

**ADDITIONAL BACKGROUND  
ON THE GAINFUL EMPLOYMENT  
REGULATIONS**

# HELPING STUDENTS CHOOSE

- **Institutional Disclosure:** More information can help students choose among gainful employment programs. Institutions will be required to disclose their total program costs, completion and placement rates, loan repayment rates, debt measures for each program, and other key information.
- **Department of Education Dissemination:** To help students compare programs, the Department may disseminate information on repayment rates, debt-to-earnings ratios, and other key indicators to students.
- **Warnings for Failing Programs:** Two years before a failing program loses eligibility for federal financial aid, it must provide warnings to prospective and enrolled students. Only programs that fail the measures three out of four fiscal years will lose eligibility.
- **Complements Other Efforts:** Also this year, the Department is publishing lists of colleges with the largest and smallest tuition increases and helping colleges create new “net price calculators” to display both tuition and likely scholarships.

# PERFORMANCE REQUIREMENTS

- **To provide additional protection, programs must pass at least one of the three metrics to remain eligible for federal student aid funding:**
  - **Repayment rate:** At least 35 percent of former students are repaying their loan, as demonstrated by a balance that declines by at least \$1.00 over the course of the year (weighted by loan size).
  - **Debt-to-discretionary income ratio:** The annual loan payment does not exceed 30 percent of typical graduates' discretionary income.
  - **Debt-to-total earnings:** The annual loan payment does not exceed 12 percent of typical graduates' total earnings.
- **If a program fails all three metrics:**
  - **After one failure:** The institution must disclose the amount by which the program missed minimal acceptable performance and the program's plans for improvement and establish a three-day waiting period before students can enroll.
  - **After two failures within three years:** The institution must tell students in the failing program that their debts may be unaffordable, the program may lose eligibility, and what transfer options exist.
  - **After three failures within four years:** The program loses eligibility for federal student aid. Institutions cannot reestablish the program's eligibility for at least three years. However, they can continue to operate without student aid.

# REPAYMENT RATES

- **A loan is considered a successful “payments-made loan” if:**
  - Its balance is reduced by at least \$1.00 over the course of the year or paid off;
  - It has been paid off;
  - It is on track to being forgiven due to public service employment;
  - The borrower is making payments under an interest-only or income-based repayment plan, subject to anti-abuse limits; or
  - For graduate programs, the loan is a consolidation loan and all interest accrued over the course of the year has been paid.
- **The rate generally measures borrowers in their third and fourth years of repayment.**
  - If there are 30 or fewer borrowers in this two-year period, the period is expanded to include borrowers in the third, fourth, fifth, and sixth years. If there are still 30 or fewer borrowers in this four-year period, the program is considered to pass the measure.
  - If the program is a medical or dental program, it includes only borrowers in their sixth and seventh years to accommodate typical internship and residency periods.
- **Institutions can correct the repayment rate data using a process similar to one used to challenge cohort default rates.**

# DEBT-TO-EARNINGS RATIOS

- **A program's typical graduates debt burden must be below either:**
  - **12 percent** of total earnings, or
  - **30 percent** of discretionary income (income above 150% of the poverty level).
- **The debt burden is calculated based upon the program's median debt, including private student loans.**
  - Annual payments are calculated based upon a 10-year standard repayment plan for certificate and AA programs, a 15-year plan for BA and MA programs, and a 20-year plan for other graduate and professional programs.
  - Debt incurred for living expenses is not counted.
- **SSA will provide the median and mean earnings of program graduates.**
  - Institutions can verify the lists of individuals submitted to SSA. However, the earnings data will be subject to SSA's strict protections on individual privacy.
  - Institutions can also submit alternative earnings data based upon surveys or state longitudinal data systems. During a transitional period, they can submit analyses based upon Bureau of Labor Statistics data on typical earnings for particular jobs.
- **Like the repayment rate, the ratio generally examines students in their third and fourth year after graduation.**

# MAXIMUM MEDIAN DEBT LEVELS

<b>ANNUAL EARNINGS</b>	<b>DEBT UNDER 12% OF TOTAL EARNINGS</b>	<b>DEBT UNDER 30% OF DISC. EARNINGS</b>	<b>MAXIMUM MEDIAN DEBT (HIGHER OF TWO)</b>	<b>MAXIMUM MEDIAN MONTHLY PAYMENT</b>
\$10,000	\$8,690	\$0	\$8,690	\$100
\$20,000	\$17,379	\$8,157	\$17,379	\$200
\$30,000	\$26,069	\$29,881	\$29,881	\$344
\$40,000	\$34,758	\$51,605	\$51,605	\$594
\$50,000	\$43,448	\$73,329	\$73,329	\$844

Notes: Levels are the maximum median debt for a particular program; up to half the students could have higher debts. Based upon a 10-year repayment plan, the standard used for certificate and two-year degree programs. Using 2010 HHS Poverty Guidelines. Programs leading to a four-year, graduate, or professional degree could remain eligible for student aid funds with higher median debt levels.

