Jeff Baker: I'm Jeff Baker from Federal Student Aide, and with me is John Kolotos from our Office of Post Secondary Education. This is a special session in terms of its time. It goes from 11:00 to 12:45, which is about a half hour longer than normal sessions. We may or may not take it all, but we wanted to provide, first of all, a summary of the gainful employment requirements regarding disclosures, additional programs, and reporting. A bit more than what David and Danny and I went through this morning, but not anywhere near as much as the detail you'll get in the sessions that follow. There is one on disclosures. There's one on additional programs, and there's one on reporting.

But where we want to spend, and you'll see as we go through the presentation, most of our time is describing to you the metrics that are the result of the June 13th final regulations and how those metrics will be calculated and what impact those metrics will have on the eligibility of a gainful employment program. So I'm going to start off by providing some of the background, and then John will give you the details on the metrics. We're going to talk about these items here, including the disclosures and all of that, and then we'll – it does say we'll have time for questions. I don't think we really will, and frankly, the room is not set up with microphones, but we do have the two Q&A sessions that follow. Remember that there's lots of gainful employment information on our IFAP website as I mentioned this morning, and I assume by this time most of you, hopefully all of you, have at least taken a look at all of that information.

And if you haven't, you really should, and you need to monitor it on an ongoing basis as we put out additional information. There are these other interest sessions that I mentioned on disclosures and adding new programs and reporting, and then we're doing twice, tomorrow afternoon and Thursday afternoon, I believe, a question and answer where if you have some questions as a result of this session or some of the other sessions, you can ask. So let's back up to the beginning of this and see where all of this comes from. Of course, Dan mentioned this just a little while ago. This is nothing new. You know, people had a tendency when we started on this to say things that we were making something up here out of whole cloth that did not have any authority in the law.

But quite the contrary. The law has been very clear, and for probably it's beginning, 1965, that the only programs that are eligible for federal student aide are those that lead to a degree if those programs are offered by for – not for profit or public institutions, or everything else to be Title IV eligible has to lead to

gainful employment in a recognized occupation, and those gainful employment and recognized occupation programs we call GE programs. And that means that at a proprietary institution, the law has one exception, fairly significant one, that even a degree program at a for profit institution must lead to gainful employment in a recognized occupation. Otherwise, it's not Title IV eligible. Now what we're doing here is in these regulations is defining through the metrics whether the program really does lead to gainful employment. Gainfulness, if that's a word.

You'll see that's the theme here. Number one because the law requires it, and number two because it's the right thing to do in terms of students and families in terms of them making their investments. They invest time, money, take on debt, use taxpayer money, and put taxpayer bid at risk on loans to make sure that the program really does lead to gainfulness. So at for-profit institutions, all of the programs are gainful employment programs except for certain proprietary programs and the limited number – it's a very small number of four-year liberal arts programs.

But for all intents and purposes, if you work at a for-profit institution, degree or non-degree, all of your programs are gainful employment programs, and all of the regulations, reporting and disclosures and adding programs and certainly the metrics apply to your programs. If you're at a public institution or a not for profit institution, all of your certificate programs, virtually all of your certificate programs are gainful employment programs. Your degree programs are not. Your degree programs are not. Not because we wrote the rule that way. Not because that's the way we think it should be. Not because we would have preferred to do something else. Because that's what the law says. The law says a Title IV eligible program is a degree program offered by not for profit or public institution, and any other program offered by any institution must lead to gainful employment in a recognized occupation.

And you see a couple of exceptions here. Now the law also talks about teacher certification programs, and this is an area that there's been some confusion about. In general, to be Title IV eligible in addition to the gainful employment issue, a program has to lead to some credential awarded by the institution. A degree, a diploma, a certificate. But there are a couple of exceptions, and one of them in the law is a teacher – is a set of courses that a student will take to prepare to get a credential from the state to be a teacher. That program does not need to lead to any kind of a certificate or

awarding of any criteria by the institution. It's just a set of course work that allows us to apply for a teaching credential.

Because it does not lead to anything at the school, it is not a GE program. However, if the school chooses to award a certificate or a diploma or something to this series of courses even though the ultimate reason the student is taking these courses is to apply for and get a teacher credential from the state, but if the school awards a GE program – a certificate, it's a GE program, even a teacher credential program. And English as a second language programs are gainful employment programs.

This is a little bit backwards because to make the presentation, but a GE program does not include a teacher-training program. That does not lead to a certificate awarded by the institution and the preparatory course work. Most programs that are non-degree are gainful employment programs. All programs of proprietary schools are proprietary – are GE programs. There's a couple of exceptions here. And we went through this rather extensively. And a couple of electronic announcements that you should be familiar with. If not, you can go back and look at them.

We took it through a series of steps that you can take to determine if a program is a gainful employment program at your institution. The law also provides that there are another set of programs that do not have to lead to a certificate awarded by the institution, and that is a program of at least two years in length that is designed to be fully transferrable to a four-year bachelors degree program. That is an exception that even though the school does not award a certificate, the student can still get Title IV aide, but it's not a gainful employment program. It is not a gainful employment program. Now you need to be a little bit careful here.

