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Great Uncertainty under the PROSPER Act's Proposed Student Loan Accountability Metric: Methodology

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In my post, I outlined three assumptions. Below are my justifications for each. (For my estimates of student loan repayment, I use an interest rate of 6.8 percent and calculate daily compounded interest).

- Borrowers who pass the College Scorecard's one-year repayment threshold (i.e., pay at least $1 of their postseparation balance) will pass the new positive repayment status threshold.
  - In the College Scorecard, the one-year repayment rate is measured between 24 and 12 months from entering repayment (e.g., borrowers who enter repayment between October 1, 2011, and September 30, 2012, are measured on September 30, 2013).
  - The three-year repayment rate is measured between 48 and 36 months from entering repayment, outside the window of the PROSPER positive repayment metric, which is 36 to 24 months after entering repayment.
  - Borrowers who are on a ten-year standard repayment plan and make all but three of their monthly payments in the one-year repayment period easily meet the threshold of paying at least $1 of the postseparation balance.
  - Borrowers who make all but three $25 payments (income-driven payment for a person who makes $21,090 a year) on student loans up to $4,200 also meet this threshold, as do those who make $50 payments ($24,090) on loans up to $8,500.
- Borrowers who default at any point during the cohort default measurement period will not pass the new positive repayment status threshold.
  - The three-year cohort default rate is measured from between 36 and 24 months from entering repayment (e.g., borrowers who enter repayment between October 1, 2011, and September 30, 2012, are measured on September 30, 2014).

    - Although federal loan borrowers are technically in default after 270 days of nonpayment, the US Department of Education does not calculate the loan as part of the cohort default rate until it is 360 days past due. A borrower who defaults on a loan and accrues a year of interest and a 15 percent collection fee will not reach the 1-year repayment threshold unless she makes 10-year standard payments on a small loan (less than $1,500) and is likely excluded from the first group.
    - It is unclear whether previously defaulted loans will be considered in positive repayment status if they are rehabilitated and then kept at less than 90 days delinquent. I have assumed that previously defaulted loans will not be in positive repayment status.

- Borrowers who are not in default and who do not meet the College Scorecard repayment threshold have an unknown probability of passing the new positive repayment status threshold.
    - Borrowers in this category are likely in deferment, in forbearance, or in an income-driven repayment plan that does not cover interest on the loan (negative amortization).
    - Borrowers in this category would likely be ineligible for deferment or forbearance under the new repayment plans and would likely experience an increase in their payments under the new PROSPER repayment plans (e.g., from $0 to $5 or $25, from 10 percent of discretionary income to 15 percent). It is unclear how these borrowers would respond.

I combine data from the fiscal year 2011 and 2012 cohorts, which are pooled in the College Scorecard data, to develop the one-year repayment metric. To build a cohort default rate (CDR) for these cohorts, I have taken the average of the fiscal year 2011 and 2012 three-year CDRs, weighted by the CDR denominator for the measured year.

Participation Rate Index

The PROSPER Act introduces a new participation rate index equal to or less than 0.11, calculated as 1 minus the repayment rate multiplied by the student loan participation rate. This index is roughly analogous to the current participation index calculated for the cohort default rate accountability. Currently, colleges that have a student loan participation rate under 20.8 percent are exempt from accountability with a 30 percent CDR, while colleges with loan participation under 20 percent are exempt from accountability with a 45 percent positive repayment rate under PROSPER.

I include the participation rate index rule in my calculations of sanctions under positive repayment status (I use the College Scorecard measure *pcfloan* for the student loan participation rate). In the most extreme case, when we assume no unknown borrowers are in positive repayment status, 316 institutions have positive repayment rates below 45 percent but are exempt from accountability because of low student loan participation rates.

Program-Level Accountability

This new accountability metric will be calculated at the program level, but I only have loan repayment data reflecting borrower behavior for undergraduate debt at the institution level from the College Scorecard. Therefore, my analysis is limited to assessing the impact of accountability on undergraduate degree programs and assumes that the impact is the same across different programs at the same institution.

