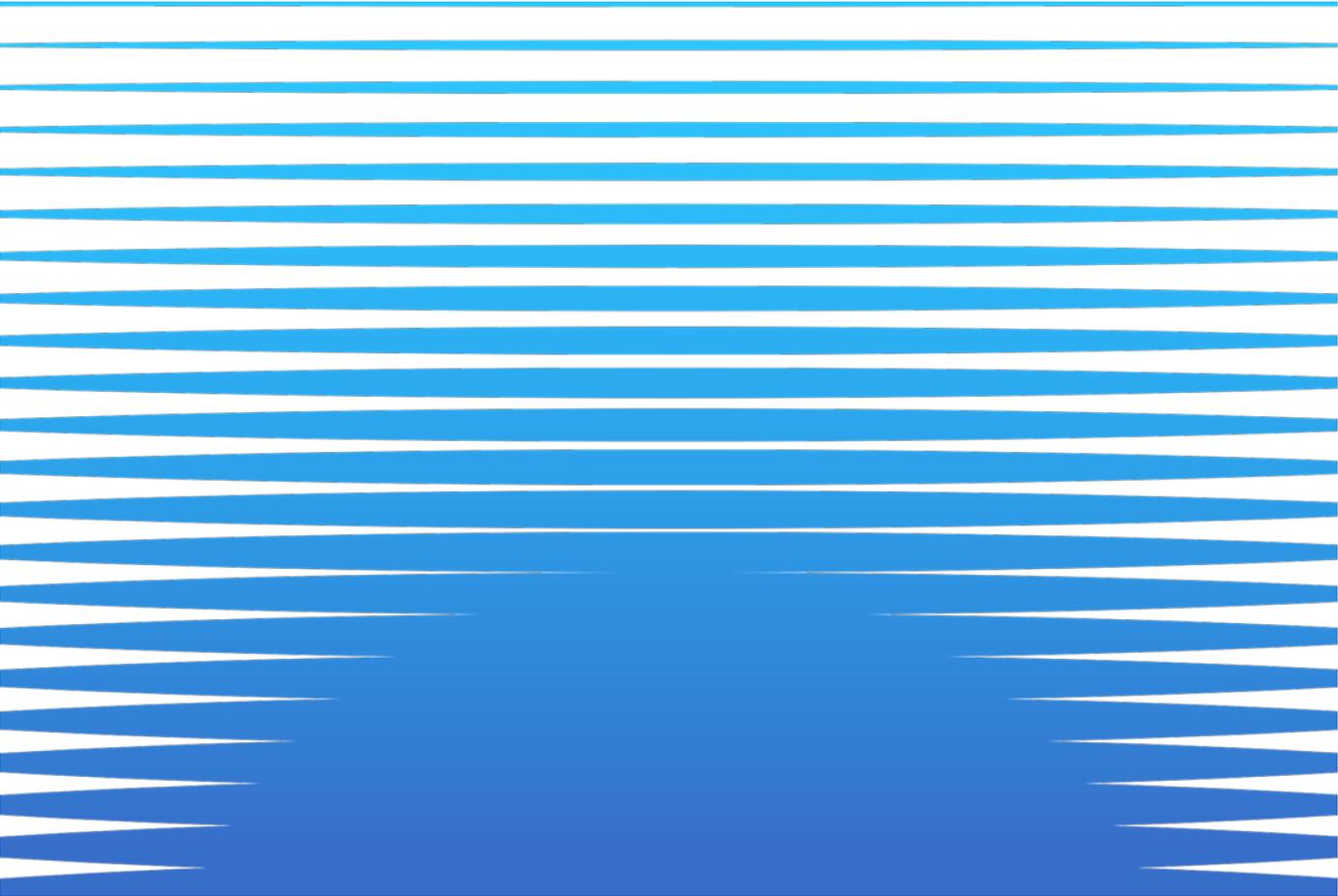


Solving Stranded Credits

Assessing the Scope and Effects of Transcript Withholding on Students, States, and Institutions

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Table of Contents

Introduction	3
Understanding Stranded Credits	4
How Big Is This Problem?	6
Deriving Estimates from Student Financial Services Data	8
Estimating the Number of Students with Stranded Credits	9
Estimating the Total Dollar Amount of Stranded Credits in One Fiscal Year	10
Estimating the Cumulative Dollar Amount and Average Balance Owed Per Student	12
The Benefits of Addressing the Issue of Stranded Credits	13
Implications for Students	13
Implications for Higher Education Institutions	15
Economic Implications	16
What is Being Done to Address Stranded Credits?	18
State Policy	18
Debt Forgiveness Programs	20
Gap Loans	26
Conclusion	27
Acknowledgements	28
Appendix A: Student Financial Services Study Analysis	29
Ratios and Methodology Details	29
T-Test Analysis	30
Regression Outputs Used to Predict Key Ratios	32

Introduction

Attention to the burden of U.S. educational debt, now at \$1.7 trillion, has grown in recent years.¹ For too many former postsecondary students—especially Black students—debt they took on to improve their lives and career prospects has instead become a financial hindrance, delaying or undermining their efforts to buy homes, build savings, or provide for their families.² The debt burden is especially severe for those who never completed their postsecondary program and therefore did not receive the credentials that might have boosted their careers and incomes enough to justify taking on the debt.

Millions of these former students with some college and no credential are subject to a particularly insidious but under-studied form of educational debt. They have what we call “stranded credits,” or academic credits they earned but cannot access because they have an unpaid balance with a previously attended institution that is holding their transcript as collateral. While many institutions view a transcript hold as the most effective way to collect on these outstanding balances, the practice creates an obstacle and a paradox for students who need the transcript to continue their education or obtain a job that will help them pay off that and other educational debt.

In this paper we provide the first deep exploration of the problem of stranded credits. Our national estimates suggest there could be as much as \$15 billion in unpaid balances to colleges and universities, and roughly 6.6 million students may have stranded credits. Adult learners, lower-income students, and racial and ethnic minority students are the most likely to owe outstanding balances to previously attended institutions, and therefore most likely to have stranded credits. Survey data suggest that the practice of withholding transcripts is widespread, with nearly 100 percent of institutions indicating that they withhold transcripts for one or more reasons. Many withhold transcripts for relatively small unpaid balances.

There are relatively few formal programs for helping students free up stranded credits, though individual colleges may address transcript holds on an ad hoc basis when students initiate a conversation. We provide an overview of the programs that do exist to distill common elements and useful strategies for improving opportunities for students with stranded credits. Finally, we identify important questions and aspects of the problem that remain unaddressed, and outline key features of potential solutions.

¹ “Student Loans Owned and Securitized, Outstanding,” *Federal Reserve Bank of St. Louis*, August 7, 2020, <https://fred.stlouisfed.org/series/SLOAS>.

² Fenaba R. Addo and William Darity Jr., “To Tackle the Black Student Debt Crisis, Target the Racial Wealth Gap,” *The Education Trust*, April 16, 2020, <https://edtrust.org/resource/to-tackle-the-black-student-debt-crisis-target-the-racial-wealth-gap/>; Caroline Ratcliffe and Signe-Mary McKernan, “Forever in Your Debt: Who Has Student Loan Debt, and Who’s Worried?,” *Urban Institute*, June 2013, <https://www.urban.org/sites/default/files/publication/23736/412849-Forever-in-Your-Debt-Who-Has-Student-Loan-Debt-and-Who-s-Worried-.PDF>.

As it has in so many other ways, the COVID-19 pandemic exacerbates the problem of stranded credits and intensifies the need for solutions. The economic, health, and geographic disruption caused by the pandemic has likely led more students to interrupt their education and leave college bills unpaid. Yet at some point, continued postsecondary education will prove critical both to those individuals as they look for work in a looser labor market, and to policy-makers who want to equip the nation's workforce to drive the economic recovery. Helping individuals gain access to their stranded credits is both a challenge and an opportunity of the moment.

Understanding Stranded Credits

In order to understand how this problem has become so widespread, it is important to understand the motives of institutions that use transcripts as a tool for collecting unpaid balances. In many cases, once students have left an institution or transferred to a different institution, withholding transcripts and transferring debt to aggressive collections agencies are the two primary means institutions have of compelling students to pay. Transcripts are often seen as the better of these two options, and many institutions claim that withholding transcripts is the most effective way to bring students back to the table and start conversations about repayment.³

Institutions that do withhold transcripts also express the concern that forgiving students' unpaid balances presents a moral hazard problem. Students, knowing that there would be no consequences of not paying, may avoid paying their bills or try to game the system.⁴ The current economic downturn is impacting students' ability to pay tuition at a time when colleges are facing extraordinary financial pressure. As such, the practice of withholding transcripts to collect debt may become even more pervasive.

Most institutions that withhold transcripts do so as a matter of institutional practice and without any policy mandate from either state or the federal government. However, there has been guidance from the Department of Education encouraging the withholding of transcripts for students who have defaulted on federal loans. A 1998 Dear Colleague Letter from the Department of Education (ED) encourages institutions to withhold transcripts in cases where students have defaulted on Title IV loans, indicating that the practice has "resulted in numerous loan repayments."⁵ More recently, the Trump administration has emphasized that schools have the right to withhold transcripts in the case of default. In 2017, ED's student loan information page was changed to note that if a student defaulted on a federal loan, their institution had the

³ "House College & Workforce Development Committee Public Hearing," *TVW*, January 22, 2020, <https://www.tvw.org/watch/?eventID=2020011236>; "Senate Rules Committee – Senate Floor Analysis," *California State Legislature*, https://leginfo.legislature.ca.gov/faces/billAnalysisClient.xhtml?bill_id=201920200AB1313.

⁴ David Scobey, "The Other Student Debt Crisis," *Inside Higher Ed*, December 4, 2017, <https://www.insidehighered.com/views/2017/12/04/other-student-debt-crisis-one-you-havent-heard-opinion>.

