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"Exploring the Frontiers of Higher Education"

HIGHER EDUCATION ACCOUNTABILITY THROUGH RISK-SHARING[1]

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In 2016 the U.S. Department of Education (ED) awarded more than 13 million students approximately $126 billion in grants, work-study, and low interest loans.[3] The need for a rigorous accountability system to assure that these taxpayer dollars are well spent is beyond debate, but the means by which to meet this goal remain unsettled. This policy brief proposes an accountability mechanism that not only helps to safeguard the substantial investment in students that the federal government makes, but also promotes the alignment of the interests of the multiple stakeholders interested in promoting postsecondary student success.

Many institutions of higher education (IHEs) lack the resources and incentives necessary to successfully educate their often ill-prepared students.[4] Millions of students confronting

[1] This report, dated September 13, 2017, updates the April 17, 2017 version that is available at http://nexusresearch.org/wp-content/uploads/2017/04/Risk-Sharing-Draft-Proposal.pdf.
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[3] See https://ed.gov/about/reports/annual/2016report/fsa-report.pdf.
[4] A study of the educational careers of 96% of the nation's students found that the national 6-year completion rate of those enrolled in 2009 was less than 53%—a decline of over 2% from the cohort in 2008. Shapiro, D., Dundar, A., Wakhungu, P.K., Yuan, X., Nathan, A., & Hwang, Y. (2015, November). Completing college: A national view of

increasing tuition bills are being badly served by colleges and universities that fail to help them reduce unnecessary borrowing.[5] And too many students, lacking financial literacy and adequate counsel, are taking on far too much debt, dropping out, and defaulting on their federally guaranteed loans.[6] Focusing on access, the federal government has dispensed billions of dollars in financial aid[7] while penning regulations that are often perceived as arbitrary, onerous, and punitive.[8]

To help ameliorate this situation, which taxpayers ultimately subsidize, members of Congress have introduced several bills aimed at aligning the often conflicting interests of stakeholders by making all parties have "skin in the game" through risk-sharing regulations.[9] Additionally, Senator Lamar Alexander (R-TN)—chair of the Senate's Committee on Health, Education, Labor and Pensions—has outlined a series of problems that risk sharing should address. Included is the need to realign and improve federal incentives to make colleges more responsible for "reducing excessive student borrowing and prioritizing higher levels of student success and completion."[10]

To establish a fair and sound system of accountability, improve student performance, and help resolve the frequently conflicting interests of the multiple stakeholders of higher education, we believe that a risk-sharing policy should have three major goals:

- Incentivize states and IHEs to dedicate more resources aimed at improving student retention, progression, completion, and employment;

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student attainment rates—fall 2009 cohort. (Signature Report No. 10). Herndon, VA: National Student Clearinghouse Research Center. Retrieved from https://nscresearchcenter.org/wp-content/uploads/SignatureReport10.pdf .

[5] "In 2011–12, about a quarter of student borrowers took out loans that exceeded their tuition, after grants, by $2,500" and "68% of all undergraduate borrowers hit the annual loan ceiling permitted by the Department of Education." Mitchell, J. (2014, March 2). Student loans entice borrowers more for cash than a degree. Wall Street Journal. Retrieved from http://www.wsj.com/articles/SB10001424052702304585004579415022664472930.

[6] McCann, C., & Deslisle, J. (2014, Oct. 23). Student loan defaulters aren't who you think they are. Retrieved from http://www.edcentral.org/defaulters/.

[7] U.S. Department of Education. (n.d.). Student aid overview: FY2016 budget request, O-7. Retrieved from http://www2.ed.gov/about/overview/budget/budget16/justifications/o-sao.pdf.

[8] See American Council on Education letter to the U.S. Department of Education about the Notice of Proposed Rulemaking (NPRM) regarding borrower defenses to repayment that was published in the Federal Register on June 16, 2016 (Docket ID ED-2015-OPE- 0103) at http://www.acenet.edu/news-room/Documents/Comments-ED-Borrower-Defenses-General-Provisions.pdf; also Moran, M. (2015, Oct. 19). Study estimates cost of regulatory compliance at 13 colleges and universities. Vanderbilt News. Retrieved from http://news.vanderbilt.edu/2015/10/regulatory-compliance/; and, for example, Career Education Colleges and Universities. (n.d.). Defense to repayment. Retrieved from http://www.career.org/defense-to-repayment.html.

[9] See S1102: Protect Student Borrowers Act of 2015 (available at https://www.congress.gov/bill/114th-congress/senate-bill/1102) ; HR2364: Protect Student Borrowers Act of 2015 (available at https://www.congress.gov/bill/114th-congress/house-bill/2364/related-bills); and S1939: Student Protection and Success Act (available at https://www.congress.gov/bill/114th-congress/senate-bill/1939/text).

