

# An Examination of Colleges Facing Heightened Cash Monitoring

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**Abstract:** Heightened cash monitoring (HCM), in which the U.S. Department of Education places restrictions on colleges' ability to access federal financial aid, is one of the federal government's key tools for holding colleges accountable for their actions and protecting tax dollars. Yet little is known about the extent to which HCM is used, which colleges are subject to additional oversight, and whether colleges that are placed on HCM remain open. In this descriptive paper, we provide the first comprehensive overview of how HCM has been used over time. We find a large increase in HCM usage during the mid-2010s along with an increase in college closures and that most colleges placed on HCM are not subject to other federal sanctions.

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There are growing concerns about the financial viability of many higher education institutions, and the lingering effects of the coronavirus pandemic have only heightened these concerns (e.g., Kelchen et al., 2021; Zemsky et al., 2020). Enrollment across higher education is down substantially since the Great Recession, with for-profit colleges (a 56% decline) and community colleges (34% decline) seeing particularly large declines due to potential students choosing work over school (National Student Clearinghouse, 2023). At the same time, skepticism about the value that higher education offers and the actions of some institutions in the industry have led to increased accountability pressures across higher education (Kelchen, 2018b).

The federal government has several tools to hold colleges accountable for their actions and to help protect taxpayer dollars. The most prevalent tool is heightened cash monitoring (HCM), which places additional scrutiny on colleges with financial, oversight, or other issues that can affect the institution's ability to operate. There are two levels of HCM, with institutions under HCM1 having to wait to be reimbursed by the Department of Education after they give out financial aid and institutions under HCM2 facing student-by-student reviews of financial aid awards (Office of Federal Student Aid, 2022).

The stakes to colleges and students of HCM status (particularly HCM2) are substantial. For example, the financial restrictions put in place by HCM2 were one of the key factors behind the sudden closure of Corinthian Colleges in the mid-2010s (Blumenstyk, 2014). Yet there has been no scholarly examination of the number of colleges placed on HCM, their characteristics, and the extent to which colleges placed on HCM end up closing.

In this descriptive paper, we address the following research questions:

- (1) How many colleges have been placed on HCM? What are the characteristics of these institutions?
- (2) Why do colleges get placed on HCM, and which other accountability provisions are triggered by colleges placed on HCM?
- (3) How long do colleges stay on HCM, and how often do colleges close while being on HCM?

### **Overview of Federal Higher Education Accountability**

In order to be eligible to have students who receive federal financial aid, a college must have an approved program participation agreement with the Department of Education's Office of Federal Student Aid. This agreement specifies the conditions that colleges must meet in order to receive federal funding. Some of the conditions are tied to compliance, such as providing data to the Integrated Postsecondary Education Data System (IPEDS) and following nondiscrimination requirements. But other conditions are more directly tied to institutional performance, with the goal of protecting students and taxpayers from the lowest-performing institutions. In this section, we provide a brief overview of these accountability provisions in addition to HCM and what research has found on their effects.

The *cohort default rate* (CDR) captures the share of borrowers who default within three years of entering repayment, and a rate above 30% for three consecutive cohorts results in the loss of federal financial aid eligibility (Office of Federal Student Aid, 2022). Research suggests that CDR sanctions have disproportionately affected for-profit colleges and institutions serving more diverse student bodies; this has resulted in students shifting to attend community colleges (Cellini et al., 2020; Hillman, 2015). However, only a handful of colleges have faced sanctions for default rates in the past two decades due to the growth of income-driven repayment policies

and institutional efforts to manage default rates (Kelchen, 2018b). The pandemic-era repayment pause and expanded income-driven repayment plans will only continue that trend, meaning that CDRs will continue to fade away as an accountability tool.

The *financial responsibility score* is the primary way that the government measures the financial health of private nonprofit and for-profit colleges.. Institutions are required to submit financial statements, and three ratios (primary reserve ratio, an equity ratio, and a net income ratio) are used to create this score (Office of Federal Student Aid, 2022). Institutions that do not have a sufficiently high score are placed on HCM1 unless they file a letter of credit with the Department of Education, meaning that financial responsibility scores are subsumed under HCM as an accountability provision. However, there is no evidence that failing the financial responsibility test affects colleges' financial decisions (Kelchen, 2018a).

