments and repayment rate about five years after leaving college. In contrast, a shorter measurement window may be sufficient for a debt-to-discretionary earnings metric.

- **Improve access to aggregate and student-level data**. Resolve issues with sharing data across government agerncies to more effectively develop and implement metrics and thresholds. Better data can help to highlight the benefits and harm reduction associated with debt metrics and mitigate unintended consequences. The U.S. Department of Education should collect necessary data, calculate metrics, and analyze their effects, before tying them to consequences. Congress should require the federal government to collect private student loan data directly from lenders to ensure a complete record of student debt. Congress should also clarify that federal agencies, with earnings data, have the authority to share those data and that evaluation of colleges and programs is a legitimate use of those data.

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