[10] Alexander, L. (2015, March 23). Risk-sharing/skin-in-the-game concepts and proposals. Washington, DC: Senate Committee on Health, Education, Labor & Pensions. Retrieved from http://www.help.senate.gov/imo/media/Risk_Sharing.pdf.

- Incentivize IHE's to become more affordable and more responsible for the reduction of unnecessary student borrowing; and
- Incentivize the federal government to more closely monitor student success with simpler, more logical, and less onerous regulations that are both fair and applicable to all IHEs.

Proposed Policy

Our proposed policy seeks to address these three goals. It also mirrors some aspects of Senate Bill 1102, the "Protect Student Borrowers Act of 2015," including its relative simplicity, its use of cohort default rates (CDRs),[11] its focus on appropriate incentives, its use of a sliding scale, and its commitment to a reasonable maximum institutional liability, which in our model is 20% of the amount of student loan dollars that are in default.

Requirements for Inclusion and Risk-Sharing Payment Liability

Every IHE—whether public, private nonprofit, or private for-profit and whether less than 2-year, 2-year, or 4-year, that has a rate of participation in the direct student loan program of 25% or higher—would be liable annually for a risk-sharing payment based on a maximum of 20% of the amount of student loans that are in default during the most recent fiscal year for which data are available. To be clear, the liability is based on the percentage of loans in default, not on the original amount of loans given to students.

Determination of Risk-Sharing Payments

Risk-sharing payments are to be based on a combined total of the following two metrics using a sliding scale:[12]

- To incentivize responsible borrowing, up to half of the maximum 20% percent payment due is based on the institution's three-year cohort default rate (CDR).
- To incentivize a focus on student success, up to half of the maximum 20% payment is based on the institution's Pell Grant 3-year completion, transfer or graduation rate, as appropriate, for less than 2-year or 2-year schools, and Pell

[11] We recognize that CDR may be supplanted by repayment rate metrics; however, we see the latter as a less useful metric given the effects on it of income-based repayment plans, which are rapidly expanding.
[12] A specific advantage of the use of two metrics, rather than only one, such as CDR—as is the case with S1102—is that CDRs can be manipulated by schools that guide their students into deferment and forbearance repayment plans.

Grant 6-year graduation rates for 4-year schools.[13]

The rationale for adding the Pell graduation metric is based on the need to incentivize IHEs to help low-income students complete their studies. Pell grants also represent a substantial investment in students by the federal government, and the Pell graduation metric helps to ensure that IHEs are paying attention to the government's investment in the access and success of low-income students.

Because IHEs often serve radically different student populations, it is critical that Pell graduation rates used in any risk-sharing plan be risk-adjusted to help identify schools that are over- or underperforming relative to the students they serve.

The Secretary of Education could instruct the Commissioner of Education Statistics to convene a technical working group to determine the variables to be included in the risk-adjusted metrics. We assume that these metrics would take into account individual risk factors recognized by ED.[14] After all, it is easy to have a 95% graduation rate if an IHE admits mostly high school valedictorians with perfect SAT scores. However, our risk-sharing proposal seeks to reward IHEs for the value they *add* to the students they serve rather than the value that students already bring to the school. Fortunately, considerable work has already been done on "risk-adjusted metrics" that can distinguish between schools that are doing better, or worse, than expected given the characteristics of the students they enroll.[15]

Breakdown of Risk-Sharing Payments According to the Two Proposed Metrics

We propose using sliding scales to set payment liabilities. This avoids problems raised by binary ("yes/no") triggers that punish IHEs for being just over a threshold while leaving those barely below that threshold unpunished and with no incentive to improve.

The payment due is based on the percentage of the total volume of student loans (including interest) that (a) were made to students to cover the cost of tuition, fees, books, and supplies and (b) that are in default during the most recent fiscal year for which data are available. Estimates are as follows (see the Appendix for details).

[13] We recognize there is a significant discrepancy between the Pell graduation rates that IHEs report to the government and those that they report to inquiring applicants. But until this is fixed, we use the Pell graduation rates, as reported in the U.S. Department of Education's National Student Loan Database System. See Butrymowicz, S. (2015). Obama's college scorecard shows Pell Grant data problem: There's finally federal data on low-income college graduation rates—but it's wrong. Retrieved from http://www.usnews.com/news/articles/2015/10/08/.

[14] On official risk factors, see Horn, L. J., Premo, M. D., & Malizio, A. G. (n.d.). Profile of undergraduates in U.S. postsecondary education institutions: 1992-93. Retrieved from http://nces.ed.gov/pubs/web/96237.asp

[15] Blumenstyk, G. (2014, April 28). "Risk adjusted" metrics for colleges get another look. Retrieved from http://www.chronicle.com/article/Risk-Adjusted-Metrics/146193/.

