

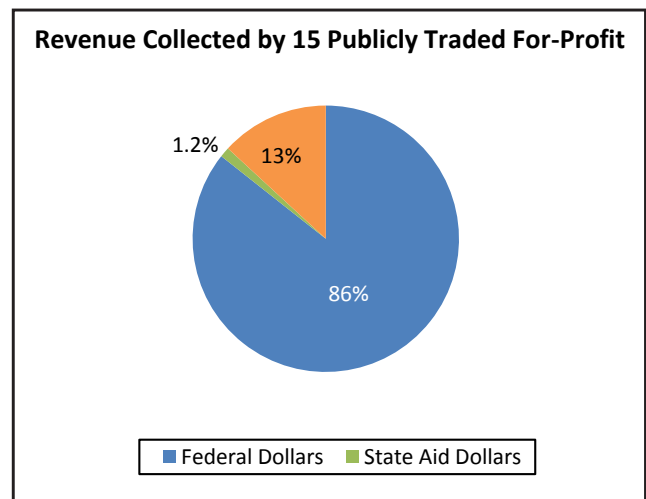
Executive Summary

- A 2-year investigation by the Senate Committee on Health, Education, Labor, and Pensions demonstrated that Federal taxpayers are investing billions of dollars a year, \$32 billion in the most recent year, in companies that operate for-profit colleges. Yet, more than half of the students who enrolled in those colleges in 2008-9 left without a degree or diploma within a median of 4 months.
- For-profit colleges are owned and operated by businesses. Like any business, they are ultimately accountable by law for the returns they produce for shareholders. While small independent for-profit colleges have a long history, by 2009, at least 76 percent of students attending for-profit colleges were enrolled in a college owned by either a company traded on a major stock exchange or a college owned by a private equity firm. The financial performance of these companies is closely tracked by analysts and by investors.
- Congress has failed to counterbalance investor demands for increased financial returns with requirements that hold companies accountable to taxpayers for providing quality education, support, and outcomes. Federal law and regulations currently do not align the incentives of for-profit colleges so that the colleges succeed financially when students succeed.
- For-profit colleges have an important role to play in higher education. The existing capacity of non-profit and public higher education is insufficient to satisfy the growing demand for higher education, particularly in an era of drastic cutbacks in State funding for higher education. Meanwhile, there has been an enormous growth in non-traditional students—those who either delayed college, attend part-time or work full-time while enrolled, are independent of their parents, or have dependents other than a spouse. This trend has created a “new American majority” of non-traditional students.
- In theory, for-profit colleges should be well-equipped to meet the needs of non-traditional students. They offer the convenience of nearby campus and online locations, a structured approach to coursework and the flexibility to stop and start classes quickly and easily. These innovations have made attending college a viable option for many working adults, and have proven successful for hundreds of thousands of people who might not otherwise have obtained degrees.
- But for-profit colleges also ask students with modest financial resources to take a big risk by enrolling in high-tuition schools. As a result of high tuition, students must take on significant student loan debt to attend school. When students withdraw, as hundreds of thousands do each year, they are left with high monthly payments but without a commensurate increase in earning power from new training and skills.
- Many for-profit colleges fail to make the necessary investments in student support services that have been shown to help students succeed in school and afterwards, a deficiency that undoubtedly contributes to high withdrawal rates. In 2010, the for-profit colleges examined employed 35,202 recruiters compared with 3,512 career services staff and 12,452 support services staff, more than two and a half recruiters for each support services employee.
- This may help to explain why more than half a million students who enrolled in 2008-9 left without a degree or Certificate by mid-2010. Among 2-year Associate degree-seekers, 63 percent of students departed without a degree.
- The vast majority of the students left with student loan debt that may follow them throughout their lives, and can create a financial burden that is extremely difficult, and sometimes impossible, to escape.

- During the same period, the companies examined spent \$4.2 billion on marketing and recruiting, or 22.7 percent of all revenue. Publicly traded companies operating for-profit colleges had an average profit margin of 19.7 percent, generated a total of \$3.2 billion in pre-tax profit and paid an average of \$7.3 million to their chief executive officers in 2009.
- In the absence of significant reforms that align the incentives of for-profit colleges to ensure colleges succeed financially only when students also succeed, and ensure that taxpayer dollars are used to further the educational mission of the colleges, the sector will continue to turn out hundreds of thousands of students with debt but no degree, and taxpayers will see little return on their investment.

