HOLDING COLLEGES ACCOUNTABLE FOR EXCESSIVE STUDENT LOAN DEBT: 2022

by Andrew Gillen, Ph.D.

August 2022

Texas Public Policy Foundation

August 2022

by Andrew Gillen, Ph.D.
Texas Public Policy Foundation

Table of Contents

Holding Colleges Accountable for Excessive Student Loan Debt: 2022

Andrew Gillen, Ph.D.

Executive Summary

Colleges that leave their students with excessive student loan debt face almost no accountability. Fortunately, new data from the U.S. Department of Education can be used to identify problematic programs, and policymakers should enact new metrics to hold these programs accountable. For that purpose, debt as a percent of earnings and gainful employment equivalent are two promising accountability metrics. Between 11% and 19% of college programs would lose eligibility to participate in the student loan programs under our recommended accountability systems.

Introduction

This annual report highlights the tools that policymakers can use to hold colleges accountable for excessive student loan debt and updates our previous analyses using the most recent data.

Like any other investment made with borrowed money, student loans can fund productive and worthwhile pursuits or be squandered as malinvestments. Student loan debt used to make reasonable and thoughtful educational investments can yield a lifelong return in the form of lucrative careers with higher salaries that more than compensate for the cost of obtaining the education, including any student loan debt. Investments of this type are productive and worthwhile, so the student loan debt that falls into this category is not a cause for worry—in fact, we should be worried when too few students are incurring debt to make these types of investments in their future. Conversely, debt can also be squandered on malinvestment. The student loan debt that falls into that category is frittered away on low-quality education that fails to improve the knowledge or skills of students, fails to prepare students for a career, or is used to fund years of leisure and partying. This type of student loan debt imposes high costs on students' financial future for little to no long-term benefit. This excessive student loan debt is indeed a cause for worry.

> ### Key Points
>
> - Colleges that leave their students with excessive student loan debt relative to post-graduation earnings are not being held accountable.
>
> - The only federal accountability metric, the cohort default rate, is extremely lenient and is rapidly becoming obsolete due to income-driven repayment programs.
>
> - Federal and state policymakers should introduce new accountability metrics to hold colleges accountable. Debt as a percent of earnings and gainful employment equivalent are two promising options.
>
> - Less than one out of every five college programs would face sanctions under our recommended accountability systems.

Changes from last year's report, *College Student Loan Debt and Earnings: 2021* ([Gillen, 2021](#)) are as follows:

- Earnings are now reported for three years after graduation (rather than two years).
- A separate study, *College Student Loan Debt as a Percent of Earnings: 2022* ([Gillen, 2022](#)), presents an introduction and overview of the debt as a percent of earnings metric, including results by credential, control, and academic field (last year, that information was combined with this accountability analysis).
- The combined rating that merged debt as a percent of earnings and gainful employment equivalent into a single summary metric was dropped.

Data Source, Definitions, and Coverage

For readers interested in the data source, term definitions, and data coverage, here are a few technical notes:

- The data used in this report are from the U.S. Department of Education's College Scorecard program level data (U.S. Department of Education, n.d.), and the data definitions and descriptions are summarized from the technical report (U.S. Department of Education, 2022). Author analysis and calculations are responsible for all other information.

- Data are reported by program, which is a credential/major/college combination. For example, the bachelor's degree (the credential) in accounting (the major) at the University of Houston (the college) would be one program.

- In the most recent data release, there are over 300,000 college programs across the country. But some of these had no graduates or are located at branch campuses whose data are pooled with the parent campus. That leaves around 150,000 main campus programs with graduates.

- Programs with few graduates or few graduates with earnings or student loan debt have their data suppressed to protect student privacy.

  - There are approximately 39,000 programs with earnings data, accounting for 68% of all graduates and 82% of bachelor's degree graduates.
  - There are about 51,000 programs with student debt data, accounting for 73% of all graduates and 91% of bachelor's degree graduates.
  - There are about 34,000 programs with both earnings and student debt data, accounting for 63% of all graduates and 80% of bachelor's degree graduates.

- Data are collected by degrees awarded, not by unique students. This means that some (but not all) students who double majored appear twice in the data.

- Data are presented by cohorts consisting of two years of graduates (e.g., one cohort would be graduates who graduated during the 2016–17 or the 2017–18 academic years). Cohorts overlap (e.g., 2017–18 graduates will appear in two cohorts).

- Debt is the median cumulative amount borrowed by graduates through the Stafford or Graduate PLUS loan programs. It includes only loans taken out for the level of credential received at the institution the student graduated from (e.g., the debt for those who earned a master's degree does not include any of their undergraduate debt). It does not include any Parent PLUS or Perkins loans, nor does it include any accrued interest.

- Annual earnings are the median sum of wages, deferred compensation, and self-employment income. Earnings data cover all graduates who received federal financial aid but exclude those who died, those enrolled in postsecondary education, those who received a higher credential, and those who did not work during the measurement period.

- Unless otherwise noted, figures (e.g., a histogram or boxplot) show the median among programs, while tables show an enrollment weighted median.

- Unless otherwise noted, all values are adjusted for inflation using the Personal Consumption Expenditures price index and are presented in 2021 dollars.

Student loan debt is not all good or all bad. Rather, some student loan debt funds highly worthwhile educational investments, while other student loan debt funds financially hazardous malinvestments. Until recently, it was hard for students to tell the difference between these outcomes until long after they had enrolled and incurred the debt.

Limited data availability only allowed for analyses that lumped all colleges or all majors at a college together, allowing for only an average assessment of whether student loan debt was worthwhile or excessive. But new, better, and more detailed data are now available, so we can look at individual programs on specific campuses rather than

broad overall averages. These new data reveal that most college programs are worth the student loan debt students accumulated to attend. But some college programs leave their graduates with excessive debt that poses a financial danger to students.

This study aims to help students, parents, colleges, and policymakers begin to distinguish between these two types of student loan debt: worthwhile or excessive. We do that by analyzing the U.S. Department of Education's College Scorecard database (U.S. Department of Education, n.d.), which contains new data on student loan debt and early-career salaries. We use these data to introduce two potential accountability metrics: Debt as a Percent of Earnings (DPE) and Gainful Employment Equivalent (GEE). Under our recommended accountability thresholds for DPE, 11% of college programs could face a loss of eligibility for federal financial aid programs. Under GEE, 20% of college programs could lose eligibility.

Existing Accountability Metrics are Becoming Obsolete and Are Also Mistargeted

The only existing accountability metric for student lending at the federal level is the cohort default rate—the percent of a college's students who default on their student loans within three years. While there is nothing wrong with default rates being an accountability metric, they should not be the *only* accountability metric. For starters, the default rate cutoffs are extremely generous. A college can have a 29.9% default rate, meaning that just under 3 out of 10 students default on their student loans within three years, and remain fully eligible to participate in the student loan programs. In addition, the rise of income-driven student loan repayment programs is rendering default rates obsolete. These repayment plans tie monthly student loan payments to the graduate's income. If a graduate loses their job, their student loan payment drops to $0, resuming once they find a new job (with their new loan payment based on their new salary).