(A) Payment based on 3-year CDR:

(i) 10% for CDRs 30% or higher

(ii) 8% for CDRs lower than 30% but not lower than 26%

(iii) 6% for CDRs lower than 26% but not lower than 22%

(iv) 4% for CDRs lower than 22% but not lower than 18%

(v) 2% for CDRs lower than 18% but not lower than 15%

(vi) No payment due for CDRs lower than 15%

(B) Payment based on Pell Grant 3-year and Pell Grant 6-year graduation rates:

(i) 10% for graduation rate 10% or lower

(ii) 8% for graduation rate higher than 10% but not higher than 20%

(iii) 6% for graduation rate higher than 20% but not higher than 30%

(iv) 4% for graduation rate higher than 30% but not higher than 40%

(v) 2% for graduation rate higher than 40% but not higher than 50%

(vi) No payment due for graduation rate higher than 50%

Waiver or Reduction of Payment for Certain Institutions Serving Large Numbers of Low-Income Students

To incentivize IHEs to enroll as many promising low-income students as possible, for a subsequent fiscal year we propose that ED may waive or reduce up to half of the total annual amount of risk-sharing payments due ***if all three of the following criteria are in place*:**

- At least 50% of the institution's degree or certificate-seeking students are receiving need-based assistance under Title IV;
- The institution has high educational, student retention, and career services expenditures as a percentage of total expenditures (excluding research and budgets related to their health centers); and
- The institution is making satisfactory progress[16] in carrying out a student loan management plan that includes (a) an analysis of the risk factors correlated with higher student loan defaults that are present at the institution and (b) the actions that the institution will take to address such factors.

[16] Rather than specify what either a "high educational expenditure" is or what "satisfactory progress" is, we suggest that technical review panels at ED be charged with determining the proper cut-offs.

We recognize that this proposed risk-sharing plan could have the unintended and undesirable consequence of forcing IHEs to be more selective, thereby diminishing access. However, allowing a reduction of up to half of the maximum 20% liability will help to ensure that IHEs enrolling large numbers of at-risk students are not penalized for doing so if they are making every effort to help their students succeed.

Modifications of Current Policies to Incentivize Access, Lower Debt Levels, and Promote Success of Low-Income Students

To maintain or increase access of low-income students and to lower their debt levels, the following changes should be made to the current calculation of cohort default rates:

- IHEs should all be permitted to limit student borrowing by being allowed to restrict direct student loans to the cost of tuition, fees, books, and supplies.[17] To avoid undue hardship to low-income students, institutions should have the authority to make exceptions to this restriction on a program-by-program[18] and case-by-case basis, as long as published nondiscriminatory criteria are applied.

- IHEs should be permitted to award post-completion scholarships and post-participation incentive grants that can cover all or part of outstanding student loans.[19]

Fund and Use of Risk-Sharing Payments and Reporting to Congress

A separate account should be established in the Treasury of the United States for the deposit of

[17] This policy change is necessary to limit overborrowing. It requires a change to the regulation that prohibits schools from limiting the amount of loans a student takes to attend an institution. As it stands, the regulation punishes schools for factors outside their control when current student debt formulas are applied to them (see 454(a)(1)(C) of the HEA, 20 U.S.C. 1087d(a)(1)(C). See also Federal Student Aid. (2014, May). 2014–15 *federal student aid handbook* (p. 3-125). Retrieved from https://ifap.ed.gov/fsahandbook/attachments/1415FSAHandbookCompleteActiveIndex.pdf). This policy change will also help to rationalize the arbitrary manner in how schools today set their Cost of Attendance figures (see Sharpe, R. (2016, August 5). How much does living off-campus cost? Who knows? *New York Times*. Retrieved from http://www.nytimes.com/2016/08/07/education/edlife/how-much-does-living-off-campus-cost-who-knows.html?ribbon-ad-idx=15&rref=education/edlife&module=Ribbon&version=context&region=Header&action=click&contentCollection=Education%20Life&pgtype=article&_r=0).

[18] This is required to maintain programs that prepare students for low-paying but necessary careers, such as social welfare, teacher education, and jobs in some allied health fields.

[19] This policy change entails modifying 34 CFR 668.183(c) (iii), which currently treats a borrower whose loan is fully or partially repaid by an institution as a defaulter in CDR calculations. By eliminating this provision—and by granting institutions the authority to cancel a student's enrollment and allowing the student to return all financial aid funds that were unused —institutions can be incentivized to offer (a) post-completion scholarships to students who have completed their studies and want to start out with no student loan debt and (b) post-participation incentive grants that leave students free to start school anew with a clean slate after having failed on a previous try. These scholarships should be limited to a percentage of the tuition for the time a student was enrolled (e.g., x dollars per semester).

risk-sharing payments.

The amounts in the account should be made available each fiscal year for a Federal Pell Grant fund that could be used to offset any future shortfalls in funding under the Federal Pell Grant program.

