THE BROOKINGS INSTITUTION

WEBINAR

ACCOUNTABILITY IN HIGHER EDUCATION:
USING EVIDENCE TO INFORM REGULATORY POLICY

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Paper 1 Presentation: "Protection and the Unseen: How the U.S. Department of Education's Undeveloped Authorities Can Protect Students and Promote Equity in Higher Education":

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Discussant:

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Paper 2 Presentation: "Credit Standards in the PLUS Student Loan Program: Examining Access and Equity":

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Paper 3 Presentation: "Examining the Feasibility of Empirically Predicting College Closures":

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Paper 4 Presentation: "Where Have All the GI Bill Dollars Gone? Veteran Usage and Expenditure of the Post 9/11 GI Bill":

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P R O C E E D I N G S

MR. LOONEY: Good morning. I do want to thank you, and thank you for joining us, and welcome to this event from the Brookings Institution. My name is Adam Looney. As is the new normal, I am joining you from Salt Lake City where we're experiencing hurricane force winds, and I had to leave my house, which has no power. And this event is co-organized by Jordon Matsudaira, who is in California, and he cannot leave his house because of the smoke from the wildfires. I hope that you all are in more comfortable conditions.

We're here to talk about accountability in higher education. And this project is motivated by a desire to improve the outcomes of post-secondary students and of families, particularly those that use federal financial aid to pursue their studies. As is well know, there are millions of students who owe more than a trillion dollars in student debt. While many of them are very well served with their college educations, many also clearly struggle with excessive loan burdens or job prospects.

Likewise, when colleges close, students often have to scramble to find new institutions to complete their studies, and taxpayers are often left on the hook for financial aid that's not reimbursed by the institution. And across a lot of financial aid products, from GI Bill benefits that sponsor Veterans to go to college and graduate school, or Parent PLUS Loans which help families finance education, there are wide spread concerns that this financial aid isn't always used as well as it could or doesn't promote the best outcomes for students.

And so when we think about accountability, we're talking about the rules that are applied by the Department of Education and other agencies that provide guardrails for how that aid is used, and that are intended to protect taxpayers from losses associated with financial aid, or at least not achieving the best outcomes for the students. And ultimately we're trying to improve the outcomes of students.

So today we have a panel of six papers prepared by academic authors from a wide variety of institutions that discuss individual elements of financial aid accountability.

Jordan will more formally describe the origins of this project. But before we begin I just wanted to say thanks to Arnold Pinterest for sponsoring this project. Thanks to Anna Dawson and Kallie Baker for helping to organize it. We'll hear from six groups of authors today, that the broad pattern will be one in which the authors spend 15 minutes or so discussing the results of their paper, and then we'll have a discussion. A discussant will ask some questions and respond, and then we'll be able to take questions from the audience.

So if you pose your questions you can email them using the link on the website or submit your comments, and we'll float them in a chat and we'll try to address them now. And if we don't address them during the event, we'll have the opportunity to send them to the authors and help them improve their papers. Again, thanks for joining us, and I'll turn it over to you, Jordan.

MR. MATSUDAIRA: Thanks, Adam, and thanks everybody for joining us this morning. I just wanted to add to what Adam was saying about some of the origins of this project. So the motivation for this comes from some of the work Adam and I ourselves did while we were working in the last administration on regulatory policy. And in particular engaging with the research to help inform that sort of policies.

So the way this project started and the way the panelists who are going to be on the program today came to write the papers were we started by engaging with a group of policy advisors to ask what sorts of policies on higher education would be the highest priority, should be the highest priority for the next administration, and then work together with them to figure out what gaps in knowledge there were that might prevent really effective rule based, evidence based rulemaking in the next administration.

So from them having identified some gaps of the knowledge base to informed evidence based rulemaking, we reached out to the set of researchers that are on the program today. And we reached out to them because they have a unique combination of either new insight, new data to bring to bear on questions that haven't been able to be answered before, or just new methodologies and new analyses for answering those questions, and asked them to pitch in and put together papers that would help inform these policy questions.

So I want to thank, before we get into the program, the policy advisors that we consulted initially, including James Quall, Ben Miller, Claire McCann, Aaron Ament, Dan Zibel, Steph Cellini, and Chase Sachet. And also a group of policy experts that we reached out after authors had produced initial drafts and asked them to comment just on how well the authors were really hitting the mark, how useful were these comments going to be to future policymakers, and to provide comments to help them sharpen their contributions.

So I want to additionally thank Rachel Fishman, Lindsay Ahlman, Chris Madeo and Patrick Campbell for taking the time to do that. The papers are all much better, and hopefully going to be more useful to policymakers for their contributions.

So now let me turn to introducing our first panel. The first presentation is going to be by Dan Zibel, who is presenting co-authored work with Aaron Ament. Both are co-founders of the National Student Loan Defense Network. And they're going to be presenting on broadly what authority the Department of Education has to regulate in the policymaking process. And then specifically are going to highlight some new authority that they believe the Department of Education might have that hasn't been appreciated up until this time.

James Kvaal, the President of the Institute for College Access and Success, and former Deputy Director of the Domestic Policy Council under the Obama Administration, is going to discuss their paper and also offer a broader set of remarks on how researchers and evidence are critical to the rulemaking process.

So with that, let me turn it over to Dan Zibel. Dan.

MR. ZIBEL: Great. Thanks, Jordan. Thanks, Adam, and the entire Brookings team for pulling this all together. I'm Dan Zibel, I'm the Vice President and Chief Counsel of Student Defense. I'm a lawyer, as is my colleague and co-author Aaron Ament. We both served as lawyers in their General Counsel's Office for the Department. And we've come at our paper and today's presentation with that lawyerly hat on, so for that I do apologize somewhat.

I'm going to try to hit the Power Point on here and hopefully that will work. I think it does. So I just want to jump in and help set the stage a little bit here for regulating under the Higher Education Act. Under the Administrative Procedure Act, and this applies across the government, one, regulating agencies must establish that it's using reasoned decision making. That there must be a rationale connection between facts and policy choices.

And as we've seen in higher ed over the past decade, there's really little in terms of regulation or deregulation that hasn't ended up in the courts. The Obama Administration had its share of court challenges, and I think it's fair to say that the Trump/De Vos team has too.

While an agency's going to get some level of deference when the court reviews a regulatory effort, there really has to be reasoned decision making to show that a regulatory decision is not arbitrary and capricious. And that's why I think it's great that we're seeing this sort of academic research and analysis on issues that are so important for students to lay the groundwork really for future regulatory policy.

But that's only one side of the equation. The Department does not have carte blanche to regulate higher education. It has to act within the parameters and the statutory authorities that have been set by Congress. And that's where our paper comes in, and we've taken a hard look at the Higher Education Act to identify unused or little used authorities that Congress has given the Department which can really form the basis of future regulatory efforts. So we're not necessarily advocating for particular outcomes or particular uses of the authorities, but are really just highlighting how the Department can use these authorities.

And we focused our energies really on something called the Direct Loan Agreement. As many people know, under Section 487 of the Higher Education Act, institutions participating in any of the Title IV programs have to enter into what's called the Program Participation Agreement or PPA, with the Department. And that is an overarching agreement between an institution and the Department that sets forth the terms and conditions under which schools participate in the Student Loan Programs and enable their students to get student loans or get Pell Grants or participate really in any aspect of the federal financial system.

But as it relates to the direct loan provisions, and that's sort of separate and apart from the other aspects of federal financial aid, the Higher Education Act has a complimentary set of provisions that deal specifically with that program. Under HEA Section 451, Congress established the Direct Loan Program and provided that institutions must be selected by the Secretary to participate in that program. Section 452 says that no institution has a right to participate. Again, this indicates that the Secretary has some amount of authority to determine the terms and conditions under which schools participate in the

Direct Loan Program.

Under Section 453 of the Higher Education Act, institutions that want to participate in the Direct Loan Program must enter into a separate agreement with the Department that sets forth the terms and conditions relating to the institution's direct loan eligibility. Again, this is distinct from the larger PPA that deals with the financial aid program at large.

Section 453 also includes language about the application that the Secretary must use, allows for assurances to the Department that the Secretary considers sufficient to allow a school to participate in the program. Again, suggesting that the Secretary has robust authority to choose which institutions to allow to participate in the program.

And then in HEA Section 454, Congress set out a number of provisions that are mandatory of what has to be in the Direct Loan Agreement, the agreement between the school and the Department of Education. And this is really where we have been focusing our efforts and our analysis.

As a practical matter the Direct Loan Agreement, or DLA, is just one component of a Program Participation Agreement. If you look at I think just about any institutional Program Participation Agreement, you will see a section specific to the Direct Loan Program. You will not ever find, to my knowledge, a separate document known as the Direct Loan Agreement, it's just part of the larger agreement. But formally, and by statute, it is a separate agreement that the Department has to enter into. By and large the language in the Direct Loan Agreement simply parrots the statute, parrots the language in the Department's regulations, which largely parrots the statutory language. So the language, if you basically line up the Direct Loan Agreement, the regulations and the statute, they are largely the same. But again, as a formal matter these are all separate.

And so we've really dug into three of the provisions in 454 to say what has to be in this agreement, and how can the Department use this to better protect students and better promote equity and get better outcomes for everyone.

We've looked at what we call essentially there's three different provisions, HEA 454 A6, which we call the protect and promote authority. A4, which is the QA or Quality Assurance authority, and A3, which deals with financial liability in accepting responsibility for failure to perform pursuant to the agreement.

So A6, I'm going to take these sort of in reverse order as they are used in the statute. A6 is broad, it's incredibly broad, and it allows the department to include other such provisions in the Direct Loan Agreement as the secretary determines are necessary to protect the interest of the United States and to promote the purposes of Title IV.

To our knowledge, this has been the key source of authority only once in the department's history, which is in connection with the 2016 Borrower Defense rulemaking, the adoption of provisions barring the enforcement of mandatory arbitration and class action waivers in enrollment agreements.

But it's clearly a broad authority. It's limited in two respects. One is that the terms of the agreement have to protect the interests of the United States and second, to promote the purposes of Title IV as initially written. It was actually to protect the financial interests, and Congress subsequently changed that, arguably broadening the scope of the statute. So it is broader than a pure financial interest.

And again, this has been used once. And while there were legal challenges to the department's use of that authority in 2016, or following 2016, those challenges were really focused on the interplay of this particular regulation, the statutory provision and the Federal Arbitration Act which promotes a general federal policy in favor of arbitration. And interplay between those things was what was really at issue. And the challengers in that court case did not push hard on whether the department outside of the Federal Arbitration Act had authority to adopt the mandatory arbitration and class action bans.

So A6 is pretty broad. And the natural question of well, how broad is this? And what we've done more is to not try and set the outer limits of that but to look at how using this authority in connection with, in particular, A4 and A3, the department can regulate and can better protect students.

So we are I think particularly interested in the A4's quality assurance system. In higher education people have spent a lot of time talking about quality assurance and yet here it is in the HEA and has largely been untouched by the department. But the statute provides that the Direct Loan

Agreement shall provide for the implementation of a quality assurance system to be developed by the Department in consultation with institutions that ensures that an institution is complying with program requirements and meeting program objectives.

I'm seeing there is a little bit of a problem with the slides, I have to apologize for that. There we go.

So the question then is what does any of this mean? The natural reading I think is that program requirements and program objectives refer to the Direct Loan Program, not the requirements of programs offered by an educational institution. And in our paper we talk about using this as an eligibility metric. But I don't want to lose sight of the fact that there can be sort of halfway points and it doesn't have to be all or nothing. A Department of Education that's willing to work to achieve objectives has the resources, can really help students to benefit from things like transparency and warnings and tiered level of enforcement.

So what does this mean? What does it mean to meet program objectives? We have really looked at two things. One is sort of setting out an example of an institutional repayment rate. Are students paying back their loans? Lots of devil in the detail of what that could look like, but at its core the Federal Direct Loan Program is an elective program. It is not a grant program. That's how Congress set it up.

And a key differentiation between a grant program and a loan program obviously is the notion of repayment. So one of the program objectives is repayment. And if an institution is systematically failing its students and if students who enrolled are graduated from a particular institution are failing to repay their loans at a certain rate, we see this indicative as a problem and the institution is failing to meet the objectives of loans being able to be repaid, and a system of quality assurance could be developed relying on the expert research to determine what such a repayment rate could look like.

In terms of program objectives, we also take a step back in the paper and say what are we all doing here in higher education anyway? What is the Higher Education Act all about? And really, one of the core objectives of the HEA and Direct Loan Program is about promoting access and equity to provide opportunity, to enable economic mobility, you know, to be the great equalizer.

This was a Civil Rights era statute, the Great Society. And what we're seeing now is how, you know, it's failing in a number of respects. We're seeing how black students take on more debt than white students, black borrowers are more likely to default, economic problems are going to be exacerbated as a result of the student loan programs. Black students are more heavily targeted by for-profit colleges, many of which have a demonstrated history of predatory lending. And so if the goal of higher education is really about promoting equity and equality, we're seeing a system that for far too many people and with far too much regularity, is actually exacerbating the problem, not solving it

So focusing on the authority then, how can equality assurance authority ensure that intuitions are meeting the program objections, meeting sort of the promise of the Higher Education Act and not hindering them? And we look at things like, you know, whether or not schools are enrolling students across the socio and racial spectrums. Whether or not students who are Appel eligible are advancing and completing at the same rate as students who are not Appel eligible. How we can be using metrics, and we don't sort of identify necessarily what the specifics of those metrics are, but to see, you know, the kinds of things we can be looking at to see that the Higher Education Act and institutions are actually meeting the objectives of the Student Loan Programs.

We think combined with the broad protect and promote authority the department could think about whether or not these authorities can be used at the programmatic level. These are institutional level metrics. And when we think about buttressing them, sort of combining the A4 and the A6 authorities, how can we expand out and really get to I think some of the core problems that we're seeing today.

I also want to be crystal clear that these are the Direct Loan Agreements, these are the direct loan authorities. So anything the Department would come up with under these authorities would apply to an institution's ability to participate in the Direct Loan Program and serve as a conduit for students to get direct loans to attend that institution. These authorities largely could not be used to sort of, you know, eliminate a school from the Title IV Program altogether in a way that gainful employment was set up, for example.

Finally, I'm sort of being mindful of the clock here. But we also talked a little bit about

HEA Section 454 A3, which requires the Direct Loan Agreement to provide that the institution accept responsibility and financial liability from its failures to perform functions pursuant to the agreement. I find it really interesting that essentially in the Direct Loan Agreement right now schools basically acknowledge that they have to acknowledge that the Department has this authority, with not a whole lot more on it than that.

