How Accountability Can Increase Racial Inequality:

The Case of Federal Risk-Sharing

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Executive Summary

Main Point:

- Since both colleges and students have very different resources and starting points, good policy should strengthen the ability of campuses and students to succeed and not punish them for taking important chances despite limited resources and greater challenges.

- Policymakers are interested in using student loan repayment rates as an accountability metric for colleges. But applying an overly simplistic accountability metric that fails to account for these differences is likely to reinforce existing inequalities.

Findings:

- Using College Scorecard data, this paper finds federal risk-sharing policies based on loan repayment rates – even if well-intended – are likely to reinforce racial and economic inequality.

- High repayment rate colleges disproportionately enroll white students and those whose average family income is nearly four times larger than the low repayment rate colleges ($87,350 versus $18,790, respectively).

- Three in four of the nation's lowest repayment rate colleges are for-profit institutions.

- Approximately one in three Historically Black College and Universities (HBCUs) and Predominantly Black Institutions (PBIs) are in the group of colleges with the lowest repayment rates.

- Colleges charging high net price, and those where large shares of students borrow or are first-generation, have lower repayment rates.

Recommendation:

- The paper offers policy alternatives that would promote equity-based accountability through very different policy instruments including: *performance development grants, need-based aid for colleges, comprehensive repayment outreach,* and *technical assistance labs.*

How accountability can increase racial inequality: The case of federal risk-sharing

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The current accountability movement in higher education operates on two guiding principles. The first is that better information will help students make well-informed educational decisions. The second is that financial incentives will encourage colleges to focus on – and ultimately improve – educational outcomes. These two principles are complementary since data are at the core of any financial incentive system. However, these two principles can lead policymakers to design accountability systems that reinforce – rather than reverse – inequalities. This paper uses federal "risk sharing" proposals to illustrate how efforts based on these principles, even when well-intended, can misfire.

Using College Scorecard data, this estimates student loan repayment rates for 4,571 U.S. colleges and universities finding 45 percent of borrowers have reduced their principal balance three years into repayment. There is a wide degree of variation around these rates, but even after controlling for a number of institution-level characteristics (e.g., family income, percent borrowing, graduation rate, etc.) for-profit colleges consistently have the poorest loan repayment outcomes. Low repayment rates are not isolated in the for-profit sector; colleges serving higher shares of low-income students and where high shares of students borrow tend to have the lowest repayment rates. Those serving high-income and white students – the very students who benefit most from racial and economic inequality – have the highest repayment rates. Historically Black Colleges and Universities and Predominantly Black Institutions have lower repayment rates than other minority serving institutions. The paper concludes with policy recommendation for

improving "risk sharing" proposals and alternative accountability strategies designed to promote educational opportunity and equity.

Risk-Sharing Proposals

In 2015 Senator Lamar Alexander, chairman of the Senate Health, Education, Labor & Pensions committee, released a white paper outlining the need for a new approach to federal oversight of higher education. It proposed a "market-based" accountability system consistent with the two broad principles outlined above, which would require all colleges participating in federal student aid programs to "share in the risk of lending to student borrowers" (Alexander, 2015). Data on student loan default and repayment rates would become a primary metrics federal policymakers use to evaluate colleges' performance. Colleges with high default rates or low repayment rates would face financial penalties for these outcomes and in turn would have a financial incentive to improve both. Without these incentives, colleges have little "skin in the game" to deliver the highest-quality education that would guard against these negative outcomes.

The concept initially received bipartisan support, where both Democrats and Republicans introduced stand-alone risk-sharing bills in 2015. That year, Democratic Senators Reed, Durbin, Warren, and Murphy introduced the *Protect Student Borrowers Act,* and Senators Shaheen and Hatch introduced the bipartisan *Student Protection and Success Act*. The former would use the Cohort Default Rate (CDR) to reward and penalize colleges; those with higher default rates would pay larger fines and these fines would be reinvested into the Pell Grant program and default prevention efforts. The latter proposal would replace the CDR with a cohort-based repayment rate measuring the share of borrowers reducing their outstanding principal balance by at least one dollar within three years of repayment. Colleges with the lowest repayment rates

would be required to pay fines into a "College Opportunity Bonus Program" that would go to colleges with high repayment rates but also serving large shares of Pell Grant recipients.

Fast forward to today, when House Republicans and Democrats' have each outlined different versions of a comprehensive Higher Education Act reauthorization. The stand-alone bills discussed above are not part of the Republican's PROSPER Act or the Democrat's Aim Higher Act. However, the basic idea of releasing more data about loan default and repayment, while tying federal funding to those data points, is very much alive. House Republicans desire to replace the CDR with program-level repayment rates, while House Democrats seek a tiered system rewarding and penalizing colleges based on their default rates (Bass & McCann, 2018). Congress is likely to consider some version of a risk-sharing accountability system, where colleges receiving federal student aid will be required to more closely monitor, improve, and ultimately face penalties for their former students' loan debts.

Relevant Research

With more than 44.7 million people carrying federal student loan debt, there is no simple answer explaining why so many do not repay. And no single answer will sufficiently account for the unique circumstances of each individual borrower. A borrower may have been making on-time payments but then stopped due to *unforeseen circumstances*, like job loss, health emergencies, or getting behind on other debts (Blagg, 2018). Federal loan programs offer emergency protections that temporarily stop payments for borrowers who fall on hard times. But if borrowers do not know how to navigate this bureaucratic process, or if their loan servicer is not proactively helping them avoid delinquency or default, then they can easily miss payments and get behind on their debts (Mueller & Yannelis, 2018).

