

Business & Education Services

Updating Our Gainful Employment Eligibility Matrix; Missouri Data Suggests Wider Gainful Employment Impact - ALERT

We are updating our Gainful Employment Eligibility Matrix to account the repayment rates (RPR) published by the Education Department (ED) last Friday. As a result, we updated the relative position of companies in our coverage in accordance with the reported RPRs (see Table 1). In addition, after a more detailed analysis of the Missouri data, we note that the impact of the current proposal to the overall sector could be more meaningful than the ED previously portrayed with lower level programs being more impacted than higher degree programs.

- **Moving companies down in the updated eligibility matrix.** After updating our eligibility matrix for the RPR data, we estimate that a higher percentage of ESI and EDMC programs will likely end up in a "restricted" status. APOL's programs, particularly on the bachelor's level, are likely to remain at a fully eligible status without any additional disclosures. We have not moved any programs in our coverage universe to the ineligible position, although ESI associate's programs appear close to this status. We acknowledge the limitation of the data we currently have (our estimates of earnings after graduation, institution level vs. program level data, possible inconsistencies and errors in the repayment data, and many others). We understand that the ED is being diligent with its data quality checks and is "stress testing" its data to make sure that inconsistencies in the repayment data results are not a result of errors or erroneous calculations
- **Additional analysis of Missouri data suggests wider impact (see Table 2).** Based on the ED's analysis of the Missouri data, 26% of for-profit programs may become ineligible and 27% may be in a "restricted" status. On a degree level, 37% of associate's degree programs, 22% of bachelor's degree programs, and 16% of certificate programs at for-profit schools may become ineligible. We note that the ED's calculations do not include cosmetology programs, which will likely expand the impact of the proposal on the certificate programs well above the current percentage. We also note that if the ED used the national average of \$16,245 as a measure for 150% of poverty level (vs. \$15,600 used in the Missouri study), the percentage of failed programs would further increase. This potential impact is in contrast to the ED's prior portrayal of a more modest impact to the for-profit programs.
- **First glimpse at government data on post graduation income (see Table 3).** The reverse-engineered Missouri earnings data for institutions in our coverage (only APOL, DV, and ESI are reported in the ED data) suggests that APOL's completers earned more at master's and bachelor's levels, while DV and ESI programs were comparable on both bachelor's and associate levels. We acknowledge that this comparison is based only on a few programs and may not be statistically significant. However, this revelation is the first time we see the actual earnings reported in context of the gainful employment regulations.

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Table 1: Gainful Employment Eligibility Matrix of J.P. Morgan Coverage Universe (APOL, BPI, CPLA, DV, EDMC, ESI, STRA)

Repayment Rate	Above 12% of Total Income AND Above 30% of Discretionary Income	Neither Other Column	Below 8% of Total Income OR Below 20% of Discretionary Income
Above 45%	FULLY ELIGIBLE <i>(with disclosures)</i>	FULLY ELIGIBLE <i>(with disclosures)</i>	FULLY ELIGIBLE <i>(no disclosures)</i> APOL Bachelor's BPI Associate's and Bachelor's
35% to 45%	RESTRICTED EDMC South Associate's and Bachelor's EDMC AI Associate's and Bachelor's	RESTRICTED EDMC Argosy Bachelor's and Master's	FULLY ELIGIBLE <i>(with disclosures)</i> APOL Associate's DVU Associate's and Bachelor's CPLA Bachelor's and Master's
Below 35%	INELIGIBLE	RESTRICTED ESI Associate's and Bachelor's EDMC Brown Mackie Associate's	FULLY ELIGIBLE <i>(with disclosures)</i> STRA Associate's, Bachelor's and Master's

Assumptions used in this assessment:

We used institutional-level data, not program-level data as proposed by the Education Department; national program-level data is not available.

Debt

1. We assumed certain levels of transfer-in credit and loans are percentage of revenues, which are consistent with company's reports.
2. We included all types of student debt, except PLUS, but excluded transfer-in debt from external institutions.
3. Debt service is calculated for 10-year repayment with an annual interest rate of 6.8%.

Income

4. We used family size of 1 for discretionary income calculation.
5. We used company-reported post-graduation earnings. For companies that do not disclose this metric, we made assumptions based on the industry averages.

Repayment

6. We applied the repayment rate reported by the Education Department; the program-level data is not available.

Table 2: Impact of the Gainful Employment Proposal for Institutions in Missouri

Repayment Rate	FULLY ELIGIBLE	FULLY ELIGIBLE	FULLY ELIGIBLE
Above 45%	FULLY ELIGIBLE	FULLY ELIGIBLE	FULLY ELIGIBLE
All	3%	17%	28%
For-profit	0%	3%	3%
Public	4%	21%	35%
35% to 45%	RESTRICTED	RESTRICTED	FULLY ELIGIBLE
All	1%	7%	14%
For-profit	2%	7%	12%
Public	1%	7%	15%
Below 35%	INELIGIBLE	RESTRICTED	FULLY ELIGIBLE
All	6%	9%	14%
For-profit	26%	20%	26%
Public	0%	6%	10%

Note: The proposed gainful employment regulations apply to all programs at for-profit institutions and non-degree programs at nonprofit institutions.

Source: Education Department, J.P. Morgan estimates.

Table 3: Average Missouri Salaries for J.P. Morgan Coverage Universe (APOL, BPI, CPLA, DV, EDMC, ESI, STRA)

	Average Earnings
DeVry Associate's (1 program)	\$25,451
DeVry Bachelor's (7 programs)	\$33,068
DeVry Master's (2 programs)	\$51,408
ESI Bachelor's (5 programs)	\$31,906
ESI Associate's (10 programs)	\$25,963
APOL Bachelor's (3 programs)	\$39,841
APOL Master's (3 programs)	\$68,030

Source: Education Department, J.P. Morgan estimates.

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