These income-driven repayment plans are a dramatic improvement over the standard fixed monthly payment plan because they ensure that payments are always affordable (Gillen, 2020). But they also completely neuter cohort default rates as an accountability mechanism because defaults are essentially eliminated under income-driven repayment plans. As default rates become obsolete, there will be virtually no accountability for colleges that burden their students with excessive student loan debt.

The other main problem with cohort default rates is that they target an entire college rather than individual programs. Yet,

> Program-level accountability is vastly superior to institution-level accountability because outcomes can vary dramatically among programs at the same institution, meaning that a broad institutional average on an accountability metric can be quite misleading. Institution-level metrics allow poorly performing programs at "good" colleges to escape accountability while punishing high-performing programs at "bad" colleges. Program level accountability avoids these problems. (Gillen, 2022, para. 7)

In sum, the cohort default rate, the only metric holding colleges accountable for excessive student loan debt, is both increasingly obsolete and aimed at the wrong target (institutions instead of individual programs).

New Metrics to Hold Colleges Accountable for Excessive Student Loan Debt

Fortunately, federal and state policymakers can use newly available data to introduce new accountability metrics that will hold colleges accountable when they leave their students with excessive student loan debt. There are many promising candidates, and this paper focuses on two that can be created using the new data from the Department of Education's College Scorecard: debt as a percent of earnings and gainful employment equivalent. Both metrics are an improvement over the cohort default rate because they target programs rather than entire institutions and because they identify excessive student loan debt by looking at the typical debt relative to earnings of recent graduates.

Debt as a Percent of Earnings

The first promising accountability metric that the federal and state governments could use is Debt as Percent of Earnings (DPE), which is simply median student loan debt as a percent of median earnings. For example, a program with a median student loan debt of $25,000 and a median salary of $50,000 would have a DPE value of 50%. If median debt increased to $75,000 while the median salary stayed at $50,000, the program's DPE value would be 150%. The lower a program's DPE, the better for students.

DPE does a better job of evaluating whether the student loan debt incurred to make an educational investment is worthwhile or excessive by relating the median amount of student loan debt to the median early-career salary. A low DPE indicates that student loan debt is low relative to

Figure 1

Number of Programs with Debt as a Percent of Earnings Above Various Thresholds
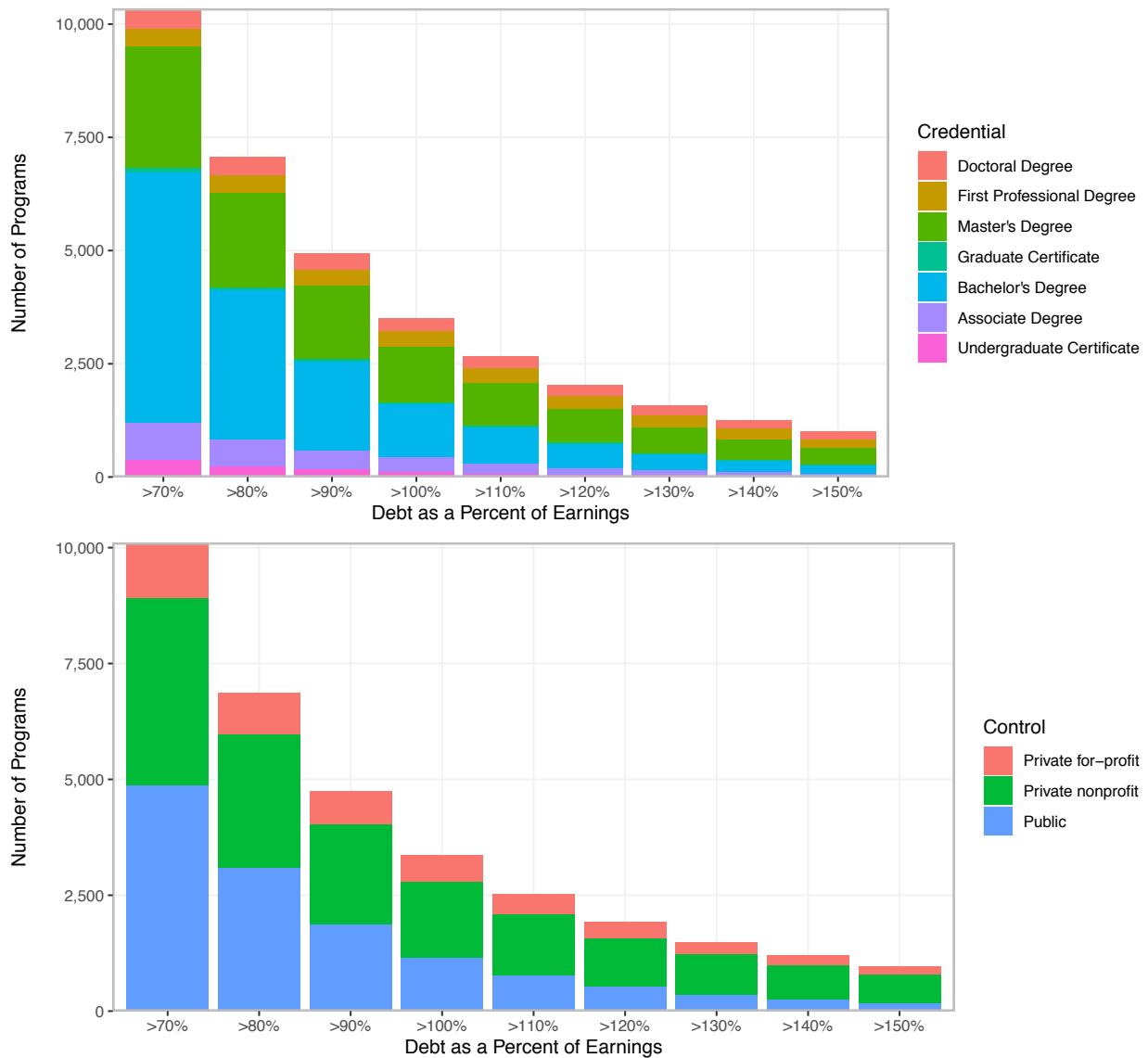
Note. Data from *College Scorecard* (data set), U.S. Department of Education (https://collegescorecard.ed.gov/data/) and author's calculations.

graduates' salaries, which indicates that enrolling in the program can be a worthwhile educational investment. In contrast, a high DPE means that student loan debt is high relative to graduates' salaries, indicating that enrolling in the program is likely to result in excessive student loan debt.

Policymakers should use DPE as an accountability metric to hold colleges that leave their students with excessive student loan debt accountable. But where should policy-makers set the thresholds to define excessive debt? To find

appropriate thresholds, we encourage policymakers to keep the following key factors in mind.