We got some feedback and some questions about well, we have a certificate program at our school that lots of the students take and use it as advanced standing to a four-year degree program. So does that mean it's not gainful employment program? No. This is a program designed to be a non-certificate transfer program, not a program that is a stand-alone certificate by itself, but may also be allowed – be taken in by a school to be – count towards a four-year program. So be careful about that distinction. Gainful employment in a recognized occupation. A recognized occupation is we've had that for a while. It's one identified by the Department of Labor in their occupation classification codification.

It's we call them the SOC codes, the S-O-C codes. It's been established by OMB. O*NET, which is Department of Labor, lists – is a technique, a tool that lists the SOC codes, and you find crosswalks between academic programs and certain occupations. That's been the easy part of gainful employment and recognized occupation. The new stuff is on gainfulness. So as mentioned, we issued two sets of final rules on this. On October 29th, we issued rules about disclosures and reporting and adding new programs, and then on June 13th, the metrics.

Now as we put the regulations together on this, we realize that we had to put a framework around and define what a gainful employment program is. So we define a gainful employment program, a single program as a combination of these three items. The school's OPEID, six characters. We don't care about branches and locations. Your institution, the one that has the program participation agreement with the secretary. The six-digit OPEID. The CIP code, Classification of Instructional Program, which is established by our National Center for Education Statistics. And all of your academic programs have a CIP code that you assign based upon the taxonomy that's provided by NCES. A little footnote. You need to go back and make sure that your academic people who are assigned these CIP codes are doing it properly.

One of the things we're discovering is the CIP codes aren't exactly the right ones to be used for a particular academic program. And the third component that makes a unique gainful employment program is the two-digit credential level. Now credential level is something we established in these rules, and they're defined – you can see them in our NSLDS user's guide. There are seven categories, from 01 to 07. I'm not going to remember them all. There are certificates, undergraduate certificates, post-baccalaureate certificates, associate degrees, bachelors degrees, masters degrees, doctoral degrees, and professional degrees. I think I maybe have them all.

So a program is school, CIP, credential level. You may have two – at a school, you may have two different gainful employment programs. You probably will have many if you're a for-profit school in particular, gainful employment programs, but you may be the same school. So the same OPEID, the same CIP code because it's in the same area, but you offer a two-year certificate program, and also, a four-year bachelors program. Those are two different programs because they have two different credential levels. Okay? Whoops. They're all here. Did I get them right?

I got them out of order just a little bit. Those are the credential levels. And these are very important for disclosures, for reporting, and for our metrics. So disclosures. As David mentioned, our regulations were published in October of 2010, which means under the master calendar, these are required by – were required by July 1st, 2011. This is just common sense, folks. This is about consumerism. This is about providing proper information to students and their families, prospective students and their families. As much as we would all like when we buy a product or are considering buying a product, whether it be a refrigerator or new stove or taking a trip or anything, you want to know about it. There's things you want to know about this thing you're going to invest in.

In this case, a lot of time, a lot of money, take on a lot of debt, use a lot of taxpayer money in terms of grant programs and maybe taxpayer money in terms of the student loan programs. And it just seems to us very easy to understand that schools need to provide very specific information about their gainful employment programs so that respective students can make decisions. You have to put this information on the program's homepage. Not the school's homepage. For each of your gainful employment programs, the webpage that discusses that program, you have to have it on there. Now on a school wide page, you have to have links so that the prospective student can get to this information, but they need to be able to – particularly with the web searches, they may even skip the homepage and go right to the program about the academic program.

That's where this information has to be. It has to – in order to be useful, of course, it has to be simple and meaningful, and it has to have links from other places. And so that people can do comparisons, it has to be in a format, a technological format that people can download the data, they can print it, they can index it, and search it so they can find information about your programs and compare things among programs at your own school, but also at programs at other schools.

Now we put in the regulations we're going to develop a template. Our NCES folks are developing a template that you will provide this information on, and the purpose of the template is that we'll have a common look and feel. So again, when the prospective student or family is going to look at this information, they'll go to your site and your program and see this information in the exact same format that they'll see it at another site at another school. Now we don't have the template out yet. We except to have it by

next summer. NCES is working with the community to make sure that we get this right. But that doesn't mean that you didn't have to report by July 1st, 2011. You had to using your own formats, however you think made the most sense, keeping in mind the purpose of this, which is to be useful. Not to hide any information, but to be a useful tool for prospective students.

So what are you going to disclose? You know, I didn't even have to have these slides. If I asked you – if this were a classroom and I said, "We're trying to inform students and prospective students about the program. What do you think we ought to disclose," hopefully you would all come up with these things. This is supposed to lead to gainful employment in a recognized occupation. So what are those occupations. What occupations does your training and this program lead people to get jobs doing? What do your graduates do? What jobs are they in? Tell the people before they make a decision what jobs your training leads to.

