

Methodology for Informational Debt-to-Earnings and Program Cohort Default Rate Calculations for Gainful Employment Negotiated Rulemaking Session 3

Issued 12/11/13

To inform the discussion at the third gainful employment negotiated rulemaking committee meeting to be held on December 13, 2013, the Department has provided to the negotiators and posted on our website debt-to-earnings (DTE) and program cohort default rate (pCDR) informational data for gainful employment programs. The informational data consists of 1) a chart in .ppt and .pdf form with high level analysis and, 2) the underlying data used to conduct this analysis in an .xls file. This is the second set of informational data issued by the Department for the negotiated rulemaking sessions. The first set was issued prior to Session 1 and is also posted on our website. The following is a description of the methodology that was used to create this most recent set of informational data for Session 3.

Programmatic information (CIP Program Name, CIP Code, Credential Level, Institution Type) associated with each DTE and pCDR calculation has been provided in the informational data file except in cases where there were fewer than three programs that have the same CIP Code. In those instances, to protect the anonymity of the program, CIP Program Name and CIP Code are not included. Institutional identifiers (institution name, OPEID, address, state, etc.) have not been included in the data files.

*The methodologies used for the informational data calculations depart slightly in some areas from the provisions in the draft regulation.

Debt-to-Earnings Rates

annual debt-to-earnings rate = $\frac{\text{annual loan payment}}{\text{annual earnings}}$

discretionary debt-to-earnings rate = $\frac{\text{annual loan payment}}{\text{annual earnings} - 1.5 * \text{Poverty Guideline}}$

- Both the annual debt-to-earnings (aDTE) and discretionary debt-to-earnings (dDTE) rates were calculated by program for Title IV aided students who completed the gainful employment program between October 1, 2007 and September 30, 2009 (the 08/09 DTE Cohort).

- DTE rates were not calculated for programs with fewer than 10 students in the 08/09 DTE Cohort.
- In the informational data file, *DTE Completer Count* is the number of students from the 08/09 DTE Cohort for each program.
- In the informational data file, DTE rates are provided in two sets, the first includes programs with 10 or more students in the 08/09 DTE Cohort and the second includes only programs with 30 or more students in the 08/09 DTE Cohort.
- For the 08/09 DTE Cohort, the SSA provided, at the program level, the 2011 calendar year mean and median annual earnings of the members of the 08/09 DTE Cohort. Annual earnings includes wages, salaries, tips, and self-employment income. The higher of the mean or median annual earnings was used as the **annual earnings** component of the aDTE and dDTE calculations and is provided in the informational data file as *Annual Earnings*.
- **Annual loan payment** was originally calculated by determining the median loan debt, by program, for the 08/09 DTE Cohort and amortizing that median debt amount over a 10-year period for undergraduate certificate, associate's degree, and post baccalaureate certificate programs, 15-year period for bachelor's and master's degree programs, and 20-year period for doctoral and first professional degree programs using an annual interest rate of 6.8%.
- Loan debt includes both FFEL and Direct Loans (except PLUS Loans made to parents or Direct Unsubsidized loans that were converted from TEACH Grants), private loans, and institutional loans that a student received for attendance in the gainful employment program.
- In cases where students completed multiple gainful employment programs at the same institution, all loan debt was attributed to the highest credentialed program and, the student was not included in the calculation of rates for the lower credentialed programs.
- In calculating median loan debt, the loan debt associated with a student was capped at an amount equivalent to the program's tuition and fees if: 1) tuition and fees information was provided by the institution, and 2) if the amount of tuition and fees was less than the student's loan debt. This tuition and fee cap applied to approximately 15% of student records for the 08/09 DTE Cohort.
- For the dDTE calculations, the **Poverty Guideline** is the federal poverty guidelines for an individual person in the continental United States as issued by the U.S. Department of Health and Human Services. The **Poverty Guideline** used for the DTE calculations is \$11,490 (2013 Guidelines).
- Excluded from the calculations are students whose loans were in military deferment or who were enrolled at an institution of higher education for any amount of time in the calendar year for which earnings were retrieved or whose loans were discharged because of disability or death.

- Based on the original annual loan payment calculation, the **annual loan payment** was re-calculated by amortizing median loan debt over a 10-year period regardless of credential level and applying an interest rate of 3.37%.
- In the informational data file, the *Annual Loan Payment* is truncated with no digits after the decimal place and is provided using both the 10-year amortization schedule and the 10-15-20 year amortization schedule described above. Both versions apply an interest rate of 3.37%.
- In the informational data file, the *Annual Debt to Earnings Rate* and *Discretionary Debt to Earnings Rate* ratios are provided as percentages truncated two digits after the decimal place.

Program Cohort Default Rates

$$\text{program cohort default rate} = \frac{\text{borrowers whose loans are in default}}{\text{borrowers whose loans entered repayment}}$$

- The program cohort default rate was calculated by program for Title IV aided students who entered repayment between October 1, 2008 and September 30, 2009 (09 pCDR Cohort) on FFEL or Direct Loans received for attendance in the gainful employment program.
- **Borrowers whose loans entered repayment** is the number of students, by program, in the 09 pCDR Cohort. In the informational data file, this is the *pCDR Denominator*.
- **Borrowers whose loans are in default** is the number of students, by program, in the 09 pCDR Cohort who defaulted on their FFEL or Direct Loans at any time within the first three fiscal years of repayment. For the 09 pCDR Cohort, this is the period between October 1, 2008 and September 30, 2011. In the informational data file, this is the *pCDR Numerator*.
- For programs with less than 30 students in the 09 pCDR Cohort:
 - **Borrowers whose loans entered repayment** also includes Title IV aided students who entered repayment between October 1, 2006-September 30, 2007 (07 pCDR Cohort) and October 1, 2007-September 30, 2008 (08 pCDR Cohort) on FFEL or Direct Loans received for attendance in the gainful employment program; and,
 - **Borrowers whose loans are in default** also includes the number of students, by program, in the 07 and 08 pCDR Cohorts who defaulted on their FFEL or Direct Loans at any time within the first three fiscal years of repayment. For the 07 pCDR Cohort, this is the period between October 1, 2006 and September 30, 2009. For the 08 pCDR Cohort, this is the period between October 1, 2007 and September 30, 2010.

- pCDR rates were not calculated for programs with less than 30 total borrowers in the 07, 08, and 09 pCDR Cohorts.
- In the informational data file, the *Program Cohort Default Rates* are truncated to two digits after the decimal point.