First, accountability systems should use both carrots and sticks. Historically, accountability from the perspective of colleges has entailed only higher administrative burdens and the possibility of sanctions and punishments. With no potential rewards and only potential punishments, it is no surprise that colleges have traditionally resisted the accountability movement. But it does not have to be that way. Carrots, such as regulatory oversight exemptions or financial bonuses, can and should be incorporated into

Figure 2

College Programs by Debt as a Percent of Earnings Performance
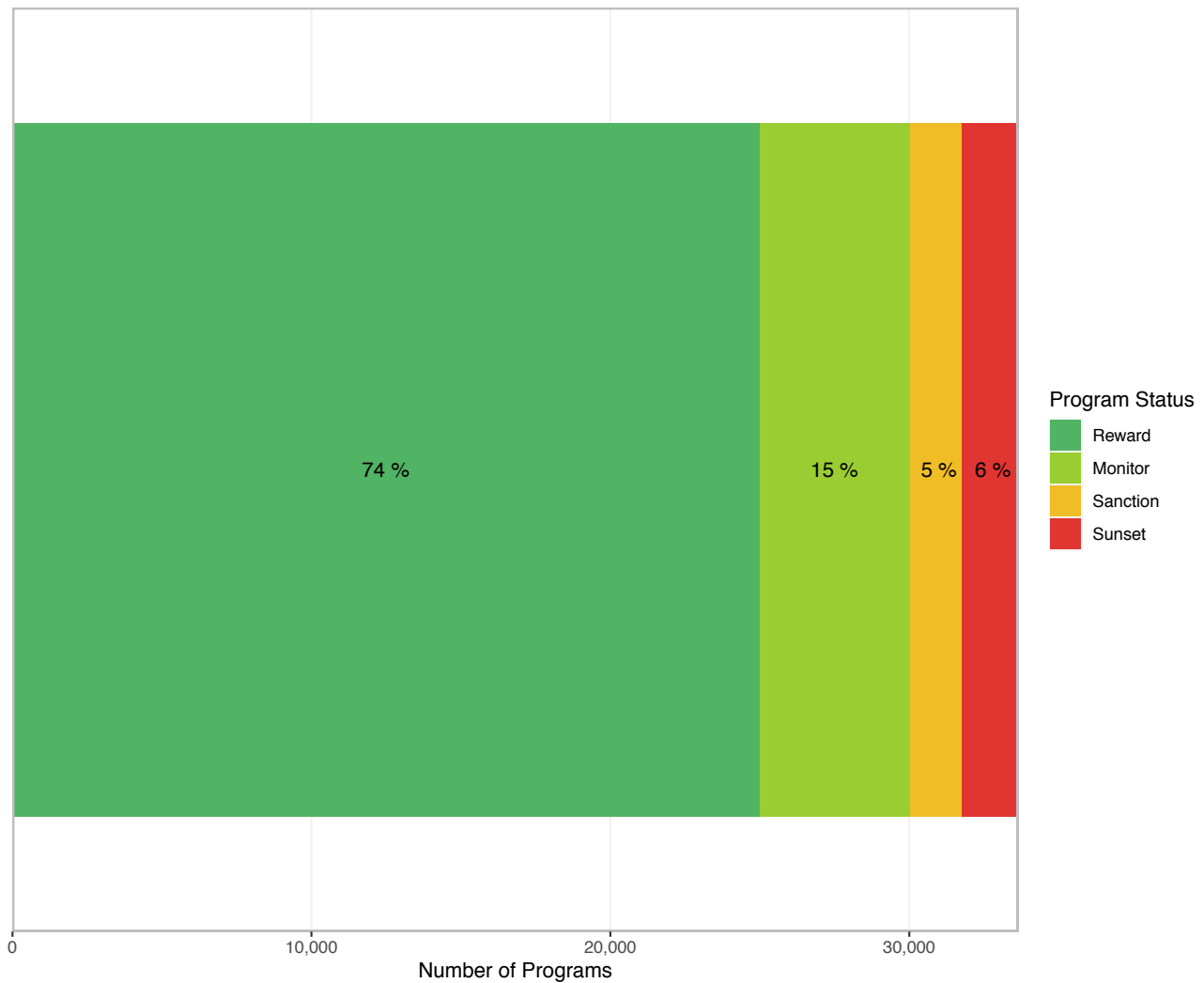
Note. Data from *College Scorecard* (data set), U.S. Department of Education (https://collegescorecard.ed.gov/data/) and author's calculations.

accountability systems. By rewarding high performers while punishing bad ones, accountability would no longer be universally and reflexively resisted.

Second, avoid all or nothing determinations by using multiple categories of performance and sliding scales. Existing accountability systems in higher education tend to have a binary approach—where a college faces either no sanctions or a fatal sentence. For example, a college in good standing can enroll an unlimited number of students using federal financial aid. But a college that fails the cohort default rate test is immediately cut off from all federal financial aid programs, even for students one semester away from

graduating. This bipolar approach can and should be avoided. Accountability systems should use more than two categories of performance and use a sliding scale when possible.

Third, tailor the accountability carrots and sticks to the accountability metric. For example, DPE is specifically measuring student loan debt relative to earnings, so the natural sanction for failing programs would be to curtail future access to the federal student loan programs, not necessarily all federal financial aid. Pell grants serve a different purpose than student loans, so different accountability