The Federal Investment and the Changing Sector

- In the 1990s, two-thirds of for-profit colleges enrolled students in training programs lasting less than 1 year. The sector was primarily composed of small trade schools that awarded Certificates and diplomas in fields like air-conditioning repair, cosmetology, and truck driving. While Certificate and diploma offerings have continued to grow, growth in degree programs has been more significant. Between 2004 and 2010, the number of Associate degrees awarded by for-profit colleges increased 77 percent and the number of Bachelor’s degrees awarded increased 136 percent.
- For profit colleges are rapidly increasing their reliance on taxpayer dollars. In 2009-10, the sector received \$32 billion, 25 percent of the total Department of Education student aid program funds.
- Pell grants flowing to for-profit colleges increased at twice the rate of the program as a whole, increasing from \$1.1 billion in the 2000-1 school year to \$7.5 billion in the 2009-10 school year.
- Among the companies examined by the committee, the share of revenues received from Department of Education Federal student aid programs increased more than 10 percent, from 68.7 in 2006 to 81.9 percent in 2010.
- Committee staff estimates that in 2009 when all sources of Federal taxpayer funds, including military and veterans’ benefits, are included, the 15 publicly traded for-profit education companies received 86 percent of revenues from taxpayers.
- For-profit colleges also receive the largest share of military educational benefit programs: 37 percent of post-9/11 GI bill benefits and 50 percent of Department of Defense Tuition Assistance benefits flowed to for-profit colleges in the most recent period. Because of the cost of the programs however, they trained far fewer students than public colleges. Eight of the top 10 recipients of Department of Veterans Affairs post-9/11 GI bill funds are for-profit education companies.



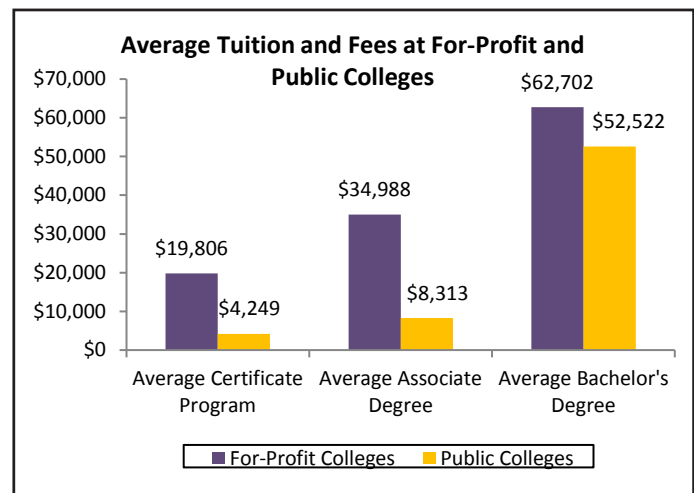
Why Are Companies that Own For-Profit Colleges Financially Successful

High Cost of Programs:

- Most for-profit colleges charge higher tuition than comparable programs at community colleges and flagship State public universities.
 - Bachelor's degree programs averaged 20 percent more than the cost of analogous programs at flagship public universities.
 - Associate degree programs averaged four times the cost of degree programs at comparable community colleges.
 - Certificate programs similarly averaged four and a half times the cost of such programs at comparable community colleges.

- The for-profit education companies examined rarely set tuition below available Federal student aid.

- Internal company documents provide examples of tuition increases being implemented to satisfy company profit goals, that have little connection to increases in academic and instruction expenses, and demonstrate that for-profit education companies sometimes train employees to evade directly answering student questions about the cost of tuition and fees.



- Aggressive and Sometimes Misleading and Deceptive Recruiting Practices:
 - Documents indicate that the recruiting process at for-profit education companies is essentially a sales process. Investors' demand for revenue growth is satisfied by enrolling a steady stream of new student enrollees or "starts." During the period examined, at many companies the performance of each person in the admissions chain, from CEO to newly-hired junior recruiters, was rated at least in part based on the number of students enrolled.
 - The committee found that the 30 for-profit education companies examined employed 35,202 recruiters, or about one recruiter for every 53 students attending a for-profit college in 2010.
 - Documents demonstrate that in order to achieve company enrollment goals, recruiting managers at some companies created a boiler-room atmosphere, in which hitting an enrollment quota was the recruiters' highest priority. Recruiters who failed to bring in enough students were put through disciplinary processes and sometimes terminated. Before a ban on incentive compensation was re-instituted in mid-2011, recruiters' salaries at many for-profit colleges were tightly tied to enrolling a certain number of new students.
 - Internal documents, interviews with former employees, and Government Accountability Office (GAO) undercover recordings demonstrate that many companies used tactics that misled prospective students with regard to the cost of the program, the availability and obligations of Federal aid, the

time to complete the program, the completion rates of other students, the job placement rate of other students, the transferability of the credit, or the reputation and accreditation of the school.

