Table of Contents – Part II

Alta Colleges, Inc.

Introduction

Alta Colleges, Inc. ("Alta") is a medium-sized privately held for-profit education company and is one of the most expensive schools examined by the committee. Like many for-profit education companies, Alta has experienced significant growth in student enrollment, Federal funds collected, and profit realized in recent years. While the company's performance, measured by student withdrawal is better than many companies examined, default rates are higher than most.

Witness testimony, investigations by the Department of Education and Colorado attorney general, and internal company documents indicate that the company aggressively recruited students with sometimes misleading and deceptive tactics. It is unclear whether the Federal investment taxpayers are making in the company should go to support these practices.

Company Overview

Alta is a privately held for-profit education company based in Denver, CO. The company is principally owned by a Boston private equity firm, Housatonic Partners. Alta Colleges operates 18 campuses under the Westwood Colleges brand, including an online campus, and one campus under the Redstone College brand.[777] Three of those campuses, all in Texas, suspended enrolling new students in late 2011 following actions by the Texas Workforce Commission, the State agency with jurisdiction over the campuses, and by the Veterans Administration, which oversees the educational benefits of student veterans attending those campuses.

Alta Colleges, Inc. was founded in 1953 in Denver, CO. Originally known as the Radio and Television Repair Institute, the school's identity underwent several significant transformations since its founding.[778] The school changed its name to the National Electronics Institute (NEI) in 1958, as it adapted and expanded the curriculum.[779] NEI was acquired by the Denver Institute of Technology, Inc. in 1974, which was in turn acquired by the founders of Alta in 1987.[780] In 1997, Denver Institute of Technology changed its name to Westwood College. Housatonic partners became a shareholder in 2002.

The company's Westwood College brand offers Certificate programs and Associate, Bachelor's, and Master's degree programs across a range of disciplines, including information technology, business administration, criminal justice, design, and medical assisting, among other subjects. The largest programs by enrollment are: criminal justice (31 percent), design (28 percent) and information technology (18 percent).[781] Westwood College campuses are nationally accredited by the Accrediting

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[777] Westwood College, Inc. is a holding company through which Alta owns five smaller corporations that in turn own and operate 18 Westwood College campuses. Redstone College is operated through Alta Colleges, Inc.'s Paris Management Corporation subsidiary.

[778] See Westwood College, 2012 Academic Catalog: California/Colorado/Georgia/Virginia (2011).

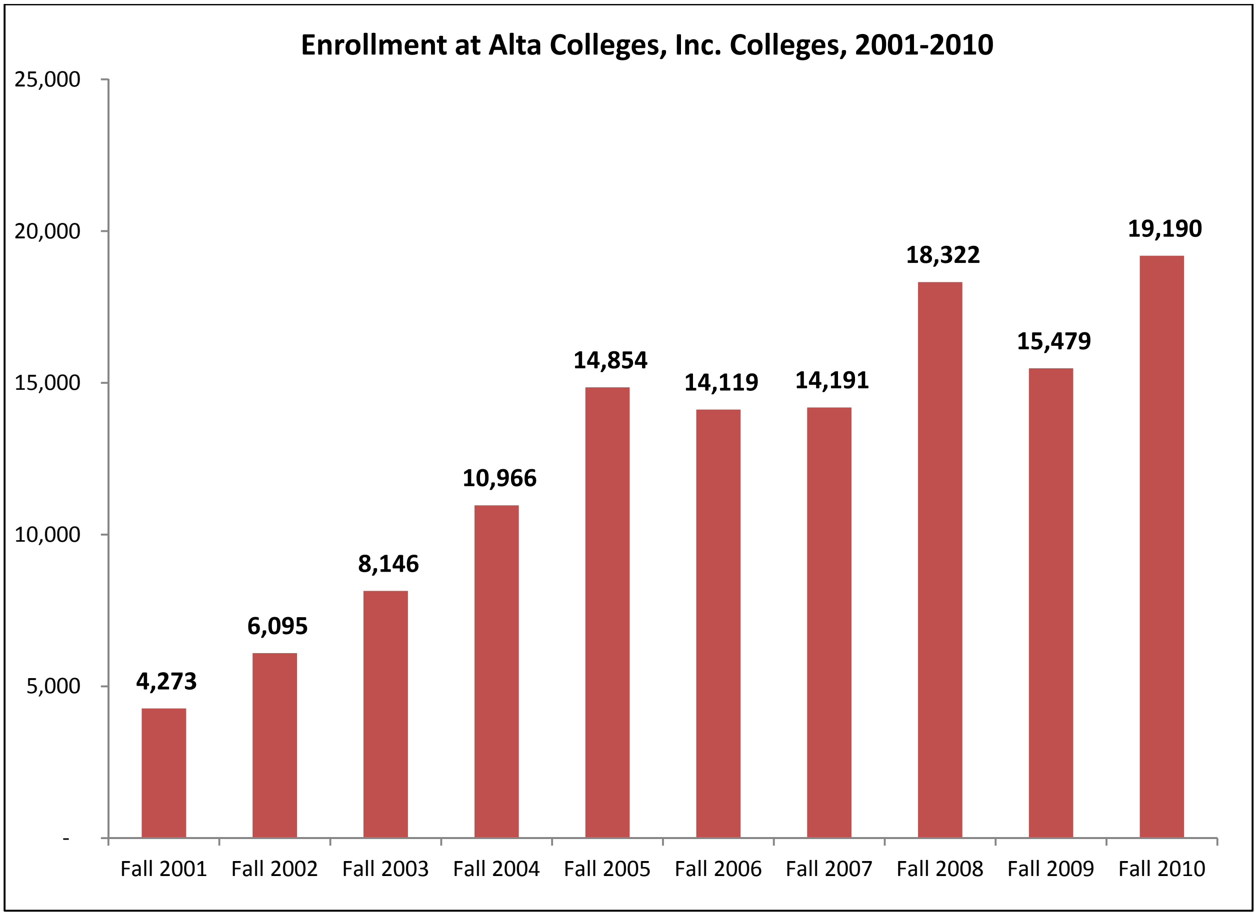
[779] See id.

[780] See Terry Wilson, "Riedinger, Turner head the class with Alta College," *Denver Business Journal* , June 23, 2002, http://www.bizjournals.com/denver/stories/2002/06/24/focus1.html?page=all (accessed June 6, 2012).

[781] Alta, February 2010, *Program Portfolio Review* (HELP-ALTA-000167).

Council for Independent Colleges and Schools (ACICS). Approximately 26 percent of its students are enrolled in online programs.

The current president and chief executive officer of Alta is Dean Gouin. George Burnett, who formerly served in management positions at Qwest Communications, stepped down as CEO in late 2011 following a number of problems involving the college's accreditation and certification as well as lawsuits brought by former students.[782] Eric Goodman, Alta's Chief Academic Officer, also left and moved to ECPI University, a Virginia-based for-profit education company.[783] He was replaced by John Keim.



Alta's enrollment more than quadrupled in 10 years, growing from approximately 4,300 students at the end of 2001 to 19,190 in 2010.[784] This growth in enrollment led to growth in revenue. Revenue at Alta grew steadily from approximately $269 million in 2006 to $380 million in 2009.[785]

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[782] Business Briefs, "Chief of Alta Colleges tenders resignation," *Denver Post*, September 27, 2011. http://www.denverpost.com/business/ci_18983399 (accessed June 13, 2012).
[783] Eric Goodman, *LinkedIn profile*. http://www.linkedin.com/pub/eric-goodman/1/699/b0a (accessed May 23, 2012).
[784] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education 's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.
[785] *See* Deloitte & Touche LLP, *Alta Colleges, Inc. and Subsidiaries, Consolidated Financial Statements as of and for the Years Ended September 30, 2009 and 2008, Supplemental Schedules as of and for the Years Ended September 30, 2009 and 2008, and Independent Auditor's Report* 6,2009 (on file with committee). Revenue figures for publicly traded companies are

Federal Revenue

Nearly all for-profit education companies derive the majority of their revenue from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[786] Together, the 30 companies the committee examined derived 79 percent of their revenue from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[787]

In 2010, Alta reported 83.9 percent of revenue from title IV Federal financial aid programs.[788] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs or revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA).[789] The committee estimates that Alta discounted approximately 6.4 percent of revenue, or $24.5 million, pursuant to ECASLA. Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 4.6 percent

of Alta's revenue, or $17.5 million.[790] With funds from the Departments of Defense and Veterans Affairs included, 88.5 percent of Alta's total revenue was comprised of Federal education funds.[791]

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from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

786 "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2001-2 and 2010-11. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

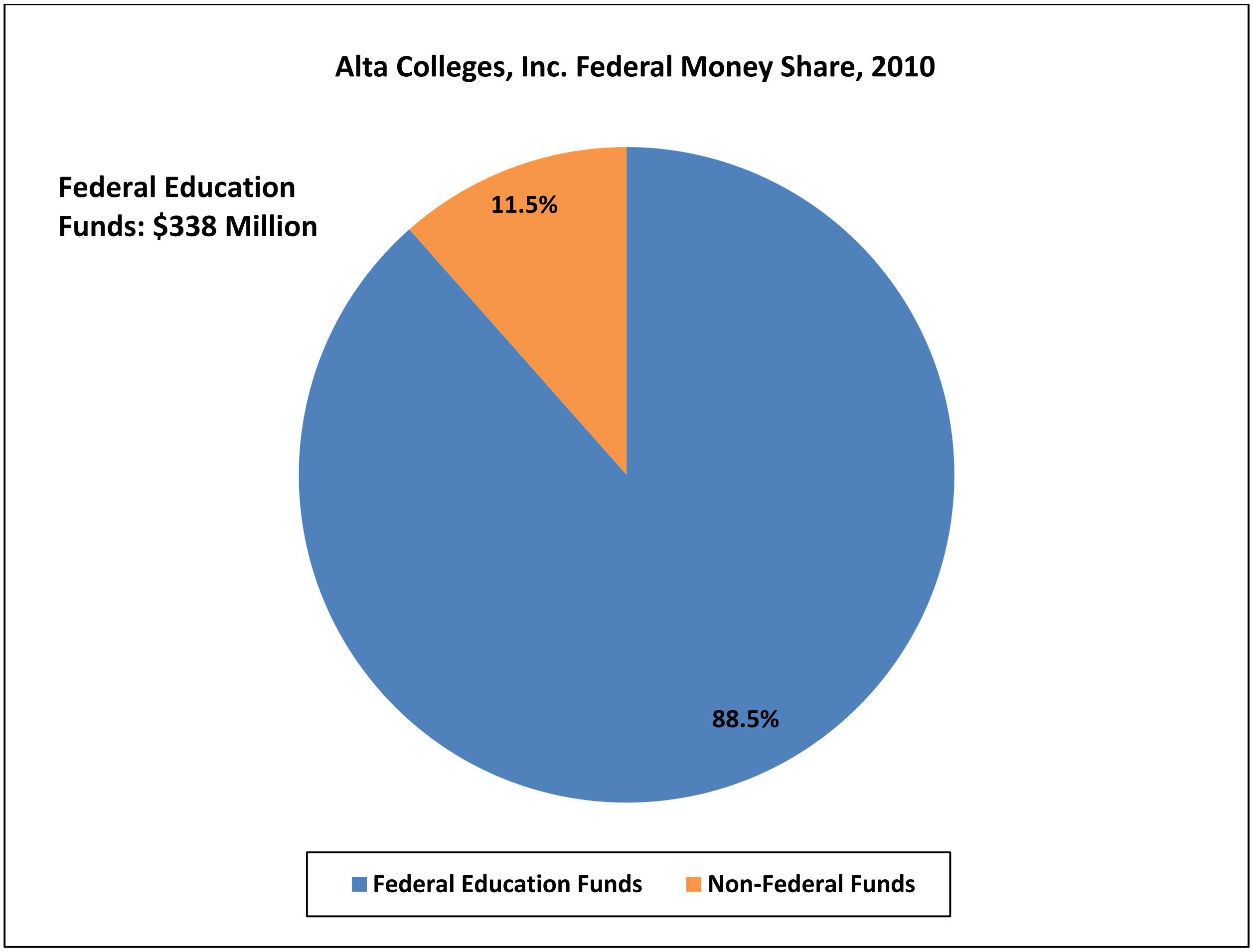
787 Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