Figure 3

Debt as a Percent of Earnings Performance by Credential
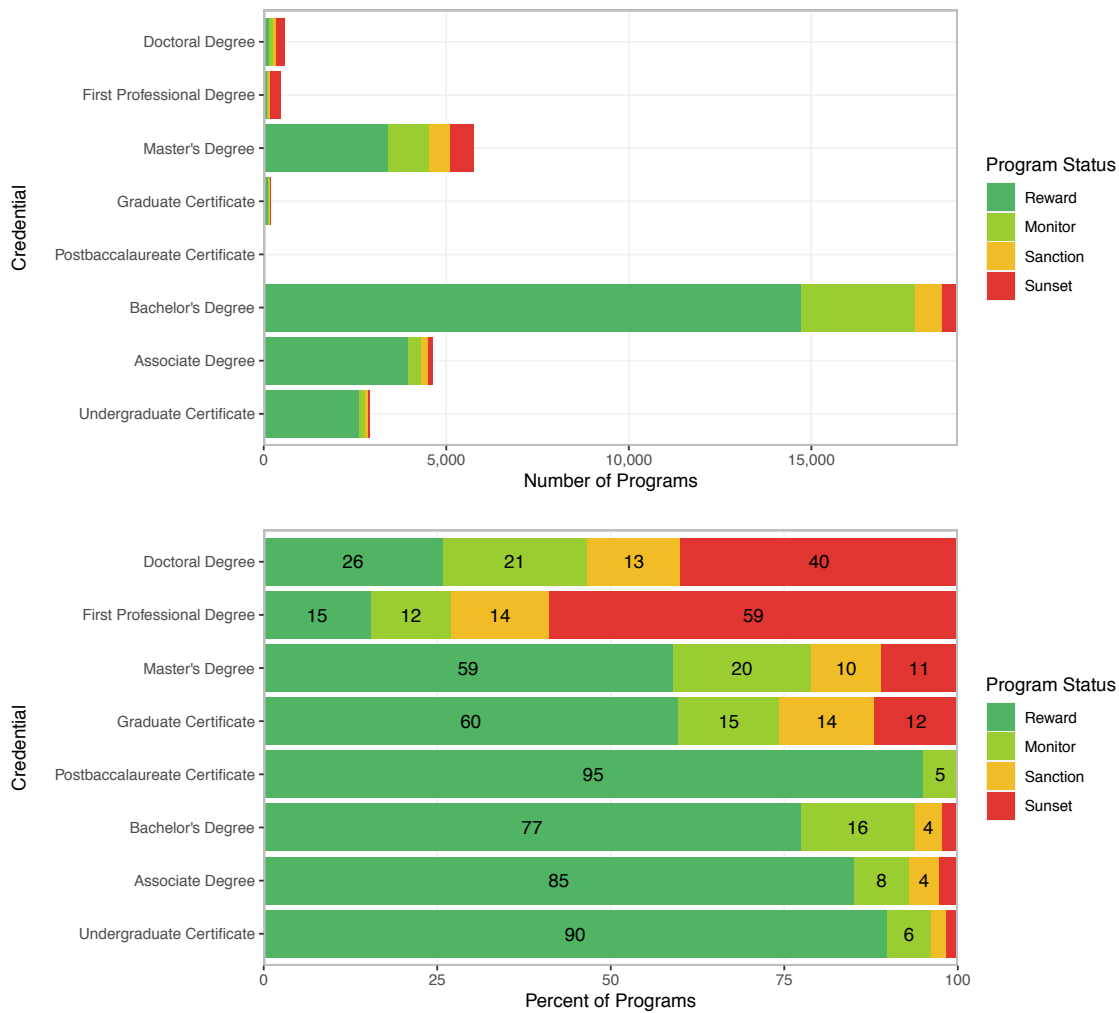
Note. Data from *College Scorecard* (data set), U.S. Department of Education (https://collegescorecard.ed.gov/data/) and author's calculations. Percentages may not add up to 100 due to rounding.

metrics (e.g., sufficient degree completion) could be used to determine a program's future access to Pell grants.

Fourth, many financial aid experts urge a rule of thumb that students should not borrow more than their starting salary (Kantrowitz, 2018; Shaffer, n.d.; Lux, 2020). This rule of thumb corresponds to a DPE of 100%.

Fifth, rather than assessing a program based on the DPE for the median student, it would be better to evaluate the distribution of a program's DPE. For example, a DPE threshold of 100% for a program's median student might seem adequate, since it is just meeting the rule-of-thumb recommendation of financial experts. But it also means that

almost half of the program's graduates are in risky financial territory by having a DPE above 100%. Thus, policymakers might want to say that 80% or 90% of a program's graduates need to be under a DPE of 100%. While we would prefer such an examination, the College Scorecard data currently only report the median earnings of graduates, which means that our calculations and recommendations are all based on the median student.

Sixth, some fields may warrant special exemptions. For example, medical schools are a special case because many new doctors pursue a form of on-the-job training through residency programs. Residency programs do pay a modest salary but are better thought of as a type of apprenticeship

Figure 4

College Programs Failing Debt as a Percent of Earnings by Credential and Control
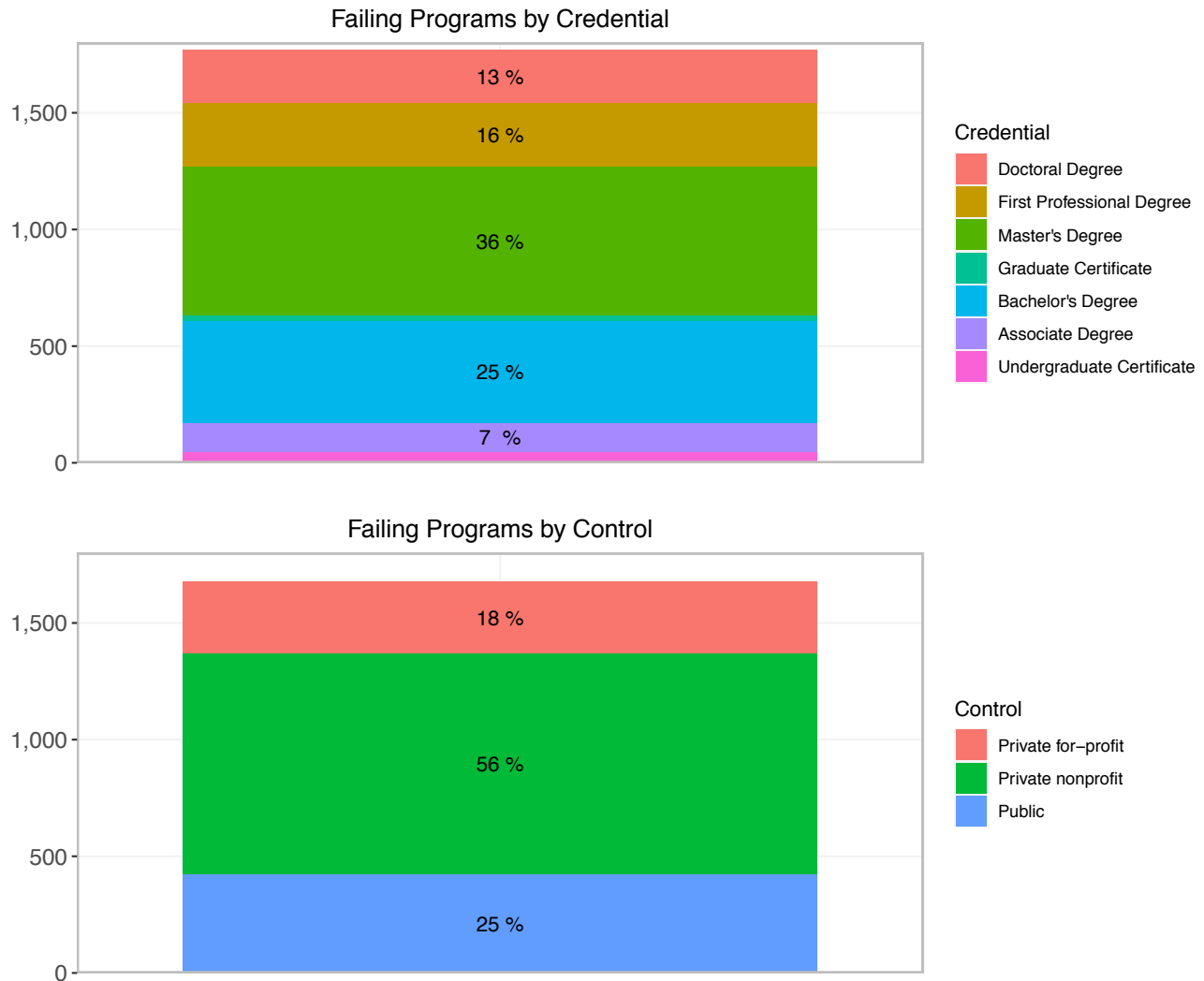
Note. Data from *College Scorecard* (data set), U.S. Department of Education (https://collegescorecard.ed.gov/data/) and author's calculations. Percentages may not add up to 100 due to rounding.

program rather than medical doctors' first job after graduation. To account for this special case, we have excluded medical schools from our analysis.