How much does a program cost, a very obvious thing? How much does it cost? In tuition and fees, books and supplies if that's appropriate, if you're a school that provides meals and housing, and then the other expenses that you feel you have to report. But tell the family how much it costs. It's a job – it's supposed to lead to gainful employment. So does anybody get jobs? That should give a placement rate. Provide a placement rate, and there's information about how to calculate the placement rates. And we think it's very important that prospective students understand how long it's going to take them to complete this program. And what we discover is schools mostly in good faith indicate that this is a one-year program that you can get a certificate in being a dental hygienist or something.

But the question is how many students really do complete it in one year? Not everyone. Some people have to take longer. So we just ask to disclose a completion rate so that the family looks at it, says, "Okay, they're saying this is a one year program." Ninety-five percent of the people who complete it in one year, I have a comfort level with that as opposed to looking at it and saying, "Only 35 percent completed it in one year. I need to get more information before I make this commitment. And then how much do I have to borrow if I'm going to get into this program and I have to borrow?" So we ask you to disclose the median loan debts. Institutionally – sorry, Title IV media loan debts where people have to borrow from the direct loan and fellow programs.

You'll use the fellow program historically. Obviously, going forward, it'll just be direct loan. It's private financing. What's the median amount of private financing that people have to take? And what's the median amount of institutional financing in case the institution provides some financing? More details in the other sessions. Now adding programs, and we talked about this just a little while ago. You must notify us at least 90 days before you're going to begin offering courses, classes for a program that's a gainful employment program. You must notify us 90 days.

If you don't give us 90 days, then you cannot start that program, or at least you cannot award Title IV aide for that program until you get a positive approval from us. But if you did give us the 90 days and you don't hear from us, you can begin the program on time. And actually, what the rule says, if we're going to get back to you and either tell you we need more information, or in some cases, you can't offer the program until – then we're going to tell you no later than 30 days before the program starts. No later than 30.

Because we're not going to surprise you at the last second and tell you you can't start a program. We give you 30 days. Now even though if everything is okay, you may not – the rec says you won't hear from us. The team is committed, and they're going to hopefully be able to do this if the volume doesn't get too hot to let you know one way or the other that even if it's been approved so you're not kind of waiting around, saying, "I'm wondering if the 30 day clock is ticking. Oh my gosh, they might have sent me something, but I didn't get the e-mail. Do I take a risk," and all this. So we'll get the information out.

Now I mentioned the NPRM, and it's proposing some changes in all this 90-day stuff. We're not going to go in detail here because we need to finalize the rule, but it's like I said, just a little while ago, please, please, please, when we publish the final rule and we put it on IFAP and we put an electronic announcement out telling you and everything, don't think that, "Oh, this 90-day stuff that I heard at the FSA conference is now gone, and I'm going to start a program in April. I can just start it right away," or whatever the new rules say. No. The new rules will be effective obviously not until we publish them, but there'll be a later date. It'll be at least July of 2012, and more likely later than that. And then the new rules will go into effect. Okay?

Reporting. And as I mentioned, reporting was supposed to be completed by November 15th. We sent letters out to the presidents and a copy to the financial aide administrator at schools where we

believe they have gainful employment programs, but we did not get any reporting. That resulted in some very quick reporting coming in on the 16th and 17th and 18th and 19th, and in fact, yesterday, even after the holiday and a lot of people coming here, 45 more schools reported. What we said in electronic announcement and in a frequently asked question, under the regulations, you were to report all of your gainful employment information by November 15. If you didn't do it, either you didn't do any of it – hopefully there's none of you here, or didn't get it in for all of the students or all of the programs.

You need to do it as quickly as possible. Our compliance team will consider what actions to take to a school that did not make the November 15th, but one of the things, if any – they may not be any, but they do have the flexibility and they do have the authority to apply some sanctions to schools that missed a regulatory date. One of the things they will certainly consider, of course, is how quickly after the 15th, even though the school didn't make it, they get the information in.

And I'll just be honest with you. If your information came in, you know, either in the last few days or probably in the next few days, you're probably not going to hear much about it. But once we get into December, and certainly, if we get after the turn of the year and schools that were supposed to report didn't, then we have a serious compliance problem, and there will be further communications to the officials at your institutions.

Every year, we will publish in the federal register the date that the next year's reporting is due, and as I said for the – there's for an award year, so the '11/'12 award year, which ends on June 30th, we'll put something out probably in February or March telling you what the date will be that you have to have reporting in for '11/'12. It ought to be a lot easier. First of all, because you've done it and you've figured out and we've figured out how to use our processes, and we'll make our processes even better. We'll use lessons learned, and also, you're only going to be reporting one year's worth of data as opposed to the multi-years you had to do now. So we don't know what that date will be.

So it is very unlikely it will be any earlier than October 1st, and it might be a bit later. If you are not able to report or you believe you do not have any GE programs you should have, and if you didn't, you should do this now, send an e-mail to our missing data e-mail address, GE-Missing-Data@ed.gov telling us why you're not reporting. If you're not reporting because you believe you do

not have any gainful employment programs, check very, very carefully that you really don't. That would be a real problem for you to send us this, don't do any reporting, and then later on, we find out you do. That's a serious compliance issue. You may not have any programs that are certificate if you're a public or not for profit. Or you may have programs, a few of them, but you don't award Title IV aide to them.