The next two tables help contextualize student loan repayment trends. First, Table 1 shows the current repayment status of all borrowers in the Direct Loan program. Most borrowers are either making on-time repayments (e.g., current) or have payments temporarily paused because they are enrolled in school or recently left and are in their grace period. However, a sizable share of borrowers do not meet these two conditions, suggesting they are either falling behind on debts (at least 31 days delinquent) or may face economic hardship or need other temporary stops to their payments (in forbearance or deferment). Approximately 37 percent of borrowers in the federal Direct Loan program are either delinquent (7 percent), in forbearance/deferment (17 percent), or are in default (13 percent). This sums to nearly 14 million borrowers who are not making progress paying down their federal student loan debt.

Table 1: *Direct Loan portfolio by loan status, number of borrowers (in millions)*

	In Repayment		Deferment	Forbearance	In default	In School / Grace period
	Current	*Delinquent*				
2014	9.1	2.5	3.6	2.2	2.5	10.4
2015	11.1	2.8	3.5	2.6	3.0	9.9
2016	12.5	2.7	3.6	2.8	3.7	9.6
2017	13.9	2.9	3.6	2.6	4.3	9.1
2018	15.3	2.6	3.7	2.7	4.9	8.7

Note: these are from the second quarter of each federal fiscal year, excludes all FFEL loans

To avoid these negative outcomes, borrowers may opt into income-driven repayment plans. Similarly, if a student previously defaulted, their servicer may put them into income-driven repayment to help rehabilitee their loans though this does not appear to be standard practice (Baum & Chingos, 2017; Delisle, Cooper, & Christenson, 2018). Federal income-driven repayment plans are designed to help make monthly payments more predictable and manageable, thus promoting *consumption smoothing* where monthly bills are based on the borrower's prior years' earnings (Barr, Chapman, Dearden, & Dynarski, 2018). This type of repayment insures against the negative outcomes discussed above, and Table 2 shows the number of non-defaulted

Direct Loan borrowers by repayment plans. Here, we see approximately 6.9 million (or 29 percent of the total) repay through an income-driven plan that ties payments to earnings. Notably, most borrowers do not opt into these programs and instead repay via "level" or "graduated" plans that use fixed monthly payments or payments that grow over time, respectively.

Table 2: *Direct Loan portfolio by repayment plan, number of borrowers (in millions)*

	Level	Graduated	Income-Contingent	Income-Based	Pay-As-You-Earn	Repay-As-You-Earn	Other
2014	12.4	2.0	0.6	1.4	0.2	n/a	0.9
2015	12.9	2.6	0.6	2.3	0.5	n/a	0.9
2016	12.9	3.1	0.6	3.1	1.0	0.2	0.8
2017	12.8	3.1	0.6	3.0	1.1	1.5	0.7
2018	12.8	3.3	0.6	2.9	1.2	2.2	1.0

Note: these are from the second quarter of each federal fiscal year, excludes all FFEL loans

Making on-time payments can be overwhelming when money is tight, and even more so when unforeseen emergencies occur. Compound onto these challenges the administrative burdens and bureaucratic hurdles that vex our current student aid system and we might also see that *information asymmetry* is behind these repayment problems (Dynarski & Scott-Clayton, 2013). In one study, researchers found 43 percent of community college borrowers who defaulted never took any action on their loans prior to default – they did not apply for emergency protections, nor did they opt into an income-driven repayment plan (Campbell & Hillman, 2015). While we do not know why borrowers fail to take any action on their loans, including making a first payment, it is possible at least some are unaware of their obligations or were poorly informed about their repayment options – they may not even know they borrowed a loan in the first place (Andruska, Hogarth, Fletcher, Forbes, & Wohlgemuth, 2014).

Any combination of these three explanations – *unforeseen circumstances, consumption smoothing*, and *information asymmetry* – are plausible reasons why borrowers struggle to repay.

However, not all borrowers have equal chances of experiencing these adverse events. Wealthier students have family financial resources to fall back on, making them more likely to repay even when facing unforeseen circumstances or low earnings. They may even have family members who have gone through college already and know how to navigate the loan repayment system. But due to racial and economic inequality, Black and Hispanic students are far less likely to have family wealth and income to fall back on and these same students are more likely to be first in their families to go to college.

Data and Analysis

To investigate the relationship between a college-level repayment rate and various institutional characteristics, the following analysis uses the most recent College Scorecard data. The key outcome – student loan repayment rates – measures the proportion of borrowers in a cohort who have paid at least $1 toward their principal balance within three years of entering repayment. This is first modeled via ordinary least squares (OLS) regression to estimate the average relationship between each covariate and the outcome. Next, it extends the OLS analysis by including a quantile regression, which estimates the relationship between each covariate and the outcome but at different points in the distribution. Doing so allows us to see whether variables are more strongly correlated with repayment at the low-end of repayment rates (e.g., the 10^{th} percentile) as opposed to the high-end (e.g., 90^{th} percentile).

To estimate the repayment rate outcome, each regression model controls for: the number of undergraduate degree-seeking students (per 1,000); net price; first-time, full-time graduation rate (150% time); proportion of students borrowing federal loans; average family income of aid recipients; type of Minority Serving Institutions; and institutional sector. The analytical sample includes campuses reporting repayment rates and non-missing covariates, resulting in 4,571

institutions. Results from this analysis are all correlational and designed to answer questions about the distribution of repayment rates; it is not designed to estimate the causal effects of a particular variable on repayment.