To get a sense of how many programs would be affected by various cutoffs, **Figure 1** shows the number of programs exceeding various DPE thresholds by level of credential (top panel) and control (bottom panel).

We recommend the following accountability system for DPE (noting that data availability only allow for the calculation of DPE for the median student, whereas ideally the DPE of a student in say the 80th or 90th percentile would

be better). We recommend an accountability system with four performance ratings: Reward, Monitor, Sanction, and Phase Out.

Reward (Debt as a Percent of Earnings ≤ 75%). Programs meeting this threshold would be subject to

- Exemptions from most regulatory oversight, including waivers of accreditation requirements at the lower end

- Performance bonuses

Figure 5

Debt as a Percent of Earnings Performance by Academic Field
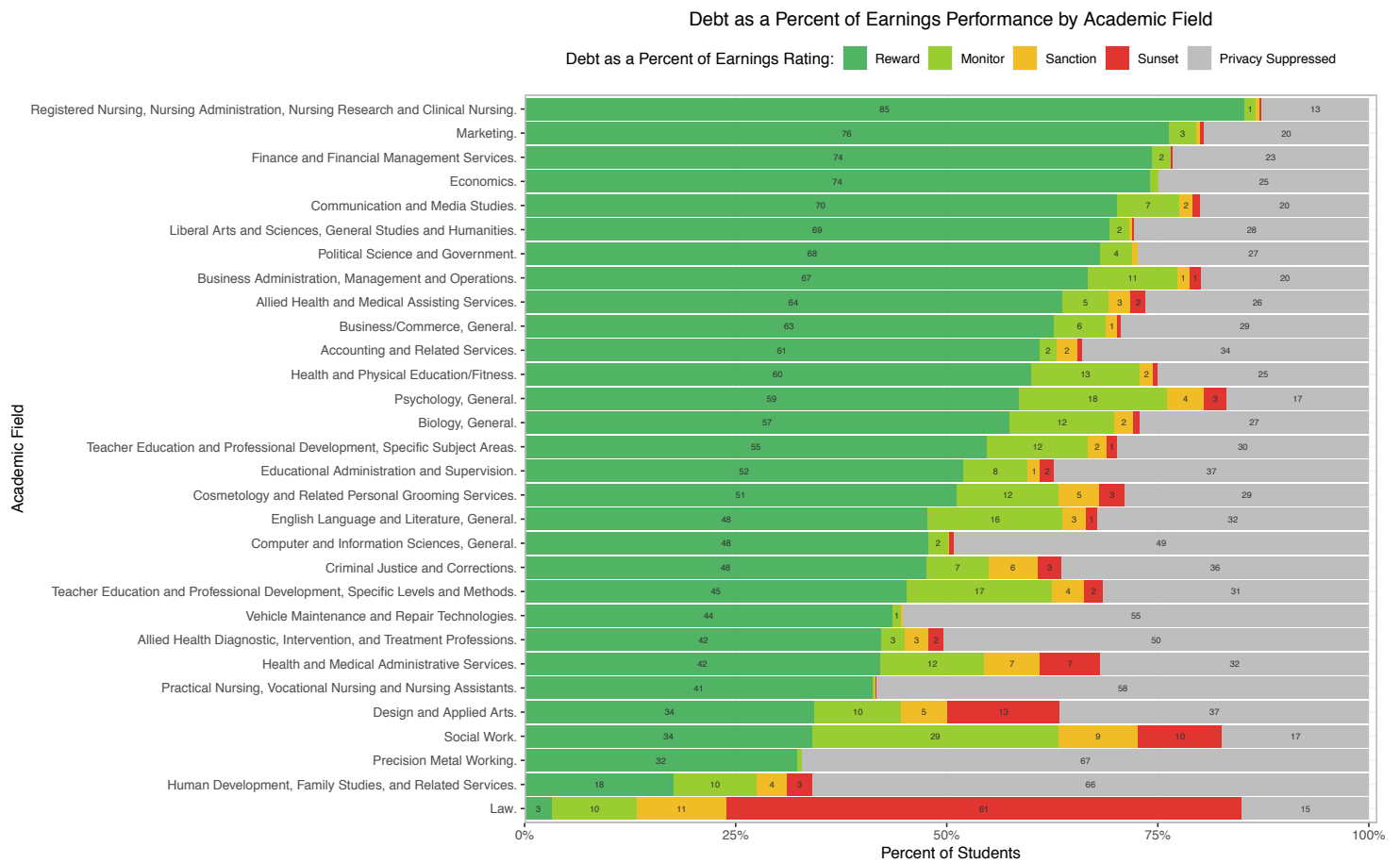
Debt as a Percent of Earnings Performance by Academic Field

Note. Data from *College Scorecard* (data set), U.S. Department of Education (https://collegescorecard.ed.gov/data/) and author's calculations. The privacy suppressed category accounts for graduates from small programs that have their earnings and/or debt data suppressed to protect student privacy. Percentages may not add up to 100 due to rounding.

- Unrestricted expansion of enrollment by students using federal student loans

Monitor (75% < Debt as a Percent of Earnings ≤ 100%). Programs meeting this threshold would be subject to

- Some regulatory relief

- Some restrictions on enrolling new students using federal student loans at the upper end of the range

Sanction (100% < Debt as a Percent of Earnings ≤ 125%). Programs meeting this threshold would be subject to

- Increased regulatory oversight

- Increased financial aid counseling for current and future loan-taking students

- Restrictions on enrolling new students using federal student loans

Sunset (Debt as a Percent of Earnings > 125%). Programs meeting this threshold would be subject to