- For-profit colleges seek to enroll a population of non-traditional prospective students who are often not familiar with traditional higher education and may be facing difficult circumstances in their lives. Recruiting materials indicate that at some for-profit colleges, admission representatives were trained to locate and push on the pain in students’ lives. They were also trained to “overcome objections” of prospective students in order to secure enrollments. Additionally, companies trained recruiters to create a false sense of urgency to enroll and inflate the prestige of the college.
- For-profit colleges gather contact information of prospective students, or “leads,” by paying third-party companies known as “lead generators” that specialize in gathering and selling the information. Among the 62 lead generators used by companies analyzed, the cost per lead ranged between \$10 and \$150. Lead generators advertise themselves as a free, safe, and reliable way to get information about college, but lead generator Web sites generally direct students only to schools and programs that pay them, and have a history of engaging in online marketing using aggressive and misleading methods.
- Servicemembers, veterans, spouses, and family members have become highly attractive prospects to for-profit colleges, and many schools have put significant resources into recruiting and enrolling students eligible for these benefits.
 - Lead generation Web sites, specifically designed to attract members of the military and veterans, use layouts and logos similar to official military websites, but do not inform users that the purpose of the site is to collect contact information on behalf of the site’s for-profit college clients.
 - Internal documents show that some schools’ pursuit of military benefits led them to recruit from the most vulnerable military populations, sometimes recruiting at wounded warrior centers and veterans hospitals.
 - In addition to aggressively seeking military personnel, the investigation showed that some recruiters misled or lied to service members as to whether their tuition would be fully covered by military benefits.

How Are Students Performing

Because a large proportion of students attending for-profit colleges are not first time, full-time students, and therefore fall outside the Department of Education’s tracking of student outcomes, it is difficult to understand how many students are succeeding at for-profit colleges and in what types of degree programs. To fill the information gap, committee staff analyzed retention and withdrawal information for a cohort of students enrolling between 2008-9 and found that:

Status of Students Enrolled in For-Profit Education Companies in 2008–9, as of 2010		
Degree Level	Enrollment	Percent Withdrawn
Associate Degree	474,817	62.9
Bachelor’s Degree	374,264	54.3
Certificate	246,792	38.5
All Students	1,095,873	54.4

- 596,556 students who enrolled in 2008-9, or 54 percent, left without a degree or Certificate by mid-2010.

- 298,476 students who enrolled in 2-year Associate degree programs in 2008-9, or 63 percent, departed without a degree. Nine companies had Associate degree programs with withdrawal rates over 60 percent.
- Online: Among companies that provided data that enabled committee staff to compare students attending online and on-campus, students attending online withdrew at much higher rates. Sixty-four percent of students attending online programs left without a degree compared to 46 percent of students attending campus-based programs offered by the same companies.
- Publicly Traded: Colleges owned by a company that is traded on a major stock exchange had 2008-9 student withdrawal rates 9 percent higher than the privately held companies examined. Among the 15 publicly traded companies, 55 percent of students departed without a degree. Among the 15 privately held companies examined, 46 percent of students departed without a degree.

Why Do Many Students Fail to Complete For-Profit Programs

Spending Choices of For-Profit Education Companies:

- For-profit colleges devote tremendous amounts of resources to non-education related spending including marketing, recruiting, profit and executive compensation, while spending relatively small amounts on instruction. In fiscal year 2009, the education companies examined by the committee spent:
 - \$4.2 billion or 22.7 percent of all revenue on marketing, advertising, recruiting, and admissions staffing.
 - \$3.6 billion or 19.4 percent of all revenue on pre-tax profit.
 - \$3.2 billion, or 17.2 percent of all revenue on instruction.
 - This means that the companies together devoted less to actual instruction costs (faculty and curriculum) than to either marketing and recruiting or profit.
 - Additionally, the CEOs of the publicly traded, for-profit education companies took home, on average, \$7.3 million in 2009. In contrast, the five highest paid leaders of large public universities averaged compensation of \$1 million, while the five highest paid leaders at non-profit colleges and universities averaged \$3 million.