788 Senate HELP Committee staff analysis of fiscal year 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

789 The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010.

790 Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009 June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

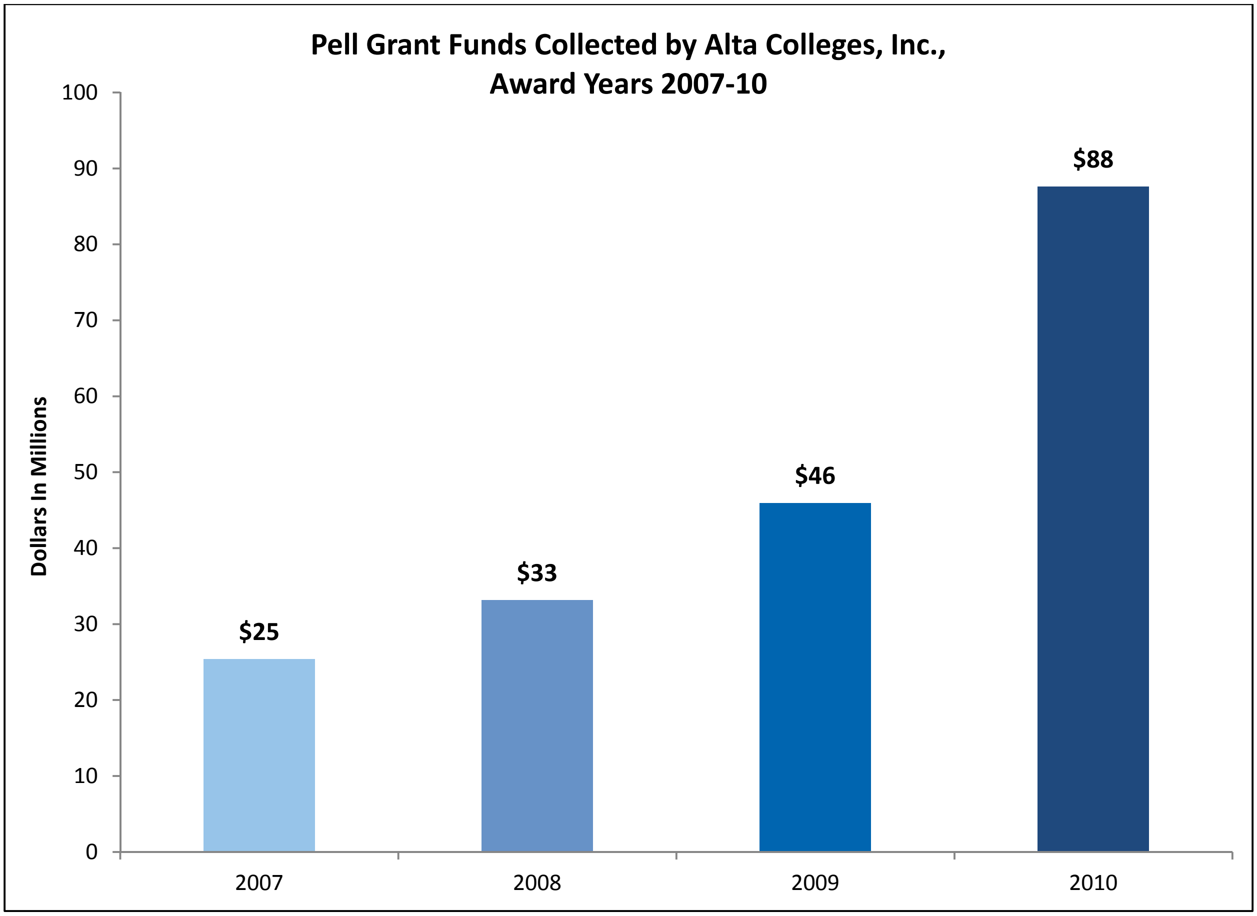
791 See Appendix 10.



Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[792]

Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009–10 and 2010–11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[792] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.



Alta more than tripled the amount of Pell grant funds it collected, from $25.4 million in 2007 to $87.6 million in 2010.[793] Internal company documents reviewed by the committee indicate that Alta executives looked for ways to structure the colleges' programs so that the company was able to collect as much Federal money as possible. A 2009 pricing strategy document recommended that the company "restructure terms to 3 trimesters/year or quarter time (so that we can grab more of the students' Stafford)." [794]

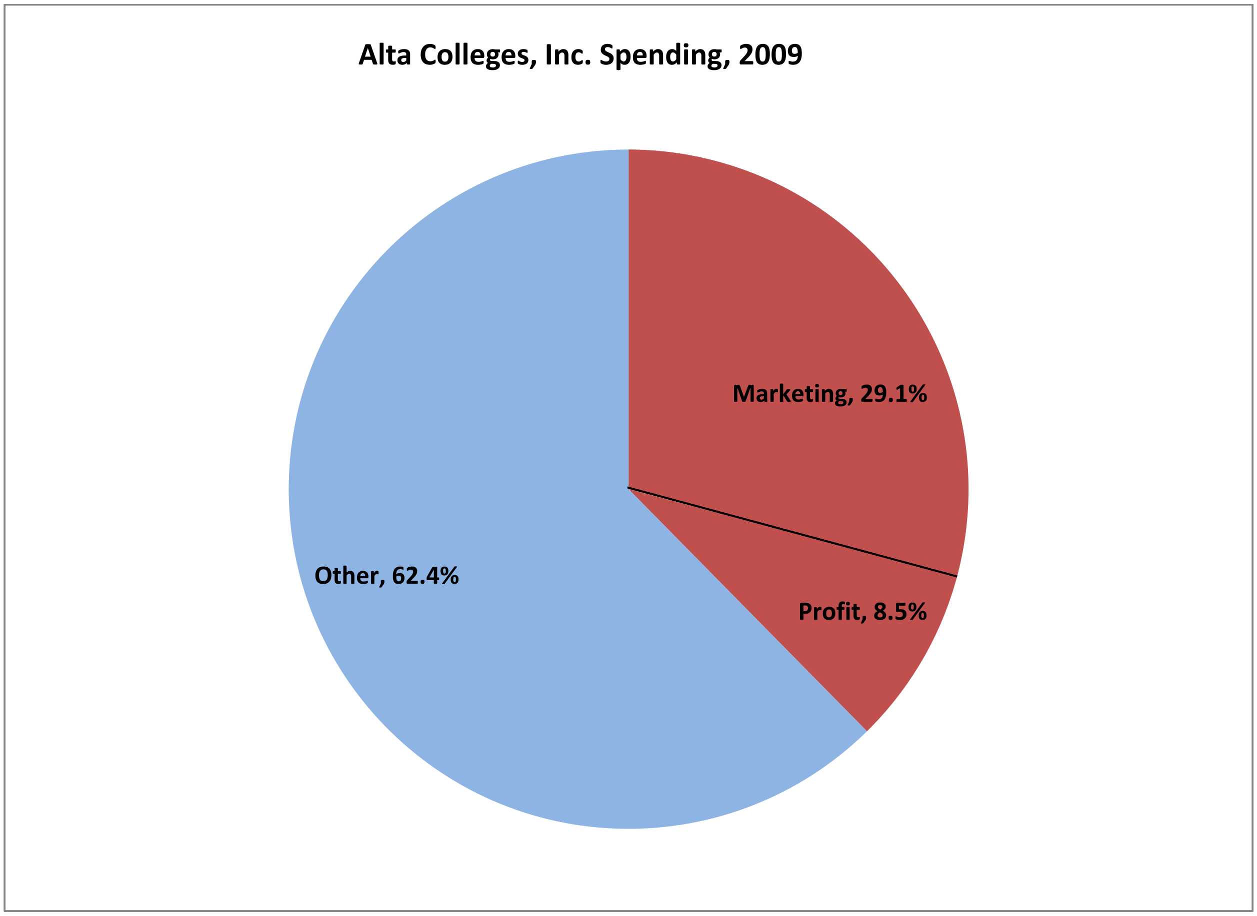
Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students, and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[795] During the same period the companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion),

[793] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.
[794] Alta, February 2009, *Pricing Manager Business Case*, (HELP-ALTA-000153, at HELP-ALTA-000159).
[795] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

and 19.7 percent on profit ($3.2 billion).[796] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.[797]

In 2009, Alta allocated 29.1 percent of its revenue, or $110.8 million, to marketing and recruiting and 8.5 percent, or $32.4 million, to profit.[798]



The company posted an operating loss of about $1.8 million in 2007 before posting a profit of $19.1 million in 2008, growing to $32.4 million in 2009.[799]