- Increased regulatory oversight

- Increased financial aid counseling for current loan-taking students

- No new enrollment of students using federal student loans

Figure 6

College Programs by Gainful Employment Equivalent Performance
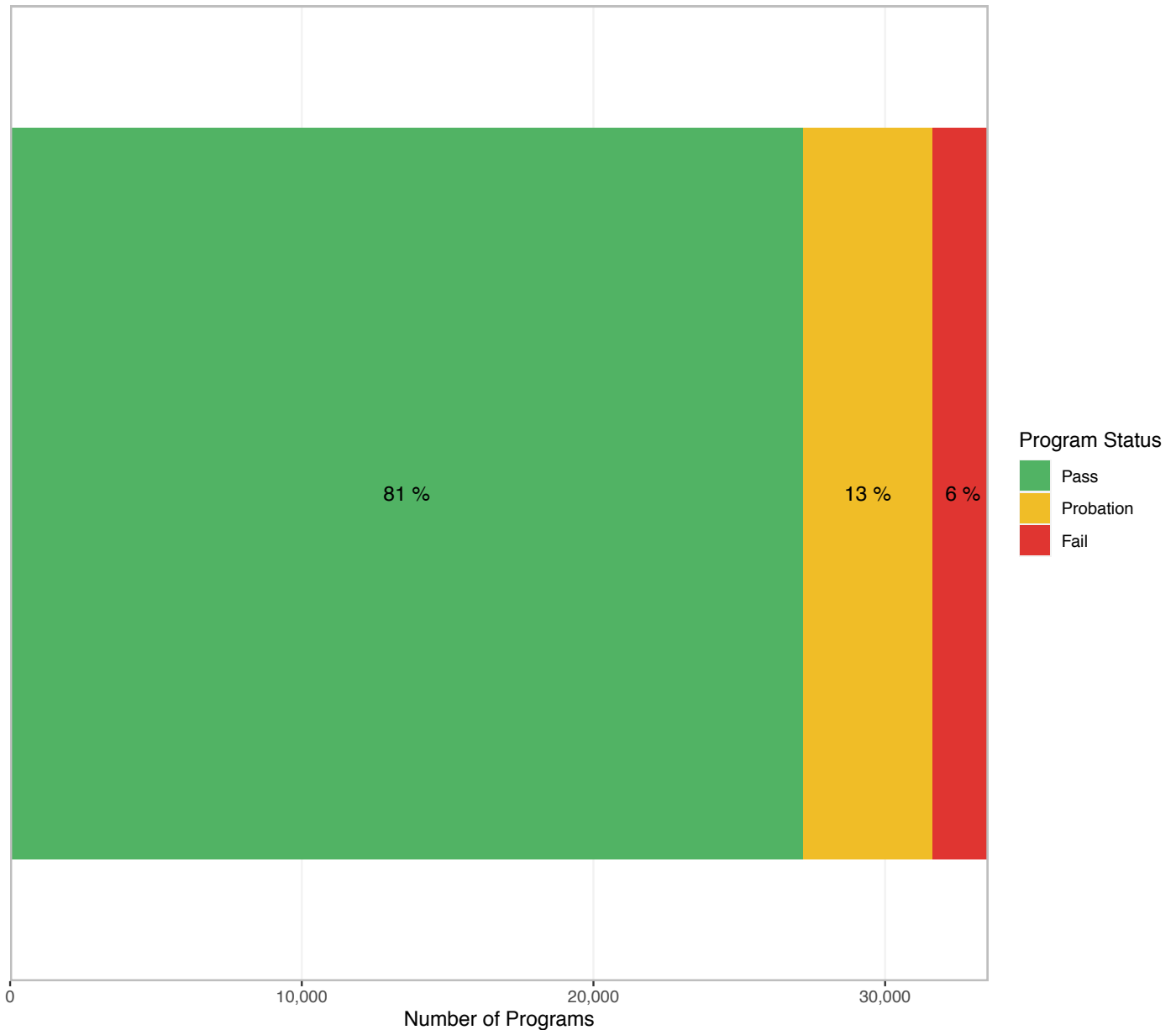
Note. Data from *College Scorecard* (data set), U.S. Department of Education (https://collegescorecard.ed.gov/data/) and author's calculations.

Figure 2 shows the number of college programs by Debt as a Percent of Earnings status under our recommended accountability thresholds.

Most college programs do not leave their students with excessive debt—74% of programs earn a Reward rating, and 15% a Monitor rating. However, a small share of college programs are financially dangerous to students: 5% of programs earn a Sanction rating, and 6% earn a Sunset rating.

There is considerable variation in ratings by credential. **Figure 3** shows ratings by number of programs (top panel) and percentage (bottom panel) by credential.

Undergraduate certificates and degrees are considerably safer investments than graduate degrees. While 85% of associate and 77% of bachelor's degree programs earn the highest rating, only 26% of doctoral and 15% of professional degree programs do. Indeed, a shocking 40% of doctoral and 59% of professional degree programs earn the

Figure 7

College Programs by Gainful Employment Equivalent Performance by Credential
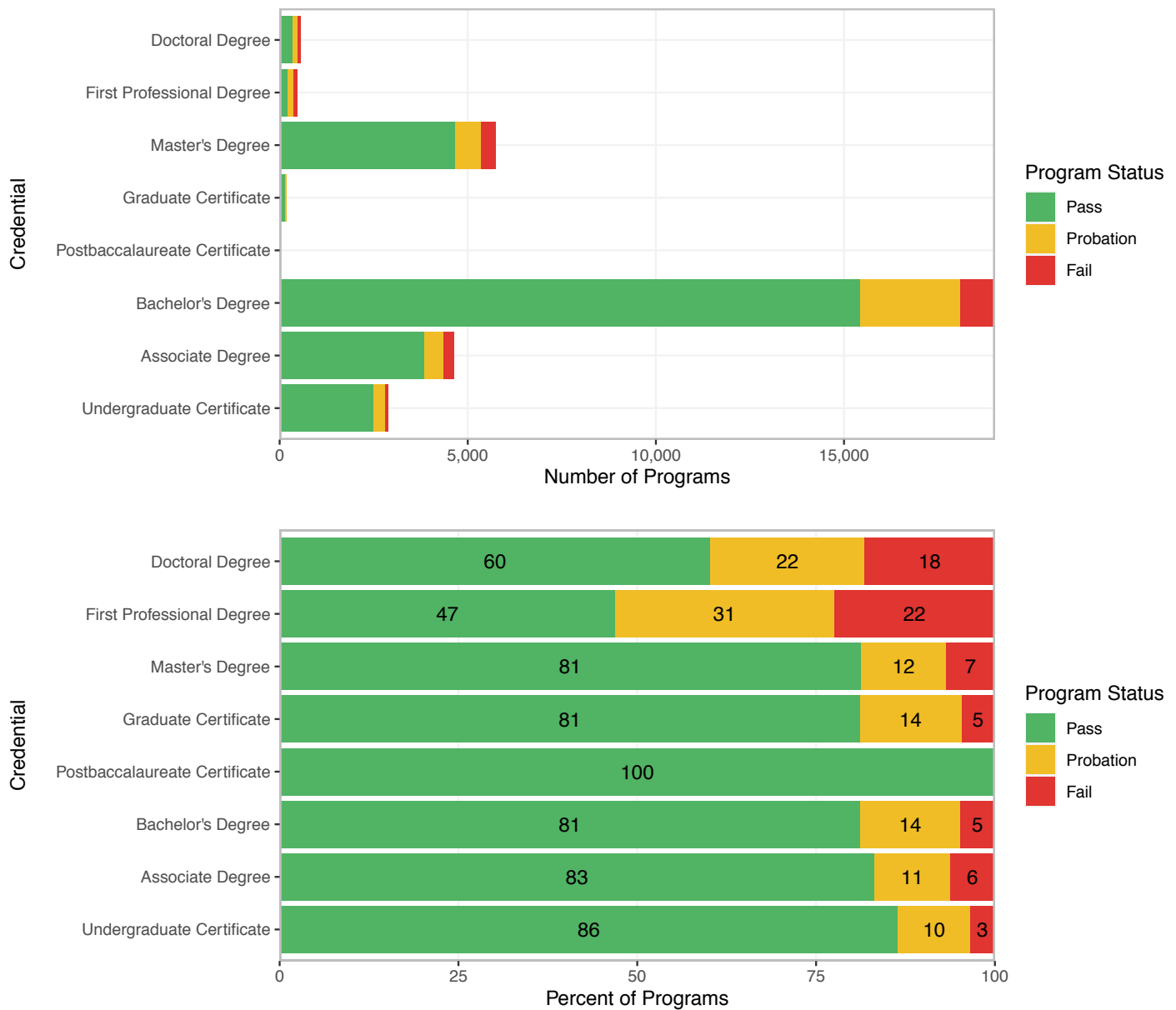
Note. Data from *College Scorecard* (data set), U.S. Department of Education (https://collegescorecard.ed.gov/data/) and author's calculations. Percentages may not add up to 100 due to rounding.

