



DISCUSSION PAPER

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Student Loan Repayment and College Accountability

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***Summary:** Student loan debt and defaults have been steadily rising, igniting public worry about the associated public and private risks. This has led to controversial attempts to curb defaults by holding colleges, particularly those in the for-profit sector, increasingly accountable for the student loan repayment behavior of their students. These efforts attempt to protect taxpayers against the misuse of public money used to encourage college enrollment and to safeguard students against potentially risky human capital investments. Recent policy proposals penalize colleges for students' poor repayment performance, raising questions about institutions' power to influence this behavior. Extant research does not conclusively establish a causal link between type of college and loan default. Available evidence, moreover, suggests that student demographics and family financial resources are related to default. As a result, policies targeting schools where students default on loans at high rates may disproportionately affect the postsecondary decisions of certain categories of students, such as low-income, minority, and financially independent students. Policymakers therefore face the challenge of promoting the efficient use of public funds and protecting students while also encouraging access to higher education.*

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1. Introduction

In recent years, student loan borrowing and default rates have risen notably, leading to concern about the public financial risks associated with loan defaults and the financial challenges faced by many students. These trends juxtapose with a sizable and increasing public investment in postsecondary education. Of late, the United States government has disbursed over \$170 billion in financial aid annually in an effort to encourage students to attend postsecondary education. Such funding is supported by research that consistently finds positive and growing average economic benefits of college, including higher wages and lower unemployment rates (e.g., Avery & Turner, 2012; Kane & Rouse, 1995). Higher education can also benefit society more broadly; college graduates are associated with higher levels of civic participation and charitable giving, less criminal activity, and more productive communities (Moretti, 2004; Wolfe & Haveman, 2002).

The rationale for promoting college completion remains strong, but there is increasing awareness that where students attend and how they pay matters. The oft-asked question of whether college is “worth it”¹ has recently taken on tacit subtexts: are *particular colleges* worth it for *certain students*? This more nuanced question is driven, at least in part, by the rise of the proprietary college sector. This sector has experienced remarkable enrollment growth over the past decade and now accounts for a substantial proportion of postsecondary enrollment, especially at the sub-baccalaureate level. For-profit colleges accounted for 9% of postsecondary enrollment, 19% of associate degrees, and 46% of certificates in 2009, up from 3%, 13%, and 39% respectively in 2000 (Baum & Payea, 2011; Deming, Goldin, & Katz, 2012; National Center for Education Statistics, 2010).

Advocates of for-profit education connect the sector’s growing enrollment rates to the use of innovative program delivery mechanisms and vocationally relevant offerings that attract new

¹ Archetypal headlines in the media include “Is College Worth It?” (*Time*), “The Tuition is Too Damn High” (*Washington Post*), and “Is College Still Worth What It Costs?” (*USA Today*).

students to higher education (e.g., Bellin, 2013). For-profits are also poised to absorb students from public colleges that are capacity constrained because of budget shortfalls (e.g., Keller, 2011). Critics, however, have questioned the quality of educational program offerings at some for-profit schools and have requested reconsideration of the use of public funds to encourage enrollment in the sector (e.g., U.S. Committee on Senate Health, Education, Labor, and Pensions, 2012). Some of this concern stems from documented cases of misleading or even fraudulent recruiting practices (e.g., U.S. Government Accountability Office, 2010). These reports have led some public officials to want to eliminate the “bad apples” among for-profit colleges (e.g., Fuller, 2010). Wider-ranging worries, however, originate from observing student loan default rates that, while increasing in every sector in recent years, have consistently been highest among students in the for-profit college sector.²

The government has policy levers at its disposal that can determine which students receive financial aid and at which schools. Students’ access to federal financial aid depends, in part, on their own financial resources and family socioeconomic characteristics. For example, some federal financial aid programs, such as Pell Grants and subsidized student loans, are means tested, such that only students demonstrating financial need have access to the aid. However, perhaps less well known is that students’ access to financial aid also depends on the program eligibility of the institution they attend. In fact, it is the colleges and universities that serve as the disbursement conduit for most federal financial aid. Students attending an ineligible institution cannot benefit from the largest federal financial aid programs even if they are otherwise individually eligible.

In this paper, I consider policies that regulate which institutions can disburse federal financial aid, with a particular focus on the use of student loan debt and repayment rates as measures to hold institutions accountable for their use of federal aid programs. The discussion has relevance to the recently proposed “Gainful Employment-Debt Measures” rules, but also to other provisions

² Author’s calculations based on cohort default rate data from the U.S. Department of Education, available at: <http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr2yr.html>.

in existing regulations. These policies attempt to safeguard taxpayers against the misuse of public funds and to protect students from potentially risky human capital investments. Although aimed at institutions, the policies have important implications for individual access to college, particularly for students in some demographic groups. This is because penalized institutions cannot disburse federal aid to students, limiting some students' available financial resources and possibly students' ability to attend certain schools. The challenge faced by policymakers is to create policies that both support access to higher education through financial aid and promote the efficient use of public funds.