The Secretary should report on an annual basis to the Committee on Health, Education, Labor, and Pensions of the Senate and the Committee on Education and the Workforce of the House of Representatives the following information:

- A list of institutions that have been subject to risk-sharing payments in the previous year.
- The required risk-sharing payment from such institutions.
- The amount of risk-sharing payments collected from such institutions.
- A list of the institutions that have received waivers from the risk-sharing payment and the reason for such waiver.
- A list of the institutions that have received reductions in the required risk-sharing payment.
- The use of funds deposited from risk-sharing payments and the amount reserved for the Federal Pell Grant program.

Impact Assessment

Using 2013-2014 Scorecard data and 2014 IPEDS data, the most recent data available, Tables 1–4 summarize the impact that the two proposed risk-sharing payment categories would have on IHEs that are currently participating in Title IV need-based programs and would be liable to risk-sharing payments under the proposed model.

Liabilities Based on CDR

As shown in the penultimate row of Table 1, the majority of schools in every level of liability are for-profit institutions. This is a function of their large numbers among Title IV schools. In rows 2-4 of Table 1, which report the institution by sector and level of liability, the gaps across sectors shrink substantially. Moreover, as is evident in Table 2, the disparities across sectors is compounded by the fact that most for-profit institutions are less-than-two year certificate granting schools, which have higher default rates.

Table 1. Payment Breakdown of 3-Year CDR Liability – By Percentage of Schools Affected, Control Sector, Type of Institution, and Level of Liability[20]

Percentage of Payment Due (by 3-Year CDR)							
By Type of Institution	**30%+ (10%)**	**26-30% (8%)**	**22-26% (6%)**	**18-22% (4%)**	**15-18% (2%)**	**<15% (0%)**	**Total**
Public	1%	3%	7%	11%	20%	58%	100%
Private Not For-Profit	4%	9%	9%	9%	12%	56%	100%
Private For-Profit	9%	7%	12%	13%	11%	48%	100%
By Level of Liability							
Public	1%	4%	4%	6%	12%	8%	
Private Not For-Profit	6%	14%	9%	8%	11%	12%	
Private For-Profit	93%	82%	87%	85%	77%	80%	
Potential Payment (in $000s) by level of Liability	$5,200	$6,300	$18,700	$19,400	$1,400		$51,000

Table 2. Payment Breakdown by 3-Year CDR Rate Liability – By Predominant Level of Awards/Degrees Granted, Percentage of Schools Affected, Control Sector, Type of Institution, and Level of Liability

Percentage of Payment Due (by 3-Year CDR)							
By Type of Institution	**30%+ (10%)**	**26-30% (8%)**	**22-26% (6%)**	**18-22% (4%)**	**15-18% (2%)**	**<15% (No Penalty)**	**Total**
Predominantly Certificate	9%	7%	11%	13%	11%	49%	100%
Predominantly Associate	2%	9%	15%	14%	17%	44%	100%
Predominantly Bachelor	4%	6%	6%	8%	10%	66%	100%
By Level of Liability							
Predominantly Certificate	95%	81%	83%	85%	81%	83%	
Predominantly	2%	13%	13%	11%	14%	8%	

[20] All percentages have been rounded up, therefore, they may not add up to 100%. See Appendix for the data sources used, the calculations made to arrive at the estimates, and detailed tables on payment liabilities available from the authors.

Associate							
Predominantly Bachelor	3%	6%	4%	4%	5%	9%	
Potential Payment (in $000s) by level of Liability	$5,200	$6,300	$18,700	$19,400	$1,400		$51,000

Liabilities Based on Pell Graduation Rate

Current federal graduation rates are based only on first-time, full-time students. Yet many students enrolled in 2-year schools, regional comprehensive universities, and for-profit institutions are transfers from other institutions and/or part-time learners. Accordingly, current official graduation rates fail to accurately capture the success rates of all students. Moreover, the student populations in different types of IHEs systematically vary in the concentration of students with different risk factors. Consequently, Tables 3 and 4 will need to be updated on the basis of risk-adjusted metrics that can more precisely identify both the schools that are graduating more Pell students than would be expected and those which are underperforming. As noted in the section above concerning the **Determination of Risk-Sharing Payments,** the Secretary should be requested to instruct the Commissioner of Education Statistics to convene a technical working group to determine the variables to be included in the risk-adjusted metrics.