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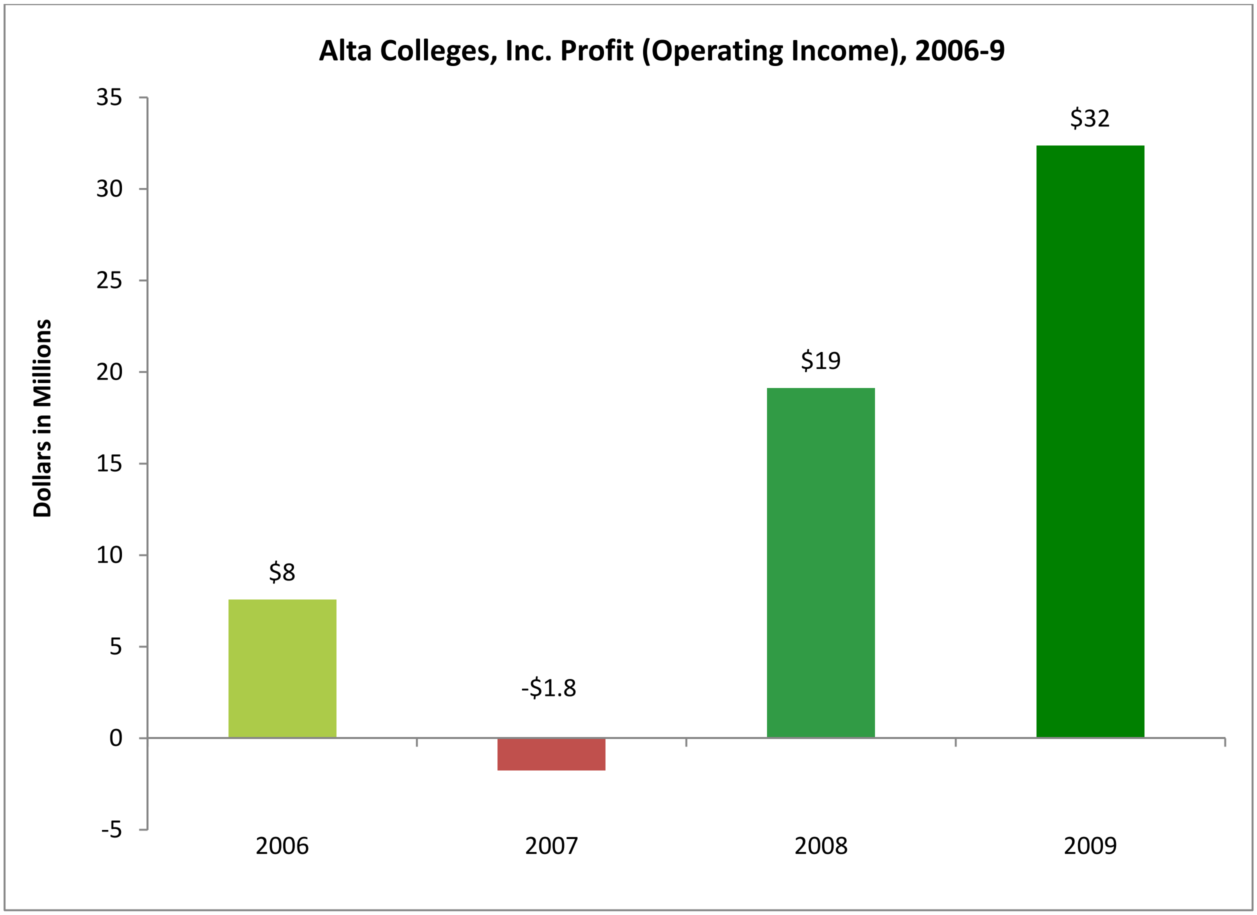
796 Senate HELP Committee staff analysis of fiscal year 2009 financial statements (on file with committee). Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.

797 Id.

798 The "other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

799 Senate HELP Committee staff analysis. See Appendix 18.



A former Westwood instructor, who filed a lawsuit against Westwood that was unsealed in late 2011, wrote to Chairman Harkin expressing her concern with the way that the school was run; she wrote, "It is my opinion that this system is similar to a pyramid scheme in that it has allowed the shareholders at the top to profit greatly at the expense of others." [800] The money the company spends on marketing and recruiting pays for the salaries of its recruiters, as well as advertising space and "leads" from third-party telemarketing and internet firms. Alta's "Book of Operations" notes that the company "utilizes an aggressive marketing plan to produce media leads [contacts of prospective students] from a variety of sources including television and internet." [801]

Executive Compensation

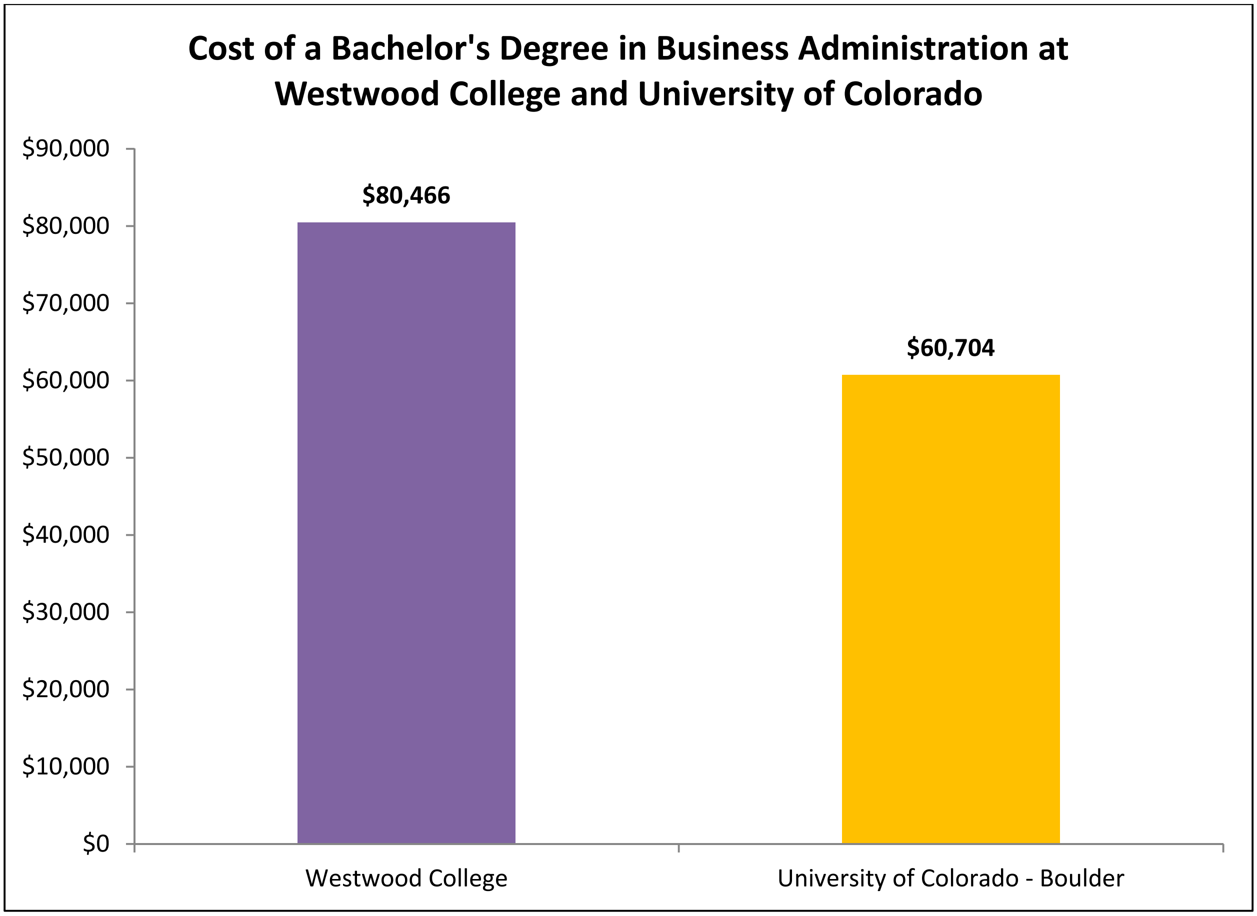
As a privately held company, Alta is not obligated to release executive compensation figures.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Alta's campuses. A Bachelor's Degree in business administration costs $80,466.[802] The same degree at the

[800] Letter from Patti Howard to Senator Harkin, February 22, 2012. (After her tenure at Westwood, Ms. Howard filed a lawsuit against Westwood stemming from allegations that the company had engaged in fraud.)
[801] Alta, February 2009, *Admissions Support Book of Operations* (WP000036541, at WP000036576).
[802] See Appendix 14; see also, Westwood College, *Tuition Information for Colorado*, http://www.westwood.edu/media/files/pdf/catalogs/D6485b_CO_Addendum.pdf (accessed June 12, 2012).

University of Colorado at Boulder costs approximately $60,704.[803] An Associate degree in information technology at Westwood costs $48,194[804], while the same degree at the Community College of Denver cost $8,823.[805]



The higher tuition that Alta charges is reflected in the amount of money that Alta collects for each veteran that it enrolls. From 2009–11, Alta trained 1,894 veterans and received $34.8 million in post-9/11 GI bill benefits, averaging $18,354 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[806]

Westwood is one of the most expensive for-profit colleges the committee examined. "Cost of Education" was the primary factor that led students to withdraw, according to responses to Alta's surveys of students who withdrew.[807] Some "verbatim comments" made by surveyed students include, "Other schools offer the same courses that you do online and everything and are way cheaper than your school!" and "I found out that the tuition rate at Westwood was about $20,000.00 higher than other colleges and/or universities. I'm sorry but I'm not going to pay $60,000.00 for a bachelor's degree through Westwood, when I can pay about $20,000.00 less at another school. What makes Westwood so

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[803] See Appendix 14; see also, University of Colorado Boulder, *University of Colorado Boulder*, http://www.colorado.edu/ (accessed June 12, 2012).
[804] See Appendix 14; see also, Westwood College, *Tuition Information for Colorado,* http://www.westwood.edu/media/files/pdf/catalogs/D6485b_CO_Addendum.pdf (accessed June 12, 2012).
[805] See Appendix 14; Community College of Denver, *Community College of Denver*, http://www.ccd.edu/ (accessed July 12, 2012.
[806] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[807] Westwood College, *Westwood Online Pricing Strategy* (WP000002798, at WP000002799).

special to where they feel they can charge so much more than other well-respected schools [sic]?" [808] Another student wrote, "Well to make a long story short . . . I ended up signing 2 different enrollment agreements, the 1st enrollment agreement said the cost of the entire education was $55,000, the 2nd one said it was $65,000, and then I got another one mailed to me that the cost was going to go up again in 2005 to $75,000!" [809]

In 2007 through 2009, Alta undertook a company-wide study of its tuition rates for different programs and campuses to assess whether it was pricing appropriately.[810] As part of the study, Alta sought to determine what effect the current high tuition had on efforts to recruit new students. Alta's recruiters indicated that high tuition prices were not a problem because they could convince prospective students to enroll anyway. "Generally, frontline sales leadership does not view current pricing as a growth impediment," one Westwood executive presentation about pricing strategy explained.[811] The presentation quotes the directors of admissions at three campuses: "Usually if pricing comes up as an issue it's because people are not sold on the program value," "Pricing is not a make it or break it issue," and "Pricing irrelevant. Sell the value of the education." [812]