The Higher Education Act of 1965 and its subsequent amendments dictate that institutions that provide a “program of training to prepare students for gainful employment in a recognized occupation” can be eligible to disburse federal aid if they meet a myriad of requirements.³ Recent rulemaking has invoked this clause to motivate the addition of criteria to narrow which institutions and programs of study are eligible to disburse aid, and policymakers have taken advantage of the ambiguous interpretation of “gainful employment” in these efforts. In particular, recently debated rules do not directly assess employment but instead evaluate institutions based on students' loan repayment. Proposed measures include standards related to the proportion of former students who are actively repaying loans and the ratio of loan payments to income.

These policies raise questions about the ability of institutions to affect students' loan repayment and default behavior. Student loan repayment can be connected to employment and income (e.g., Dynarski, 1994). However, pre-college socioeconomic status can be positively related to post-college earnings (e.g., Perna, 2003). Moreover, a number of other factors beyond employment can affect loan repayment, such as student backgrounds, family endowments, available financial resources, and borrowers' costs and benefits of default (e.g., Gross et al., 2009). Some

³ See 20 U.S.C. 1001.

findings also indicate that student background is a greater determinant of default than institution type (e.g., Knapp & Seaks, 1992; Volkwein & Szelest, 1995).

Using student loan repayment as a basis for holding institutions accountable is further complicated because students at greater risk for default are not spread evenly across education sectors. Research suggests that for-profit colleges disproportionately serve students that are more likely to default, such as those that come from low-income backgrounds or are financially independent (Deming, Goldin, & Katz, 2012; Knapp & Seaks, 1992; Volkwein et al., 1998). This had led some to claim, therefore, that institutions are being inappropriately punished for being “messengers who bring the bad news” about the loan repayment behavior of students they serve (Wilms, Moore, & Bolus, 1987).

2. Student Aid, Borrowing, and Loan Default Trends

There are a number of well-publicized trends contributing to the growing concern about which institutions should be eligible to disburse student loans. The first is the large and growing amount of federal student aid, including grants, loans, and other aid, used to encourage college enrollment. Figure 1 displays total federal student aid disbursements over time. Since 1990, federal financial aid investment has increased, both because more students are obtaining aid and because the amount of aid per student is increasing. In recent years, federal financial aid disbursements have exceeded \$170 billion annually (Baum & Payea, 2012).

Given the magnitude of this public investment, there has been increased scrutiny on whether these funds are used efficiently and appropriately. The availability of student financial aid can improve access to educational opportunities by lowering the direct cost of postsecondary education for students. Research consistently demonstrates that lower costs result in increased postsecondary education enrollment, though the effects and magnitudes vary across types of students and

institutions (e.g., Cellini, 2010; Curs, Singell, & Waddell, 2007; Dynarski, 2002; Kane, 2003; Leslie & Brinkman, 1987; Seftor & Turner, 2002).

Student borrowing trends, in particular, have garnered a great deal of attention. Government estimates indicate that outstanding student loan debt in the United States is approaching \$1 trillion in 2013, making it the second largest sector of debt in the country behind housing (Federal Reserve Bank of New York, 2013). Figure 1 also displays increasing total federal loan disbursement over the past 20 years. Current estimates indicate that more than one-third of undergraduate students borrow federal student loan money, with more than half of public four-year college students graduating with debt (e.g. Avery & Turner, 2012; Baum & Payea, 2012). Students are relying more on loans for a variety of reasons, including policy shifts away from grants, the rising sticker price of college, and difficult economic conditions that have constrained many students' available financial resources.

Students with high debt burdens might delay asset-building purchases, such as a home, and have limited access to the credit market. Researchers have found that debt can also alter students' post-completion career choices (Field, 2009; Rothstein & Rouse, 2011) and affect social decisions such as marriage (Gicheva, 2011). There are also macroeconomic implications to increasing debt burdens, as high debt can reduce consumption in the economy.

Though some have raised the specter of a higher education "bubble," where rewards associated with college do not justify onerous borrowing (e.g., Wasik, 2013), more detailed analysis should assuage some of this concern. In the last decade, estimates indicate that per-student borrowing has remained relatively level, and cases of extreme debt highlighted in some media reports account for only a small portion of college entrants (Avery & Turner, 2012; Dynarski & Scott-Clayton, 2013). And, rather than considering student borrowing in isolation, policymakers should consider that higher education remains a sound investment for most students. Over the past three decades, the average earnings premium associated with attaining a college degree has grown, as

has the return to college even when taking into account increasing college costs (Avery & Turner, 2012). While the heterogeneity of expected benefits of postsecondary education is an important consideration for each student, attending college and borrowing at average levels remains a good investment for the typical student when considering higher education broadly.