Under the *90/10 rule*, for-profit colleges are limited to receiving 90 percent of their total revenue from federal financial aid (including veterans' benefits as of 2023). Violating this rule in two consecutive years can result in the loss of federal aid eligibility, although few institutions violate this requirement (Federal Student Aid, 2023). As a result, its effectiveness as an accountability measure is limited. Concerns have been raised about the 90/10 rule requiring institutions to raise tuition prices in order to get revenue from non-federal sources (Gillen, 2012), but Ward (2019) found little evidence to support that hypothesis. Ward (2019) also showed that the small number of colleges violating 90/10 were highly likely to close.

### **Sample, Data, and Methods**

The majority of this paper focuses on the 8,296 colleges that were operational and participating in the federal financial aid program at some point between 2015 and 2023. While

the Department of Education has placed colleges on HCM for decades and institutions knew about their status, the list of institutions facing HCM was not made available to the public until a journalist was able to successfully get the federal government to release a list in March 2015 that included HCM1 and HCM2 status and the reason for being on HCM (Stratford, 2015). The list has been released and updated quarterly since then, and we used data through the end of 2023.

The Department of Education's College Scorecard (which was released later in 2015) included retroactive data on colleges' HCM2 status beginning in 1999, but does not contain HCM1 data or reasons why colleges were on HCM2. We used this data source for a longer-term examination of HCM2 data for the 13,556 institutions that operated and participated in the federal financial aid program at some point between 1999 and 2023.

We used data from IPEDS and the College Scorecard to examine the characteristics of colleges that had been placed on HCM1 or HCM2 since 2015. We divided characteristics into three categories. The first was institutional characteristics, including sector, full-time equivalent enrollment, the percent of students who were undergraduates, racial/ethnic and gender diversity, the share of students receiving Pell Grants and student loans, and institutional revenue and tuition reliance. Accountability metrics included performance on financial responsibility, cohort default rate, and 90/10 rule provisions. Finally, outcome metrics included completion rates within 150% of the credential length, student debt amounts, post-college earnings (for federal financial aid recipients), and whether the college remained open.

We examined the second research question by first compiling the reasons listed for colleges during their first appearance on HCM1 or HCM2 since March 2015. We used six categories: financial responsibility, late paperwork (audit or financial statement), accreditation concerns, severe review issues (from an audit or Department of Education program review),

administrative capacity, and an other category of nine less-commonly used reasons such as provisional certification or common ownership. We also considered whether colleges triggered the three other high-stakes but lower-prevalence federal accountability policies (cohort default rate, financial responsibility score, and 90/10 rule) described above.

Finally, we explored college closure patterns among institutions subject to HCM using data on college closures from Federal Student Aid's Postsecondary Education Participants System (PEPS). PEPS tracks closures of all locations of any institutions receiving federal financial aid, but we focused on closures of the main institution (OPEID ending in 00) only as branch campuses of thriving institutions close regularly due to changes in institutional priorities or market demand.

## **Results**

We first present data on the number of colleges subject to HCM status, with HCM2 status first being available in 1999 and HCM1 status first being available in 2015. As shown in Figure 1, the number of colleges on HCM2 slowly rose from 36 in 1999 to 62 in 2014. There was then a spike to 108 colleges in 2015 (the first year HCM data were reported to the public) and 220 colleges in 2016. This spike was largely driven by large chains of for-profit colleges, including ITT Technical Institute, Globe University, and Marinello Schools of Beauty. The number of colleges on HCM2 fell to 67 by 2020, rose to 112 in 2022, and fell to 78 in 2023. The first year of available data on colleges' HCM1 statuses (2015) saw a peak of 1,173 institutions placed on HCM1. Since 2015, the number of colleges on HCM1 has fallen each year. Between 470 and 520 colleges were on HCM1 between 2021 and 2023.

