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Process and Net Impact Evaluations of the Focus: HOPE Adult Training Programs and Student Loan Fund

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by

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I. CONTEXT OF STUDY

FOCUS: HOPE HISTORICAL CONTEXT

Focus: HOPE, a Detroit-based civil and human rights organization committed to "intelligent and practical action to overcome racism, poverty and injustice," was founded in 1968 by Fr. William T. Cunningham (1930–1997) and Ms. Eleanor M. Josaitis.[1] The 1967 riot left metropolitan Detroit sharply divided along racial lines. It was in this atmosphere that the Focus: HOPE co-founders felt compelled to make a difference.

In 1968, in response to a study by the *Detroit Free Press* and the Urban League, Focus: HOPE organized a search for evidence of widespread discrimination in food and prescription drug prices, enlisting a group of professionals from local universities, corporations, city departments, and major organizations. The Focus: HOPE study revealed that inner-city residents, principally black and poor, were paying much more for food and prescription drugs than their suburban neighbors.

In 1971, after gathering scientific evidence of the effects of hunger and malnutrition on the critical early development of infants, Focus: HOPE designed a supplemental food program for children up to age six, and for pregnant and post-partum women. The program, later expanded to senior citizens, was the first and remains one of the largest Commodity Supplemental Food Programs in the country, with food provided through the U.S. Department of Agriculture to 43,000 women, children and senior citizens each month in the Detroit metropolitan area.

Focus: HOPE's long term objective is to eliminate the need for supplemental food programs by providing opportunities for all people to enter the economic mainstream. This objective led to the development of its highly respected education and training programs. In 1981, the organization opened its Machinist Training Institute (MTI), to provide skills development in precision machining and metalworking. More than 2,740 machinists have graduated from the program.

In 1989, Focus: HOPE developed a FAST TRACK program, and in 1997 the First Step program, to help students improve their reading and math skills in order to qualify for the Focus: HOPE training programs. Students can improve their skills by as much as two grade levels in the intensive four- and seven-week programs. More than 5,800 individuals have graduated from these programs, moving up to the MTI, the Information Technologies Center, or into the job market.

In 1993, a growing shortage of manufacturing engineers with hands-on skills—combined with a historical lack of access to engineering education among minorities—led Focus: HOPE to

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[1] This introductory material came largely from the Focus: HOPE website, www.focushope.edu, accessed on July 7, 2005.

develop the Center for Advanced Technologies and to form a coalition of universities and corporations to design a 21st century curriculum for manufacturing engineering education. Students can earn associate's and bachelor's degrees through three of the university partners: Lawrence Technological University, Wayne State University, and University of Detroit Mercy. The program has graduated more than 100 students.

In 1999, the Information Technologies Center (ITC) was created to provide industry-certified training in network administration and desktop & server administration. The center provides training and education in the information technology area in collaboration with industry partners, including Cisco, Microsoft, and the Computer Technology Industry Association. More than 570 students have graduated from the ITC program.

EVALUATION STUDY

This report documents work that has been accomplished to date in a major study of the adult training programs provided by Focus: HOPE. Essentially two major strands of research comprise the study. The first strand is a study of the student loan fund that is used as a financing mechanism for students who enroll in the Machinist Training Institute or Information Technologies Center. The second strand is a process and net impact evaluation of the training provided by these two entities.[2] This chapter of the report lays out the hypotheses that are being tested by each substudy.

Loan Fund

The training that students receive at Focus: HOPE, whether from MTI or ITC, has great value. In its initial years, the Machinist Training Institute provided instruction to students at no charge. Focus: HOPE was bearing the cost of providing the training through donations, grants, and proceeds from its manufacturing business. During the 1997-98 academic year, Focus: HOPE instituted tuition charges for its training and a revolving loan fund to facilitate students' abilities to pay.[3] (Many students have been eligible for government grants-in-aid over the ensuing years, which defray a significant share of the costs.) Of course, student loans for postsecondary education or training are not a new idea. But this sort of financial arrangement is unique for training targeted on disadvantaged populations.

The loan fund has been a daunting enterprise. Loan repayment rates have been modest and, concomitantly, default rates have not. Two characteristics about the loans may go a long way in explaining why the loan fund has been such a struggle: (1) the loans are unsecured and (2) the loans are, by design, held by economically disadvantaged individuals. To inform our analyses and to help us provide useful advice to Focus: HOPE on how to improve the loan fund's performance, we reviewed literature on unsecured loans made for educational or other purposes.

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[2] Note that this study does not evaluate the Center for Advanced Technology.

[3] A number of loan fund statistics, by year, are presented in this report. In analyzing these, it should be borne in mind that the initial year was just a partial year since the loan fund was implemented mid-year.

Literature on student loans

Several studies (Dynarski 1994; Volkwein and Szelest 1995; Gladieux and Hauptman 1995; Flint 1997; Volkwein et al. 1998; Monteverde 2000; Christman 2000; Woo 2002; Steiner and Teszler 2003; Texas Guaranteed 2003) have estimated econometrically loan repayment behavior. That is, in these studies, the author(s) had individual-level data and attempted to estimate statistically models of who repaid (or defaulted). A consistent finding throughout this literature is that individual characteristics are much more important in explaining default behavior than are institutional characteristics. In other words, if one institution has a higher default rate than another, it is most likely because of the characteristics of the students—not the policies or practices of the institution. This rather common sense finding confirms one's intuition about Focus: HOPE: the loan default rates are far more likely to be a result of the disadvantaged, economic circumstances and cultural norms of the students served than because of particular policies or practices instituted by Focus: HOPE.

So what are the individual-level characteristics associated with default? The literature suggests that they fit into three categories: pre-loan characteristics, program performance, and post-program circumstances. Most of the literature focuses on post-program circumstances because it takes time for a default to occur and by that time, the data collector or researcher has observed the individuals' characteristics. This may be best analytically, but from the point of view that we want to predict default/repayment, it is of little value. The post-program characteristics that are correlated with defaults are low family income, filing for unemployment benefits, being a single parent, low wages/earnings, having dependent children, and age. The latter factor (being older increases the probability of default) was the only surprise among the group. And, in fact, it contradicts anecdotal evidence from the Focus: HOPE loan staff. The explanation given in the literature is that older students have weakened ties to their families and therefore are less likely to be able to tap into family resources for repayment purposes.

Many studies indicated that students' poor effort or poor performance while in their educational programs are strong indicators of default. In particular, the following variables are predictive of default: noncompletion of program or degree, number of courses failed, low GPA, and low attendance. An idea that came out of the literature that may be exportable to Focus: HOPE is provision of extra counseling when certain (negative) thresholds are reached. For example, if grades or attendance dropped below some level, then students would have to participate in mandatory budgeting or credit counseling. Christman (2000) was the only study reviewed that had qualitative evidence. She interviewed students in and not in default to ask for their perceptions about why students default on their loans. The key determinants were bad attitude, ignorance about repayment terms and conditions, dissatisfaction with the institution, and misperceptions of the consequences of defaulting.

A number of the studies looked at background (pre-loan) characteristics of students to analyze correlates of default. The studies identified the following: low family income, male, not having a high school diploma, ACT < 16, having a GED, and family size. Two credit history characteristics were found to correlate; neither result being very surprising. First, a prior default

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was found to be correlated with a student loan default. Second, Monteverde (2000) found that a student's credit score was (inversely) related to default. He used TransUnion's Empirica service and found that these scores were predictive of default. Woo (2002) found that three-fourths of defaults went into default with the first three years of repayment.

Note that race (minority status) has not been consistently shown to be correlated with defaults. Knapp and Seeks (1992) found it to be correlated, but Steiner and Teszler (Texas Guaranteed 2003) did not.

A number of articles have looked at **student loan results at Historically Black Colleges and Universities** (HBCUs) because there was some concern that if the federal government "tightened" regulations, then these institutions would be hurt the most, given the relatively low-income status of their students (see Blakey 2000). The GAO (1998) says

> HBCUs have enrolled a higher percentage of freshmen who, compared with their peers at all institutions, are less prepared academically and come from more disadvantaged socioeconomic backgrounds ... Students at HBCUs were twice as likely to come from a home where parents were divorced or separated, and their parents generally had lower education and income levels than parents of students at all colleges and universities. When the analysis is narrowed to only HBCUs the same pattern is found: In general, HBCUs with lower default rates enrolled students with more academic preparation and higher socioeconomic levels. (pp. 2–3)

An article that is often referenced in this literature is Galloway and Swail (1999). They analyzed the default rates at the HBCUs and found that student retention was the key factor to reducing default rates. They examined various institutional strategies intended to increase retention, which they lumped into five categories: (1) stiffer admissions criteria, (2) more proactive academic advising, (3) improved instruction (more one-on-one and practical instruction), (4) additional financial aid resources, and (5) enhanced student services, such as dormitory improvements and student counseling. Of these five strategies, this study found that instructional improvements and additional financial aid resources were the only strategies to be effective. Interestingly, stiffer entrance criteria and more proactive academic counseling were not effective in improving retention or decreasing default rates.

Other unsecured loans

Microenterprise loans are a form of economic development used mainly in developing countries. Individuals are provided small loans, which are generally not collateralized, to start businesses. The most successful of these are programs using the Grameen Bank (see Yunus 1999), a program targeted on women loan recipients. This program is successful because prior loan recipients control loan approval and do not lend until sufficient repayments have been made. Programs in U.S. inner cities were reviewed by Servon (1997). In general, we found that while these loans were technically unsecured loans, their relevance to the Focus: HOPE student loans

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was not immediate. Principals were smaller, and in some cases, sources of collateral were used (office machines, inventories, etc.)

Hypotheses

The following list of hypotheses will be the main issues that we analyze statistically. The list classifies the hypotheses by whether they pertain to pre-program characteristics of individuals, performance in Focus: HOPE programs, or post-program characteristics.

Pre-program characteristics

H1:   Loan repayment performance will not vary[4] by demographic characteristics of program applicants such as race, sex, high school attended, or age.

H2:   Loan repayment performance will differ for individuals with and without a co-signer. Co-signers will increase the likelihood of more positive outcomes.

H3:   Loan repayment performance will differ across the marital and family status of applicants. The presence of a spouse or own children at the time of application will increase the likelihood of more positive outcomes.

H4:   Loan repayment performance will be lower for individuals who had been incarcerated prior to program application.

Program characteristics

H5:   Loan repayment performance will be better for individuals who completed all of the courses that they began. Stated conversely, loan repayment performance will lag for individuals who did not complete a course in which they enrolled.

H6:   Loan repayment performance will differ for individuals who enroll in First Step or FAST TRACK from individuals who don't. The former will have lower performance.

H7:   Loan repayment performance will not vary by the size of the student responsibility.

H8:   Loan repayment performance will not differ between MTI and ITC students.

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[4] Hypotheses will be tested statistically, so phrases like "will not vary" or "will differ" are meant to imply "in a statistically significant sense." Also, the hypotheses are intended to hold all other factors constant.

Post-program characteristics

H9:	The strongest correlates of repayment behavior are employment and earnings subsequent to attending Focus: HOPE. Higher levels of employment and earnings will be associated with higher levels of repayment.

H10:	Individuals with a training-related placement will have higher levels of repayment.

H11:	Loan repayment behavior will depend on the debt burden of program completers/ leavers. Debt burden will be inversely related to repayment behavior.

Training

The economic opportunities for young, disadvantaged, undereducated individuals in Detroit are bleak. However, Focus: HOPE is confronting that bleakness by providing high quality training to the young (and older) folks that come through its door. Its facilities and equipment are first rate. Instructors have considerable industry experience and are excellent mentors and teachers. For students whose basic academic preparation is lacking, Focus: HOPE offers the First Step and FAST TRACK programs. Employer advisory groups are used to ensure an up to date, relevant curriculum. One purpose of the evaluation study is to assess the effectiveness of the training in facilitating students' entry into stable and good-paying careers.

One way to form expectations about the likelihood of success for the Focus: HOPE students is to review the literature base on skill training for disadvantaged populations after high school.

Literature on skill training effectiveness for disadvantaged populations

A large number of studies have weighed in on this topic, so we will primarily discuss articles that review and summarize other studies. Most of these studies focus on federally-funded job training programs—most recently through the Job Training Partnership Act (JTPA) and its successor, the Workforce Investment Act (WIA).

LaLonde (1995) reviewed studies of the effectiveness of CETA, JTPA, and other federal training programs for disadvantaged adults and youth. His conclusions follow (excerpted from pp. 158–161):

- Various services raise the postprogram earnings of disadvantaged adult women, but have mixed or no effects on those of adult men or youth. Moreover, earnings gains for women tend to be "modest in size, persist for several years, arise from a variety of training strategies, and are sometimes achieved at remarkably little expense."