But again, buttressed by the protect and promote authority we highlight a number of ideas about ways to think about things like institutional risk-sharing, whether the Department of Education should require institutions of higher education at the institutional level to have risk, to have a risk-sharing, to have skin in the game. This is something we're going to be probably expanding on in some of our subsequent work, whether there's a way to sort of think about things like personal liability in certain cases. But that's really things the Department has this authority, and to our knowledge 454 A3 has never been touched by the Department.

So again, ending up, as I said a moment ago, this is very different than something like gainful employment, which really goes to institutional eligibility, whether or not the institution can participate at all in the Title IV programs, this is not that. But this is direct loan eligibility, which is admittedly sort of the big chunk of the federal student aid programs. But there may be ways that the department could think about this in that regard.

And I guess last I would say that these really are institutional level options as Congress designed them. But again, using the protect and promote authority, using the other authorities, sort of merge them all together. We do think that there's room for edge to interpret them back to the programmatic level and really make sure that the Higher Education Act is ultimately serving students, that we have now the authorities here that the department has left untouched for a long time, and hopefully we can bring them back.

So I guess with that I'm going to stop the share and kick it over to James.

MR. KVAAL: Thanks, Dan, I thought that was a really great paper, and I'm looking forward to a conversation about it. I really want to thank the organizers and authors and funders of this important discussion, and could not have come at a more important time. The student loan system makes college possible for many, but as Adam and Dan have said, it also traps many people in debts they can't afford.

And the Trump Administration has just completed its deregulation of higher education just as the pandemic may push many working adults back into school, especially into online programs with the very same conditions that created the boom in for-profit colleges we saw a decade ago, and tragic consequence. More over with 70 percent chance of new leadership at the Department of Education, according to betting markets, the ideas here are quite timely and I think have the potential to change hundreds of thousands of lives just as the Obama rules did.

I really appreciate the effort here to bring academic expertise to these regulatory questions. Relative to Congress, the Executive Branch puts a lot more emphasis on academic research, data analysis, and trying to understand the state of the world and the incentives created by these proposals.

In 2010 as I was part of the team writing the first Gainful Employment Rule, we had a stack of horror stories, undercover investigations, antidotal reports, but we had no real way to assess how widespread those abuses were, leading to endless debates about whether it is bad apples or rotten orchards, and no real way to resolve them. I really wish, looking at some of the research that's being presented today, that we had access to that back then. And, you know, I think the Rule was weaker because of the lack of empirical support for just how widespread the abuses were in the industry and some of the things that we know now.

We also rely heavily on academic research, and as Dan said, judicial review is a fact of life in our regulatory system, and in some cases courts give extra credence to external paper over agency zone internal work. And regulated entities have figured this out, whether you're talking about for-profit colleges or others across government industry regularly commissions academic work as a way of hoping to influence the regulators, and it's really essential that those industry perspectives are balanced with independent ones.

Dan and Aaron have really performed a service with this paper I think. This is a regulatory authority, although used by the Obama Administration, that remains little known and little appreciated. And I think their paper does a really persuasive job building out some of the potential applications in the areas of repayment rates and risk sharing.

So for those of you who haven't had a chance to read it yet, I do recommend it. It's very concise and really will spark a lot of thought I think. I was particularly interested in the aspect, the potential of it to promote equity, and Dan touched on that. It is helpful that it potentially supports program level as well as institutional level. I think it is important to distinguish between loans and Pell Grants. Because not all higher education is about economic outcomes, and so there may be colleges that we wish to support with Pell Grants that might not be good economic investments for a loan. So it's important to have that variety of regulatory tools.

One thing that I was interested in was Dan's remarks about the challenge of using an authority to support eligibility determinations, and maybe he could talk a little bit more about that in the Q&A in terms of why that is and what potential accountability sanctions could be attached to this authority.

One thing that seems missing from this framework, to me, is really missing from the Higher Education Act as a whole, is the role of states and college systems. And many of the issues that we face are due to inequitable funding or other state level policies beyond those within the control of an individual college. And I think the federal government really needs to grapple with the importance of state entities that are really invisible to the Higher Education Act, which only briefly mentions states in the context of authorizing institutions, treating all types the same and doesn't mention systems at all.

Before we turn to the rest of the discussion I had three words of caution that we might keep in mind as we're considering these other regulatory proposals.

The first is regulating is not easy in that if there is a new administration next year it will need to start within the first 100 days or so in terms of any rules that it hopes to have in place by July, 2023. That is just the reality of the process dictated by the Higher Education Act and the Administrative Procedures Act. Each rule, especially ones of the size that we'll be talking about today, place a demand on senior leadership. There's only so many that can be done. And these rules tend to be controversial. And in the Obama Administration the sort of sad inside joke was that the regulations tended to be no win propositions that ended up leaving all sides dissatisfied. So it's helpful to have all sides engaged. But we need to really set some priorities and go after things that will matter the most to students and taxpayers.

Second word of caution is that it is easiest to focus on the worst performing program colleges and programs. It is harder to try and improve programs above that minimum floor. And we know what the worst colleges are, they're the ones where no one graduates, a lot of people are defaulting on their loans. But when it comes to above that floor, trying to encourage colleges to be affordable, inclusive, high quality, it's just more challenging when you look at the reality of colleges. Many colleges have low graduation rates, others have selective admissions. It is rare to have both inclusivity and high graduation rates.

Some colleges produce high earnings, others don't but really don't intend to because they are liberal arts colleges or have a public service mission. Some have high tuition, also have a high ROI. So when we're thinking about accountability systems like the ones suggested by Dan and Aaron's paper, it is important to consider the great diversity of post-secondary education supported by Title IV. The incentives that will be produced by these accountability rules, and how we would expect colleges to go about trying to meet them, and in particular the impact on the most disadvantaged students, low income students and students of color. Are we confident that the rule is going to improve the choices available to them?

Third, and finally, regulations are not very durable in terms of judicial review. The standing rules are biased towards industry. It is easier for colleges to show a concrete stake in regulations than it is for students or other stakeholders. And although the reasonable basis review that courts apply is intended to be relatively light touch, in fact it can be hard for judges to resist the temptation to examine all the nooks and crannies and various applications of the rule, and there are a lot of edge cases in our student aid programs.

Regulations, of course, are subject to changes to political leadership and has been made clear in the last couple of years, it can be repealed, it can be not enforced. So we need to look for things that have an immediate impact. Things like gainful employment, which although is only in place for a couple of years, it protected hundreds of thousands of students and reshaped an industry.

We need to plan for future litigation battles, think about not only providing the strongest possible support for the regulations but also how do we think about including standing for students and taxpayers to support those rules.

And finally, how we can combine regulation with legislation. And obviously acts of Congress are not subject to the same instability with respect to legal challenges and future elections and to the extent that our regulatory strategy can be supported with legislation or create incentives for further legislation, that's really a valuable part of our strategy.

So with those thoughts I will turn it over to Jordan, who I think is going to lead some Q&A.

MR. MATSUDAIRA: Thanks so much, both Dan and James for that. So I want in just the relatively limited time that we have for a Q&A to allow Dan and Aaron, the co-author on the paper, to respond to some of James' remarks.

And I also wanted to throw in an interesting question from the audience, which has to do with you touched on how this authority is different from the authority that it used to enact GE. And I wondered whether you could just try to speak to just kind of sharpen the distinction between the two. And in particular, and this is a question that I think should bring in James as well. In particular it seems, you know, you've described how this gives authority over the Direct Loan Program but not over all the Type IV in levering sanctions against institutions. And partly a question for you, partly a question for James, do you think that's useful, the added flexibility of being able to have sanctions that apply only to the loan program but not to Title IV, or sorry, not to the Pell Grant program under Title IV, is a useful tool in its arsenal. I think this goes to what some of James was saying about being sure that whatever accountability systems we're putting in place are not doing harm to disadvantaged students, and I think, you know, the kind of calculus around whether harm is being done could be different for the loan program than the grant program. And so I wonder in that light.

First of all, you know, Dan and Aaron, whether you think that's an accurate characterization of that, if that pertains, whether that additional flexibility seems useful from a policy standpoint.

MR. ZIBEL: Sure, why don't I take a quick stab at that, and then we'll see if James or

Aaron want to comment at all.

As to the big picture level, gainful employment and the provision in the Higher Education Act on gainful employment really speaks to the question of whether or not an entity is an institution of higher education for purposes of the Title IV program. It's a definitional term that comes in the statute. So if you are an institution that is only eligible to participate in the Title IV Program because you offer a program of training that prepares students for gainful employment in a recognized occupation, that governs all of your Title IV eligibility. So if you are determined to not offer a program that prepares students for gainful employment, the downstream consequences of that are really to knock out your entire eligibility.

But this is the Direct Loan Agreement, or what we talked about in our paper. And that really would only go to whether or not an institution could participate in the Direct Loan Program. As to whether or not that's useful, I kind of think it is. I think one of the challenges that the Department has had is when thinking about enforcement and accountability, is that, you know, you're sort of in this all or nothing world in many respects. In some respects it still may be there for some institutions. But what I mean by that is that institutions of higher education, when they participate, they get cut off by the Department, they get cut off by the Department across the board. And it's Pell, it's work study, it's direct loan, it's the whole thing. This would provide a mechanism that's a little bit different than that, that allows a more tailored remedy to the problems.

As a practical matter I'm sure there are some institutions that simply cannot survive without the direct loan sort of funding stream. And that it effectively would cause the same problems as if you cut off eligibility altogether. As to other institutions, lower cost where students are relying more heavily on Pell Grants and less on loans, it could be a big difference and you could really see a positive impact for sort of being able to tailor the remedy to the problems at issue.

Aaron, are you going to jump in or --

MR. AMENT: Sure, I'll just be real quick and sort of echo what Dan was saying, that with income employment a program could fail two out of three years, and it's really an all or nothing, you know, you become ineligible for continued Title IV participation. Here, you know, you could have tier consequences similar to if the Department brought a limitation action. You may, you know, it doesn't necessarily have to be you're ineligible for their direct loan participation in perpetuity. You could have, you know, limitations on such participation in the future or expansion, or you could even have benefits if, you know, it doesn't necessarily have to be, you know, a sort of a sanction. You could say programs that are having great outcomes, you know, there may be something extra the Department can do to, you know, sort of enhance their role in the Direct Loan Program.

MR. KVAAL: I was just observing the first point is up to me is Carolyn Oxby, that we should be subsidizing higher education based upon on across the board subsidies to the extent it is the public good. Pell Grants and scholarships to the extent we're trying to equalize access, and loans to the extent that we're trying to address credit constraints and help people invest in themselves. We are using loans for all three purposes, and that is a big part of the problem we have with student loan outcomes and all the defaults.

So I do think that having an authority that addresses loan outcomes can be helpful in addressing some of the problems that are unique to the loan program for colleges that we may still want to subsidize with Pell Grants, tax credits, and other means.

I think the big challenge here is that this rule could take away loans by this authority, but it couldn't extend scholarships or other types of support. So you would have to be careful in how you used it.

MR. MATSUDAIRA: Thank you guys. I'm sorry that we don't have time to keep the conversation going, but I do want to thank all three of you for a really interesting paper, Dan and Aaron, and for the conversation from James. So thanks all three of you.

With that we're going to move on right away to our next panel. Our next panel is going to be focused on the PLUS Loan Program, and in particular thinking about the eligibility standards that are applied to borrowers in that program and how the standards that are in place for rationing access to the PLUS Loan Program might be changed, and how changing them would affect both access to credit and the outcome of borrowers who are extended credit through relaxing those constraints.

So the paper is by Rajeev Darolia, who is going to present, and also Steph Cellini and

Dubrauka Ritter of the Philadelphia Federal Reserve Bank. And following their presentation Rachel Fishman of New America will provide some comments.

So let me turn it over to Raj.

MR. DAROLIA: Great, thanks, Jordan. Really appreciate everyone who organized today, Jordan and Adam, the folks at Brookings.

So this is joint work with Stephanie Cellini and Dubrauka Ritter at GW and the Philadelphia Federal Reserve Bank respectively.

We're going to be looking at credit standards in the PLUS Student Loan Program. We're really going to be focusing on attention that we're going to see between access to credit and some of the implications that will have for higher education. And also equitable outcomes across various groups within higher education.

So let me just throw out the standard disclaimer on behalf of my Federal Reserve co-author. The views expressed here are those of the authors, they don't reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System. And this is clearly not legal advice, nobody on call here from this author team are lawyers, unlike on the last panel.

So let me just set up what we're going to be talking about here today through some descriptive graphs. So one of the reasons that we're worried about the PLUS Loan Program is really just about the size and its growth. So if you look back about 20 years, Parent PLUS Program, which is really going to be the focus of our discussion today, has grown about two and half times, now about $13 billion annually disbursed in loan originations.

We also have the Grad PLUS Program, which dramatically over time, now accounting for about $11 billion in annual loan disbursements. So together these two programs account for almost $24 billion in loan disbursements, which is about 25 percent of all disbursements annually. So it's obviously grown to be quite a large program.

Now one thing that is unique about the PLUS Loan Programs, and this is going to be the root of our analysis that we'll be talking about today, is really about a credit check that is inherent in the PLUS Loan Borrowing Program, which is not relevant in our other federal loan programs.

And so what we'll see is that we're going to see some trends in our programs, in both the dollars amounts disbursed and therefore access potentially to this program as credit standards changed over time. We'll get into this much more in a moment. But what we can see here, this first vertical black line, focusing on the Parent PLUS Loan Program, is a credit standard change in around 2011 which made it more difficult to qualify for the PLUS Student Loan Program. And what we can see is there was a decline in the amount of Parent PLUS loans disbursed.

Now I want a caveat, and this is going to be true throughout the presentation, that these trends are going to reflect not just changing credit standards, but other economic and enrollment trends that we're going to see throughout the period, and obviously there was a lot going on during this time as well. Right.

But as we saw during 2011, we saw the denial rates did increase for the program as it became more difficult to quality, and that also one of the troubling things that happened is there is evidence of a disproportionate affect especially on black students and students who attend HBCUs. Right. So this is going to motivate some of the analysis that we're doing today and in future work.

Now in 2014 some of these credit standards were partially eased and we see again just descriptively that we see an increase in participation in the Parent PLUS Program. So what we're going to be thinking about going forward is where do we go from here? And is there a tension between access to this program and then potentially a positive higher education outcomes and equitable outcomes.

So I'm going to assume some knowledge of student loans generally from people, and it's called Federal PLUS Student Loans are quite unique. What we're going to be talking about today mostly we're going to focus on today are Parent PLUS Loans. So these are really loans for parents of undergraduate students. As I mentioned before, PLUS Loans are also available to graduate professional students, and this program is growing quite rapidly as well.