[Insert Figure 1 here]

Table 1 contains descriptive statistics from 2015 to 2023, divided into three groups of institutions: those that had ever been on HCM2, those that had ever been on HCM1 (but not HCM2), and those that had never been on HCM. This table shows that colleges on HCM1 or HCM2 were disproportionately small, for-profit institutions that served more racially and socioeconomically diverse student bodies. For-profit colleges made up 81% of colleges that were ever on HCM2 and 63% of colleges that were ever on HCM1, compared to just 32% of colleges that had not been on HCM during that period. Additionally, colleges that had ever been on HCM2 had twice the share of Black students than colleges that had never been on HCM (32% versus 17%).

[Insert Table 1 here]

Colleges on HCM1 or HCM2 were more likely to face concerns with the federal government's other accountability metrics, particularly financial responsibility scores, than colleges that were never on HCM. Two key outcome metrics (degree/certificate completion rates and student debt amounts) were broadly similar across the three categories of institutions, but the other two outcomes did. Median earnings six years after college entry were \$38,134 at colleges never subject to HCM, \$32,382 for colleges that were ever on HCM1, and just \$29,327 at colleges that were ever on HCM2. However, this could reflect differences in the types of students enrolled rather than differences in the quality of education. Finally, closure rates were just four percent for colleges never on HCM, 15% for colleges ever on HCM1, and 45% for colleges ever on HCM2.

The top of table 2 details the reasons that colleges were first placed on HCM1 and HCM2. The top reason for both categories was financial responsibility, it was a much more common reason for HCM1 (75%) than HCM2 (33%). This is likely because colleges with

financial responsibility concerns are automatically placed on HCM1. The second most common reason for being on HCM1 was late submissions of paperwork such as audited financial statements (14%). Accreditation concerns (36%) and administrative capacity (28%) were the next most common reasons for being placed on HCM2. Along with severe review issues (10%), nearly three-fourths of the colleges on HCM2 are in that status for issues related to academics or governance instead of financial concerns. This represents a completely different set of reasons than the financial issues that led colleges to be placed on HCM1 status.

[Insert Table 2 here]

The bottom of Table 2 contains information on how frequently colleges were subject to other federal accountability sanctions at the time when they were placed on HCM1 or HCM2. Notably, only 43% of the colleges on HCM1 had financial responsibility scores were in the zone or failing categories that place colleges on HCM1. This is a substantially lower share than the 75% of colleges that were placed on HCM1 for financial responsibility reasons and reflects the Department of Education’s ability to implement financial responsibility sanctions even if the score is passing. Only two percent of colleges on HCM1 had a failing cohort default rate, and just 0.4% of for-profit colleges failed the 90/10 rule. Among colleges on HCM2, 20% had a failing or zone financial responsibility score, eight percent had a failing cohort default rate, and only 1.3% failed the 90/10 rule. This shows that HCM is capturing colleges that are not already covered by other federal accountability policies.

Table 3 shows how long colleges are on HCM1 or HCM2 based on the year that they were initially placed on that status and whether they remained open. Prior to 2015, the majority of colleges that were first placed on HCM2 (33 of 63) were still open as of 2023, and institutions frequently remained on HCM2 for more than a decade. Between 2000 and 2014, the most new

institutions added to HCM2 in one year was just six colleges. Beginning in 2015, there was a sharp increase in the number of colleges added to HCM2 as 389 colleges were added through 2019. Just 56 of these institutions were still open in 2023 (driven in part by the collapse of several large for-profit chains), and the median number of years on HCM2 was just one or two years due to the large number of closures.

[Insert Table 3 here]

The number of institutions first observed on HCM1 peaked in 2015 at 881, but that number is inflated by prior years of HCM1 data being unavailable. Between 2016 and 2019, a total of 618 institutions were first placed on HCM1, with 438 of them still being open in 2023. In 2020 and 2021, a total of 111 institutions were placed on HCM1 and only 16 of them closed. The median time on HCM1 fluctuated between two and five years during this period. This shows that while many colleges on HCM2 eventually close, the majority of colleges on HCM1 remain open.

