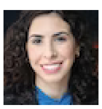
THIRD WAY

BLOG *Published September 6, 2022 • 10 minute read*

What's Next Post-Cancellation? Holding Colleges Accountable for Student Outcomes



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The "will he or won't he" is over—President Biden has announced his plan to cancel up to $10,000 in federal student loan debt for borrowers earning less than $125,000 individually or $250,000 as a household, with an additional $10,000 in forgiveness for eligible Pell Grant recipients. But we'll be back at $1.6 trillion in debt in just five years without significant reforms to tighten the federal purse strings that currently send billions of taxpayer dollars practically unchecked to college programs that strand students with unaffordable debt.

Buried at the bottom of the US Department of Education's (Department's) loan cancellation announcement is something big: an acknowledgement of the need for long-term structural fixes and a rundown of five steps the Department will take to actualize them. Now, student advocates—including those who pushed for wholesale forgiveness—should be shouting these priorities from the rooftops and putting on the full court press to ensure the Department follows through swiftly and strongly on these five stated priorities and the much longer to-do list of necessary policy changes to strengthen transparency and accountability in higher education.

> *"The Department is also taking steps to reduce the cost of college for students and their families and hold colleges accountable for raising costs, especially when failing to deliver good outcomes to students. The Department has already re-established the* ***enforcement unit*** *in the Office of Federal Student Aid and recently withdrew* ***authorization for the accreditor*** *that oversaw schools responsible for some of the worst for-profit scandals. The agency will also propose to reinstate and improve a* ***rule to hold career programs accountable*** *for leaving their graduates with unaffordable debt. And the Department is announcing new steps to take action against colleges that have contributed to the student debt crisis. These include publishing an* ***annual watch list*** *of the programs with the worst debt levels in the country and requesting* ***institutional improvement plans*** *from colleges with the most concerning debt outcomes that outline how the college intends to bring down debt levels." (Press Release, US Department of Education, August 24, 2022)*

1. Federal Student Aid Enforcement Unit

In October 2021, the Department restored the Office of Enforcement within Federal Student Aid (FSA) to ramp up oversight of institutions receiving Title IV financial aid dollars and enforce compliance with federal law and regulations. The revived enforcement unit reviews borrower defense claims from defrauded students, investigates misconduct and illegal activity by colleges and third-party servicers, and partners with other federal and state agencies to root out and address predatory behavior by schools and individuals. To fulfill its mandates, the enforcement unit needs sufficient resources and ample staff capacity—both of which were significantly pared back under former Secretary of Education Betsy DeVos. Fully staffing up and expanding the unit with experienced investigators, attorneys, and forensic accountants with knowledge of financial reporting and fraud must be a top priority for the Biden Administration.

The types of illegal institutional conduct the enforcement unit is tasked with addressing pose high stakes—and constantly evolving—risks to students. Accordingly, FSA needs legitimate capacity to follow through on all incoming complaints of potential wrongdoing, facilitate swift coordinated responses, *and* serve as a proactive compliance entity that can detect and address emerging threats. With a new borrower defense rule on the horizon that includes a distinct process for recoupment of funds from institutions and heightened scrutiny from Congress of extractive tuition-sharing relationships between colleges and third-party online program managers, dedicating more resources toward weeding out fraud and abuse in the federal student aid system is as critical as ever.

2. Accreditation Reform

It’s an open secret that the current system of accreditation is toothless. Schools with graduation rates below 5% continue to receive accreditor approval to operate while the federal governing body charged with watching the watchdogs focuses more on the number of books in a college library than the outcomes it provides to students. The Department’s debt cancellation announcement touted its recent action revoking federal authorization of a poor-performing accreditor—the Accrediting Council for Independent Colleges and Schools (ACICS), which had a dismal track record of monitoring institutional compliance and accredited the now-defunct predatory for-profit chains Corinthian Colleges and ITT Technical Institute. But that welcomed final termination was several years coming, exposing many students to undue risk from taking out loans to attend institutions of dubious quality. And while hundreds of schools formerly accredited by ACICS have jumped ship since the Department initially cut off its recognition in 2016, there were still 27 schools enrolling nearly 5,000 students in its portfolio at the time of its final termination (several of which currently face compliance warnings or adverse action even from bottom-of-the-barrel ACICS).

Accreditation is a requirement for institutions to receive federal student aid dollars, which puts accreditors and the National Advisory Committee on Institutional Quality and Integrity (NACIQI) in the important role of gatekeeping access to over $110 billion in government funding. To effectively steward student and taxpayer dollars, the accreditation process must include a greater focus on student outcomes and compliance by colleges and universities, and Congress and the Department of Education need to hold accreditors and NACIQI to account. Key opportunities to do so are looming, with four NACIQI members’ terms coming to a close at the end of September and four major accrediting bodies up for review at the next NACIQI meeting in February 2023. Policymakers should seize this window to nominate representatives who will put students first and emphasize quality and accountability in their committee service.