- There is less evidence on the value of classroom training and OJT, and the evidence that does exist is mixed.
- The results for adult males are less encouraging.
- The National JTPA study offers no evidence that disadvantaged youths benefited from the low-cost training provided.

Friedlander, Greenberg, and Robins (1997) agree and disagree with the LaLonde summary. The areas of agreement are for adult women and youth.

> Consistently strong evidence has accumulated that government training programs have been effective for adult women....Evidence has been accumulating for a number of years that training programs have been ineffective in producing lasting earnings effects for youth. (pp. 1833–1834).

However for adult males, they write

> Average earnings effects for adult men in JTPA were as large as those for women and also produced high rates of return even in the short run. The JTPA finding for men, therefore, represents a significant break with the results of past evaluations. (p. 1834).

In perhaps the most rigorous study, Orr et al. (1996) find very modest impacts of JTPA services for youth ages 16–21. Using an experimental methodology, these researchers found no significant earnings impacts for females or males over 30 months of follow-up data. Female participants in the treatment group were more likely to complete their high school diploma or GED and females had increased hours of training plus employment. Virtually none of the outcomes were significant for males.

King et al. (2000) report starkly different findings. Using a different methodology, they report the following:

> In contrast to the findings of the National JTPA Study (e.g., Bloom et al. 1997), participation in Occupational Skills Training (OST) is associated with employment and earnings success for both males and females, while participation in On the Job Training (OJT) and Job Search Assistance (JSA) seems to have such association only for males. Clearly, such results beg for validation using more rigorous experimental or quasi-experimental designs. (p. 158).

Bartik and Hollenbeck (2004) reviewed a number of national evaluations of federal job training and many of sectoral training approaches as well. They suggest that an effective system for skills development has the following characteristics:

- The system offers training/educational opportunities that engender skills that are or will be in demand within the labor market area.

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- The training/educational opportunities do not focus solely on specific technical skills.
- The training or education integrates basic skills, employability skills, and technical skills and delivers curriculum that is tailored to the learners' context.
- Adequate support mechanisms are available to enable participants to benefit fully.
- Caring, trained adult mentors are available when training and educational opportunities are targeted on youth. (pp. 142-143).

Hypotheses

The outcomes that are analyzed in this evaluation include *labor market outcomes* such as earnings and employment (especially training-related employment) and *non-economic outcomes* such as health status, mobility, self-efficacy, and family/marital status. In general, the goal of the evaluation is to test the notion that completion of more training at Focus: HOPE will result in better labor market and non-economic outcomes. Some specific hypotheses follow:

H1: Enrolling in and attending Focus: HOPE programs will result in better outcomes.

H2: Course completers will have better outcomes than individuals who did not complete all of their courses.

H3: Among MTI students, individuals who complete the entire sequence of Vestibule, Core1, and Core 2 courses will have better outcomes.

H4: Holding the number of and completion of courses constant, there should be no difference in outcomes between individuals who started in First Step or FAST TRACK and those who didn't.

H5: Students who did not progress into a technical program in MTI or ITC, i.e. attended only First Step or FAST TRACK, will have poorer outcomes, than students who did take machining or IT courses.

II. METHODOLOGY AND DATA SOURCES

METHODOLOGY

In the development of a pharmaceutical, companies go through rigorous experimentation to determine efficacy and safety. In simplest terms, these companies will recruit a test population that has a range of characteristics and health conditions, and they will randomly assign a portion of the test population to the drug being tested (the treatment group). The remainder of the sample will get a placebo (the control group). After the drug regimen has been followed, the companies can compare the health status of the two groups and attribute any differences to the pharmaceutical being tested.

If it were feasible and ethical to do so, Focus: HOPE could follow a similar protocol. A heterogeneous population of young adults encounters Focus: HOPE. These individuals have a range of characteristics and skills. Focus: HOPE could give them a random number as they walk through the door, and serve only those whose random number was less than .50 (the treatment group) and deny services to the others (control group). An evaluator could follow both groups, and the differences in outcomes between the two groups would be the net impact of the Focus: HOPE treatment.

Such a random assignment experiment would provide the most rigorous estimate of the value-added of Focus: HOPE training programs, and it would provide excellent statistical estimators that could be used in a benefit-cost/return on investment framework.

But the issue of experimental design is moot because Focus: HOPE has a commitment to and tradition of serving all who come to its door. So given that a random assignment experiment is not feasible, the key question is how best to evaluate the Focus: HOPE training programs. The main issues to address are as follows (not necessarily in order of importance): definition of the treatment, comparison group, and outcomes that will be measured. These issues are discussed briefly in the following paragraphs.

Definition of the Treatment

In many ways, the education programs at Focus: HOPE for adults operate like a postsecondary educational institution. A high school diploma or General Equivalency Degree (GED) is required for entrance. Tuition is charged for each course. The Center for Advanced Technologies (CAT) awards academic degrees. Like some postsecondary institutions, Focus: HOPE offers its curriculum in an open-entry/open-exit (OE/OE) format. Like all postsecondary institutions, young adults enter with different abilities and skills. And like most postsecondary institutions, Focus: HOPE offers developmental courses to address basic skills deficiencies (First Step and FAST TRACK).

Of course, Focus: HOPE is unique and differs from other institutions in some major ways. First, the student body is comprised almost exclusively of economically or educationally disadvantaged young adults. Second, the curriculum is very focused and fairly sequential. Students ideally proceed from First Step (optional, as needed) to FAST TRACK (optional, as needed) to either the Machinist Training Institute (MTI) or to the Information Technology Center (ITC). After completing the MTI program, students may proceed to the CAT. In the MTI, students move sequentially from Vestibule to Core 1 to Pre-Engineering (Core 2).

Thus, the "treatment" is a well-defined sequence of developmental and applied courses in the areas of machining or information technology. The problem is that many students do not complete the full treatment, or they complete it on an intermittent, interrupted basis. In particular, some students do not complete the courses. In some cases, this is a good outcome because the students realize that they are not interested in a machining or IT career; in other cases, noncompletion is not good. The students do not have the initiative or motivation to succeed; or they encounter a substantial barrier in their personal lives that causes them to "stop out" or to "drop out." Another analytical complexity will be caused by students who repeat courses or who transfer between MTI and ITC.

Comparison Group

The comparison group against which the Focus: HOPE training participants are being compared is comprised of applicants who take and "pass" the placement tests, but who do not participate in the training. The grade equivalencies required on entering students is a 6th grade math ability and a 8th grade reading ability. The advantages to using this group of individuals as a comparison group are severalfold. They are aware of the Focus: HOPE programs and interested enough in a potential career in machining or IT to complete an application and take the assessment tests. Since only the applicants who "pass" the test are selected, they are comparable to the participants in basic skills abilities. A disadvantage to using this group is that there may be systematic differences between them and the participants. The comparison group members chose not to participate in training for reasons such as they didn't have the motivation, they couldn't make appropriate arrangements, or they didn't believe that it suited their needs/interests.

Outcomes

The mission of Focus: HOPE is essentially to dignify the humanity of every person, so it is difficult to justify an evaluation of training programs that assesses success or failure based on their economic outcomes. Nevertheless, as a practical matter, we believe that the human capital framework captures the motivation of the trainees. These young adults want to achieve a high enough economic payoff in terms of earnings and stable employment to justify the time and expenses that they are investing in training.

Therefore the primary evaluation focus will be on labor market outcomes. These include employment, training-relatedness of the employment, unemployment, labor force participation, hours worked, wage rates, earnings, non-wage benefits, job retention/turnover, promotion, and

on-the-job training. Two sources of data are being used. Wage record data from the Michigan Unemployment Insurance system allow analyses of employment, turnover, and earnings. Surveys of participants and comparison group members measure wage rates, non-wage benefits, promotions, and on-the-job training.

Other outcomes of interest include additional education/training, receipt of income assistance, credit worthiness, health status, family/relationship status, criminal/dangerous behaviors, asset ownership (cars, large-budget items), and psycho-social outcomes such as self-efficacy. These data are being collected by self-report through a survey of participants and comparison group members.

Data Sources

The kernel of the evaluation is a longitudinal student data set, in Access, that has been constructed from documents, administrative records, and survey responses. The observations in the data set are categorized into seven cohorts. Six of the cohorts are defined by the date of first enrollment and by whether the individual is a treatment or comparison group member as shown in Table 2.1. The seventh cohort, which we actually refer to as cohort 0, are students who started their initial Focus: HOPE training prior to FY2002 and incurred a student loan.

Table 2.1 Definitions of Treatment and Comparison Cohorts

Treatment cohorts	Comparison cohorts
1. All students who started their initial Focus: HOPE (FH) class in fiscal year (FY) 2002 (10/01–09/02)	1. All individuals who tested between 07/01 – 06/02 and scored at a level high enough to be enrolled, but didn't[a]
2. All students who started their initial FH class in FY 2003 (10/02–09/03)	2. All individuals who tested between 07/02 – 06/03 and scored at a level high enough to be enrolled, but didn't
3. All students who start their initial FH class in FY 2004 (10/03–09/04)	3. All individuals who tested between 07/03 and 06/04 and scored at a level high enough to be enrolled, but didn't

[a]On average, approximately three months pass between testing date and date of first enrollment, so in the definition of the comparison cohorts, we deliberately offset the time period by three months.

A controversial aspect of the definitions presented in the table is that an individual will be assumed to have received the "treatment," even if they only attended class for one day. That is, enrollment at the beginning of class is the key characteristic. In general, Focus: HOPE only counts students if they stay in class long enough to incur a loan liability, which is approximately at least 20 percent of the entire course. This means that our count of students will slightly be slightly larger than the official Focus: HOPE enrollments, and that some of the students in the analysis will not have loan liabilities.

The sample sizes of the seven cohorts are given in Table 2.2. Note that these are not samples, but rather represent the universe of individuals in these cohorts. All together, we have almost 7,300 individuals in the study. Of these, about 2,600 are individuals who incurred loans prior to 2002. About 1,850 are students who enrolled in the three fiscal years of interest; and about 2,800 are in comparison groups for the students.

Table 2.2 Sample Sizes, by Cohort and Group

Cohort	Treatment	Comparison	Total
0	2,602	—	2,602
1	774	1,020	1,794
2	568	949	1,517
3	502	857	1,359
Total	4,446	2,826	7,272

Information about the individuals comprising the analysis data set comes from seven sources: application data and test scores, student records, class rosters, loan payments, evaluation sample survey, class performance data (test scores or grades), and wage record data. Not every individual will have information from each of these sources. For example, the comparison group does not, in general, have any student or loan information.[5] Table 2.3 presents the number of records that have valid information from each of these sources.

The first row of the table shows records for which we have test score and application data. We accessed this data for the purpose of determining the comparison group, so we only anticipated having records for cohorts 1, 2, and 3. Indeed, we have test scores for almost 100 percent of the comparison cases (2,819 out of 2,826). On the other hand, we have test scores for about 91 percent of the treatment cases (1,683 out of 1,844). This suggests that about 9 percent of the students were enrolled without test scores—note that there is an especially high share of cohort 3 (2003–2004) students without test scores (125 out of 502). The 136 cases in cohort 0 must be individuals who "stopped out," reapplied, and thus tested to re-enter the program.

The second row of data shows the counts of records from the Focus: HOPE student record data system. This is one of our primary sources of data about students. Again, we received data for almost all of the students, including cohort 0, as would be expected (4,433 out of 4,446). Having records for 89 comparison group cases (3.2 percent) is somewhat problematic. Some of these cases would be Focus: HOPE students who took classes prior to the implementation of the loan fund so that are not in cohort 0, "stopped out," reapplied and tested, but did not re-enroll. Because they tested, but did not re-enroll, they would have been classified as a comparison group student for the evaluation purposes. These cases may be considered "contaminated" in the classical experimental lingo because they received the "treatment." In any case, we have identified them and will control for them in the analyses.

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[5] As described below, some "contamination" occurred so that some of the comparison group members did attend Focus: HOPE classes and have some student and loan information.