The use of student loans to encourage college access might be considered attractive to policymakers because of the low public cost compared to grant aid which is not repaid. A robust student loan market can potentially improve economic efficiency by increasing the supply of highly skilled workers (e.g., Avery & Turner, 2012). Without public supports, however, many students would likely find it difficult to borrow uncollateralized loan money since human capital investments are not as easily financed as physical capital investments. Credit constraints can also be a reason why students from high- and low-income backgrounds matriculate at different rates (e.g., Ellwood & Kane, 2000). Compared to high-income students, students from low-income families often have fewer private resources to defray college expenses. Access to educational credit, therefore, allows students to borrow against post-college incomes when earnings are expected to be higher. It should be noted, however, that evidence is less conclusive that student loans improve college enrollment and persistence like grants do, especially among low-income students (e.g., Campaigne & Hossler, 1998; Carneiro & Heckman, 2002; Heller 2008).

Student loan default trends should be more troubling for policymakers, as the costs of loan default can be substantial for both borrowers and taxpayers. Default damages an individual's credit profile, which can limit students' future access to the credit market and impair their ability to finance future purchases. Taxpayers absorb costs when borrowers default on federal loan obligations because even though in some cases the government can garnish borrowers' wages and tax returns, the government typically will not recover the full costs associated with money lent.

Figure 2 displays student loan delinquency rates as compared to the delinquency rates of other types of consumer credit, such as housing or auto finance, in recent years. Whereas delinquency rates for the other credit types have leveled off or decreased since 2010, student loan delinquency rates are still rising. There are many differences that complicate comparisons across sectors of credit, such as varying origination requirements, loan terms and characteristics, and the typical borrowing age. Nonetheless, the differences are notable.

When considering federal aid and student borrowing, scrutiny focuses on the for-profit education sector. This sector accrues nearly one-quarter of federal aid disbursements, exceeding the proportion of enrollment (Deming, Goldin, & Katz, 2012). The relatively poor average financial backgrounds of for-profit students can explain at least some of the disproportionate aid use. Media and regulatory reports, however, have alleged abuses and fraud by for-profit schools, claiming that some colleges are accruing inordinate amounts of federal money without providing sufficient benefits to students (e.g., U.S. Government Accountability Office, 2010; “For-Profit,” 2012). While research is still emerging on returns to for-profit colleges, recent studies indicate that for-profit students generate earnings gains that are lower than those of students in other sectors (e.g., Cellini & Chaudhary, 2012).

Figure 3 displays annual federal loan programs cohort default rates (CDR), which measure the proportion of former students who default on student loan obligations after starting repayment. CDRs have increased since the beginning of the decade nationally and across school types. Particularly notable is that for-profit sector default rates are highest in all years and, when comparing the default rate from the lowest point in the past decade (2003) to the most recent period (2010), the for-profit sector has the largest percentage point increase in CDRs.

3. Extant Policies and Proposals

High default rates, particularly in the for-profit sector, have motivated policy initiatives that rely on student loan debt measures to limit which institutions are allowed to disburse federal aid. These policies relate to Title IV of the Higher Education Act of 1965 and subsequent amendments (Title IV), which authorize the largest postsecondary federal financial aid programs. Examples of Title IV programs include Pell Grants, federal student aid work-study, and subsidized loans. In order for their students to be eligible to receive Title IV resources, each institution must satisfy three broad groups of requirements: attain licensing from the state in which it is located, gain accreditation by an agency authorized by the U.S. Department of Education (ED), and prove compliance with a number of provisions “protecting the administrative capacity and fiscal integrity of its funding programs” (Congressional Research Service, 2007, pp. 1-2). For example, institutional administrative requirements include having adequate staff to support financial aid programs, providing students financial aid counseling, and monitoring the academic progress of Title IV program recipients. Financial responsibilities dictate that institutions must maintain sufficient cash reserves to repay Title IV funds and prove solvency. Other requirements cover diverse topics such as alcohol use and campus security policies.

If institutions fail to meet these administrative and fiscal requirements or have a significant change in status, such as an ownership change or merger, they can lose Title IV disbursement eligibility. Since financial aid can foster student matriculation, Title IV eligibility can lead to higher enrollments and therefore increased revenue earned by institutions. Schools are allowed to receive up to 90% of revenue from Title IV funds, and some for-profit institutions obtain a large portion of revenues from these sources (e.g., Cellini & Goldin, 2012).