Table 3. Payment Breakdown by Pell 3- or 6-Year Graduation Rate Liability – By Percentage of Schools Affected, Control Sector, Type of Institution, and Level of Liability

Percentage of Payment Due (by Pell Graduation Rate)							
By Type of Institution	**<10% (10%)**	**10-20% (8%)**	**20-30% (6%)**	**30-40% (4%)**	**40-50% (2%)**	**>50% (0%)**	**Total**
Public	14%	14%	18%	9%	14%	32%	100%
Private Not For-Profit	0%	8%	18%	16%	25%	32%	100%
Private For-Profit	0%	2%	4%	7%	12%	76%	100%
By Level of Liability							
Public	100%	21%	13%	6%	5%	3%	
Private Not For-Profit	0%	50%	53%	41%	40%	12%	
Private For-Profit	0%	29%	33%	53%	55%	85%	
Potential Payment (in $000s) by level of Liability	$400	$3,000	$34,000	$3,700	$5,600		$46,700

Table 4. Payment Breakdown by Pell 3- or 6-Year Graduation Rates – by Predominant Level of Awards/Degrees Granted, Percentage of Schools Affected, Control Sector, Type of Institution, and Level of Liability

Percentage of Payment Due (by Pell Graduation Rates)							
By Type of Institution	**<10% (10%)**	**10-20% (8%)**	**20-30% (6%)**	**30-40% (4%)**	**40-50% (2%)**	**>50% (0%)**	**Total**
Predominantly Certificate	0%	1%	2%	4%	12%	81%	100%
Predominantly Associate	3%	9%	19%	19%	12%	39%	100%
Predominantly Bachelor	0%	8%	19%	16%	28%	30%	100%
By Level of Liability							
Predominantly Certificate	33%	14%	13%	29%	50%	79%	
Predominantly Associate	67%	50%	47%	41%	17%	13%	
Predominantly Bachelor	0%	36%	40%	29%	33%	8%	
Potential Payment (in $000s) by level of Liability	$400	$3,000	$34,000	$3,700	$5,600		$46,700

As is evident from Tables 1-4, the potential gross dollar amount that would have been collected under the proposed risk-sharing model, using 2013-2014 Scorecard data and 2014 IPEDS data, is approximately $97,700,000. However, that amount is subject to (a) the reduction in liability payments permitted under the section on the **Determination of Risk-Sharing Payments** for certain institutions serving large numbers of low-income students and (b) increases or decreases resulting from the risk-adjusted metrics applied to Pell graduation rates.[21]

Impact Assessment on Minority-Serving Institutions

As Tables 5-10 show, very few minority-serving institutions would be affected by our risk-sharing proposal. And those subject to a payment would have relatively small liabilities. In our model only schools with 25% or more students participating in the Title IV program are subject to a payment liability and schools with 50% or more Title IV participation are eligible for a waiver or a reduced liability. Among all Minority-Serving Institutions (MSIs) only six have a

[21] Additional tables further detailing the impact of the proposed model, including numbers of institutions and students affected are available on request from the authors.

Title IV participation rate of 50% or more. None of these are Historically Black Colleges and Universities (HBCUs) while 5 of the 6 are Hispanic-Serving Institutions (HSIs).

Payment Breakdown Among MSIs Based on 3-Year CDR Liability

MSIs include both HBCUs and HSIs along with Black-serving non-HBCUs, Asian-serving institutions, American Indian-serving institutions, and other minority-serving colleges and universities where minority students make up at least 50% percent of the total undergraduate enrollment without meeting the criteria of the other categories.[22] Among the nation's hundreds of MSIs only 27 (with a total FTE enrollment of 23,800) would be subject to a potential payment based on the proposed 3-year CDR liability. Of these, three are predominantly certificate awarding public institutions, seven are predominantly associate's private not-for-profit schools, and 17 are predominantly bachelor's private not-for-profit institutions. Their total liability based on this metric would be approximately $1,700,000. For a breakdown of the MSIs potential 3-Year CDR payment liability see Table 5.

Within these MSIs there are 107 HBCUs, but only 17 of them (with a total FTE enrollment of 17,900) would be affected by the 3-year CDR liability. Of these, 15 are predominantly bachelor's and two predominantly associate's, all being private not-for-profit institutions. Their total liability would be approximately $1,380,000. For a breakdown of the HBCUs potential 3-Year CDR payment liability see Table 6.

Among the MSIs (as of 2015-16) are 472 HSIs—407 of which are located in the U.S. Among the U.S.-based HSIs, only two schools (with a total FTE enrollment of 800) would be affected (in Puerto Rico one additional school would be impacted). Both schools are predominantly associate's and both are private not-for-profit. Their total liability would be $180,000. For a breakdown of the potential payment liability see Table 7.

Payment Breakdown Based on Pell 3- or 6- Year Graduation Rate Liability

Of the total number of MSIs, only 15 schools (with a total FTE enrollment of 19,500) would be subject to a potential payment based on Pell 3- or 6-year graduation rate liability. Of these, one is a predominantly certificate awarding public institution, three are predominantly associate's private not-for-profit schools, and 11 are predominantly bachelor's private not-for-profit colleges

[22] See Li, Xiaojie; C. Dennis Carroll (November 2007). "Characteristics of Minority-Serving Institutions and Minority Undergraduates Enrolled in These Institutions: Postsecondary Education Descriptive Analysis Report." Institute of Education Sciences. U.S. Department of Education. Retrieved from https://nces.ed.gov/pubs2008/2008156.pdf .

or universities. Their total liability would be approximately $1,280,000. For a breakdown of the potential payment liability see Table 8.

