OVERVIEW OF DEBT-TO-EARNINGS RATES MEASURE

The HEA requires certain educational programs to prepare students for gainful employment in a recognized occupation. Through the regulatory process, the Department established a Debt-to-Earnings (D/E) rates measure to determine whether a GE program prepares students for gainful employment in a recognized occupation. The D/E rates measure is based on the typical loan debt and the earnings of students who previously completed the program. Two D/E rates are calculated, one based on annual earnings and one based on discretionary income. The two rates measure the program's graduates' debt (annual loan payments) as a percentage of post-graduation earnings. For each award year, and for every GE program offered by an institution, the Department will calculate the D/E rates using the program information reported by the institution and income information from the Social Security Administration (SSA). In general, if the program meets the required regulatory standards, then the program is considered to be one that that leads to gainful employment and therefore remains eligible for Title IV participation.

DEBT-TO-EARNINGS RATES MEASURE STANDARDS

The two D/E rates that were established to determine if an educational program leads to gainful employment are the Annual Earning Rate and the Discretionary Income Rate. The Annual Earnings Rate is the median annual loan payment divided by the higher of the mean or median annual earnings of the students included in the applicable cohort. Discretionary income rate is the median annual loan payment divided by the higher of the mean or median annual earnings of the students included in the applicable cohort less 1.5 times the Health and Human Services Poverty Guideline (Discretionary Income).

CALCULATION OF DEBT-TO-EARNINGS (D/E) RATES

Each award year, and for each GE program offered by an institution, the Department calculates the D/E rates using information reported by the institution in NSLDS. For the purpose of the D/E rates measure, the Department calculates separately an *annual earnings rate* and a *discretionary income rate*:

The Annual Income Debt-to-Earnings Ratio is calculated by dividing the annual loan payment amount by the greater of the mean or median annual earnings.

$$\text{Annual Earning Rate} = \frac{\begin{array}{c}\text{Calculated annual loan payment} \\ \text{based on median loan debt}\end{array}}{\begin{array}{c}\text{Higher of mean or median} \\ \text{annual earnings}\end{array}}$$

The Discretionary Income Rate is calculated by dividing the annual loan payment by the discretionary income.

$$\text{Discretionary Income Rate} = \frac{\begin{array}{c}\text{Calculated annual loan payment} \\ \text{based on median loan debt}\end{array}}{\begin{array}{c}\text{Higher of the mean or median} \\ \text{annual earnings} \\ \text{less } 150\% \text{ of HHS Poverty Guide}\end{array}}$$

To maintain title IV eligibility, gainful employment programs will be required to meet minimum standards for the D/E rates of their graduates. The Department has also established the standards by which the program will be assessed to determine, for each year rates are calculated, whether it passes or fails the D/E rates measure or is ‘‘in the zone.’’ The following table further explains the standards for D/E rates.

Gainful Employment Debt-to-Earnings (D/E) Rates Standards Thresholds

Pass	Programs whose graduates have annual loan payments less than or equal to 8% of total earnings OR less than or equal to 20% of discretionary earnings.
Zone	Programs that have rates calculated but are neither passing nor failing.
Fail	Programs whose graduates have annual loan payments greater than 12% of total earnings AND greater than 30% of discretionary earnings.

It is critical to understand that a GE program becomes ineligible for Title IV program funds if it fails the D/E rates measure for **two out of three consecutive years**, or has a combination of D/E rates that are in the zone or failing for **four consecutive years**. Potential ineligibility for a zone or failing GE program also triggers warnings to current and prospective students.

The Department sends the institution a notice of determination of a GE program’s final D/E rates indicating whether the program is passing, failing, in the zone, or ineligible. This notice will also state whether the program could become ineligible based on final D/E rates for the next award year, whether the institution is required to provide student warnings, and, if the program’s final D/E rates are failing or in the zone, how the institution may make an alternative earnings appeal. The determination is effective on the date specified in the notice.

COHORT PERIOD

The Department calculates D/E rates using the debt and earnings of students who completed the GE program within a specified cohort period. Depending on the number of students who completed the program, the cohort period will either be two years or four years.

Two-Year Cohort Period

The two-year cohort only includes the students who completed the program during the third and fourth award years prior to the award year for which the Department will calculate the D/E rates. For example, for the D/E rates calculations for the 2014-2015 award years, the two-year cohort period will be award years 2010-2011 and 2011-2012. The Department uses the two-year cohort period when the number of students completing the GE program is 30 or more during the applicable award years.