Joshua Pruyn, a former recruiter for Westwood who testified at the committee's August 2010 hearing, told the committee that recruiters often obscured the full cost of tuition during the sales process.[813] He testified, "More often, representatives would tell the students the per term cost of approximately $4,800. And the student incorrectly assumed there were two or three terms per year, like most traditional colleges. There was actually five terms per year. I constantly overheard representatives promise that federal grants would cover almost the entire cost of education [sic]." [814] A former instructor, who also worked as an assistant to the dean at a Westwood campus wrote to the committee and expressed her concern with the efforts that recruiters made to obscure tuition cost: "One way the costs are covered up is by offering five terms a year rather than the traditional two semesters." [815] She explained, "In this way, Westwood can bill five times a year. Since most people are accustomed to the two-semester protocol, they are unaware that the tuition numbers they are shown for one term will multiple many times over." [816] An internal training manual obtained by the committee in late 2010 pursuant to a document request instructed recruiters to divulge the "cost per term" during the sales process.[817]

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[808] Id.
[809] Id.
[810] See Alta, September 2007, *Pricing Strategy Discussion Document* (WP000004122); Alta, June 2012, *Strategic Price Down 2009* (HELP-ALTA-000266).
[811] Alta, September 2007, *Pricing Strategy Discussion Document*, (WP000004122, at WP000004142).
[812] Id.
[813] Joshua Pruyn (former Admissions Representative, Alta College, Inc., Denver CO), Testimony before the Senate Committee on Health, Education, Labor and Pensions, *For-Profit Schools: The Student Recruitment Experience*, 112th Congress (2010). Mr. Pruyn testified regarding a number of misleading and deceptive tactics used by Westwood employees that called into question the integrity of recruiting practices at Westwood College. More than 4 months after his testimony, in December 2010, lawyers for Westwood contacted the committee and asserted that Mr. Pruyn's testimony regarding one point (whether his supervisors had contacted a military student who had changed his mind about enrolling) was not correct. While it is possible that Mr. Pruyn's recollection is not correct regarding this point, other parts of his testimony have been substantiated by internal documents produced to the committee and by a March 2012 complaint filed by the Colorado attorney general's office as part of a settlement reached with Westwood.
[814] Joshua Pruyn (former Admissions Representative, Alta College, Inc., Denver CO), Testimony before the Senate Committee on Health, Education, Labor and Pensions, *For-Profit Schools: The Student Recruitment Experience*, 111th Congress (2010).
[815] Letter from Patti Howard to Senator Harkin, February 22, 2012. (After her tenure at Westwood, Ms. Howard filed a lawsuit against Westwood stemming from allegations that the company had engaged in fraud.)
[816] Id.
[817] Westwood College. *Admissions New Hire Classroom Training*, January 2010 (WP000036036 at WP000036092).

Institutional Loans

Due to the high price of tuition, some students must rely on alternative financing in addition to Federal financial aid. This alternative financing includes institutional loans made directly by for-profit institutions. Institutional loan programs can also help the company meet a regulatory requirement that no more than 90 percent of its revenue come from title IV Federal financial aid dollars ("90/10").

Westwood operates an institutional loan program called APEX. Westwood indicates that about 30 percent of its students use APEX loans.[818] These loans do not accrue interest for students while in school, but carry an interest rate of 18 percent for students who withdraw or graduate.[819] If the student fails to make one in-school payment on the loan, the loan starts accruing interest at 18 percent. After scrutiny of the loan program resulting from a 2009 lawsuit, the company lowered the interest rate to 10 percent for new students.[820] Some versions of the loan agreement contain a 9 percent origination fee, which could amount to hundreds or thousands of dollars depending on how much the student borrows.[821] The origination fee on Federal Stafford direct loans is 1 percent.[822]

The loan agreement contains an arbitration clause that prevents students from pursuing relief in court.[823] A fee-shifting clause is also included and states, "We may hire an attorney to collect this Note if you do not pay, in which event, you will also be responsible for paying our attorneys' fees and legal expenses, whether or not there is a lawsuit. If any such fees and expenses are not paid upon our notice to you, they will also accrue interest at the rate of eighteen percent (18%) per annum until paid." [824] Like other consumer lending contracts, the loan also contains a so-called "acceleration" clause: if a student defaults, which is defined in the agreement as missing one or more payments, the loan contract says, "we may require you to pay the entire balance of the Loan, in full, without prior notice or demand ("Acceleration"). If Acceleration . . . and, if you do not pay the Loan in full within such 10-day period then … the principal balance, Origination Fee, Default Charges, and interest will be immediately due and payable." [825] Under the contract, the student must waive their right to notice if Alta determines the student is in default, and any notice that Alta does give is "effective when mailed to the last address that you provided to us." [826]

Joshua Pruyn, the Westwood recruiter and whistleblower, testified that students were often misled during enrollment about the terms of the loan. He said that recruiters "were told not to call [it] a loan." He testified that instead, they were supposed to call it "supplemental financing," and "to tell students if their financial aid didn't cover all the costs, Westwood would step in to help." Recruiters did not talk about the interest rate, but rather "told students all they'd have to do to cover the balance was

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[818] Westwood College, "Westwood College and Colorado Attorney General Agreement," www.westwood.edu/apexcredit (accessed May 22, 2012). See also National Consumer Law Center, "The Growth of Proprietary School Loans and the Consequences for Students," January 2011.
[819] APEX Educational Services, 2009, *Payment Agreement,* (WP000035120).
[820] National Consumer Law Center, "The Growth of Proprietary School Loans and the Consequences for Students," January 2011.
[821] APEX Educational Services, Promissory Note and Disclosure, (WP000035133). The agreement waives the origination fee if "Balance at Graduation is Paid in Full within 90 Days of Graduation" but does not specify whether the fee is waived for students who withdraw without graduating.
[822] Department of Education, Federal Student Aid, Direct Stafford Loans, http://studentaid.ed.gov/PORTALSWebApp/students/english/studentloans.jsp (accessed May 22, 2012).
[823] APEX Educational Services, 2009, Payment Agreement, (WP000035120).
[824] APEX Educational Services, Promissory Note and Disclosure, (WP000035133).
[825] Id.
[826] Id.

pay a maximum of $150 a month while they're in school." [827] Additionally, the Colorado attorney general uncovered similar evidence that "students complained that Westwood enrolled them into an APEX financing without their knowledge and consent." [828]

Apart from this evidence that students did not know they were signing up for a loan, the oppressive terms and deception regarding Alta's APEX institutional loan program led the Colorado attorney general to allege that the program violated Colorado consumer credit law and the Federal Truth in Lending Act.[829] The attorney general indicated that Westwood failed to disclose key terms of the loan arrangement, failed to notify students when delinquency fees were assessed, assessed fees that were higher than permitted by law, illegally accelerated unpaid balances without providing notice, and illegally charged students a default rate of interest and collection agency costs.[830] As part of the settlement with the attorney general, Westwood agreed to credit $2.5 million to former students who have APEX loans.

Recruiting

Enrollment growth is critical to the business success of for-profit education companies. In order to meet revenue and profit expectations, for-profit colleges recruit as many students as possible to sign up for their programs.

Compensation and Awards Based on Student Enrollment

Alta's recruiters, before a 2011 ban on the practice, were paid according to the number of students they recruited. Joshua Pruyn testified, "It was [the student] start number that determined salary and promotions. It was all about the numbers. With high numbers, the most successful representatives could earn about three times their starting salary." Documents obtained pursuant to the committee's document request sent to Alta reflect this incentive compensation scale. The company's 2009 compensation plan detailed the number of points required to achieve a promotion and bump in pay level.[831] Students in different degree programs were worth different numbers of points in the pay scale.[832] Bachelor's degree students were worth 1.25 points, Associate degree students were worth 0.75

[827] Joshua Pruyn (former Admissions Representative, Alta College, Inc., Denver CO), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *For-Profit Schools: The Student Recruitment Experience*, 111th Congress (2010). In May 2011, Mr. Pruyn was subpoenaed as a witness in Westwood College's defamation lawsuit filed against a Florida law firm, James, Hoyer, Newcomer & Smiljanich, PA. The law firm had filed a class action case against Westwood and had sought out the stories of students who had financial claims against the college, as well as former employees including Mr. Pruyn, who did not. Westwood filed the defamation case as part of an ongoing series of lawsuits between the company and the firm. The case was dismissed by the Colorado Supreme Court on November 17, 2011 as part of a settlement of all litigation between Alta (Westwood) and James, Hoyer, Newcomer & Smiljanich, but in July 2011 Mr. Pruyn, acting without counsel, produced documents pursuant to the subpoena that included email exchanges with HELP Committee staff during the preparation of his written testimony. Those documents were subsequently disclosed to a conservative online news outlet. As indicated in those emails, at Mr. Pruyn's request, a staff person with the James, Hoyer law firm assisted him with the preparation of his testimony, and staff for The Institute for College Access and Success were consulted on shortening the written testimony for oral presentation.

[828] Complaint, *State of Colorado v. Alta Colleges*, no case number, http://www.coloradoattorneygeneral.gov/sites/default/files/press_releases/2012/03/14/westwood_complaint.pdf (accessed June 12, 2012).

[829] Id.

[830] Id.

[831] Alta Colleges, Inc. May 2009, *Admissions Representative Compensation Plan Effective May 15, 2009* (HELP-ALTA-000001). *See also* Alta Colleges, Inc. May 2009, *Standards of Acceptable Performance* (HELP-ALTA-000261).

[832] Alta Colleges, Inc. May 2009, *Admissions Representative Compensation Plan Effective May 15, 2009* (HELP-ALTA-000001). Points in Alta's scale are called Prospective Graduate Equivalents, but the compensation plan does not indicate that

and "Medical and Other Diploma" were worth 0.50.[833] Campus-based "Admissions Representatives," as Alta's recruiters are called, who enrolled enough students to achieve 65 points per year were paid $28,000 to $40,000.[834] To achieve a bump in pay, a recruiter had to enroll 66–75 students.[835] The top-level recruiter, called an "Executive Admissions Representative III," was paid $79,000 to $86,000, about three times the starting salary of a base-level Representative, and had to enroll enough students to achieve 162 points or more. In addition to pay, recruiters were honored with company awards based on the number of students they enrolled.[836] The top recruiters were rewarded with an invitation to an annual banquet.[837]

Mr. Pruyn testified that "the directors keep the teams in constant competition for prizes with one another. . . . Every time a team signed up a student, they'd set off their signature sound effect, bang a drum, ring a bell, or blow a whistle. An email was also sent out to the entire admissions department to announce their latest enrollment. All of this was designed to keep the energy high and the phones dialing." Mr. Pruyn's testimony was corroborated by internal company documents. Alta calls these competitions "local challenges" and specified that they can be used to "motivate or drive critical success metrics." [838] The rules concerning local challenges permit taking winning teams out to dinner or awarding "gift cards in small amounts." [839]

An internal document obtained by the committee indicates that recruiting managers listened into sales calls, and gave feedback to recruiters.[840] Directors of Admissions, the document states, "must average no less than one hour of live call observations per week with a minimum of three completed calls." [841] The document continues, "while the above observation requirements are the absolute minimum requirement for effective coaching, it is vital that Directors of Admissions prioritize time to coach each Representative via observations on a consistent basis." [842] Mr. Pruyn testified that "supervisors monitored a lot of calls. Everyone was recorded. And you'd match up with your supervisor at least once or twice a week to go over calls and so forth." [843]

Calling Leads to Set Appointments

Alta's recruiter training materials instructed recruiters to "make at least 75 dials per day" to prospective students, called leads.[844] The company spent about $150 per lead.[845] Leads may come in from browsing the colleges' Web site, from seeing a TV commercial, being called by a telemarketer, walking in a campus directly, or calling a number on a direct mail brochure. Recruiters were trained in the psychology of each kind of lead. Direct mail leads, for example, were characterized as "introverted"

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the student need graduate for a recruiter to receive their salary. The salary range is determined purely by points, the exact salary within the range is determined based on "Merit and Quality" points.

