MEMO

TO: Interested Parties
FROM: The Institute for College Access & Success
DATE: April 15, 2010
RE: Charles River Associates Report on Gainful Employment prepared for the Career College Association

The Career College Association (CCA) recently commissioned a study of how their institutions and programs would fare under an Education Department proposal for defining gainful employment.[1] As a condition of participating in federal student aid programs, federal law has long required most programs offered by for-profit institutions and any program of less than two years to "prepare students for gainful employment in a recognized occupation." Yet there is no official definition of "gainful employment." With enrollment in these programs rising rapidly—now accounting for nearly 1 in 4 federal Pell Grant and federal student loan dollars—the Obama Administration has proposed defining gainful employment.

Using data provided by CCA and not publicly available, Charles River Associates (CRA) found:

- **Students from for-profit colleges are much more likely to default on student loans.** According to their own analysis, even after controlling for demographic differences among students, for-profit college students are *<u>twice</u> as likely as other college students to default;*
- **Few for-profit programs would be affected by proposed definition.** Their own analysis found that only a small minority of for-profit programs currently do not meet the proposed 8-percent median debt-to-income ratio test; and
- **No loss of student access to college.** Their study indicates that other colleges would be well positioned to absorb the students who might have enrolled in programs that failed to meet the test—and would serve them much better.

Their own findings therefore further support the Administration's proposing a clear and enforcable definition of gainful employment that will prevent taxpayer dollars from being used to subsidize programs that leave students worse off than before—deep in debt and no better prepared for gainful employment.

Twice as Likely to Default

Demographic factors, such as income, gender, race and family size, play a role in the likelihood of defaulting on federal student loans, but they do not tell the whole story. CRA controlled for these and other factors to determine the effect of a student's school on the likelihood of defaulting, and found that students attending for-profit colleges were twice as

[1] "Report on Gainful Employment," prepared by Charles River Associates for the Career College Association, April 2, 2010, including Executive Summary dated March 29, 2010.

likely to default as students at other colleges.[2] Even if all students at for-profits completed their academic programs, CRA estimates that about 12 percent of their students would still default on their student loans, compared to about six percent at community colleges after controlling for demographic differences.

Few Programs Would Be Affected

Using CCA data on student graduation, tuition charges, and indebtedness for more than 10,000 academic programs, CRA found that 82 percent of for-profit school programs would currently pass the Department's proposed 8-percent median debt-to-income test. The Department's proposal is intended to ensure that the majority of graduates of a particular program are able to repay their loans without hardship, and more than four out of five for-profit programs would meet this standard. The Department has also offered two alternative ways for colleges to demonstrate that their programs are sufficiently preparing students for gainful employment, but the CRA report does not estimate the effects of these alternatives. It is possible that some or many programs will meet one of these alternative gainful employment standards, narrowing the share of affected programs even further.

No Loss of Student Access

Colleges with programs that cannot demonstrate that they are adequately preparing students for gainful employment under any of the proposed standards will have several options. They could improve their program quality so that students are better prepared for employment opportunities, or they could reduce what they charge so that students are better able to repay what they borrowed to attend the school. This is similar to what happened when the Department first began enforcing sanctions for very high cohort default rates. In response, many schools adjusted their practices to lower their default rates so the schools would remain eligible for federal student aid, and the share of students defaulting on their student loans decreased substantially.

Even if some schools choose to eliminate, rather than change, a program, students currently enrolled in these programs will have plenty of options, including enrolling in public, private non-profit, or the vast majority of for-profit programs that meet the Department's proposed standards. While enrollment has increased in all college sectors, state budget shortfalls and shrinking endowments have limited many public and nonprofit colleges ability to increase enrollment. Given that the vast majority of for-profit college programs currently meet the Department's gainful employment standard, and the sector says it has the ability to rapidly expand enrollment, students will still have plenty of options, but at a lower cost and greater benefit. Taxpayers and the economy will benefit as well from lower student default costs and a better-trained workforce.

[2] Figure 7 in the CRA analysis shows that students at private not-for-profit 2-year or less institutions were less likely than for-profit students to default, but more likely than students at other types of colleges. We exclude them here because only one percent of students in the Beginning Postsecondary Students Longitudinal Study (BPS: 96/98/01), which CRA used for its analysis, attended these types of colleges.