Table 2.3 Record Counts, by Data Source

Data Source	Cohort/Group						
	Cohort 0	Cohort 1/ Comp.	Cohort 1/ Treat.	Cohort 2/ Comp.	Cohort 2/ Treat.	Cohort 3/ Comp.	Cohort 3/ Treat.
Application/Test score	136	1,017	750	945	556	857	377
Student records	2,598	27	773	21	565	41	497
Class rosters	2,599	16	774	9	568	1	497
Loan payments							
Info. from UAS/FH	777	3	259	4	237	0	151
Info. from Shermeta	1,062	2	54	0	10	0	0
Info. from both	288	1	18	0	0	0	0
Evaluation survey							
Wave 1	13	85	112	98	119	0	11
Wave 2	0	78	95	101	95	173	150
Both waves	0	21	48	27	46	0	6
Student perf. data							
First Step	1	6	195	4	144	0	99
ITC	77	1	290	2	165	1	110
Vestibule	6	0	13	2	193	0	63
Wage record							
Wave 1	1,894	789	610	722	422	0	34
Wave 2	1,453	523	417	476	267	346	209
TOTAL SAMPLE	2,602	1,020	774	949	568	857	502

The third row of data provides information from class rosters. These data were supplied to us after the fiscal year, and were used to identify individuals who actually attended at least one session of a class. These data were also a primary source of information for us because they provide information about loan liabilities, government payments, and student payments. Again, as would be expected, coverage is quite high (4,438 out of 4,446). Again, there appears to be a small number of "contaminated" comparison cases—26, which is just under 1 percent.

The next set of record counts displays information about cases that have made loan repayments, or for which payments had been expected but have not been received. That is, the record counts include defaulters. In other words, these individuals have completed their programs and incurred student debt. The first row of entries comes from University Accounting Service (UAS) or Focus: HOPE, if payments were made directly there. The second row of counts reflects the cases that have been referred to collection. As would be expected, the preponderance of records is for cohort 0 students (pre-2001). Note that the two rows overlap; the extent of which is shown in the third row. About 300 cases that had been active in UAS have been referred to collections.

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Two waves of a sample survey have been conducted by the survey unit at Wayne State University. The first wave was conducted in March/April 2004, and the second was conducted about a year later in April/May 2005. The universe of the first wave was the first two cohorts of treatment and comparison cases, and the number of completions was 460. The universe of the second wave was all three cohorts of treatment and comparison group, and the number of completions was 700. Approximately 150 individuals were in both waves.

The next panel in the table refers to cases for which we have received some sort of assessment data that relates to course performance. In particular, we received test/assessment results for First Step students, ITC students, and Vestibule students. To date, we have not used these data in our analyses because of the under-coverage, and, in some cases, lack of variation in performance.

The final rows of data show the counts of record for which we have accessed wage record earnings data. We have requested earnings records for all of the observations, and have received partially matched data covering two periods of time: Q1:2002—Q3:2003 and Q2:2003—Q1:2005. There seems to have been an error (or shortcoming) in the programming that was done by the state agency, so we have not received all of the records. The first request included the first two cohorts (treatment and comparison groups) plus cohort 0, and we received matched data for 4,437 out of a possible 5,913 cases (just over 75 percent). The second request was made for the entire analysis sample, and we receive matched data for only about half of the potential cases (3,691 of 7,272). We are currently working with state staff to re-run the second match.

Table 2.4 provides some descriptive statistics relating to the cohorts. The race and sex data come from the student records data, so the table does not display these data items for the comparison groups. The data show that, by far, the largest share of the students are African American, and that a little over two-thirds of them are males. The last two items in the table are age at the time of testing into the program, and average test score. We obtained these data from the application/testing files, of which we only got fiscal years 2002–2004 because our purpose in getting these data was to identify the comparison groups of individuals. The biggest difference in age between students and the comparison group is that a larger share of the former are aged 23–36 at the time of testing. The comparison group has larger percentages of individuals less than 23 and over 36. Finally, the mean test scores, which are grade equivalents, are slightly higher for the treatment cases (enrolled students) than for the comparison group.

Table 2.4 Descriptive Statistics, by Cohort/Group

Characteristic	Cohort 0	Cohort 1/ Treat.	Cohort 2/ Treat.	Cohort 3/ Treat.	Cohort 1/ Comp.	Cohort 2/ Comp.	Cohort 3/ Comp.
Race[a]							
African American	83.5%	93.1%	94.0%	91.3%	—	—	—
White/Caucasian	2.9	3.4	2.3	3.4	—	—	—
Other	3.2	3.4	2.3	3.4	—	—	—
Unknown, incl. mixed	10.4	1.8	1.8	2.6	—	—	—
Sex[a]							
Male	67.0%	70.1%	73.6%	70.0%	—	—	—
Female	33.0	29.9	26.4	30.0	—	—	—
Age at testing[b]							
< 18	—	3.9%	3.3%	3.0%	3.0%	1.8%	3.2%
18 – 22	—	30.3	27.3	33.3	34.6	32.4	35.2
23 – 26	—	20.2	25.1	18.5	19.1	21.7	16.6
27 – 36	—	28.5	30.0	31.1	25.8	27.5	26.7
> 36	—	17.1	14.4	14.1	17.4	16.6	18.4
Mean, test score[b]							
Reading	—	11.3	11.5	11.6	11.1	11.2	11.4
Math	—	9.8	9.7	10.1	9.3	9.3	9.3
TOTAL SAMPLE	2,602	774	568	502	1,020	949	857

[a]Data come from student records, so comparison cases have missing information, denoted by —.

[b]Data come from application/testing records, so cohort 0 cases have missing information, denoted by —.

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III.   STATISTICAL PICTURE OF LOAN FUND AND TRAINING

This chapter provides some general statistics about the loan fund and training enrollments to give the reader a sense of the scope of the Focus: HOPE training operation and loan fund. Since the loan fund originated until the end of fiscal year 2004 (September 30, 2004), it appears as if there are approximately 3,400 students with loans (loan accounts). Note that some of these loans may be deferred or not activated.[6] The total loan principal is on the order of $12 million.

Enrollment has declined over the past three years. In fiscal 2002, total enrollment was about 1,000 students who enrolled in a little over 1,800 courses. In 2003, total enrollment was about 820 in about 1,440 courses; and in 2004, total enrollment was 720 in about 1,250 courses. More detail about these aggregate statistics is provided in the following sections.

LOAN FUND

Each of the courses offered by Focus: HOPE has a tuition. The schedule of tuition charges is shown in Table 3.1. As would be expected, the tuitions are determined mostly by the length of the course, which generally correlates with hours of instruction.

Table 3.1 Tuition Charges, by Course

Course	Tuition
First Step (4 weeks)	$1,000
FAST TRACK (7weeks)	1,700
MTI	
Vestibule (5 weeks)	$1,500
Core 1 (26 weeks)	7,750
Core 2 (Pre-engineering) (24 weeks)	4,000
ITC	
Initial Skills	$ 500
Basic Skills	1,700
Network Installation	6,000
Network Administration	9,000
Desktop Support	8,000

If a student drops out of their class within the add/drop period (approximately the first two weeks), there is no financial liability. If a student drops out after that point in time, there is a sliding scale for the amount of tuition owed. Focus: HOPE uses the term Student Responsibility for the amount owed—either the full tuition or a pro-rated portion of it. While students are in their training program (with the exception of First Step and FAST TRACK), they are required to

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[6] Data from Focus: HOPE showed that a cumulative total of 2,795 loans had been activated by the end of the 2004 fiscal year.

make a nominal co-pay of approximately $10 per week. If the student is eligible for government (or private sources of) aid, then Focus: HOPE invoices the appropriate entity. The student's loan principal is Student Responsible less co-payments less government (or private) aid. This is referred to as the residual student responsibility.

After the course ends, loan repayments are deferred if the student enters another course; otherwise repayments are expected to begin on the first day of the month following the first full month after the last day the student attends class. For example, if a class ends on January 15, then repayments would be due on March 1; etc. The loans carry a 5 percent annual interest rate starting one month after repayment begins. Late fees of $15/month and any collection costs are added to the principal and interest. When repayment is received, it is applied sequentially to late fees, interest, and principal reduction, in that order.

In the first years of the loan program, the loans were set up with a fixed repayment amount and a variable term. This allowed some flexibility in terms of changing the monthly payment obligation if economic circumstances warranted it. However, since Focus: HOPE started using UAS, the loans have become fixed term (48 months). Suppose a student had a residual responsibility of $3,500. With a fixed term of 48 months at an annual interest rate of five percent, monthly payments would be $80.60. Under the earlier regime, a payment of $100/month could have been established, and the term of the loan would have been 38 months. If a payment of $50/month had been established, the term of the loan would have been 82 months.

Financial Statistics

The purpose of this section is to give the reader a general statistical picture of the scope of the loan fund. It is difficult to be precise because the data constantly change with new loans or payments received, and because payment data came from three sources. Furthermore, the time stamping of the data was prone to some error. We have tried to validate the statistics that we have generated against internal (i.e., Focus: HOPE) memoranda. Fortunately, we have not found major discrepancies. Generally, the data we have tabulated are within +/− 10 percent of comparable internal figures. One of the major differences is in data from the 2003–2004 cohort of students. Some of the classes that began in fiscal 2004 did not finish until after the end of the fiscal year. In these cases, we did not have enough data to calculate tuition earned or student responsibility. So our data for that fiscal year underestimate the actual values.

Like any financial entity, the loan fund can be characterized by its balances and by its annual inflows and outflows (payments received and loans disbursed). Balances depict situations as of a particular point in time. The inflows and outflows occur over a year. Table 3.2 shows tuition earned and residual student responsibility balances as of the end of the fiscal year, and it shows changes in those balances during the year. Note that the first and third column of data are balances (cumulative totals); whereas the other two columns are flows, or annual changes in the cumulative totals.

Table 3.2 Loan Fund Balances, by Year (in $million, not adjusted for inflation)

Year	Tuition earned ($)	Change in tuition earned ($)	Residual student responsibility ($)	Change in residual student responsibility ($)
1997–98	0.887	0.887	0.160	0.160
1998–99	4.315	3.428	1.569	1.408
1999–00	7.647	3.332	3.246	1.677
2000–01	11.842	4.195	5.805	2.559
2001–02	16.094	4.252	8.300	2.495
2002–03	19.408	3.314	10.767	2.467
2003–04	21.076	1.668	12.052	1.285

The table shows that the total tuition liability of students in the first column has reached a cumulative total of a little over $21 million by 2004. The largest years of growth in this figure were in 2001 and 2002, when over $4 million in tuition liability was accrued by students. The third column of data, residual student liability, represents the cumulative total value of loan contracts made with students since the inception of the loan fund. The difference between tuition earned and student responsibility is co-payments and governmental (or private) grants. Note that the third column reflects the total principal that is or ever has been due; it is not the same as the current outstanding principal.

Table 3.3 shows the trends in co-pays and grants. Total co-pays were about $90–$100 thousand in 2001 through 2003, but dropped off in 2004 (although our data likely underestimate the 2004 activity). Grants have dropped off precipitously from almost $2 million in 1999 to only about $0.75 million in 2003. The data in Table 3.3 are annual values.

Table 3.3 Co-pays and Grants, by Year (in $million, not adjusted for inflation)

Year	Change in tuition earned ($)	Co-pays ($)	Grant receipts ($)	Change in residual student responsibility ($)
1997–98	0.887	0.016	0.711	0.160
1998–99	3.428	0.066	1.953	1.408
1999–00	3.332	0.064	1.591	1.677
2000–01	4.195	0.094	1.542	2.559
2001–02	4.252	0.105	1.651	2.496
2002–03	3.314	0.090	0.757	2.467
2003–04	1.668	0.044	0.339	1.285

The next table of aggregate loan fund data, Table 3.4, shows among other things, the net position of the loan fund after considering loans made and inflows of payments against principal, fees, and interest. The last column of data represents the net position of the loan fund. If we define viability as being at a breakeven point, then this table entry should be $0, representing loans disbursed (net of co-pays and grants) would equal inflows of payments against principal, interest, and fees. Since 2000, there is a downward trend in the net outflow despite a reduction in grants. If other things were equal, the significant decline in grant receipts would mean a significant increase in loan disbursements. However, two factors probably explain the reduced net outflow. First repayments are increasing, and second, overall enrollments are declining so that student loan obligations are staying about even despite reduced grant support.

Table 3.4 Inflows and Outstanding Loan Balances, by Year (in $million, not adjusted for inflation)

Year	Change in residual student responsibility ($)	Payments against principal ($)	Change in outstanding principal ($)	Fees and interest payments ($)	Loan fund net outflow ($)
1997–98	0.160	0	0.160	0	0.160
1998–99	1.408	0	1.408	0	1.408
1999–00	1.677	0.036	1.641	0	1.641
2000–01	2.559	0.165	2.394	0	2.394
2001–02	2.496	0.118	2.378	0.075	2.303
2002–03	2.467	0.245	2.222	0.125	2.097
2003–04	1.285	0.303	0.982	0.089	0.893
Total	12.052	0.867	11.185	0.289	10.896

Repayment and Default Rates

As described above, we have about 4,450 students in our database plus some of the comparison cases seemed to have been students at one point in time. If we define repayment or default rates in terms of students who have loan obligations, the denominator will be considerably smaller than the number of students in the data set. This is because some students did not stay in any class long enough to incur a tuition charge. Some students had tuition fully paid by grants, and some students have had their loans deferred.