That's fine, but make sure that you get it right before you send us an e-mail to this address saying the reason you didn't report is because you don't have any gainful employment programs. Now there are some other reasons why you may not be able to report either at all or for all of the years or for all of the students or for all of the programs. But I gotta tell you, it says approval is very rare. We have – there aren't very many excuses for reporting the information. The only ones we've given a little bit of slack on is where the school has demonstrated and we have evidence that there's been some kind of a natural disaster or something like that.

But the fact that the school switched computer systems or went from paper to electronic and we're going back to the six, seven year, five six year, that's not really relevant because those data should have been there anyway. You're obligated to maintain that information. So a little bit on the metrics. Let me just repeat. So I just went through at a very high level. The basic statutory authorities for this, the disclosure requirements and why, and the adding of programs, and then change that might come out of the NPRM, and the reporting, which should have been done by now, but stay on top of it. All of that was to be done by July 1st, the first two, and November 15th for the reporting.

Now we're talking about the metrics that came out of the June 13th regulation. Final rule on June 13th, which described the metrics, and as David said, we went round and round both with the negotiating committee and internally in the department to figure out what's the best way to measure this kind of concept of gainfulness or gainful employment. What does it mean for a program to result in gainful employment? And we decided that the best way to measure that, the most exact way was to look at loans, to look at how much people have to borrow and whether they're living up to their obligations.

And even if they are living up to their obligation, how much of a burden is it? Because the concept is that if the program – if in some combination of charging a lot, and therefore people have to borrow, and not providing adequate training so that people can get

good jobs to pay off those loans, if that's not happening, then this program is not leading to gainful employment. It's not leading to gainful employment. So we came up with these two measures. The repayment rate and the debt to earnings ratios. Repayment rate and the debt to earnings ratios. The repayment rate is a percentage of the dollars.

This is not done by a student. This is done by dollars, unlike default rates. This is done by dollars of the amount that the student owed when they entered repayment. Are they paying it down? John will go through the details of what it means to be paying down a loan, and that's a repayment rate. It's not a default rate. Okay? And in fact, some things that in the default rate help a school or hurt a school are not in play here. This is simply looking at the former students of the program and their Title IV loans, how much they borrowed, how much they have when they enter repayment, and are they repaying their loans each year?

The debt to earnings ratio says regardless of whether they're paying them or not is – how much of a burden is it? And this time, we're looking at only the students who completed the program, but we're looking at all of their debt, Title IV private loans, and institutional financing. And we're going to take the median debt and convert it to an annual payment amount and compare it to the median or the average income of those people. And the idea of that, of course, is that if they borrowed too much that their payment for each year, monthly payment times 12, is too much of a percentage of their earnings. Then again, they're not earning enough, and perhaps they're not earning enough because a program did not provide the proper instruction and the training that was needed for them to get good jobs.

This is al done on averages, and so we know that there are cases where a particular student or this or that or so on, but this is done on averages, and so we believe these are pretty good measures. Repayment rate, and there are two debt to earnings ratios. In order to be considered to meet the requirement of a program that leads to gainful employment, a program must meet one of the three. It must have a repayment rate of at least 35 percent, it must have a debt to earnings ratio on annual income of no more than 12 percent, and a debt to earnings ratio on discretionary income of no more than 30 percent. Any one of them makes the program okay. Failing all three of them makes it a failing program.

The reason why discretionary rate is higher, because the discretionary rate excludes 150 percent of poverty out from the

income, and so the idea there is that therefore, it's discretionary. The remaining amount, more of it could go to student loans. It's okay. So it's up to 30 percent. Okay? By the way, those are pretty modest numbers. Thirty-five percent repayment rate. That could mean that 65 percent of the students, of your former students, are not repaying their loans adequately, and we'll get into what that means in a minute. So these are pretty modest. We're not trying to close programs or close schools.

We're just trying to make sure these programs lead to gainfulness. We'll calculate the rates. We had some questions about how do I calculate these rates. Schools don't calculate them. We calculate them. All the data we talked earlier that you're submitting, particularly information about the dates and the non-Title IV loans, the private loans initial financing, we use that plus the NSLDS data we have on Title IV aide, and we'll calculate these meetings and averages in terms of loan amounts, original balance outstanding. We'll look in NSLDS to see if loans are being paid down, and we'll get information from the Social Security Administration to check for the debt to earnings ratios.

Because we understood that it doesn't make sense and it wouldn't have been fair to look at our student who just left school, let's say June 30th, 2011, and do some metrics next winter on those students, they didn't have – first of all, many of them are on a Title IV loans are still in grace. So there's no history of whether they're paying off their loans. Secondly, maybe they took a little time off. Maybe they had a little trouble getting a job, particularly these days. Maybe they got a job, but they got a better job later, or they were in a job a while and they did well, hopefully because of the training that these programs provided, and their incomes are a bit higher. So we set up these cohorts and we go look back in time, which is the reason why we asked you to provide this back information, which was a hassle, we understand, but it was important to do that.