Other Title IV rules relate to the appropriateness of educational programs, and federal policymakers have a record of cautiously regarding programs that differ from higher educational

norms. For example, in 1992 Congress enacted the “50% rule” that rendered a school ineligible if it offered more than 50% of its courses by correspondence or if more than 50% of its students participated in correspondence courses. The 50% rule was enacted largely in response to concerns about “diploma mills” that appropriated financial aid funds to indiscriminately send diplomas to students without providing real educational programs (e.g., Glass, 1995).⁴ In 1994, the ED also implemented the “one day rule,” which mandated that Title IV eligible institutions have an academic year consisting of at least 30 weeks with a minimum of one day of organized academic activity.⁵

Particularly relevant to recent regulatory efforts are policies that use student loan debt repayment behavior to determine whether an institution should be allowed to disburse Title IV funds. An existing regulation can render institutions ineligible to disburse Title IV funds if their CDRs rise above certain thresholds. Specifically, if CDRs exceed 25% for three consecutive years or 40% for one year, the institution is subject to loss of Title IV aid disbursement eligibility.⁶

Newly proposed regulations attempt to tighten eligibility even more, with a focus on for-profit institutions. In 2010, the ED proposed the program-level “Gainful Employment-Debt Measures” rules that added three new debt measure requirements for institutions. The first new rule requires that at least 35% of former students be in repayment. The second and third measures specify allowable debt-to-income ratios; qualifying programs must show typical graduates have annual loan payments that do not exceed 30% of their discretionary income or 12% of their total

⁴ In response to concerns about the rule limiting access to postsecondary education, the ED initiated the Distance Education Demonstration Program (DEDP) in 1999 that temporarily allowed a few participants to disburse federal Title IV funds to students even if they crossed the 50% correspondence course threshold. Due in part to the success of the DEDP, the 50% rule was rescinded in 2006 as part of the Higher Education Reconciliation Act of 2005.

⁵ The ED initially allowed alternatively structured institutions to follow a “12 hour rule,” where 12 hours of scheduled educational activities signified an academic week. The ED, however, revised regulations in 2003 such that all schools must comply with the “one day rule” rather than the “12 hour rule.”

⁶ The CDR calculation includes loan default behavior of students within two years of starting repayment (“two-year CDR”), and starting with the 2009 federal fiscal year, a new “three-year CDR” calculation includes loan default behavior of students within three years of starting repayment.

earnings. Under the proposal, if programs fail these requirements for three out of four fiscal years, they lose Title IV disbursement eligibility.

The Gainful Employment rule garnered more than 90,000 comments during the solicited response period (Program Integrity, 2011). After a legal challenge, a federal judge vacated key measures of the rule, citing the lack of evidence or expert study used to justify the repayment rate standard. The ED mounted a legal challenge to reinstate key components of the Gainful Employment rules, but has so far been rebuffed, and negotiated rulemaking is ongoing. Some effects of the proposal may already be realized, however. One explanation for recent indications of for-profit enrollment declines (e.g., Blumenstyk, 2012; Hechinger, 2013) is that expected compliance with Gainful Employment requirements have caused institutions to be more careful about the programs they offer and which students they admit. Increased public scrutiny may also make prospective students wary of enrollment in this sector as information about default rates becomes more available.

4. Is Student Loan Default a Pre-Existing Condition?

A key issue is whether it makes sense to hold institutions accountable for the loan repayment behavior of their students. An important feature of federal student loan programs is that the government does not price-ration student loans and instead sets a common interest rate for all borrowers. As long as students attend an eligible program, they can borrow federal student loan money without an assessment of their individual creditworthiness. In this way, decisions to approve and price loans are not based on individual risk of default. Without this system, many students would likely face an impaired ability to obtain credit, since they typically do not place collateral against debt obligations and often have thin credit profiles. However, this can lead to an extension of educational credit beyond what would be dictated by market prices, and some students can obtain credit at a rate that does not reflect the true cost of their default risk. Costs associated with student

loan programs can be difficult to evaluate (U.S. Government Accountability Office, 2005), and some research suggests that budget estimates understate the true costs associated with default in federal student loan programs (Lucas & Moore, 2007). If interest rates are not set high enough to adequately capture default risk, the lack of price rationing can transfer default costs to the public.

The substantial costs of loan default to both taxpayers and students motivate policies such as Gainful Employment that attempt to hold schools accountable for the repayment behavior of their students. Research supports the connection between lack of employment and student loan default, as having a job can provide resources with which to pay student loan obligations (e.g., Dynarski, 1994; Woo, 2002). Decisions to repay student loans, however, can also involve factors beyond employment. Divorce and house price declines are examples of income and asset shocks that may impair borrowers' ability to service their debt. Individuals' costs and benefits of default can also affect repayment decisions. In times of financial distress, instead of paying student loan debt, some borrowers may choose to service debt that has more severe default penalties, such as the risk of having a house or car repossessed. Ionescu and Ionescu (2012) find that borrowers have the incentive to default on student loan debt before credit card debt in an effort to preserve liquidity. Concerns about strategic default on student loan obligations, moreover, have manifested themselves in policy decisions to prevent student loans from being expunged or reduced through bankruptcy.