Academic Quality:

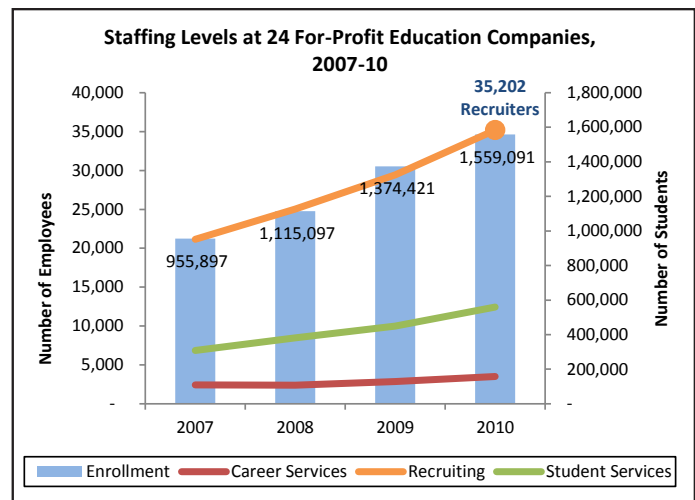
- Undercover observation by the GAO and student complaints reveal that some for-profit schools have curricula that do not challenge students and academic integrity policies that are sometimes not enforced.
- The use of part-time faculty is a key component of the efficiencies the for-profit model can deliver, but it must be balanced with ensuring that the faculty is able to exercise genuine academic independence and has a vested stake in the quality of the institution. The investigation found that in 2010, 80 percent of the faculty employed at the schools examined was part-time. Ten companies had more than 80 percent part-time faculty and five companies had more than 90 percent part-time faculty.

Student Services:

- The investigation found that while for-profit colleges make large investments in staff to recruit new students, once a student is enrolled that same level of service is often not available. This is true even though the companies seek to enroll the students that research demonstrates are most critically in need of those services. As Dr. Arnold Mitchem, president of the Council for Opportunity in Education told the committee: “First of all, we all need to understand there’s a radical difference in educating and graduating a low-income first-generation student than there is a middle-income student ... [In] the for-profit sector they address the financial barriers, but they have not adequately addressed the supportive services barriers.”
- While the investigation demonstrated a wide variety among for-profit colleges in the commitment to student services staffing and to the student services provided, overall the companies examined employed almost three times as many recruiters as student service representatives.

Career Placement Services:

- The disparity in staffing is more acute when it comes to career services staff. The committee staff analysis indicates that for-profit colleges employ about 10 recruiters for every career services staff member. Despite advertising that attending the school is a pathway to a better job or career, two of the largest for-profit colleges have no career services staff to help students.
- Testimony and internal documents indicate that at some for-profit colleges career services staff are often more focused on meeting placement quotas required by some accreditors than actually helping students achieve quality jobs in the field of their degree or Certificate.



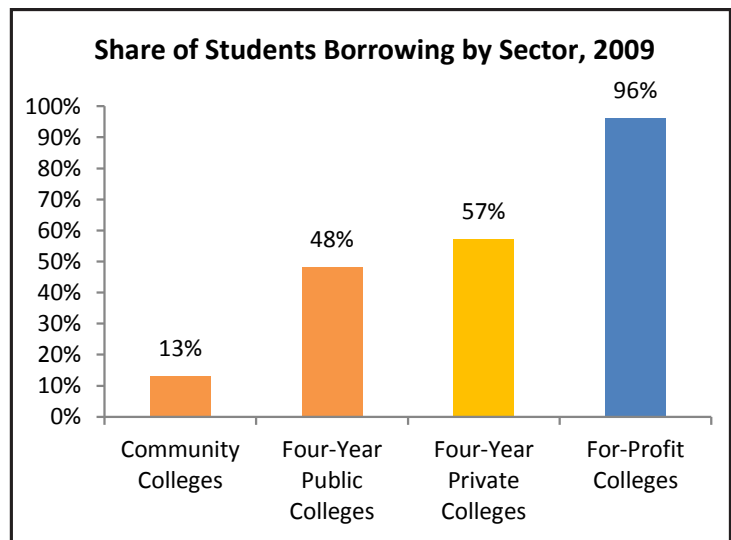
Programmatic Accreditation and Licensure:

- Some for-profit colleges train students in fields that require programmatic accreditation, in addition to institutional accreditation, in order for graduates to obtain employment in the field. Institutions that offer programs that lack programmatic accreditation are inconsistent in how they disclose this lack of programmatic accreditation. While some programs are upfront about this issue, others post the disclosure deep in their Web sites or in the fine print in their enrollment agreements, while framing the disclosure in terms that makes it difficult for students to recognize the gravity of this issue.