Finally, Table 4 displays the number of closed colleges per year and whether or not they were ever on HCM1 or HCM2. It also displays how many colleges were on HCM when they closed. The number of closed colleges fluctuated between 15 and 58 per year between 1999 and 2013, and none of the 716 colleges (including branch campuses) that closed during this period had ever been on HCM2. Beginning in 2015, there was a marked increase in the number of closed colleges per year and whether colleges had ever been on HCM. The peak number of closures in a single year was 318 in 2016, and 234 of those institutions were on HCM in that year. Only 64 of the colleges that closed in that year had never been on HCM. This suggests that either the federal government changed its procedures to place riskier colleges on HCM, or that the federal government's increased use of HCM forced some colleges to close.

[Insert Table 4 here]

## **Discussion**

In this paper, we provide the first comprehensive examination of colleges placed under heightened cash monitoring by the U.S. Department of Education. Our first key finding is that the usage of HCM2 increased sharply in the mid-2010s before declining somewhat in the early 2020s, and that the increased usage is also associated with a smaller share of institutions remaining open several years later. This raises questions about whether the Department of Education intentionally sought to close colleges by placing them on HCM2 status, or if a large share of colleges that were placed on HCM2 would have closed even if the Department of Education had not taken action. This issue of potential causality is likely impossible to answer empirically, but interviews with key stakeholders at colleges and within the federal government could help to provide useful insights.

Our other key finding is that the majority of colleges placed on HCM are not subject to any other federal accountability policies. While financial responsibility scores are the top reason for placement on both HCM1 and HCM2, only a small share of institutions on the more severe HCM2 status triggered any other accountability sanctions. This raises important questions about the mechanisms that the Department of Education uses to place a college on HCM and whether they are associated with other observable characteristics.

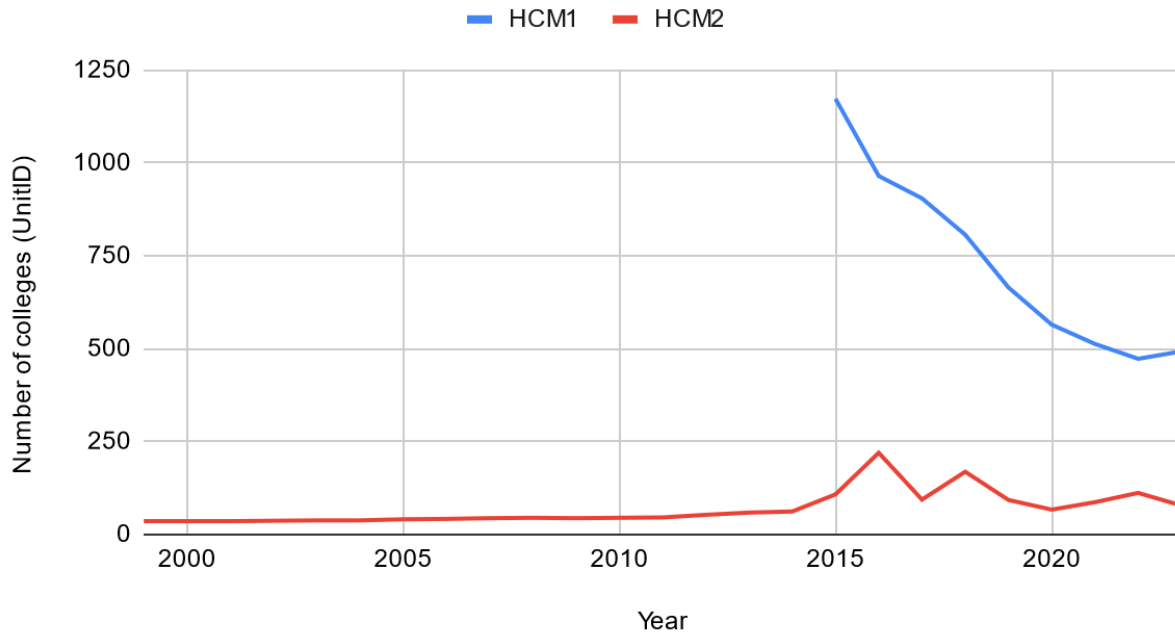
Heightened cash monitoring remains an underexamined area of research given the amount of attention paid to college closures and institutions generating poor student outcomes. Yet it is a tool that is frequently used by accrediting agencies, state regulators, and the private sector (such as credit ratings agencies or lenders) to evaluate the viability of institutions.