Generally speaking, we look back two federal fiscal years. Two federal fiscal years, and we call that the GE calculation year. So we're looking back. So for the metrics that, for instance, we'll drive for the FY '11 fiscal year, which ended on September 30th, 2011, and we're going to do the metrics informational only, but we're gonna do the metrics this winter and spring, we're going to go back to the 2008 and 2009 federal fiscal years and look at those former students and look at their performance in terms of paying off their loans and what their earnings are. There are other cohorts

depending upon sample size and so on that the regulations provide for.

But the basic one is just going back a couple years. I'm sorry, that's the – we call it 2YP, and for this example, did I get it right? Yeah. For the metrics, we're going to go back to the '08, '09 years, so we go back a little ways to make sure things have worked out. There are other cohorts depending upon if we have small numbers because small numbers, number one, you run into a privacy problem, and secondly, they don't really give a good picture. So in some cases, we'll go back to four years, and then there's some acknowledgement that for some programs like medical and dental degree programs, there's an internship required, and so it's not fair to look right after they complete the program because they're not – compared to the debt, they're not earning a lot because they're still doing their internships or practicums.

That's what these are. In this case, we go back possibly seven or eight years to look at the students. Now just a thing to remind you, average – most of you I think know if you – we use average – we throw average around a lot, and but mostly in common usage, what we mean is the mean. You know, you add up all the values and divide that sum by the number of those values. That's a mean. Another average is a median, and the median is the middle number. So you rank the numbers, doesn't matter, from top to bottom, and then you find the middle number.

And in most – we have a couple exceptions, but most of these formulas use the median, the middle number. That's why it's important to report even for students who did not receive any Title IV loans, that's a zero. Even for students that you report did not receive any private loans or institutional financing, that's a zero. That will be put in the skew so that as we count up, those zeroes will by definition lower the median once we get to the actual numbers. So there's a silly little example there of the difference between mean and median.

Okay? John is going to take us through a lot more detail on the actual metrics, and then we'll wrap up with where this all takes us.

John Kolotos: Thank you, John. Now the repayment rate is simply a measure of how successful former students in the programs are in repaying their loans. And we'll talk about what a successful repayment is in the next few slides. The basic formula for the repayment rate is the outstanding balance of the loan that are paid in full, plus the outstanding principle balance of what we term payments made

loans. And again, we'll get into that a bit later, divided by the total loans that were outstanding for the cohort of students that we're looking at.

So the thing to get out of this slide is simply that the numerator represents the amount of loans that are successfully being repaid divided by the number of total loans for the students and the particular cohort, and it's a dollar-based rate. Now a loan is successfully repaid or is considered to be successfully repaid if, obviously, the loan is paid in full, or the loan balance is reduced by at least $1.00 during the most recently completed fiscal year. A loan is also considered to be successfully repaid if it's on track for student loan forgiveness under the public student loan forgiveness program.

And to do that, the borrower has to demonstrate that they are engaged in qualifying employment, and they are making qualifying loan payments under the loan forgiveness program. And I believe sometime in January, more or less, the department will be putting out an employer certification form that borrowers can use to document that they are in qualifying employment. The other area that we'll consider a successful repayment is for students in an ICR, an IBR program in which they're making interest or if they could be making only interest payments. And initially, at least until we have more data, we're going to cap that at three percent of the outstanding principle balance and include that amount as successfully repaid loans. When we get more data about the actual history of the students that are enrolled or that took a program with a particular cohort and how many of those students are in these programs, then we'll make an adjustment at that time.

But initially, we'll give everyone a three percent break, I guess, on students who could be enrolled in these repayment programs. Now this is simply an example that illustrates the difference between a dollar based rate and a borrower based rate, and you can see for students here, only student D in this example is let's say successfully repaying their loan. They reduce their principle balance, let's say, by $1.00 during the most recently completed fiscal year. So that counts in the numerator. The denominator is going to be 20,000, so in this case, we have a repayment rate of 50 percent. If this was borrower-based repayment rate like it is in the default rate, you'd only have a 25 percent repayment rate.

So I think the key out of this slide is if you believe in the premise that students who complete the programs accumulate more debt but are also more likely to repay their loans, I think those students

are rewarded and students and schools are – and programs are rewarded for student completers. Now in doing the repayment rate, we're going to exclude a few items, and what we're going to do is looking at the latest fiscal year where we're capturing this repayment activity, we're going to exclude students who earn an in school deferment or any military related deferment, and we're also going to exclude any loans that have been discharged or are pending discharge. Because obviously, the performance of those loans really shouldn't be counted.

Moving on to the debt to earnings ratios, as Jeff mentioned, there are two of them, and as opposed to the loan repayment rate, the debt to earnings ratios only include program completers. So in essence, what we're looking at is a measure of or an indicator of the loan debt incurred by those students divided by an indicator of the earnings of those students to come up with a debt service percentage. Now the two ratios are essentially one based on annual income, which is the loan payment, an annual loan payment for the students who completed that program divided by the higher of the mean or median actual earnings that we obtain from the Social Security Administration.

