Strategies for Improving Debt-to-Earnings Rates

Part of the *Navigating Gainful Employment* Webinar Series | February 2016

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higher education practice

Welcome & Introduction

- Aaron D. Lacey
  - Partner, Higher Education Practice, Thompson Coburn LLP.
- Higher Education Practice
  - Provide regulatory counsel on federal, state, and accrediting agency laws and standards (*e.g.*, Title IV, Title IX, Clery, consumer information).
  - Assist with postsecondary transactions, contract drafting and negotiation, policy creation, and compliance systems design.
  - Represent institutions in student and employee litigation, government investigations, administrative proceedings, audits, and reviews.

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Welcome & Introduction

- Prior Experience
  - Senior Vice President of Regulatory Affairs & Strategic Development for postsecondary institution. Oversaw regulatory, compliance, and government affairs matters for 24 campus locations in Midwest and Southeast United States, as well as for online division.
  - Attorney in DC Higher Education Practice. Provided regulatory and policy guidance, managed agency proceedings, drafted and negotiated wide variety of agreements.

GE Webinar Series Schedule

- How to Project Reliable Debt-to-Earnings Rates (February 11, 2016)
- Strategies for Improving Debt-to-Earnings Rates (February 18, 2016)
- Completer List Challenges, Debt Challenges, and Alternative Earnings Appeals (February 25, 2016)
- Preparing for and Managing Required "Student Warnings" (March 3, 2016)
- Managing (and Challenging) the New GE Disclosures (March 10, 2016)

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Presentation Outline

- GE Timeline
- D/E Rate Refresher
- D/E Rate Strategies
- GE Resources

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The Gainful Employment Timeline

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GE Timeline (2015)

Date	2015 Gainful Employment Events
July 1	• New gainful employment regulations become effective
July 31	• Report data for AY 08-09 to AY 13-14
October 1	• Report data for AY 14-15
November	• Register to receive Completers Lists through SAIG Enrollment Web site • Enroll in Data Challenges and Appeals Solution (DACS) service
December 31	• Complete GE transitional certification

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GE Timeline (2016)

Date	2016 Gainful Employment Event
Spring	• Issuance of AY 14-15 Completers Lists • Prepare and submit AY 14-15 Completers List Challenges
Summer	• Issuance of AY 14-15 Draft D/E Rates • Prepare and submit AY 14-15 Loan Debt Challenges
Fall	• Report data for AY 15-16 (October 1) • Prepare and submit AY 14-15 Alternative Earnings Appeals

GE Timeline (2017)

Date	2017 Gainful Employment Event
Winter/Spring	• New GE Disclosures effective (Jan.) • Issuance AY 14-15 Final D/E Rates (Jan.) • Continue to prepare and submit AY 14-15 Alternative Earnings Appeals
Spring	• Begin disseminating Student Warning Disclosures for programs with failing AY 14-15 Final D/E Rates

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D/E Rate Refresher

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D/E Rate Refresher

Annual Earnings Rate = $\frac{\text{Annual Loan Payment}}{\text{Annual Earnings}}$

Discretionary Income Rate = $\frac{\text{Annual Loan Payment}}{\text{Discretionary Income}}$

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D/E Rate Refresher

- Annual Loan Payment
  - For each GE program, ED takes either a 2- or 4-year cohort of qualifying students, determines the lesser of the median loan debt or median costs assessed for the cohort, then amortizes that median loan debt over the applicable repayment period using the applicable interest rate to calculate an annual loan payment.

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D/E Rate Refresher

- Annual Earnings
  - ED obtains from SSA the most currently available mean and median annual earnings for qualifying students who completed GE program during the applicable cohort period (and who are not excluded), and use the higher of the mean or median annual earnings.
- Discretionary Income
  - Annual Earnings minus 150% of the Poverty Guideline for a single person residing in the United States as published by HHS.

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D/E Rate Refresher

PASS	ZONE	FAIL
AER less than or equal to 8% **OR** DIR less than or equal to 20%	AER greater than 8% and less than or equal to 12% *and DIR not passing* **OR** DIR greater than 20% and less than or equal to 30% *and AER not passing*	AER greater than 12% **AND** DIR greater than 30%

D/E Rate Refresher

- GE program becomes ineligible if the program:
  - Fails two out of any three consecutive award years for which the program's D/E rates are calculated; or
  - Has a combination of zone and failing rates for four consecutive award years for which the program's D/E rates are calculated.
- Student warnings must be issued if program is within a year of losing eligibility.