Sunset rating, indicating that they are extremely risky for the financial health of the typical graduate with debt.

Figure 4 shows the distribution of programs earning the worst rating (Sunset) by credential (top panel) and control (bottom panel).

Master's degree programs account for the largest share of failing programs (36%), followed by bachelor's degree

programs (25%). While for profits are often singled out for additional scrutiny, they account for a smaller share of failing programs (18%) than either private nonprofits (56%) or public colleges (25%).

Roughly 144,000 students graduate from the 1,770 college programs with a sunset rating each year. Around 89,000 of those students took out student loans, loans they are unlikely to be able to repay.

Figure 8

College Programs Failing Gainful Employment Equivalent by Credential and Control
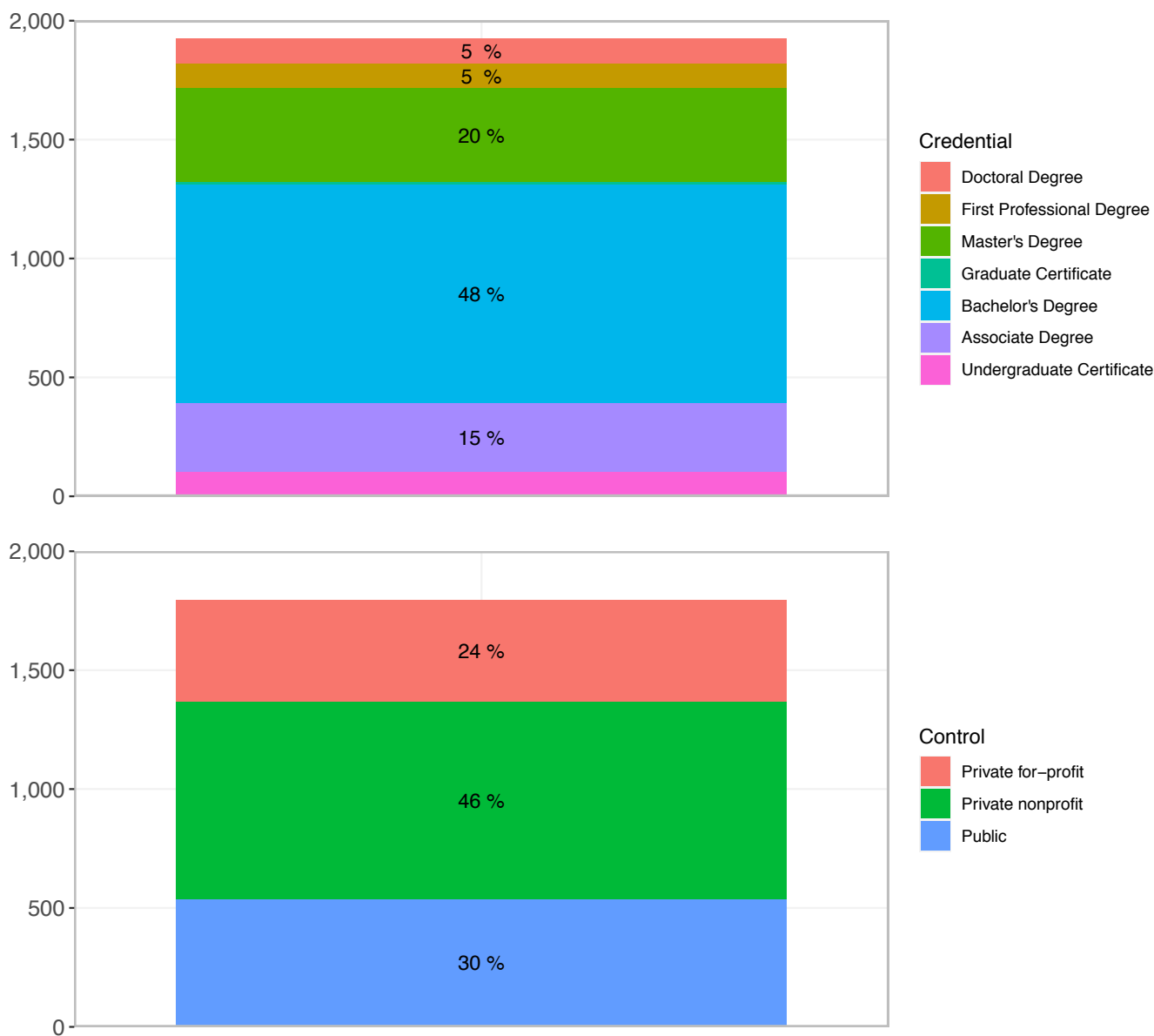
Note. Data from *College Scorecard* (data set), U.S. Department of Education (https://collegescorecard.ed.gov/data/) and author's calculations. Percentages may not add up to 100 due to rounding.

The schools with the most failing programs are surprising. New York University tops the list, with 27 failing programs. A mix of private for-profit colleges (Capella University and Ashford University) and private nonprofit colleges (Nova Southeastern University and University of Southern California) fill out the top 5.

Academic fields vary widely in their performance as well. **Figure 5** shows the share of graduates in each field by their program's DPE performance for the 30 largest academic fields. Nursing and marketing are generally safe choices as more than 75% of graduates in those fields earn their degree from a program with the highest rating. But other majors are much riskier. Law is the riskiest choice, as 61% of graduates earn their degree from a program earning the lowest rating. Other risky fields include social work and "design and applied arts."

