



Highlights of *Consequences of the 90/10 Rule*

The 90/10 rule requires private for-profit colleges to get at least 10% of revenue from sources other than federal student aid, based on a “skin in the game” rationale.

Findings

- This paper demonstrates that colleges that enroll significant numbers of low-income (family AGI < \$50,000) students are at greater risk of violating the 90/10 rule.
- Other demographic characteristics that hurt compliance with the 90/10 rule include Pell Grant recipients, low EFC (especially zero EFC), underrepresented minority students, female students, independent students, GED recipients, low high school GPA, low admissions test scores, first-generation college students, part-time enrollment, and high unsubsidized Stafford loan amounts.
- Colleges that charge under \$8,000 in tuition are at greater risk of violating the 90/10 rule.
- Counting military student aid in addition to Title IV federal student aid would increase the 90/10 percentage at private for-profit colleges by 2 percentage points on average.
- Counting education tax benefits in addition to Title IV federal student aid would increase the 90/10 percentage at private for-profit colleges by 5 percentage points on average.
- 42% of tuition revenue at private non-profit colleges, 70% at private for-profit colleges and 82% at public colleges (98% at community colleges and 77% at public 4-year colleges) comes from Title IV federal student aid.
- The majority of public colleges, including 80% of community colleges, would fail the 90/10 rule if it applied to them. This is due, in part, to the lower tuition at these colleges.
- The need to comply with the 90/10 rule may cause some colleges to discriminate against high-risk students, perhaps by adopting more selective admissions policies.

Recommendations

The 90/10 rule measures *ability* to pay more so than *willingness* to pay. It is an ineffective proxy for direct measurement of educational quality. This paper proposes several possible solutions.

- Repeal the 90/10 rule, replacing it with direct measurement of educational quality (e.g., licensing rates on state licensing exams, pass rates on independent competency tests).
- Exclude student loans from the scope of the 90/10 rule if the college has a high loan repayment rate. A loan that is repaid represents skin in the game. Alternately, count only the college’s annual dollar default volume as part of revenue from federal student aid.
- Exclude low-income students (e.g., Pell Grant recipients, zero-EFC students) from the 90/10 rule calculation.
- Count students only if their EFC exceeds the unsubsidized Stafford loan limits.
- Waive the 90/10 rule for colleges that charge below-average tuition and fees and which have below-average tuition inflation rates as compared with public colleges or CPI-U.
- Use a weighted measure where the 90/10 percentage associated with an individual student is weighted by the student’s EFC. This would count the contributions from high-income students more heavily than the contributions from low-income students.