

The Impact of Loan Repayment Rates on Minority Students

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There is a very strong correlation between the percentage of minority students enrolled at a college and the college's loan repayment rate. This correlation is stronger than the correlation with the percentage Pell Grant recipients at a college, as discussed in a previous report.¹ Accordingly, the affordable debt restrictions proposed by the U.S. Department of Education in the Gainful Employment NPRM² are likely to have a significant impact on minority students, discriminating against colleges that enroll more minority students. This suggests that the gainful employment proposals might not yield an improvement in outcomes for minority students and may reduce minority student access to a higher education.

Colleges that serve more minority students have lower loan repayment rates. For example, **the average loan repayment rate is 30% at colleges with more than two-thirds minority enrollment, compared with 62% at colleges where less than a tenth of the students are minorities.** (For African-American students the average loan repayment rates are 21% and 60%, respectively, and for Hispanic students 41% and 53%, respectively.) The results are similar even when the analysis is restricted to public, non-profit or for-profit colleges, as illustrated in the following table, suggesting that a low loan repayment rate may be caused, at least in part, by the demographics of the students enrolled in a college and not just due to differences in educational quality. (A few anomalies are highlighted in yellow. The correlation with loan repayment rates is weaker at less-than-2-year non-profit and public colleges, perhaps due to sparse data.)

| College Type | Average Loan Repayment Rate | |
|-----------------------|-------------------------------|-------------------------------|
| | < 10% Minority Students | > 66% Minority Students |
| Public | 60.8% | 32.2% |
| 4-year | 63.6% | 32.2% |
| 2-year | 48.7% | 32.1% |
| < 2-year | 51.9% | 51.0% |
| Non-Profit | 64.9% | 30.9% |
| 4-year | 65.0% | 30.6% |
| 2-year | 68.9% | 37.0% |
| < 2-year | 26.4% | 39.4% |
| For-Profit | 46.5% | 26.9% |
| 4-year | 46.7% | 23.6% |
| 2-year | 45.2% | 26.9% |
| < 2-year | 47.8% | 28.4% |
| Overall Totals | 61.6% | 30.3% |

¹ Mark Kantrowitz, *The Impact of Loan Repayment Rates on Pell Grant Recipients*, September 1, 2010, www.finaid.org/educators/20100901gainfulemploymentimpactonpell.pdf.

² *Program Integrity: Gainful Employment*, Federal Register 75(142):43616-43708, July 26, 2010.

The following table of the variation in loan repayment rates according to the detailed percentages of minority students demonstrates that institutions with a greater percentage of minority students are less likely to satisfy the 45% loan repayment rate threshold for full eligibility.

The differences according to type of college suggest that the differences are not entirely due to race. Other demographic factors – such as gender, age, independent student status, parent educational attainment, household size, first-generation college student, family income and student status as a single parent – probably play a role, as does the amount of debt, part-time enrollment status, delayed enrollment, working full-time while in school and Pell Grant recipient status.³

