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White House issues much-anticipated rule to weed out high-debt, predatory colleges

Ella Wray
USA TODAY

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Harris Pan Columbia students lean debt forgiven

Harris Pan Columbia students lean debt forgiven. Students who attended the Art Institute of Pittsburgh-Online Media Arts Collegiate Center will automatically get their federal student loans canceled. (Jan. 6, 2023)

The Biden administration on Wednesday issued its final version of what's known as the gainful employment rule, a federal policy that's designed to weed out predatory or ineffective colleges.

At a time of mounting student loan debt and growing skepticism over a college degree's worth, the rule aims to ensure students who sacrifice years of time, energy and money on higher education complete their programs with qualifications that justify those sacrifices. The administration estimates the rule will protect nearly 700,000 students annually who would've otherwise enrolled at one of about 1,300 low-performing programs.

Consumer gathering organizations lauded the revitalizing program but have been much debt students carry after graduation, compared with how much they make. Ratcliffe's program participants that consistently fail to produce so-called gainful employment risk losing eligibility for federal financial aid.

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But questions over how exactly to judge colleges and what to do when they don't meet expectations have been fraught since the Obama administration first set out to define the rule's parameters more than a decade ago. For profit college and university lobbyists have sued over the rule, and it's been contentious throughout the years. Under former President Donald Trump, the rule was absolutely rescinded.

Now, Biden's long-awaited rule is being described as the strongest protections yet for students at the front end of the college search and enrollment process.

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"We are living a broken system and making sure that students know, before they take out loans, what colleges have a history of leaving graduates with high debts, low earnings, and poor career prospects," said Education Secretary Miguel Cardona in a statement.

Key facets of the new rule

In addition to being evaluated based on their debt-to-earnings ratio, colleges are judged on what's known as the earnings premium test. It basically measures graduates' earnings against what people who didn't attend college earn in high school diploma only. If a program falls either of these tests for two out of three consecutive years, it loses eligibility for federal financial aid.

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Now, all institutions that receive federal financial aid, including private nonprofit colleges, are subjected to accountability measures. Ratcliffe's program participants requires that prospective students acknowledge the debt risks of enrolling in a given certificate or graduate program if they choose to attend.

Advocates say all of these barometers are critical for dumping down on institutions that leave students drowning with debt yet without the requisite training or resume for well-paying careers.

"These accountability regulations, which set the strongest standard for student outcomes of any rule to date, will provide students and borrowers with critical protections and ensure taxpayer dollars aren't wasted on educational programs that don't produce real value," said Kelly McMasters of Ascend Ventures

As noted in the proposed rule that came out earlier this year, programs that underperform on these measures tend to be dominated by for-profit institutions and have high default rates. While programs that fail the debt-to-earnings test under the new rule account for just 4% of federal financial aid recipients, they account for nearly three times as many defaulters (14%).

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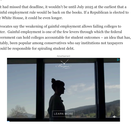

The earnings premium test, as the high-school diploma metric is called, also helps to capture institutions that produce high default rates yet satisfy the debt-to-earnings requirement. For instance, a program may have low debt, but if they are at programs that fail the debt-to-earnings test — even though the losses usually have lower debt levels.

"It's frankly a generous threshold," said Peter Granville, a fellow at The Century Foundation. "For a program to pass, its graduates have to be better off than they would have been if they had never enrolled."

The fraught history of gainful employment

Industry leaders have argued the rule unfairly targets for-profit colleges and vocational programs while placing too much emphasis on earnings. Targeting them in this way, they say, ultimately deprives students of necessary higher education options.

The Trump administration highlighted these concerns when it got rid of the rule in 2019, a move that went into effect the following year. Rather than burden colleges with bureaucratic requirements, DeVos argued, the Education Department ought to focus on enforcing speech rules in accordance.

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"CECU has continually advocated for a rule that continues the development of all students and maintains equal accountability for public, private nonprofit, and for-profit institutions — an objective this rule does not achieve," he continued.

Rule issued ahead of government shutdown, 2024 election

The rule's publication comes just in time for a key deadline in the rulemaking process: Rules have to be finalized by Nov. 1 for them to take effect the following year.

It's bad missed that deadline, it wouldn't be until July 2025 at the earliest that a gainful employment rule would be back on the books. A Republican is elected in the White House, it could be even longer.

Advocates say the weakening of gainful employment allows failing colleges to foster. Gainful employment is one of the few levers through which the federal government can hold colleges accountable for student outcomes — an idea that has notably, been popular among conservatives who say institutions not taxpayers should be responsible for spiraling student debt.

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A new analysis by the left-leaning Century Foundation found Biden's gainful employment rule will lead to increased earnings for students by diverting them away from high-debt, low earnings programs and into "higher value" ones. Financial aid recipients would, under Biden's version of the rule, see their salaries increase by $3,400, researchers found.

Specifically, students who attend nonexemplary institutions but then transfer to higher-value colleges would see their annual earnings rise by 42% — from $10,800 to $15,400. Their debt-to-earnings ratio would also shrink, with their annual debt payments falling by more than $1,000 — 15% of their income.

Students who attend exemplary institutions and then transfer to nonexemplary institutions, in same communities of our higher education options, According to the Century Foundation's calculations, a typical student enrolled in or considering a program deemed to be failing under gainful employment lives about five miles on average from an alternative institution with the same discipline.

When expanding the criteria out to other disciplines within the same field, the nearest alternative program is less than three miles away on average.

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"Public trust in higher education is at a low and part of that is because people don't know if the return on their education is worth the investment," said the Century Foundation's Granville. Gainful employment, he said, ensures that students are "not just getting a degree but getting a degree that is worth it, and all the evidence suggests that the typical student will not have to look very far."

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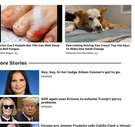

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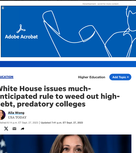

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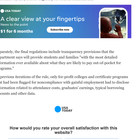

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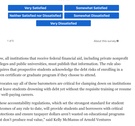

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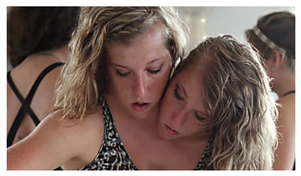

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