3. Gainful Employment Rule

At least 1,700 career training programs that receive federal funding failed to leave their graduates earning above the poverty line as recently as 2017. That’s an inexcusably low bar for a postsecondary credential—which common sense dictates should at minimum command wages above those of a high school diploma alone—and the Department has been working to set a higher standard through a pending rewrite of the gainful employment (GE) rule. The original rule, rescinded by Secretary DeVos in 2019, used a debt-to-earnings metric to assess whether career education programs left their graduates making enough to pay down their student debt. The Department’s forthcoming proposal, expected in April 2023, is expected to include both the debt-to-earnings measure and a high school earnings threshold—a new standard designed to assess whether a program’s graduates go on to earn more than the typical high school graduate in their state or are left worse off than if they had never enrolled.

The Department has already frustratingly kicked the can down the road when it postponed the release of its new rule earlier this summer. In the wake of debt cancellation, the stakes for the next GE rule are even higher, and the Department must follow through with its commitment to a robust proposal that positions GE to serve as a powerful quality assurance guardrail. A strong GE rule is also extremely popular: Third Way's latest public opinion research showed that 77% of likely voters across the political spectrum support the rule and 89% agreed that taxpayer-supported college programs should leave their graduates making more than the average high school graduate.

4. Unaffordable Debt Watch List

If a college program continually saddles its borrowers with high debt loads and poor outcomes, prospective students deserve to know before signing their name to a promissory note and going into debt to attend. This newly proposed federal "watch list" of programs leaving students with unaffordable debt has yet to be sketched out in detail but could be a positive step to improve consumer transparency and incentivize colleges to strengthen or sunset low-performing programs —if the Department takes lessons from similar ineffective efforts.

For the past decade, the Department has maintained a set of watch lists calling out the top five percent of schools with the highest and lowest tuition, highest and lowest net prices, and steepest spikes in both tuition and fees and average net price. These lists are intended to increase transparency around college costs and inform student enrollment decisions. But research by Dr. Dominique Baker of Southern Methodist University has found "little to no evidence of an effect on institutional behavior or students' enrollment decisions when institutions are included on these lists." Part of the reason these lists have minimal impact may be that they are hard to find—they live in the Department's wonky College Affordability and Transparency Center, which many prospective college students may not even know about. Another likely factor is the way the information is displayed. With no personalization or engagement required from the viewer, the lists can feel abstract and distant from a student's individual experience and decisions, dampening their usefulness.

To design a list of bad actors that helps students make informed decisions and compels institutions to improve, the stakes need to be higher. In addition to shining a light on schools and programs whose students take on the *highest* overall debt loads, new watch lists should focus on debt-to-earnings measures that—as in the gainful employment rule—contextualize the affordability of debt loads and the repayment burden faced by an institution's borrowers. The lists should live somewhere that students are more likely to see them—for instance, as a flag on a school's College Scorecard page or included in financial aid letters. Colleges should be required to notify current students of their inclusion on a given watch list, while accreditors should be asked to answer for the institutions to which they give their seal of approval that continually fall short on these measures. And stakeholders and student advocates should ensure that the annual publication of the watch lists is met with ample media coverage and reaction to keep listed schools on notice.

5. Institutional Improvement Plans

Colleges and programs that find themselves included on new watch lists based on unaffordable debt outcomes must also face greater consequences than just being "named and shamed." The Department should level up its efforts to call out the worst actors and spur them to right their ship by not merely "requesting" but *requiring* the prompt submission of an institutional improvement plan to the Secretary of Education and their accreditor. Surely if the Department has the authority to cancel half a trillion dollars in student debt, it also has the authority to require taxpayer-funded institutions to explain how they plan to improve subpar outcomes if they want to continue to cash government checks. These improvement plans should, at minimum, identify poor-performing programs within an institution and outline concrete steps to lower costs, improve job placement and earnings outcomes, and monitor improvement over a set period. The Department should issue detailed guidance on how institutions should conduct a needs assessment, engage stakeholders, and develop priorities for equitable improvement, as well as outline a clear process and timeline for periodic review.

Concurrent with the submission of an improvement plan, the institution's accreditor should be encouraged to issue a warning and begin its designated processes for fact-finding and progress reporting. Accreditors should also be required to present documentation on any schools they accredit that have been placed on a debt watch list and their improvement plans as part of their recognition review before NACIQI. Further, because persistent subpar debt outcomes could portend the eventual closure of a program, the Department should consider requesting a teach-out plan from institutions where specific programs are included on the watch list for five consecutive years.

Conclusion

Student loan cancellation is a one-time action—and relieving debt does nothing to repair the broken system that continued doling out federal dollars to low-quality institutions the very day the Biden Administration announced its forgiveness plan. Now, student advocates and activists who protested for cancellation must collectively turn their efforts toward comprehensive transparency and accountability reforms that will hold predatory and low-performing institutions accountable for their outcomes to protect tomorrow's students and borrowers.

TOPICS

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