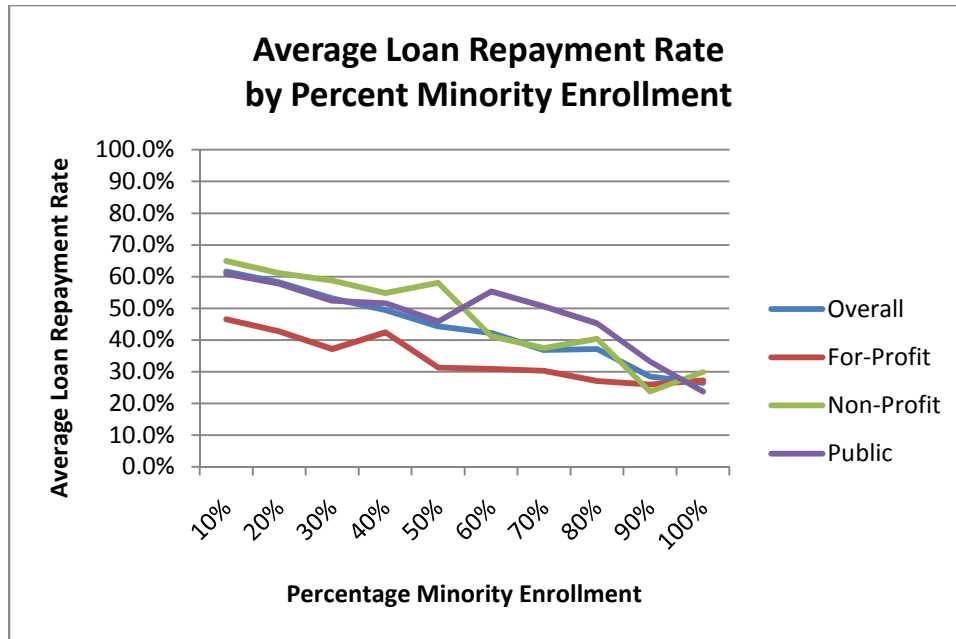
| % Minority Students | Loan Repayment Rate | | | |
|---------------------|---------------------|--------|------------|------------|
| | Overall | Public | Non-Profit | For-Profit |
| 0.0% - 9.9% | 61.6% | 60.8% | 64.9% | 46.5% |
| 10.0% - 19.9% | 58.1% | 57.8% | 61.0% | 42.7% |
| 20.0% - 29.9% | 53.1% | 52.4% | 58.8% | 37.2% |
| 30.0% - 39.9% | 49.5% | 51.6% | 54.8% | 42.4% |
| 40.0% - 49.9% | 44.3% | 45.8% | 58.0% | 31.3% |
| 50.0% - 59.9% | 42.2% | 55.3% | 41.2% | 30.9% |
| 60.0% - 69.9% | 36.8% | 50.6% | 37.5% | 30.3% |
| 70.0% - 79.9% | 37.2% | 45.2% | 40.4% | 27.1% |
| 80.0% - 89.9% | 28.5% | 33.3% | 23.7% | 25.9% |
| 90.0% - 100% | 26.4% | 23.7% | 29.9% | 27.2% |
| Overall | 51.6% | 53.8% | 57.0% | 36.4% |

For-profit colleges enroll a much greater percentage of minority students than non-profit and public colleges, with the exception of non-profit less-than-2-year institutions. Based on IPEDS data, minority students represent about 45% of enrollments at for-profit colleges, 33% of enrollments at public colleges and 27% of enrollments at non-profit colleges, as is illustrated by the following table.