But one of the interesting and kind of novel things about the PLUS Loan Program is that you need to pass a credit check to qualify. So this is called the adverse credit history. And so if you have an adverse credit history you're unable to qualify for these loans. Some of the things that haven't really changed over time are the presence of a bankruptcy, a foreclosure, tax lien, or wage garnishment. But in

2011 and 2014 some of the things that did change were really about the amount of money that you have in delinquency that's being collected or if it's being charged off. Right.

So if we can think about this, effectively what the PLUS Loan Program is doing is looking at an applicant's credit profile and deciding whether or not they're able to borrow under the PLUS Loan Program.

Now this is distinct from other loans like Stafford Loans where as long as you attend an eligible institution and you haven't exceeded your loan maximum, then you're going to be able to borrow from that program without a credit check. So this is what makes this program unique relative to many of the other federal loan programs.

It's also unique because it has no universal, annual, or cumulative borrowing maximum. It's really based on cost of attendance less other types of financial data. And again this is unique relative to other loan programs, again, like Stafford programs which have an annual and cumulative maximum in the amount you can withdraw and borrow. So less attractive terms than other federal loans.

If we look at right now, higher interest rates, often origination fees, and parents aren't eligible for things like income based repayment. Right. And so some of the protections and the benefits that are available to debtors under other loan programs are just not available here under the Plus Loan Program for a lot of folks.

And then another unique thing about the Parent PLUS Loans is that if we think about college as an investment, right, and an investment that leads to expected higher, better labor market outcomes, the borrower on a Parent PLUS Loan is not really the one who we are going to expect to actually accrue the benefits for that loan. Right? The student, the child, is going to be the beneficiary of those increased labor market outcomes.

Right now I think a lot of parents are willing to do this, I know I certainly would do this for my own children, but it does cause a complication, or at least a consideration when we start to think about what is the expected probability of default for somebody who borrows under this program.

So when we think about changing standards under this program, or just standards in general, we're going to think about balancing across a handful of competing goals. One is access to credit. Right. So we have increasing evidence that access to student loans can actually be beneficial for some students. You'll hear from Lesley Turner later today and she's got a number of kind of newer papers that suggest that at the margin access to student loan debt can actually help students succeed and do well at college. So we want to preserve that in some way so that, again, to cure these credit constrains that were mentioned in the prior presentation.

We want to balance that across, preventing default, right. Default is bad for the borrower certainly, but it's also bad for the public, right. The public in a lot of these cases, is investing heavily in these students in their households. And so we want to protect the public investment by not having high rates of default. And one thing that is also, it's not unique to the PLUS Loan Program but is a feature, not a feature, but a characteristic of the PLUS Loan Program, is that the take-up is higher in the for-profit sector and there are higher default rates in this sector, as is well documented.

And then a third consideration is really about borrowing more than the debtor can reasonably repay. Right. And again, this has a special consideration in the Parent PLUS Program because the parent is not expected to have their human capital or their labor market outcomes improve directly for their child to have gone to college.

So what I've placed up here is a chart that shows the share of age 45 and older consumers who have an adverse credit history. Okay. Now we're going to use in our analysis just the share of age 45 plus consumers for a couple of reasons. One is in our data, which is going to come from the Federal Reserve Bank of New York/Equifax Consumer Credit Panel, we cannot identify PLUS Loan borrowers with any sort of precision.

The other reason for it is what we're trying to think about is potential borrowers. Right. If we only looked at actual borrowers in our analysis then we'd be subject to all sorts of issues around who selects into that program. So what we're looking at here is basically all potential borrowers for this program.

We use age 45 as a proxy, as somebody who could reasonably have a college aged child. Obviously there's error associated with this as well, people younger than this also care for dependents who might go to college as well. But this is our proxy for potential Parent PLUS consumers.

Here the black dotted line in the middle is who has an adverse credit history kind of across all of our consumers in our data. Right. What we see is there is an increase around 2011, and that's going to correspond to economic conditions that are going on at this time as well.

But what we see here, the orange line are high poverty tracts, so census tracts where 20 percent or more are defined as being in poverty. We can see here is that the rate of having an adverse credit history, post-2011, which means that they would not quality for the PLUS Loan Program, expands at a much higher rate than does for all consumers.

And we can also compare that to what we are calling low poverty tracts, and these are tracts in which 5 percent or less of the residents are defined to be in poverty, right. They're also this kind of increase in the number of folks who would potentially fail the adverse credit history standards increases at a much lower rate for the low poverty tracts as compared to high poverty tracts as credit standards got tougher in 2011. Right.

So we see in high poverty tracts the adverse credit history incidents roughly tripled after this 2011 strict change in the standards which made it stricter.

The next charts we have here are based on the racial and ethnic composition of the tract. So on the left with the blue, this is for high non-white nor Hispanic ethnicity composition of tracts. So the lightest blue tract on the top is for what we're calling high non-white tracts. These are tracts where 75 percent or greater of residence identify as neither white nor Hispanic ethnicity.

And so we can see again is that relative to all consumers in our sample, their instances of having an adverse credit history or inability to potentially quality for this PLUS Loan Program is going to grow at a much faster rate than it would for the all consumer sample in the black dotted line.

The darker blue line here on the graph, on the left, is for majority non-white, I'm sorry, that's 50 to 75 percent of residents who neither identify as white race or Hispanic ethnicity. Again, a little bit lower than our highest majority non-white tracts, but still higher than our all consumer group.

And then if we look on the right, this is for black resident composition of the tracts. And we can see that here the patterns are of similar directions but are even more striking.

And so what we see here is that as credit standards got stricter, the access or the potential access for residents of high poverty tracts and tracts with higher proportions of non-white or black residents, they are going to be more likely to be ineligible for this PLUS Loan Program. Right.

And so again, we're thinking about the access, balancing access to potential equity implications.

The next thing we do in the paper, and I'm just talk about this quickly, is we talk about a handful of potential hypothetical scenarios in which we could change adverse credit history standards. So for example raising the exemption limits on how much you could have delinquent to still qualify for the PLUS Loan Program, using a credit score cutoff or considering just the presence of a serious recent event like a bankruptcy.

Want to be clear here that we do not predict default. One of our recommendations we're going to have here at the end is just to do a little bit better about having some detailed product and program specific underwriting, but we don't do that in this exercise. What we're going to look at really are just credit scores. And credit scores are certainly an imperfect measure of credit quality, although they are something that's widely used and understood.

And so as we look across these various credit standards, these hypothetical standards, what we would expect is that fewer consumers living in areas of high poverty, high shares of non-white residents and high shares of black residents, are likely to have access. Right. So as credit standards increase, again, access will decline. We do see credit standards plus credit scores improving then as we change some of these standards in hypothetical scenarios. And so that reflects part of the balance.

And then we also do another exercise where we look at different loan limits. So we look at distributions of loan amounts in the data, and again look at who might have access under certain loan caps under the PLUS Loan Program. Kind of a punch line here is that PLUS Loan amounts appear to be more evenly distributed among communities than if we use something like an adverse credit history standard. And so this might be something that we should think about going forward, but again, this runs the risk of restricting access to funds to some families who may need those funds in order that they can attend and succeed in college.

So just quickly to finish up to talk about some of the policy implications. There's a policy -

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MR. MATSUDAIRA: Raj, forgive me, but let me just nudge you to take a minute and no more than a minute, and then we'll move on to the discussion and you can follow up in the Q&A. Thank you.

MR. DAROLIA: Yeah, absolutely. This is the last slide, I'll just finish up quickly.

So there's policy implications we can think about within the PLUS Program, and that could be, again, changing some of the credit history standards or changing loan maximums. We really think there's a need for program and project specific underwriting to allow us to use kind of the rich data that's available at the Department of Education to really to be able to better predict default among observable characteristics. But to kind of solve or to address the root causes of some of the issues that underlay the debates within the PLUS Loan Program, we don't have to restrict ourselves just to the PLUS Loan Program, we can think about federal student loan programs more broadly.

One of the things we might want to think about is rewriting credit access from the parent who is not the beneficiary of that human capital investment to back to the student, ease discharge ineligibility in bankruptcy, and then a simple administrative improvement would be to just make sure it exhausts other programs more attractive terms before turning to PLUS Loans.

Accountability, as I mentioned before, because a lot of these students attend schools where they might not be expected to have good outcomes, guard against excessive borrowing at these schools. And then, again, if we're trying to think about, and James mentioned this in the last discussion, if we're trying to think about some of the root causes of some of the issues, one of the solutions we suggest is just expanding access to other types of funds. And so this would create program expansions like the Pell Grant or other programs that reduce the price of college for students.

So that's what we have today. Sorry we couldn't post the paper yet, but it should be available by the end of the month when the full set of papers get posted. And here's the contact information for me and my co-authors, who I think will be joining us for the discussion portion.

MS. FISHMAN: Hi everyone. So first I want to thank the authors for this important contribution to our understanding of how tweaking the Parent PLUS adverse credit history check would have implications for who qualifies for the loan.

As a lot of people know, as I'm sure Raj knows, the Parent PLUS Loan Program isn't well researched, and growing this research base and understanding of the program is important to understanding the future of reform. And what the actual financial pinpoints are for parents enrolled in this family and who are facing financing college right now.

So first primarily I want to take a step back and think about the programs in terms of the set of financing and financial aid options open to students and families and at their fingertips.

In an ideal world, as we know, students with low to moderate incomes would have their outstanding need met primarily through grants, and next through loans. But as this paper has alluded to, we all know that the current system is broken. We have state disinvestment, stagnating wages, increases in tuition. And this has made it that very rarely is it the case that any institution could ever meet full need. And what this means is that institutional state and federal grant aid are stopping far too short for too many students.

And this is especially true for those attending four-year institutions no matter the sector. So it doesn't matter if a student is choosing to attend a public four-year institution, tuition rates have increased and cost of living has increased so much that for a lot of dependent students hoping to attend residentially, the doors are just closed to them if they don't turn to PLUS. And so this is where the Parent PLUS Loan has really come into play in recent past.

The original intention of Parent PLUS Loans was to provide liquidity to middle and upper income parents during a time where we saw crazy historic highs of interest rates in the 20 percent territory. That's like pretty much heard of right now when we have low interest rates.

These parents wanted to access a fixed rate loan to cover the portion of their expected family contributions. And in general during this time we saw a lot of middle and upper income families calling out for federal aid, and we started to see more aid going to upper income and middle income families instead of low income students.

So today this loan is put into financial aid packages. These are often known as Financial Aid Award Letters, by many institutions, and it blurs the line for students and families of what is affordable and accessible to them. It often shows students that they're going to owe zero dollars for their education, but this zero dollar calculation by the institution is arrived at by using parent and student loans in the package and putting students and families into intergenerational higher education debt.

So I think the big question we should all be asking ourselves in the field is that are Parent PLUS Loans an option that should be used to promote college access? I'd argue no. The PLUS Loan is an option that the terms and conditions of this loan may get predatory for zero EFC families.

First, the federal government knows inability to repay of this loan from these families. They get this information through (inaudible). Unlike with student loans where the investment in higher education leads to significant increase in earnings potential for students, a parent's income is likely to remain unchanged, as Raj has pointed out, if their child attends higher education.

And the federal government can collect on this loan in a variety of harsh ways such as through wage garnishment, Social Security offset, tax refund offset. And the program doesn't also have the same protections as student loans, including access to income deferred payment.

So for this reason I would be concerned with any credit standard, any that eases restrictions to borrower to obtain this loan. And that's what's suggested by this paper. Any tweak of this program, even something that seems as small as doubling the adverse debt limit, must be done with other student aid reform. So there's been some other suggestions about the PLUS Loan Program. For example income driven repayment for Parent PLUS Loans. But this is not a sound policy since income driven repayment exists because of the type of investment, a human capital investment. Student loans are, parent loan borrowers aren't a human capital investment, they're child is, so their incomes will remain largely unchanged.

Others such as the authors of this paper have suggested that PLUS Loans should be capped, but that still doesn't actually help families who get in over their heads with even relatively small loans from the get-go. And it actually doesn't fully address meeting the need to Raj's point, of these families.

So really one solution not explored by this paper includes adding an ability to repay to the credit check, which is something I've called for. But importantly, I've also said that this can only be done if we expand student grant aid and federal student loans.

Really, any path you take with the PLUS Loan Program leads to having to deal with existing issues with our strained higher education federal financing model, whether that be, you know, more loans or more grants, or figuring out a state/ federal partnership that brings down the cost for students, or all of those things.

In the end is the real problem that enough parents don't have access to PLUS and that we should further ease these restrictions in order to allow more low income families access. I think instead the goal should be the flip this thinking, you know, how do we get more low income families access to grant aid and direct student loans so that they don't have to rely on the Parent PLUS Loan Program in the first place.

MR. MATSUDAIRA: Thanks so much, Rachel, for those comments, and thanks to Raj and co-authors for the really interesting paper and bringing new data to bear on this question.

In the interests of time where we're kind of running behind for the Q&A already. I want to give Raj and co-authors a chance just to respond to the set of comments that Rachel put out there. And we'll share the questions that have come in through the Chat with you off line. But I think Rachel's really kind of identified the crux of it, which is just, you know, how we're trading off increased access to the potential of really putting people in over their heads. So just want to give you guys a chance to respond to that based on what you've seen in the data. Thanks.

MR. DAROLIA: Steph, Dubrauka, you want to take a shot, or do you want me to --

MR. RITTER: So appreciate Rachel's comments, and she gave us some great comments on an earlier draft as well, so we really appreciate that.

I do think that, you know, we talk on the team about this concept of ability to repay. I think this is something we're personally, you know, our team personally is a little less comfortable with. So I think there's a couple reasons with that.

One is ability to repay I think is actually still a really difficult concept, and this is part of like we don't have great measures of what actually leads somebody to be more likely to pay in this space. And so that, to me, it makes it a little more difficult to institute an ability to repay measure.

Another reason is that, you know, I do think there is, you know, some benefit to households if we think about kind of the family units for both the parent and the child. It might not be directly to the parent, but I think there is a household improvement potentially if there is more money available to them.

But I would say like, you know, Rachel's comments are well taken. I think our goals are very similar. I think that we both agree that a better solution would be to just have more money available through other venues, especially through either net price reductions or through tuition reductions or grant programs. And I think that, you know, gets to the root of these issues in a much better way than would other, you know, kind of marginal differences within the PLUS Loan Program.

I think the other thing we certainly agree on is that, you know, the money can be rerouted to the student as opposed to the parent. That's also a superior option to kind of play with the margin at the PLUS Program.