# CALCULATION OF THE FY 2014 MEASURES

## TIMELINE FOR THE DEVELOPMENT OF THE FY 2014 MEASURES

Released by the Department:	Early 2015
<b><u>Repayment Rates</u></b>	
Measures Repayment Activity During:	FY 2014
Borrowers Who Enter Repayment During:	FY 2010 and 2011
• Programs with Small Numbers of Students:	FY 2008, 2009, 2010 and 2011
• Medical and Dental Programs:	FY 2007 and 2008
<b><u>Debt -to-Earnings Ratios</u></b>	
Measures Earnings During:	Calendar 2013
Graduates During:	Same Period as Repayment Rates

# OPPORTUNITIES TO IMPROVE

- **To help institutions plan ahead:** Institutions can use estimated earnings based on Bureau of Labor Statistics data, rather than actual earnings, in the FY 2012, 2013, and 2014 calculations.
- **To reward programs that improve rapidly:** The Department will accept repayment rates based on borrowers entering repayment in the two most recent years, rather than the third and four most recent years, in the FY 2012, 2013, and 2014 calculations.
- **To target the worst programs:** The Department will cap eligibility losses after the FY 2014 rates are finalized in 2015, the first year of eligibility losses, at 5 percent of public, non-profit, and for-profit programs.

YEAR	MILESTONE
2011	<ul style="list-style-type: none"> <li>• Enhanced disclosure and reporting begin under October final rules.</li> </ul>
2012	<ul style="list-style-type: none"> <li>• The informational rates (FY 2011) are released.</li> </ul>
2013	<ul style="list-style-type: none"> <li>• First final debt measures (FY 2012) are released.</li> <li>• Failing programs must provide first-year debt warnings.</li> </ul>
2014	<ul style="list-style-type: none"> <li>• Second final debt measures (FY 2013) are released.</li> <li>• Failing programs must provide first- or second-year debt warnings.</li> </ul>
2015	<ul style="list-style-type: none"> <li>• Third final debt measures (FY 2014) are released.</li> <li>• First eligibility losses for programs that failed three consecutive times.</li> </ul>
2016	<ul style="list-style-type: none"> <li>• Fourth debt measures (FY 2015) are released.</li> <li>• The regulations are fully effective. No cap on eligibility losses.</li> </ul>