An internal memorandum from Focus: HOPE in November 2004 indicated that the total balance of loans that were declared in default was $7.398 million. Table 3.4, above, notes that the total loan obligations of students were about $12.052 million. So, on a dollar basis, the default rate is approximately 61.4 percent. On the one hand, this is likely to be an overestimate of the default rate because the internal figure aggregates the total loan principal and does not net out loan repayments, and because of our underestimated loan obligations for 2004. However, on the other hand, it is more likely to be an underestimate because it makes the unlikely assumption that the entire balance of about $5.1 million will be repaid. In all likelihood, the "true" default rate on a dollar basis is probably between 67 percent and 75 percent. This implies that the repayment rates calculated on a dollar basis would be between 25 and 33 percent.

Repayment rates can be calculated on a person basis from the information on the number of individuals with loans, making payments, and receiving grants provided in Table 3.5. Note that we have eliminated duplicates in each of the columns, but there is double counting across the columns because, for example, an individual may have received a grant or incurred a loan for courses taken in two or more years. Also, an individual may have made some repayments, but then stopped and was declared in default. To be precise, we found just over 75 percent (1,408/1,872) of the individuals who received a grant also incurred a loan and just over 10 percent (212/1,284) of the individuals who ever made a payment were eventually declared a default.

Table 3.5 Individuals with Loans, Grants, Repayments, and in Default, by Year (Columns are unduplicated counts)

Year	Received grant	Incurred loan	Made repayment of at least $1	Declared in default
1997–98	196	105	0	0
1998–99	441	615	0	0
1999–00	320	472	104	168
2000–01	506	580	252	543
2001–02	313	686	225	442
2002–03	155	535	183	225
2003–04	96	384	520	679
Unknown year				26
Total	1,872	3,377	1,284	2,083

The data in Table 3.5 suggest a repayment rate, defined as making at least one payment, of 38 percent and a default rate (on a person basis) of 61.7 percent. All together, the tables of financial information show us that the average student's loan is $3,702. Perhaps 4 in 10 students make any repayment, and their average total repayment has been about $900, of which $675 has been used to reduce principal.

TRAINING

The education program at Focus: HOPE has three major "departments" with students in the loan fund—First Step/FAST TRACK, MTI, and ITC.[7] The purpose of this section is to provide aggregate data on enrollments, courses taken, and course completions for these departments. The data pertain only to the last three full years.

Enrollments, by Program

In the last three years, annual enrollment averaged 863 students; however there has been a downward trend in enrollment from 1,047 to 829 to 712 in 2002, 2003, and 2004, respectively. (These counts reflect some duplication from year to year, although duplication within a year has been eliminated. Specifically, this is the number of individuals who were enrolled in a course that met at least one day during the fiscal year. So if an individual was in a course that crossed fiscal years, or if the individual took one course in one fiscal year and then another course in another fiscal year, they would have been counted in each year.) Enrollment in First Step/FAST TRACK has been fairly steady. It has averaged 254 students per year; with 257, 264, and 242 in the last three years, respectively.

The MTI enrollment has also been relatively stable at 440 in 2002, 385 in 2003, and 398 in 2004. This averages 408 students per year. The ITC enrollment has declined fairly drastically from 366 to 259 to 185, almost a 50 percent decline over the three year period.

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[7]Again, the Center for Advanced Technology (CAT) is not included in this evaluation.

Completions

On average during this time frame, students were enrolled in 1.70 different classes. The total number of students in all of the courses offered was 1,821; 1,383; and 1,213 in the three years, respectively. As would be expected, not all of the courses were completed. In 2002, there were 1,155 completions out of the 1,821 students on the rolls (63.4 percent), and in 2003, the completion rate was 62.0 percent (858 out of 1,383). The completion rate for 2004 is not reported because of the truncation of the data (completers are not fully reported for classes that do not end until 2005). The completion rate for First Step and FAST TRACK was 83.4 and 80.5 percent in 2002 and 2003, respectively. The completion rates for courses taken in MTI were 45.1 and 49.4 percent in 2002 and 2003. Finally, the completion rates for ITC courses were 73.4 and 66.8 percent.

IV. LOAN FUND ANALYSES

SIMULATION

This section of the report provides an overview of a simulation model that can be used to analyze the financial status of the Focus: HOPE loan fund. The simulation performed makes many simplified assumptions because of data limitations. Nonetheless, some important features of the loan fund are captured. First, the loan fund is characterized by a high default rate and a corresponding low rate of payback that is not isolated to any one particular subgroup of students. Default is a ubiquitous phenomenon. Second, government grants to students are the principle source of funds flowing into the loan fund. Students' co-payments and repayments are small in comparison. Third, interest or late fee income, which would be net inflows to the loan fund are relatively small. The effect of this combination of a high default rate and a small amount of interest and late fee income can be seen in simulation results. Holding constant the high default rate, interest rates would have to be unfeasibly high in order for the loan fund to break even. Likewise, holding constant the late fees and interest rate, the default rate would have to be lowered to almost zero before the loan fund comes to balance.

The section is organized as follows. We first describe the data sources used for information on student repayment and debt and then present results from various policy analysis simulations.

Simulation Model Data Sources

The data for the simulation came mainly from loan payment spreadsheets provided by Focus: HOPE, loan payment data from UAS, and the student records Access database from Focus: HOPE. The spreadsheets have been reformatted and entered into an Access database where the tables are linked by Social Security number (SSN). Because of a substantial number of inconsistencies in the SSNs from the different tables, the values used for parameters in the simulations are estimates and, thus, likely differ from the true values.

The student records database was the source of data for gender and date of birth. The date of birth was used to calculate age at enrollment. The AuditClClose files provided information on tuition earned, co-pays, and student responsibility. These files contained information on government payments (defined, in our case, to be any outside payment including sources such as employer grants), but it was not formatted in a way that could be easily used. So government payments were defined as the difference between tuition earned and the sum of co-payments and student responsibility. The AUDITCNTFLREPAY spreadsheets provided information on individuals who were in repayment, who had paid in full, and who were in default. Finally, we used the collections spreadsheets from both Focus: HOPE and UAS to calculate how much students had repaid on their loans.

Simulation Results

The simulation tool divides students into five mutually exclusive groups depending on whether they took a developmental course (either FAST TRACK or First Step) and then whether or not they entered into the information technology (ITC) or machinist career (MTI) track. Table 4.1 displays basic data about the five groups: Developmental (did not proceed into ITC or MTI), MTI and Developmental, MTI without Developmental, ITC and Developmental, and ITC without Developmental. For each of these groups, the columns in Table 4.1 give the average tuition earned, student responsibility, grant amount, loan payments received, and delinquency rate. The data in this table come from activated loans only. In the simulation, someone is considered to be in good standing if they have either completely paid off their loan or if they are current in their loan payments. Otherwise they are delinquent.

The data on debt and repayment in Table 4.1 reveal that all individuals in all categories have a delinquency rate of around 75%. Furthermore, while average student responsibility ranges from a low of about $1,435 to a high of about $6,640, the average amount of loan payments received is much lower—from $250 to $650. To date, grants constitute the largest source of revenue for the loan fund.

Table 4.1 Loan Fund Overview

Student Group	Average Tuition Earned ($)	Average Student Responsibility ($)	Average Grant Amount ($)	Average Co-pays ($)	Average Amount of Loan Payments ($)	Delinquency Rate (%)
Developmental (First Step/FT)	1,501	1,435	67	—	255	79.2
MTI and developmental	6,423	4,038	2,289	97	526	69.0
MTI, Not developmental	5,431	3,021	2,289	121	433	74.1
ITC and developmental	8,550	6,638	1,722	191	648	74.8
ITC, Not developmental	6,662	5,362	1,104	196	527	78.7
Overall Average	4,994	3,426	1,466	102	435	75.3

Table 4.2 presents a comparison of the characteristics of individuals who are in repayment (repayers) versus those who have been referred to collections or had their debts written off (defaulters). Of all activated loans, 691 students have repaid some or all of their loans; 2,104 have made no payments. Repayers are slightly more likely to be male (67.3% compared to 65.5%) and are, on average, older than nonpayers (an average age of 23.4 versus 21.8). Furthermore, in comparing student groups, we find that nonpayers are disproportionately concentrated in the Developmental only group, whereas both MTI and ITC students are disproportionately in the repayer group.

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Table 4.2 Characteristics of Repayers and Nonpayers

Group	Repayers	Nonpayers
Sample size	N=691	N=2,104
Course/program		
Percent First Step/FT	22.1	27.7
Percent MTI and FS/FT	25.5	18.6
Percent MTI w/o FS/FT	31.1	29.2
Percent ITC and FS/FT	5.6	5.5
Percent ITC w/o FS/FT	15.6	19.0
Characteristics		
Percent male	67.3	65.5
Average age	23.4	21.8

Table 4.3 contains summary statistics on payments received by enrollment group, age, and sex. Payments are classified as either Government (meaning any grant), co-pays, or repays. From a business perspective, Table 4.3 allows for the identification of groups with (relatively) high revenue. The highest revenue groups are females in MTI, both those who took the developmental courses first and those who didn't. These individuals have high levels of grant support and repay levels that are comparable to other populations. The first panel in the table shows that students who only took First Step or FAST TRACK had relatively small loans and government grants. Interestingly, repayments on average are not that much different from the other groups. The MTI programs have been in existence longer than the ITC programs, so the repayment averages are larger. Also, the grant payments are greater for MTI, except for males who started in a developmental course. The differences in co-pay and repay amounts between the groups is small in absolute dollar amounts compared to the difference in government funding.

Table 4.3 Payments, by Enrollment Group, Age, and Sex (in dollars)

Program and Age	Male			Female		
	Government	Co-pays	Repays	Government	Co-pays	Repays
Developmental (FS/FT) only						
17–19	130	–	409	75	–	350
20–25	33	–	210	46	–	456
26–64	34	–	153	73	–	264
MTI and FS/FT						
17–19	2,057	93	1,512	2,830	140	737
20–25	1,759	80	328	2,934	126	393
26–64	2,144	94	254	2,761	94	273
MTI, not FS/FT						
17–19	2,325	135	673	3,631	152	650
20-25	2,132	120	389	2,853	135	472
26–64	2,057	106	285	1,929	110	221
ITC and FS/FT						
17–19	2,064	166	1,162	852	178	426
20-25	1,544	142	428	675	159	648
26–64	2,654	225	724	1,827	269	350
ITC, not FS/FT						
17–19	1,039	179	393	1,188	155	320
20–25	649	212	218	735	204	449
26–64	781	198	284	1,642	219	185

NOTE: Data based on activated loans only.

Simulation model operation

The section describes a simulated model of the loan fund built into an Excel spreadsheet. The simulation parameters, provided in Table 4.4, are based on actual historical data from activated loans. The simulation model allows these parameters to be varied to accomplish sensitivity analyses such as the following:

- the enrollment of students into various mutually exclusive groups (Developmental (FS/FT) only, MTI and FS/FT, MTI without developmental, ITC and FS/FT, ITC without developmental)
- the amount of co-payments required
- the loan interest rates
- the percentage of students who never make any payment into the system
- the quarterly percentage of students who become late in their payments after making a payment in the previous quarter
- the quarterly percentage of students who default after becoming delinquent
- the quarterly percentage of students who pay their debts in full

The accounting period of the simulation model is quarterly.

Table 4.4 Simulation Parameters

Parameter	ITC, with FS/FT	ITC only	MTI, with FS/FT	MTI only	FS/FT only
Quarterly enrollment of students	10	35	20	75	40
Tuition	7,808	6,150	6,613	5,241	1,365
Total co-pays	187	198	108	125	0
Percent government payments	28.5	26.8	47.7	57.7	19.4
Percent who never make a payment (default)	65.2	76.9	67.6	70.4	69.8
Percent quarterly who become late	37.1	40.6	36.5	38.4	41.3
Percent quarterly of late who default	33.6	40	30.9	35.6	34.3
Percent quarterly pay in full	3.0	3.0	3.0	3.0	3.0
Net Fund Outflow ($401,637)					

Assumptions: Years to pay off loan: 5
                     Interest Rate: 5%
                     Total Quarters: 20
                     Late Fee $15

The key outcome of the simulation model is Net Fund Outflow. The Net Fund Outflow is defined as the flow of quarterly expenses (new tuition liabilities minus government grants, which equal new loans made) subtracted from the flow of quarterly revenues (repays and co-pays).