But, you know, our author team was less comfortable with an ability to repay standard, just given some of the difficulties in actually, you know, calculating what that might be, and then our concern about restricting access to funds for families that need it.

MR. MATSUDAIRA: Thank you. Dubrauka or Steph, do you want to --

MS. CELLINI: I might just add a thank you, Rachel, for all the great comments, they are well taken, we really appreciate it.

I just want to kind of echo what Raj said. We agree that rerouting to students would be excellent. The other thing is to require I think a kind of simple policy solution that I highlight here that we like, is requiring students to potential exhaust federal student loans before accessing Parent PLUS. And I think that's a simple kind of straightforward solution that might make some sense moving forward. So we highlight that in the paper.

Thanks. That's all I'll add there.

MS. TURNER: I would add a small sort of nerdy technical detail, which is that it's impossible to find the data scores that would allow the richness of adverse credit metrics that we've been able to use, and also have the income that you'd need to calculate an ability to repay within any certainty.

So, you know, that was just a technical restrictions on how much we were able to say about that. But I think, you know, both Raj and I have a background in fair lending so kind of the idea of ability to repay and some of the challenges that come with it, probably informed a lot of that thought process as well.

But I do thank you for the comments, they were really, really helpful.

MR. MATSUDAIRA: Okay, great, thanks to all of you. Thanks, Stephanie, Raj and Dubrauka for the great paper, and thanks, Rachel, for the wonderful set of comments.

So we're going to switch gears again and go to our next presenter, who is going to be Professor Robert Kelchen of Seton Hall University.

Robert is going to be presenting on an issue that's unfortunately likely to be of increasing relevance, and that's the issue of college closures and policies surrounding them, whether we can anticipate which colleges are going to close in the future, and what kinds of policies we should be putting in place given our ability to be able to do that.

Following Robert's presentation Adam Looney is going to provide some comments and moderate the discussion on Robert's paper.

Take it away, Robert.

MR. KELCHEN: Great. Thank you.

So just as a little bit of background, this is pretty obvious at this point that there were challenges facing higher ed before 2020 — the decline in the number of traditional age graduates was one of them, rising student loan debt, increased price sensitivity, there's a growing divide in public perceptions of higher ed, and just general concerns about about the value college is bringing. And then throw the pandemic on top of this.

And we've gotten a number of (technical inaudible). In the 2010s there were a number of large for-profit college chains that closed, there are quite a few small for-profit colleges that close on a regular basis without much attention, and then we get some of the smaller private (technical inaudible), although remarkably none in the last six weeks. I fear more will be coming this fall as colleges struggle to make ends meet, but this is an issue that will keep coming up.

So there are several concerns about college closures. One is that students are affected by this. Students have a couple of options if their college closes. One is they can take advantage of what's called the closed school discharge and get their loans forgiven at taxpayer expense, but they have to start over. The other option is to try to transfer somewhere else, but they may lose credits. Even if there is a teach out agreement that's supposed to make this easier, students may lose some academic progress. And if loans are forgiven, this is a substantial cost to the Federal Government and the taxpayers. Everyone in higher ed is concerned about college closures and each part of the regulatory triad is trying to do something. The Federal Government tries to identify colleges at risk financially, mainly through the use of financial responsibility scores and heightened cash monitoring.

Some states are really upping their efforts to get more data from private nonprofit and for-profit colleges through their state authorization function. Massachusetts is probably the farthest along on this, but colleges are pushing back with the concern that if they're identified as being at risk, that may put them over the edge. And accreditors are under significant pressure to try to identify at risk colleges. And historically accreditors have done more on the financial side than the academic side when stripping accreditation because it's easier to measure financial stress than academic stress. And then there are a bunch of efforts, both in the private sector and in the research community, to try to identify some tools or some measures that can get at colleges that are at risk of closure.

So given all this, why did they ask me to do this? It's really important to know how well a college closure can be predicted in advance so regulators, students, everyone, can figure out how to best proceed instead of worrying about sudden college closures. The concern is that students have to scramble. Employees are in a really difficult spot when college close because they're out of a job and the academic job market is not great in many areas, and then taxpayers pay the bill. But I mentioned, you don't want to falsely identify a college at risk of closure because that's where lawsuits come in, that's where otherwise healthy colleges may be forced to closed. And, also, in the private nonprofit sector many of these colleges have been at risk of closure for decades. There's a great paper that looked at colleges identified at risk in 1972. The majority of them were still at risk years later. So they're good at surviving against all odds.

And the goal here is focusing on private, nonprofit, and for-profit colleges because public colleges rarely outright close — they typically merger downsize — and to get a sense of, given publicly available data, how well can college closures be identified several years into the future.

Looking at the sample, I focused on private nonprofit colleges that were not strictly religious institutions and did not have large endowments. Basically if the college had a multi million dollar endowment, it was much less likely to end up closing. If they had a $50 million endowment, there were two mergers of specialty institutions but no closures. And I ended up with about (technical inaudible). Another challenge was defining a college closure. I had initially looked at IPEDS, if a college reported there as a measure of closure. I ended up going with the federal student aid, the PEPS data set, post-secondary education participant system, because that has information on school closures that's updated weekly. Now, if you go into that data set, it's a massive Excel file that might crash your computer. I focused on the main campus closures, identified with the federal student aid OPE ID and ding in 00, and not looking at branch campuses which might be — they offer satellite campuses at a high school, for example. Those are excluded. But main campus closures, 622 for-profit, 132 nonprofit.

And to give a sense of when college closures happened, they happened much more in the for-profit sector, much more in the two year sector instead of the four year sector, and then the spike in closures starting in especially 2016 through 2019. And 2020 hasn't seen the spike in closures yet, but, again, I fear that may be coming.

So quickly, some of the metrics I used that were available. Federal student aid has a number of accountability measures, the most serious level of heightened cash monitoring, cohort default rates, and the financial responsibility scores. And then for for-profit, the percentage of revenue coming from federal student aid Title IV, which underlies the 90-10 rule, I used college score card data on the percent of students with (inaudible) student loans, county level economic conditions, some IPEDS data for all colleges, enrollment, tuition discount rate, their reliance on tuition, total revenue. And for private nonprofits, looking at endowment, first time full-time enrollment, admit rate, and yield rate. And then also some dummy variables if there was a large change in a variable. So if enrollment went down by 10 percent, that could be a measure that could concern a college, so I put that into the model.

So, briefly, methods. Just running regressions separately for-profit and nonprofit with institution clusters, standard errors, year fixed-effects, and I focused on closures two years and four years after the data came out because that roughly matches a student attending a two year or a four year college and that gives regulators, it gives students time to plan. And I ran different models based on time periods and availability of variables, because some of the variables aren't available for the full period.

And some of the things I wish I had, letters of credit — federal student aid collects information on the amount of letter of credit, basically a percent of Title IV, the lower level of heightened cash monitoring — those are only available most recently. For-profits don't fill out the entire IPEDS finance survey, which means some of the assets and equity information just aren't available. And then financial responsibility scores historically haven't been available for all colleges that failed.

So some key findings, looking at factors associated with closures, a decline in enrollment for nonprofit colleges — not surprising, the federal triggers do matter to at least some extent, decline in total revenue and endowment, and a higher yield rate, which is getting a higher share of the students you accept to come. That was a little bit of a head-scratcher. My guess is their yielding more students because they're throwing more financial aid at them, but that's not a sustainable measure.

For for-profit colleges, it's fairly similar measures. Tuition reliance is important, decline in total revenue is important, and controlling for other factors, four year for-profits are more likely to close than two year for-profits.

So that's great. We have factors associated, but how well do they predict closures? And the way I try to get at this is predicting a likelihood of closure based on the models and sorting institutions into deciles. For private nonprofit colleges I was able to do a pretty good job at identifying the colleges at risk of closure. Two years after, depending on the model, between two-thirds and all of the colleges that closed were in the top decile of the predicted probability of closure. The drawback though is a small percentage of those at-risk colleges actually closed. Within 2 years it's 1 1/2 to 3 1/2 percent, 4 years it's 4.1 to 9.5.

Going to for-profits, there are more for-profits that closed from somewhat lower deciles and a higher share of the top decile colleges close. So if they're identified as being at risk they're more likely to close, but compared to nonprofits there are more colleges not identified at high risk that end up closing.

My takeaways from this at this point, it's relatively easy to identify colleges that are at higher risk of closure. And there are other efforts out there that have tried to get at the same thing. The challenge is, it's hard to identify which high risk colleges will close. This is especially true in the private nonprofit sector where closure rates are low and these colleges hang on in spite of all odds. I really worry about the self fulfilling prophecy of identifying colleges at risk and what happens to them after that. But (technical inaudible) against reporting heightened cash monitoring to the public, and those have not driven catastrophic closure to this point. On the other hand, we also have to do something to protect students and taxpayers. I'm not going to throw up my hands and give up on this issue. We need more data. And I would love feedback on how to proceed on this, because this is such a crucial topic and it's important to get it right, which gets into some of the data that I wasn't able to get to and haven't mentioned yet. The underlying metrics of financial responsibility scores could be helpful. I talked about equity. Deferred maintenance is a concern. Is a college literally falling apart because they're trying to stay open. How much are they spending on marketing and recruitment? If they're spending a lot that could be a concern, that they're having a hard time meeting their classes. Are there significant legal actions, accreditor actions, and state oversight concerns that could also drive a college at risk of closure. And some of these items could be put into a data set. It's a tremendous lift, but it's one of those things that would be of great service to the field.

So, with that, thank you, and I will yield back for questions.

MR. LOONEY: Thank you. Thanks for those great remarks and this very excellent paper.

I wanted to say first a public service announcement. Viewers can submit questions and join the conversation by emailing Events@Brookings.edu or on Twitter using #HigherEd.

So I just wanted to follow up with three questions for Robert before turning onto our next paper. The first question is that when we first talked about this paper and we first commissioned your work, we had hoped that there would be better opportunities to identify institutions at risk of closure. And your paper has made me more pessimistic. Many institutions that you find to be at risk in fact do not close and then some of the institutions that do close seem low risk and thus close without much warning. And so the question is, first do you share that pessimism or do you think that by unlocking new data we'll be able to better identify schools in advance that will close?

You said a little bit about what those data might be, but like what would you look for?

MR. KELCHEN: Sure. I'm generally pessimistic about our ability to perfectly identify. I think we can identify a group of colleges that are at higher risk. And even if it's say 20 percent of colleges that are at higher risk, and so some additional oversight and monitoring there, that's probably a large enough group that no college would feel singled out, which would reduce the concerns about those colleges being forced to close as a result. I think more data could help, but for nonprofit colleges that are so mission driven I think we'll have a hard time identifying colleges that will close over the next few years, but we can identify colleges that are at risk of struggling over decades to come.

MR. LOONEY: Okay. I mean that was my impression as well. And so if it is an empirical challenge to identify closures and you're left with two types of risks, you know, type one and type two errors, I have to use the boy who cried wolf to remember which is which. But type one is when you label somebody at risk of closure when they in fact will not close. And so that's the kind of position we put our colleges in under HCM, heightened cash monitoring. So when a school is judged to be at risk of closing, we put them in a position of heightened cash monitoring. And, as you said, that can be like a self fulfilling prophecy where the financial pressure is — perception is that a school is at risk, plus the changes in the credit that the Department of Education provides the institutions just operating the financial aid system can make them more likely to close.

I mean do you think that there are changes in the way we monitor at-risk institutions that can help — to help us be fair to them, not cause them to close, and not erroneously label them as failing when they're in fact not?

MR. KELCHEN: I think it's identifying a broad enough group of institutions where if the Federal Government identifies 10 colleges that are at risk, that carries a lot more weight than they identify say 300 that are being monitored more closely. I think that helps. And then the other thing that we can't get to as much right now, but is crucial, is real time data. And this is much more true now than it was six months ago given how higher ed finance has been hit by Covid. So it's important to get more real time measures and identify a broad enough group that colleges don't necessarily feel singled out by it.

MR. LOONEY: And then my last question is just the flip side of that question. Some schools close very, very unexpectedly and that has often been a disaster for the students who have attended those institutions because they have used their financial aid to earn credits at an institution. In order to complete their degree they have to transfer elsewhere. There's no clear guidance about whether those credits will be accepted at other institutions, if they're not accepted the students have have to start over or they might have difficulty lining up credits at another institution. And, likewise, the taxpayer, the Department of Education, is out the money, either student loans that are canceled because a school closes, or if they've extended credit to a closed institution, they might not get that back.

So the are there obvious lessons for what we could do to help resolve the problems of an unexpected college closure? And what are those ideas?

MR. KELCHEN: Yeah. One thing that has to be done is there need to be more financial protections put in place to discourage colleges from closing immediately. And one thing I'm concerned about now is that there are small private colleges, both nonprofit and for-profit, trying to hang on the semester, but if they have to go online or send students home if they're residential, they just run out of money and collapse. There needs to be some sort of substantial financial buffer or there needs to be a set teach out agreement for basically every college.

If your college gets hit by a hurricane, your students are okay as you rebuild. If you get hit by a financial hurricane, your students are okay even if you can't continue operating. And that can be structured where every college has a partner they're willing to go with, even if it's highly unlikely that they'll ever have to do so. There's nothing wrong with saying Princeton should have a teach out even though it's never going to happen. But that also protects the colleges where it may happen because everyone else is also set up for that.

MR. LOONEY: That's an interesting perspective. It also seems an area where I think we need to think a lot harder because I think we're going to be dealing with these closures in the future. And obviously some hard choices about the requirements to impose on colleges that are not at risk of closing and to protect the students at schools that do close.

Okay. In the interest of time, I'm going to turn to the next paper. I just wanted to say thank you, Robert. That was a super interesting paper and a helpful conversation. Thank you.

MR. KELCHEN: Thanks.

MR. LOONEY: Our next paper is by Mike Kofoed. He is an associate professor of economics of the U.S. Military Academy at West Point. He's going to present his paper, "Where Have All the GI Bill Dollars Gone: Veteran Usage and Expenditure of the Post 9/11 GI Bill". His discussant is Dennis Kramer. He's a visiting associate professor of education policy at Johns Hopkins, and then there was work from when he worked at the Office of Evaluation Sciences, formerly the Social and Behavioral Sciences team at the White House, where he supported a variety of large scale and randomized evaluations.

Mike, I'm going to turn it right over to you. Thank you.

MR. KOFOED: Thank you, Adam, and good luck with the storm out there in Salt Lake. We've been getting text messages from family about trees uprooted, so.