Example of Two-Year Cohort Period

2008-2009 Award Year	2009-2010 Award Year	2010-2011 Award Year	2011-2012 Award Year	2012-2013 Award Year	2013-2014 Award Year	2014-2015 Award Year
6th Prior Award Year	*5th Prior Award Year*	*4th Prior Award Year*	*3rd Prior Award Year*	*2nd Prior Award Year*	*1st Prior Award Year*	**Award Year for which D/E Rates are calculated**
		Applicable Two-Year Cohort Period				

Four-Year Cohort Period
The four-year cohort consists of the students who completed the program during the third, fourth, fifth, and sixth award years prior to the award year for which the Department calculates the D/E rates. For example, the four-year cohort period will be award years 2008-2009, 2009-2010, 2010-2011, and 2011-2012. If fewer than 30 students completed the GE program during the two-year cohort period, the four-year cohort period will be used.

Example of Four-Year Cohort Period

2008-2009 Award Year	2009-2010 Award Year	2010-2011 Award Year	2011-2012 Award Year	2012-2013 Award Year	2013-2014 Award Year	2014-2015 Award Year
6th Prior Award Year	*5th Prior Award Year*	*4th Prior Award Year*	*3rd Prior Award Year*	*2nd Prior Award Year*	*1st Prior Award Year*	**Award Year for which D/E Rates are calculated**
Applicable Four-Year Cohort Period						

Medical and Dental Residency
For medical and dental programs whose students are required to complete an internship or residency after completion of the program, the two-year cohort period would be the sixth and seventh award years prior to the award year for which D/E rates are calculated, and the four-year cohort period would be the sixth, seventh, eighth, and ninth award years prior to the award year for which D/E rates are being calculated.

Example of Medical and Dental Residency Cohort Periods

2007-2008 Award Year	2008-2009 Award Year	2009-2010 Award Year	2010-2011 Award Year	2011-2012 Award Year	2012-2013 Award Year	2013-2014 Award Year	2014-2015 Award Year	2015-2016 Award Year	2016-2017 Award Year
9th Prior Award Year	8th Prior Award Year	7th Prior Award Year	6th Prior Award Year	5th Prior Award Year	4th Prior Award Year	3rd Prior Award Year	2nd Prior Award Year	1st Prior Award Year	**Award Year for which D/E Rates are calculated**
Applicable Four-Year Cohort Period									
		Applicable Two-Year Cohort Period							

GE STUDENTS WITHIN A COHORT

Each year's D/E rates are calculated using information on the educational debt of a cohort or group of the GE Program's students. The cohort is comprised of the GE Program's former students who completed the GE Program during the specific cohort period. For purposes of calculating D/E rates, the Department defines a "student" as any "individual who received Title IV, HEA program funds for enrolling in the GE program." This definition includes students who received only Pell Grants and were enrolled in a GE program as well.

On an individual basis, students who completed the GE Program will be excluded from the D/E Rates cohorts if the student meets one or more of the following criteria:

- One or more of the student's Title IV loans were in a military-related deferment status at any time during the calendar year for which earnings information was obtained from SSA;
- One or more of the student's Title IV loans have been approved, or are under consideration, for a total and permanent disability discharge by the Secretary;
- The student was enrolled in any other Title IV eligible program (at the institution or another institution) during the calendar year for which SSA earnings are obtained;
- For undergraduate GE programs, the student completed a higher-credentialed undergraduate GE program at the same institution (see discussion that follows about students who complete more than one GE program at an institution);
- For graduate GE programs, the student completed a higher-credentialed graduate GE program at the same institution (see discussion that follows about students who complete more than one GE program at an institution); or
- The student is dead.

Students may sometimes complete more than one GE program at different credential levels. For example, a student might enroll in a one-year certificate program and, subsequent to completing that program, enroll in and complete an associate degree program at the same institution. To account for this, the Department attributes the loan debt from the lower-credentialed program to the higher-credentialed program completed by the student. This "rolling-up" of loan debt only happens if both programs are undergraduate programs or both are graduate programs.

For D/E rates to be calculated for an award year, at least 30 students who received Title IV aid must have completed the program during the applicable cohort period and have not been excluded from the calculation.

ANNUAL LOAN PAYMENT

In general, the annual loan payment is calculated by the Department determining the median loan debt of students who completed the GE program during the applicable cohort period and amortizing that loan debt.

Median Loan Debt

Median loan debt is calculated, by taking the lesser of:

- the total tuition and fees, books and supplies, and equipment in the GE program, or
- the amount of debt the student incurred for enrollment in the program

The amount of debt the student incurred for enrollment in the program debt includes:

- Title IV Loan- *Any Title IV loans borrowed by the student (amount disbursed less any cancellations/ adjustments) for enrollment in the GE program (PLUS Loans made to parents of dependent students, Direct PLUS Loans made to parents of dependent students, and Direct Unsubsidized Loans that were converted from TEACH Grants are not included)*; AND
- Private Education Loans- Including any private education loans made by the institution that the student borrowed for enrollment in the GE program; AND
- Institutional Debt- *This includes any other credit (including unpaid charges) extended by or on behalf of the institution that the student is obligated to repay.*

Once the GE program's median loan debt is determined it is then amortized.