Findings

Table 3 shows descriptive statistics of all variables used in the analysis. The mean repayment rate for the sample is 45 percent, though there is a wide degree of variation across percentiles. The lowest percentile's repayment rate is 18 percent while the highest is 79 percent. This table also shows the mean income in the lowest repayment percentile is around $18,790 but is $87,350 in the highest repayment percentile. Similarly, this table shows that 71 percent of institutions in the top repayment percentile are non-profit four-year colleges while 64 percent of the lowest repayment percentile consists of for-profit two-year colleges.

Table 3: *Descriptive statistics by repayment percentile*

		Percentile									
	Mean	1	2	3	4	5	6	7	8	9	10
Repayment rate (3yr)	0.45	0.18	0.25	0.30	0.35	0.40	0.45	0.51	0.58	0.66	0.79
Undergraduates (1,000)	3.25	0.80	2.34	2.75	2.91	2.99	3.01	3.53	3.94	4.78	5.47
Net price	16.68	17.83	16.92	14.37	14.62	13.32	14.24	14.76	16.96	19.78	24.04
FT/FT grad rate (150%)	0.51	0.46	0.44	0.46	0.48	0.47	0.48	0.48	0.53	0.59	0.73
Percent federal loans	0.54	0.69	0.60	0.53	0.51	0.46	0.47	0.49	0.55	0.59	0.52
Percent first-generation	0.45	0.56	0.54	0.52	0.51	0.49	0.47	0.44	0.40	0.34	0.23
Family income ($1,000)	40.18	18.79	22.41	25.40	28.23	30.80	35.75	40.97	49.99	62.14	87.35
MSI type											
HBCU	0.02	0.07	0.05	0.03	0.02	0.01	0.01	0.00	0.00	0.00	0.00
TCU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
HSI	0.07	0.02	0.03	0.08	0.09	0.10	0.12	0.11	0.06	0.04	0.01
ANNHI	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00
PBI	0.02	0.06	0.05	0.03	0.02	0.01	0.01	0.00	0.00	0.00	0.00
AANAPI	0.02	0.00	0.02	0.02	0.01	0.02	0.02	0.05	0.04	0.04	0.02
NANTI	0.00	0.00	0.00	0.00	0.01	0.01	0.02	0.00	0.00	0.00	0.00
Sector											
Public four-year	0.14	0.02	0.04	0.05	0.06	0.08	0.13	0.19	0.26	0.34	0.23
Public two-year	0.20	0.08	0.16	0.28	0.31	0.36	0.32	0.28	0.14	0.05	0.02
Non-profit four-year	0.23	0.13	0.03	0.05	0.07	0.09	0.13	0.25	0.37	0.47	0.71
Non-profit two-year	0.03	0.04	0.05	0.05	0.01	0.02	0.03	0.02	0.01	0.04	0.01
For-profit four-year	0.06	0.09	0.20	0.11	0.10	0.03	0.02	0.03	0.03	0.02	0.01
For-profit two-year	0.34	0.64	0.52	0.46	0.45	0.42	0.36	0.23	0.19	0.09	0.02
Observations	4571	460	455	457	458	456	457	457	457	457	457

Table 4 shows the regression results where the first column includes mean OLS estimates and the following five columns report the 10th, 25th, 50th, 75th, and 90th percentiles respectively. Four main findings emerge from this table. First, colleges with high graduation rates and high income levels tend to have higher repayment rates – this is true on average (OLS) and across the entire repayment distribution. If a college's repayment rate is a function of enrolling high-income students and having high graduation rates (two variables that are already highly correlated) then it may be difficult to know if high repayment rates are due to a college's effort in improving that outcome or simply their ability to enroll wealthy students who are more likely to graduate.

Second, even after controlling for other factors, HBCUs and PBIs have significantly lower repayment rates across the entire distribution. On average, HBCUs repayment rates are 15.8 percent lower than other colleges, though this ranges from a low of 13.8 percent (90th percentile) to a high of 21.6 percent (25th percentile). Similar patterns emerge for PBIs, though with smaller magnitudes. The conclusion here is that even among colleges with the highest repayment rates, HBCUs and PBIs have significantly lower repayment rates.

Third, for-profit four-year and two-year colleges consistently have lower repayment rates than public two-year colleges (the reference group) after controlling for a range of factors expected to correlate with repayment. Across most of the distribution, public and non-profit four-year colleges have significantly higher repayment rates than community colleges. This suggests for-profit colleges systematically differ from public and non-profit institutions, though they are most similar to non-profit two-year institutions in the lower end of the repayment distribution.

Fourth, colleges with higher net price and where larger proportions of students borrow tend to have lower repayment rates. A similar pattern emerges with first-generation students, where repayment rates are lower as the share of first-generation students rises. This finding

complements the first by suggesting repayment is a function of the college's socioeconomic profile of students. First-generation students may simultaneously be more reliant on loans and enrolled in colleges that do not offer high discount rates (e.g., they have higher net price), making it difficult to disentangle this relationship.

