



Insight

Gainful Employment Rule Hurts College Students and Schools

JULY 11, 2011

Doomsayers have referred to growing debt from college loans as the second coming of the subprime crisis. They warn that an entire industry is on the verge of collapse, threatening to dash the dreams of over 3 million students on the rocky edges of debt.

In response to this looming crisis, the [U.S. Department of Education](#) recently published its “gainful employment” rule to try to ensure that college students are not debt-ridden. The Department’s publication of this rule marks the ostensible end of a lengthy process that included more than 90,000 public comments, a controversial Government Accountability Office report, and a litany of unintended consequences that have put the stocks of for-profit educational institutions through a regulatory rollercoaster ride. The economic consequences of this new rule would rise into the hundreds of millions of dollars according to estimates in the Department’s [Federal Register notice](#).

The Department states that schools must meet one of three metrics to receive federal funding: at least 35 percent of former students are repaying their loans; the annual loan payment of a typical graduate does not exceed 30 percent of that graduate’s discretionary income; or the annual loan payment of a typical graduate does not exceed 12 percent of annual earnings.