For simplicity, the simulation model assumes all persons in a particular programmatic category have the same characteristics (this is a simplifying assumption that may be relaxed in future work). It is furthermore assumed that all students complete all of their courses in a single quarter, and that Focus: HOPE receives co-payments and any applicable government grants

during that quarter. After they attend classes and incur a loan in the first quarter, students enter one of three "states" in the second quarter. Theses states are called repayment, paid in full, and default. Default means that the student will not make any more loan payments in this or successive quarters (referred to as a sinking state in Markov chains.) The small share of students who pay off their loan in full also never re-enter the simulation (another sinking state). Once in repayment a student can stay in repayment, pay off the balance of the loan, or become late in paying in the third and successive quarters. Students who are late in paying go into default or go back into repayment. If a student who was late goes back into repayment, a late fee is added to the regular loan payment. Figure 4.1 presents a flow chart of the simulation model.

In the simulation in quarter 1, there is only 1 cohort. In quarter 2, there are 2 cohorts; cohort 1 in the first quarter of repayment or default and cohort 2 in the taking classes phase. As the quarters progress, additional cohorts are added. After the number of quarters reaches the time allotted for cohort 1 to pay off its loans, the model enters a steady state, meaning the inflows and outflows will not change from quarter to quarter as the new cohort is offset by the leaving cohort. For example, if the time allotted to pay off the loan is 5 years the model enters steady state after 20 (5 x 4 = 20) quarters.
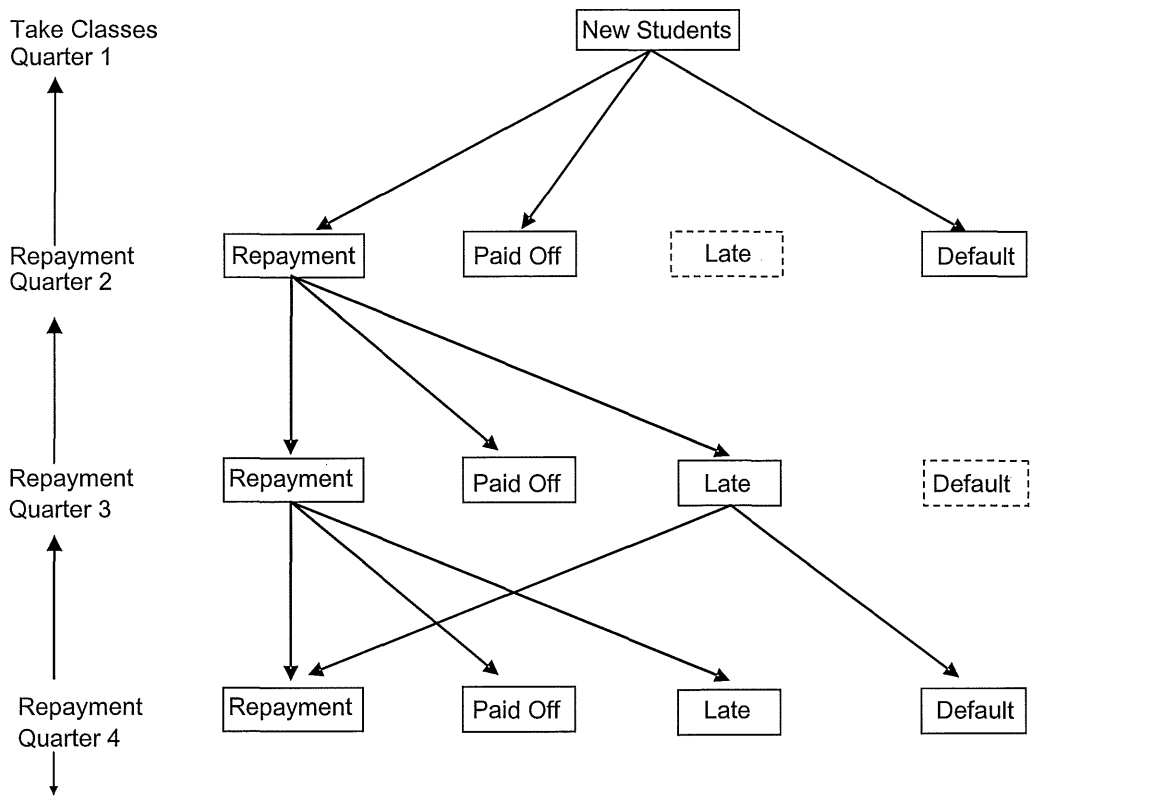
Figure 4.1 Simulation Model Flowchart

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The default parameters used in the baseline case for the simulation are based on estimates generated from data provided by Focus: HOPE. Table 4.4 shows the numbers used to generate the baseline case. The first row gives the quarterly number of students in each category, the second row gives tuition amounts, and the third row gives the percentage of tuition covered by government grants. The total number of students is assumed to be 180 in a quarter (or 720 per year). The fourth row and fifth row give the percentage of students each quarter who either (at onset) never make a payment to Focus: HOPE or, having made a payment in the past, the probability that they will fail to make a payment in the next quarter. Keep in mind that this is a quarterly default rate and that defaults will compound over the term of the loan. The sixth row gives the probability that the failure to make one payment will be followed by the failure to make any future payments. The last row gives the percentage of students who pay their debts in full each quarter. Net Fund Outflows in the baseline case are −$401,637 per quarter. On an annual basis, this is about $1.6 million, which is in line with Table 3.3 data.

Results of Simulation Experiments

A question of concern to Focus: HOPE is how to reduce the net fund outflow. The first experiment that we did was to, in effect, invest more resources into delinquent (i.e., late) cases and reduce the rate at which delinquent cases end up in default. We simulate the effect on Net Fund Outflows of changing the quarterly default rate from its baseline of around 35 to 40 percent to 20, 10, and 0 percent. The results are given in Table 4.5. These changes reduce the net fund outflow by up to $70 thousand per quarter, or about 18 percent of the outflow. Of course, the cost of getting all delinquent cases to begin repayment may be quite high.

Table 4.5 Effect of Changing Default Rate of Those Who Become Late

Percent quarterly who become late	Net Fund Outflow ($)
Baseline (approx. 35 – 40)	(401,637)
20	(380,243)
10	(360,867)
0	(330,677)

The next experiment that was performed was to simulate the effect of investing the resources to reduce the default rate of student. That is, about 70 percent of loan holders never make any payments. Through education programs, better screening of applicants, or requiring more co-signers, it might be possible to reduce that percentage. Table 4.6 shows the results of changing the percentage of students who never make a payment from baseline (approximately 70 percent) to 50, 25, and 0 percent. These changes have a larger impact on the net outflow than reducing delinquencies. Note that the baseline parameters of the rate of default for delinquencies are held constant at their baseline values (about 35 to 40 percent). Getting the percentage of initial defaults down to 25 percent for example, reduces the net fund outflow by almost 25 percent, from −$401,637 to −$300,818.

Table 4.6 Effect of Changing Percent Who Never Make a Payment

Percent who never make a payment	Net Fund Outflow ($)
Baseline (approx. 65 – 70)	(401,637)
50	(355,503)
25	(300,818)
0	(246,120)

Another mechanism for reducing the net fund outflow would be to institute co-payments in the developmental First Step and FAST TRACK programs and to increase the co-payments for MTI and ITC. Table 4.7 displays the results of changing the baseline co-pay structure to (1) a moderate increase of an average of $300 for MTI and ITC and $150 for FS/FT and (2) a more substantial increase of an average of $600 for MTI and ITC and $250 for FS/FT. This change does not affect the bottom line much. The biggest change reduces the outflow by about $ 60,000 per quarter (15 percent).

Table 4.7 Effect of Changing Co-pays

Co-pay amounts	Net Fund Outflow ($)
Baseline co-pay structure	(401,637)
$300 average from ITC and MTI and $150 average from FS/FT only	(378,213)
$600 average from ITC and MTI and $250 average from FS/FT only	(339,096)

Table 4.8 simulates the effect of a change in interest rates while holding constant the current default rate and co-pay structure. The results indicate that even if raising the interest rate had no effect on the default rate (a strong assumption), the loan fund would not have a positive Net Fund Outflow unless it charges an astronomical 242 percent interest rate.

Table 4.8 Effect of Changing Interest

Interest rate on loan	Net Fund Outflow ($)
Baseline (5%)	(401,637)
18%	(386,147)
50%	(339,941)
242%	1,519

In short, the simulation model suggests that the most payoff may come from policies or procedural changes that induce more students to begin to payoff their loan. Smaller impacts come from reducing the default rate of delinquent accounts, increasing the co-pay structure, or raising the interest rate charged on loans. Of course, a combination of these types of changes might yield significant impacts.

Repayment Behavior Models

Tuition has been established for each of the Focus: HOPE programs, and every student who enrolls agrees to repay their tuition through a combination of government funding sources and loan repayments. The loans represent contractual obligations between all participants and Focus: HOPE to pay the tuition over an extended period of time after training completion. According to data provided by Focus: HOPE, a substantial share of the value of the "loans" gets invoiced to governmental agencies in the form of Pell grants, Work First grants, WIA training grants, dual enrollment, etc. That leaves the remainder in the form of unsecured loans with student responsibility. Students are required to make modest co-pays while they are attending classes (approximately $10 per week, which is used to reduce principal). The balances are deferred as long as the students are enrolled at Focus: HOPE, and then the repayments that are captured are applied to late fees, interest, and principal in that order.

We analyzed the repayments made by individuals to Focus: HOPE by constructing four different outcome variables. None of these variables include co-payments.

- *Amount repaid* . This variable, constructed from the loan payment data from Focus Hope and UAS, is the sum of all repayments made by an individual student. This is a **continuous** variable.

- *Payment status*. This variable is constructed from the loan payment data. If the student made at least one payment, then this variable is set to 1; otherwise it is a 0. This is a **binary** variable.

- *Write off status*. This variable is set to 1 if Focus: HOPE had formally written off a loan; otherwise it is a 0. This information originated in the Audit Repay file supplied by Focus: HOPE. This is a **binary** variable.

- *Delinquency Status.* If any non-deferred loan payments were missed during a repayment period, this variable is set to 1; otherwise it is 0. This is a **binary** variable.

Each of these outcome variables measure a different dimension of repayment behavior, and therefore has a distinct statistical distribution. While a continuous variable can (at least conceivably) take on an infinite number of values, a binary variable may only take on two values.

Different statistical techniques are required for these two types of data. For the continuous variable, we use tobit regressions. Tobits are a specialized form of linear regression that are most appropriate when a large number of observations are clustered at zero. In our case, there are a large number of students who have "amount repaid" equal to zero. The coefficient of tobit regressions can be interpreted as the slope of a line. A one unit change in the explanatory variable will produce an expected change in the outcome variable equal to the coefficient estimate for this linear function.

The probit regression technique is a method that compresses the effects of all control variables in such a way as to restrict all predicted values of the outcome variable between zero and one. However, unlike the coefficients in a tobit, interpreting the economic meaning of a coefficient estimate in a probit regression is difficult because the underlying function is non-linear. Thus, compared to the linear tobit, a one unit change in the control variable in a probit regression may cause a larger or smaller change in the predicted value depending on the slope of the non-linear function at that particular value.

Prior to reporting regression results, we first examine two of the outcome variables cross-tabulated with a subset of the controls. Cross-tabulations are averages of the outcome variable for the subset of observations that have a given characteristic. The advantage of cross-tabulations is that they provide easily interpreted results. The disadvantage is that, unlike regression techniques such as tobits or probits, cross-tabulations do not provide simultaneous control for multiple factors that may influence the outcome variable.

The *Amount repaid* and *Payment status* outcomes are compared against the program enrollment, co-signer, and course completion variables in Table 4.9 below. On average of those students who have exited Focus: HOPE and have a student loan liability, the amount paid back is $363.60. Of that same group, about 30% have made a repayment on their loans (i.e., about 70% have not made any repayment).

Table 4.9 Cross Tabulations of Payment Measures with Program, Co-Signer, and Course Completion Variables

Variable Name	Average sum of new payments ($)	Percent of students with at least one payment
Overall	363.60	29.3
First Step/FAST TRACK only	241.13	30.2
ITC	393.67	25.9
Machine	403.34	30.7
Co-Signer	432.55	39.3
No co-signer	343.95	26.4
Completed courses		
0	158.06	22.7
1	258.09	24.8
2	527.11	35.1
3 or more	490.74	35.4

About 30 percent of those who enter First Step or FAST TRACK and do not advance to any other course have made repayments on their loan, and those repayments, on average, equal $241.13. Those in the MTI and ITC programs have similarly meager rates of payment (30.7% and 25.9%, respectively), but have larger repayment amounts on average ($403.34 for MTI and $393.67 for ITC). Note that the table shows that students who have loans with cosigners have both higher rates of payment than those who do not (39.3% compared to 26.4%) as well as higher

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repayment amounts ($432.55 versus $343.95). The presence of a co-signer seems to be one of the strongest correlates of repayment success that we have discovered in the data.