⁵ "Withholding Academic Transcripts and Diplomas," *Finaid*, <https://www.finaid.org/educators/withholdingtranscripts.phtml>

right to withhold their transcript.⁶ The administration also put out a Notice of Proposed Rulemaking (NPRM) with multiple, explicit reminders that institutions are permitted to withhold transcripts in the case of defaulted loans.⁷ While those guidelines do not force institutions to adopt or maintain the practice, they do validate withholding transcripts in the case of nonpayment.

State law often permits institutions to withhold transcripts in situations other than an unpaid institutional balance. For example, in Florida, Iowa, and Alaska, sections of the state code explicitly allow the withholding of transcripts either for students who owe debt to the institution or for students who have defaulted on state loans.⁸ Encouragement of the general practice in state policy has likely contributed to the continuation and expansion of transcript withholding to other situations. In Florida, the state serves as the guarantor for select federal and state loans, and the state mandates that transcripts be withheld if students are in default in making their loan payments.⁹ This statute has historically been interpreted to only apply to state loans, but some University of Florida system campuses are withholding transcripts for students in default on any state or federal loan.¹⁰

One other, increasingly common, situation that can easily lead to transcripts being withheld or lost entirely is school closure. Recent closures of large proprietary institutions have left thousands of students without access to their transcripts and facing the same challenges as those with stranded credits.¹¹ While failing institutions may not hold transcripts intentionally, it is important to establish procedures to ensure that students who attend closed institutions are able to access their transcripts at any time. Some states choose to enlist private services such as

⁶ "Understanding Delinquency and Default," *U.S. Department of Education*, <https://web.archive.org/web/20170627174313/https://studentaid.ed.gov/sa/repay-loans/default?src=ft#consequences>.

⁷ "Student Assistance General Provisions, Federal Perkins Loan Program, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program," *U.S. Department of Education*, July 31, 2018, <https://www.federalregister.gov/documents/2018/07/31/2018-15823/student-assistance-general-provisions-federal-perkins-loan-program-federal-family-education-loan>

⁸ See "Florida Statutes § 1009.95 (5)," *The Florida Legislature*, http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&URL=1000-1099/1009/Sections/1009.95.html; "Iowa Code § 681—1.5(262)," *The Iowa Legislature*, <https://www.legis.iowa.gov/publications/search/document?fq=id:503533&pdid=701624&q=withhold+transcript#681.1.5>; "Alaska Admin Code § 20 AAC 17.080.," *The Alaska State Legislature*, <http://www.akleg.gov/basis/aac.asp#20.17.080>.

⁹ "Florida Statutes § 1009.95 (5)," *The Florida Legislature*, http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&URL=1000-1099/1009/Sections/1009.95.html; "The Federal Family Education Loan Program," *The Florida Department of Education*, <http://www.floridastudentfinancialaid.org/FFELP/>.

¹⁰ Interview with Rebecca Maurer, Counsel & Program Manager at Student Borrower Protection Center, February 24, 2020.

¹¹ "Securing Transcripts and Records When Schools Fail: How Accreditors and States Can Protect Students," *National Student Legal Defense Network*, <https://www.defendstudents.org/news/body/quality-assurance/Student-Defense-Transcripts-Paper.pdf>.

Parchment to store transcripts from institutions across the state,¹² while others have taken it onto themselves to develop statewide transcript repositories for schools that have closed.¹³ Although the scale of transcript holding due to school closure is unknown, it will be important to continue to monitor this issue as schools face increasing financial pressure due to COVID-19.

How Big Is This Problem?

Due to data limitations, there is no way to determine the exact frequency of transcript withholding nationwide; however, surveys from major professional associations suggest the practice is quite widespread. Nearly all (98 percent) of the 410 respondents to a 2016 survey from the National Association of College and University Business Officers (NACUBO) indicated that they hold transcripts as a debt collection tactic; this was the most popular collections tactic, followed closely by registration holds.¹⁴ A recently fielded survey from the American Association of Collegiate Registrars and Admissions Officers (AACRAO), co-sponsored by Ithaka S+R, had similar findings, with 95 percent of the 293 respondents indicating that they withhold transcripts for one or more reasons.¹⁵ It is notable that this more recent survey was fielded after the Spring 2020 term ended and during the COVID-19 crisis. While the frequency of transcript withholding may have decreased slightly since 2016 it appears that institutions are hesitant to relinquish this tool for debt collection. It remains to be seen whether their financial situation after this fall term will cause institutions to be more or less lenient regarding transcript holds.

Public institutions and colleges that enroll more than 40 percent Pell-eligible students are more likely to withhold transcripts for an outstanding balancing, suggesting students most in need are likely most at risk for having stranded credits, even if they owe relatively small amounts.

Not only do many institutions withhold transcripts, but a majority do so for relatively small fees. Of the respondents to the aforementioned AACRAO survey who indicated that they withhold transcripts, 64 percent do so if students owe the institution less than \$25.¹⁶ The practice of withholding transcripts for small fees was slightly more common for community colleges, with 68 percent of these schools indicating they withhold for less than \$25 compared to 60 percent of

¹² "Student Records & Transcripts," *California Department of Education*, <https://www.cde.ca.gov/re/di/st/>.

¹³ Gretchen Lohman and Stephanie Bernoteit, "A State Perspective on Consumer Protection in the Changing Higher Education Landscape: Practical Steps and Recommendations in Cases of Institutional Closure," *Illinois Board of Higher Education*, September 2019, http://download.hlcommission.org/IBHETHoughtPaper-Closure_2019.pdf.

¹⁴ "2016 Student Financial Services Policies and Procedures," *NACUBO*, 2017.

¹⁵ Wendy Kilgore, "Stranded Credits: Another Perspective on the Lost Credits Story," *AACRAO*, October 5, 2020.

¹⁶ *Ibid.*

other undergraduate-serving institutions.¹⁷ Additionally, public institutions and colleges that enroll more than 40 percent Pell-eligible students are more likely to withhold transcripts for an outstanding balancing, suggesting students most in need are likely most at risk for having stranded credits, even if they owe relatively small amounts.¹⁸

These surveys provide insight into how many institutions rely on transcript withholding as a debt collection tool, but do not provide an estimate for how many students have stranded credits. Recent data from Policy Matters Ohio documents how widespread the problem is, at least within that state. Ohio is unique in that all public higher education institutions in the state are required to certify, or submit, student debt to the state's Attorney General Office for collections—this allows researchers to access data on the number of students in collections.¹⁹ In fiscal year 2019, the state had around 390,000 active accounts in collections with a total value of over \$735 million.²⁰ Due to the pervasiveness of transcript withholding, there is reason to believe that each of these accounts represents a withheld transcript.²¹ This would suggest that for every 30 Ohio residents, there is one with stranded credits.²² The data also suggest that the students most likely to be affected are those who attended one of the state's community colleges, which serve a higher proportion of the state's Black, Latino, and first-generation students.²³

Complicating the ability to estimate either the total number of students impacted or particular subgroups that are most affected by this issue is the fact that many colleges do not have these data readily available. Roughly two-thirds of AACRAO-Ithaka S+R survey respondents were unable to estimate or provide exact counts of how many students currently had stranded credits.²⁴ Only eight percent of institutions were able to estimate or determine the average number of credits stranded per student, and only ten percent were able to identify particular student populations impacted by transcript holds. Two-year institutions and open admissions institutions were less likely to have these data readily available, indicating that the institutions most impacted by this issue are also least likely to have the research capacity to address it.

Notwithstanding these data limitations, the limited survey results suggest that a large portion of students with stranded credits are low-income and from underserved minority populations. Respondents indicated that students affected by stranded credits were more likely to be low

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Piet van Lier, "Collecting against the future," *Policy Matters Ohio*, February 2020, <https://www.policymattersohio.org/files/research/collectagainstfuture1.pdf>.

²⁰ Ibid.

²¹ Rebecca Maurer, "Withholding Transcripts: Policy, Possibilities, and Legal Recourse," November 15, 2018, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3288837.

²² Ibid.

²³ Piet van Lier, "Collecting against the future," *Policy Matters Ohio*, February 2020, <https://www.policymattersohio.org/files/research/collectagainstfuture1.pdf>.

²⁴ Wendy Kilgore, "Stranded Credits: Another Perspective on the Lost Credits Story," AACRAO, October 5, 2020.

income and/or high need, students of color, students on payment plans, community college transfer students, adult education students, and those on financial aid or military/employer tuition payment plans.²⁵ These categories are not surprising, given that these students are perhaps most likely to develop an unpaid balance that leads to a transcript hold. These findings do, however, imply that stranded credits exacerbate racial and socioeconomic inequities in educational attainment.²⁶

Deriving Estimates from Student Financial Services Data

To complement this initial scoping data, we used both publicly available IPEDS data and information from the 2019 NACUBO Student Financial Services Benchmarking Study to estimate the number of students nationally with stranded credits and the total dollar amount outstanding to colleges. This section describes the data collected as well as a summary of the methodology used to arrive at our estimates. A more detailed description of the methodology can be found in Appendix A.

NACUBO's most recent Student Financial Services (SFS) Benchmarking Study, which was conducted in spring 2019, collected information on a number of financial services topics ranging from student accounts and loan receivables to student payment channels.²⁷ All NACUBO member institutions are invited to participate on an annual basis and the results are often used to benchmark against peer institutions, as the survey's title suggests. Data collected represent Fiscal Year 2018 (July 1, 2017 to June 31, 2018 at most institutions).²⁸ Four-hundred six institutions participated in the 2019 survey and their aggregate results are presented in the Study report.

For our analysis, we limited our sample to all public and private nonprofit US institutions that served undergraduate students (i.e., were not grad-only schools). We divided our sample into the four institutional groups identified in the NACUBO SFS Benchmarking Study report. These

²⁵ Ibid.