Amortization of the Median Loan Debt
The Department calculates the Annual Loan Payment by amortizing that median loan debt for each GE Program over a 10, 15, or 20-year repayment period. The credential level of the program determines the repayment period.

- Over a 10-year repayment period for a program that leads to an undergraduate certificate, a post-baccalaureate certificate, an associate degree, or a graduate certificate;
- Over a 15-year repayment period for a program that leads to a bachelor's or master's degree; or
- Over a 20-year repayment period for a program that leads to a doctoral or first-professional degree.

To determine the annual loan payment form the GE program, the loan interest rate used to amortize the median loan debt varies depending on the length and type of program:

- For undergraduate certificate programs, post-baccalaureate certificate programs, and associate degree programs, the average of the Federal Direct Unsubsidized Loan interest rate applicable to undergraduate students for the three-year period prior to the end of the cohort period is used.
- For graduate certificate programs and master's degree programs, the average of the Federal Direct Unsubsidized Loan interest rate applicable to graduate students for the three-year period prior to the end of the cohort period is used.
- For bachelor's degree programs, the average of the Federal Direct Unsubsidized Loan interest rate applicable to undergraduate students for the six-year period prior to the end of the cohort period is used.
- For doctoral programs and first professional degree programs, the average of the Federal Direct Unsubsidized Loan interest rate applicable to graduate students for the six-year period prior to the end of the cohort period is used.

For example, for an undergraduate certificate program, if the two-year cohort period is award years 2010–2011 and 2011–2012, the interest rate would be the average of the interest rates for the years from 2009–2010 through 2011–2012. For all undergraduate, graduate, and professional level Direct Unsubsidized Loans first disbursed between July 1, 2006, and June 30, 2013, was fixed at 6.8%. Thus, the average of the interest rates used for Federal Direct Unsubsidized Loans to undergraduates for award years 2009–2010 through 2011– 2012 is 6.8%.

ANNUAL EARNINGS

The Department obtains the annual earnings data for a GE program directly from the Social Security Administration (SSA). The Social Security Administration informs the Department of the most currently available mean and median annual earnings for the GE students who completed the GE Program during the cohort period. Then Department uses the higher of the mean or median annual earnings for rate calculations.

Earnings Data Process

First, for each award year, using information reported by the institution, the Department creates a list of students who received Title IV aid and completed the GE program during the cohort period, including an indication of whether a student will be excluded, and submits the list to the institution for its review. The institution may make corrections to the information on the list. It may also challenge the exclusion or inclusion of students. Upon review of any corrections or challenges, we provide the institution with a final list that will be submitted to SSA.

SSA calculates and returns to the Department the mean and median annual earnings of students for whom it was able to match earnings data for the GE "earnings year," which is two calendar years preceding the year in which the D/E rates are calculated. For example, for the D/E rates that will be calculated in 2016 for the 2014-2015 award year, the SSA earnings year will be calendar year 2014. SSA does not provide the Department any individual earnings data or the identity of any students who were or were not matched because it is prohibited by law from doing so.

SSA Earnings Years

2014-2015 Award Year D/E Rates	2015-2016 Award Year D/E Rates	2016-2017 Award Year D/E Rates	2017-2018 Award Year D/E Rates
2014 SSA Earnings Year	2015 SSA Earnings Year	2016 SSA Earnings Year	2017 SSA Earnings Year

The annual earnings figure from SSA includes wages, salaries, tips, and self-employment income. Annual discretionary income is the annual earnings of the program's completers (as reported to the SSA) minus 150% of the HHS' most current Poverty Guideline for a single person in the continental U.S. For example, if the average annual earnings of a cohort of completers is $35,000, and the HHS Poverty Guideline for a single person in the continental U.S. is $11,770, the average discretionary income for the completers will be $17,345. That calculation is $35,000 – (150% X $11,770) = $17,345. In both rates, the average used is the higher of the median or the mean income as provided by the SSA.

The 2015 HHS Poverty Guideline will be used to calculate the Discretionary Income Debt-to-Earning Rates for 2014-2015.

The 2015 HHS Poverty Guideline for one person is $11,770.

150% of $11,770 is $17,655 ($11,770 x 1.5 = $17,655)

DRAFT D/E RATES

After calculating a GE program's D/E rates, the Department sends draft rates to the institution through the institution's SAIG mailbox, along with the source data used to calculate the annual loan payment amount. The draft rates are released only to the institution and are not public.

