Session 1: December 4-7, 2017

**Issue Paper #3**

**Issue:** Debt Calculations

**Statutory Cites:** 20 U.S.C. § 1221e-3; 20 U.S.C. § 3474; 20 U.S.C. § 1231a; 20 U.S.C. §§ 1001(b)(1), 1002(b)(1)(A)(i), (c)(1)(A); 20 U.S.C. § 1088(b)

**Regulatory Cites:**  34 CFR §§668.404 and 668.411

**Summary of Issue:**

Institutions have argued that the D/E metric is overly complex and the associated data reporting needed by the Department to calculate the rates for each GE program is overly burdensome. This issue paper addresses some possible areas that may impact the complexity and burden associated with D/E rates.

**TYPES OF DEBT INCLUDED:**

Under § 668.404(d)(1) of the regulations, the Department calculates the debt portion of the D/E rates using title IV loan debt disbursed, any private education loans, including private education loans made by the institution, and the amount outstanding extended by or on behalf of the institution that the student is obligated to repay after completing the GE program (institutional debt). Title IV debt is available to the Department through NSLDS, which was a reporting requirement for institutions prior to the finalization of the GE regulations. However, information about private education loans and institutional debt is provided by institutions to the Department as part of the GE reporting requirements.

**Questions for consideration by the committee:**

* What types of debt should the Department use in calculating the D/E rates?
* Are there ways in which institutional burden can be reduced while still requiring that title IV debt, private education loans, and institutional debt are included in the calculation?
* Should the debt calculation methodology be different if the calculation was applied to a larger set of programs (i.e., non-GE programs) or for different purposes (e.g., as a disclosure)?

**“ROLLED-UP” DEBT:**

Currently, if a student completes one GE program and subsequently completes a higher-credentialed GE program at the same institution, the student is excluded from the GE Completers List for the lower-credentialed program and the student’s loan debt amount and earnings are excluded from the lower-credentialed program’s D/E rates calculations. Debt roll-up reflects the total debt a student who completes a higher level program has borrowed to complete the program. The student’s debt from the lower-credentialed program is attributed to the higher-credentialed program, or “rolled up.” Debt roll-up only applies from one undergraduate program to another undergraduate program or from one graduate-level program to another graduate-level program. For example, debt from an associate degree completed at a proprietary institution could roll up to a subsequently completed bachelor’s degree at the same institution because both are undergraduate degrees. Debt would not roll up from a bachelor’s degree completed at a proprietary institution to a subsequently completed master’s degree at the same institution because one degree is undergraduate-level and one degree is graduate-level.

Through the reporting process, institutions expressed confusion on how to “roll-up” student debt. During the first Draft GE Completers List corrections process, numerous institutions attempted to claim higher-credential exclusions when one program was not a GE program, when one program was undergraduate and the other program was graduate-level, when both programs had the same credential level, and in various other incorrect scenarios.

**Questions for consideration by the committee:**

* Does the current method for rolling up debt accurately capture the debt a student would incur in order to complete the applicable GE program?
* Does the current method of rolling-up of debt between programs provide an equitable treatment of all programs between proprietary institutions and non-proprietary institutions? Would a change in the treatment of “rolled up” debt make the calculation of D/E rates more equitable between institutional types?
* If these regulations applied to all programs, what would be the appropriate calculation of the debt based on program level and whether debt should be “rolled up” between programs in non-GE programs?
* Does the current treatment of “rolled up” debt create undue confusion and burden to institutions? What changes to the treatment of “rolled up” debt would reduce potential confusion and burden associated with the debt calculation while still fairly accounting for the debt that a student borrows?

**INTEREST RATES**:

In calculating the average interest rate for a graduate program, the Department uses the statutory interest rate on Federal Direct Unsubsidized loans applicable to graduate programs. Similarly, the Department uses the undergraduate interest rate on Federal Direct Unsubsidized loans to calculate the interest rate for undergraduate programs. In calculating the average interest rate for a graduate program, the Department has chosen to use the statutory interest rate on Federal Direct Unsubsidized loans applicable to graduate programs. Similarly, the Department uses the undergraduate interest rate on Federal Direct Unsubsidized loans to calculate the interest rate for undergraduate programs.

Because using the average interest rate over a six-year period for programs of all lengths might not accurately reflect the annual loan payment of students in shorter programs, the Department uses the average interest rate over a shorter three-year “look-back” period for programs that are typically two years or less in length and uses the average interest rate over a longer six-year “look-back” period for programs over two years in length to calculate interest rates. For example, in the case of an 18-month certificate program, the average of the rates for undergraduate loans that were in effect during the three-year period prior to the end of the cohort period is used to calculate the interest rate.

However, the Department has received feedback that this process is overly complex and prone to error and wishes to revisit this topic with the committee, with particular attention to the following questions:

* What methodologies to determine the interest rate would be simpler for the Department to calculate without sacrificing accuracy? For example, would the interest rate in effect during the last award year of the cohort period be suitable? Or would the lowest, median, modal, or highest interest rate that applied to the GE cohort be more appropriate?

**AMORTIZATION PERIOD**:

The annual loan payment is used to calculate the debt portion of the D/E rates. The Department determines the annual loan payment for a program to approximate the average educational debt payments that correspond to the average earnings for the cohort of program graduates. The calculation applies one of three different amortization periods based on the credential level of the program. The different amortization periods exist because of the presumption that borrowers, who complete higher-credentialed programs, like bachelor’s and graduate degree programs, will take longer to repay their loans because they are likely to have more loan debt than borrowers who complete lower-credentialed programs, such as certificate and associate degree programs.

Currently, the Department uses these amortization periods:

* 10 years for diploma, certificate, and associate degree programs,
* 15 years for bachelor’s and master’s degree programs, and
* 20 years for doctoral and first professional degree programs.

The Department took this approach based on data from the 2002 cohort, which showed that:

* The majority of undergraduate borrowers, about 58 percent of borrowers from two-year institutions and 54 percent of undergraduate borrowers from four-year institutions, had fully repaid their loans within 10 years of entering repayment;
* Less than a majority of graduate student borrowers had fully repaid their loans within 10 years; and
* A majority of all borrowers regardless of credential level had fully repaid their loans (about 74 percent of undergraduate borrowers from two-year institutions, 76 percent of undergraduate borrowers from four-year institutions, and 72 percent of graduate borrowers) within 15 years of entering repayment.

**Questions for consideration by the committee:**

* Should the Department revisit the formula with the committee?
* How should the Department calculate the annual loan payment with respect to the amortization period?
* Given that higher-credentialed graduates may have both higher debts and higher earnings, should the Department adopt a single amortization schedule for all credential levels?
* Should any single amortization schedule be based on the standard repayment plan?