Among these MSIs only nine (with a total FTE enrollment of 12,300) would be affected by the Pell graduation rate liability. All are predominantly bachelor's private not-for-profit institutions. Their total liability would be approximately $1,000,000. For a breakdown of the potential payment liability see Table 9.

Among the U.S.-based HSIs, only three (with a total FTE enrollment of 2,500) would be affected. Two are predominantly associate's and one is predominantly bachelor's degree awarding—all three are private not-for-profit schools. Their total liability would be $110,000. For a breakdown of the potential payment liability see Table 10.

Tables Detailing the Potential Liability of Minority-Serving Institutions

Table 5. MSIs Total Payments Due (in thousands), by Percentage of Payment Due by 3-Year CDR, and Number of Schools Affected*

Type of Institution	30%+ (10%)	26-30% (8%)	22-26% (6%)	18-22% (4%)	15-18% (2%)	Total
Public	-	$8 (1)	$71 (1)	$19 (1)	-	$98 (3)
Private Not For-Profit	$708 (3)	$397 (6)	$281 (5)	$146 (4)	$74 (6)	$1,606 (24)
Private For Profit	-	-	-	-	-	-
Total	$708	$405	$352	$165	$74	$1,704
Predominantly Certificate	-	$8 (1)	-	$1 (1)	$41 (1)	$50 (3)
Predominantly Associate	-	$130 (3)	$77 (2)	$19 (1)	$2 (1)	$228 (7)
Predominantly Bachelor	$708 (3)	$267 (3)	$275 (4)	$145 (3)	$31 (4)	$1,426 (17)
Total	$708	$405	$352	$165	$74	$1,704

* In this and the following tables the number of schools is in parentheses.

Table 6. HBCUs Total Payments Due (in thousands), by Percentage of Payment Due by 3-Year CDR, and Number of Schools Affected

Type of Institution	30%+ (10%)	26-30% (8%)	22-26% (6%)	18-22% (4%)	15-18% (2%)	Total
Public	-	-	-	-	-	-
Private Not For-Profit	$710 (3)	$280 (4)	$280 (5)	$80 (1)	$30 (4)	$1,380 (17)
Private For Profit	-	-	-	-	-	-
Total	$710	$280	$280	$80	$30	$1,380
Predominantly Certificate	-	-	-	-	-	-
Predominantly Associate	-	$10 (1)	$10 (1)	-	-	$20 (2)
Predominantly Bachelor	$710 (3)	$270 (3)	$270 (4)	$80 (1)	$30 (4)	$1,360 (15)
Total	$710	$280	$280	$80	$30	$1,380

Table 7. HSIs Total Payments Due (in thousands), by Percentage of Payment Due by 3-Year CDR, and Number of Schools Affected

Total Payments Due (in thousands), by Percentage of Payment Due by 3-Year CDR and Number of Schools Affected						
Type of Institution	**30%+ (10%)**	**26-30% (8%)**	**22-26% (6%)**	**18-22% (4%)**	**15-18% (2%)**	**Total**
Public	-	-	-	-	-	-
Private Not For-Profit	-	$50 (1)	$130 (1)	-	-	$180 (2)
Private For Profit	-	-	-	-	-	-
Total	-	$50	$130	-	-	$180
Predominantly Certificate	-	-	-	-	-	-
Predominantly	-	$50 (1)	$130 (1)	-	-	$180 (2)

Associate						
Predominantly Bachelor	-	-	-	-	-	-
Total	-	$50	$130	-	-	$180

Table 8. MSIs Total Payments Due (in thousands), by Percentage of Payment Due by Pell 3- or 6- Year Graduation Rates, and Number of Schools Affected

Type of Institution	<10% (10%)	10-20% (8%)	20-30% (6%)	30-40% (4%)	40-50% (2%)	Total
Public	$130 (1)	$40 (1)	$10 (1)	-	-	$180 (3)
Private Not For-Profit	-	$140 (1)	$660 (4)	$240 (3)	$60 (4)	$1,100 (12)
Private For-Profit	-	-	-	-	-	-
Total	$130	$180	$670	$240	$60	$1,280
Predominantly Certificate	-	-	$10 (1)	-	-	$10 (1)
Predominantly Associate	$130 (1)	$40 (1)	-	$30 (1)	-	$200 (3)
Predominantly Bachelor	-	$140 (1)	$660 (4)	$210 (2)	$60 (4)	$1,070 (11)
Total	$130	$180	$670	$240	$60	$1,280