The relationship shown in the bottom rows of the table, between course completions and repayment, is somewhat puzzling. There is an increase both in payment frequency and payment amounts in going from 0 to 1 to 2 complete courses. However, after two courses, inexplicably there does not appear to be any relationship between subsequent course work and increased loan payments to Focus: HOPE. This result is troubling because while students who take three or more courses accrue higher liabilities, they do not appear to repay any more than their counterparts who take only two courses.

Now we turn to the tobit regressions of the *Amount repaid* variable and what they reveal about the eleven hypothesis, referenced above, regarding pre-program, in-program and post-program characteristics. Tables 4.10 and 4.11 present the results from two tobit models for pre-program characteristics. These models differ in how they handle the specification of different program groups and in whether they include a co-signer variable.

Table 4.10 Tobit Estimates of the Effect of Pre-Program Characteristics on Amount Repaid

Characteristic	Coefficient	P>|t|	Coefficient	P>|t|
Pre-Program Characteristics				
H1: Demographics				
Age	−0.65	0.434	−0.05	0.553
Male	68.49	0.479	−30.01	0.762
African American	−629.87***	0.000	−763.49***	0.000
H2: Did loan have cosigner	704.31***	0.000	640.74***	0.000
H3: Family status	No data		No data	
H4: Incarcerated	No data		No data	
In-Program Characteristics				
H5: Effect of course completion				
Number classes completed	749.72***	0.000	558.80***	0.003
(Number classes completed)^2	−100.85**	0.012	−105.33***	0.008
H5: Has at least one class not completed	−3.40	0.976	−239.43**	0.050
H6: Student only attended developmental^a	*314.35** *	*0.025*		
H7: Loan size	0.03	0.183	0.08***	0.001
H8: ITC student with developmental classes			−246.30	0.287
ITC student without developmental classes			−1,188.98***	0.000
MTI student with developmental classes			20.64	0.910
MTI student without developmental classes			−58.15	0.706
Amount of grant	−0.03	0.115	−0.02	0.302
Post-Program Characteristics				
H9: Average quarterly earnings	0.30***	0.000	0.30***	0.000
Do we have wage data	225.35	0.142	247.54	0.103
Constant	−2,576.94***	0.000	−1,846.25***	0.000

NOTE: Number of observations=2,166; pseudo R-squared=0.0139 for specification 1 and 0.0165 for specification 2.
^{a} Developmental courses refers to First Step and FAST TRACK.
*** = statistically significant at the 1% level
** = statistically significant at the 5% level
* = statistically significant at the 10% level
No star = not statistically significant.

Table 4.11 Probit Estimates of the Effects of Pre-Program, In-Program, and Post-Program Characteristics on Payment, Delinquency, and Write Off Status

Hypothesis	Payment Status	Delinquency Status	Write Off Status
H1: Demographics			
Age	(−)	(−)*	(−)**
Male	(−)	(+)	(+)
African-American	(−)***	(−)**	(−)
H2: Co-signer	(+)***	(−)***	(−)***
H3: Family status	No data	No data	No data
H4: Incarcerated	No data	No data	No data
H5: Effect of course completion	(+)***	(−)***	(−)
H5: Has at least one class not completed	(−)	(+)***	(+)
H6: Student was First Step or FAST TRACK only	(+)	(+)***	(+)***
H7: Loan size	(+)	(+)***	(−)
H8: MTI vs ITC			
ITC student with developmental classes	(−)	(−)***	(−)***
ITC student without developmental classes	(−)***	(−)***	(−)***
MTI student with developmental classes	(−)	(−)***	(−)
MTI student without developmental classes	(−)	(−)***	(−)**
H9: post-program earnings	(+)***	(+)***	(+)
H10: training related placement	No data	No data	No data
H11: Debt burden	No data	No data	No data

NOTE: Number of observations for repayment probit = 2,156, pseudo R-squared = 0.0772; number of observations for delinquency probit = 1,957, pseudo R-squared = 0.1307; number of observations for write-off probit = 2,142, pseudo R-squared = 0.1530. Regressions also included zip codes of residence to capture peer effects.
*** = statistically significant at the 1% level
** = statistically significant at the 5% level
* = statistically significant at the 10% level
(−) = a negative correlation
(+) = a positive correlation

The coefficient column in Table 4.10 shows the estimated increase or decrease in total student repayments to Focus: HOPE of a one unit change in the explanatory variable. The p-value indicates the probability that the true coefficient is actually zero and the estimate derived for the sample is merely due to random variation in the data. A p-value near zero indicates strong evidence against the randomness interpretation. A p-value near one indicates that randomness is likely the cause of the non-zero result.

The pre-program characteristics are shown first. Age and sex are not statistically significant. Holding other things constant, African Americans have lower repayment amounts; an effect that is statistically significant. A loan with a co-signer would be expected to pay $704 more than an otherwise identical loan without a co-signer in the first specification; $641 in the second. Currently the data we have from Focus: HOPE do not allow us to control for family status and past incarcerations.

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The middle panel summarizes the estimated effects of in-program characteristics on amount repaid. Completing a course is associated with higher repayments in all three tobit specifications, and the coefficients are statistically significant. A quadratic functional form was use in the regression model, so the estimated effect must be computed. The estimated effect using the average number of completed courses (1.70) in its computation is about $400 for the first specification and $200 for the second. An otherwise average student will repay that much on their loan if they were to complete one additional course. We used the quadratic functional form because the data indicated that repayments did not seem to increase after 3 completed courses. Supporting the hypothesis, failing to complete a course appears to negatively impact repayments (in the second specification), controlling for other observable variables. Not completing a class reduces total payments by about $240.

Interestingly, the hypothesis that stated that First Step/FAST TRACK only students would not pay back as much as students who were in MTI or ITC was not borne out by the estimates. In the first specification, the estimate suggests that these students pay back $314 more than other students; and in the second specification, in which the First Step/FAST TRACK only students are the omitted category, all of the coefficients save one are negative. In particular, ITC students tend to have repaid the least amount, but this may be because, in general, the ITC courses are more recent, and there has been thus more time for MTI students to make repayments. Note that these results hold the total loan liability constant.

Students with larger loan liabilities to Focus: HOPE tend to pay back more than those with smaller loans but this effect is quite small. For every new dollar loaned out, students have repaid about $0.08 on average. In interpreting this result, it should be remembered that the loan repayments are in process.

The bottom part of the table contains the Tobit results for post-program characteristics. Increased earnings are strongly associated with increased repayments in all three specifications, as might be expected. For every additional dollar earned by a student per quarter after exiting Focus: HOPE, we expect them to repay $0.30 on average. We do not have detailed enough data to test whether or not a training-related placement or if debt burdens impact repayments.

Table 4.11 summarizes the results from estimating Probit models of the three binary outcome variables: payment status, delinquency status, and write off status. This table does not contain the coefficient estimates from the regressions because the magnitude of the numbers themselves is difficult to interpret. Instead, the table displays the sign and statistical significance of the coefficient. Only the co-signer variable consistently has the expected sign and statistical significance across the three outcome models. It is strongly positive for payment status and negative for delinquency and write off. Course taking and completing also seem to have the expected signs, although not all of the coefficients are significant. More completed courses are positively correlated with payment and negatively correlated with delinquency and write off; having at least incompleted course has exactly opposite effects.

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While post-program earnings are a good predictor of the amount of repayments, they have the wrong sign for delinquency and write off status (the former is statistically significant). The variables representing type of courses have unexpected signs. Being an MTI students or an ITC student is negatively correlated with payment, but they are also negatively correlated with delinquency and write off. In general, the demographic variables are weak predictors of these three repayment outcomes.

V. Training Net Impacts

TRAINING NET IMPACTS

Variables and Accounting Periods

The evaluation data set uses individuals as the unit of observation. For each individual in the treatment cohorts, the data base is populated with information from three time periods: Pre-enrollment, Focus: HOPE program participation, and post-training. The individuals in the comparison cohorts have data from pre-encounter and post-encounter time periods. Some variables are time-invariant, and others change over time.

The data blocks that are in the pre-enrollment (for treatment cohort members) and pre-encounter (for comparison cohort members) periods of time include demographics, information about childhood family(ies), high school(s) experiences, post-secondary educational experiences prior to encountering Focus: HOPE, current family status and relationships, health/disability status, sources and amounts of income.

The Focus: HOPE participation data for treatment cohort members include academic information about courses taken and performance outcomes, and financial aid information. The financial aid information includes application information, student account balances, and repayment/deferral histories.

The data blocks in the post-training (post-encounter) periods include employment-related information (occupation, wage rate, hours, availability of insurance, training, etc.), current family(ies) information, further education or training, health status, and sources and amounts of income.

Net Impact Estimates

The gist of the net impact analyses is to determine the difference in outcomes between individuals who received Focus: HOPE training and the comparison group members. Because individuals were not randomly assigned to be in the participant group or in the comparison group, there may be systematic (nonrandom) differences between them. The statistical estimators used to calculate the net impact analyses attempt to control for those differences in order to get an unbiased estimate of the training's net impact.

We have used two data sources to estimate net impacts. First, we used the quarterly earnings data from the Unemployment Insurance wage record data system, and second, we used self-reported data from the sample survey.

Wage record data results

Employers in Michigan are required to submit quarterly earnings records when they pay their Unemployment Insurance taxes. Applicants to Focus: HOPE have been requested to sign a form that allows the State to disclose these records to Focus: HOPE for programmatic and evaluation purposes. For the evaluation, the social security numbers of all the individuals in the analysis data base were sent to the State for earnings records matching. Because of strict disclosure regulations, the State also used the first initial of the individuals' first names as a secondary match criterion.

Employment rates. The first outcome to be examined is employment rates. In this case, employment is defined as having positive earnings in a quarter. Table 5.1 provides data on employment rates for cohort 0 students (enrolled prior to 2002), for the individuals who enrolled in 2002–2004, and for the comparison group of individuals who tested to become students in 2002–2004.

Table 5.1 Employment Rates, by Group and Quarter

Quarter	Cohort 0 (%)	Treatment: Cohorts 1–3 (%)	Comparison Group (%)
2002:Q1	72.1	55.7	61.7
2002:Q2	75.1	60.7	64.3
2002:Q3	75.1	59.2	64.1
2002:Q4	67.3	56.5	57.9
2003:Q1	44.8	42.1	44.1
2003:Q2	68.5	59.2	60.4
2003:Q3	53.9	46.0	49.2
2003:Q4	68.4	60.1	59.1
2004:Q1	70.2	61.8	61.6
2004:Q2	68.7	61.5	62.6
2004:Q3	73.6	68.0	65.9
2004:Q4	72.2	66.3	65.3
2005:Q1	71.7	67.5	64.5
2005:Q2	73.0	68.2	64.7

NOTE: The dashed line indicates the point in time in which the treatment groups' employment rate surpassed the comparison groups'.

Some interesting characteristics about the data in the table should be noted. First, all three groups experienced the employment cycle in parallel. Employment rates started to drop in the 4th quarter of 2002 and were abysmal through 2003:Q3, with the exception of the 2nd quarter, which may have reflected Summer employment. The employment rates rebounded substantially in 2004. Second, note that the treatment and comparison groups' employment rates were quite a bit lower than the cohort 0 rates in the earliest quarters displayed, but then they become much closer toward the end of the data. This likely reflects the fact that the treatment and comparison groups are younger and have less labor market experience. Finally, note that the treatment group surpasses the comparison group for the final seven quarters of data, except for one. We have inserted a dashed line to indicate this phenomenon.

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Of course, a characteristic of the treatment group is that a significant share of the individuals are students, which may dilute their employment rates. Table 5.2 displays the employment rate data for the treatment group disaggregated by whether the individual was enrolled in Focus: HOPE during the quarter as well as the comparison group. Here, the employment rate for non-students exceeds the comparison group's employment rate for virtually the entire period, whereas the students' employment rate is less than the comparison group's for all but the final quarter. (Of course it should be recognized that some of the comparison group members may be students at other training institutions during the period.) Over the entire 14 quarter period presented in the table, the treatment students not in class have a 1.98 percentage point higher employment rate on average than the comparison group. This is a positive net impact of approximately 3.0 percent.