The other ratio is the discretionary earnings ratio, and again, we calculate an annual loan payment, but this time, it's divided by the higher of the man or annual earnings less 150 percent of the poverty guideline. And in a minute, we'll have a couple slides that shows what the difference in these ratios are. Now on the earnings side, we'll be compiling a list of all the students who completed a program at a school, and we'll be submitting that list to the Social Security Administration. Social Security will give us a mean and a median figure for the earnings of the students on that list. Social security will not give us the actual earnings of individual students on the list. That's privacy protected information, and we wont' have it, so we can't share it with schools.

Before we send that list to SSA to get that income information, we're going to be giving the list to the schools, and you'll have an opportunity to review the list that we're going to submit, and then make any corrections on that list. We might have the wrong Social Security number for a student. We may have the wrong student. Whatever the case may be, there'll be an opportunity for the school to review that list before we send it to Social Security. And then for the ratios for a particular program, we'll use the higher of the mean or the median earnings that Social Security provided us.

This is what I just talked about, and schools will be able to add or delete students from the list. So on the other part of the ratio, we'll be talking about the annual loan payment. This is how we calculate the annual loan payment. For each program, we determine what the median loan debt for those students are or is. And we use that median loan debt, and we amortize that loan debt at the prevailing direct loan rate, which is currently 6.8 percent, and we amortize it depending on what the program is.

So if it's a certificate program, we amortize it over ten years. If it's a baccalaureate program, it's 15, or if it's a doctoral program, it's 20. So obviously, the longer program is the lower the monthly payment relative terms would be. So we calculate the annual loan payment for the program in this way. And then that annual loan payment is divided by the average or the higher of the average or the median earnings from social security to derive what the ratio result is.

Now we have one optional reporting requirement that Jeff went over, and that is tuition and fees. There's a provision in the rules that says if a school reports tuition and fees. Then we'll compare the tuition and fees for a particular student to their loan debt, and we'll use the lower of the tuition and fees or the loan debt that they incurred for the program to calculate the median loan debt for the program. So if you have a situation where many of your students are borrowing for living costs, your tuition and fees will be lower than the loan debt incurred by those students, so it would be advantageous for you to report tuition and fees. But again, it's not required.

Now just like the repayment rate, we have certain exclusions for the debt to earnings ratios, and that is two of them in particular. But instead of looking at the most recently completed fiscal year, what we're looking at is the year in which we obtain earnings data from SSA. And if during that year the student was enrolled in another eligible program or the student's loan was in a military related deferment status, we're not going to count that student. And we're not going to count it because one, they were not in a position to earn money for that year, so we're not going to hold that against the school.

The other exception is if the loan has been discharged or is pending a discharge for death or total and permanent disability. These are the – the next couple slides are charts I referred to earlier about trying to highlight the difference between a debt to earnings ratio based on annual earnings, and a debt to earnings ratio based on

discretionary income. And with discretionary income, the point there is that as students' income increases, they can support a higher debt load. So you can see an example, too, where the median debt is higher than a case one, but also, the earnings are higher. Then the school satisfies the GE metrics on the discretionary income side of 26.4 percent, and that's predicated on the fact that higher earnings support higher debt.

This other slide is similar, but it's structured around giving you an indication of what the maximum median debt levels could be for a certain level of earnings, and what ratios would be better for these earnings levels. At very low earnings levels, the debt to earnings ratio based on annual earnings is advantageous to schools, at higher debt and higher earnings levels than the discretionary income rate is more beneficial.

As Jeff said earlier, a school or a program, I should say, passes the GE metrics if it satisfies one of these requirements. It's repayment rate is at least 35 percent, or it satisfies either of the debt to earnings ratios. So you only have to pass one to be a passing program. Now a school or I should say a program – I keep saying school. A program fails if it doesn't pass any of them, so if a program doesn't pass any of the metrics for one year, then there's some additional requirements for the school. And that is they have to inform currently enrolled and prospective students that the program failed.

They have to disclose what plans the institution has to improve the program, and they have to institute this three-day waiting period, which is essentially once an institution informs a student or makes these disclosures to the student, they have to wait three days before they can enroll that student. So once the disclosures are made, there's a three-day wait. If the student still wants to enroll, then they can enroll in the program. But they can't enroll immediately upon receiving the disclosures. Now if a program fails the metrics for two years or for two out of three years, then they have to do everything they did for the first year failure, plus, they have to tell their students that enrolling in this program might create a situation where the loan debts are unaffordable, that the program could lose its Title IV eligibility.

Because again, if it fails for one more year, it's already failed for two, if it fails for one more year, then the program won't be eligible. So if a program is going to enroll in a two or four-year program and this is the second year of failure, then they should have a pretty good idea of what they're getting into. And lastly,

the school has to tell a student about any transfer possibilities. For instance, if the program loses its eligibility, what are the options for the student? Are there any programs at the institution they can transfer into, or if you want, are there any programs in the community or at other schools where the student can continue their education?

Now as we mention, the program that loses or fails in three out of four years loses its Title IV eligibility. So the first year that a program could lose eligibility is going to be for the fiscal year 2014 rates because at that time, we'll have calculated rates for fiscal year 2012, '13, and '14, and if a program fails for all three years, that it would otherwise be terminated. But we have a special provision in the rules that caps eligibility losses at five percent. And essentially, the way that's going to work, and that's by sector. So it'll be five percent of for-profits, five percent of non-profits, and five percent of the public schools.