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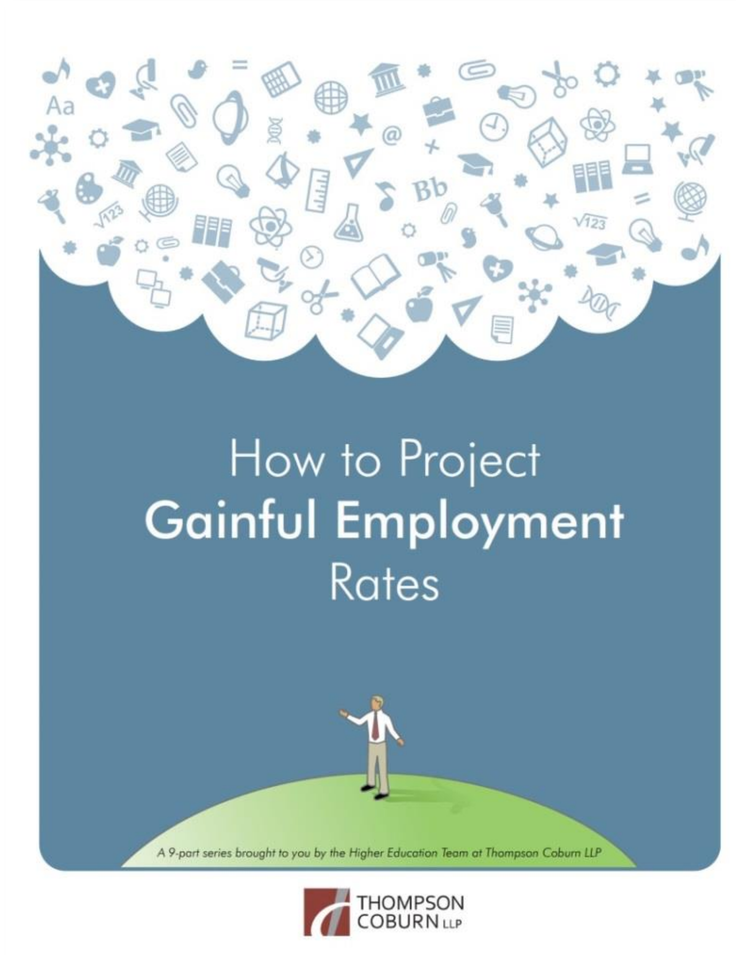
D/E Rate Strategies

There is no Silver Bullet

- There is no single strategy or approach that will work for every institution.
- Institutions typically will benefit most from a combination of strategies.
- This means (1) understanding your institution and data, (2) understanding the available strategies, and (3) selecting and implementing the most effective combination of options.

UNDERSTANDING YOUR DATA

- GE Desk Guide
  - Provides step-by-step instructions for projecting reliable D/E rates.
  - Offers detailed insight into how D/E rates are calculated.



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Program Portfolio Strategies

Strategy: Re-evaluate CIP Codes assigned to GE programs

- Over time, CIP codes are retired and reorganized, new CIP codes are added. Institutions rarely revisit CIP codes following their initial assignments.
- If a program is approved on the ECAR with a new CIP code, it constitutes a new GE Program from ED's perspective, which defines a program strictly by OPEID, credential level, and CIP.

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Program Portfolio Strategies

Strategy: Create new, shorter versions of GE Programs

- Determine whether graduates can secure employment and strong salary with shorter program.
- Shorter programs potentially reduce both costs assessed and debt load, resulting in better rate performance.

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Program Portfolio Strategies

- Do not voluntarily discontinue any older program until replacement programs are approved by ED.
- If you voluntarily discontinue a program with draft D/E rates that are failing or in the zone, you must wait three years for approval of a substantially similar program.
  - A program is substantially similar to another program if the two programs share the same four-digit CIP code.

Program Portfolio Strategies

Strategy: Create degree versions of challenged GE Programs (non-profit institutions only)

- Associate, bachelor's, professional, and graduate degree programs offered by non-profit institutions are not GE Programs.
- Longer certificate programs might easily transition to an associate or graduate degree format.

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Program Portfolio Strategies

Strategy: Discontinue program at locations with poor D/E rates (multi-campus institutions only)

- ED calculates D/E rates for a GE Program across all locations within the OPEID.
- By teaching-out program at locations with highest D/E rates, institutions may preserve program at remaining locations.

Program Portfolio Strategies

Strategy: Increase graduate marketability and earnings with programmatic accreditation and certifications

- Certain programmatic accreditations and industry certifications, though not required, may increase likelihood of employment and garner stronger wages.

Cost Strategies

Strategy: Reduce tuition and fees assessed for existing GE programs

- Total cost assessed is:
  - Tuition and fees assessed the student; and
  - The greater of the total amount of the allowances for books, supplies, and equipment included in the student's COA for each award year or the actual amount assessed by the institution.

Cost Strategies

- By reducing the amount assessed for tuition and fees on the ledger, the institution potentially can reduce the numerator of the D/E ratios (assuming the cost assessed is less than total debt).
  - Be sure to reduce initial cost assessed.
  - Though they may indirectly reduce debt, grants, scholarships, tuition discounts, and write-downs will not reduce the initial cost assessed.

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Debt Strategies

Strategy: Reduce loan debt by offering institutional grant or scholarship programs

- While institutional grants and scholarships will not reduce costs assessed, they may reduce student borrowing.
  - Institutions should carefully evaluate whether the proposed scholarship or grant will indeed have an impact.
  - Also consider state and accreditor requirements relating to scholarship and grant offerings.

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Debt Strategies

Strategy: Ensure, where possible, institutional credit is categorized as "institutional debt" and not "private education loans"

- A private education loan generally includes any "extension of credit" issued by a school to a student to finance program.
- However, law excludes extension of credit by school if either (1) the term is 90 days or less, or (2) there is no interest rate and the term is one year or less (even if payable in more than four installments).