Research is needed to examine how these bodies use HCM in their decisionmaking processes, and whether this influences colleges' future actions.

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Figure 1: HCM1 and HCM2 status over time



Source: Authors' calculations using Federal Student Aid data.

**Table 1: Summary statistics of the dataset, 2015-2023.**

Characteristic	Ever on HCM2		Ever on HCM1 but not HCM2		Never on HCM	
	Mean	(SD)	Mean	(SD)	Mean	(SD)
<u>Institutional characteristics</u>						
Public (pct)	3.4	(18.1)	9.9	(29.8)	38.4	(48.6)
Private nonprofit (pct)	15.4	(81.1)	26.8	(44.3)	29.2	(45.5)
For-profit (pct)	81.1	(39.2)	63.0	(48.3)	31.7	(46.5)
FTE enrollment	471	(1,382)	910	(3,064)	3,181	(6,764)
Pct undergraduate	93.7	(18.6)	92.9	(20.7)	89.0	(24.0)
White students (pct)	35.8	(28.8)	46.9	(28.3)	54.5	(27.5)
Black students (pct)	31.7	(28.3)	26.4	(25.9)	16.5	(20.4)
Hispanic students (pct)	22.0	(24.9)	17.0	(20.4)	17.2	(19.9)
Asian students (pct)	4.0	(10.6)	3.1	(7.0)	4.3	(8.1)
Female students (pct)	68.1	(26.6)	66.1	(27.3)	64.3	(23.1)
Percent Pell	59.0	(22.0)	54.3	(20.3)	42.4	(20.3)
Percent with student loans	56.4	(26.7)	55.9	(25.4)	43.0	(27.5)
Total revenue (\$mil)	8.50	(16.19)	26.43	(143.80)	172.33	(752.39)
Tuition as share of revenue (pct)	78.1	(25.9)	72.7	(29.4)	50.3	(33.0)
<u>Accountability metrics</u>						
Failed financial responsibility (pct)	31.8	(46.6)	22.5	(41.8)	1.4	(11.6)
Zone financial responsibility (pct)	7.6	(26.5)	10.7	(30.9)	0.6	(8.0)
Failed cohort default rate (pct)	4.5	(20.7)	2.0	(13.9)	0.8	(9.0)
Failed 90/10 rule (pct)	0.8	(9.0)	0.6	(7.9)	0.1	(3.2)
<u>Outcome metrics</u>						
150% grad rate (degrees)	45.1	(24.9)	49.6	(20.6)	50.3	(22.9)
150% grad rate (certificates)	67.0	(20.6)	68.7	(18.3)	70.2	(18.5)
Debt (\$)						
All students	12,505	(4,727)	12,834	(5,287)	13,618	(6,729)
Completers	20,253	(10,575)	18,758	(9,775)	19,126	(9,284)
Non-completers	7,926	(3,096)	7,643	(3,279)	8,069	(3,190)

Earnings 6 years after entry (\$)	29,327	(9,506)	32,382	(10,883)	38,134	(14,543)
Closed by 2023 (pct)	44.8	(49.7)	15.4	(36.0)	3.6	(18.6)
<hr/>						
Number of colleges	682		1,853		5,761	
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Sources: College Scorecard (debt, earnings), Postsecondary Education Participants System (closures), Federal Student Aid (accountability measures), Integrated Postsecondary Education Data System (all others)

Notes:

- (1) Colleges are defined at the IPEDS UnitID level, not the Federal Student Aid OPEID level.
- (2) If a college was on both HCM1 and HCM2 during the panel, it is counted as HCM2 and not HCM1.
- (3) All financial values are adjusted into 2022 dollars using the Consumer Price Index.
- (4) Financial responsibility scores do not apply to public institutions, and 90/10 rule compliance only affects for-profit institutions.