Furthermore, though causal relationships have not been convincingly determined, findings from research consistently indicate that student socioeconomic and demographic characteristics are associated with default. For example, research points to generally consistent evidence that males have relatively higher default rates (e.g., Herr & Burt, 2005; Podgursky et al., 2002) and that default increases with age (e.g., Podgursky et al., 2002; Woo, 2002). Students who come from more advantaged financial backgrounds can likely rely on greater personal resources or assistance from family to help avoid default in times of economic distress. It is reasonable to believe that borrowers

who do not enjoy such access to financial resources would be more likely to default in difficult economic times. Indeed, research finds that borrowers who come from lower income and lower wealth backgrounds or who are less likely to receive help from family are more likely to struggle with debt obligations (Baum & O'Malley, 2003; Knapp & Seaks, 1992; Volkwein et al., 1998). Also, borrowers with increasing numbers of dependents are more likely to default because of greater financial responsibilities (Dynarski, 1994; Volkwein & Szelest, 1995; Woo, 2002).

As such, while some stark student loan default rate differences are evident across sectors, they should be considered in light of dissimilarities among student demographics and socioeconomic backgrounds. The for-profit sector serves student bodies with higher proportions of students who have characteristics associated with default, including older students, financially independent students, students with dependents, and students from less advantaged socioeconomic backgrounds who expect little financial help from family members (Cellini & Darolia, 2013; Deming, Goldin, & Katz, 2012). Cellini and Darolia (2013) examined financial resources available to students across sectors and found that while students at for-profit colleges are borrowing more, they also have the fewest financial resources available, a difference which is getting larger over time. Figure 4 is a reproduction of a chart from the authors showing trends in expected family contribution (EFC), a common estimate of students' and their families' financial resources available to pay for college costs. Not only do for-profit students consistently have the lowest EFC across sectors, students in this sector also had declining or flat EFCs in 2008, compared to increasing EFCs in the public, four-year and private, non-profit sectors.

A key question, therefore, is whether students who default at for-profit colleges would default wherever they enroll, due to factors beyond institutions' control. It is not possible, of course, to observe this hypothetical scenario. Some studies find evidence of a relationship between type of institution and default after controlling for some socioeconomic factors (e.g., Podgursky et al., 2002;

Woo, 2002). A contrasting body of evidence appears to suggest that the determinants of student loan default are established outside of the institution, and that institutions have high default rates because they enroll students who are most likely to default (e.g., Greene, 1989; Knapp & Seaks, 1992; Volkwein & Szelest, 1995; Volkwein et al., 1998). Monteverde (2000) calls the proclivity of default on student loans a “pre-existing condition,” where high default rates at certain institutions are a function of students’ characteristics, not an indictment of the educational offerings of schools.

It should be noted that research that supports beliefs that institutions can or cannot inhibit student loan default is incomplete in its ability to inform current policymaking efforts. Many studies had limited scopes and did not consider the for-profit sector specifically. New studies that directly examine repayment behavior of for-profit students within the recent educational and financial landscape are needed.

5. Discussion

Student loan defaults present risks to students and the economy at large. It is therefore appropriate for the government to make efforts to limit these risks, to ensure that the public’s large investments in postsecondary education are used efficiently, and to safeguard students and taxpayers. The regulatory challenge is to pursue these goals without limiting student choice and access to education, especially for students from disadvantaged backgrounds. Student loans can be a tool used to promote access to education, and the government furthers loan availability by not price-rationing higher-risk students out of federal student loan programs. This approach keeps credit prices relatively low for all borrowers regardless of individual default risk. However, this also complicates student loan regulation. Some borrowers borrow at rates that do not adequately capture their risk of default, and these students appear to be concentrated at certain institutions.

Current and proposed federal policies generally attempt to avoid limiting individual students’ access to financial aid and instead seek to restrict institutions’ disbursement eligibility based on the

repayment behavior of their students. Consider that violation of the Gainful Employment rules does not simply limit borrowing; it renders students in these programs ineligible for all Title IV financial aid, including aid not directly related to borrowing, such as Pell Grants and work-study. By doing this, the federal government is using debt repayment outcomes as a sufficient basis to determine whether educational programs warrant federal public investment. Policymakers should therefore scrutinize whether limited measures are independently adequate to assess educational quality and, if so, whether debt repayment is the appropriate standard.

Because student loan default can be costly to students and the public, policymakers may view comprehensive federal aid ineligibility as an acceptable penalty for poor loan repayment outcomes. Conclusions from research give reason for caution with this assessment, as studies do not conclusively establish a causal link between student loan default and institution type but consistently find that default related to certain student characteristics. Students with those characteristics are concentrated in for-profit schools, leading opponents of regulations that penalize schools with high default rates to argue that it is not fair to hold institutions accountable for student behavior that is beyond the schools' control (e.g., Guryan & Thompson, 2010).