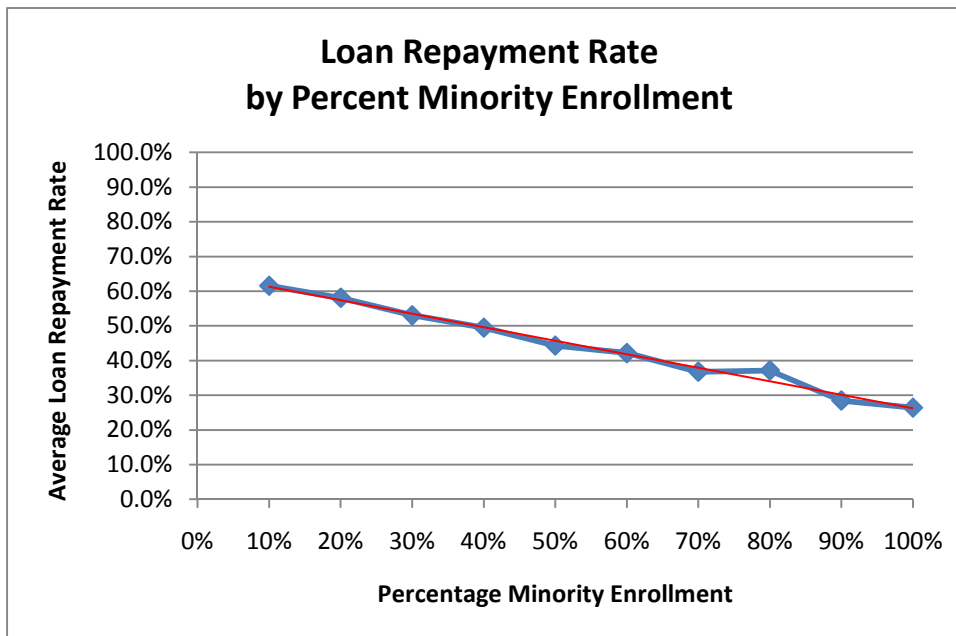
| College Type | Percentage Minority Enrollment |
|-----------------------|--------------------------------|
| Public | 32.7% |
| 4-year | 29.4% |
| 2-year | 35.2% |
| < 2-year | 23.2% |
| Non-Profit | 26.5% |
| 4-year | 26.1% |
| 2-year | 34.4% |
| < 2-year | 65.9% |
| For-Profit | 45.0% |
| 4-year | 39.1% |
| 2-year | 46.3% |
| < 2-year | 56.2% |
| Overall Totals | 32.9% |

³ See Mark Kantrowitz, Calculating the Contribution of Demographic Differences to Differences in Default Rates, May 7, 2010, www.finaid.org/educators/20100507demographicdifferences.pdf for a discussion of the impact of these factors on differences in default rates.

Graphing the loan repayment rate data demonstrates a roughly linear, inverse and mostly monotonic relationship between the percentage minority students and the average loan repayment rates.



In fact, the linear relationship in this graph for the overall data can be fit almost perfectly with $R^2 = 98.7\%$, as shown in the following chart, by a trend line that assumes that **minority students contribute 26.2% to the loan repayment rate and non-minority students contribute 65.2% to the loan repayment rate**, when combined in an enrollment-weighted average. (Overall, African-American students contribute 15.1% to the loan repayment rate and Hispanic students 39.0%. The figures are 11.0% and 31.4% at for-profit colleges, 15.7% and 35.3% at non-profit colleges and 15.3% and 46.7% at public colleges.)



The best fit lines yield the following figures when the data is disaggregated by type of college. The correlation is weak for less-than-2-year public and non-profit colleges, but otherwise is quite strong, with the contribution from minority students ranging from 20.4% to 34.7% and the contribution from non-minority students ranging from 44.9% to 71.8% where the correlation is strong. This means that colleges that do not enroll minority students will generally have loan repayment rates in the fully eligible range while colleges that enroll mostly minority students will generally have loan repayment rates in the ineligible range. Colleges that enroll a mix of minority and non-minority students will tend to have loan repayment rates in the restricted zone. As such the loan repayment rate will be discriminatory in effect, causing colleges that enroll more minority students to have ineligible and restricted loan repayment rates.

| Institution Type | R ² | Contribution to Loan Repayment Rates | |
|-------------------|----------------|--------------------------------------|-----------------------|
| | | Minority Students | Non-Minority Students |
| Public | 74.1% | 33.1% | 65.5% |
| 4-year | 65.1% | 34.7% | 68.8% |
| 2-year | 64.4% | 29.0% | 44.9% |
| < 2-year | 17.4% | 56.1% | 49.1% |
| Non-Profit | 89.4% | 26.9% | 71.6% |
| 4-year | 89.6% | 26.8% | 71.8% |
| 2-year | 48.9% | 31.7% | 61.2% |
| < 2-year | 12.1% | 40.3% | 60.3% |
| For-Profit | 86.3% | 23.8% | 46.8% |
| 4-year | 87.9% | 20.4% | 47.6% |
| 2-year | 65.7% | 24.9% | 45.2% |
| < 2-year | 91.1% | 24.6% | 51.0% |
| Overall | 98.7% | 26.2% | 65.2% |