833 Id. at HELP-ALTA-000016.
834 Id. at HELP-ALTA-000006.
835 Id.
836 Alta Colleges, Inc. 2010, *Recognition and Awards Guide.* (HELP-ALTA-000239).
837 Id. at HELP-ALTA-000260)
838 Westwood College, *Guidelines for Local Challenges*, April 2009, (HELP-ALTA-000042).
839 Id.
840 Westwood College, *Observation Requirements* (WP000037181).
841 Id.
842 Id.
843 Joshua Pruyn (former Admissions Representative, Alta College, Inc., Denver CO), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *For-Profit Schools: The Student Recruitment Experience*, 111th Congress (2010).
844 Alta Colleges Inc., *Lead Development, Maintaining High Conversion Rates*, April 2006, (HELP-ALTA-000123 at HELP-ALTA-000126).
845 Id. at HELP-ALTA-000129.

and "procrastinators" that "may require more calls/contact prior to interviewing." [846] Leads that were contacted by third-party telemarketers hired by Alta were characterized as "the most unmotivated of our lead types" that "have not done any work to receive our call." [847] When contacting a lead that finds an Alta college on the internet, recruiters were told to "stress the urgency to set an appointment immediately" to come to the campus for an enrollment interview.[848]

The Sales Pitch

Alta's recruiter training manual instructed recruiters in specific tactics to respond to questions and concerns that prospective students may raise.[849] It used the example question of "so what is the tuition at your school." [850] Instead of answering with a price, the recruiter was told to respond by saying, "That's an excellent question, I am going to write your question down, as I have a whole section on that which I will be covering a little later on in the interview." [851] If a student raised the concern of not having $50 to pay the application fee, the recruiter was trained in a number of responses including, "I am confused. When we worked through the budget worksheet together you told me you had an available balance on your master card. We can put the application fee on that card." [852] Other options include asking whether the prospects family could loan him or her the money, and asking the prospect, "what suggestions do you have for paying the application fee?" [853] If a prospective student objected to the price of the college, the manual gives a number of scripted responses, such as "College is a large investment. Let's look at the reasons why you wanted to make that investment in yourself. . . ." [854] The training manual also provided scripted responses to overcome objections such as "I have to talk with my husband," "I don't have a job," and "I do not have childcare." [855]

"Closing" the sale is a term found throughout the recruiters' training.[856] Recruiters were instructed to pepper "trial closes" during the "enrollment interview" to test the prospective student's commitment and likelihood of signing an enrollment agreement.[857] Mr. Pruyn testified that "during training, admissions reps. learned sales techniques, a seven step sales process and the cookie close." [858] A recruiter training document, obtained pursuant to a document request, outlined this seven-step process and contained a number of "trial closes." [859] In fact, recruiters underwent a specific training module on closing.[860] The training tells recruiters, "Don't hesitate or ask if it is OK to proceed" when selling a student.[861]

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[846] Id. at HELP-ALTA-000144.
[847] Id. at HELP-ALTA-000148.
[848] Id. at HELP-ALTA-000134.
[849] Westwood College. *Admissions New Hire Classroom Training*, January 2010 (WP000036036 at WP000036053).
[850] Id.
[851] Id.
[852] Id. at WP000036090.
[853] Id.
[854] Id. at WP000036092.
[855] Id.
[856] See for example, Alta Colleges Inc., *The Admissions Presentation Seven-Step Overview*, July 2008 (HELP-ALTA-000273).
[857] Id.
[858] Joshua Pruyn (former Admissions Representative, Alta College, Inc., Denver CO), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *For-Profit Schools: The Student Recruitment Experience*, 111th Congress (2010).
[859] Alta Colleges Inc., *The Admissions Presentation Seven-Step Overview*, July 2008 (HELP-ALTA-000273).
[860] Alta Colleges Inc., *Close and Affirmation, Writing an Applicant who will Graduate*, April 2006 (HELP-ALTA-000022)
[861] Id. at HELP-ALTA-000025

If a student raises an objection to signing an enrollment agreement, the training recommended six specific steps to secure the sale: "1) Listen, 2) Verify, 3) Isolate, 4) Resolve, 5) Gain Agreement, and 6) Re-Close." [862] Recruiters were told to "assume" the sale using scripted phrasing:

> Great, let's get started (pull out the Enrollment Paperwork and fill in name). What is your current address (fill in on application)? How would you like to take care of your application fee today? We accept cash, credit card, or check (accept payment). I will get you a receipt, and then we will meet with a Financial Aid Representative so they can go over your packet with you. Next, we will schedule you for testing, which is when you will bring in your completed financial aid forms, and your Proof of Graduation……….

After filling out the enrollment agreement, if the student expressed a concern with proceeding, the recruiter was instructed to dramatize the situation and make the prospective student feel awkward by "gather[ing] up the paperwork, pil[ing] it all together, and put[ting] it away" then saying to the prospective student, "My mistake. I thought you were ready to get started." According to the training, the prospective student will respond, "Wait, what are you doing? I am ready" and the representative was instructed to "look at them and start pulling the paperwork back out of the drawer." [863] Mr. Pruyn testified that these kinds of closing tactics were commonly employed. He testified that recruiters would use similar phrasing such as, "well I thought you wanted to make a change" if a prospective student objected to enrolling that day.

<u>GAO</u>

Undercover agents from the GAO visited Westwood's Dallas campus and made recordings of their experience with the recruiting sales process. During the visit, an agent posing as a prospective student asked about financial aid.[864] Westwood employees told the agent to lie on his Free Application for Federal Student Aid (FAFSA) form in order to secure more Federal student aid. A recruiter tells the agent that he should list his children as dependents on the application, even if they are grown and out of the house, because more dependents means more aid. In two separate parts of the visit, the agent shows Westwood employees that he listed assets of $250,000 from an inheritance, and both instances each employee tells him to remove it. One says, "You don't want to tell them how much money you got." [865] The other responds, "When FAFSA's asking how much cash you have on hand, frankly, in my opinion, it's none of their business." [866] In reality, the inheritance assets are supposed to be counted on FAFSA, and the suggestion by Westwood's staff to remove the number could have resulted in the student receiving more aid than he should have been eligible for. Alta apparently later terminated the staff member.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program,

[862] Id. at HELP-ALTA-000029.
[863] Id. at HELP-ALTA-000039.
[864] Audio Recording: Undercover Recordings of Visits by GAO Agents to For-Profit Schools, School 13, Scenario 2 at 16:57.
[865] Id. at 29:57.
[866] Id. at 16:57.

take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[867]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee and (2) student loan "cohort default rates." These metrics indicate that many students who enroll at Alta are not achieving their educational and career goals.

Retention Rates

Information Alta provided to the committee indicates that of the 14,571 students who enrolled at Alta in 2008-9, 56 percent, or 8,157 students, withdrew by mid-2010.[868] Fifty-seven percent of Bachelor's degree students, who make up the bulk of Alta's students, withdrew, a rate slightly worse compared to 54.3 Bachelor's withdrawal rate among the 30 schools examined by the committee.[869]

Status of Students Enrolled in Alta Colleges, Inc. in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	2,541	17.0%	25.5%	57.6%	1,463	133
Bachelor's Degree	10,923	0.4%	42.5%	57.1%	6,237	134
Certificate	1,107	54.8%	3.9%	41.3%	457	125
All Students	14,571	7.4%	36.6%	56.0%	8,157	133

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Internal Alta documents reviewed by the committee bear out these retention statistics. An executive presentation states that, overall, 33 percent of students graduate, meaning that 67 percent withdraw before graduating.[870] The presentation breaks down the graduation rates by program area: 29.4 percent for School of Business students, 36.8 percent for School of Technology, and 32.7 for School of Justice.[871]

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[867] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf.

[868] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions. Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education 's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7.

[869] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

[870] Westwood College, *Impact on Revenue From Enhanced Course Structure*, March 17, 2009 (HELP-ALTA-000043).

[871] Id.

In 2005, Alta sent a survey to its Westwood online students who had withdrawn asking a number of questions about why and when they had withdrawn.[872] In 2006, Alta sent a similar survey to its brick-and-mortar students.[873] The survey indicated that the primary reason students withdrew was "cost of education was too high" followed by "dissatisfied with Westwood for other reasons" and "Dissatisfied with the quality of instruction." [874] The survey results stated that, "Even where students can afford tuition beyond paying for food and rent, the perceived value (program content, quality of instructors, credit transfers etc.) is not in line with the tuition costs.[875] The results of the online student survey showed that, again, high cost was the primary reason that students withdrew, followed by financial aid staff "was not helpful," "other reasons," and "dissatisfied with customer service." [876] Student complaints reviewed by the committee indicate that high cost caused them to withdraw. In September 2006 a student at Westwood College's Chicago location dropped out and filed a complaint citing concerns about cost.[877] Specifically, the student "felt that she was never given proper answers to her questions from Financial Aid, [and] … that she was not well informed of her loan package and wished that she would have know what her payments would have been sooner [sic]." [878] The information provided to the committee does not note whether Alta representatives acted to address the student's concerns, only that ultimately "she could not afford any month payment and dropped [sic]." [879]

Online vs. Brick and Mortar Retention

An analysis of withdrawal rates among the 11 companies that provided disaggregated data indicates that students enrolled in online programs had higher withdrawal rates than students enrolled in campus based programs. Alta's online retention goes against the industry trend: Alta online Bachelor's degree students, withdraw at a lower rate (47.1 percent) than their brick and mortar counterparts (63.4 percent).