MR. LOONEY: I got one across my yard and across my car, so, hanging in there. Always exciting.

MR. KOFOED: All right, well — keeps life interesting.

But thank you, one, to Adam and Jordan for organizing this, but also to Brookings for hosting.

So, again, my name, is Mike Kofoed at the U.S. Military Academy. And first, just like the Federal Reserve colleagues, I have to say that the views are those of mine, do not reflect the United States Military Academy, the Department of the Army, or the Department of Defense, since I am DoD employee.

So the GI Bill is a policy that we've heard a lot about and it touches a lot of students, but we know relatively little about. So just as a little bit of historical background, the idea of the GI Bill was born during the Bonus Army March in 1932 in Washington, D.C., and this was in response to failed payment of enlistment bonuses for World War I veterans. And so these veterans march on D.C., the encamp on the U.S. Capitol on the south lawn of the White House. And, ironically, President Hoover orders the Army to disperse those veterans and you hear some of these World War II heroes, for example, MacArthur leads the Army against these veterans with George Patton, Eisenhower corners him at the War Department — corners MacArthur and tells him not to do this, but goes ahead anyway. And this causes civil unrest and contributes to Hoover's failed presidential reelection.

And so near the end of World War II, the question is how do we avoid similar issues that they faced during the '20s and '30s. And the idea came that instead of monetary bonuses we should fund higher education for veterans. And so while FDR was initially against the idea, he did come around to support it, and that's where the first GI Bill was actually born. And it's gone through lots of different iterations. For example, there was a Korea GI Bill, a Vietnam GI Bill, there was the question that if I serve in the military during peacetime should I get the same education benefit as if I had participated in the military during war time or combat versus non combat experiences. And so the GI Bill though, throughout all these iterations, at least in the economics literature, seems to have had quite an effect on veterans. So, for example, enrollments went up, a new generation of college going went up, and then there's some mixed evidence of whether or not earnings had increased. And a lot of this has to do with both the interaction of having higher education benefits, but also the interaction of military service, different health aspects in military service, and also being out of the civilian labor market. So at least we know that this was one of the largest expansions of financial aid. This is kind of like the first ever free college program you could think of was the GI Bill. And it did seem to derive a lot from the World War II generation onwards into college markets.

So for policy making in the modern era, there's really two iterations of the GI Bill that we need to think about, and the first is what's called the Montgomery GI Bill. This was passed in the '80s-90s area, and it had some parts to it that were not great on reflection. So, first off, soldiers were required to opt-in at the time of enlistment. So you had to say, yes, I want the GI Bill. And I also — if I was a new soldier, I had to pay hundreds of dollars per month into the GI Bill itself before I could receive those benefits. There were also these benefits when I became a veteran were paid to the individual. It covered tuition, fees, and some books. I could only use it for myself. And generally these benefits expired after

10 years.

So in 2008 Senator Jim Webb comes an announces and that he wants to try modernize the GI Bill, especially for the post 9/11 era for veterans coming home from Iraq and Afghanistan. And so some of the changes that are made here is that in the post 9/11 GI Bills now soldiers are automatically enrolled, there is no buy in requirement, it's being paid to the institution as opposed to the veteran, and now on top of tuition and fees, you get a housing stipend as if you were an E5 or a sergeant, and you receive a stipend or a salary. You can also now use for yourself or you can transfer to a spouse of a dependent with additional service time to be able to transfer.

And initially this post 9/11 GI Bill had a 15 year limit, however, this limit was repealed a couple of years ago with a new iteration called the Forever GI Bill. And now if I'm a veteran from a post 9/11 time period, I can use my benefits whenever.

So what were kind of the research questions of this paper? First off, since we know very little about the post 9/11 GI Bill, what veteran characteristics could help us predict which veterans are more or less likely to use the GI Bill? Where do veterans use their GI Bills is another question I want to answer today, and especially the role of the for-profit sector, which has been brought up in a coupe of the other talks, and also do outcomes for veterans differ by the education sector that they enroll?

And so we have some unique administrative data that I'm excited to kind of talk about and show. And this data is from the United States Army and it's housed at the Office of Economic and Manpower Analysis at West Point. What happens is when you use these data, we're able to observe each soldier from the early '90s to the present, we're able to follow them throughout their Army careers, because it's a monthly snapshot of every soldier, and we have information on their spouses and dependents, and we work to merge other federal data sets so that we can get a glimpse of what happens to them either before they join the Army or after they join the Army.

And I should say the one limitation in these data is that I can only see Army data. So none of the data that you will see today has anything to do with the Navy, Air Force, or Marine Corps. And so this is just Army specific data. But we feel like that this is somewhat representative because the GI Bill policies are not the service branch specific and also the Army is the largest service branch and is about 50 percent of active duty.

So what we're able to do, we're able to merge these data onto expenditure data from the VA so I can see the amount of money that was paid to the institution, the dates that the veteran enrolled, and the number of semesters paid for, and if there were any interruptions to their education timelines. And then we're able to use some of our merge data with the National Student Clearinghouse so I could see when the schools — the actual schools that they attend and whether they graduated — which I'm going to use as the outcome here — whether the veteran graduated within six years with any type of credential.

What I'm going to do, however, is I've got to condition the data. I conditioned these data on exiting the service between 2008 and 2016. So all observations are going to be veterans, but not active duty. So these are folks who separated completely from the Army between the years. And the graphs that you're going to see, the time is the year cohort of veterans separating and whether or not they used their post 9/11 GI Bill within 4 years of separation. So we'll give these veterans some time to experience perhaps civilian labor markets or maybe they exit the service not on an academic calendar, so they need a few months to be able to get onto the academic time cycle here.

So the first one is by gender. And what we find is that initially in 2008 when this was turned on you had a lower number of vets. That's because there was — more found out about the program or were eligible for the program. And you see the post 9/11 GI Bill usage increases over time. So that later cohorts of veterans are using them at higher rates. But overall we find that there's about a 45 percent usage rate, which for this large benefit is kind of alarming that only 45 percent of eligible veterans are using these education benefits. We see a considerable gap between male and female veterans. And this is not unlike what you see in civil labor or civilian higher education data. And so we see that usually female veterans are more likely to use it than male veterans.

I break it out by AFQT score. For those unfamiliar with the AFQT score, a level 1 AFQT score is the highest rank that you could have, and then it goes down to a level 4, which is the lowest. What's interesting here is there — it initially kind of looks like level 1, as you would guess, would be the highest usage, but level 2 AFQT scores also catch up as well.

I also want to look at the highest rank that you achieved in the Army for enlisted soldiers. And so we find here that junior NCOs are the most likely to use the GI Bill, which makes sense because they're the ones that have kind of been identified by the Army for leadership or ability here. While senior NCOs stay in for a long period of time and when they get out they maybe are a little bit older and less likely to go to college.

One that I think is a little bit interesting here is the occupation that you did within the military. So what we find is that combat arms — so these are folks that are more likely to be deployed to a combat zone — are much less likely than the service like military intelligence or IT or quartermasters, to use their GI Bill benefits.

So one question that we wanted to have then is on the institution, and what we find that's a little bit concerning, or I find, is that the vast majority — up to about 70 percent — are attending institutions that don't have any selectivity measure whatsoever. So these could be for-profit schools, but these could also be like two year schools, community colleges. But what we find is that they do not seem to select into flagship publics or very selective privates.

So the next step I want to talk with the last bit of time is what is the role for-profits. So for-profits, you know, actively recruit vets. Harkin Report of 2012 raised these questions and then I have a paper that looks at for-profits changed their tuition rates given the responses and generosity in the post 9/11 GI Bill. And finally in the policy part is this 90-10 rule that was mentioned previously. So this limits the amount of revenue that a for-profit can receive to 90 percent of federally based financial aid. And the 1 exception to the 90-10 rule that not a lot of people know about, is that post 9/11 GI Bill and DoD tuition assistance is actually exempted. So it will count toward the 10 percent. So if you're a for-profit hitting up on the 90 percent level, all the sudden veterans give you this extra incentive because you can comply with the 90-10 rule easier.

So this is on the expenditure by percent of funds by sector. And what you see obviously is public sector is the largest, but about 2012 about 40 percent of GI dollars were going to for-profit colleges. And this has declined because of closures during the last administration to about still a third going to a for-profit college in 2016.

In the interest of time, I have some major choices that you can see, but you can see that at least at for-profits major choices tend to be highest are business admin and technical or information technology, criminal justice.

What I want to think about with the last little bit of time here is the outcomes. And this is enrolling — or this is graduating after enrollment, after six years with any type of credential. What we see here is about 18 percent of veterans at a for-profit college are actually able to complete the credential they enrolled in, compared to about 28-30 percent at a public or about 40 percent at a private. And this gap is wider for people with mid-range AFQT scores, it's definitely much wider for males, and it's somewhat wider for underrepresented minorities who — males and black veterans are the most likely to attend one of these for-profits.

So what I want to do here is an exercise really quick, look at the gap. Because the push back you get from the for-profits in this analysis is well, we're serving the underserved population, folks that maybe aren't as college ready. We're getting them access to higher education. And so many of these outcomes is because of the population that we're serving. So what I've done here is I've just done a regression analysis where I look at the graduation outcome and I added in indicator variables in for for-profit or private. So just the raw gap you see between a public community college, which is the comparison group, and a for-profit is about 9.19 percentage points less likely to graduate.

Now, what I'm going to do now is add the demographic controls, and you can see that that gap actually widens with demographic controls. So then let's add the AFQT scores as a measure of academic ability, and it does narrow the gap by about 1 percentage point, or 10 percent, but that gap is still large and significant and still present. So we can't explain away these outcomes purely because of academic ability or demographics. And then when I added military rank and occupation, it doesn't move it at all. And so this gap still stands, even after all these rich observables that we can kind of still control.

So as a summary here, post 9/11 GI Bill expanded that financial aid college access to veterans. Demographic differences of people who use it, women are more likely, higher AFQT scores, veteran that separate at junior NCOs, and combat arms, and those exposed to combat deployments are the lease likely to use this post 9/11 GI Bill benefit. At its peak, about 40 percent of the post 9/11 GI Bill went to for-profit colleges. That fraction has now decreased to about 30. Only 18 percent who attend a for-profit college graduate.

And this descriptive analysis shows that even when controlling for observables, the gap still persists. And so for policy we need to think about these veterans who have combat exposure, lower rate and middle AFQT scores, and then there needs to be some more outreach on these selective private universities and the flagship universities. And also I think it's kind of obvious in the analysis here, we need to think about reforming the 90-10 rule and maybe removing this exception and treating DoD style dollars the same way we would treat Title IV and other federal funding.

Thank you and that's my contact email and Twitter.

MR. KRAMER: So thanks, everybody. I want to echo my sentiments to the organizers and Brookings for putting this together.

It was an immense pleasure for me to read the paper by my friend and colleague, Mike, on the kind of post 9/11 GI Bill. And I have some comments. I also have a disclosure. This certainly represents my views and not the views of any organization that I may be associated with.

But I think this paper at its basic level makes an important contribution for our understanding of a kind of higher education policy that not many know about, right. We hear a lot about it in the news and how the post 9/11 GI Bill is out there and often times we hear it in a very kind of negative light in terms of like slow payment or other problems that occur. But what we do know from the work that Mike presented is that there appears to potentially be a different set of college choice mechanisms that are happening for this population that are different than the traditional college choice models that we use within kind of higher education. So I think at the foundation level this paper kind of pushes us to think about how we might model or how we might think about the college choice model for this population.

And then I think, you know, given the time constraints, we had to go over it pretty quickly, but I think highlighting the interplay between federal education benefits and federal education military based benefits and the for-profit sector is an incredibly policy relevant discussion, particularly centered around this 90-10 rule, right. I mean I think this is going to be a topic that we may hear in the coming months around kind of the presidential election and as we think about, you know, additional kind of mechanisms for institutions as they look for revenue sources. I think it's nice that this paper comes after the paper by Robert in that, you know, where you talk about kind of shrinking revenue sources and additional tuition reliance, now you have this population of individuals who have this kind of large tuition subsidy. Do they then become kind of this more focused revenue stream for these institutions who are kind of seeking additional revenue?

And I think just a couple of kind of open questions that I have about this paper, then I'll get into kind of three points that I'd like to make, you know. The first question that I had, and I think Mike might have talked about this before, in that does the exclusion of — or the sample exclusion of these like benefit transferred dependents impact the estimates, right? And so because we're focusing primarily on veterans, we're talking out a portion of those who transfer their benefits, particularly those military officers. And so I think, you know, particularly for that officer group, these estimates on not only for-profit enrollment, but negative estimates on educational outcomes may actually be upper bound estimates, right. If we assume that those who transfer their benefits kind of understand and have kind of more like educational capital, they would probably be more likely to attend a kind of a more selective institution if they use the benefits for themselves.

Then we also note from some data that I've been working on with VA Education is that dependents are vastly more likely to enroll in those selective institutions. And I think that's part of kind of this educational capital kind of accumulation. And there, I think Mike did a good job in kind of arguing this, and I tend to agree, but how generalizable is Army data to kind of the broader military veteran population. You know, I tend to agree there doesn't seem to be kind of a — at least in my mind — an initial kind of systemic reason my veterans of the Navy or Marines or others could kind of — would act differently to that.

I thinking about kind of the context of this paper, I kind of pulled some data from IPEDS and I pulled same data from the GI Bill and that price calculator and kind of looked at like what's the proportion of net revenues that come from the post 9/11 GI Bill using the most recent years of data. And for public institutions it's about 2.4 percent, for private nonprofits institutions it's about 2.5 percent, and the for private for-profit or for-profit institutions it's about 8.7 percent, right. So I think that highlights just the role that this kind of education benefit plays in kind of serving as a revenue source — at least a tuition revenue source for these for-profit entities. But then when you look at the data by state — like if you look at just kind of — if you collapse net tuition by state and kind of look athee proportion of for-profit revenues from post 9/11 GI Bill by state, we get large heterogeneity in kind of the way in which state based for-profits kind of rely on the post 9/11 GI Bill. And they kind of fall in line both with states that have a large military presence or states that — you know, where their population is lower they have a higher proportion of the population that are military veterans. And so you have like Iowa and New Jersey that have relatively low proportions, all the way to like New Hampshire, Virginia, that have larger proportions of their for-profit revenues that come from kind of this post 9/11 GI Bill, right.

So this kind of speaks to I think the complexity for reform around the 90-10 rule in that there doesn't seem to be kind of a — at least a political demographic association between for-profit reliance on post 9/11 GI Bill revenues. And there isn't any type of regional diffusion around this. And so I think that increases the complexity that we're going to have systemic change around kind of that 90-10 rule, or at least exempting the post 9/11 GI Bill from that 10 percent.