Table 4: *OLS and quantile regression estimates of student loan repayment rates (standard errors)*

		Percentile				
	OLS	10th	25th	50th	75th	90th
Undergrad. enrollment	-0.001***	0.000	-0.001***	-0.001***	-0.001**	-0.001
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
Net price	-0.002***	-0.001**	-0.001***	-0.003***	-0.002***	-0.001*
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
FT/FT grad rate	0.188***	0.113***	0.159***	0.187***	0.233***	0.257***
	(0.008)	(0.010)	(0.009)	(0.009)	(0.011)	(0.016)
Percent federal loans	-0.060***	-0.012	-0.032***	-0.044***	-0.068***	-0.098***
	(0.008)	(0.010)	(0.009)	(0.009)	(0.011)	(0.016)
Percent first-generation	-0.173***	-0.179***	-0.216***	-0.203***	-0.156***	-0.155***
	(0.020)	(0.027)	(0.023)	(0.024)	(0.029)	(0.042)
Family income	0.005***	0.005***	0.005***	0.005***	0.004***	0.004***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
HBCU	-0.158***	-0.149***	-0.177***	-0.177***	-0.166***	-0.138***
	(0.010)	(0.014)	(0.012)	(0.012)	(0.015)	(0.021)
TCU	-0.064	-0.114	0.014	-0.056	-0.077	-0.061
	(0.044)	(0.059)	(0.051)	(0.052)	(0.063)	(0.090)
HSI	0.021***	0.027***	0.023***	0.024***	0.026**	0.007
	(0.006)	(0.008)	(0.007)	(0.007)	(0.008)	(0.012)
ANNHI	0.052	0.075	0.048	0.039	0.039	0.064
	(0.029)	(0.039)	(0.034)	(0.035)	(0.042)	(0.060)
PBI	-0.089***	-0.075***	-0.088***	-0.088***	-0.100***	-0.084***
	(0.010)	(0.014)	(0.012)	(0.012)	(0.014)	(0.021)
AANAPI	0.047***	0.035**	0.024*	0.044***	0.069***	0.055**
	(0.009)	(0.012)	(0.010)	(0.010)	(0.013)	(0.018)
NANTI	-0.027	0.01	-0.006	-0.031	-0.031	-0.068
	(0.019)	(0.025)	(0.022)	(0.022)	(0.027)	(0.039)
Public four-year	0.037***	0.025***	0.041***	0.040***	0.036***	0.029**
	(0.006)	(0.007)	(0.006)	(0.007)	(0.008)	(0.011)
Non-profit four-year	0.025***	0.002	0.023***	0.037***	0.033***	0.029*
	(0.006)	(0.008)	(0.007)	(0.007)	(0.009)	(0.012)
Non-profit two-year	-0.002	-0.039**	-0.045***	-0.031**	0.054***	0.090***
	(0.009)	(0.012)	(0.011)	(0.011)	(0.013)	(0.019)
For-profit four-year	-0.026***	-0.034***	-0.039***	-0.025**	-0.028**	-0.030*
	(0.007)	(0.010)	(0.009)	(0.009)	(0.011)	(0.015)
For-profit two-year	-0.044***	-0.048***	-0.059***	-0.047***	-0.052***	-0.042***
	(0.006)	(0.008)	(0.007)	(0.007)	(0.008)	(0.012)
Intercept	0.309***	0.206***	0.273***	0.322***	0.349***	0.414***
	(0.013)	(0.018)	(0.015)	(0.016)	(0.019)	(0.027)

Illustrations

To illustrate these findings a bit further, Figure 1 shows the relationship between repayment rates and average family income of undergraduates, where there is a clear positive relationship between the two. The richer the school, the better their repayment rates. This graph also highlights schools with the highest percentage of Black and Hispanic students that *also* have the highest percentage of first-generation students are highlighted here to illustrate how repayment rates cut along lines of race and class. Doing so helps illustrate that colleges serving lower-income students also tend to have the highest proportion of Black, Hispanic, and first-generation students, illustrating the tight coupling of race, class, and repayment.

Figure 1: *Repayment rates by family income and high Black, Hispanic, and First-Generation enrollment*