Status of Online Students Enrolled at Westwood in 2008-9, as of 2010							
Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Bachelor's	4,202	3	0.1%	2,221	52.9%	1,981	47.1%

Status of Brick & Mortar Students Enrolled at Westwood in 2008-9, as of 2010							
Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Bachelor's	6,721	37	0.6%	2,425	36.1%	4,259	63.4%

[872] Westwood College, *WOL Attrition Survey*, October 2005 (HELP-ALTA-000304).
[873] Westwood College, *Campus Attrition Survey Results*, April 13, 2006 (HELP-ALTA-000288).
[874] Id. at HELP-ALTA-000294.
[875] Id. at HELP-ALTA-000301.
[876] Id. at HELP-ALTA-000319.
[877] Westwood College, September 2010, *Student Complaint Log FY 05*-06, (WP000034025 at WP000034030).
[878] Id.
[879] Id.

Student Loan Defaults

The number of students leaving Alta's colleges with no degree correlates with the high rates of student loan defaults by the colleges' students. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[880]

Slightly more than 1 in 5 students who attended a for-profit college, (22 percent) defaulted on a student loan, according to the most recent data.[881] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[882] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[883] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[884]

The average default rate across all companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent. This change represents a 32.6 percent increase over 4 years.[885] Alta's default rate has not followed this trend. The company's consolidated default increased from 24.3 percent to 26.1 percent between 2005 and 2006, then decreased in 2007 and 2008. The company's most recent rate, for students entering repayment in 2008, is 23.8 percent.

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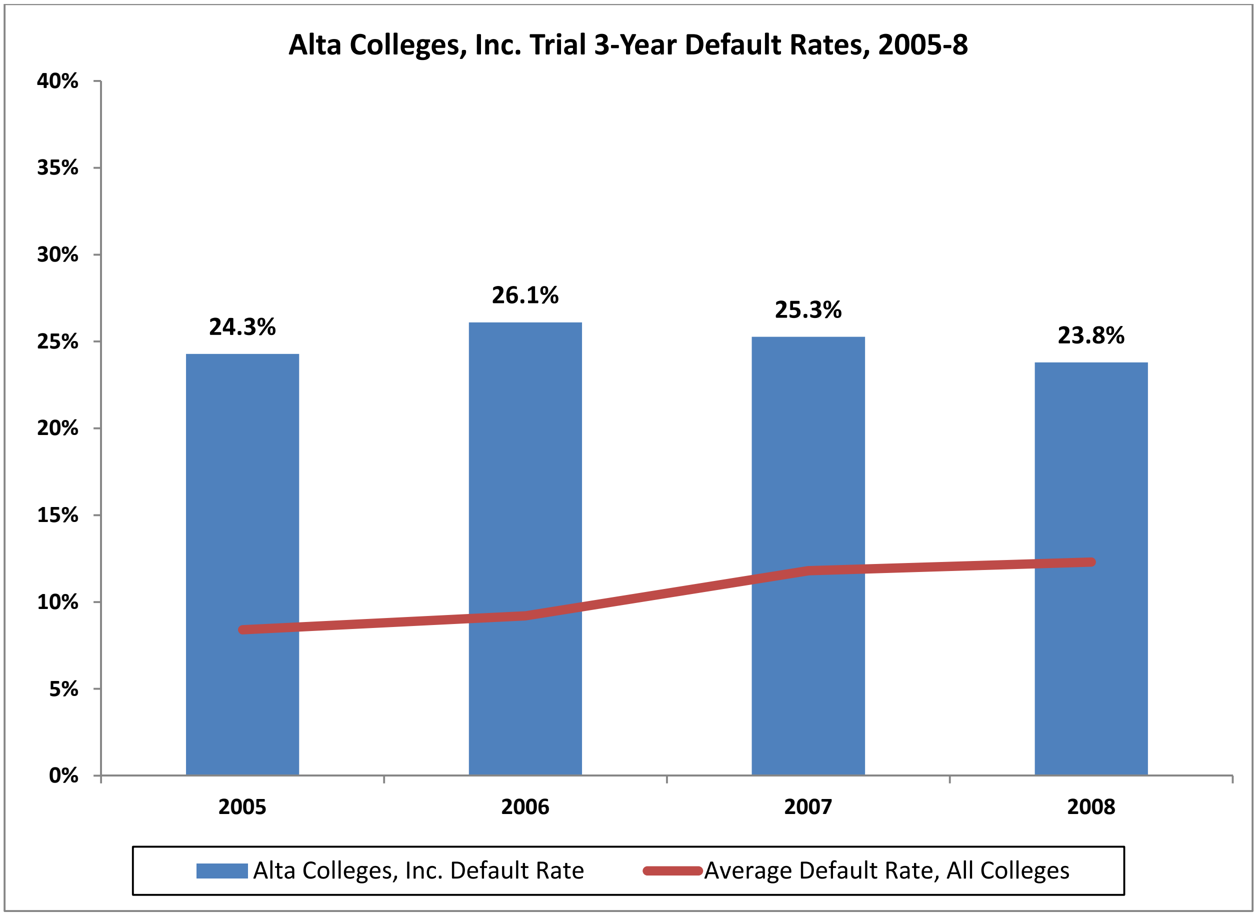
[880] Direct Loan default rates, 34 CFR 668.183(c).
[881] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005–08, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[882] Id.
[883] Id.
[884] Id.
[885] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-2008, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.



The proportion of students defaulting at certain campuses ranged from 17.2 percent for students who attended Redstone College to 27.6 percent of students who attended Westwood's main Los Angeles campus and branch campuses.

It is likely that the default rates reported by some for-profit colleges significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. In order to minimize loan defaults that show up in their reported rate, for-profit colleges invest a great deal of resources into default management. Default management is the practice in which the for-profit colleges employ staff (usually through an outside contractor) who are paid to counsel students into repayment options that ensure that students default within the 2-year (now 3-year) statutory window. While assisting delinquent students to avoid default is a sound goal, however, the committee's investigation has revealed that many for-profit schools are deploying tactics to delay student loan defaults, not to protect the student, but rather to protect the college so that they do not lose access to Federal taxpayer-funded student aid dollars. Evidence suggests that some colleges simply induce students to sign up for forbearance and deferment because it is the easiest option for the college. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

In a 2009 management presentation, Alta indicated that its historical approach to default management was to contact students and "work with them to apply for a forbearance or deferment." [886] "Typically, one successful contact and forbearance request was all that was necessary to exclude the

[886] Alta Colleges Inc., *Board of Directors Appendix*, August 20, 2009 (WP000000439 at WP000000452).

student from the default rate calculation," the presentation stated.[887] The presentation identified that "the vast majority of these students [behind on their payments] were drops, rather than graduates." [888] Another Alta training document for default management employees indicates that the company prioritized deferment and forbearance over actual student loan counseling.[889] The training discusses deferment and forbearance as the answer to preventing default, but does not mention alternative repayment options.[890]

In 2009, when the shift to a 3-year measurement window was apparent, the company indicated that it needed to shift its strategy to "become less reliant on waivers and forbearances." [891] The company proposed positive changes, including training employees on" repayment of student loans" so that the default management team could "steer delinquent or dropped borrowers into repayment rather than only offering assistance in the forbearance and deferment areas." [892]

A 2009 default management plan indicates the company increased the number of staff members assigned to its default management department; expanded the space housing the department (dubbed the "Default Management suite"); and implemented a series of procedural reforms designed to improve monitoring of and communications with students at increased risk of default.[893] The plan states that Alta:

> has made a commitment to dedicate a large effort to default prevention internally. We have a department staffed with Student Loan Specialists who were hired to assist our students in helping to manage their loan(s), making them aware of the options available to them. … Although we find some students to be a little harder to reach, we try several different ways to make contact with a borrower. Specialists mail out monthly letters, send post cards, reference letters, send emails, make calls and that's just to name a few.[894]

Instruction and Academics

The quality of any college's academics is difficult to quantify. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.

Alta spent $6,389 per student on instruction in 2009, compared to $9,306 per student on marketing and $2,719 per student on profit.[895] Alta spends the most per student on instruction compared to other privately held education companies: the amount that these education companies examined by

[887] Id. at WP000000449.
[888] Id. at WP000000452.
[889] Alta Colleges, *Default Management*, (WP000033945).
[890] Id.
[891] Alta Colleges Inc., *Board of Directors Appendix*, August 20, 2009 (WP000000439 at WP000000454).
[892] Alta Colleges, Inc. *Default Management Plans* (HELP-ALTA-000327).
[893] Westwood College, *Default Management Plan,* (WP000033931).
[894] Id. at WP00033934-35
[895] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.

the committee spend on instruction ranges from $1,118 to $6,389 per student per year. In contrast, public and non-profit schools, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Instructional spending at other Colorado-based colleges was, on a per student basis, $10,365 at the University of Colorado, $2,402 at Community College of Denver, and $13,954 at the non-profit University of Denver.[896]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools investigated by the committee, 80 percent of the faculty is part-time, higher in some companies.[897] In 2010, Alta had a similar ratio; the company employed 339 full-time and 1,332 part-time faculty.[898]

A former instructor, who also worked as an assistant to the dean at a Westwood campus who wrote to the committee said that academic quality was compromised by the quest for profit.[899] "There was a constant focus on recruiting and turning a profit rather than on educating," she said.[900] "Members of the admissions team were treated to higher salaries, bonuses and better office accommodations than members of the academic team." [901] "Special education students are welcomed in and then the very accommodations that they need to succeed are withheld from them, causing them to fail. . . . Computer labs and facilities are inadequate and computers and other media devices are routinely out of order." [902]

