IHEP

Making Sense of Student Loan Outcomes:

How Using Repayment Rates Can Improve Student Success

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Executive Summary

With ever-mounting concern regarding student debt, policymakers, institutions, and students and families seek better information on college affordability and student borrowing. For these stakeholders, **student loan repayment rates** can answer key questions about the manageability of student debt for borrowers attending specific institutions or programs. These rates provide important information, especially when calculated specifically for low-income college students, who often face the greatest challenges with college affordability and student debt.

Repayment rates, which measure the percentage of borrowers who are actively paying down their student loan debt or the percentage of dollars in active repayment, have permeated recent higher education policy discussions. More nuanced than cohort default rates (CDRs), repayment rates illustrate how effectively borrowers retire their student loan debt, rather than only whether they avoid default. With this added nuance, repayment rates can promote mindfulness regarding college affordability and student debt, and by disaggregating the rates by economic status, race/ethnicity, and other characteristics, they can shine a light on inequities in college financing that place the greatest burden on underserved students. These illuminating data can help policymakers and institutional leaders redesign policies and practices to better serve students.

The Institute for Higher Education Policy (IHEP) convened institutional practitioners and policy experts to examine repayment rates within the context of institutional improvement, accountability, and information for students and families. Specifically, these experts sought to investigate if and how repayment rates should be incorporated into our postsecondary systems to help advance student success, highlighting the impact of college affordability on all students, particularly low-income students, students of color, and other underserved populations. This paper considers the intricacies of repayment rate measures within multiple contexts, evaluates the most appropriate metric specifications, and identifies potential data quality improvements. Interest regarding repayment rates has recently resurged[1], as policymakers included them as a core measure in risk-sharing legislation[2] and the Department of Education released them on the revamped College Scorecard.[3] This report begins with an overview of the development of repayment rates in higher education policy, then focuses on the key takeaways learned from discussions with these experts.

Through this project, IHEP's goal was not only to spark conversation on the high-level uses and vision for repayment rates, but also to recommend whether and how the rates should be used—and by whom. With participants who ranged from policy experts to institutional practitioners, the day of discussions led to the following 11 major findings. These takeaways are divided into four distinct areas: general principles for repayment rate usage, calculation specifications, considerations for setting high and attainable performance standards, and recommendations for the Department of Education.

Principles for Using Repayment Rates

1. **Policymakers should frame repayment rates not as a measure of academic quality, but as a measure of student and taxpayer protection.** Institutions associate "quality assurance" strictly with academic integrity and student learning. As such, policymakers should frame repayment rates as measures of student protection or fiduciary responsibility for federal loans rather than measures of educational quality. Speaking a common language can help promote productive debate about the merits of repayment rates and avoid conflict that centers on rhetoric as opposed to substance.

1 Stratford, M. (2015, September). A tougher test for colleges. Inside Higher Ed. Retrieved from https://www.insidehighered.com/news/2015/09/23/new-college-scorecard-repayment-data-fuels-debate-over-accountability-higher-ed; Miller, B., and Flores, A. (2015, September 17). Initial analysis of College Scorecard earning and repayment data. Center for American Progress. Retrieved from https://www.americanprogress.org/issues/higher-education/news/2015/09/17/121485/initial-analysis-of-college-scorecard-earnings-and-repayment-data/

2 Student Protection and Success Act of 2015, S. 1939, 114th Cong. (2015). Retrieved from https://www.congress.gov/bill/114th-congress/senate-bill/1939/text

3 U.S. Department of Education. (2015, September). College Scorecard data download and documentation. Retrieved from https://collegescorecard.ed.gov/data/

2. **Policymakers and institutions should disaggregate repayment rates.** To better explore the repayment behavior of targeted student subpopulations and design appropriate intervention or accountability strategies, repayment rates should be disaggregated by indicators such as completion status, Pell receipt, and race/ethnicity.

3. **Offices within institutions should collaborate with each other to use repayment rate data to better serve their students.** To effectively use repayment rates to spur institutional improvement, financial aid and institutional research offices must work together to gather and analyze the data, and senior leadership must be willing to consider recommended changes identified through the analyses.

Calculating Repayment Rates

1. **Policymakers and institutions should use the borrower as the unit of analysis in repayment rates.** A borrower-based rate, which measures the percentage of borrowers in repayment, is easier to understand and communicate than a dollar-based rate, which measures the percentage of loan dollars in repayment.

2. **Policymakers and institutions should count borrowers in income-driven repayment (IDR) plans as in repayment only if they are reducing loan principal.** Some borrowers enrolled in IDR plans may be in good standing on their loans but not making payments large enough to reduce principal. Borrowers should be considered in repayment only if they are reducing principal, regardless of their repayment plan. IDR plans should help protect the borrower, but should not serve as a shelter for institutions or servicers when calculating repayment rates.

3. **Policymakers and institutions should calculate separate repayment rates for student and parent loans and should include all undergraduate debt.** Policymakers and institutions should combine all undergraduate loans in the calculation, including Perkins loans, and also collect repayment data on private loans (if possible), to accurately represent student debt. Policymakers and institutions also should calculate separate Parent PLUS loan repayment rates to inform Parent PLUS policy.

4. **Policymakers should not hold institutions accountable for substantial consolidated debt accrued at other institutions.** Each consolidation loan should be included in the repayment rate of only the institution with the largest share of that consolidation loan's debt, even if the student borrowed at multiple colleges, or repayment of consolidated loans should be weighted based on the amount of debt accrued at each institution.

Setting High and Attainable Performance Standards for Repayment Rates

1. **Policymakers and institutions should define successful repayment as more than a $1 reduction in principal.** Although some participants debated what should count as success in a repayment rate, many agreed that the common definition for successful repayment—a $1 reduction in principal—is too small to provide meaningful information.

2. **Policymakers should use repayment rates to supplement, but not replace, CDRs as an accountability measure.** If used for accountability, repayment rates should be paired with CDRs, which provide a core consumer protection by measuring the most harmful repayment outcomes.

3. **Policymakers should hold servicers accountable for repayment rate performance.** If repayment rates are incorporated into an accountability system, policymakers should hold both servicers and institutions accountable, as they both hold fiduciary responsibility for federal loan dollars.

Making Repayment Data More Usable: Recommendations for the Department of Education

1. **The Office of Federal Student Aid should improve student loan reports available to the public and to institutions.** The Department of Education's Office of Federal Student Aid should publish institution-level repayment rates regularly and enhance the data available to institutions about students' accrued debt and repayment progress so the institutions can use the data to facilitate student success.

These recommendations, detailed further throughout the report, can help policymakers and institutions use repayment rates to implement policies and practices that protect students from overly burdensome debt and help them achieve financial stability after college. To make repayment rates actionable for institutions to best serve all students, federal policymakers should take care in defining the metric; set high, attainable repayment standards; and make repayment data easily available to institutions.