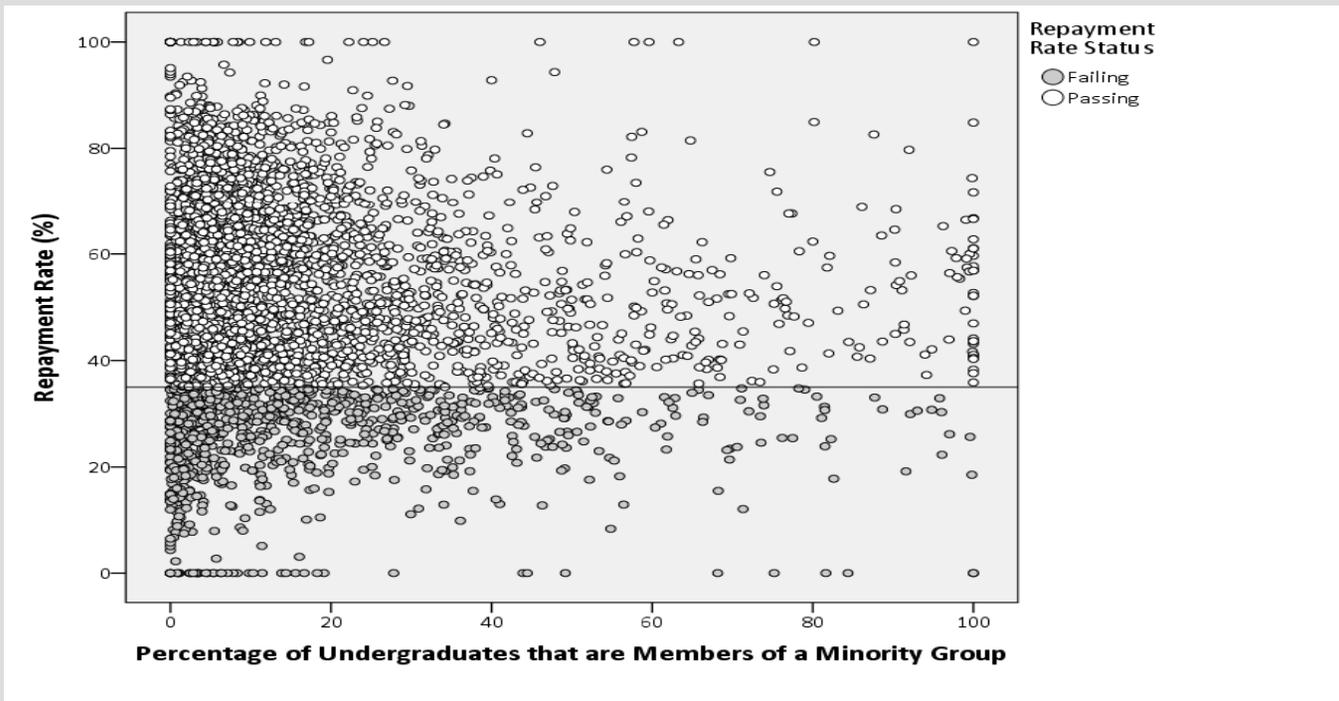
# IMPACT OF THE RULE

- **The final regulations maintain high standards, but they also help programs raise their performance to meet them:**
  - Under the final regulations, 8% of programs fail at least once.
  - However, failing programs now have an opportunity to improve rather than lose eligibility immediately. About 2% of programs would ultimately lose eligibility.

	<b>Number of Gainful Employment Programs</b>	<b>Programs that Fail</b>	<b>Programs that Lose Eligibility</b>
Public	37,218	3%	1%
Non-Profit	5,072	5%	1%
For-Profit	13,155	18%	5%
<b>Total</b>	<b>55,405</b>	<b>8%</b>	<b>2%</b>

# DISADVANTAGED STUDENTS

- Student characteristics explain little of the variation in repayment rates among institutions:
  - 23 percent is explained by the percentage of students receiving a Pell grant.
  - 1 percent is explained by the percentage who are racial or ethnic minorities.
- Other factors that are difficult to measure – such as the quality and value of the program – may be more important to repayment rates.



# IMPROVEMENTS IN THE FINAL RULE

## GIVE PROGRAMS AN OPPORTUNITY TO IMPROVE

<u>Proposed Regulations</u>	<u>Final Regulations</u>
First programs become ineligible in 2012.	First programs become ineligible in 2015, based on the 2012, 2013 and 2014 metrics.
Failing programs lose eligibility immediately.	Failing programs lose eligibility after failing the measures for three FYs within a four FY period.
Eligibility losses capped by credential level at 5% until 2013.	Eligibility losses capped by control of institution at 5% until 2015.

## TARGET THE LOWEST-PERFORMING PROGRAMS

<u>Proposed Regulations</u>	<u>Final Regulations</u>
Enrollment frozen if program is in the “yellow zone”: repayment rate below 45% and debt ratio above 8%/20%.	No yellow zone and no enrollment growth restrictions.
ED has authority to review new programs.	ED will seek comments on the process for establishing new programs and intends to issue a new NPRM to limit burden on institutions.

# IMPROVEMENTS IN THE FINAL RULE

## IMPROVE MEASUREMENTS BASED ON METRICS

<u>Proposed Regulations</u>	<u>Final Regulations</u>
Measure performance based on the first four years after students leave school.	Measure performance based on the third and fourth years after school, with adjustments for small programs, improving programs, graduate programs, and medical and dental programs.
Borrowers are considered successfully repaying if (1) their payments reduced the principal balance or (2) they are in public service.	Borrowers making interest-only or income-based payments are considered successes, with an anti-abuse limit on the number of students who are paying less than accrued interest.
Debt-to-earnings ratio calculated based on a 10-year repayment plan for all credential levels.	Ratio calculated based on a 10-year plan for certificates and AAs, a 15-year plan for BAs and MAs, and a 20-year plan for other graduates.
All student debt considered.	Only debt up to tuition and fees is considered if the institution provides this information to the Department.
No use of BLS data.	Allow BLS data during a transition period and other reliable earnings data permanently.
No specified data corrections process.	Establish a data corrections process similar to the one used for cohort default rates.