²⁶ Paul Fain, "Higher Education and Work Amid Crisis," *Inside Higher Ed*, June 17, 2020, <https://www.insidehighered.com/news/2020/06/17/pandemic-has-worsened-equity-gaps-higher-education-and-work>. As we learned through interviews with Katy Fuerst, Director of Programming & Community Engagement at HFLA Northeast Ohio on March 10, 2020 and with Daniel Como, Operations Manager at New Horizon Federal Credit Union and Michael Heidenreich, CEO of New Horizon Federal Credit Union, on March 17, 2020, local nonprofit lenders in Ohio, including one interest-free lender and one credit union operating in the Cleveland area, also offer anecdotal evidence as to the students most affected by stranded credits. These two organizations have been offering loans to students looking to pay off their debts to previously attended institutions. Thus far a majority of students (91 percent) served by the nonprofit lender are students of color, and nearly half (46 percent) are low-income individuals. The credit union also indicated that a majority of its borrowers are women of color. Although both organizations currently serve a small number of local students, these initial data points further support the hypothesis that a substantial proportion of students affected by stranded credits are students from historically underserved populations.

²⁷ "2019 Student Financial Services Benchmarking Study," *NACUBO*, 2019.

²⁸ Ibid.

groups are community colleges,²⁹ comprehensive/doctoral institutions,³⁰ research institutions,³¹ and small institutions.³² In order to determine the direction of potential bias in our estimates, we ran a series of t-tests comparing our sample of 2,644 institutions to the 406 schools that completed the SFS Study. The full results from these tests can be found in Appendix A.

Table 1: Institutional counts by NACUBO constituent group

Community Colleges	Comprehensive/ Doctoral	Research	Small Institutions	Total
925	565	256	918	2,644

Estimating the Number of Students with Stranded Credits

To calculate the number of students with stranded credits, we rely on two ratios that are presented in the SFS Benchmarking Study report—the ratio of students with unpaid balances to student headcount and the ratio of students with accounts placed in collections to student headcount. Both current and former students are included in the numerators of these ratios, indicating that these represent the cumulative number of students with unpaid balances and accounts in collections respectively. Students with holds such as registration holds are likely counted among the students with unpaid balances, so we use this first ratio to determine the upper bound of the potential number of individuals with stranded credits. Because placing a student account in collections is the most extreme way to collect unpaid balances, there are fewer students in collections than those with unpaid balances. As such, this ratio is used to determine the lower bound of our estimates of the number of students with stranded credits.

The SFS report provides these two ratios for each of the four institutional groups noted above. We apply the ratio of their respective constituent group to each of the 406 survey participants and regress a series of institutional characteristics onto this ratio.³³ The regression coefficients

²⁹ Community colleges include any public two-year institution. For the purpose of our analysis, we used the recent list published by the Community College Research Center (CCRC) to define the universe of community colleges (see “Shifting Sectors: How a Commonly Used Federal Datapoint Undercounts Over a Million Community College Students,” *Community College Research Center*, April 30, 2020, <https://ccrc.tc.columbia.edu/easyblog/shifting-sectors-community-colleges-undercounting.html>).

³⁰ Comprehensive doctoral institutions are master’s and doctoral-granting institutions with full-time equivalent enrollments (FTE) of 4,000 or more. This group also included 194 public institutions with FTE enrollments smaller than 4,000, as per guidance from NACUBO.

³¹ Research Institutions are defined based on their Carnegie Classification of Institutions of Higher Education. Any institution with a 2019 Carnegie Classification (Basic) of 15 or 16 was designated as a Research University.

³² Small Institutions are primarily private nonprofit baccalaureate-granting colleges and universities with FTE of fewer than 4,000 students. For the purpose of our analysis, private two-year institutions that were not classified as Community colleges by CCRC were also put in the Small Institutions group.

³³ These characteristics include: Percent Pell, Percent from an underrepresented minority (defined as Black/African American, American Indian or Alaskan Native, Native Hawaiian or other Pacific Islander, or Hispanic), Total Revenue, Revenue per FTE, Tuition Price, Percent Part-time, and Percent Over 25.

are applied to the general population of institutions in IPEDS to derive institution-level predicted ratios. Once we had an individual predicted ratio for each institution in our full sample of 3,044 institutions, we then used the ratios to calculate the total number of students with unpaid balances for each institution. We sum these counts for each constituent group and the total population of institutions, as shown in Table 2.

Using the number of students in collections as a lower bound and the number of unpaid balances as an upper bound, we create quartiles within these bounds to more precisely estimate the number of students with stranded credits. Our analysis suggests that approximately 8.3 million students nationwide had unpaid balances in FY2018, and over 1.4 million had accounts in collections. As we believe, based on the survey findings suggesting the ubiquity of withholding transcripts as a practice, that the number of students with outstanding balances is closer to the number unable to access their transcripts, we use the 75th percentile as our more specific estimate. That is, we estimate that approximately 6.6 million students have stranded credits, but this number may range from 1.4 to 8.3 million.

As can be seen in Table 2, the problem is most prevalent at community colleges, which could have up to three million former students with stranded credits. Although Small Institutions have closer to 450,000 students with stranded credits, the relatively small size and tuition dependence of these institutions means this could still be a major financial issue for these schools.

Table 2: Estimated number of students with stranded credits

	Community Colleges	Comprehensive/ Doctoral	Research	Small Institutions	Total
Lower Bound	705,349	302,700	334,828	82,088	1,424,965
25th Percentile	1,534,508	682,662	725,275	205,182	3,147,627
50th Percentile	2,363,666	1,062,624	1,115,723	328,276	4,870,288
75th Percentile	3,192,824	1,442,587	1,506,170	451,370	6,592,951
Upper Bound	4,021,982	1,822,549	1,896,617	574,464	8,315,612

Estimating the Total Dollar Amount of Stranded Credits in One Fiscal Year

To estimate the total dollar amount of outstanding balances associated with stranded credits in the most recent fiscal year for which data are available, we use the ratio reported in the SFS Study of total outstanding accounts receivable as a percentage of the total dollar amount invoiced at the end of the 2018 fiscal year. We use information from the IPEDS Student Finance Survey and Finance Survey (FY2018) and the Fall Enrollment survey to produce an estimate of the total dollars invoiced by institutions in that fiscal year, and use the outstanding accounts

ratio to calculate the total dollars outstanding to institutions. As described in the previous section, we apply the ratio of each institution’s respective constituent group to each of the 406 participants, and regress the series of institutional characteristics described above onto this ratio. The regression coefficients are then applied to the general population of institutions in IPEDS to derive institution-level predicted ratios. Once these predicted ratios are generated for all the institutions in our universe, we use the ratios as well as the calculations described in Appendix A to produce an estimate for total dollars outstanding to each institution. We sum these counts for each constituent group and the total population of institutions, as shown in Table 3.

For the total dollar amount outstanding in fiscal year 2018, we set our estimate as the 75th percentile and then calculated a maximum, 25th, and 50th percentile for the total dollar amount owed, using \$0 as the lower bound, in order to identify a plausible range. We estimate the total dollar amount owed in FY2018 is approximately \$6.5 billion, but it could range anywhere from \$2.2 to \$8.7 billion, suggesting a strong financial incentive for institutions to address this issue. Again, the dollars owed are not distributed evenly, with Research Institutions being owed close to \$2.4 billion and Small Institutions being owed roughly \$1.1 billion. Results by institutional group are presented below.

Table 3: Estimated dollar value of stranded credits by NACUBO constituent group

	Community Colleges	Comprehensive/ Doctoral	Research	Small Institutions	Total
Lower Bound	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
25th Percentile	\$395,179,360	\$603,596,288	\$796,828,416	\$379,619,232	\$2,175,223,296
50th Percentile	\$790,358,720	\$1,207,192,576	\$1,593,656,832	\$759,238,464	\$4,350,446,592
75th Percentile	\$1,185,538,048	\$1,810,788,864	\$2,390,485,248	\$1,138,857,728	\$6,525,669,888
Upper Bound	\$1,580,717,440	\$2,414,385,152	\$3,187,313,664	\$1,518,476,928	\$8,700,893,184

While the results from our t-tests suggest that our results may overestimate the problem of stranded credits, there is reason to believe that our estimates are in fact conservative. State idiosyncrasies and the fact that we only capture tuition and fees revenue leads us to believe that the total amount owed may be much greater. The addition of unpaid room and board, library fines, and parking tickets, among other charges not captured in IPEDS tuition and fees data, would likely inflate the amount owed to colleges beyond our current estimates. For this reason, while we estimate the total amount owed nationally, we provide a range of plausible estimates that indicate the amount in question is in the billions of dollars.

Estimating the Cumulative Dollar Amount and Average Balance Owed Per Student

We use the ratios from the SFS Study for fiscal years 2017 and 2016, combined with our 2018 estimates, to produce a three-year cumulative estimate for total dollars outstanding to institutions resulting in stranded credits. We chose a three-year average because survey data suggests that colleges typically write-off debt after three years of unsuccessful collections attempts. We estimate that students with stranded credits could comprise a \$15 billion hole in institutions' books. It is also worth noting that the dollar amount outstanding in FY2018 is approximately 40 percent higher than the amount outstanding in the previous fiscal year, implying that this dollar amount is growing over time. It remains to be seen how these cumulative totals may change after data from FY2019 and FY2020 become available.