What Are the Consequences for Students

- Ninety-six percent of for-profit students take out student loans, according to the most recent U.S. Department of Education data. In comparison, 13 percent of students at community colleges, 48 percent at 4-year public, and 57 percent at 4-year private non-profit colleges borrow money to pay for school.

- For-profit schools enroll far more high-dollar borrowers. Fifty-seven percent of Bachelor's students who graduate from a for-profit college owe \$30,000 or more. In contrast, 25 percent of those who earned degrees in the private, non-profit sector and 12 percent from the public sector borrowed at this level.



- Because many students who attend for-profit colleges are unable to get financing through private lending companies, many participate in institutional loan programs operated by for-profit education companies. The committee staff found that institutional loans operated by for-profit education companies often carry high interest rates, and do not provide students with the same safeguards as Federal loans.
- In 2009 seven large for-profit education companies offered institutional loans with interest rates ranging from 11.2 to 18 percent. During this period the Stafford loan rate was 5.6 percent. These same companies listed expected default rates of 42 to 80 percent.
- Students who attended a for-profit college accounted for 47 percent of all Federal student loan defaults. More than 1 in 5 students enrolling in a for-profit college—22 percent—default within 3 years of entering repayment on their student loans.
- Default rates are driven by students who drop out, those who are left with debt but little means to repay it given the incomplete education and lack of a degree. Students' ability to repay their loans is tightly tied to whether the student stayed in school and achieved a degree.
- Students who attend for-profit schools are more likely to experience unemployment after leaving school. According to a National Center for Education Statistics study, 23 percent of students who attended for-profit schools in 2008-9 were unemployed and seeking work.

Why is This Happening

- **Accreditation:** The self-reporting and peer-review nature of the accreditation process exposes it to manipulation by companies that are more concerned with their bottom line than with academic quality and improvement. Accrediting agencies seek to help colleges improve. Because of this institutional focus on continuous improvement, they sometimes appear to have difficulty drawing and enforcing bright lines and minimum standards.
- **State Oversight:** State oversight of for-profit education companies has eroded over time due to a variety of factors, including State budget cuts and the influence of the for-profit college industry with State policymakers. The U.S. Department of Education had never defined minimum requirements for State authorization, and many States have taken a passive or minimal role in approving institutions, reviewing and addressing complaints from students and the public, and ensuring that colleges are in compliance with State consumer protection laws.

- Federal Law and Regulation: Federal regulations impose two key checks on for-profit colleges: the proportion of Federal money that the colleges collect, known as the 90/10 rule, and the percentage of students who may default on Federal student loans before the college loses eligibility for Federal financial aid. In addition, some accreditors also require colleges to meet standards regarding the percentage of graduates who obtain employment in their field of study. Some for-profit colleges employ questionable tactics to meet these requirements.
- The investigation documented the use of multiple strategies to comply with the letter of the 90/10 rule with policies that defy the goal and spirit of the regulation.
 - Since for-profit colleges report 90/10 figures by Office of Postsecondary Education ID (OPEID) numbers, instead of by campus, and one OPEID may contain multiple campuses, some companies consolidate and switch campuses between OPEIDs to lower their reported 90/10 number regardless of the proximity of the campus.
 - Some for-profit colleges have stopped the flow of student aid funds to certain OPEIDs at the end of the fiscal year. This tactic may hurt students because campuses that do not receive student aid funds may not disburse, in a timely manner, living-expense checks to students who depend on those funds to pay for books, housing, food, transportation, and childcare.
 - Some schools have raised their initial enrollment fee—which must be paid in cash—or insisted on cash payments from students in order to lower their reported 90/10 ratio. While asking students to make up-front payments on their education can be a good idea because it is interest-free and also helps them to understand what it will be like to make payments on their loans later, it seems that some for-profit schools are primarily seeking to drive down their 90/10 ratios with these cash payments.
 - Department of Education regulations dictate that scholarships awarded to a student do not count as Federal financial aid and instead count on the “10” side of the 90/10 calculation, but only if the scholarships are awarded by an organization independent of the school. Several companies that operate for-profit colleges have designed scholarship programs that should be more closely scrutinized.
 - Some schools increase tuition in order to create a gap between the total amount of Federal aid a student can receive and the cost of attending. This illustrates the fundamental problem with the cost of for-profit schools—that the tuition fees and other academic charges bear no relationship to the cost of providing the education. This gap means that students attending these schools must find even more financing by taking out private loans, taking on more debt through a private or institutional loan, or making monthly cash payments, often by credit card, directly to the school to pay for the artificially high cost of the school. The student is left with more debt, likely at a higher rate of interest, so the school can generate sufficient non-Federal income.
 - Because neither Department of Defense (DOD) nor Veterans Affairs (VA) educational benefits originate in Title IV of the Higher Education Act, money received through these programs is not counted as Federal financial aid for the purposes of 90/10. This loophole creates an incentive to see servicemembers as nothing more than “dollar signs in uniform.”