Table 9. HBCUs Total Payments Due (in thousands), by Percentage of Payment Due by Pell 3- or 6- Year Graduation Rates, and Number of Schools Affected

Total Payments Due (in thousands), by Percentage of Payment Due by Pell 3- or 6- Year Graduation Rates and Number of Schools Affected						
Type of Institution	<10% (10%)	10-20% (8%)	20-30% (6%)	30-40% (4%)	40-50% (2%)	Total
Public	-	-	-	-	-	-
Private Not For-Profit	N/A	$150 (1)	$600 (3)	$210 (2)	$40 (3)	$1,000 (9)
Private For-Profit	-	-	-	-	-	-

Total	N/A	$150	$600	$210	$40	$1,000
Predominantly Certificate	-	-	-	-	-	-
Predominantly Associate	-	-	-	-	-	-
Predominantly Bachelor	N/A	$150 (1)	$600 (3)	$210 (2)	$40 (3)	$1,000 (9)
Total	N/A	$150	$600	$210	$40	$1,000

Table 10. HSIs Total Payments Due (in thousands), by Percentage of Payment Due by Pell 3- or 6- Year Graduation Rates, and Number of Schools Affected

Total Payments Due (in thousands), by Percentage of Payment Due by Pell 3- or 6- Year Graduation Rates and Number of Schools Affected						
Type of Institution	**<10% (10%)**	**10-20% (8%)**	**20-30% (6%)**	**30-40% (4%)**	**40-50% (2%)**	**Total**
Public	-	-	-	-	-	-
Private Not For-Profit	-	-	-	$30 (1)	$80 (2)	$110 (3)
Private For-Profit	-	-	-	-	-	-
Total	-	-	-	$30	$80	$110
Predominantly Certificate	-	-	-	-	-	-
Predominantly Associate	-	-	-	$30 (1)	$60 (1)	$90 (2)
Predominantly Bachelor	-	-	-	-	$20 (1)	$20 (1)
Total	-	-	-	$30	$80	$110

APPENDIX

Methods and Data Sources

Because the most recent Scorecard dataset (2014–15) does not have all the data needed for these calculations, Scorecard data from the previous year (2013–14) was used for most of the data. The 2014 full-time equivalent (FTE) student data comes from the Integrated Postsecondary Education Data System (IPEDS).[23] From these datasets the following variables with their associated descriptions were used:

• **UNITID:** Unit ID for institution

• **INSTNM:** Institution name

• **STABBR:** State postcode

• **PREDDEG:** Predominant undergraduate degree awarded

• **CONTROL:** Control of institution

• **CDR3:** 3-year cohort default rate

• **PELL_COMP_ORIG_YR3_RT:** Percent of students who received a Pell Grant at the institution and who completed in 3 years at original institution

• **PELL_COMP_ORIG_YR6_RT:** Percent of students who received a Pell Grant at the institution and who completed in 6 years at original institution

• **DEBT_MDN:** The median original amount of the loan principal upon entering repayment

• **PELL_DEBT_MDN:** The median debt for Pell students

• **DEBT_N:** The number of students in the median debt cohort

• **PELL_DEBT_N:** The number of students in the median debt Pell students' cohort

• **UGDS:** Enrollment of undergraduate certificate/degree-seeking students

• **NUM4_PUB:** Number of Title IV students (public institutions)

• **NUM4_PRIV:** Number of Title IV students (private for-profit and nonprofit institutions)

• **CDR3_DENOM:** Number of students in the cohort for the 3-year cohort default rate

[23] U.S. Department of Education. (n.d.). College Scorecard data. Retrieved 3/1/17 from https://collegescorecard.ed.gov/data/.

In keeping with the section on **Requirements for Inclusion and Risk-Sharing Payment Liability,** we first identified institutions with 25% or more of their students receiving Title IV funds. The number of Title IV students was then divided by the enrollment of undergraduate certificate/degree seeking students. Institutions either below 25% or that did not provide the information needed to calculate the percentage were dropped from further analysis. Many institutions have multiple campuses and report only aggregated data, releasing the same numbers for each campus. We eliminated all duplicates and the resulting consolidated institution list was used for the calculations below.

In order to protect privacy, any Scorecard measure is suppressed for institutions with fewer than 30 students in the denominator. As a result, many small schools are not included in our calculations. For instance, in calculating payment liability based on Pell graduation rates, there were nearly 900 institutions with privacy suppressed data omitted from the calculations shown in the tables. While we are unable to obtain these data, the Department of Education has this information and would be able to calculate these schools' data accordingly.

CDR Calculations

Using a scale of measures of nearly equal size, a 10% payment liability was applied to any school with a CDR above 30%, an 8% payment liability for schools with a 26–30% CDR, 6% payment liability for a 22-26% CDR, 4% payment liability for a 18-22%, 2% payment liability for a 15-18% CDR, and no payment liability if a school was below a 15% CDR.