I think that what is very clear in this draft — and if you haven't read it I would encourage you to go read it — is that there's a negative impact of enrolling in for-profits in credential and degree completion, right. And this aligns with a lot of prior work that we have on the for-profit sector from a really smart individual who is on this panel as well. I think where there is kind of a more limited discussion in this paper is on the potential of like enrollment intensity, which could impact other direct monetary benefits. And so what Mike talked about is housing benefits and other benefits that are associated or at least linked to enrollment intensity.

And so under the post 9/11 GI Bill, if you were enrolled in 50 percent plus 1 credit, you then get access to these housing benefits. So if you're enrolled less than half-time or half-time, you don't actually get access to these housing benefits, but then you get — if you take that actual one course or you move closer to full-time enrollment, you then get this monthly housing benefit. And if we kind of break down post 9/11 GI Bill total expenditures, about 48 percent go directly to the institution for tuition and fees and 48 percent go directly to the beneficiary for housing benefits, and the remaining kind of 4 percent are for stipend and other book related.

And so I think we have kind of this narrative where there's this large subsidy for tuition and fees, but there's also this potential for the other kind of economic benefits outside of directly subsidizing education, or the tuition and fee portion of education because you could also subsidize these housing benefits. And so if we just kind of look at by sector the proportion of veterans or veteran beneficiaries who enroll in college, but also enroll greater than half-time, right, the private not for profit is about 94 percent who enroll greater than half-time. At public 4 year just about 90 percent. And then, just for context, at public 2 years, about 83 percent. And then for the for-profit 4 year sector it's back up to about 93 percent, right. So we see a large proportion of those that choose to enroll — even in a for-profit — enroll at a rate that is greater than half-time, so opening that access to the housing benefits.

But if we further kind of tease out that full-time enrollment, what we find is that just in the four year sector, veterans who are accessing post 9/11 GI Bill and enrolling in college are — (inaudible) –– are least likely to enroll full-time, but most likely to enroll at some sort of rate between one credit greater than half-time and, you know, less than full-time. So this signals to me that there should be potentially some kind of work or some kind of sorting mechanisms or decisions being made to access those housing benefits because I think it could speak to kind of these other economic or social benefits of this program.

But it's an amazing paper that really sets the state for anybody interested in doing kind of work on this benefit. This is going to be a highly cited paper, just kind of setting the standard of who kind of engages and uses this benefit and then where they actually ultimately sort as a first institution.

So, thanks so much for allowing me to kind of review it and kind of present some comments.

MR. LOONEY: In brief, Mike, do you have a few observations to make? And then we should move on.

MR. KOFOED: Yeah, no. And I appreciate all the comments that Dennis made.

I would say one is you've got to remember — the one caveat when looking at those is the role of officers that Dennis brought up and transferability. That's totally — when you think about officers versus enlisted, officers are a totally different ballgame because they have to have college degrees to be commissioned and they also are more highly compensated. And so when we're kind of thinking about where can we get the dollar maybe to the most good on a social investment, I would argue it's kind of on the enlisted side. But definitely thinking about that inter-generational human capital that can come transferring the GI Bill to a dependent I think is great.

Again, with the Army, I would love DoDY data, but I work for who I work for, right. But I think that's a good point is thinking about even regions of the country, because the Army tends to be focused on the south versus the Air Force which tends to be out west, or the Navy that's on the coast, and what education benefits come from people who are going to be exposed to different education markets during their service.

MR. LOONEY: Well, thank you very much, Mike and Dennis. I am going to turn over next to the next paper. So the next paper examines the -- the potential role of information disclosures as a means to improve student outcomes. Mary Steffel from Northeastern University will present that paper. That paper is co-authored with Dennis Kramer, who just met with Walter McHugh and the Discussant, Walter McHugh and Nick Ducoff from Edmit. And in that paper will be discussed by Lindsey Almond, who is the Associate Director of Research and Knowledge Management from (inaudible). Thank you, I'll turn it over to you.

MS. STEFFEL: Thank you so much. Let me take a moment and set up our presentation for you all. All right, well thank you again for having us participate in this incredible section. This work is work that I've done in collaboration with Dennis Kramer, Walter McHugh, and Nick Ducoff, and again, thank you for -- to The Brookings Institute for the support for this research and for bringing us all together to talk about these important issues in policy.

So choosing whether and where to attend college is increasingly one of the most important financial decisions that consumers make. In the United States, the cost of a college education varies widely and can be as much as that of buying a home. And yet, the lack of transparency in the college pricing system means that students and their families often lack the needed insight and information in order to anticipate the cost of attending college, especially lower income students for whom the sticker price often misrepresents the actual net price you would pay to attend college after accounting for grants and scholarships.

The return on a college education can vary just as widely and can be just as difficult to anticipate. So on average, American college graduates earn 65 percent more than their high school educated peers and enjoy better employment rates, job satisfaction, economic mobility, and health. Yet, some consumers choose to attend colleges that fail to prepare them for success into the job market leaving them with high debt and low earnings. This can lead to debt burdens that are unsustainable for the consumer and that become shared with the government and taxpayers. In an effort to better support students and their families in making college choices, researchers and policymakers alike have advocated for informational disclosure regulations to help students and their families assess the cost and return on attending college and make college choices that fit their needs.

Our report examines whether policies requiring institutions to disclose information about the cost and return on a college education and guiding the way that, that information is delivered, summarized, and presented are sufficient to help students and their families make college choices that are the best fit for them. So regulatory disclosure policies and education began with the Higher Education Act in 1965. Title IV of this act authorized the use of federal funding for students, student loans of participating higher education institutions, and created a loan disclosure process for students, institutions, and lenders.

The next significant milestone came with the Student Right to Know Act of 1990, which established formula and disclosure requirements for loan default rate and graduation rates for Title IV institutions. Next, the Higher Education Opportunity Act of 2008 mandated that certain Title IV institutions place a net price calculator on their public website and provide prospective students and their families with a personalized approximation of what they would pay annually to attend an institution after accounting for grants and scholarships.

Then, in 2012, the United States Department of Education created the College Shopping Sheet, which was updated and renamed the College Financing Plan in 2019. This is an optional standardized disclosure that some Title IV institutions have voluntarily agreed to get admitted students and their families in place of or as a cover sheet to the college's existing financial aid award letter. This document informs students of the total cost of attendance, the amount of grant and scholarship support they would receive, and the long and work-study options for which they would be eligible. In 2014, the Gainful Employment Rule specified that Title IV career education programs were to disclose financial outcomes of their graduates in the form of a debt-to-earnings ratio. The rule also set a minimum debt-to-earnings ratio standard that programs had to meet to maintain their access to federal student loan funds. However, in 2019, the U.S. Department of Education rescinded the Gainful Employment Rule citing unfair treatment for for-profit institutions.

The last of these regulations that I'd like to talk about today was that in 2015, the Department of Education created the College Scorecard, and interactive website-based tool that provides stakeholders with key data about colleges, so things like cost, graduation rate, loan default rate, loan amount, and labor market outcomes. So we examined the impact of these and other disclosures in higher education on college choices. We find that informational disclosure about the cost and return on a college education can reduce informational disparities and set more accurate expectations. However, evidence of the impact of disclosure policies on college choices is scant and difficult to isolate from the impact of other regulatory measures. Some evidence suggests that deficiency and information accessibility, understandability, and navigability limit the ability of existing disclosure policies on their own to enable students and their families to make college choices that are a right fit for them. Moreover, institutional responses to disclosure policies are sometimes at odds with the goals and ends of these policies such that they can either help or hinder their impact.

We propose the following recommendations to leverage disclosure policies to improve college choices. To enable consumers to make better decisions, policymakers should ensure that information is disseminated in such a way as to make information easy to access, communicated in a manner that is easy to understand, and presented in a manner that makes it easy to navigate. Additionally, policymakers must anticipate the way in which institutions respond to disclosure requirements and the results of market pressures, compliment disclosure policies with accountability measures, and embrace research and innovation. And what also describes some of the ways in which policymakers can act on each of these recommendations, for a full set of recommenda -- actions, I encourage you to read our full report.

So the first set of recommendations center around making information easier to access. So the first of these is give information directly to students when possible. So consumers are more likely to use disclosures when they receive them directly than when they have to seek them out. So the federal government, they can help by directly providing prospective students with information about federal resources like the College Scorecard and by compelling colleges to provide accepted students with key information such as standardized aid offers. Another recommend is to disseminate information as broadly as possible. Consumers seem to be largely unaware of the many federal resources available to help support their college choices. Thus, the federal government should strive to better disseminate this information to a broader audience of stakeholders. For example, by making data easily usable by institutional administrators, researchers, nonprofits, and for-profit companies that operate in the context of higher education, we can help ensure that this information gets to those who need it.

Another recommendation is to make information easy for students to find. Consumers often have difficulty locating federally mandated disclosure information on college websites due in large part to their inability in how and where this information is described across institutions. The federal government can help by working with colleges to establish a standardized naming convention for key federally mandated disclosure information and the website where this information can be found.

Another recommend is to make information less effortful for students to access. Consumers are less likely to use information if it requires a lot of effort to get to. The federal government should seek to remove barriers to access where possible. For example, the government could create a universal net price calculator that would enable students to enter their financial information one time and get net prices from multiple colleges at once using the colleges own pricing acknowledges. The federal government can also limit the number of required steps, entries, fillings, and other actions needed to access information, for example, by enabling students to authorize the federal government to enter the necessary data automatically on their behalf. And of course it’s important to make information provision timely. Consumers need ample time to process and act on the information they receive. It’s therefore, important the federal government ensure that information is disseminated in a timely manner. First, the

Department of Education should provide information about say, the College Scorecard, FASFA, and other resources directly to perspective students before they enter their senior year of high school when they're most likely to considering whether and where to attend college. Next, shortly after perspective students fill out their FASFA and list the schools they wish to send their scores to, federal government should provide or require colleges to provide the most recent available net price information directly to students. And most importantly, federal government should encourage institutions to minimize a timeline between notifying students of an admissions decision and providing a formalized financial aid offer.

The next set of recommendations center around making information easy to understand. So the first is the standardized content. The disclosure content should be standardized to improve recognition and facilitate comparison to cross institutions. The government should ensure that federal agencies and institutions use standardized terminology for key concepts like net price, standardized presentation formats like the College Financing Plan, and also report data using a comparable timeframe. It's also important to communicate disclosure content using plain language that's free from unfamiliar jargon and acronyms whenever possible to ensure consumers understand the disclosure content more easily.

Federal government should work with colleges to consumer test common financial aid terms and acronyms, identify those that cause confusion, and suggest more consumer-friendly alternatives. Disclosure content should also be simplified as much as possible. For example, the federal government could help to simplify information by aggregating information when appropriate. Just at net price calculators enable students to combine information about the cost of attendance and estimated grants and scholarships to estimate their own net price, the Department of Education should develop additional calculator initiatives that can help students to simplify information about the cost of college, things like the informed barrower tool or the loan simulator tool.

Our next recommendation is that the federal government should also invest in ways to make entire education resources more customizable to the individual student. Although some information on the College Scorecard can already be tailored to the characteristics of individuals, there's a lot of room for improvement. For example, the College Scorecard user interface should enable students to input additional criteria like state residency test scores or fields of study and see customized estimates for additional outcomes, things like graduation rates, typical earnings, or typical monthly loan payments.

Our third set of recommendations center on making information easy to navigate. One way in which -- the way in which the information is organized and presented to consumers can play an important role in shaping the decisions that they make. The federal government should seek to ensure that resources like the College Scorecard organize information in a meaningful way. One way that they can do this is by choosing meaningful default criteria for categorizing and sorting colleges within the College Scorecard. For example, by grouping colleges into four-year, two-year, and certificate programs, and within those groups ordering colleges based on either multiple criteria like a ranking system based on cost, earnings, debt, and graduation rates, or a single high priority criteria like cost. Another way that the federal government can help is by expanding the options available for sorting and filtering colleges and making it easier for students to save their sorting and filtering settings in the search results.

Presenting information in a manner that enables side-by-side comparison can also help consumers to more easily determine which option is best for them. One example of a way that the government can help is by better facilitating college comparisons within the College Scorecard. The College Scorecard allows students to compare up to 10 colleges at a time in graphical format and with some customization options. This can be improved by enabling students to use side-by-side comparisons of a greater number of customized attributes, so like salary range by field of study. The federal government can also facilitate college comparison by requiring greater standardization of institutional disclosures like net price calculators and student financial aid offers.

It's also important to help consumers contextualize and interpret the information they receive by offering meaningful reference points, comparisons, and ranges of possible values. Prior to the recent redesign, the College Scorecard and the College Financing Plan both help students to contextualize information by situating some attributes like cost on scales showing low, medium, and high, and by comparing other attributes like loan default rates to national averages. We recommended return to providing contextual information to ensure that students have a frame of reference for interpreting the information that they receive.

Our next recommendations center around anticipating firm responses. It's important that policymakers consider how consumers choices might be affected by the way in which institutions respond to disclosure requirements. So first, policymakers should strive to anticipate potential threats to data integrity by providing colleges with more concrete standards for disclosures and by using existing federal administrative data for data reporting whenever possible. Policymakers should also strive to anticipate and minimize strategic enrollment pressures. For example, disclosure policy that emphasizes student outcomes without accounting for student characteristics could disincentivize institutions when enrolling students from traditionally low performing groups. Supplementing student outcome metrics with information about student characteristics or social and economic mobility, breaking down these metrics into different subgroups, or incorporating risk adjustments into these metrics could help. It's also important to compliment disclosure policies with additional accountability measures. One mechanism for holding colleges accountable is by incorporating disclosure compliance into their accreditation probes. Another mechanism is by time disclosure compliance to monitor incentives like access to Title IV funds. And a third mechanism is by applying nonmonetary penalties like including alerts or flags in tools like the College Scorecard for institutions that fail to comply with disclosure requirements.

And finally, policymakers should embrace opportunities for additional research and innovation. Additional research is needed to evaluate the effects of disclosure policies. Future research should prioritize measuring behavioral outcomes rather than just comprehension, testing outcomes in the field rather than in the lab and conducting randomized controlled experiments to establish causality. Policymakers should also regularly conduct usability testing and update federal disclosure tools accordingly.