Thus minority students contribute to lower loan repayment rates at all colleges, with loan repayment rates for minority students that are less than half the loan repayment rates of non-minority students. A college that enrolls primarily minority students is extremely unlikely to have a loan repayment rate in the eligible or restricted zones. Shifting at-risk student populations from colleges with low loan repayment rates to colleges with higher loan repayment rates is pointless if the enrollment of at-risk students is a primary cause of the lower loan repayment rates. The proposed gainful employment rules will penalize colleges that serve minority student populations in proportion to their minority student enrollment. This illustrates a tension between the dueling public policy goals of safeguarding taxpayer money from waste and providing educational opportunity to disadvantaged students.

Recommendation: The US Department of Education should evaluate the potential impact of the gainful employment proposals on minority students, low-income students and other at-risk student populations. The US Department of Education should consider excluding these students from the loan repayment rate and debt to income ratio calculations in order to avoid penalizing colleges for serving at-risk student populations.

The following table shows the distribution of minority students among the three categories of loan repayment rates – eligible over 45%, restricted between 35% and 45%, and ineligible under 35% – within the public, non-profit and for-profit colleges and overall. The figures for public and non-profit colleges are among all colleges, not just those subject to the gainful employment rules.

| Impact on Minority Students College Type | Loan Repayment Rate Thresholds Distribution of Minority Students | | | Loan Repayment Rate Thresholds Percentage Minority Students | | |
|---|---|--------------|--------------|--|--------------|--------------|
| | < 35% | 35% to 45% | ≥ 45% | < 35% | 35% to 45% | ≥ 45% |
| Public | 31.3% | 24.7% | 43.9% | 45.3% | 33.6% | 26.9% |
| 4-year | 17.7% | 11.8% | 70.4% | 60.4% | 32.8% | 25.7% |
| 2-year | 39.8% | 32.7% | 27.4% | 42.4% | 33.9% | 29.3% |
| < 2-year | 11.5% | 12.9% | 75.7% | 28.7% | 14.5% | 25.0% |
| Non-Profit | 16.2% | 20.7% | 63.2% | 57.3% | 49.4% | 20.6% |
| 4-year | 14.9% | 20.7% | 64.4% | 56.4% | 49.7% | 20.5% |
| 2-year | 44.4% | 25.3% | 30.4% | 61.6% | 38.8% | 19.7% |
| < 2-year | 50.8% | 10.7% | 38.5% | 72.5% | 71.6% | 57.8% |
| For-Profit | 57.0% | 30.0% | 13.0% | 52.3% | 41.7% | 31.4% |
| 4-year | 53.0% | 36.0% | 11.0% | 45.5% | 35.6% | 28.7% |
| 2-year | 64.4% | 21.4% | 14.2% | 53.7% | 43.4% | 30.5% |
| < 2-year | 55.7% | 29.5% | 14.8% | 64.4% | 58.5% | 36.1% |
| Overall Totals | 32.7% | 24.9% | 42.4% | 47.2% | 35.7% | 25.7% |

Clearly, the loan repayment rates have a disproportionate impact on minority students who are enrolled at for-profit colleges. More than half of minority students (57.0%) who are enrolled at for-profit colleges are enrolled at colleges with ineligible loan repayment rates under 35%. Almost a third of minority students (30.0%) who are enrolled at for-profit colleges are enrolled at colleges with restricted loan repayment rates between 35% and 45%. Accordingly, the gainful employment proposal is likely to have a significant impact on the enrollments of minority students at for-profit colleges. The minority students might shift to other programs at the same colleges, to other colleges within the sector, to colleges in different sectors, or be lost entirely to postsecondary education. But it is clear that there will be a significant shift in the enrollments of minority students.