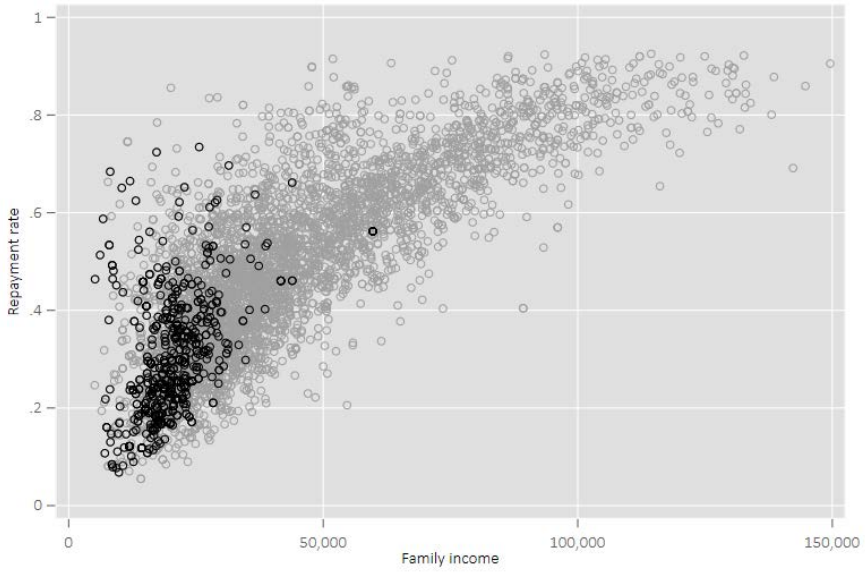
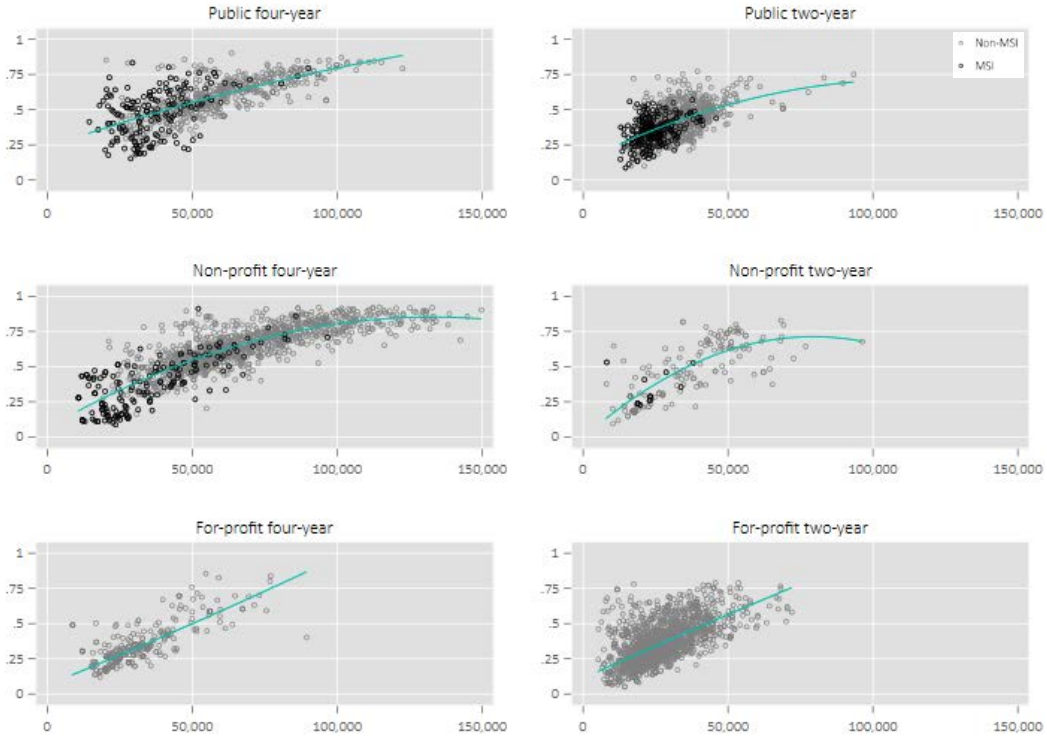


Figure 2 takes a closer look at this relationship by differentiating colleges by sector and highlighting Minority-Serving Institutions (MSI). As discussed in the regression results, HBCUs and PBIs tend to have the lowest repayment rates among all MSIs, while HSIs tend to have higher rates. This figure further illustrates the tight link between race, income, and repayment where - across all sectors - colleges enrolling high-income students and that are not MSIs tend to

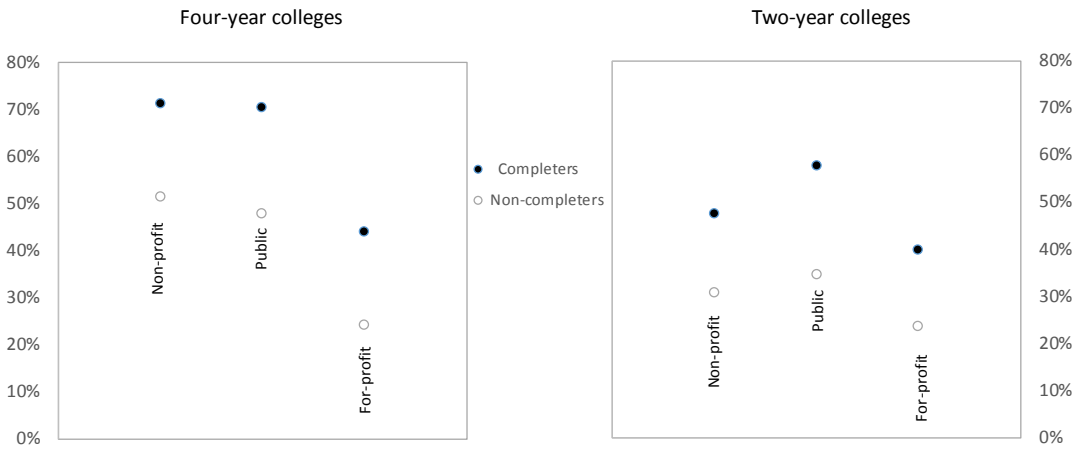
have the highest loan repayment rates, while those enrolling students from low-income families and serving minoritized students tend to have the lowest.

Figure 2: *Loan repayment rates by family income and sector, highlighting minority-serving institutions*



The regression results found colleges have higher repayment rates when they also have high graduation rates. Figure 3 shows repayment rates for completers and non-completers, demonstrating two important patterns. First, students who graduate tend to have higher repayment rates than those who leave college with debt and no degree. Second, even when a student graduates from a for-profit college their repayment rate is lower than the other sectors. In the four-year sector, graduates from for-profit colleges have lower repayment rates than non-completers from public and non-profit institutions. Similar patterns occur in the two-year sector.

Figure 3: *Repayment rates by degree completion and sector*



Discussion and Conclusion

The risks of risk-sharing

Repayment rates do not account for the racial and economic inequalities students of color individuals face before, during, and after college. Nevertheless, policymakers are eager to use this new metric to reward or sanction colleges. It would be fair to do so if colleges have direct and unambiguous control over the repayment outcomes, or if degree attainment somehow erased racial and economic inequality. It would also be fair to hold colleges accountable for these outcomes if colleges themselves were able to control which repayment plans borrowers elect upon entering repayment (e.g., income-driven repayment rather than the standard mortgage-style plan). But none of these cases apply with respect to the issues raised in this paper: student loan repayment is complicated by layers of economic and racial injustice. Applying an overly simplistic metric that fails to account for these differences is likely to reinforce existing inequalities.