**Table 2: Reasons for initial HCM placement and other federal accountability sanctions triggered.**

Characteristic	HCM1 (pct)	HCM2 (pct)
<u>HCM placement reason (2015-2023)</u>		
Financial responsibility	74.7	33.2
Late paperwork	13.6	20.3
Accreditation concerns	0.3	36.1
Severe review issues	0.2	10.3
Administrative capacity	3.8	28.2
Other	7.7	13.9
<u>Federal accountability sanctions (2015-2020)</u>		
Failed financial responsibility	35.3	12.9
Zone financial responsibility	8.2	7.5
Failed cohort default rate	2.1	8.4
Failed 90/10 rule	0.4	1.3
Number of colleges	1,746	582

Source: Federal Student Aid data.

Notes:

- (1) Data are at the IPEDS UnitID level.
- (2) This captures the initial reason why colleges were placed on HCM, which may have changed over time.
- (3) The other federal accountability sanctions are measured in the same year as initial HCM placement.
- (4) The 90/10 rule only covers for-profit colleges.

**Table 3: Length of time that colleges remained on HCM, by year of initial status.**

Year	Colleges	HCM2		Colleges	HCM1 (since 2015)	
		Open in 2023	Median years on HCM2		Open in 2023	Median years on HCM1
1999	35	17	18	--	--	--
2000	1	0	16	--	--	--
2001	0	--	--	--	--	--
2002	1	1	17	--	--	--
2003	0	--	--	--	--	--
2004	2	1	16.5	--	--	--
2005	3	3	11	--	--	--
2006	1	1	13	--	--	--
2007	3	1	11	--	--	--
2008	1	1	8	--	--	--
2009	0	--	--	--	--	--
2010	1	1	7	--	--	--
2011	1	1	9	--	--	--
2012	6	2	6.5	--	--	--
2013	5	2	3	--	--	--
2014	3	2	2	--	--	--
2015	47	3	1	881	400	3
2016	162	18	1	170	116	3
2017	38	14	2	150	120	3
2018	103	9	1	188	124	2
2019	39	12	1	110	78	5
2020	13	6	2	57	46	3
2021	36	14	1	54	49	3

Source: Authors' analysis of Federal Student Aid and College Scorecard data.

Notes:

(1) The first years observed are 1999 (HCM2) and 2015 (HCM1). Colleges could have been on HCM for years prior to those observations.

(2) This does not condition on colleges remaining open.

**Table 4: College closures by year and HCM status.**

Year	Number of closed colleges	Ever on HCM2	On HCM2 when closed	Ever on HCM1	On HCM1 when closed	Never on HCM
1999	15	0	0	--	--	15
2000	26	0	0	--	--	26
2001	38	0	0	--	--	38
2002	46	0	0	--	--	46
2003	31	0	0	--	--	31
2004	29	0	0	--	--	29
2005	39	0	0	--	--	39
2006	34	0	0	--	--	34
2007	50	0	0	--	--	50
2008	28	0	0	--	--	28
2009	38	0	0	--	--	38
2010	21	0	0	--	--	21
2011	26	0	0	--	--	26
2012	47	0	0	--	--	47
2013	58	0	0	--	--	58
2014	61	1	1	--	--	60
2015	111	11	11	54	54	46
2016	318	114	114	236	120	64
2017	87	10	7	41	34	39
2018	178	93	91	145	41	28
2019	86	14	13	45	29	37
2020	60	5	4	31	26	26
2021	64	16	15	20	7	37
2022	49	3	3	23	13	24
2023	53	16	5	29	15	20

Source: Authors' analysis of Federal Student Aid and College Scorecard data (HCM), Postsecondary Education Participants System (closures)

Notes:

(1) HCM1 status was first made public in 2015.

(2) Colleges could have been on both HCM1 and HCM2 before closing.

(3) Closures are measured at the IPEDS UnitID level instead of the Federal Student Aid OPEID level. This means that multiple institutions often closed if a system of colleges closed.