Debt Strategies

- When calculating debt totals for students, ED includes total amount of any private education loan, regardless of whether student made in-school payments.
- However, ED only includes amount outstanding as of program completion for all other institutional debt.
- By altering terms of credit to ensure credit is not a private education loan, school can reduce student's GE debt total by amount of in-school payments.

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Debt Strategies

Strategy: Reduce loan debt by offering private education loan option to parents

- Must include in loan debt any private education loans made by the institution that the student borrowed for enrollment in the program.
- If parents (and only parents) sign for private education loans, amounts would be excluded from debt total.

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Debt Strategies

Strategy: Reduce loan debt by encouraging use of Parent PLUS loans

- Total debt for each student includes Title IV loans, private education loans, and outstanding institutional debt.
- However, law expressly excludes PLUS Loans.
- Students funding with PLUS loans should have lower Title IV debt totals, and have less need for private education loans.

Debt Strategies

Strategy: Reduce institutional debt total by removing third-party or optional charges from student ledger

- Institutional debt includes amount outstanding as of date student completes the program on any other credit (including any unpaid charges) extended by or on behalf of institution.
- Historically, many institutions have permitted costs for third-party products and services, including optional ones, to be charged to student account.

Debt Strategies

- Though often offered as a convenience to students, drives up debt number if accumulated charges not paid as of program completion.
- By requiring students to pay for (or finance) products and services directly with third-party provider, pulls them off ledger.

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Debt Strategies

Strategy: Reduce institutional debt by adjusting payment plan terms to optimize likelihood of in-school payment

- Any in-school payment made on institutional debt reduces the student's debt total.
- Schools should evaluate practices to ensure that institutional payment plans promote successful payment.
- Unrealistic payments can discourage payment altogether.

Debt Strategies

Strategy: Reduce institutional debt by writing off debt prior to program completion

- Most direct way to reduce amount outstanding as of date student completes GE program is to simply write-off debt prior to completion.
- Though a radical solution, can significantly impact debt totals and can be executed later in process (as compared to price reductions, for example).

Debt Strategies

- Analyze whether high percentages of outstanding debt already are being written off as bad debt.
- Make sure to write off debt prior to student completing all program requirements. Standard is not graduation (*i.e.*, when the graduate walks across the stage), it's program completion.

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Borrowing Behavior Strategies

Change student borrowing behavior

- Require intensive, quality, financial literacy training at the beginning of each term.
- Require incoming students to complete a budget before they can borrow and to sign pledge to repay loans.
- Modify award letters to highlight debt.

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Borrowing Behavior Strategies

- Establish minimal cost of attendance and require students to document actual costs as part of appeal process for upward adjustments.
- Target students of concern for aggressive debt counseling and case-by-case evaluation.
  - Cannot have a policy or practice that routinely limits loan amounts, but can review borrowing on case-by-case basis and refuse to certify loans if evidence that student does not intend to repay.

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Earnings Strategies

Strategy: Improve earnings through enhanced enrollment management

- Adjust lead-generation criteria to target students most likely to be successful and to earn strong salary; mandate criteria in contracts with lead providers.
- Consider requiring (or increasing) minimum high school GPA or admissions test scores.

Earnings Strategies

- Require more extensive application for admission, essay (test of commitment).
- Add or increase application fees (filters out less committed students).
- Establish try-before-you-buy policies and orientation programs, increasing likelihood that unsure students will withdraw before they borrow, not after.

Earnings Strategies

Strategy: Improve earnings through career services

- Encourage jobs and employers that don't encourage cash, tips, or other unreported income.
- Offer training to graduating students regarding resume creation, interviewing, business etiquette, how to ask for a raise.

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Earnings Strategies

- Encourage students to move where jobs are (instead of staying in local impoverished neighborhoods).
- Enhance externship relationships to strengthen employment opportunities.
- Cover cost of test preparation and exam fees for industry certifications.
- Offer a tuition rebate to graduates who pass certification exams.

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EARNINGS DATA STRATEGIES

Strategy: Improve alternative earnings appeals through enhanced communications protocols

- Review and update systems for maintaining contact with graduates.
- Work directly with employers to facilitate tracking and communication with graduates.
- Condition graduates to complete earnings surveys.
- Encourage full and complete earnings reporting to IRS.

Radical Strategies

- Encourage limited Title IV borrowing by cash paying students.
  - Bad for 90/10.
- Transition out of Title IV.
  - Transition must be controlled; can't simply stop making aid available to new students.
- Convert institution to non-profit.

GE Resources

GE Resources from ED

IFAP - Gainful Employment Information Page

- Federal Register Notices
- Dear Colleague Letters and Electronic Announcements
- Frequently Asked Questions
- Webinars and Presentations
- Resource Manuals
  - NSLDS Gainful Employment User Guide
  - RGEES Best Practices Guide
  - GE Operations Manual

GE Resources from TC

- Webinar series and Desk Guide.
- [*REGucation*] higher education law and policy blog.

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