Essentially, what we'll do is we'll rank the failing programs by repayment rate, and we'll have for each program the program completers in that, and we'll cap those numbers at five percent. So in this way, no particular sector would be proportionately disadvantaged. Also in the regulations is various provisions that talk about either correcting data or challenging data, and we did this because we want to make sure that the data we use to do the GE metrics was as accurate as we can get it because it does have some severe consequences. So to do that, we're going to be issuing draft rates. I mentioned earlier on the debt to earnings ratio, we'll be getting a list of students that completed the program the schools to vet and to identify and correct any problems.

That's part of this process, but it only pertains to the debt to earnings ratios. This particular slide is really talking about the repayment rates where we'll calculate a direct repayment rate for a program, and we'll make that rate and supporting information about how that rate was calculated to each school for each of their GE programs. A school will have 45 days to take a look at it and to submit to us any changes that they think we should make to those lists or to the rate or to any of the data elements that we use to calculate that rate.

And after that time, the department will determine whether to use the school provided information or not. But as long as it's document, we anticipate that we'll use it. We're a couple years away from that right now, and I'm sure Jeff and FSA will be providing a lot more operational detail on how these challenges are

going to pan out. Now after the draft challenge process and correction process is over with, we'll be issuing final rates for that fiscal year. In cases where a program fails, and by failure, again, we mean they didn't pass any of the metrics, then the regulations provide for calculating the debt to earnings ratios using alternative data. Alternative earnings data. And that data could be data provided by the state. Certain states have longitudinal state data systems that track student outcomes and student earnings information, and to the extent that your school is located in a state that has that data, you'd be able to use that data.

You could also use survey data. I'm not going to get into detail here, but it would be an institutional survey based on or conducted in accordance with standards that are made available through our national center for education and statistics. And the last earnings data that you could use, at least for the first three years, would be BLS data, and we're limiting BLS data to the first three years simply because BLS data is a national metric, and the earnings information in BLS as a national metric doesn't really have any bearing on the earnings of the students who graduated from a particular program at a particular school.

But to allow programs to improve and to – for schools to get acclimated to using SSA data, we're going to allow this, the use of BLS data for three years. So in essence, schools could use either of these alternative data approaches, recalculate their debt to earnings ratios based on these alternative earnings, and if the school passes or if the program passes one of these alternative earnings measures, then they pass.

They would get a pass on the debt to earnings ratio for that year. I'm going to hand it back to Jeff, who will give you an overview of how this is going to play out, calendar wise, and what you should expect in the next few months.

Jeff Baker: Thanks, John. So in 2011, you had to do all this reporting, get it all done by November 15th and the disclosures starting July of 2011, and the additional programs. You reported all of this information or will have reported it very quickly, and in the wintertime, we will begin the first process to calculate informational rates. They will not be rates that carry any sanctions. They'll be informational rates. They will be based upon FY11, the year that ended September 30th. We're going to be doing this in January, February, or March. And we will release probably sometime in the late spring informational rates.

Informational rates will not go through the trial, the draft rate, and the challenge process that John just went over because they're informational, and they do not have any sanctions. So they'll be informational rates provided to the schools. Now they will be made public. They will be made public. We'll obviously stage it out as we do with default rates so we'll release these informational rates, and then a few days into the school's first, and then a few days later, we will make them public on a couple of different kinds of websites. And of course, they're foible anyway. But we will make them public.

It won't be until 2013 that we have – that we release the real rates, the first rates that will count. They will be based upon FY12, the year that it ends, September 30th, 2012. You would have been reporting even more information. At that point, we'll go through the SSA business. We'll go through the calculate draft rates in the spring of 2013. We'll give you a chance to correct the data through the challenges that John mentioned. And then we'll issue final rates, official final rates sometime again probably in early summer of 2013. And for those schools that have failing programs, they'll have a certain amount of time to – by the way, those rates will be sent to the schools, those final rates, and be made public. But some schools might choose to use the alternative income of the BLS or the survey or the state data for a failing program.

And if so, we'll adjust the what otherwise would have been a failing rate and move that forth. So that's 2013 will be the first time there could be any failing programs. And once there is a failing program, you have to go back in a little bit where John mentioned about the things a school has to do about that failing program in terms of notifying students. And by the way, what we really want to happen even before we even get to these metrics, particularly with all the publicity about this and we've been talking about it for a year and a half, and especially when the informational rates come out, what we really want to happen is the schools adjust the programs and make them better.