Table 4: Estimates for Cumulative Amount Owed resulting in stranded credits

	Community Colleges	Comprehensive/ Doctoral	Research	Small Institutions	Total
FY2016	\$407,152,160	\$1,120,516,608	\$1,957,704,064	\$693,069,184	\$4,178,442,016
FY2017	\$423,478,976	\$1,238,097,280	\$2,269,433,344	\$761,996,288	\$4,693,005,888
FY2018	\$1,185,538,048	\$1,810,788,864	\$2,390,485,248	\$1,138,857,728	\$6,525,669,888
Three-Year Total	\$2,016,169,216	\$4,169,402,880	\$6,617,622,528	\$2,593,923,072	\$15,397,117,696

Using the three-year estimates of the cumulative value of amounts owed resulting in stranded credits and the total number of students in each sector with stranded credits, we calculate an average balance owed for each institutional grouping in our analysis. We estimate the average unpaid balance overall that results in stranded credits is around \$2,300, with varying amounts of money owed on average based on the type of institution. With an average balance of \$631, Community College students are likely to benefit from relatively small levels of assistance and investment. Students at small private institutions, meanwhile, are more likely to be carrying larger balances which may require a different type of solution for this sector.

Table 5: Average balance owed by a student with stranded credits

	Community Colleges	Comprehensive/ Doctoral	Research	Small Institutions	Total
Estimated Number of Students	3,192,824	1,442,587	1,506,170	451,370	6,592,951
Estimated Total Unpaid	\$2,016,169,216	\$4,169,402,880	\$6,617,622,528	\$2,593,923,072	\$15,397,117,696
Average Balance	\$631.47	\$2,890.23	\$4,393.68	\$5,746.78	\$2,335.39

The Benefits of Addressing the Issue of Stranded Credits

Addressing the issue of stranded credits would benefit students, institutions, and state and local economies. Students that return to higher education and earn bachelor's degrees enjoy improved economic outcomes including an increased ability to pay off student loan debt. Institutions also benefit through increased enrollment and advancement of their equity missions. Re-enrolling and graduating these students would also increase attainment which benefits local and state economies. The multifaceted benefits of reducing the number of students with stranded credits underscore the urgency with which we must address this problem.

The multifaceted benefits of reducing the number of students with stranded credits underscore the urgency with which we must address this problem.

Implications for Students

Students with stranded credits bear financial and academic burdens that are disproportionate to the often small debt they owe. In the short term, those who drop out and owe a balance to their institution can face collector's fees up to 30 percent and federal financial aid charges that can reach thousands of dollars.³⁴ While many students are given the chance to pay these fees, students in states such as Ohio can have their debt sent to the Attorney General's Office for collections after only forty-five days which makes it much more difficult to clear their balances.³⁵ The effects of institutional debt can also linger much longer than most students expect. Unpaid debt and collections fees stay on students' credit reports and can prevent them from applying for mortgages decades after their interaction with higher education.³⁶ In fact, institutions report that some students do not even realize they have unpaid balances until they try to get a mortgage or have their credit pulled for a loan.

Even in the best case scenario when students are able to transfer to another institution and complete their degree, transcript withholding substantially increases both time to degree and the total cost to the student.

³⁴ David Scobey, "The Other Student Debt Crisis," *Inside Higher Ed*, December 4, 2017, <https://www.insidehighered.com/views/2017/12/04/other-student-debt-crisis-one-you-havent-heard-opinion>; Jillian Berman, "The obscure debt holding back thousands of students," *MarketWatch*, April 1, 2019, <https://www.marketwatch.com/story/the-obscure-debt-holding-back-thousands-of-students-2019-03-29>.

³⁵ "Ohio Code § 131.02," *State Government of Ohio*, <http://codes.ohio.gov/orc/131.02>.

³⁶ Interview with Tom Green, Associate Executive Director at AACRAO, February 20, 2020.

Even in the best case scenario when students are able to transfer to another institution and complete their degree, transcript withholding substantially increases both time to degree and the total cost to the student. Students may have to retake completed courses thus making it much less likely that they graduate before running out of financial aid. In fact, loss of credit at transfer is one of the key barriers to completion for many transfer students, and those who do complete their degrees often end up having to earn excess credits that unnecessarily increase cost.³⁷ Institutions looking to increase enrollment may make admissions decisions based on unofficial transcripts, but that does not make them any more likely to accept academic credits without the official transcript from the student's former institution.³⁸

Resolving students' outstanding debt, freeing up their stranded credits, and thereby making it easier for those students to return to a higher education institution and complete their postsecondary degree would yield immense benefits. The earnings boost that comes with attaining a bachelor's degree—estimated around \$30,000 annually³⁹—can go a long way towards establishing a more stable financial future. Earning a postsecondary degree is also associated with improved life outcomes such as improved health and health behaviors, reduced incarceration rates, higher civic engagement, increased homeownership, and better life satisfaction.⁴⁰ Students who return and earn their bachelor's degree are also more likely to repay their student loans and resolve their debts to former institutions.⁴¹

Helping students with stranded credits return and earn their degrees is even more important given the economic implications of the current pandemic. Evidence from the previous recession suggests that the recovery will be skewed towards skilled workers, especially those with more advanced degrees. In the decade following the Great Recession, there was a 60 percent increase in job vacancies requiring a bachelor's degree.⁴² The shift in working conditions under the pandemic also means that those with higher degrees are both least likely to be laid off and better positioned to take advantage of the jobs that will emerge before and during the recovery. As of a few months into the public health crisis, unemployment for those with a bachelor's degree was

³⁷ David Monaghan and Paul Attewell, "The Community College Route to the Bachelor's Degree," *Educational Evaluation and Policy Analysis*, March 1, 2015, <https://doi.org/10.3102/0162373714521865>; "Time is the Enemy," *Complete College America*, September 2011, <https://www.luminafoundation.org/files/resources/time-is-the-enemy.pdf>.

³⁸ Interview with Tom Green, Associate Executive Director at AACRAO, February 20, 2020.

³⁹ Jaison R. Abel and Richard Deitz, "Despite Rising Costs, College is Still a Good Investment," *Federal Reserve Bank of New York*, June 5, 2019, <https://libertystreeteconomics.newyorkfed.org/2019/06/despite-rising-costs-college-is-still-a-good-investment.html>.

⁴⁰ Elizabeth M. Laurence, "Why Do College Graduates Behave More Healthfully than Those Who Are Less Educated?," *National Institutes of Health*, June 28, 2017, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5570614/>.

⁴¹ Michael Itzkowitz, "Want More Students To Pay Down Their Loans? Help Them Graduate," *Third Way*, August 8, 2018, <https://www.thirdway.org/report/want-more-students-to-pay-down-their-loans-help-them-graduate>.

⁴² Peter Q Blair and David J. Deming, "Structural Increases in Demand for Skill after the Great Recession," *American Economic Association*, May 2020, <https://pubs.aeaweb.org/doi/pdfplus/10.1257/pandp.20201064>.

half the rate of unemployment for those with only a high school degree.⁴³ Those with advanced degrees are also much more likely to have started a new job in the midst of the pandemic,⁴⁴ in part due to their ability to compete for jobs that are compatible with remote work. Facilitating the return to higher education for students with stranded credits would improve their job prospects at a time when earning an advanced degree is more crucial than ever.

Individuals who earn a bachelor's degree repay their student loans at higher rates, which boosts their economic well-being at a time when the labor market is at an all-time low. Even before the current recession, student loan debt has had a substantial impact on economic decision making. Those with student loan debt put off purchasing cars, houses, and other major investments that stimulate their local economies.⁴⁵ The impact of student loan debt on purchasing decisions is larger than one might anticipate. In fact, up to 20 percent of the decline in homeownership amongst young adults since 2005 can be attributed to student loan debt.⁴⁶ Student loan debt can also discourage other financially healthy behavior such as business creation and saving for retirement.⁴⁷ Resolving any amount of student debt would provide a major boost to these students and thus to the economy.

Implications for Higher Education Institutions

Engaging and re-enrolling students with stranded credits is a key enrollment strategy for institutions facing enrollment declines. Even before the COVID-19 pandemic, high school classes were expected to decrease substantially in the next decade, putting pressure on institutions to develop new strategies to maintain sustainable enrollment levels.⁴⁸ The pandemic and subsequent wave of transitioning to online-only education has increased enrollment pressures, with many tuition-dependent institutions struggling to stay afloat.⁴⁹ Enrolling more students who have previously dropped out is one way to improve enrollment numbers at a time

⁴³ Colin Seale, "The Covid-19 Pandemic's Uneven Unemployment Impact Shows Why It Pays To Go To College More Than Ever," *Forbes*, May 9, 2020, <https://www.forbes.com/sites/colinseale/2020/05/09/covid-19-pandemics-uneven-economic-impact-shows-why-it-pays-to-go-to-college-more-than-ever/#402f735035ef>.

⁴⁴ "Public Viewpoint: Covid-19 Work and Education Survey," *Strada Education*, May 2020, <https://www.stradaeducation.org/wp-content/uploads/2020/05/Public-Viewpoint-Report-Week-7.pdf>.

⁴⁵ Chris Arnold, "Forgiving Student Debt Would Boost Economy, Economists Say," *NPR*, November 25, 2019, <https://www.npr.org/2019/11/25/782070151/forgiving-student-debt-would-boost-economy>.

⁴⁶ Bennett G. Boggs, "U.S. Student Loans and Debt Levels Set Record: What's a Legislature to Do?," *National Conference of State Legislatures*, May 2019, https://www.ncsl.org/Portals/1/Documents/educ/Student-Loans-And-Debt_v02.pdf.

⁴⁷ Victoria Jackson, "Student borrowers: prey for predatory loan servicers," *Policy Matters Ohio*, December 2017, <https://www.policymattersohio.org/files/research/studentdebtreport12-26-17.pdf>.

⁴⁸ Peace Bransberger, "Fewer Students, More Diversity: The Shifting Demographics of High School Graduates," *WICHE*, July 2017, <https://files.eric.ed.gov/fulltext/ED586768.pdf>.