This problem is not unique to risk-sharing efforts, nor is it simply a function of the repayment rate metric. The repayment rate metric could certainly be improved by distinguishing

between repayment plans, disaggregating by student characteristics (e.g., race/ethnicity, earnings, employment status). But doing so is not going to fix the underlying problems outlined in this paper – especially when considering the wide degree of variation that exists with respect to the outcome. People struggle in repayment for a number of reasons and research to date has not fully explained the causal chain of events that drive people into (and out of) these poor repayment outcomes. Even if the causal chain was unambiguous, colleges serving the students struggling the most are likely to have the least resources to improve these outcomes. If, for example, a college-level intervention proved successful in improving student loan repayment, the colleges with the greatest capacity (human, technological, and financial resources) would likely be the ones to initiate the change while those with the least would not.

To paraphrase Campbell's law, the more any quantitative indicator is used for high-stakes accountability, the more likely it is to be corrupted and to distort the very process it seeks to monitor. This is amplified in complex social settings like education, where the process of educating a student – or in this case, ensuring a student repays their loans – is not a routine or simple task that colleges alone can control. What if we find that large share of borrowers fail to repay their loans because of medical emergencies that make any other bills unaffordable? In this instance, it is unclear how or why a college would be responsible for non-payment. Perhaps a college would be more responsible for repayment if borrowers fail to repay because they did not know they had a loan or because they did not know loans had to be repaid. In this instance, the likely solution would be for colleges to adopt more financial literacy interventions; unfortunately, the evidence to date on the efficacy of financial literacy suggests this will unlikely make much impact on the outcome.

These brief examples illustrate the complexity of repayment – in the first case, colleges may have little to no control over the outcome; in the second, colleges may try to improve the outcomes, but their interventions may simple be ineffective. Until we know precisely what a college, or more aptly the professionals working within colleges, should do to improve loan repayment outcomes, it seems premature to hold colleges accountable for those outcomes. This is a common story in performance management literature, where policy actors – in the name of better accountability – rely on overly-simplistic performance metrics to measure and ultimately correct complex social problems. Measuring and monitoring complex problems is certainly important and needed in accountability frameworks, but tying high-stakes financial incentives to these indicators – especially when we do not know how to improve them – introduces new risks into the risk-sharing environment.

A college official who now has loan repayment outcomes and financial incentives to improve them would naturally ask, "what do I do and with what resources?" The quickest and easiest answer is to simply limit the amount of loan debt students take on. Wealthy colleges might accomplish this by replacing loans with grants in students' aid packages. But for the majority of colleges that do not have the resources to do so, two options are likely to be on the table: enroll fewer students who have financial need or restrict access to federal loans. On the first option, this is already happening in states that use performance-based funding policies. On the second option, community colleges that opt out of federal loan programs push students into more expensive private loan programs while simultaneously reducing access. There are predictable outcomes that are – at least from a civil rights perspective – undesirable and unfair since they disproportionately harm our nation's most marginalized communities while keeping those with greatest privileges safe from harm.

Alternatives to risk-sharing

The beginning of this paper explained how getting "better data" and exposing colleges to more "skin in the game" are core principles in today's accountability conversations. The underlying belief is that more information and greater financial incentives will induce colleges to focus on and ultimately improve key performance indicators. In the case of risk-sharing, it assumes professionals working in colleges: (a) are not well informed about loan repayment problems; (b) have little incentive to address these problems; (c) know how to improve loan repayment outcomes; (d) have the resources to do so; and (e) would not have done so in the absence of risk-sharing. Accountability data can help address (a) and the risk of losing money, along with the potential reward of gaining new money, will address the organizational inertia behind the rest.

An alternative accountability system with equity-based principles and anti-deficit assumptions may offer a more promising path where federal policymakers and colleges would be more likely to improve student loan repayment problems. Four features of such a system are outlined below:

1) *Performance development grants.* At the core of any accountability debate rests a tension between resource capacity and performance. If a college is asked to perform, but does not have the resources or capacity to do so, then we might expect to see very little improvement on a particular policy outcome. Alternatively, if a college has ample resources, then why might it not be performing well? To address this tension, federal policymakers could invest in performance development grants – akin to K-12 School Improvement Grants – where the U.S. Department of Education could identify the "poorest-performing" colleges and then assess the extent to which they have the capacity

to adopt promising programs and practices that will improve student loan repayment or any other key accountability outcome. Through that review, they may find colleges do not have the financial capacity to hold debt down or they may not have the technology infrastructure to adequately contact or notify students of various supports that could help in repayment. The grants could then be used to help colleges build and then sustain this capacity; once the college reaches the necessary performance threshold, they would be expected to maintain this success. This equity-based form of accountability would target resources to colleges that have the greatest need while promoting organizational learning and improvement that are unlikely to occur under high-stakes pay-for-performance regimes.