If institutions have limited ability to affect default, then encouraging students who are likely to default to attend other institutions may not actually benefit students or taxpayers. Such students may still default on their loans, but their negative outcome will be diluted among a better performing student pool. Financial aid will shift away from schools that predominantly serve low-resource students toward those that serve students with more advantaged socioeconomic statuses. Other students may not attend college altogether. This may lead to fewer loan defaults, but also to more students who miss opportunities to enhance their economic prospects through postsecondary education and training.

Perhaps the more important question, however, is not whether there is evidence that colleges influence default rates, but whether we should expect colleges that receive public funds to improve the debt repayment behavior of their students. Large sums of public money are being used to subsidize education and increase revenue at private colleges. Therefore, challenges associated with the measurement of default should not preclude efforts to promote socially beneficial behavior by students and institutions, nor should they absolve for-profit colleges from the responsibility of demonstrating a return to the taxpayer investment.

Furthermore, decisions that determine which institutions can disburse federal financial aid have important implications for colleges and students; therefore care should be taken to assess potential intended and unintended consequences of rules. A concern about holding schools accountable for students' loan repayment behavior is that some schools could strategically attempt to achieve compliance by not admitting or discouraging attendance from students who are at higher risk of default. Institution-level financial aid availability can also uniquely affect the enrollment and application behavior of students. In the absence of aid, some students may simply transfer to other educational programs. Capacity constraints of lower-cost public institutions may hinder some of this transfer, especially in high-demand fields and in states with budget shortfalls. Other students may only have the ability to attend certain schools because of geographic proximity or convenient class schedules. Indeed, increased enrollment at for-profit colleges has been attributed to streamlined programs and accessible delivery mechanisms such as online learning. If aid is not available at these schools, some students may not be able to attend other schools, and may forgo higher education altogether.

Darolia (2013) finds enrollment declines of approximately 12–16% at for-profit and two-year institutions because CDR threshold violations nullified their ability to disburse federal aid. Still unknown is what proportion of deterred students attended other institutions and the “quality” of

such institutions. At least some of these likely students did not enter higher education altogether, though still to be determined is whether attendance at schools judged to be poorly performing is net beneficial as compared to not attending at all. Because nontraditional, minority, and low-resource students are concentrated in for-profit schools that are more likely to lose Title IV eligibility, policies that punish schools that fail student outcome measures are likely to disproportionately affect the very students that many financial aid programs are designed to serve.

In other words, institution-level eligibility policies should be recognized as not only influencing at which schools students enroll, but also higher education access. If limiting some individual access to higher education is believed to be acceptable in return for reducing student loan defaults, then there may be some merit in exploring policies that consider creditworthiness and manageable debt standards as part of decisions related to the amount individual students can borrow. Debt-to-income ratios are commonly taken into account before credit is offered in other contexts (e.g., housing) to determine whether borrowers can obtain credit and how much they can borrow. While we typically do not know students' post-graduation incomes prior to college entry when students obtain most loans, Gainful Employment proposals are already asking for average program-level debt-to-income ratios to be calculated based on outcomes of completers. Consideration of prudent borrowing amounts prior to matriculation may proactively limit students' unmanageable debt burdens and lower risks of default.

Another recommendation is to enhance the information available to students so they can make informed decisions about where to attend and how much to borrow. While not a panacea, information can play a critical role in student decision making, as students' borrowing choices are connected to the decision of whether and where to attend college. Before deciding if and where to attend college, students should compare the present value of expected benefits, including college earnings premiums, against the present value of costs, including tuition, fees, and forgone earnings.

The calculation of costs and benefits is not simple. Future benefits are difficult to forecast because the ability of a student to obtain a job is uncertain and research indicates heterogeneous returns to education across college types, college majors, careers, and student abilities (e.g., Arcidiacono, 2004; Brewer, Eide, & Ehrenberg, 1999). Research on the returns to for-profit colleges, moreover, is still in developing stages. Evidence suggests that average earnings gains may be lower at for-profits than in other sectors (Cellini & Chaudhary, 2012), but forgone earnings may also be lower with shorter and more streamlined programs (Guryan & Thompson, 2010). Projecting costs such as forgone earnings can also be challenging, and when deciding to borrow, students must be able to understand relatively complicated financial concepts such as amortization, interest, and deferment.

Students need to be armed with the appropriate information to make prudent decisions. High student loan default rates at institutions should serve as a powerful signaling mechanism about expected returns for prospective students, but even though the ED publicly posts cohort default rates on its website, it is not clear whether students are actually aware of and use this information. Policymakers should also not assume that all students will understand complicated calculations of expected costs and benefits, or that standardized measures of average net benefits will adequately represent each individual's preferences and constraints. Even if students are able to understand and process the range of possible benefits of higher education, they still may not be likely to believe that they will earn less than average. And, as with other complex decisions, those who are the least financially literate will be most likely to be confused or misled.