⁴⁹ "The Coronavirus Enrollment Crash: Five Admissions Leaders on the Pandemic's Impact – And What Can Be Done About It," *The Chronicle of Higher Education*, May 7, 2020, <https://www.chronicle.com/article/The-Coronavirus-Enrollment/248724>.

when traditional student numbers are declining. This population will likely prove key in determining the fate of certain higher education institutions and provides an opportunity for all wishing to enroll and graduate more students.

Institutions aiming to serve a diverse pool of students should also turn to those with stranded credits who are looking to re-enroll. Many students with stranded credits are from low-income and underrepresented minority backgrounds. Among students with some college experience but no degree (SCND), African American and Latino students are more likely than their white counterparts to be among those returning to school to earn their postsecondary credential.⁵⁰ Enrolling and graduating these students will also serve to close equity gaps in attainment, a key economic and moral imperative for states and higher education institutions alike.⁵¹ Serving these populations will be critical for institutions seeking to educate a more diverse array of students and better serve traditionally underserved populations.

Re-enrolling students with outstanding debt is also a way for institutions to recuperate some of the revenue lost on these students. All higher education institutions invest some sunk costs into serving students regardless of whether or not they finish the term,⁵² and bringing back students is a way to improve returns on these costs. Institutions can also improve revenue streams by forgiving small amounts of debt and re-enrolling students with past due balances. This is a favorable alternative to costly debt collections practices which are often not effective and leave institutions with substantial amounts of lost revenue every year.⁵³ Forgiving or settling small amounts of debt owed by these students who wish to re-enroll is one way for institutions to receive some compensation and improve revenue streams.

Economic Implications

Allowing students with stranded credits to return and complete their postsecondary degrees would boost attainment and directly benefit local economies. A postsecondary credential can increase lifetime earnings by up to \$600,000, with especially strong effects for low-income students.⁵⁴ This increase in income yields higher state and federal tax revenue while also

⁵⁰ "Some College, No Degree: A 2019 Snapshot for the Nation and 50 States," *National Student Clearinghouse Research Center*, October 2019, https://nscresearchcenter.org/wp-content/uploads/SCND_Report_2019.pdf.

⁵¹ James Dean Ward et. al, "Raising the Bar: What States Need to Do to Hit Their Ambitious Higher Education Attainment Goals," *Ithaka S+R*, February 13, 2020, <https://sr.ithaka.org/wp-content/uploads/2020/02/SR-Report-Raising-Bar-State-Attainment-Projections-021320.pdf>.

⁵² Interview with Tom Green, Associate Executive Director at AACRAO, February 20, 2020.

⁵³ Interview with Rebecca Maurer, Counsel & Program Manager at Student Borrower Protection Center, February 24, 2020.

⁵⁴ "Lifetime Earnings by Degree Type," *The Hamilton Project*, April 26, 2017, https://www.hamiltonproject.org/charts/lifetime_earnings_by_degree_type; Jonathan Smith, Joshua Goodman, and Michael Hurwitz, "The Economic Impact of Access to Public Four-Year Colleges," *Annenberg Institute at Brown University*, May 2020, <https://www.edworkingpapers.com/ai20-229>.

providing the necessary human capital for businesses to grow.⁵⁵ At a more local level, cities and regions have turned to attainment as a way to boost the skill level of their workforce and attract employers to the area.⁵⁶ Detroit, one metro area that is part of Lumina Foundation's network of "Talent Hubs," is trying to boost attainment and develop new talent in a region hard-hit by the rise of automation. Part of their strategy involves reaching out to students with stranded credits at local institutions to encourage them to return and complete their degree at local institutions. Applying this strategy across the nation would boost attainment and create a much-needed economic stimulus for every state and local region.

Boosting economic growth is not the only way state economies can benefit from addressing the issue of stranded credits. At public institutions specifically, resolving stranded credits would help states get a better return on their sunk costs in students who drop out before earning their degree. States that provide financial aid to students who then drop out spend millions of dollars each year in subsidies and grants without the benefits of increasing the number of credentialed workers.⁵⁷ By allowing these students to return, complete their degree, and pay back a portion of their debt, states could increase their return on investment into higher education and SCND residents. Solving the issue of stranded credits would have substantial economic impacts on states and localities and should therefore be a priority for those looking to increase economic growth.

Resolving the issue of stranded credits would create benefits from the individual students all the way to their local and state economies. Allowing students to resolve institutional debt and repay student loan debt would offset the negative economic impacts of both at a time when labor market prospects are grim. Re-enrolling these students would also help low-income and minority populations who could benefit most from a postsecondary credential.⁵⁸ An increase in attainment could also boost future economic growth and help in the post-COVID recovery. For these reasons and more, higher education institutions and policymakers have begun devising strategies to resolve the issue of stranded credits.

⁵⁵ Philip Trostel, "It's Not Just the Money: The Benefits of College Education to Individuals and to Society," *Lumina Foundation*, <https://www.luminafoundation.org/files/resources/its-not-just-the-money.pdf>; Scott Wolla, "Invest in Human Capital to Build a Better Future," *Federal Reserve Bank of St. Louis*, 2016, <https://www.stlouisfed.org/annual-report/2016/invest-in-human-capital-to-build-a-better-future>; Philip Trostel, "The Fiscal Impacts of College Attainment," *Research in Higher Education*, November 18, 2009, <https://link.springer.com/content/pdf/10.1007/s11162-009-9156-5.pdf>.

⁵⁶ Andrew Kreighbaum, "A Second Chance at Detroit Colleges," *Inside Higher Ed*, October 7, 2019, <https://www.insidehighered.com/news/2019/10/07/detroit-colleges-tackle-dropout-challenge-offering-debt-forgiveness>.

⁵⁷ Mark Schneider, "Finishing the First Lap: The Cost of First-Year Student Attrition in America's Four-Year Colleges and Universities," *American Institutes for Research*, October 2010, https://www.air.org/sites/default/files/AIR_Schneider_Finishing_the_First_Lap_Oct101.pdf.

⁵⁸ Goldie Blumenstyk, "The Adult Student: The Population Colleges – And the Nation – Can't Afford to Ignore," *The Chronicle of Higher Education*, 2018.

What is Being Done to Address Stranded Credits?

Although the challenges associated with stranded credits are underappreciated on a national level, there have been steps taken to address the problem at the state and local levels. States such as California and Washington have enacted legislation banning the practice of transcript withholding in an attempt to address the mounting student debt crisis in their states.⁵⁹ On a more localized level, institutions across the country are using debt forgiveness programs to bring former students back to school and allow them access to previously earned credits. Local financial organizations are also taking steps to provide gap loans to students so they can pay back their debt and receive their transcripts. These attempts to address the issue of stranded credits, while promising, come with their own challenges and unintended consequences. Scaling and carefully analyzing these initial endeavors will be crucial in finding a solution that can work for any student attending any college nationwide.

State Policy

Some states are addressing the problem of transcript withholding by outlawing the practice altogether. California recently passed AB-1313, which makes it illegal for public and private institutions in the state to withhold transcripts from students who owe debt starting in January 2020.⁶⁰ The law also prevents schools from conditioning the release of transcripts on debt repayment, charging a higher fee for the release of the transcript in the case of debt owed, or using transcripts as a tool for debt collection. Washington State's HB-2513, which went into effect in June of 2020, was modeled after the bill in California but includes a provision that states that transcripts can only be withheld if the debt was related to tuition, room and board, or financial aid charges.⁶¹ However, the bill also stipulates that the transcript must be released if requested for a job, military activity, or any other postsecondary endeavor. While California and Washington were the first states to pass bills preventing postsecondary institutions from withholding transcripts, similar legislation has been recently proposed in New York and Massachusetts.⁶² Louisiana's HB-676 also addresses the issue of withheld transcripts albeit

⁵⁹ "Assemblywoman Luz Rivas Ends Predatory College Debt Collection Practice," *Office of Luz Rivas, Assemblywoman, District 39*, October 4, 2019, <https://a39.asmdc.org/press-releases/20191004-assemblywoman-luz-rivas-ends-predatory-college-debt-collection-practice>.

⁶⁰ "Assembly Bill No. 1313," *California State Legislature*, October 7, 2019, https://leginfo.ca.gov/faces/billTextClient.xhtml?bill_id=201920200AB1313.

⁶¹ "Second Substitute House Bill 2513," *Washington State Legislature*, March 2020, <http://lawfilesexternal.wa.gov/biennium/2019-20/Pdf/Bills/House%20Passed%20Legislature/2513-S2.PL.pdf?q=20200324080756>.

⁶² See "Bill S.2727," *Massachusetts Legislature*, June 2020, <https://malegislature.gov/Bills/191/S2727>; "A09949 Summary," *New York State Assembly*, https://nyassembly.gov/leg/?default_fld=&leg_video=&bn=A09949&term=2019&Summary=Y&Actions=Y&Committee%26nbspVotes=Y.

more indirectly—the bill allows public postsecondary education management boards to implement policies that would prohibit their institutions from withholding transcripts.⁶³

State laws banning the practice of transcript withholding are relatively new, with California’s law only going into effect January 1, 2020. As such there has not yet been a substantive analysis of the fiscal or other impacts of these bills. While the actual effects of these policy changes are unknown, schools in both California and Washington are anticipating losses in revenue due to their now more limited ability to collect debt. Many California schools indicated that the passage of AB-1313 would lead to substantial revenue losses—the California State University system estimated their loss in the hundreds of thousands of dollars annually, and the University of California system speculated that losses could reach \$10-12 million per year.⁶⁴ The University of Washington also postulates that losses could total millions of dollars each year out of their total annual revenue of around \$4.9 billion.⁶⁵ Private schools in both states are also concerned about these bills’ effects on revenue. Tuition-dependent institutions may face larger proportional losses in revenue than a large research institution like University of Washington. This may be particularly impactful for private institutions that do not receive any state support and thus may be even more pressed to recover the revenue through other means.