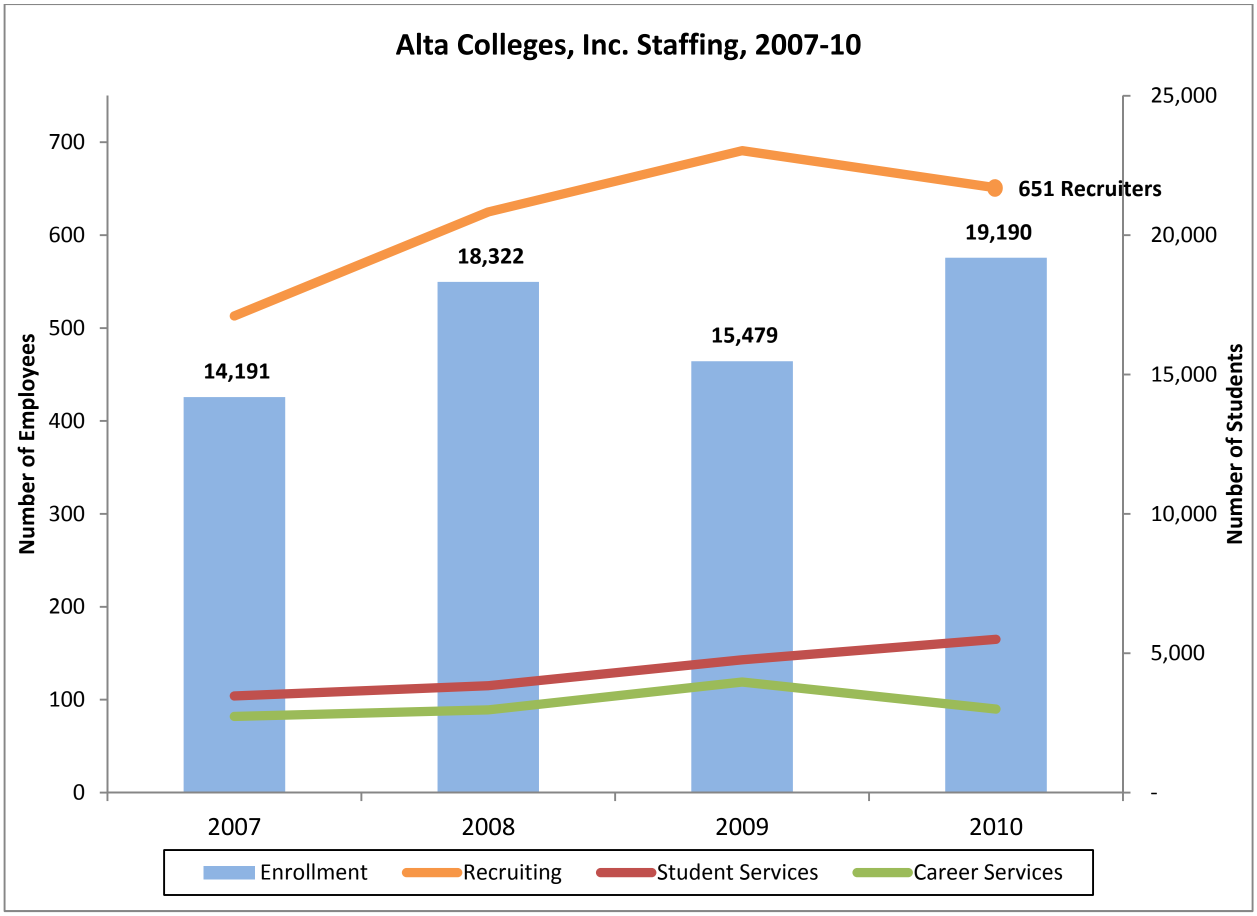
In 2010, the company introduced "foundational courses" for Westwood students who struggled with college-level academic work. The addition of these remedial courses is a valuable step in improving the college's retention rates and student success.[903]

Staffing

While for-profit education companies employed large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2009, with 15,479 students, Alta employed 691 recruiters, 119

[896] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.
[897] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[898] Id.
[899] Letter from Patti Howard to Senator Harkin, February 22, 2012. (After her tenure at Westwood, Ms. Howard filed a lawsuit against Westwood stemming from allegations that the company had engaged in fraud.)
[900] Id.
[901] Id.
[902] Id.
[903] However, for some students, these courses add to the length and cost of their programs and increase their debt loads. In an internal presentation the company considered charging a lower tuition, or no tuition, for these courses, but noted that doing so would mean an "up-front hit to revenue across all students." Alta currently charges full tuition for these extra courses. Alta, March 2009, *Impact on Revenue from Enhanced Course Structure* (with alternative option) (HELP-ALTA-000097); Westwood, "2012 Westwood Course Catalog," http://www.westwood.edu/programs/course-catalogs (accessed June 12, 2012).

career services employees, and 143 student services employees.[904] That means each career counselor was responsible for 130 students and each student services staffer was responsible for 108 students. Meanwhile, the company employed one recruiter for every 22 students.



The former instructor wrote to the committee about her concerns with job placement services:

> One example of such fraudulent activities involved Career Services falsifying student job placement rates. My campus received credit for being the campus with the highest career placement numbers, boasting a 91% success rate for students employed in their field. In fact, that number was only in the 45% range. The campus president even accepted a "prestigious person" award for achieving this feat. This is important because those career placement numbers are used for many different things. First and foremost, they are reported to the accrediting body for the purpose of maintaining accreditation. They are also used to attract and retain students.[905]

[904] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.
[905] Letter from Patti Howard to Senator Harkin, February 22, 2012. (After her tenure at Westwood, Ms. Howard filed a lawsuit against Westwood stemming from allegations that the company had engaged in fraud.)

Regulatory Strategies

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenues come from title IV Federal financial aid programs and that no more than 25 percent of students default within 2 years of entering loan repayment. As discussed above, some companies including Alta lower their reported default rates by placing students in forbearances and deferments to delay default. Moreover, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of their revenues come from title IV Federal financial aid programs.

Alta has focused on collecting post 9/11 GI bill funds to assist in complying with the 90/10 rule. Military funding is not counted as federally sourced revenue for the purpose of 90/10. In 2009–11, Alta Colleges, Inc. enrolled 1,894 veterans at a cost of $34.8 million. Some veterans indicate that they felt misled. One veteran reported being told that her GI bill benefits would cover the cost of her education, only to find out after she enrolled that the college had packaged her for a loan:

> I was told that the GI Bill would cover the entire enrollment if I attended half time. During the enrollment process I was told that I had to fill out financial aid forms even if I was not going to use financial aid. I began class with the understanding that my GI Bill would cover the cost of the classes. Then I received a letter from Sallie Mae to sign for a $7500 loan, I was very confused as I [was] adamant throughout the enrollment process that I was not interested in taking a loan—I told this to every person I talked to and was assured the GI Bill would cover the classes in full. Turned out that this information was incorrect.[906]

After withdrawing and filing a complaint, the school forgave the balance she owed. The former instructor, who also worked as an assistant to the dean and at a Westwood campus wrote to the committee that "military vets [were] misinformed that their full cost of tuition is going to be covered, including books." [907] The attorney general of Colorado found evidence that "Active and former military students . . . complain that they were led to believe that their military benefits available under the GI Bill would . . . cover 100 percent of all costs to attend Westwood when that was not the case." [908]

Enforcement and Accreditation

Westwood has faced three major consumer-protection investigations and lawsuits with State and Federal agencies in the past 3 years. In 2012, the attorney general of Colorado filed a complaint against Westwood stemming from an investigation into the college's business and recruiting practices.[909] The investigation revealed that "Westwood misrepresented and inflated its job-placement rates," "admissions recruiters also misled prospective students about the average wages of graduates, the transferability of course credits, and the total cost of Westwood degrees," "Westwood also misled veterans to believe that

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[906] Westwood College, September 2009, *Student Complaint Log, FY 2007*, (WP000034152, at WP000034155).
[907] Letter from Patti Howard to Senator Harkin, February 22, 2012. (After her tenure at Westwood, Ms. Howard filed a lawsuit against Westwood stemming from allegations that the company had engaged in fraud.)
[908] Complaint, *State of Colorado vs. Alta Colleges*, no case number, http://www.coloradoattorneygeneral.gov/sites/default/files/press_releases/2012/03/14/westwood_complaint.pdf (accessed June 12, 2012).
[909] Attorney General, Colorado Department of Law, "Attorney General announces $4.5 million settlement with Westwood College to address deceptive business practices," March 14, 2012. http://www.coloradoattorneygeneral.gov/press/news/2012/03/14/attorney_general_announces_45_million_settlement_westwood_college_address_dece (accessed May 20, 2012).

the GI bill covered the cost of their studies when it often did not" and "Westwood failed to disclose the terms of its student financing, charged improper finance fees and failed to maintain records as required by Colorado's Uniform Consumer Credit Code." The attorney general's complaint alleged that, as discussed above, many students did not know that they were signing up for an interest-bearing loan. Westwood and the attorney general reached a $4.5 million settlement to address the allegations. Under the terms of the settlement, "Westwood must submit for three years to monitoring by the attorney general of the school's admissions interviews, and to yearly audits of the data underlying Westwood's graduate employment statistics."[910]

In January 2012 the attorney General of Illinois filed a complaint against Westwood stemming from misrepresentations made by recruiters to prospective students regarding their ability to obtain employment after graduating.[911]

In 2009, a Department of Education investigation of three Texas Westwood College campuses uncovered a pattern of noncompliance with both State and Federal regulations.[912] Specifically, Alta officials at the Dallas, Fort Worth, and Houston Westwood campuses allegedly engaged in misrepresentation in order to obtain a license to operate in Texas. Among the prerequisites for receipt of Federal financial aid dollars is a mandate that educational institutions meet applicable State licensing requirements. Whistleblowers alleged that Alta misrepresented their campuses' compliance with Texas job-placement reporting requirements, as well as the extent to which the interior design programs offered by the schools complied with professional licensing requirements. Ultimately, the company agreed to a $7 million civil settlement in order to resolve these allegations in 2009.[913] The Texas campuses were also fined $41,000 by the Texas Workforce Commission and placed on probation for high-pressure marketing and recruitment practices, as well as failures to file changes of ownership with the State and to notify the Commission of four lawsuits pending against the school.[914] According to the Commission, the $41,000 penalty included "$1,000 for coaching a prospective student … to make false statements in order to qualify for financial aid, $24,000 for failing to file changes of ownership …, and $16,000 for failing to notify [the Commission] of four pending lawsuits against the school." [915]

More recently, the U.S. Department of Veterans Affairs pulled funding from the same three Texas Westwood locations. After the release of the Government Accountability Office's report documenting questionable recruitment practices at 15 for-profit institutions, including Westwood, the Texas Veterans Commission withdrew the campuses' eligibility for funds available through the GI bill.[916] The Commission, which evaluates Texas schools on behalf of the VA, cited concerns about

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910 Id.

911 Complaint, *Illinois v. Alta Coll., Inc.*, et. al., No. 12CH01587 (Ill. Cir. Ct., Cook CtyJan. 18, 2012), http://illinoisattorneygeneral.gov/pressroom/2012_01/WESTWOOD_Complaint_11812.pdf (accessed May 21, 2012)

912 Chronicle of Higher Education, "Proprietary College to Pay $7-Million to Settle Federal Student-Aid Charges," April 20, 2009. http://chronicle.com/article/Proprietary-College-to-Pay-/42773/ (accessed May 21, 2012).

913 See, Press Release, U.S. Dep't of Justice, *Alta Colleges to Pay U.S. $7 Million to Resolve False Claims Act Allegations*, April 20, 2009, http://www.justice.gov/opa/pr/2009/April/09-civ-367.html (accessed June 14, 2012). Under the terms of the settlement agreement, Alta Colleges, Inc. paid $7 million to the United States. "The whistleblowers who initiated the lawsuit will receive $1.19 million." Id.

914 See Press Release, Texas Workforce Commission, *Westwood College Texas Campuses Fined and Placed on Probation*, December 16, 2010, http://www.twc.state.tx.us/news/press/2010/121610press.pdf (accessed June 14, 2012).