Table 5.2 Employment Rates by Whether Treatment Groups Students are Enrolled, by Quarter

| Quarter | Treatment cohorts 1–3: | | Comparison group (%) |
	Students (%)	Non-students (%)	
2002:Q1	50.9	57.3	61.7
2002:Q2	54.2	63.9	64.3
2002:Q3	55.6	61.5	64.1
2002:Q4	52.4	58.8	57.9
2003:Q1	35.9	46.1	44.1
2003:Q2	50.3	63.6	60.4
2003:Q3	35.3	50.8	49.2
2003:Q4	50.1	63.6	59.1
2004:Q1	50.2	66.6	61.6
2004:Q2	48.2	66.2	62.6
2004:Q3	58.5	71.2	65.9
2004:Q4	54.8	68.7	65.3
2005:Q1	64.9	67.6	64.5
2005:Q2	70.8	68.2	64.7

NOTE: The dashed line indicates the point in time in which the non-students' employment rate surpassed the comparison groups'.

Another interesting way to look at the employment rate outcome is by type of course. The Focus: HOPE training leads to higher employment rates, but the question might be asked about whether this positive outcome is equally distributed across the MTI or ITC students or students who did not proceed beyond First Step or FAST TRACK. Table 5.3 shows the employment rates disaggregated by course type. Two findings stand out. The ITC employment rates are higher than the MTI rates, and for both ITC and MTI, the employment rates are higher for students who did not take First Step or FAST TRACK. Interestingly, with the exception of a few quarters, the employment rates of the First Step/FAST TRACK only students exceeds the employment rate of the MTI students who started out in First Step/FAST TRACK. Probably the explanation for this is that one of the reasons that a student may not continue into MTI or ITC after taking First Step or FAST TRACK is because they become employed or because they are already employed, and they choose not to continue.

Table 5.3 Employment Rates by Course Type, by Quarter

Quarter	FS/FT only (%)	MTI plus FS/FT (%)	MTI, no FS/FT (%)	ITC plus FS/FT (%)	ITC, no FS/FT (%)	Comparison group (%)
2002:Q1	49.6	48.5	53.9	55.3	64.5	61.7
2002:Q2	59.0	54.6	60.1	59.2	64.5	64.3
2002:Q3	58.2	50.8	57.3	60.5	64.5	64.1
2002:Q4	55.7	56.2	51.1	54.0	62.4	57.9
2003:Q1	41.0	40.8	40.6	47.4	43.5	44.1
2003:Q2	56.5	55.6	55.1	66.3	66.1	60.4
2003:Q3	40.5	48.7	45.0	42.4	51.5	49.2
2003:Q4	55.4	53.6	61.9	61.8	65.1	59.1
2004:Q1	60.9	50.7	62.7	61.6	68.3	61.6
2004:Q2	60.3	53.3	60.3	66.7	67.8	62.6
2004:Q3	65.9	60.0	66.0	71.7	76.1	65.9
2004:Q4	63.5	63.6	67.6	66.7	68.8	65.3
2005:Q1	63.8	66.7	66.9	67.7	71.4	64.5
2005:Q2	65.5	71.9	67.6	58.8	71.6	64.7

NOTE: The dashed line indicates the point in time in which the non-students' employment rate surpassed the comparison groups'.

Earnings.   The second data item from the earnings records that is analyzed is average quarterly earnings. The data in Tables 5.4 and 5.5 display this information. Unlike the employment rate data, the average for the treatment group does not surpass the comparison group, although the means are close toward the end of the period of analysis. Note that in this case, the average earnings by quarter for both the treatment and comparison group students are considerably lower than for cohort 0 for the entire time period.

Table 5.4 Quarterly Earnings, by Group and by Quarter

Quarter	Cohort 0 ($)	Treatment cohorts 1–3 ($)	Comparison Group ($)
2002:Q1	4,211	3,025	3,219
2002:Q2	4,520	3,025	3,475
2002:Q3	4,855	3,028	3,378
2002:Q4	4,929	3,123	3,519
2003:Q1	4,462	2,785	3,353
2003:Q2	5,152	3,377	3,917
2003:Q3	5,352	3,429	4,044
2003:Q4	5,676	3,465	4,180
2004:Q1	5,342	3,486	3,804
2004:Q2	5,569	3,672	3,908
2004:Q3	5,421	3,733	4,019
2004:Q4	6,173	4,486	4,542
2005:Q1	5,507	4,028	4,122
2005:Q2	5,805	4,499	4,519

Table 5.5 Quarterly Earnings by Whether Treatment Groups Students are Enrolled, by Quarter

| Quarter | Treatment cohorts 1–3: | | Comparison group ($) |
	Students ($)	Non-students ($)	
2002:Q1	2,405	3,210	3,219
2002:Q2	2,870	3,088	3,475
2002:Q3	2,550	3,302	3,378
2002:Q4	2,966	3,203	3,519
2003:Q1	2,746	2,804	3,353
2003:Q2	2,902	3,565	3,917
2003:Q3	2,498	3,722	4,044
2003:Q4	2,352	3,770	4,180
2004:Q1	2,587	3,767	3,804
2004:Q2	2,430	3,985	3,908
2004:Q3	2,355	4,108	4,019
2004:Q4	2,910	4,751	4,542
2005:Q1	3,466	4,065	4,122
2005:Q2	3,084	4,523	4,519

NOTE: The dashed line indicates the point in time in which the non-students' average quarterly earnings surpassed the comparison groups'.

The next table displays the average earnings by quarter for the treatment students who are in class during the quarter and those not in class. As would be expected the average quarterly earnings for the latter are much greater. The average earnings for the treatment group non-students are less than the average earnings for the comparison group for the years 2002 and 2003, but then exceed them starting in the second quarter of until the end of the period, except for one quarter. Over the entire 14 quarter period, the individuals in the treatment cohorts who are not in class average about $3,800 per quarter, whereas the comparison group averages about $3,900 per quarter. However, in the final five quarters, the treatment students not in class average about $4,286 per quarter and the comparison group averages about $4,222. So, in those five quarters, the average net impact on quarterly earnings is about $64 or 1.60 percent.

Table 5.6 shows the earnings impact by course type. Here, we see that ITC students ended up with higher quarterly earnings than MTI students, although the difference between the MTI and ITC students who started out with First Step or FAST TRACK are quite comparable toward the end of the time series. The ITC students who had the skills to go directly into ITC without any developmental courses have, by far, the highest average quarterly earnings. Unlike the employment findings, where the First Step/FAST TRACK only students had slightly better outcomes than the MTI students who started in First Step/FAST TRACK, the quarterly earnings of the latter clearly exceed the former starting in the first quarter of 2003.

Sample survey data

The second source of data for the training net impact analysis is sample surveys that were conducted in April 2004 and March 2005. These surveys were conducted by a survey unit of Wayne State University. The sampling frames for the surveys were confined to the students or

Table 5.6 Quarterly Earnings by Course Type, by Quarter

Quarter	FS/FT only ($)	MTI plus FS/FT ($)	MTI, no FS/FT ($)	ITC plus FS/FT ($)	ITC, no FS/ST ($)	Comparison group ($
2002:Q1	1,077	1,277	1,354	1,720	2,533	3,219
2002:Q2	1,433	1,242	1,479	1,744	2,649	3,475
2002:Q3	1,394	1,083	1,499	1,698	2,614	3,378
2002:Q4	1,365	1,274	1,433	1,558	2,551	3,519
2003:Q1	830	845	1,085	1,196	1,616	3,353
2003:Q2	1,581	1,766	1,637	1,642	2,876	3,917
2003:Q3	1,129	1,463	1,418	1,227	2,234	4,044
2003:Q4	1,478	1,485	1,946	2,130	3,064	4,180
2004:Q1	1,508	1,532	2,062	2,086	3,155	3,804
2004:Q2	1,611	1,575	2,250	1,994	3,262	3,908
2004:Q3	1,954	1,884	2,512	2,236	3,515	4,019
2004:Q4	2,183	2,530	2,955	2,471	4,007	4,542
2005:Q1	1,934	2,251	2,775	2,409	3,624	4,122
2005:Q2	2,396	2,758	3,072	2,416	3,916	4,519

NOTE: The dashed line indicates the point in time in which the non-students' employment rate surpassed the comparison groups'.

comparison group members in cohorts 1 through 3. The first survey obtained 460 usable responses, equally split between the treatment and comparison groups. The second survey obtained 700 responses; of which 360 were from the comparison group and 340 from the treatment group of students.

Response rates and response analyses. Response rates to these surveys were quite low. It was exceedingly difficult to get responses to this telephone survey. To enhance response rates, we offered all individuals who completed the survey a gift card at Target ($10 for the first survey and $15 for the second). The Upjohn Institute supplied Wayne State with lists of the students sampled randomly that had the most recent contact information for the students as supplied to us by Focus: HOPE.

In the first wave of the survey, the response rate for the treatment group (first time enrollees in 2002 and 2003) was about 17.1 percent. It was 17.9 percent for the comparison group. Most of the nonresponse came from bad telephone numbers (disconnected/not in service or wrong numbers) as opposed to refusals. In the second wave of the survey, the response rate for the treatment group, which now included the 2004 students was 18.4 percent, and the response rate for the comparison group was 12.7 percent.

With such poor response rates, the question of potential bias is natural. We were able to analyze nonresponse using a couple of different statistics, and as a result, we don't believe that response bias is of a significant magnitude. Table 5.7 presents data on the application test scores for the total population and for the survey respondents, and data on self-reported employment rates of the respondents and the appropriate quarterly employment rate from the total population that got matched to wage records. The survey respondents average slightly higher on the test scores than does the entire population; however this is true for both the treatment and comparison groups, and the differences are quite small.

Table 5.7 Survey Response Analysis

Statistic	Survey Respondents		Population	
	Comparison	Treatment	Comparison	Treatment
Test scores[a]				
Math	9.4	10.1	9.3	9.9
Reading	11.4	11.5	11.2	11.4
Employment rates[b]				
Q2:2004	54.8	55.2	62.6	60.7
Q1:2005	58.3	58.3	59.4	63.1

[a] If individual was retested, the highest score was used.

[b] Survey respondents' data pertain to current employment status on date of survey; population rates determined from wage record data.

The self-reported current employment rates are higher than the administrative quarterly rates. For the treatment group, the former is about 5 percentage points greater in both waves of the survey. For the comparison group, the difference is about 8 percentage points in the first wave, but only about one percentage point in the second wave. It is inappropriate to pay to much attention to these differences, but it should be pointed out that the comparison sample in the first wave may have an underrepresentation of employed individuals, and in the second wave, it may have an overrepresentation of employed individuals *relative to the treatment group*.

Descriptive statistics. Table 5.8 provides descriptive statistics from the two waves of the survey concerning the demographics of the treatment and comparison groups of individuals. If we assume that there is no response bias in the survey, the table suggests that the average treatment group member is slightly more likely to be a male, slightly younger, and slightly less likely to be White/Caucasian than the typical comparison group member. The comparison group members are individuals who tested high enough to get into Focus: HOPE, but chose not to enroll. The table's statistics suggest that these individuals are slightly more likely to be female, older, and White/Caucasian.

The average treatment group member is slightly more likely to have come from a childhood home with a single parent, but the two groups seem to be indistinguishable in terms of number of children in the home and mobility. Finally, the treatment group seems to come from families with higher levels of parental education. The percentage of students with mother's or father's educational attainment to be high school diploma or less is much smaller for the Focus: HOPE students than for the comparison group, and the percentage with college or more is higher.

Table 5.9 has descriptive statistics concerning the educational backgrounds of the treatment and comparison groups. The self-reported high school grade point average (GPA) of the treatment group is lower than that of the comparison group respondents—this is consistent with the higher proportion of males. Also, not surprisingly, the comparison group seems to have slightly higher likelihoods of attending a college after high school and of participating in formal skill training other than at a college setting. These differences may be explained by the fact that the questions ask the respondents about post-high school education and training other than at Focus: HOPE.

