Assessing the Impact of Alternative Repayment Rate Policies on Educational Institutions and Students

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Highlights of the Report

Current policy debates are moving towards replacing the cohort default rate (CDR) with the repayment rate to determine Title IV eligibility for postsecondary institutions. The cohort default rate measures the share of borrowers who enter into repayment for federal student loans after leaving an educational institution and default on their loan payment at least one time during the default period. Critics believe that the current rule is insufficient because the CDR threshold for eligibility is too lenient and student loans in deferment and forbearance distort the numbers. As a result, a number of proposed polices have been introduced to replace the CDR with a less lenient measure such as the repayment rate. Unlike the CDR, the repayment rate measures the share of students who have paid down at least $1 of the principal of their federal student loan.

This report used Department of Education's College Scorecard 2016 data to analyze the impacts of three alternative policy scenarios on educational institutions and their students. While all three policies use repayment rates to determine eligibility, a baseline scenario uses one threshold for all institutions and the other two scenarios use multiple thresholds based on the characteristics of individual institutions to determine the cutoff for Title IV eligibility. A one-threshold system produces an unfavorably bias on educational institutions with open admissions and a high share of low-income financial aid recipients. Consequently, the system creates numerous unintended consequences on students, especially economically and socially-disadvantaged groups. To minimize the bias and unintended consequences, a multiple-threshold system adjusted for institutions with a high share of low-income financial recipients is preferred.

Below are highlights of our policy simulations.

1. A baseline scenario uses a 35% repayment rate threshold, which is 10 percentage points below the weighted average 3-year repayment rate of all institutions in 2016, as the cutoff for all institutions. This baseline affects the postsecondary education system severely and is unfavorably biased against institutions with open admissions and a high share of low-income financial aid recipients.
    a. 35% of all institutions (1,902 out of 5,436) in 2016 are below the repayment rate cutoff. These institutions accounted for nearly 24% of all enrolled undergraduate students in 2016 (3.6 million out of 15.2 million).
    b. Over 78% of affected institutions are institutions with open admissions and over 93% have a high share of low-income financial recipients.
    c. The institutions affected most are 2-year (746 institutions) and private for-profit (1,275 institutions). Students affected most are enrolled in 2-year public institutions (2.1 million students).

   d. Nearly 45% of black students across institutions and 90% of students enroll in HBCUs are affected.
2. An alternative two-threshold scenario adjusts for institutions with open admissions. It uses a 23% repayment rate threshold for open admissions institutions and a 35% repayment rate threshold for selective institutions. This alternative policy removes the unfavorable bias against institutions with open admissions but is still unfavorably biased against institutions with a high share of low-income financial aid recipients.
   a. The number of affected institutions is cut in half from 1,902 in the baseline scenario to 947 and from 35.0% to 17.4%. The number of affected students is cut from 3.6 million in the baseline scenario to 944,451 and from 23.5% to 6.2%.
   b. Among the affected institutions, 535 institutions offer open admissions and 877 institutions have a high share of low-income financial aid recipients, accounting for 56.5% and 92.6% of total affected institutions, respectively.
   c. The institutions affected most are 4-year (434 institutions) and private for-profit (654 institutions). The students affected most are enrolled in 4-year institutions (578,833 students) and public institutions (423,622 students).
   d. 403,660 black students are affected and 76% of students enrolled in HBCUs are affected.
3. An alternative three-threshold scenario adjusts for institutions with a high share of low-income financial aid recipients. It uses a 16% repayment threshold for the quartile of institutions with the most low-income financial aid recipients, a 25% threshold for the quartile of institutions with the second highest low-income financial aid recipients, and 35% repayment rate threshold for two quartiles of institutions with the fewest low-income financial recipients. This system removes unfavorable bias against both institutions with open admissions and institutions with a high share of low-income financial aid recipients.
   a. 272 institutions and 5% of all institutions are affected. 544,733 students enrolled in these institutions are affected, accounting for 3.6% of all enrollments in 2016.
   b. Among them, 177 institutions offer open admissions and 178 institutions have a high share of low-income financial aid recipients, accounting for 65% of total affected institutions.
   c. This alternative policy affects institutions proportionally, between 4% and 5% of 4-year, 2-year, and less-than-two-year institutions and around 5% of public, private non-profit, and private for-profit institutions.
   d. The students affected most are enrolled in private for-profit institutions (9.4% of private for-profit students), and, more specifically, 4-year private for-profit institutions (13.1% of 4-year private for-profit students). However, the shares drop down substantially from 71% and 82%, respectively, in the baseline scenario.
   e. 11% of black students are affected, dropping from 45% in the baseline scenario.

Our simulations suggest that a one-size-fits-all approach would not be suitable for higher education policy. Instead, policymakers must implement a system to adjust for institutions with different student characteristics in order to avoid negative unintended consequences. Our policy scenarios show the three-threshold repayment rate system is preferred to the one-size-fits-all repayment rate system and the alternative two-threshold repayment rate system. The three-threshold repayment rate system removes the unfavorable bias against institutions with open admissions and a high share of low-income financial aid recipients. Unlike the one-size-fits-all approach where 35% of all institutions and nearly a quarter of enrollments are affected immediately, the three-threshold system has a lesser impact on institutions and students because it accounts for factors that impact repayment rates such as the share of low-income aid recipients. In addition, the three-threshold repayment rate system has smaller unintended consequences on students who do not have federal student loans.