Alternate Analysis

The cohort default rate measures student loan defaults among all borrowers who attended an institution, whereas the student loan repayment rate measures repayment among borrowers who pursued undergraduate degrees at an institution. I assume that the probability of default is similar across all degree types. But because graduate students tend to be less likely to default, this may be a conservative estimate.

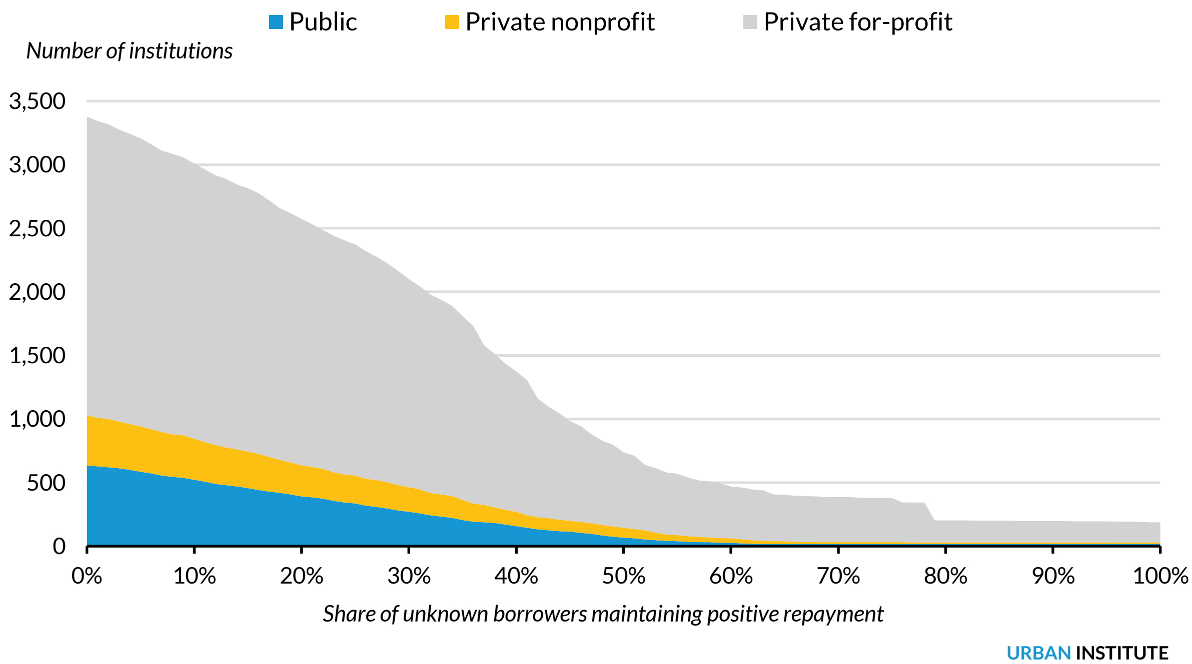
Below are the findings if I assume that all defaulters are undergraduates. I calculate the CDR as the number of defaulters over the denominator of the one-year repayment cohort. If the sum of this new CDR measure and repayment rate is greater than 1 (as it is for 149 institutions, serving less than 1 percent of undergraduates), I replace the measure with 1 minus the repayment rate.

If none of these unknown borrowers would maintain positive repayment in the new repayment system, 3,378 institutions (serving 35 percent of all undergraduates) would be affected. If 20 percent maintain positive status, as in my example, 2,574 institutions (25 percent of undergraduates) would be affected. At 50 percent, 739 institutions (4 percent of undergraduates) would be affected.

FIGURE 1

Number of Institutions Affected by the Positive Repayment Rule

Based on the behavior of the unknown borrower group, assuming all defaulters are in repayment cohort



Source: Urban Institute analysis using College Scorecard data from cohorts entering repayment in fiscal years 2011 and 2012.

About the Author

Kristin Blagg is a research associate in the Education Policy Program at the Urban Institute. Her research focuses on K–12 and postsecondary education. Blagg has conducted studies on student transportation and school choice, student loans, and the role of information in higher education.

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