Overall, DPE is a promising accountability metric. Under our recommended thresholds, roughly 11% of college programs (5% in the Sanction category and 6% in the Sunset category) would face sanctions or lose eligibility to participate in the federal student loan programs.

Gainful Employment Equivalent

Another promising accountability metric would be to fix and resurrect the Gainful Employment regulations. Gainful Employment is the common name given to a set of regulations that sought to identify and punish for-profit college programs that left their students with excessive student loan debt. Gainful Employment was first introduced in 2010, struck down by a court in 2012, then reintroduced in 2014, then abandoned in 2019. We have developed gainful employment equivalent to resurrect the parts of the original regulations that are worth salvaging.

It is possible to closely mimic the main calculations from the original regulations. In particular, the College Scorecard allows for similar calculations for the Annual Earnings Rate (AER; annual student loan payments divided by annual earnings) and the Discretionary Income Rate (DIR; annual student loan payments divided by annual earnings minus 150% of the poverty line). Under Gainful Employment, a program with an AER less than 8 or a DIR less than 20 would pass, an AER between 8 and 12 or a DIR between 20 and 30 would be on probation (officially called 'Zone'), and an AER greater than 12 or a DIR greater than 30 would fail. A program's best performance on the two tests would be their official rating (e.g., a program with a passing AER but a failing DIR would pass), and if a program failed in two out of three years or did not pass for four years, the students would no longer be able to pay for the program using federal financial aid programs such as Pell grants and student loans (Gillen, 2022).

A strong case can be made that new cutoffs should be used due to differences in the original Gainful Employment (GE) data and the new College Scorecard (CS) data. In particular

- **Program definition**. CS aggregates programs into larger groups than the GE data. For example, all sub-fields of economics are grouped in the 4-digit CIP code 45.06 in the CS data, but the GE data separate these out by subfield (e.g., 45.0604 for Development Economics and International Development). This will not affect any calculations per se, but it does raise complications when matching programs in the different datasets.

- **Earnings**. The CS data do not include students who did not work, whereas the GE data did. They also differ in when earnings are measured, with the CS earnings being measured three years after graduation, and the GE data being measured 3–6 years after graduation.

- **Debt**. The CS debt data exclude non-borrowers, whereas the GE data included non-borrowers. GE data also include some private lending whereas the CS data do not.

Thus, instead of using the original GE cutoffs, we used regression analysis on programs that appear in both the GE data and the CS data to determine the relationship between the AER in the GE data and the AER for those programs in the CS data. The regression indicates that AERs in the CS data are about 106% of the AER in the GE data. This indicates that the regression-adjusted cutoffs can be found by multiplying the original GE cutoffs by 1.06, yielding AER cutoffs of 8.48 and 12.73, and DIR cutoffs of 21.21 and 31.82.

Applying these adjusted thresholds yields a performance metric we call Gainful Employment Equivalent (GEE). **Figure 6** shows the number and percentage of college programs by GEE performance.

Under GEE, 81% of programs pass, 13% are on probation, and 6% fail.

Figure 7 shows performance on GEE by the number of programs (top panel) and percentage (bottom panel) by credential.

While the number of failing programs is similar under DPE and GEE (6%), the distribution is different. Most notably, many fewer graduate programs fail GEE. For example, 59% of professional degree programs failed DPE, but 22% fail GEE. This difference is due to the DIR test, which allows programs with high earnings to pass GEE even if debt is also high.

Figure 8 shows the number and percentage of programs failing GEE by credential and control.

Under GEE, graduate programs fare much better, accounting for less than one third of failing programs

(compared to two thirds under DPE). Conversely, under-graduate programs perform worse—bachelor's degree programs account for the largest share of failing programs or 48%, compared to 25% under DPE. Public programs also perform worse under GEE, accounting for 30% of failing programs (compared to 25% under DPE).

Conclusion

Student loans can fund worthwhile educational investments, or they can be wasted on malinvestments that accomplish little for the student while imposing a heavy burden on the student's financial future. New data from the Department of Education help students, parents, college administrators, and policymakers distinguish between worthwhile and excessive student loan debt by revealing the typical earnings and student loan debt of recent college graduates.

We encourage policymakers to begin to hold colleges accountable when they impose excessive student loan debt on their students. Two promising accountability metrics they could use are DPE and GEE. Between 11% and 20% of college programs would face sanctions under our recommended accountability systems. ★

References

Gillen, A. (2020). *Unleashing market-based student lending*. Texas Public Policy Foundation. https://www.texaspolicy.com/unleashing-market-based-student-lending/

Gillen, A. (2021). *College student loan debt and earnings: 2021.* Texas Public Policy Foundation. https://www.texaspolicy.com/college-student-loan-debt-and-earnings-2021/

Gillen, A. (2022). A retrospective on gainful employment. *Academic Questions*, *35*(1), 48–55. https://www.nas.org/academic-questions/35/1/a-retrospective-on-gainful-employment-2

Gillen, A. (2022). *College student loan debt as a percent of earnings: 2022.* Texas Public Policy Foundation. https://www.texaspolicy.com/college-student-loan-debt-as-a-percent-of-earnings-2022/

Kantrowitz, M. (2018). *What is reasonable and affordable debt?* College Ave Student Loans. https://www.collegeavestudentloans.com/blog/what-is-reasonable-and-affordable-debt/

Lux, M. (2020). *The guide to planning and paying for college.* The Student Loan Sherpa. https://studentloansherpa.com/college-planning/

Shaffer, S. (n.d.). *Managing student loans.* Collegiate Parent. https://www.collegiateparent.com/finances/managing-student-loans/

U.S. Department of Education. (n.d.). *College scorecard* [Data set]. https://collegescorecard.ed.gov/data/

U.S. Department of Education. (2022). *Technical documentation: College scorecard data by field of study*. https://collegescorecard.ed.gov/assets/FieldOfStudyDataDocumentation.pdf

ABOUT THE AUTHOR

Andrew Gillen, Ph.D., is a senior policy analyst at the Texas Public Policy Foundation and an adjunct professor of economics at Johns Hopkins University. Dr. Gillen's recent work has focused on how to reform federal financial aid, how state disinvestment is a myth, and how post-college earnings and debt should be used to inform student choice and government accountability.

Prior to joining the Foundation, Dr. Gillen spent over a decade at nonprofit and philanthropic organizations researching and trying to improve higher education. He was a program officer for the Charles Koch Foundation and served in research roles for American Institutes for Research, Education Sector; the American Council of Trustees and Alumni; and the Center for College Affordability and Productivity. He was also on the U.S. Department of Education's Advisory Committee on Student Financial Assistance.

Andrew has a PhD in economics from Florida State University and a BBA (business) degree from Ohio University.

About Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute. The Foundation promotes and defends liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

Funded by thousands of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

Texas Public Policy Foundation