Although allowing students access to their transcripts positively impacts students, such blanket bans on transcript holds could have unintended consequences. Some worry that schools will increase the use of upfront payment policies or drop students mid-term for nonpayment.⁶⁶ Institutions in both states have indicated that without the ability to withhold transcripts, they will likely turn to costlier methods of debt collection and send more students to collections agencies which often charge high interest rates. One representative from a private school in California noted that the school will have to find another way to collect outstanding debt from students, either by collecting all debt before graduation or by shifting costs of unpaid balances onto current students via tuition and fees.⁶⁷ All of these policies have the potential to negatively impact students.

The impacts on students and institutions in these states is still unknown, but the data we have collected can provide estimates of the number of students potentially affected by these bills. Using the calculations described in the Student Financial Services Data section above, we derived estimates of the cumulative number of students in California, Washington, and Louisiana that could potentially gain access to their transcripts. These numbers are estimates,

⁶³ “Act No. 334,” *Louisiana State Legislature*, May 2020, <http://www.legis.la.gov/legis/ViewDocument.aspx?d=1182529>.

⁶⁴ “Senate Rules Committee – Senate Floor Analysis,” *California State Legislature*, https://leginfo.ca.gov/faces/billAnalysisClient.xhtml?bill_id=201920200AB1313.

⁶⁵ “Multiple Agency Fiscal Note Summary,” *Washington State Legislature*, <https://fnspublic.ofm.wa.gov/FNSPublicSearch/GetPDF?packageID=60848>.

⁶⁶ Interview with Tom Green, Associate Executive Director at AACRAO, February 20, 2020.

⁶⁷ Megan Schneider, “Balancing Student Success With Repayment,” *Business Officer*, 2020, <https://businessofficermagazine.org/departments/balancing-student-success-with-repayment/>.

and in practice will depend on the implementation of the policies described; AB-1313 in California and HB-2513 in Washington apply to all accredited institutions operating within the state, while Louisiana's bill only applies to public institutions and provides boards with the explicit ability to ban the practice but does not mandate such a policy. Since our sample only includes nonprofit institutions, we cannot speak to the impact on for-profit students, but we estimate that approximately 950,000 students will now be able to receive their transcript from one of California's public or private nonprofit institutions. In Washington, over 125,000 students may have access to their transcripts after HB2513 went into effect in June. And in Louisiana, the policy could impact an estimated 73,000 students at public institutions with stranded credits. Of course, proper evaluations of the effects of such policies will be important to assess the value of such policies.

While some states take steps to ban the practice of transcript withholding, others are attempting to collect data on the scope of the problem in their state. Maryland's HB-419, for example, mandates that all postsecondary institutions in the state collect data on unpaid fees owed by students including the number of transcripts withheld due to these unpaid fees.⁶⁸ Institutions would submit data to the state's Higher Education Commission which would then report to the General Assembly each year. HB-2513 in Washington also includes a component mandating the collection of data on the number of transcripts withheld as well as the number of past due accounts sent to collections agencies.⁶⁹ These attempts to quantify the problem suggest a growing interest in the problem of stranded credits, even among states that are perhaps reluctant to ban the practice outright.

Debt Forgiveness Programs

To address the problem of stranded credits, some institutions have developed debt forgiveness programs to encourage students to return and complete their degrees. One such initiative is the Warrior Way Back program at Wayne State University in Detroit. The program allows students who have dropped out at least two years prior to re-enrolling, have at least a 2.0 GPA, and owe less than \$1,500 to the university to re-enroll and have their debt incrementally forgiven over a series of terms.⁷⁰ At the beginning of the program in fall 2018, the university identified around 6,000 eligible "comebackers" who had unpaid balances to Wayne State. Thus far, 209 have enrolled, 28 have graduated, and another 20 students have completed the program and transferred to another institution.⁷¹ The program has not only helped to create a positive image

⁶⁸ "Fiscal and Policy Note," *Maryland General Assembly*, 2020, http://mgaleg.maryland.gov/2020RS/fnotes/bil_0009/hb0419.pdf.

⁶⁹ "Second Substitute House Bill 2513," *Washington State Legislature*, March 2020, <http://lawfilesexternal.wa.gov/biennium/2019-20/Pdf/Bills/House%20Passed%20Legislature/2513-S2.PL.pdf?q=20200324080756>.

⁷⁰ Andrew Kreighbaum, "A Second Chance at Detroit Colleges," *Inside Higher Ed*, October 7, 2019, <https://www.insidehighered.com/news/2019/10/07/detroit-colleges-tackle-dropout-challenge-offering-debt-forgiveness>.

⁷¹ Interview with Dawn Medley, Associate Vice President of Enrollment Management at Wayne State University, February 25, 2020.

for the university but has also produced a substantial positive return on investment (ROI)—initial estimates put the positive ROI for Warrior Way Back at around \$750,000.⁷² The success of Warrior Way Back has inspired colleges from Iowa to Oregon to implement similar debt forgiveness programs.

Some programs are opting to provide students with scholarship money rather than write off their debt. Milwaukee Area Technical College (MATC) in Wisconsin has adopted this approach with their ReStart program, which was designed with help from Wayne State. The ReStart program offers eligible students—those who owe less than \$1,500 to the college—scholarships of up to \$500 per semester for three semesters.⁷³ The money for the scholarships comes from the MATC Foundation with seed funding from the college’s participation in a Federal Communications Commission program. The ReStart program is being implemented in full starting in fall 2020, but a pilot program in spring 2020 re-enrolled 56 students, most of whom were students of color.⁷⁴ With over 7,000 former students eligible for the scholarship program, MATC is hoping that this initiative will bring back many of their previous students and serve as a model for other technical colleges looking to do similar work.

Institutions looking to address the issue of debt while students are still enrolled are increasingly implementing emergency micro-grant programs. Similar to debt forgiveness programs, these are usually targeted at students who are in good academic standing and who have relatively small unpaid balances to their institution.⁷⁵ The pioneering example of these programs comes from Georgia State, which began their Panther Retention Grant program in 2011. Students who have at least a 2.0 GPA, have exhausted all other sources of aid, and who owe less than \$2,500 are eligible to have their balances paid off by the grant.⁷⁶ So far the program has resulted in the retention of thousands of students who would otherwise likely have stopped out. The program has also produced a positive ROI for Georgia State of anywhere from \$4 million to \$7.8 million.⁷⁷ Similar programs have been adopted by hundreds of universities across the country looking to retain and graduate more of their financially vulnerable students. Preliminary evidence suggests that these programs are an effective and cost-effective way to retain and

⁷² Ibid.

⁷³ Devi Shastri, “A New MATC Scholarship Program Wipes Out the Debt of Students Who Dropped Out and Gives Them a Second Chance to Graduate,” *Milwaukee Journal Sentinel*, June 26, 2020, <https://www.jsonline.com/story/news/education/2020/06/26/matcs-restart-program-erases-debt-so-students-can-re-enroll-graduate/3226203001/>.

⁷⁴ Ibid.

⁷⁵ “Foiling the Drop-out Trap: Completion Grant Practices for Retaining and Graduating Students,” *Coalition of Urban Serving Universities and Association of Public & Land-Grant Universities*, <https://www.aplu.org/library/foiling-the-drop-out-trap-completion-grant-practices-for-retaining-and-graduating-students/File>.

⁷⁶ “Panther Retention Grants,” *Georgia State University*, <https://success.gsu.edu/initiatives/panther-retention-grants/>.

⁷⁷ “Expanded ROI Analysis: Steering Committee,” *Georgia State University*, <https://success.gsu.edu/download/panther-retention-grant-roi-analysis-2018/?wpdmdl=6472129&ind=1536949019499>.

graduate financially needy students.⁷⁸ While these programs seek to preempt students from leaving the institution with an unpaid balance, their initial success can serve as a blueprint for colleges working to address the issue of stranded credits.

In addition to single institution programs, regional debt forgiveness programs have developed as part of a broader attempt to increase attainment and economic growth, particularly in areas of the country that have seen declines in recent decades. The Detroit metro area, for example, has set an ambitious goal of 60 percent attainment for adults by 2030, and has enlisted local higher education institutions to engage adult students in order to meet this goal.⁷⁹ Wayne State recently joined forces with Henry Ford College and Oakland University to target the over 693,000 adults in the Detroit area without a college degree. The three institutions developed what is essentially an expanded Warrior Way Back program—adults can enroll at any of the three institutions and have either one-half or up to \$1,500 of their debt forgiven over a series of terms.⁸⁰ The schools anticipate that by increasing the number of adults in the region with postsecondary credentials, they can increase the social mobility of residents and boost job prospects in Detroit and beyond.

Table 6 provides an overview of the debt forgiveness programs we uncovered in our research. This list includes programs that explicitly address the issue of debt for students who have already stopped out, as opposed to retention grants targeted at students currently enrolled (e.g., Panther Retention Grants at Georgia State). The majority of these programs address relatively low value debts; most are capped at \$1,500 of debt forgiven. Additionally, some only forgive half of the debt total in an attempt to incentivize students to return while still recouping some of the outstanding payments and avoiding the moral hazard problem feared by some critics. All of the programs target students who have not been enrolled for multiple years, as these students are somewhat less likely to pay back their debt in full. Where we could find the information, most programs forgive the debt over a period of time. Some forgive the debt over three semesters while others fully clear upon graduation. These extended periods provide incentives for the student to persist beyond a single term and may help facilitate the completion of a credential. This may also help institutions financially by helping to ensure students do not enroll for a short period simply to forgive the debt and obtain a transcript. Although two programs provide students opportunities to enroll in certificate programs, there is a strong focus on students earning degrees.

While debt forgiveness and micro-grant programs are growing in popularity, these programs are still relatively new, have not been rigorously evaluated, and may be difficult to scale up.