To conclude, disclosure is helpful, but it's not sufficient. While there's evidence that existing disclosure policies have helped to reduce information gaps, there's little evidence that disclosure policies on their own can enable students and their families to make college choices that best meet their needs. To better support college choices, policymakers must not only ensure that institutions provide students and families with the information that they need, but also that the information be easy to access, understand, and navigate. Policymakers must ensure accurate data reporting and avoid reporting requirements that perversely incentivize strategic enrollment pressures. They must supplement disclosure policies with accountability measures, and they must embrace opportunities for research and innovation. So thank you so much. At this point I wish to invite our discussant to provide some perspective on this as well.

MR. MCHUGH: Can you hear me? I can't avoid asking that -- that question but thank you Mary Steffell. Thank you, Adam and Jordan for inviting me to participate in this conversation. I think this is a really important paper in no small part because consumer information is one issue that has historically, and I think continues to have real broad bipartisan support. So there's a real opportunity for policy change in this space. And for my comment, I wanted to start by underlining something that -- that the paper notes actually about the role and the limitations of consumer information and higher education. You know, I think that it's fair to say the research suggests consumer information may in fact be able to support college choices including where students apply and how they pay for it, but I think it's also important to not lose sight of the fact that college choices are the result of a number of factors including real structural constraints, for which more and better information really isn't a solution. We know from affordability research that far too many students face college costs that simply exceed their financial resources and the aid offered to them, and so while providing additional information about costs and making that information more clear can help disclosures that are in -- that are a good fit and avoid surprise costs down the line, it's not actually going to put more colleges within a student's reach. And I think as your paper notes, there are also technological and geographic constraints that limit the choices that are available. And I say all this -- you know, I say all this to the extent -- to the extent that we are looking at consumer information to support students, which is a really important endeavor.

I think we need to be clear about the problem we think more information or more clear information is going to solve and for whom, especially when there are a number of studies suggesting that not all students respond to the same information in the same way. And I think further servicing those differential constraints and the differential responses and their implications for equity in higher education may help the paper be even more useful for policymakers. So while I don't think we can point to lack of consumer understanding as the cause of persisting inequities in higher education, I do think that overly complex inaccessible or inconsistently delivered consumer information can really put already marginalized statements at further disadvantage. And relative to other policy challenges like the robustness of financial aid programs and challenges because of oversight, I think this research in particular offers really strict foreign policy solutions that we have outlined for -- for the group here and I want to just echo and provide a little more background on one that you mentioned as a real practical example of how I think we can translate your paper's findings into real change for students and that's net price calculators.

So you mentioned that a couple of times in -- in brief, but these tools I think are really important. They play a really unique role in the college selection process providing perspective students with very early personalized estimates of what college would actually cost them, what they would actually need to save, earn, or borrow to cover that cost and doing so well before they need to decide even where to apply certainly before they need to complete a more complex financial aid application. So consistent with the best practices for consumer information we've outlined, the net price calculator should be easy to find, easy to use, and easy to prepare. And unfortunately, our research and others' research really just demonstrates the tools are not living up to their potential, and barriers to finding them, barriers to using them and comparing them are just far too common.

I think the -- in many ways the decentralization of these tools with the separate calculator on each college which are based on various locations on all different college websites, with colleges able to develop their own tools, they can ask and require any number of questions, all these things present both use and oversight challenges where the Department of Education would need to search for and actually use thousands of net price calculators to make sure all the calculators are meeting both statutory requirements and also following the best practices that -- that you've outlined. So that decentralization also means that even if students can easily find these calculators, they need to complete multiple sets of questions, multiple times to make that comparison then thereafter. So really to help net price calculators fulfill their potential, the solution you've offered and that central portal for -- for calculators where a student can enter just one set of questions just once and see results for any number of colleges is a really important opportunity for policymakers and I thought that was a great example of a real research-based solution that your paper offers that actually has a real potential to become reality.

And the other thing I wanted to highlight was the College Scorecard website as another thing that you were able to mention a couple of times in your presentation and certainly go into further detail in the paper. What I think is important to highlight here, given the Department of Education's prioritization of consumer information broadly specifically through the College Scorecard tool and doing so in the context of holding back or even eliminating regulations that previously worked alongside those transparency efforts. And here I wanted to throw the question back to you to maybe take a little bit more time to offer your thoughts on how the changes the administration has made to the Scorecard align or don't align well with the best practices that you've identified in your review of the literature. And as a second part, perhaps you could speak to the broader implications of those changes in light of current oversight policies, specifically you know, in what ways might the watering down of more concrete accountability and oversight efforts change how we think about what information students need and how that information should be presented.

MS. STEFFEL: Thank you. I think those are really important questions. So a couple of changes we, at the redesign of the College Scorecard that I think are notable are one, there -- there is an increase in personalization. The redesigned Scorecard does allow for program level outcomes to be anything (inaudible), but I think is a nice step in the right direction. At the same time, I think we actually stepped back in terms of the navigability of the information that's provided. The new Scorecard and the redesign really decontextualized a lot of information that used to be provided alongside meaningful reference points and comparison standards. And so I think that leaves students at a disadvantage when they're trying to interpret the numbers that they're seeing and how those compare to say, national averages or you know if we're talking about student outcomes like earnings, how those might also compare to you know, high school students, if they -- if they did not go out and -- and get their college degree.

In regard to your second question about you know, what is the relationship between sort of this importance of consumer information or transparency and oversight within the Scorecard and -- and there's a watering down of more concrete accountability and oversight efforts change you know what we should think about when with information students need and how it should be presented. It's just the burden of responsibility to the consumer and -- and the consumer often does not have adequate background knowledge to identify and contextualize information like poor performance. So it makes it increasingly important for the federal government as the administrator of disclosure tools like the College Scorecard to flag poor performing institutions. So for example, institutions with extremely high debt-to-earnings ratios, and that could be done with say, dynamic alerts. And to provide adequate context with which to recognize poor relative performance, so comparisons to national medians and other important comparison standards.

MR. MATSUDAIRA: Great, let me jump in and thank you both for the -- the really wonderful presentation, Mary and co-author and to Lindsey for the great set of comments. In the interest of time, I'm going to keep things rolling and I'm going to be in the awkward position of turning things over to myself and -- and to my collaborator, Lesley Turner, who's going to present on joint work that we've been doing together on proposing of framework for an accountability system that could cover the full range of postsecondary institutions. So Lesley, if you're ready, I'm going to turn it over to you.

MS. TURNER: Jordan, can you give me a thumbs up that everything looks okay on your end? Great. Thank you so much, Jordan. I also want to thank Adam and everyone who worked really hard to put this event together including the folks working behind the scenes at Brookings to make sure everything went smoothly, and also to thank Jordan for being you know, a fantastic collaborator and co-author on this project. Okay.

So, what is the problem that we're trying to solve when it comes to thinking about accountability and higher education? So, I think the problem that Jordan and I ultimately set out to address with this framework we're going to propose, is the fact that at some postsecondary institutions students regularly and one could say predictively experience very poor outcomes. So some examples are both earnings where less than 13 percent of students -- 13 percent of students in total are enrolled in programs that go on to earn less than the typical high school graduate. So there's a -- a nonnegligible share of students that can expect to not even do as well as the high school graduate would in the labor market. A second is unmanageable debt. A -- a large number of students actually are enrolled in programs where they are unable to make progress in paying down their debt, and in fact, if we look out several years after they've left college, their debt has actually increased.

We also know that past accountability efforts have been successful at improving student outcome. So the CDR, Cohort Default Regulations that were implemented in the 1990s led to closure, large closures of predominantly poor performing for-profit schools and improved student loan repayment in doing so. And the gainful employment regulations are another example. So quality is a really hard thing to measure and it's multidimensional. I think a really hard question is to come up with some reasonable ranking of institution and so where Jordan and I settled was to sidestep that question and think about a system that sets out minimum standards using outcomes that students value. So using thresholds that we all could agree are the lower bound for what students should be able to achieve from going to higher education. In other words, that federal aid should do no harm.

So these kinds of principles we've sort of used in discussing the variety of metrics that could be used for accountability in higher education. I'll go through them quickly. That the -- the measures that are used to impose accountability should represent unambiguously positive outcome for students. But there's no question that these outcomes represent something that is a benefit to students. As I mentioned before, we are focusing on setting minimum acceptable performance standards. So avoiding the question of full raking of institutions but coming up with measures that delineate institutions where we expect students to have poor labor market and loan repayment outcome. We want accountability metrics that are difficult to manipulate outside of actually improving student outcome. So this is for instance, with the Cohort Default Rate regulations, with the -- the growth in income-driven repayment and the ability to encourage students to put their loans in forbearance, there are ways to make Cohort Default Rates improve that aren't necessarily benefitting the students. Forth, we want metrics that are simple and easy to understand, both for policymakers and for students and their families. We want to measure these outcomes over a time horizon that allows us to sort of have a reliable estimate of how well students are doing, but also make sure that we can sort of impose accountability before too many students are harmed.

And then finally and perhaps the most controversial is that we are considering metrics that ideally would be applied to all sectors, so without any consideration of institutional tax status, and I think this is motivated by the fact that we've seen in recent years conversions in for-profit status to nonprofit status, we've seen public institutions taking a role that looks closer to what was formerly taken by for-profit institutions with ASU's recent deal and Purdue Global. And so we think that focusing on focusing on tax status may be too narrow of a focus to make sure that institutions are serving their students well. So the two metrics that I will discuss are going to be based on net earnings and a loan repayment rate. And for each of these in turn, I'll show how they answer a very specific question that relates to student wellbeing and then talk about the specific construction.

So, for the net earnings premium, we're asking the question, "Can at least half of the former students in this school or in this program expect to earn more than the typical high school graduate after accounting for their education costs?" So how are we going to measure this? I'll go through this one step at a time. So first, we need to know the median earnings for a cohort of students. And we are focusing on a three year time horizon that this sort of -- we've looked at data and this is where earnings tend to become more stable and the correlation between other outcomes like debt repayment at three years is highly correlated with debt repayment at later points. And we also are including non-completers in this measure. But note that it's conditional on students working. So this is just among students that have earnings.

So this is median earnings of exiters from a particular program and from this we subtract median out of pocket costs. So this is the mean of total costs that students who enrolled into this school or program paid out of pocket specifically tuition and fees, net or grant aid. And then we compare this. So net earnings -- earnings, net of out of pocket expenditures to the earnings of a typical high school graduate, so median high school graduate earnings. We focus on all high school graduates that are between the ages of 25 and 35. For this metric, we also include students who are unemployed and students who are not in the labor force. I think that sort of this creates an automatic adjustment in this metric for the business cycle. And we look at high school earnings specific to the state that an institution is into account for regional fluctuation. And for predominantly online institutions, we propose looking at the national average. So with this metric would actually require additional data being collected, in particular the out of pocket cost, but we believe this could be achieved through sharing information from a tax form the IRS collects with the Department of Education.

Okay, let's talk about the loan repayment rate. So this -- this metric answers the question, "Can a cohort of borrowers as a whole reduce their outstanding student loan debt by at least one dollar within three years of entering repayment?" How are we going to measure this? So we're going to take the balance of a cohort of exiters. This again includes non-completers and we will follow the cohort of students three years later and look at the -- the sort of ratio of their overall balance at three years to the balance at repayment excluding borrowers and statuses where we might expect them to not be making progress on their debt. Okay? So we exclude those borrowers from both the numerator and denominator here and this ratio is going to be a number that is around one, so if a borrow -- if a cohort of borrowers has the same exact balance, principle and interest three years later, then the term in blue should be equal to one. And so this term will be greater than one if the balance has increased and less than one if the balance has decreased. And we -- we add the subtraction up front so that we have a number that is negative for cohort to borrowers where their loan balances are increasing. So this is a bad outcome, and positive when we have a cohort of borrowers that are decreasing their loan balance. So in the case of both of these metrics, we can sort of do an -- a -- a -- put them on a scale where negative is a bad outcome and positive is sort of a minimum acceptable good outcome. Okay. So there's lots and lots of different decisions when coming up with metrics for accountability. I'll talk through some of the decision points, but they're undoubtedly others that we could consider in thinking of how to adopt the broader concepts.

So the first is the decision of looking at program level metrics versus school level metrics. And we ultimately landed on program level metrics for the reason that they're substantial variation within those schools. So for programs that have negative repayment and net earnings outcome, the school that they exist in almost always has other programs that produce positive outcomes. When we define programs being into the weeds a bit, we use a two-digit zip code. This is the sort of categorization Department of Ed uses to distinguish between fields of study. This is you know, a necessary aggregation. For instance, it combines all engineering programs, but it also allows sufficient underlying sample sizes to cover most students. And we actually find very little difference in performance along these metrics when we look at a more detailed delineation of programs of study.

Why are we looking at two different measures? We believe that they are both measuring fundamentally good outcomes for the student, but they have different costs and benefits and compensate for the other costs and benefits. Okay? So a number of schools in recent years have opted out of federal loan programs. They obviously won't have a loan repayment rate and so they remain covered with the net earnings metric. We know that in certain occupations, especially occupations that rely heavily on tips, there's underreporting of income and so in these occupations the loan repayment rate may be a better measure of underlying economic wellbeing. And then both of these we believe provide incentives for institutions to work to reduce out of pocket costs in addition to improving economic outcomes for students.

So for the remainder of my short time, I'm going to show you results from our modeling of the performance of programs along these two lines. Okay. We're using program level data from the College Scorecard and program level loan balances to look at institutional or program repayment rate. And an important caveat here is that this is our best approximation of how programs will perform along these two metrics given available data. This is for sure not going to be the -- the true outcomes or performance along these lines if they were implemented. We know from the gainful employment regulations that there was preemptive action on the parts of institutions. Lots of programs got closed even if though those regulations were never fully implemented. So this is not taking into account any changes in the behavior of institutions as well.

Okay, so what this figure is showing you i9s the percent of students in programs that have negative outcomes on both of these measures. Okay? So across all programs of study or programs that are covering 91 percent of students, we find that 7 percent of students are in programs that would fail along both of these lines. Okay? We can also look at the performance at different levels of study and you can see that the -- among bachelor's degrees and higher, there is very few programs that would not be able to meet at least one of these standards. But for sub-bachelorette credentials, there is higher rates of negative earnings bringing negative repayment rates. When we break things out by institution, we see the same patterns outside of this first professional category. So among all programs for-profit institutions have more than double the rate of programs that are failing along both of these lines. But interestingly, when we look at the sub-bachelorette credentials, in particular we see similar performance between nonprofit and for-profit institutions further motivating our sort of point that tax debit is not necessarily an indication of student outcome.