- Many for-profit education companies also commit significant resources to default management efforts that keep students out of default for the duration of the 2-year (soon 3-year) monitoring window. Default management may involve a multitude of strategies premised on sound goals, such as enrolling students who are likely to graduate and succeed, giving those students the support and tools they need to learn and secure a degree that is valued in the job marketplace, helping them secure a well-paying job, and offering financial literacy classes and quality debt counseling. However, internal documents show that at some schools the emphasis is on signing students up for forbearance and deferment with the sole goal of protecting the colleges so that they do not lose access to Federal taxpayer-funded student aid dollars.
 - Evidence suggests that some for-profit colleges use forbearance and deferment as tools to move the school’s default rate, without concern for a student’s particular situation or whether it is in the best financial interest of the individual. Many students will end up paying more over the life of their loan after a forbearance or deferment.
 - As default rates have increasingly become a problem for for-profit colleges, many have turned for help to third party vendors that operate call centers with hundreds of employees trained to “cure” student defaults. While the vendor used by at least 12 of the 30 companies examined counsels delinquent students on all repayment options, including income-based repayment options, internal documents demonstrate that the majority of students approached by the vendor end up in forbearance, leading to increased debt. Documents obtained from four large for-profit education companies demonstrate that, on average, over 75 percent of the students “cured” were forbearances or deferments, while only 24 percent were the result of a student making payments on their loans.
 - For-profit colleges market themselves as career focused, and encourage students to enroll by offering the prospect of better jobs and better wages. Accordingly, for-profit colleges use job placement data to promote their programs, and to satisfy national accrediting agencies and State regulators that the students who complete the programs are finding jobs in their field. However, when job placement rates are audited by outside agencies, problems have repeatedly been found, and a number of law enforcement investigations over the past 5 years have revealed falsified information in the placement rates of some colleges.
 - Rapid enrollment growth and lack of adequate policies and procedures have also led to situations in which for-profit colleges have improperly retained unearned title IV student aid funds that should have been returned to the Department of Education, or are not returning the funds in a timely matter.

What Needs to Be Done

- Enhance transparency by collecting relevant and accurate information about student outcomes.
 - Require that the Department of Education collect comprehensive student outcome information and enable data retrieval by corporate ownership;
 - Establish a uniform and accurate methodology for calculating job placement rates;
 - Increase the regulation of private lending.

- Strengthen the oversight of Federal financial aid.
 - Tie access to Federal financial aid to meeting minimum student outcome thresholds;
 - Prohibit institutions from funding marketing, advertising and recruiting activities with Federal financial aid dollars;
 - Improve cohort default rate tracking by expanding the default reporting rate period beyond 3 years;
 - Require that for-profit colleges receive at least 15 percent of revenues from sources other than Federal funds;
 - Use criteria beyond accreditation and State authorization for determining institutions' access to Federal financial aid.
- Create meaningful protections for students.
 - Create an online student complaint clearinghouse, managed by the Department of Education, for the collection and referral of student complaints to appropriate overseeing agencies, organizations and divisions;
 - Prohibit institutions that accept Federal financial aid from including mandatory binding arbitration clauses in enrollment agreements;
 - Enforce minimum standards for student services that include tutoring, remediation, financial aid, and career counseling and job placement;
 - Extend the ban on incentive compensation to include all employees of institutions of higher education, and clarify that this ban extends to numeric threshold or quota-based termination policies.