⁷⁸ Ashley Clark, "What Works for Today's Students – Microgrants," *Higher Learning Advocates*, January 2020, <https://higherlearningadvocates.org/wp-content/uploads/2020/01/Microgrants-Policy-Brief.pdf>.

⁷⁹ Andrew Kreighbaum, "A Second Chance at Detroit Colleges," *Inside Higher Ed*, October 7, 2019, <https://www.insidehighered.com/news/2019/10/07/detroit-colleges-tackle-dropout-challenge-offering-debt-forgiveness>.

⁸⁰ "HFC and Partners Create Debt Forgiveness Program; Encourage Students to Complete Degrees," *Henry Ford College*, April 30, 2019, <https://www.hfcc.edu/news/2019/hfc-and-partners-create-debt-forgiveness-program-encourage-students-complete-degrees>.

Anecdotal evidence from Wayne State and Georgia State suggests that the return on investment is positive, but more research will be needed before the effects of these programs can be conclusively determined. Program administrators at Wayne State are actively evaluating the program; however, it will likely be a few years before much is known on the longer term effects of this and other debt forgiveness initiatives.⁸¹ As for Georgia State, Ithaka S+R is conducting an evaluation of their Panther Retention Grant program that will be published in 2021 and will shed further light on the efficacy of the program.⁸² Evaluating and critically comparing these and other local and regional programs will show administrators and policymakers how to effectively scale these programs.

⁸¹ Interview with Dawn Medley, Associate Vice President of Enrollment Management at Wayne State University, February 25, 2020.

⁸² Daniel Rossman, “Do Emergency Micro-Grants Help Financially Disadvantaged Students Succeed?,” *Ithaka S+R*, October 29, 2019, <https://sr.ithaka.org/blog/do-emergency-micro-grants-help-financially-disadvantaged-students-succeed/>.

Table 6: Overview of Debt Forgiveness Programs

Program Name	Scope	Amount Forgiven	Eligibility Requirements	Time Frame for Forgiveness	Credentials Available	Method	Funding Source	Target Population	Program Start	Number Eligible	Number of Students Enrolled	Number of Students Graduated
<u>Warrior Way Back</u>	Single Institution (Wayne State University)	\$1,500	Students withdrew more than two years prior to enrollment, had at least a 2.0 GPA, and owe no more than \$1500	Debt forgiven over three semesters (up to \$500 per semester)	Bachelor's Degrees	Prior debt forgiven	Self-funded	Former Wayne State students, Detroit Metro Area residents with some college but no degree (SCND)	Pilot - Fall 2018	5,000	56 enrolled in Pilot term, 142 enrolled from Spring 2018 to Fall 2019, 126 enrolled in Fall 2019	28 as of Fall 2019
<u>MCC Debt Forgiveness</u>	Single Institution (Muskegon Community College)	\$1,200	Students have not been enrolled at MCC for at least 3 years, have at least a 2.0 GPA, commit to support services, have means to pay for classes, and owe no more than \$1,200	Debt forgiven over three semesters (up to \$400 per semester)	Associate Degrees	Prior debt forgiven	Unknown	Former Muskegon CC students, local residents with SCND	Spring 2019			
<u>Hawk Pathways Debt Forgiveness</u>	Single Institution (Henry Ford Community College)	Half of outstanding debt	Students have not been enrolled for at least 2 years, have at least \$200 of unpaid debt, have not been involved in collections, agree to payment plan, and agree to stay up to date with costs when enrolled	Dependent on repayment plan	Associate Degrees	Prior debt forgiven	Unknown	Former Henry Ford CC students	Fall 2013			
<u>Restart My College Career</u>	Single Institution (Stark State College)	\$1,500	Students have earned a minimum of 6 credit hours, possess a minimum 2.0 GPA, have not attended prior to Fall 2018, have not earned a degree, and owe no more than \$1,500	Unknown	Associate Degrees	Prior debt forgiven	Ohio C2C Network Ground Game mini-grant supported by KnowledgeWorks Foundation (for pilot program)	Former Stark State students, local residents with SCND	Pilot - Spring 2019			
<u>OU Reconnector Grant</u>	Single Institution (Oakland University)	\$1,500	Students with a past due university bill of \$1,500 or less who are active (eligible to register other than holds), in good academic standing, and have had at least a one-year gap in attendance	Debt forgiven over three semesters (\$500 per semester)	Bachelor's Degrees	Prior debt forgiven	Unknown	Former Oakland University students; students in Southeast Michigan with SCND	Fall 2019			

<u>GRCC Debt Forgiveness</u>	Single Institution (Grand Rapids Community College)	All outstanding debt (up to \$2,000)	Students have debt of less than \$2,000, were not enrolled in the past year, have debt incurred between Fall 2012 and Winter 2018, have not transferred or enrolled elsewhere, and are not on financial aid suspension or loan default	Unknown	Associate Degrees	Prior debt forgiven	Unknown	Former GRCC students	Unknown - likely in 2019		
<u>Detroit Reconnect</u>	Multiple Institutions (Henry Ford Community College, Oakland University, Wayne State University, Wayne County Community College District)	\$1500 at Oakland and Wayne State, half of outstanding debt at Henry Ford and Wayne County CC	Students incurred debt more than 2 years ago, must enroll at one of three participating institutions, must remain current on financial obligations, must make progress towards degree or certificate completion	Unknown	Certificates, Associates Degrees, Bachelor's Degrees	Prior debt forgiven	Unknown	693,000 adults in Detroit region with SCND	Spring 2019		
<u>MATC ReStart</u>	Single Institution (Milwaukee Area Technical College)	\$1,500	Students must have completed six MATC credits, not have earned an Associate degree, and enroll in at least six credits in Fall 2020, have been enrolled at MATC between Fall 2009 and Spring 2018, and owe \$1,500 or less	Debt forgiven over three semesters (up to \$500 per semester)	Associate Degrees	Scholarship provided to pay off debt	MATC Foundation, with seed funding from Federal Communications Commission Broadcast incentive auction	Former MATC students	Pilot - Spring 2019	7,000	56 enrolled in Pilot term
<u>Chicago Fresh Start</u>	City-wide (City Colleges of Chicago)	All outstanding debt	Students who enrolled in City Colleges over the past 10 years, earned at least 1 credit, left with a GPA of at least 1.0, have not earned a degree from another institution, and who enroll in at least one credit course at a City College in the fall	Half of debt cleared after first term, rest cleared after degree completion	Certificates, Associates Degrees	Prior debt forgiven	Unknown	Chicago students with SCND	Coming Fall 2020	21,000	

Another limitation of localized debt forgiveness programs is that they are only effective for students who wish to complete their degree at the same institution from which they stopped out. With the exception of the regional model proposed in Detroit, these programs do not usually allow for students to complete their degree at a different institution or sector of institutions. This is important since the majority of students who re-enroll after stopping out do so not only in a different institution, but in a different sector.⁸³ Many students who previously enrolled in private institutions will re-enroll in a public institution, and some students will even choose to re-enroll in a different state than the one in which they were previously enrolled. Location is a key consideration particularly in times of economic turmoil as financial considerations may make some students place-bound while others may need to relocate to save money. As such, it is crucial that a solution to the issue of stranded credits allows these credits to transfer across institutions, states, and sectors to provide the maximum amount of flexibility for re-enrolling students.

Gap Loans

Local financial organizations are also stepping in to help students repay their past debts and regain access to their stranded credits. These financial organizations can operate independently or through a community based organization that has access to adult students looking to return to school. In the Cleveland area, HFLA of Northeast Ohio and the New Horizon Federal Credit Union have partnered with College Now Greater Cleveland, an organization dedicated to increasing attainment locally and nationwide.⁸⁴ The lenders offer gap loans to students to help them pay their debts to previously attended institutions, with the expectation that the loans will not return any interest. No profits are made off of these loans; in fact, one lender reported an average loss of a little over one percent on its loans. Both lenders are philanthropically funded, with one organization getting grant money through the Treasury Department's Community Development Financial Institution (CDFI) grant program.⁸⁵ Although neither lender has given out a large amount of loans, initial evidence suggests that the lending programs are primarily benefiting historically underserved students, particularly students of color.⁸⁶ This is promising given that these students can often benefit most from returning to college and completing their degree.

While these lenders are immensely helpful to the students they serve, their operations are limited based on the nature of their organizations. The New Horizon Federal Credit Union can only operate in one county and as such is very limited in terms of the number of clients it can serve. Despite the large amount of funds available, the lender has only given out 46 loans since

⁸³ "Some College, No Degree: A 2019 Snapshot for the Nation and 50 States," *National Student Clearinghouse Research Center*, October 2019, https://nscresearchcenter.org/wp-content/uploads/SCND_Report_2019.pdf.

⁸⁴ Interview with Julie Szeltner, Senior Director of Adult Programs at College Now Greater Cleveland, February 24, 2020.

⁸⁵ Interview with Katy Fuerst, Director of Programming & Community Engagement at HFLA Northeast Ohio, March 10, 2020; Interview with Daniel Como, Operations Manager at New Horizon Federal Credit Union, and Michael Heidenreich, CEO of New Horizon Federal Credit Union, March 17, 2020.

⁸⁶ Ibid.

beginning this service in the summer of 2018.⁸⁷ HFLA of Northeast Ohio is also limited by staff considerations and usually processes 150-200 loans per year. While scaling these operations is proving difficult, there is perhaps some potential to expand the number of organizations operating under the CDFI grant program. Regardless, the operations of these smaller organizations will prove very informative for any attempt to address the issue of stranded credits nationwide.