The table also demonstrates that colleges with a loan repayment rate under 35% tend to have a greater percentage of their enrollments from minority students than colleges with a loan repayment rate of 35% to 45%, and in turn for colleges with a loan repayment rate greater than 45%, regardless of the type of college.

From a public policy perspective, the hope is that this shift in the enrollment of minority students will improve graduation and job placement rates by moving the students to better-performing schools. Whether the shift in enrollments will lead to improvements depends on the extent to which low loan repayment rates are caused by a high percentage of minority students and the extent to which the low loan repayment rates are due to other factors, such as educational quality. It is probably a mixture of both factors. But as this paper has demonstrated, low loan repayment rates are caused to a great extent by the percentage of minority students enrolled at an institution. This raises the possibility that the shift in the enrollment of minority students may have a much smaller impact on outcomes than is hoped.

None of the available financial metrics, including the percentage Title IV aid (90/10 rule), cohort default rates, loan repayment rates, debt-service-to-income ratios or debt-service-to-discretionary-income ratios directly measures educational quality. Current public policy assumes that these metrics correlate well with educational quality. Perhaps they do, to some extent. After all, if a student can't get a job, he can't repay

his student loans. But there is little or no credible evidence to confirm or contradict this assumption.⁴ Many public policy advocates believe that traditional colleges provide a better quality education than for-profit colleges, but belief is not fact. Unsupported belief is not proof. Public policy should not be set based on an untested assumption.

Recommendation: The US Department of Education should conduct a large (statistically significant) randomized study of Associate's degree and Bachelor's degree recipients from every type of college (disaggregated by level and control) for some of the most popular majors. The study should test and evaluate the student's mastery of the subject matter. The study design should be carefully controlled to minimize the impact of confounding factors such as income, first-generation college student status, independent student status and minority student status. The students should also be tracked longitudinally to evaluate the correlation of their performance on the subject matter proficiency tests to job placement rates, loan repayment rates, cohort default rates and income. This will help answer the question whether each type of college is providing an education of genuine value in the marketplace.

Shifting enrollments of minority students from for-profit colleges to community colleges will not necessarily yield an improvement in graduation rates or job placement rates. The average graduation rate is 20% at community colleges, compared with 57% at 2-year for-profit colleges, and the average loan repayment rate is 40%, barely better than the 34% loan repayment rate at for-profit colleges.

All else being equal, students at community colleges are less likely to borrow than students at for-profit colleges and the debt at graduation is significantly lower. But this is primarily because of a shift in costs from the federal government to state governments, and not because of any greater efficiency. Given capacity limits in community colleges and a downward trend in per-capita state support of higher education, a significant shift in enrollment from for-profit colleges to community colleges would likely lead to significant increases in tuition rates and student debt at community colleges, perhaps by as much as 40% and 75%, respectively.⁵

If colleges with low loan repayment rates adopt more selective admission criteria to improve their loan repayment rates, this might indirectly select against minority enrollment. No college will directly discriminate against any protected status. But low-income, minority and other at-risk students are often at a disadvantage when evaluated according to traditional admissions criteria. Low-income, minority and other at-risk students are currently under-served by traditional colleges because of the colleges' more selective admissions criteria. These students enroll at for-profit colleges because of the open-door and unselective admissions policies and because the colleges offer educational programs that are tailored to the needs and goals of these students. If for-profit colleges become more selective in order to comply with the gainful employment regulations, it may ultimately cause more of these at-risk students to be lost permanently to post-secondary education, potentially reducing access to a higher education. This is of great concern because a college education is one of the most effective tools for ending generational poverty and improving quality of life.

⁴ There is some evidence at the graduate and professional degree level, such as pass rates on medical boards, the state bar and other independent licensing exams. But there is very little data at the undergraduate level, such as tests of the proficiency of students obtaining degrees in particular fields of study.

⁵ These rounded figures assume a shift in the enrollment of all students at for-profit colleges to community colleges with no increase in state support of higher education.