So let's focus back on this 7 percent of all students that we predict to be in failing programs. What does this mean for students? So we -- we estimate that this is over half a million exiters, students leaving programs every year. At exit they owe 6.2 billion dollars in student loans. The balance grows another 200 million dollars in the three years. And we estimate that these students paid a total of almost 7 billion in out of pocket costs. But importantly, 2 out of 3 of students in these programs with negative earnings bringing on negative repayment rates, have -- are -- are attending a school that has at least one other program that produces positive outcomes along these lines. So this is not, as I'll show you in the next slide, this is not a -- a situation where the -- the programs with negative outcomes along these (inaudible) in the small set of schools. For the most part, there's a large amount of variation within schools that have at least one program that -- that doesn't meet these two standards. Okay?

So let's look now at schools. So we're looking at schools, rather than programs and we're looking at the share of all institutions that have no students in failing programs. So about 79 percent of colleges would have no programs that have negative earnings bringing on negative repayment rates. About a quarter of institutions would have programs that pay along these two lines and contain a quarter of their students, and only 7 percent of institutions have all failing program. What does this look like across the distribution of different sectors? So we can see in the public and nonprofit sector the vast majority of institutions have the majority of their students in programs that have either a positive earnings premium or a positive repayment rate or both. So in these schools, the majority of students are programs that produce good outcomes. And only in a small number of schools in these sectors are all of the programs not meeting these standards.

Things look a little bit different in the for-profit sector. Here the distribution is basically bimodal where in schools where there is one program that doesn't meet these standards, oftentimes all of the other programs also do not meet these standards. This may be a part of function of the fact that for-profit institutions tend to be small and specialized, so these might be a lot of schools with only one or two programs, but it is notable that in -- in this sector alone, the programs that cannot meet these standards seem to be concentrated in a small number of institutions.

And then we can look at schools that have at least one failing program, right? So focusing on all of the schools that have between 1 percent and 100 percent of their students in a program that doesn't meet these standards. In the public sector, only 10 percent of schools that had at least one program that wouldn't meet these standards had more than 90 percent of the programs fail. So again, within the same institution that students in these programs are attending, there are other options that would produce better outcomes. This is not the case in the for-profit sector.

So before I end, I want to give a plug for a data visualization tool that Jordan and I have in the works. So what I'm showing you is a screenshot from this tool, and it shows a scatter plot with a lot of different points. Each of these are representing a program where the -- Where that program falls is based on the repayment rate and the net earnings premia of that program. So all of the programs in -- in this particular quadrant would be the ones that fall into those 7 percent of failing programs. And what we want to be able to do with this tool in addition to be able -- being able to focus in on specific credential levels and specific fields of study, is to also allow functionality to move the -- these components of the two metrics up and down. So look at for instance, if we were to base the earnings premia on the 25th percentile of high school earnings or the 75th percentile of high school earnings, which programs would that affect? How many programs would that affect? So keep a lookout for this. We hope to have it ready for the public in the next few weeks. Thank you so much.

MR. MATSUDAIRA: Great, thank you, Lesley. I, in my haste failed to introduce our Discussant, and I just wanted to -- to give huge thanks to Stephanie Talini for offering comments and especially for her grace in being willing to do so on a very just in time timeframe, as Lesley and I were slow to get her the paper. So thank you, Stephanie.

MS. TALINI: Well, no problem and thank you so much for having me. I enjoyed looking this over and learning more about what you guys just presented. It is fantastic, a really great discussion, really promising ideas and I really commend you on the modeling given that the data limitations especially. That was really impressive, and I think what you guys have done here, is really exciting and I can't wait for that visualization tool. It sounds very cool. So I wanted to start by talking a little bit about the principles for a good accountability measure. I really, really like them in general. I might quivel with you know, maybe one at the end about where we might potentially need different standards for different types of degrees or programs or tax status or something, but I see where you're going with it. One thing that was not on there, is that I don't know if there's a way -- I don't know if this fits in your principles of how you exactly want to see this, but we want to be careful that metrics should not be largely driven by student demographics. I don't know if there's a way to kind of say that in some way that we may not want to disproportionately harm institutions or programs that serve large shares of low income students and students of color simply because of student demographics rather than their performance. So you know, and again, kind of saying this more weakly or saying this a different way, we don't want to generate incentives for institutions to deny admission to any particular groups of students. So that's kind of something that I was kind of going over in my head. And to that end, I'd like to see more discussion of how it's used and other MSIs fare on these measures and just breakdowns of how institutions and programs fare by their student demographics. And I think you've got to that very late at the very end of potentially the paper that I was scanning recently, but it -- you didn't break up there in the presentation. So I'm kind of interested to see how these correlate with demographics in particular as we move forward.

So thinking about the earnings metric next, I think high school earnings are really promising. I think there's a lot here to -- to go with and to start it on. I have advocated for some kind of high school earnings benchmark, especially for short term certificate programs in the past. It's a very clear threshold that makes intuitive sense to students and policymakers, so I think this kind of thinking about median high school earnings in the state is -- is great if you can put that state level and age 25 to 35, I really liked how you kind of nail in that focus on the particular benchmarks there. It just -- it seems clear to me that if you want to call yourself a postsecondary program, you should be generating earnings or net earnings beyond what students would get in high school, and if you want to have access to federal student aid for postsecondary education, that seems like a good selling point there politically and it seems like a nice kind of natural threshold in some way. So I do really like that.

I think it's critical to consider the non-completers as you do, so I really appreciated that, that that's in that metric. I think the timeframe of the three years is well justified and kind of fast enough to act upon and also long enough so that we see a little bit of student outcomes that -- that we believe are -- are somewhat accurate in how we see that. I -- I was thinking more about excluding people with earnings equal to zero, and I know that you don't want people who have left the labor force, but I am worried about programs where a really large proportion of students are unemployed. So I don't know if there's a way you could grab those students somehow, maybe using UI records or something where you could find those students who are truly unemployed and not those who have left both the labor force. So that's something I encourage you to potentially look into.

And then I appreciated the cost being added in there with the net earnings measure. There are a few complications and I think just additional justifications that you could talk through or think through, particularly how you justify the amortization periods for each of the degree levels. It seems somewhat arbitrary to me, so just thinking through some of that would be I think, make it more compelling.

All right, and I'll return to a few more general points in a minute, but then I thought I'd turn to the repayment rate. So thinking through that one, you know, my first question on a lot of these is how does all of this interact with income revenue repayment? Especially if we want to see more students taking you know, entering ADR tech plans or you know even proposals for auto ADR or something like that. You know, do we want to think about adjusting this or how does it kind of interact?

The second thing I always think about with repayment rates is this kind of cohort based measure really pooling students, and any time you have that pool measure, I do think about you know, it's taking a little bit away from you know what's the number of students or the proportion of student on an individual student basis, how are those students doing? So you know, are we allowing for students who are repaying really well to compensate for a large number of students who are doing really poorly in repaying their loans and how does that work with the kind of cohort-based measure rather than a percentage or something like that, percentage of students.

Wondering if you also kind of along those lines want to think about adjusting gains for the percentage of students who borrow or something along those lines and was thinking a little bit about on-time repayment and things as well, but I will reserve that to chat with you guys separately on how something like that would work. So on general points, I like program-specific metrics as well, so I really appreciated that about your metrics, but thinking through these for bachelor's degrees, for me, wrapping my head around that particularly for non-completers, is a little bit stressful for me. So I'm just wondering if you thought through -- if students are say, undecided in their first year as many are, and they drop out, they're a non-completer, how are they counted in a program level or two-digit zip code level? You know, repayment rate or net earnings metric? If you did a year in one major and then you switched right at the last minute, right before you decided to drop out, how is that counted? Would a school lose their eligibility for a Title IV for a whole zip code you know based on some students who have just recently switched? I kind of -- I'm imagining all of these scenarios where it gets a little bit -- a little bit hard to pinpoint exactly the programs that students are in especially at the bachelor's level when students are taking four years and they're not enrolling in a specific program as they are often at for-profits or at other certificate programs or enrolling in the exact program when you enter.

Then considering the two-digit step, you know, with thinking about sanctions I guess is another level I'll push you to, is how would you implement sanctions based on these metrics? I'm thinking about taking away Title IV aid potentially for an entire two-digit zip code within an institution versus a four-digit versus you know -- I'm just thinking if some of that was hard to think about a bachelor's context in particular, so I challenge you to think through that.

And then I was wondering about how transfers work and if you take on debt for an associate's degree program early on in your educational career and then you switch to a bachelor's degree program, you then drop out. You know, is -- is it your -- how do you assign the debt to the institution and the earnings? That's the question I have there. You talked a little bit about in the paper online students and I think those are a real challenge to think about and what you know, what's the state high school metric that should be used for online students who have different criteria there or national number?

Something else I wondered too is how many students should be the threshold for exemption? Like that cap of maybe 10 per program or 20 per program? Kind of what's that large enough sample size that we feel like we should be holding programs accountable or zip code level accountable? Thinking about shorter versus longer certificate programs. I was just thinking about differences there. You -- you lump a lot of the certificates together in your analysis there and I was just thinking about choosing some of those apart as you look at it.

And then, I guess I would just also think about should we think about specific policies or exemptions for particular types of institutions or fields that might be more or less problematic? You know, cosmetology, you know, programs have a different set of concerns, I guess whether or not they are valid or justified. You know, other reported tipped income, there might be large numbers of hours required for state licensure. We might have different institutions that may come at this thinking you know, thinking about it in many different ways. And then I guess just on the estimation, something I was looking at and I will wrap up with this, is just to do some kind of cross validation or comparisons with other earnings or repayment metrics or benchmarks would be a real help for me. With all the appropriate caveats of you know, if you want to look at you know GE earnings and just compare them to some of the -- the things you're looking at just so we can kind of get a sense of that or even other kinds of VA net ranks and over the maturing policy generally. I'd love to just see where yours falls in relation to kind of what we already know in those other metrics. So I encourage you guys to do that as a next step, but it was great and I really, really appreciate it and it really got the ball rolling and addressed a lot of really thorny issues in this area. So thanks.

MS. TURNER: Thanks so much, Steph. And I think it's encouraging for Jordan and I that a lot of issues you raised are things that we have gone back and forth on a lot. (laughter) And -- but they were also some new things to consider and so that gives us a lot of food for thought so very much appreciated. I don't think there's time to go through and respond to all of these. I will pass the ball to Jordan and see where we are in terms of timeframe.

MR. MATSUDAIRA: I think we have a couple of minutes. That was an incredible list of things as -- as we might have expected from -- from Stephanie. I think maybe some of the -- the highlights are one of the most important things to call out or that you know, we've been really concerned with thinking about how this would impact HBCs and other minorities servicing institutions and generally how it might affect access in kind of combined with you know, just how we're thinking about minimum standards. So it -- you know, Lesley might be able to throw out a couple of statistics off the -- off the top of her head. We did look at the fight for -- for HBCUs and -- and NSIs and -- and the fight is not that much different than it is for other sectors more broadly, although as you might expect, there is like a general correlation that institutions that tend to have really high numbers of students in failing programs do tend to be institutions that enroll more minority students. You know, I think the -- the big picture to keep in mind is that you know, we can't -- as you know, we can't equate access with kind of access to just any kind of level of education program and part of the problem that we're trying to solve is the differential enrollment of low income minority students in programs that are not serving them well. So -- so we definitely have our eyes on that, but there's going to be a lot more analysis of that in the paper when -- when it's made available. One other thing that was kind of near the top of your comments is just thinking about capturing unemployed students in any kind of earnings metric. It's just such a thorny issue because the tax data is just hard to really tell whether nonemployment is really unemployment versus nonemployment. We know kind of generally that most people who are not employed are out of the workforce, and so it's kind of tricky to -- to penalize an institution for the kind of full set of people who aren't employed at any given point. I think it probably makes sense at some programs and short-term certificate programs and other kinds of programs that really are very explicitly employment oriented, but for this purpose when we're thinking about a rule that will apply broadly across the sector just in the interest of the conservative and really trying to set a minimum standard, we kind of erred on the side of giving institutions the benefit of the doubt and in defining an intermixed metric based only on employed workers. Lesley, if you want to tap on, too?

MS. TURNER: Sure, so I'll just throw in quasi statistics. So we were absolutely you know concerned about the bite in -- in terms of different institutions. Minorities are the institutions of HBCUs as Jordan mentioned, and in terms of sort of the share of students in a given institution that are in a program that would fail both of these measures, the HBCUs are somewhere between the publics and the nonprofits. So they look better than the publics, they don't look as good as the nonprofits, which actually makes sense because they are a mix (laughter) of public and nonprofit institutions. I think the majority of HBCUs have either no programs that would get dinged on these lines or you know, one, some small percentage of program. And -- and overall I think it's worth reiterating. We were surprised at the -- the relative amount of variation within a given institution that most programs that don't look so good along these lines are in institutions that have a lot of program even at the same credential level that do look good along these lines. I think -- let me -- let me think about some of your other comments. You know, in terms of access, I totally hear you. We don't want to create adverse incentives to not admit certain students. We were very concerned with incentives. I think the fact of the matter is if you look at where this would bite, it's almost completely nonselective institutions that are sort of not admitting any students. And so I think in terms of -- yeah, I will leave it there.

MR. MATSUDAIRA: I also just want to throw out you know, to one of your other points about just thinking about how the metrics that we have relate to some of the other kind of metrics that have either been used in the past in past accountability systems or have been in a proposed and recent conversations like about advertising revenues, things of that nature. For the visualization that we're putting together, we're hoping to kind of allow users to experiment with you know, setting thresholds based on these other kinds of metrics that are out there and kind of seeing how all of these things compare to one another and what kinds of programs are kind of identified by different sorts of metrics, and hopefully just creating a tool that allows people to really see what the impact of some of these different policy options might be. In -- in that regard, I really want to shout out Leonardo Recippo who is a wonderful future college graduate student who has been helping -- helping us with the visualization so far. But more to come on that front and hopefully we'll have it ready when the paper's released.

MS. TALINI: Can't wait to see it.

MR. MATSUDAIRA: Thanks for your comment, Steph.

MS. TALINI: Thank you.

MR. LOONEY: Yes, I thank you, thank you all for the presentations and for your discussions. It's my job to close this out, so I -- I just wanted to say thanks to our advisory board who has helped identify these topics. Thanks Jordan, for helping to organize this work and -- and for providing paper, and to all our authors and discussants. Our process from here on out will be to incorporate feedback we've gotten today and -- and sent to the offers by email into a final draft and we will post and disseminate those through the usual Brookings channels by email and on our webpage, so check back in a bit. And otherwise, thanks for watching. Jordan, do you have any last words or --

MR. MATSUDAIRA: I don't. Just thanks to everybody for contributing the wonderful papers and for people listening online. Please feel free to send comments in and we'll be sure to let the office get them.

MR. LOONEY: Yep. Thank you and good bye.

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