The Council of Economic Advisers estimated that two thirds of defaulted loans are $10,000 or less.[24] Hence, even the reported median debt likely overstates an institution's level of debt. Therefore, a weighted average of one third (1/3) of the total median debt (DEBT_MDN) and two thirds (2/3) of the median debt of withdrawn students (WDRAW_DEBT_MDN) was calculated to estimate the revised student debt. For example, the DEBT_MDN at the California Healing Arts College was $9,500. The withdrawn student debt amount was lower at $4,750. Using the 1/3:2/3 formula, the revised student debt amount was $6,333. Once again the number of students in default was estimated as previously described and that number was multiplied by the calculated weighted average loan amount. The sliding scale of penalties based on CDRs was then applied.

[24] "Defaults are concentrated among borrowers with small-volume loans, in large part because these borrowers are less likely to have completed their degrees. Loans of less than $10,000 accounted for nearly two-thirds of all defaults for the 2011 cohort three years after entering repayment. Loans of less than $5,000 accounted for 35 percent of all defaults. Thus while there is significant public attention on high debt burdens among traditional students attending four-year institutions, default is concentrated among a different group of borrowers." Council of Economic Advisers. (2016, July). *Investing in higher education: Benefits, challenges, and the state of student debt* (p. 5). Retrieved from https://www.whitehouse.gov/sites/default/files/page/files/20160718_cea_student_debt.pdf.

The sum of all CDR penalties for the 631 liable schools was approximately $51,000,000. Again, there are a handful of institutions with missing debt information, so the actual figure may be slightly higher.

Pell Calculations

For predominantly certificate and associate schools, the 3-year Pell graduation rate (PELL_COMP_ORIG_YR3_RT) was used in our calculations. For predominantly bachelor and graduate schools, the 6-year Pell graduation rate (PELL_COMP_ORIG_YR6_RT) was used. For schools that did not specify a predominant award, whichever rate that was reported in the Scorecard was used. If an IHE reported both rates, we used the higher of the two. Using a scale with measures of nearly equal size, any school with less than a 10% Pell graduation rate was assessed a 10% payment liability and those with 10–20%, an 8% payment liability; with 20-30%, a 6% payment liability; with 30-40%, a 4% payment liability; and with 40-50%, a 2% payment liability. Any IHE with a Pell graduation rate above 50% was not assessed a payment liability.[25]

In keeping with section on the **Determination of Risk-Sharing Payments**, the appropriate dollar amount to be considered in risk sharing is not the total loan volume but the volume of defaulted loans. Because the Scorecard data do not report this, estimates were arrived at by first calculating the number of students in default (estimated by multiplying the number of students in the CDR cohort [CDR3_DENOM] by the 3-year CDR [CDR3]). This estimated number of students was then multiplied by the median Pell student debt amount. The sliding scale of liability was applied to this estimated volume of defaulted loans. The sum of all Pell payment liabilities for the 136 schools affected was more than $46,700,000. A handful of institutions are missing median Pell debt information, so the actual figure may be slightly higher.

Finally, to find the number of full-time equivalent students affected, the FTE fall enrollment (DRVEF2014) was used for each institution from the Integrated Postsecondary Education Data System (IPEDS) for fiscal year 2014–15 and reported by categories in the detailed set of tables, available from the authors.

[25] Based on the latest Scorecard data available, the average Pell graduation rate is 52%, approximately the same as the proposed upper limit for liability.

Additional Tables Available from the Authors

Table 1. Payment Breakdown by 3-Year CDR-By Number of Schools Affected

Table 2. Payment Breakdown by 3-year CDR – By Number of Full-Time Equivalent Students in Affected Schools

Table 3. Payment Breakdown by 3 Year CDR Rate – By Percentage of Full-Time Equivalent Students in Affected Schools by Institution Type

Table 4. Payment Breakdown by 3-Year CDR – By Percentage of Full-Time Equivalent Students in Affected Schools by Payment Due

Table 5. Payment Breakdown by 3-Year CDR – By Total Payments Due (in $000s)

Table 6. Payment Breakdown by Pell 3- or 6-Year Graduation Rates – By Number of Schools Affected

Table 7. Payment Breakdown by Pell 3- or 6-Year Graduation Rates – By Number of Full-Time Equivalent Students in Affected Schools

Table 8. Payment Breakdown by Pell 3- or 6- Year Graduation Rates – By Percentage of Full-Time Equivalent Students in Affected Schools by School Type

Table 9. Payment Breakdown by Pell 3- or 6- Year Graduation Rates – By Percentage of Full-Time Equivalent Students in Affected Schools by Payment Due

Table 10. Payment Breakdown by Pell 3- or 6- Year Graduation Rates – By Total Payments Due (in $000s)