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Table 5.8 Descriptive Statistics about Demographics, by Survey Wave

	2004 Survey		2005 Survey	
	Treatment	Comparison	Treatment	Comparison
Sample size	230	230	340	360
Sex (%)				
Male	65.7	65.7	67.6	62.8
Female	34.3	34.3	32.4	37.2
Age at testing (mean)	28.3	30.1	28.4	29.0
Race/ethnic origin (%)				
Black/African-American	90.0	86.5	88.8	88.6
White/Caucasian	2.2	4.8	3.2	5.6
Latino/Hispanic	2.6	3.5	2.2	1.1
Other (incl. mixed, DK, RAF)	5.2	5.2	5.8	4.9
Childhood household (%)				
Number of adults < 2	28.5	26.4	26.8	23.3
Number of children ≥4	29.4	30.2	34.9	31.3
Mobility in childhood (%)				
Never moved	29.2	27.2	25.0	30.1
Moved once/twice	45.4	45.6	48.8	42.0
Moved 3+ times	25.4	27.2	26.2	27.9
Education of Mother/Female Guardian[a] (%)				
Less than high school	8.8	14.3	12.1	12.1
High school or GED	33.0	35.0	29.1	34.6
Some college	28.9	29.9	28.8	29.4
College degree or more	29.3	20.8	30.0	23.9
Education of Father/Male Guardian[a] (%)				
Less than high school	14.1	18.3	14.7	17.9
High school or GED	39.3	44.3	38.8	45.2
Some college	27.4	18.7	22.4	23.0
College degree or more	19.2	18.7	24.1	13.9

Table 5.9 Descriptive Statistics about High School GPA and Post-High School Formal Education or Training, by Survey Wave

	2004 Survey		2005 Survey	
	Treatment	Comparison	Treatment	Comparison
High school GPA (self-reported)	2.69	2.81	2.73	2.79
Attended community college, college, or university (%)	62.6	61.3	58.8	67.5
Formal skill training, other than community college, college, university, or Focus: HOPE (%)	30.9	35.7	54.7	55.0

Reasons for not attending Focus: HOPE. One of the purposes of the survey was to ask comparison group members about why they chose not to enroll in Focus: HOPE. Table 5.10 provides these data along with information about the application process. The top panel of the table shows that about half the respondents indicated that they were interested in MTI and a slightly smaller percentage was interested in ITC. Most of the applicants had completed a tour and orientation session. About half of the comparison group respondents to the first wave and about one-third of the respondents to the second wave indicated that they had taken a drug test.

Table 5.10 Comparison Group Interactions with Focus: HOPE, by Survey Wave

	2004 Survey		2005 Survey	
Program of application (%)				
MTI	51.3		50.8	
ITC	41.8		43.1	
Both	3.5		3.1	
Other (Neither, DK, Ref.)	3.5		3.0	
Activities completed				
Tour/orientation	91.7		93.9	
Drug test	48.3		36.9	
Financial aid application	48.3		34.7	
Reasons for not attending (%)		Mentioned		Two most important
Not interested in that field	13.9	19.4		10.0
Training will take too long	9.2	14.0		8.2
Too expensive	24.4	36.0		28.5
Get education/training elsewhere	25.7	37.3		22.4
Didn't want loan	12.6	25.0		13.8
Couldn't get co-signer	8.7	12.5		6.8
Transportation difficulties	8.7	16.0		12.1
Got a job	27.8	36.0		25.9
Sample size	230		360	

The lower panel of the table provides responses to the question about why the individuals chose not to enroll. The respondents provided multiple reasons, so the percentages in the table add up to more than 100%. In the second wave, we asked the individuals to indicate which of the reasons they considered to be the most important and allowed up to two responses. The reason mentioned most frequently in the first wave and second most often in the second wave was that the respondent "got a job." This was mentioned by approximately one-third of the respondents. A very similar-sized share of the respondents indicated that the Focus: HOPE training was "too expensive" or that they decided to "get education/training elsewhere." Presumably there was high overlap between these two responses.

Of particular interest to Focus: HOPE was the extent that the loan obligation might deter applicants. This seemed to affect a relatively small share of the comparison group. About 13 percent of the first wave respondents mentioned that they "didn't want a loan," and about nine percent "couldn't get a co-signer." Again, there is overlap between these two response categories. In the second wave, these responses were mentioned slightly more often: about 25 and 13 percent of the time.

Finally, logistical problems such as transportation or length of the program were relatively minor, as was the response that after orientation, the respondent decided that they were no longer interested in the field.

Outcomes. Table 5.11 provides information from the survey about the labor market outcomes that occurred for the treatment and comparison groups of individuals after their training from or application encounters with Focus: HOPE. The first row of data shows the employment rates at the time of application. Striking is the fact that the rates for the first wave of the survey are so much lower than the second wave. One explanation may be the abysmal labor

Table 5.11 Labor Market Outcomes, by Survey Wave and Treatment Status

	2004 Survey		2005 Survey	
	Treatment	Comparison	Treatment	Comparison
Employed at time of application (%)	29.2	35.3	65.6	64.7
Current employment status (%)				
Employed	55.2	54.8	58.3	58.3
Not employed	44.8	45.2	41.7	41.7
If currently employed,	N=127	N=126	N=198	N=210
Job is training-related (%)	33.9	22.3	29.3	20.5
Tenure (in months)	11.1	16.7	13.2	13.8
Hours/week	36.2	39.9	35.3	37.3
Hourly wage ($)	10.93	12.13	10.72	10.82
Received promotion? (%)	28.4	44.5	38.1	37.1
Health insurance? (%)	40.2	53.2	41.2	45.5
If not employed,	N=103	N=104	N=142	N=150
Currently looking? (%)	81.5	80.8	74.7	80.7
Unemployment rate (%)	39.8	40.0	35.0	36.6
Held job in last 2 years?				
Yes (%)	64.1	73.1	60.8	76.0
No (%)	35.9	26.9	39.2	24.0
Percent long-term unemployment (%)	16.1	12.2	16.5	10.0

market in 2003, when overall employment rates were 10 to 20 points lower than the previous or successive years (see Table 5.1). Another explanation may be recall error, since greater time may have elapsed between application and survey response for the second wave.

The second panel in the table displays employment and non-employment rates of the samples at the time of the survey. These data show no statistically significant differences between the treatment and comparison groups. The employment rate of both groups is about 55 percent in the earlier survey and 58 percent in the later one. Individuals who responded that they were currently employed were asked a number of questions about their jobs. These data items are presented next in the table. Based on the individuals' description of their job duties, occupation, and industry, we created an indicator of whether the job was related to their Focus: HOPE training. While the percentages are higher for the treatment group, the magnitudes seemed quite modest. Slightly less than a third of the employed Focus: HOPE students were in a machining, manufacturing, or IT-related position. This percentage should be a serious concern to Focus: HOPE.

Not surprisingly, the comparison group had longer tenures in their current job. Many of the comparison group chose not to attend Focus: HOPE because they got a job and many of the treatment group were taking classes when their counterparts in the comparison group may have been working. Concomitantly, the hours per week, hourly wage, and health insurance coverage of the comparison group exceeded the treatment group. These are all likely to be related to the longer tenures. Interestingly, in the second survey, even though the comparison group individuals who were employed had slightly longer average tenure, their probability of receiving a promotion at their job was slightly lower than for the Focus: HOPE students.

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The final items of data in the table relate to individuals who reported that they were not employed at the time of the survey. About 75 – 80 percent of them in both treatment and comparison groups reported that they were looking for employment, so the unemployment rates of the groups were in the range of 35 – 40 percent, and don't differ by treatment or comparison group status. A much higher share of the Focus: HOPE students reported holding no job in the last two years. The bottom row of the table is the percent of the total sample that are not working and have not held a job in the last two year. These percentages are higher for the treatment group.

Summary

The net impact analysis suggests generally positive labor market outcomes for Focus: HOPE students. Note that the counterfactual that is employed is represented by the comparison group of individuals. In other words, the analysis assumes that if Focus: HOPE were not available, then the individuals who attended Focus: HOPE would look like and have outcomes like the individuals comprising the comparison group.

Using wage record data from the State of Michigan, we find that employment rates of former students of Focus: HOPE exceed the employment rates of the comparison group for the most recent 10 quarters of data. Furthermore, the same source of data shows that quarterly earnings of former students exceed the quarterly earnings of the treatment group for the most recent five quarters.

A less sanguine result from the sample surveys is the relatively modest rate of employment that is related to the training received by Focus: HOPE students. Only about one-third of the employed individuals who had attended Focus: HOPE reported working in an industry or job related to machining or IT.

VI. CONCLUSIONS, RECOMMENDATIONS, AND FUTURE WORK

CONCLUSIONS

Focus: HOPE provides valuable training to a population of young individuals who have barriers to the development of viable careers such as low-income backgrounds, basic skills deficiencies, incarceration in some cases, and single parenthood, in some cases. As the policy and economic times have changed, Focus: HOPE has changed as well. For students with low basic skills, it offered First Step in addition to FAST TRACK. It initiated training in information technology (IT). Since the late 90s, Focus: HOPE has operated a loan fund to continue to provide access to its programs in the face of declining government support, to provide its students with the human capital of dealing with financial responsibility, and to provide revenue for the program.

Obviously, the educational mission of Focus: HOPE is not easy work, and not surprisingly this evaluation has found some positives and negatives. There seems to be little doubt that Focus: HOPE is providing valuable training for many students who are becoming gainfully employed. On the other hand, the loan fund seems to be struggling, and trends in enrollments and training-related placements may be problematic.

Among our main conclusions are the following:

1. There has been a downward trend in enrollment from 1,047 to 829 to 712 in 2002 to 2004, respectively. First Step/FAST TRACK enrollments have held reasonably steady; MTI has dropped approximately 10 percent; but, ITC enrollments have declined significantly from 366 to 185, almost a 50 percent decline over the three year period.

2. The performance of the loan fund has been relatively stable over the past three to four years despite a precipitous decline in Government grants. The loan fund has an annual net outflow of approximately $2 million, although it may have been lower in 2004, for which our data are incomplete.

3. The level of loan defaults by students (whether measured on a dollar or person basis) is significant - - roughly on the order of 60 to 70 percent. Most of the defaults are individuals who never repay, as opposed to individuals who make a payment and then become delinquent.

4. Notwithstanding the substantial level of default, the amount of repayments against principal has increased significantly to a level of over $300 thousand in the last year of data, which may be an underestimate. Furthermore, the there is a healthy upward trend in payments against principal. (Table 3.4).

5.   Statistical analyses of repayment data suggest that presence of a co-signer and post-program quarterly earnings are most predictive of positive loan repayment behavior.

6.   Preliminary analyses of administrative data suggest that Focus: HOPE education programs have a positive impact on employment rates and quarterly earnings. (Tables 5.1 – 5.6).

8.   Analysis of survey data suggests that training-related placements of Focus: HOPE students are quite modest. (Table 5.11).

RECOMMENDATIONS

The Focus: HOPE educational administrators need to strive to maintain and enhance the strengths of the MTI/ITC programs, as well as implementing policies or procedures that may ameliorate some of the problem areas. The following recommendations are intended to be "food for thought:"

1.   The key factor in loan fund viability is the payment rate (defined as percent of students with activated loans who make any repayment against principal). The simulation model described in chapter four suggests that this parameter may be the most effective in reducing net outflow. That is, of all the parameters that describe the loan fund, if "tweaked," it may have the greatest return. Hypotheses about increasing payment rate would include (1) offering educational programs/seminars to current or graduating students about debt management, (2) requiring co-signers for a larger share of students, and (3) screening out applicants with excessive debt burdens (more work to be done in year 3 on effect of debt).

2.   Given the importance of post-program earnings for establishing economic independence and self-support as well as on loan repayment behavior and given the finding of very modest training-related placements, it may be advisable Focus: HOPE to "beef up" its placement activities. This might require more aggressive job development, more follow-up to obtain feedback from employers who have hired recent graduates, or "radical" innovations such as guaranteed lifetime use of placement services as long as students are in good standing with their loan payments.

YEAR 3 ACTIVITIES (FUTURE WORK)

This report culminates the second year of evaluation activities. In year three of the evaluation, we intend to accomplish further work in analyzing the loan fund and in estimating the net impact of Focus: HOPE training, but also we intend to begin to draft a more formal manuscript that will be the basis for broad dissemination.

Among the tasks that we will accomplish in analyzing the loan fund are to conduct focus groups with students and applicants. The purpose of these focus groups will be to gauge the

extent to which the potential financial liability is an obstacle to applying to or attending Focus: HOPE. One of the important questions that Focus: HOPE administrators want answered is whether the loan fund is diverting certain students who would otherwise benefit from the training. In addition, we will continue to conduct the econometric analyses of loan repayment behavior. It is important to include an additional year of data because the upward trend in payments against principal suggests that more positive behavior is occurring. Furthermore, we want to explore further the importance of in-program performance and debt burden at the point of application. Finally, we will analyze the results of an experiment that was conducted with applicants. For a short period of time (three months), applicants were randomly assigned to a group of applicants that completed a much fuller, rigorous application than the status quo at that time. The applicants not assigned to that group continued the status quo. Focus;HOPE observed very few problems with the fuller application, and decided to use that for all applicants after the three-month experiment.

Among the tasks to be undertaken in year 3 for the net impact analysis are focus groups with students, analyses of the administrative data on employment and earnings with an additional year of data, and further empirical analysis. We will analyze econometrically the administrative data using in-program performance data and other covariates such as demographics and high school background. Furthermore, we will analyze the survey data by incorporating assets/liabilities into models as well as FICO scores.

The final task that we will accomplish during the third year will be the preparation of a manuscript that can be disseminated to tell the story of the Focus: HOPE training and its innovative loan fund.

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