Maybe not charge as much. Maybe provide different curriculum. Maybe get some different faculty. Maybe make sure they're really teaching the things that employers in your community need. Find out why your employer is not hiring your graduates. What's going on there? What do you have to do to make it better? That's what we really want to have happen over this last year and a half, and certainly once we release the informational rates. But in any event, in '13 will be the first set of actual rates. And again, you have to

do these disclosures to the students, but we would hope also that schools are saying they really get the message now. Uh-oh, this program is failing. I've got to do something about it. I've got to do something about it. In 2014 will be the second set of official rates, and therefore, there could be a program that failed two years, in which case, they have to do the two-step process that John described. And then in 2015, we'll be calculating the third rate based upon 2014 data, and that's the time when a program if they failed in '12, '13, and '14, that we released in '13, '14, and '15, they failed all three years, that program is removed from eligibility for federal student aide. Now we didn't go through it in this presentation, but there's a whole part of the regulations about how a school after a program loses its eligibility, there's a timeline for when it might want to try again after they fixed up the program and made it better or do a similar program.

We have a whole process for that, but that's obviously not going to be until 2015. And then, the reason '16 is here because as John mentioned, when we first get to the possibility of programs losing eligibility, we're going to do this five percent cap. We don't really think that we're going to have more than five percent programs becoming ineligible, but just in case, we will not remove eligibility from more than five percent, and they'll be ranked accordingly how frankly how poorly the program is. But once we get to 2016, there is no cap, and whatever programs have failed three out of four years, they lose eligibility. What's really important, though, is not only because it's coming up, but to understand that the rates, the draft, the information rates you get this coming spring are informational only. So number one, you don't have this whole challenge process, and number two, they don't have any possible sanctions. They're just important information for you to decide what to do about these programs that are not doing so well.

So when we get to 2012, which will be a real process, how are we going to do it? Well, we'll release – we're going to release them in '13, so that's kind of the framework here. So what do we have to do? Who will it cover? Because of going back in time, it'll cover in the case of repayment rate, your former students who entered repayment in fiscal year 2008 and/or fiscal year 2009, and for the debt to earnings ratios, it'll be the number of students who complete the program during 2008 and 2009.

The small programs will go back a couple more years. That's what the next line is. For repayment activity, remember John talked about the repayment rate. Are they successfully repaying down their loans. We look at those people going back a couple years and

use their outstanding principle balance. And the question is are we going to move that outstanding principle balance from the denominator to the numerator? And we'll do that if during the most recent federal fiscal year, which in this case will be 2012, October 1st, 2011 through September 3rd, 2012, did they pay down their loan by at least $1.00 or meet one of those other requirements? In that case, it becomes a positive for the school, and we'll move the outstanding balance up.

For debt to earnings ratios, again, it's going to be the 2008 and 2009 people who completed your program. Small numbers of students will go back a couple more years, and then we're going to look at the earnings because the Social Security Administration does earnings on a calendar year basis, and even though we're going to be doing this calculation sometime in '13, we're not going to look at 2012 earnings, we're going to look at 2011 earnings. And the reason for that is because the Social Security Administration, it takes about a year for them to be confident that all of the employers and all of the self-employed people have reported their information.

So you'll see these. I know you don't have handouts. This presentation will be on our website, but you'll see these charts in some webinars we're going to do after the first of the year and in other presentations. So another way to look at this is assuming things don't change over time, every fall, schools will be reporting the most recent year. Schools who are enrolled in gainful employment programs during the most recent award year that ended on the previous June 30th, in the winter, we'll do our pre-draft rosters of the people who were planning to send the Social Security Administration – we'll send them to the schools to do any correcting that needs to be done.

We'll send the stuff to the Social Security Administration. They'll come back as – I hope you picked up that John said we'll use the higher. The SSA will give us both a median and a mean, and we'll use the higher, which will be a benefit to the program. Then we'll do our draft rates and get that information out to schools. Those will be not public. Those are draft just like cohort to full rate. Those are draft rates, and they'll be something like a loan record detail where you'll know the backup data, and you'll have an opportunity to challenge any of that if you choose to, and after you go through the challenge process, which is going to be much like what you do for cohort to full rates. It's an automated process.

We will make an evaluation of whether we're going to accept that information that you provided us, and then these are rough ideas. In the summer of '13, we'll be releasing the final measures, and those will be official, and those could result in some sanctions, and then what follows that is those few schools that would want to use alternative measures for earnings. Informational only. No pre-draft rosters for Social Security Administration. We'll run it through the Social Security Administration, and we'll get pretty good data. It just won't be perfect.

No draft rates, and no challenges. We'll just issue these informational rates. 2012 will be the first year, and then that's the first year you can have a failing program with those sanctions. And as a reminder, there's all this information all over our IFAP website, and we'll continue to add things. I'm sure we'll get questions at this conference and after this conference that will add to our frequently asked questions. Some of the stuff that we learn here may drive us to do an electronic announcement or even a dear colleague letter. So please stay on top of that, and then look for our webinar announcement after the first of the year where we'll be doing some webinars on these metrics and how they're to be calculated.

Other sessions on disclosures, adding new programs, the reporting, and the Q&As that we're going to have tomorrow and Thursday. We got done quicker than we thought, but that's okay. We took our time. This says questions, but we really don't have the logistics for questions, and we do have these two sessions, so I think we're going to end it here. Anything else, John? We appreciate you sticking around. You get a little extra time for your lunch. Enjoy it. Go to these other sessions, and maybe we'll see you at the Q&A. Thanks very much.

[End of Audio]