These lenders provide crucial insights both in terms of where students are enrolling and as to the financial sustainability of a lending-based solution to stranded credits. Eighty percent of borrowers at HFLA of Northeast Ohio switched schools to attend a more local institution, and most students working with New Horizon Federal Credit Union chose to return to a local institution as well.⁸⁸ This trend of re-enrolling more locally will likely be replicated across the country as the current pandemic limits both students' mobility and income. Lending to these students regardless of their choice of institution will likely not be very profitable. While New Horizon did not have an estimate of its total loss margin, HFLA of Northeast Ohio estimated that they experience a 1.27 percent loss on each loan, with their average loan being around \$5,500. New Horizon also experiences losses on their loans but since their operation is philanthropically funded they are able to sustain these losses without much strain.

Conclusion

Addressing the issue of stranded credits is crucial at this moment, especially given the current economic situation and the conversations about race and equity in higher education that have arisen in recent months. Finding a pathway back to higher education for the millions of students affected, many of whom are likely students of color and low-income students, will be essential in closing equity gaps in attainment nationwide and ensuring that our nation is educating those who could benefit most from completing their postsecondary degrees. Recouping some of the billions of dollars of debt owed to our nation's institutions will also prove critical in the coming months and years as institutional finances continue to feel the effects of the COVID-19 pandemic.

To that end, in the next phase of our work on this topic, we will be developing a set of novel solutions to the stranded credits problem that build on, scale, and fill gaps in the existing strategies described above. Key criteria for these solutions will be engaging all constituents, while ensuring that students' needs and interests are at the forefront. After all, students, institutions, and federal and state governments share an interest in improving educational attainment, and solving stranded credits will remove a significant obstacle that has been hidden for far too long.

⁸⁷ Ibid.

⁸⁸ Interview with Katy Fuerst, Director of Programming & Community Engagement at HFLA Northeast Ohio, March 10, 2020; Interview with Daniel Como, Operations Manager at New Horizon Federal Credit Union, and Michael Heidenreich, CEO of New Horizon Federal Credit Union, March 17, 2020.

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Appendix A: Student Financial Services Study Analysis

Ratios and Methodology Details

The first ratio we use for our analysis is the average ratio of students with unpaid balances and current student headcount, presented in Table 3 of the SFS report.

$$\text{Ratio: } \frac{\text{Number of Students with Unpaid Balances}}{2018 \text{ Total Headcount}}$$

The numerator of this ratio, the number of students with unpaid balances, represents the cumulative number of students with an unpaid balance at the end of a fiscal year and can include both current and previously enrolled students. The denominator represents the 12-month unduplicated student headcount for the relevant institutions. Students may be counted in this ratio if they simply have not fully paid their bill for the semester (but plan to), have delays in their federal aid being applied to their account, or are waiting for employer education funds to be applied to the account. As such, this number may inflate the number of students with stranded credits.

$$\text{Ratio: } \frac{\text{Number of Students in Collections}}{2018 \text{ Total Headcount}}$$

The second ratio, presented in Table 6 of the SFS report, is the ratio of student accounts placed in collections and current student headcount. The numerator represents the total number of current and previously enrolled students with accounts in either internal or external collections during the fiscal year; the denominator is defined again as the 12-month unduplicated student headcount.

For the calculation of both total dollars outstanding in one fiscal year and cumulative dollars outstanding, we use the ratios presented in Table 5 of the SFS Benchmarking Study report. This table presents the total outstanding accounts receivable as a percentage of the total dollar amount invoiced at the end of the 2018 fiscal year.

$$\text{Ratio: } \frac{\text{Total Outstanding Accounts Receivable}}{\text{Total Amount Invoiced FY18}}$$

The total outstanding accounts receivable, O , include outstanding balances from the current year, C , and well as any outstanding balances from previous years, P , such that $O = C + P$. The total amount invoiced, I , is comprised of an institution's total revenue, R , and any outstanding balances from the current year, C , such that $I = R + C$. The ratios presented in the SFS Benchmarking Study report, which are known, equal $\frac{O}{R + O - P}$. As we solve for the total outstanding accounts receivable, O , as an estimate for the total dollar value of unpaid balances associated with stranded credits, we use the IPEDS Student Finance Survey and Finance Survey

(FY2018) to estimate the total amount of tuition and fees charges invoiced for each institution, a proxy for *R*. We used Fall Enrollment survey data to produce a percentage of students who were in-state and out-of-state, and then applied those percentages to the in-state and out-of-state tuition and fees charges for undergraduate and graduate students to get a total tuition and fees dollar amount. While this likely underestimates the total amount of dollars invoiced by institutions, this does provide a more accurate estimate for dollars invoiced compared to other publicly available estimates (e.g. tuition and fees revenue or total revenue, which may include other auxiliary sources).⁸⁹ To estimate *O*, we assume outstanding balances that are still on the books from previous years, *P*, is zero. As this is unlikely, it means our estimates of the total dollar value of stranded credits is likely to be an overestimate, as described below.

For our cumulative estimate of total dollars outstanding, we repeat this same process with data from FY2017 and FY2016, and combine the three years of data to produce our cumulative estimate. We chose to use three years of data because anecdotal and survey data suggest that many schools forgive debt after a period of two to three years, especially public schools which are slightly overrepresented in our sample.⁹⁰ Private schools are somewhat more likely to only forgive debt after collection attempts or forgive on a case-by-case basis, so it is possible that our estimate is slightly underestimating the problem. We also do not have complete information on the amount of debt from FY16 that was written off or forgiven by the end of FY18; this could lead us to either over- or underestimate the total amount outstanding to institutions in our sample.

T-Test Analysis

As was mentioned in the report section “Deriving Estimates from Student Financial Services Data,” we conducted a series of T-tests to compare our sample of 3,044 institutions to the sample of 406 institutions that responded to the 2019 NACUBO Student Financial Services Benchmarking Study. The results of these t-tests are presented here. In the tables, “Population” refers to our sample of analysis and “Sample” refers to the 406 institutions who filled out the 2019 SFS Study.

On average, the institutions included in the SFS report were smaller, with Community Colleges and Small Institutions in particular having a significantly lower FTE enrollment. The Comprehensive/Doctoral Institutions and Small Institutions included in the SFS survey also had significantly lower published tuition prices than the general population of those institutions. Community Colleges included in the NACUBO study had somewhat more revenue per FTE, and Small Institutions in the study enrolled a significantly higher percentage of Pell students than the average Small Institution in our IPEDS sample. These differences could lead us to overestimate the scope of stranded credits at Small Institutions in particular, as the schools in the SFS sample are smaller, more likely to be tuition dependent, and enroll needier students, all

⁸⁹ We recognize tuition and fees are not the only source of student revenues, however, including auxiliary revenues from IPEDS would expand the types of charges included in our calculation well beyond those charges to the students (e.g., public use of medical facilities, athletics, and other campus services or goods). This is a necessary limitation given the data available.

⁹⁰ “2016 Student Financial Services Policies and Procedures,” *NACUBO*, 2017.

of which may mean these institutions are less likely to write off old unpaid balances than the average Small Institution in the IPEDS sample.

FTE Enrollment

	Population Mean	Sample Mean	Difference	p value
Community Colleges	16,976	7,847	-9,128.62	0.00
Comprehensive/Doctoral	10,511	9,297	-1,214.36	0.07
Research	27,679	24,973	-2,706.68	0.05
Small Institutions	2,161	1,292	-869.17	0.00
Total	12,925	6,590	-6,334.18	0.00

Published Tuition

	Population Mean	Sample Mean	Difference	p value
Community Colleges	4,675.26	4,231.32	-443.94	0.07
Comprehensive/Doctoral	19,002.88	14,523.60	-4,479.28	0.00
Research	21,118.27	21,041.20	-77.07	0.48
Small Institutions	34,099.36	25,322.70	-8,776.66	0.00
Total	22,953.27	15,830.20	-7,123.07	0.00

Total Revenue per FTE

	Population Mean	Sample Mean	Difference	p value
Community Colleges	10,488.51	12,748.40	2,259.89	0.00
Comprehensive/Doctoral	48,334.18	53,563.20	5,229.02	0.33
Research	69,818.79	78,495.20	8,676.41	0.14
Small Institutions	46,232.89	40,132.30	-6,100.59	0.16
Total	48,773.93	35,372.50	-13,401.43	0.00

Percent Pell

	Population Mean	Sample Mean	Difference	p value
Community Colleges	35.2	37.4	2.2	0.10
Comprehensive/Doctoral	36.1	37.5	1.3	0.17
Research	28.2	28.5	0.4	0.38
Small Institutions	31.4	42.0	10.6	0.00
Total	32.2	38.5	6.3	0.00

Regression Outputs Used to Predict Key Ratios

Standard errors in parentheses

Variables	Ratio of Outstanding Dollars to Total Dollars Invoiced (FY18)	Ratio of Students with Accounts in Collections	Ratio of Students with Unpaid Balances
Tuition Price	-3.41e-08 (6.02e-08)	-4.27e-07*** (8.17e-08)	6.97e-07*** (2.38e-07)
Revenue/FTE	5.41e-08** (2.34e-08)	2.61e-08 (3.18e-08)	1.62e-07* (9.27e-08)
Revenue	-3.74e-12*** (8.60e-13)	-2.49e-12** (1.17e-12)	-2.09e-11*** (3.41e-12)
Percent Pell	0.000237*** (7.46e-05)	-0.000116 (0.000101)	0.00154*** (0.000295)
Percent Over 25	-0.0400*** (0.00733)	-0.00295 (0.00994)	-0.101*** (0.0290)
Percent Part-Time	0.0823*** (0.00537)	0.0182** (0.00728)	0.232*** (0.0212)
Percent URM	-0.00814* (0.00433)	0.0144** (0.00588)	-0.0580*** (0.0172)
Constant	0.0186*** (0.00325)	0.0598*** (0.00441)	0.259*** (0.0129)
Observations	377	377	377
R-squared	0.601	0.274	0.486

*** p<0.01, ** p<0.05, * p<0.1