2) *Need-based funding for colleges*. Unequal financial resources are behind many of the poor educational outcomes we see in higher education. Colleges receiving the least amount of subsidy tend to produce the poorest outcomes in large part because these same colleges are broad-access and serve students who have faced significant economic, racial, and academic inequalities before college. Now these same colleges are expected to reverse these inequalities with far fewer resources than more selective and wealthier institutions – the same institutions serving the most privileged students. Risk-sharing policies run the risk of penalizing broad-access colleges and minority-serving institutions where students are more likely to borrow – and to borrow more – but are also likely to face labor market inequality after they leave. By investing in these institutions, the federal government may be able to reduce the need for students to borrow in the first place, thus reducing the downstream problems related to loan repayment. Similarly, this investment may be coupled with the previous accountability effort to help colleges adopt

and sustain promising interventions that can improve performance outcomes. Such an approach would hold colleges more accountable to taxpayers by helping under-resourced colleges prevent adverse downstream outcomes.

3) *Comprehensive efforts to improve repayment*. Risk-sharing proposals focus exclusively on one single actor in a students' loan experience – their college. But there are several other actors involved in repayment outcomes including loan servicers, employers, state policymakers, and even local community-based organizations. Federal policymakers could hold servicers more accountable for ensuring they are moving enough students into good standing on their loans. They could similarly hold employers more accountable for the minimum wages they pay or the health benefits they make available in order for borrowers to have more relief when paying their monthly student loan bill. Similarly, federal policymakers could find ways to hold states more accountable for maintaining and growing their investment in public higher education as a way to prevent the public sector need for borrowing in the first place. Finally, policymakers could even create innovative programs to help community-based organizations work with struggling borrowers who may be participating in other public benefit programs. These brief examples illustrate that colleges alone cannot and should not be responsible for the repayment outcomes of their former students. By taking proactive and more comprehensive approaches to improving loan repayment, federal policymakers would hold a wider range of stakeholders accountable for addressing and ultimately reversing the very inequalities lurking in these repayment debates.

4) *Technical assistance labs*. When social problems are deeply entangled in racial and economic inequality, like the student loan repayment problems outlined here, colleges alone may not have the answers. The previous recommendation encourages policymakers to take a community-based and comprehensive approach to the problem, this recommendation focuses on technical ways to improve repayment. Evaluation, assessment, data sharing, interviews, and a host of other research activities are needed to fully understand the causes and consequences of loan default. To fix a complex social problem, organizations need to know what works – and this can come through technical assistance labs sharing research findings, promising practices, and other lessons – and failures – learned along the way. Student loan repayment is a new frontier in federal higher education policymaking and very little research exists with respect to how colleges (or other stakeholders) can improve these outcomes. Accordingly, federal policymakers would be more accountable to taxpayers if they carefully analyzed, evaluated, and learned alongside campuses in collective efforts to improve repayment outcomes. This networked approach is also promising since mounting evidence shows organizations improve performance when they use accountability data for internal learning, collaboration, and professional development.

Conclusion

A comprehensive reauthorization of the Higher Education Act is due in the coming years, so policymakers interested in improving student loan repayment while holding colleges more accountable may look to "risk-sharing" as an answer. However, such an approach is unlikely to improve outcomes and is very likely to worsen inequality. Even using disaggregated data and program-level repayment rates will do little to solve the problem if (a) colleges do not know

what works in improving their former students' repayment rates, (b) colleges do not have the resources to improve these outcomes, or (c) these problems are deeply entangled with other social problems that expand far beyond the direct and unambiguous control of colleges. Because of this, risk-sharing policies are likely to do what other high-stakes performance regimes do best: reward the highest-performers while doing little to improve the outcomes for those with the least. There is a very good chance the current "carrot and sticks" or "market-based" approach to higher education accountability will do little to address or improve the racial and economic inequalities outlined in this paper.

Accordingly, this paper offers equity-based accountability efforts that avoid deficit-based assumptions about colleges and their students, professionals, and local communities. To improve student loan repayment, federal policymakers will likely gain the most ground by investing in the very colleges serving students of color and low-income students. By focusing on building the specific capacity needs of a particular college and pinpointing the repayment problems they face, policymakers will help colleges that need it the most – this form of accountability is radically different from the market-based models that dominate today's federal higher education conversations. Such an approach would include comprehensive efforts involving actors far beyond the walls of colleges in an effort to address the root causes of poor repayment outcomes. A new approach would also prioritize and invest in basic research and technical assistance so colleges and their local networks can share promising lessons with others. Current risk-sharing proposals have none of these design features and, without new ideas on the table, federal policymakers may turn to convenient and technical solutions that fit with today's pay-for-performance mantra. An alternative way forward would pay for equity and, in so doing, promote greater accountability by addressing root causes of complex social problems.

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Appendix A:

Stata Code for Replication

```
// import raw data
        copy https://ed-public-download.app.cloud.gov/downloads/Most-Recent-Cohorts-All-Data-Elements.csv .
        import delimited Most-Recent-Cohorts-All-Data-Elements.csv
        save scorecard_data.dta, replace

// destring null/privacy data
        rename ïunitid unitid
        ds, has(type string)
        foreach x in `r(varlist)' {
        replace `x'= ".n" if `x'=="NULL"
        replace `x'= ".p" if `x'=="PrivacySuppressed"
        }
        destring, replace

// recoding variables
  * sector
        gen sector = 0
        replace sector = 1 if control==1 & (highdeg==3 | highdeg==4)
        replace sector = 2 if control==1 & (highdeg==1 | highdeg==2)
        replace sector = 3 if control==2 & (highdeg==3 | highdeg==4)
        replace sector = 4 if control==2 & (highdeg==1 | highdeg==2)
        replace sector = 5 if control==3 & (highdeg==3 | highdeg==4)
        replace sector = 6 if control==3 & (highdeg==1 | highdeg==2)
        lab def sector_lab 0 "NonDeg" 1 "Pub4" 2 "Pub2" 3 "NP4" 4 "NP2" 5 "FP4" 6 "FP2"
        lab val sector sector_lab
        tab sector
  * msi types
        gen msi_flag = 0
        replace msi_flag = 1 if hbcu==1
        replace msi_flag = 2 if tribal==1
        replace msi_flag = 3 if hsi==1
        replace msi_flag = 4 if annhi==1
        replace msi_flag = 5 if pbi==1
        replace msi_flag = 6 if aanapii==1
        replace msi_flag = 7 if nanti==1
        lab def msi_lab 0 "Non-MSI" 1 "HBCU" 2 "TCU" 3 "HSI" 4 "ANNHI" 5 "PBI" 6 "AANAPII" 7 "NANTI"
        lab val msi_flag msi_lab
        tab msi msi_flag
        tabstat rpy_3yr_rt, by(msi_flag) stat(n min mean sd max)
  * net price
        gen net_price = npt4_pub/1000 if sector==1|sector==2
        replace net_price = npt4_priv/1000 if (sector>2 & sector<=6)
        tabstat net_price, by(sector)
  * family income
        gen faminc2 = faminc/1000
  * graduation rate (ft/ft)
        tabstat c150_4 c150_l4, by(iclevel)
        gen ftft_grate = c150_4 if iclevel==1
        replace ftft_grate = c150_l4 if (iclevel==2|iclevel==3)
        tabstat c150_4 c150_l4 ftft_grate, by(iclevel)
  * undergrad enrollment
```

```
        gen ugds2 = ugds/1000

// drop administrative units
        drop if sector==0

// scatterplots
  * repayment by income
        twoway (scatter rpy_3yr_rt faminc, msize(vsmall) m(oh) mcolor(gray))||(scatter rpy_3yr_rt faminc if
        msi==1, msize(vsmall) m(oh) mcolor(black))||(qfit rpy_3yr_rt faminc), xlab(0(50000)150000)
        ylab(0(.25)1) scheme(plottig)
        forvalues x = 1 / 6 {
        twoway (scatter rpy_3yr_rt faminc if sector==`x', msize(small) m(oh) mcolor(gray))||(scatter rpy_3yr_rt
        faminc if sector==`x' & msi==1, msize(small) m(oh) mcolor(black))||(qfit rpy_3yr_rt faminc if
        sector==`x'), title("`x'") xlab(0(50000)150000) ylab(0(.25)1) scheme(plottig) name(rpy_3yr_`x')
        }
        graph combine rpy_3yr_1 rpy_3yr_2 rpy_3yr_3 rpy_3yr_4 rpy_3yr_5 rpy_3yr_6, row(3)

  * scatterplot repayment by pell/hisp/black quartiles
        xtile pell_q = pctpell, nq(4)
        tabstat pctpell, by(pell_q) stat(n min mean max)
        xtile fg_q = first_gen, nq(4)
        tabstat first_gen, by(fg_q) stat(n min mean max)
        xtile black_q = pct_black, nq(4)
        tabstat pct_black, by(black_q) stat(n min mean max)
        xtile hisp_q = pct_hisp, nq(4)
        tabstat pct_hisp, by(hisp_q) stat(n min mean max)
        xtile white_q = pct_white, nq(4)
        tabstat pct_white, by(white_q) stat(n min mean max)
        twoway (scatter rpy_3yr_rt faminc, sort)||(scatter rpy_3yr_rt faminc if (fg_q==4 & black_q==4))||(scatter
        rpy_3yr_rt faminc if (fg_q==4 & hisp_q==4)), scheme(plottig)
        twoway (scatter rpy_3yr_rt faminc, sort)||(scatter rpy_3yr_rt faminc if (fg_q==4 & black_q==4))||(scatter
        rpy_3yr_rt faminc if (fg_q==4 & hisp_q==4))||(scatter rpy_3yr_rt faminc if (fg_q==4 & white_q==4)),
        scheme(plottig)

// descriptives
        global controls "ugds2 net_price ftft_grate pctfloan first_gen faminc2 i.msi_flag ib2.sector"
        sum rpy_3yr_rt $controls if (rpy_3yr_rt~=. & rpy_3yr_rt~=.n & rpy_3yr_rt~=.p) & (net_price~=. &
        net_price~=.n & net_price~=.p) & (ftft_grate~=. & ftft_grate~=.n & ftft_grate~=.p) & (pctfloan~=. &
        pctfloan~=.n & pctfloan~=.p) & (first_gen~=. & first_gen~=.n & first_gen~=.p) & (faminc2~=. &
        faminc2~=.n & faminc2~=.p)
        xtile rpy_rt_q = rpy_3yr_rt, nq(10)
        sum rpy_3yr_rt $controls
        tabstat rpy_3yr_rt, by(msi_flag) stat(n min mean sd max)
        xi: tabstat rpy_3yr_rt ugds2 net_price ftft_grate pctfloan first_gen faminc2 i.msi_flag i.sector, by(rpy_rt_q)
        tabstat rpy_3yr_rt, by(rpy_rt_q) stat(n)

// regression
        reg rpy_3yr_rt $controls
        estimates store ols
        foreach i in 10 25 50 75 90  {
        qreg rpy_3yr_rt $controls,q(`i')
        estimates store qreg_`i'
        }
        estout ols qreg_10 qreg_25 qreg_50 qreg_75 qreg_90, cells(b(star fmt(3)) se(par fmt(3))) stat(r2 N)
```