Therefore, public investment would be well spent in an effort to improve the information made available to students about aid and college options, and to find clearer and more effective ways to present that information. Policymakers should also consider who is empowered to provide this information and the source of funding. For example, Cellini & Darolia (2013) find that for-profit students are most likely to talk with financial aid officers, but less likely to talk with family and

friends about financial aid. College financial aid officers may have competing incentives to both serve their employer and help students. Empowered high school counselors may be able to serve a relatively impartial role, as could independent advisors who are not affiliated with specific colleges.

Finally, while not unique in policymaking, significant decisions about how to curb student loan defaults and evaluate school performance are being made in the absence of evidence or studies to adequately guide such determinations. Therefore, there is great need for researchers to continue efforts to analyze the causes of student loan default and the contribution of schools to this behavior. Also needed is a better understanding of the private and social returns to for-profit college programs, and if and to where students transfer when their preferred college is not eligible to disburse federal financial aid. With empirical answers to these questions, researchers will be able to better inform policymaking on inevitable reforms related to the use of student loan debt measures in financial aid regulation.

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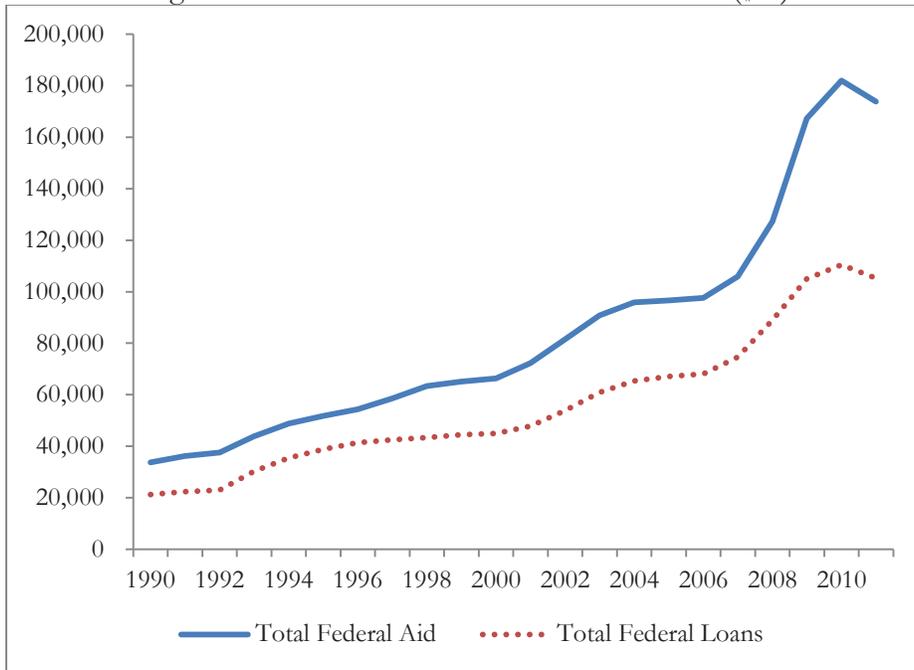
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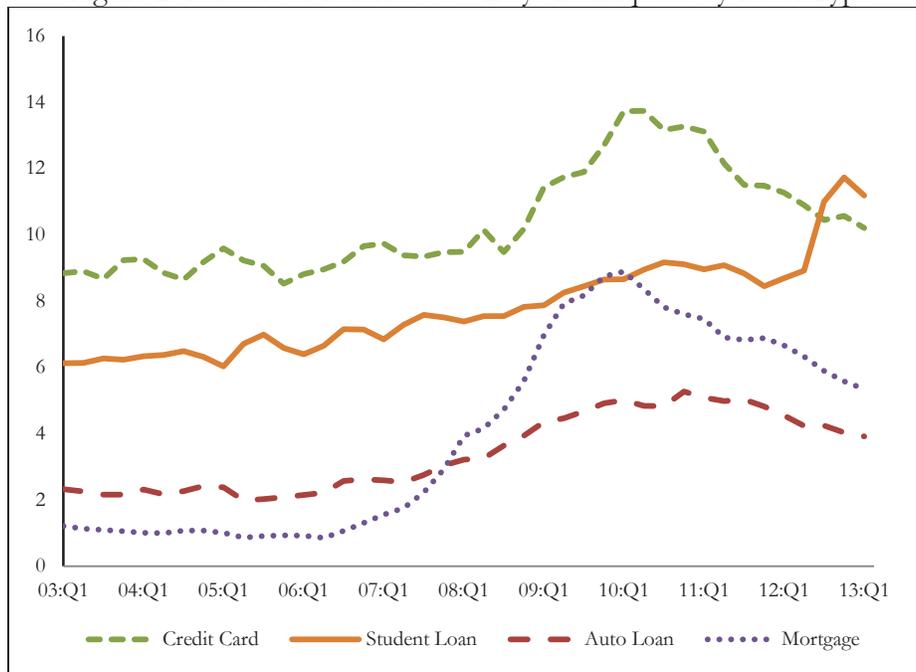
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Figure 1: Federal Aid and Loan Disbursements (\$M)