TRANSITION PERIOD CALCULATION

There is a transition period during which the Department calculates alternate D/E rates. Those calculations will use the same SSA earnings information, but will use the loan debt of the most recent one-year cohort of students who completed the program to calculate the annual loan payment. This will allow an institution to improve a program's performance under the D/E rates measure in the initial years after the regulations take effect by lowering tuition or lowering the debt of its students.

During a GE program's transition period, if the program is failing or in the zone under the D/E rates measure based on its draft D/E rates, the Department will calculate transitional draft D/E rates using the median loan debt of students who completed the program in the most recently completed award year, not the median loan debt for the applicable two-year or four-year cohort period. Final D/E rates for the GE program will be the lower of the draft or transitional draft D/E rates.

For a GE program of one year or less in length, the transition period is the first five award years for which the Department calculates D/E rates. For programs between one and two years in length, the transition period is the first six award years for which the Department calculates D/E rates. And, for programs longer than two years in length, the transition period is the first seven award years for which the Department calculates D/E rates. Each of the years for which we issue any D/E rates is counted toward the transition period whether or not the Department issued D/E rates for a specific GE program for a given year.

INITIAL D/E RATES CALCULATION

The Department will calculate final D/E rates in 2016 for the 2014-2015 award year, using earnings from the 2014 calendar year and the median loan debt of students who completed the GE program in the two-year cohort period consisting of the 2010-2011 and 2011-2012 award years. Where the four-year cohort period is applicable, the Department will calculate D/E rates using the 2008-2009, 2009-2010, 2010-2011, and 2011-2012 award years. For transitional D/E rates, the will use the median debt of students who completed the program in the 2014-2015 award year.

FAILING PROGRAMS

GE programs with a discretionary income rate over 30 percent and an annual earnings rate over 12 percent will fail the D/E rates measure. Under the regulations, a GE program becomes ineligible for Title IV program funds if it fails the D/E rates measure for two out of three consecutive years, or if it has a combination of D/E rates that are in the zone or failing for four consecutive years. For a GE program that loses eligibility or for any failing or zone program that is discontinued by the institution, the loss of eligibility is for three years following the date in the notice of determination. This three year period also applies to newly-created programs substantially similar to the discontinued or ineligible program.

WARNINGS

For a GE program that could become ineligible based on its D/E rates for the next award year, within 30 days after the date of the Department's notice of potential eligibility loss, the institution must provide a written warning directly to each student enrolled in the program. The institution must provide the written warning by hand-delivering it individually or as part of a group presentation, or via email. If the warning is sent by e-mail, the institution must ensure that the warning is the only substantive content in the email. Written acknowledgement of receipt must be received from the student. The institution must also send the warning using a different address or method of delivery if institution receives a response that the email could not be delivered. Finally, the Department requires the institution to maintain records of its efforts to provide warnings.

To the extent possible, an institution must provide this warning in other languages for enrolled students for whom English is not their first language. In the warning, an institution must describe the options available to the student to continue his or her education in the event that the program loses its eligibility for title IV, HEA program funds.

Specifically, the warning must include:

- The following statement: ''*This program has not passed standards established by the U.S. Department of Education. The Department based these standards on the amounts students borrow for enrollment in this program and their reported earnings. If in the future the program does not pass the standards, students who are then enrolled may not be able to use federal student grants or loans to pay for the program, and may have to find other ways, such as private loans, to pay for the program*."
- Refer students and prospective students to (and include a link for) College Navigator (www.collegenavigator.gov)
- Provide a description of the academic and financial options available to students to continue their education in another program at the institution, including whether the students could transfer credits earned in the program to another program at the institution and which course credits would transfer, in the event that the program loses eligibility for title IV, HEA program funds.
- Indicate whether or not the institution will:
  (1) Continue to provide instruction in the program to allow students to complete the program;
  (2) Refund the tuition, fees, and other required charges paid to the institution by, or on behalf of, students for enrollment in the program.
- Provide an explanation of whether the students could transfer credits earned in the program to another institution.

Requirements for delivering warnings to prospective students are similar to those for enrolled students, except that the warning must be provided when the prospective student initially contacts the institution about the program. Institutions may provide prospective students with a copy of the disclosure template that includes the warning or provide the warning orally to the student if the contact is by telephone. However, the institution may not actually enroll, register, or have the student enter into a financial commitment based solely on an oral warning. Accordingly, any student to whom a warning was provided orally must, prior to being enrolled, registered, or entering into a financial commitment with the institution, receive a written warning. The institution may not enroll, register, or enter into a financial commitment with a prospective student earlier than three business days after the institution first provides the written warning to the student or, if more than 30 days have elapsed since the date the warning was first provided, three business days after an additional written warning is provided.

In addition to providing warnings directly to students and to prospective students, within 30 days of receiving notice from the Department that a warning must be provided, the institution must update its disclosure template to include the student warning.