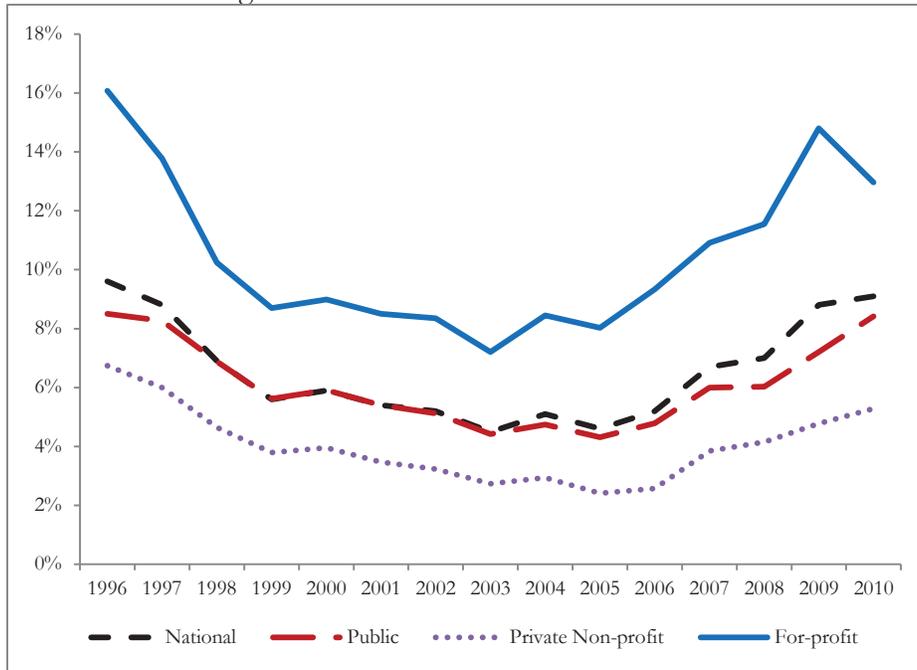
Source: Baum & Payea (2012). Constant 2011 dollars used.

Figure 2: Percent of Balance 90+ Days Delinquent by Loan Type



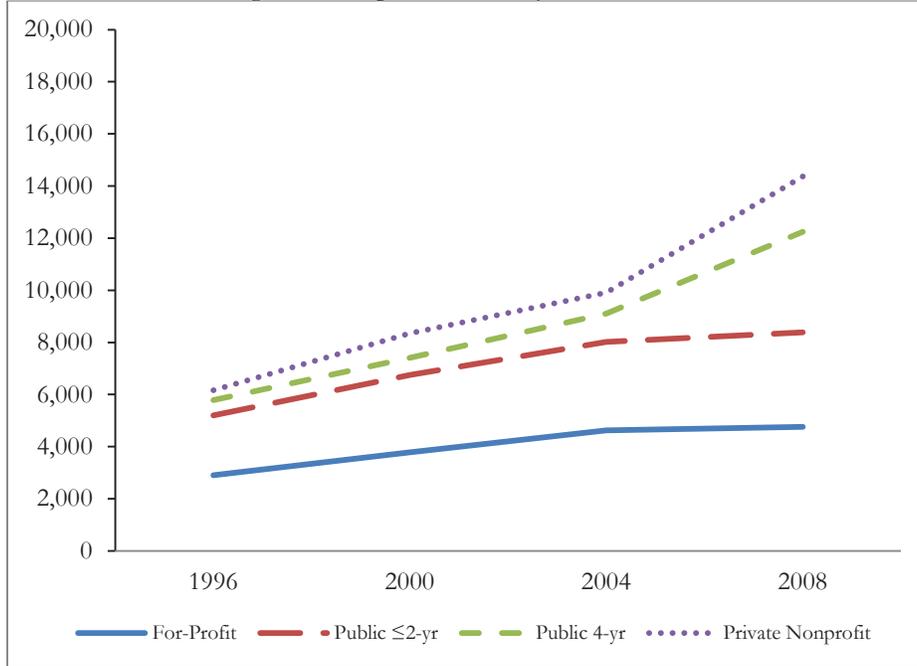
Source: Federal Reserve Bank of New York (2013)

Figure 3: Two-Year Cohort Default Rates



Source: Author's calculations based on data from the U.S. Department of Education, available at: <http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr2yr.html>

Figure 4: Expected Family Contribution



Source: Reproduced from Cellini & Darolia (2013), data from the National Postsecondary Student Aid Study. Constant 2008 dollars and survey weights used.