915 Id.

916 The Texas Veterans Commission is among a group of State approving agencies that contract with the U.S. Department of Veterans Affairs to evaluate and certify the continued suitability of educational institutions receiving GI Bill benefits. *See* Alex Horton, *For-Profit School Deceives Vets, VA Pulls GI Bill Funds*, VAntage Point: Dispatches from the U.S. Department of Veterans Affairs, Mar. 8, 2011, http://www.blogs.va.gov/VAntage/ (accessed January 11, 2012); Lindsay Wise, "VA pulls GI Bill funding for Westwood College", *Houston Chronicle*, Mar. 9, 2011, http://www.chron.com/news/houston-texas/article/VA-pulls-GI-Bill-funding-for-Westwood-College-1685900.php (accessed January 11, 2012).

misplaced incentives in support of its decision. In a statement to the Houston Chronicle, the Commission's director of veterans education said:

> Because of the money that veterans are now bringing in with the new Post-9/11 GI Bill—the fees are completely covered and the money goes directly to the school—the schools have a big incentive to enroll veterans. There's a lot of money available, and something they're finding in general about for-profit schools is they don't always have the graduation rates that they promote, as well as the job prospects.[917]

The Dallas, Fort Worth, and Houston South Campuses continue to operate under conditional certificates of approval pursuant to the Texas Workforce Commission's probation order, and are to date not currently enrolling new students.[918]

The scrutiny of Alta's recruitment tactics is not limited to the company's Texas locations. In September 2010, the Accrediting Commission of Career Schools and Colleges, a national accreditor, placed one of Westwood College's Denver campuses on probation, citing a need to "properly demonstrate student achievement, show that it has proper management and administrative procedures, provide its policy for handling complaints, comply with standards for student recruiting and demonstrate it has the administration capacity and procedures to meet accreditation requirements," as well as ongoing lawsuits over deceptive recruiting practices.[919] Under Colorado law, once an institution has been placed on probation by an accrediting agency State officials may revoke the institution's authorization to operate, and in December 2010 the Colorado Commission on Higher Education (CCHE) followed the accreditor's lead. The CCHE placed the Colorado Westwood campus on probation, citing consumer protection concerns, and explained that the company had an obligation to disclose its accreditation status and ongoing legal disputes to its students.[920] The company took action to correct deficiencies identified by the accreditor and the CCHE, and in March 2011 both the accreditor and the State of Colorado lifted the probation.[921]

The problems and misrepresentations revealed by these investigations and actions are indicative of a culture preoccupied with protecting a revenue stream over providing a quality education. However, largely as a result of this scrutiny, Westwood has put in place significant reforms that should help to ensure that, at a minimum, students have a more accurate understanding of what they can expect to pay for, and to achieve with, a Westwood degree.

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[917] See id.

[918] See Westwood Locations – Texas, http://www.westwood.edu/locations/texas/ (accessed January 11, 2012) ("Westwood is not currently enrolling students at its Texas campuses.").

[919] "Wednesday churn: Westwood on probation," *Education News Colorado*, December 15, 2010, http://www.ednewscolorado.org/2010/12/15/11521-wednesday-churn-state-workers-dinged-again (last accessed Jan. 11, 2012).

[920] See Allison Sherry, "Westwood College placed on state probation," *Denver Post*, Dec. 15, 2010, http://www.denverpost.com/news/ci_16860773 (last accessed Jan. 11, 2012); see also Deb Stanley, "State Puts Westwood College On Probation: Action Comes After National Accreditation Agency Makes Similar Decision," *7News*, Dec. 17, 2010, http://www.thedenverchannel.com/news/26178103/detail.html (last accessed Jan. 11, 2012) ("Under the spirit of consumer protection, the Colorado Commission on Higher Education decided to put Westwood College under probation," according to CCHE spokesman Chad Marturano.).

[921] See Yesenia Robles, "Accreditation restored to for-profit Westwood College," *Denver Post*, Mar. 3, 2011, http://www.denverpost.com/breakingnews/ci_17541572 (last accessed Jan. 11, 2012).

Conclusion

While Alta is striving to implement serious reforms, the company remains one of the most expensive schools examined by the committee. Although new policies are in place, according to evidence gathered by multiple State and Federal law enforcement agencies, Alta previously engaged in practices designed to mislead and deceive students. Tactics included obscuring the true cost of programs, providing inaccurate graduation and job placement rates and placing students in private loans without their knowledge. While the 56 percent of students withdrawing from the company is approximately the same as the sector average, Alta also has a high rate of student loan default, with 24 percent of students defaulting within 3 years. This likely reflects an inability on the part of some students to find jobs that allow them to repay the debt they incur. Taken together, these issues cast serious doubt on the notion that Alta's students are receiving an education that affords them adequate value relative to the cost, and calls into question the hundreds of millions of dollars American taxpayers invest in the company.

American Career College, Inc.

Introduction

American Career College, Inc. ("ACC") is a closely held, for-profit education company that offers Certificate and 2-year degrees in allied health fields. While private distributions to shareholders totaled $18 million in 2009, the company's student loan default rate was 21 percent for students entering repayment in 2008, calling into question whether graduates are able to secure good quality jobs. It is unclear whether the company delivers an educational product worth the rapidly growing Federal investment taxpayers are making in the company.

Company Profile

ACC is a privately held, for-profit educational institution headquartered in Irvine, CA. ACC operates three campuses in Southern California and exclusively offers Certificates and Associate degrees in healthcare programs. The company does not offer programs online.

ACC's campuses are accredited by Accrediting Bureau of Health Education Schools. The company's three campuses operate under two Department of Education OPEID numbers.[922]

American Career College was founded by David Pyle in 1979. Mr. Pyle currently serves as chief executive officer and is the sole stockholder in the company; he controls the company completely. Originally, the school was called American College of Optics and offered programs in eye-care assistance.

ACC experienced steady growth over the last decade. Enrollment grew from 1,292 students in fall 2001 to 4,761 students in fall 2010, 268 percent increase.[923]

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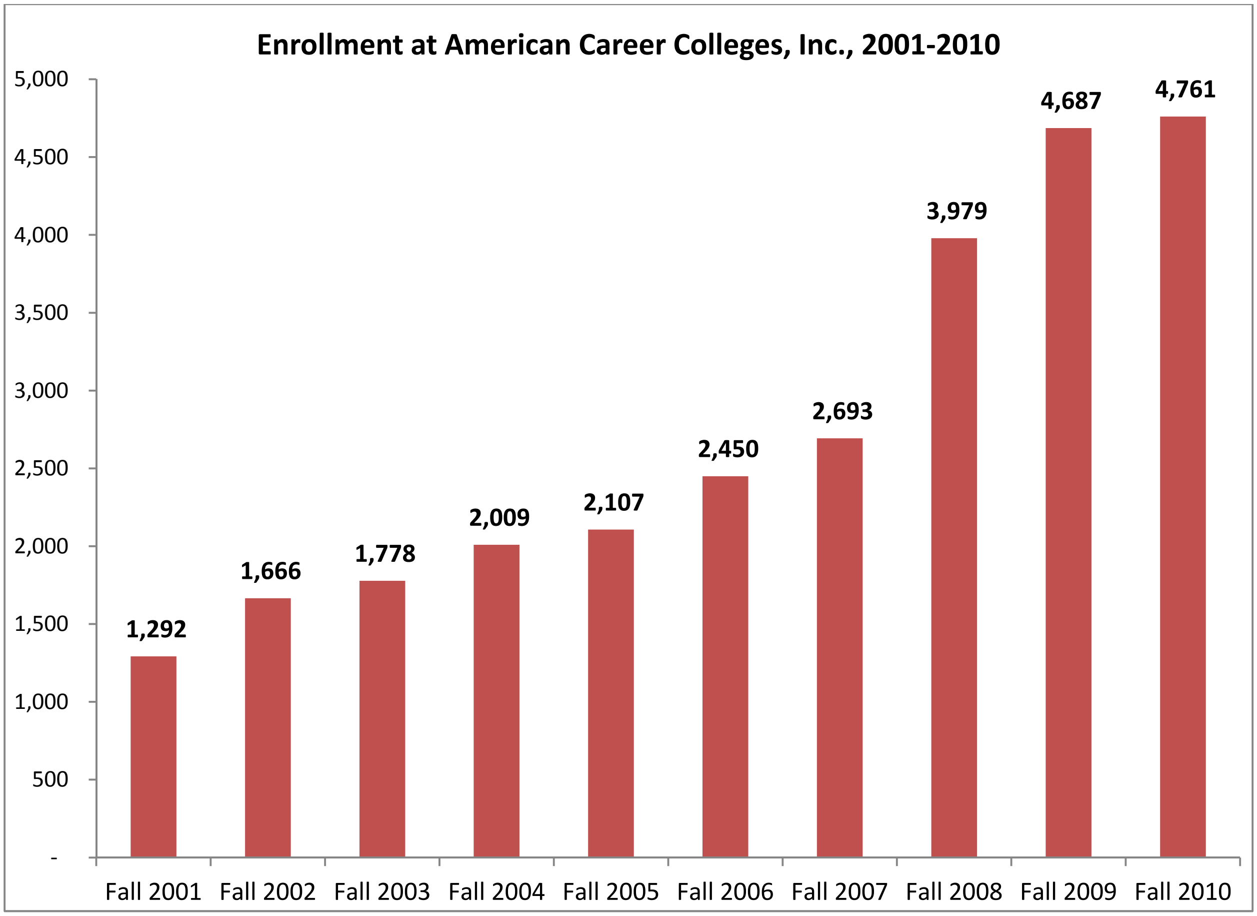
[922] An Office of Postsecondary Education ID (OPEID) number is used by the Department of Education to identify and regulate institutions that participate in title IV student aid programs.

[923] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education 's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a drop in revenue and profit at some companies.



The growth in enrollment led to growth in revenue.[924] Revenue grew from $30 million in fiscal year 2005 to about $80 million in 2009, representing a 267 percent growth in revenue in 5 years.[925]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs.[926] Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[927] Together, the 30

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[924] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

[925] American Career College, *ACC financial statements for the years ended December 31, 2009 and 2008*, (ACC-0000131); American Career College, *ACC financial statements for the years ended December 31, 2009 and 2008*, (ACC-0000065, at ACC-0000070) (full documents on file with committee).

[926] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

[927] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000–1 and 2009-10. Figures for 2000–1 calculated using data provided to the committee by the U.S. Department of Education.

companies the committee examined derived 79 percent of revenues from title IV Federal aid programs in 2010, up from 69 percent in 2006.[928]

In 2010, ACC reported 79 percent of revenue from title IV Federal student aid programs.[929] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs or revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA).[930] The committee estimates that ACC may have discounted approximately 14 percent of revenue, or $12 million, pursuant to ECASLA. Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 1.1 percent of ACC's revenue, or $917,445.[931] With funds from the Departments of Defense and Veterans Affairs included, 80.1 percent of ACC's total revenue was comprised of Federal education funds.[932]

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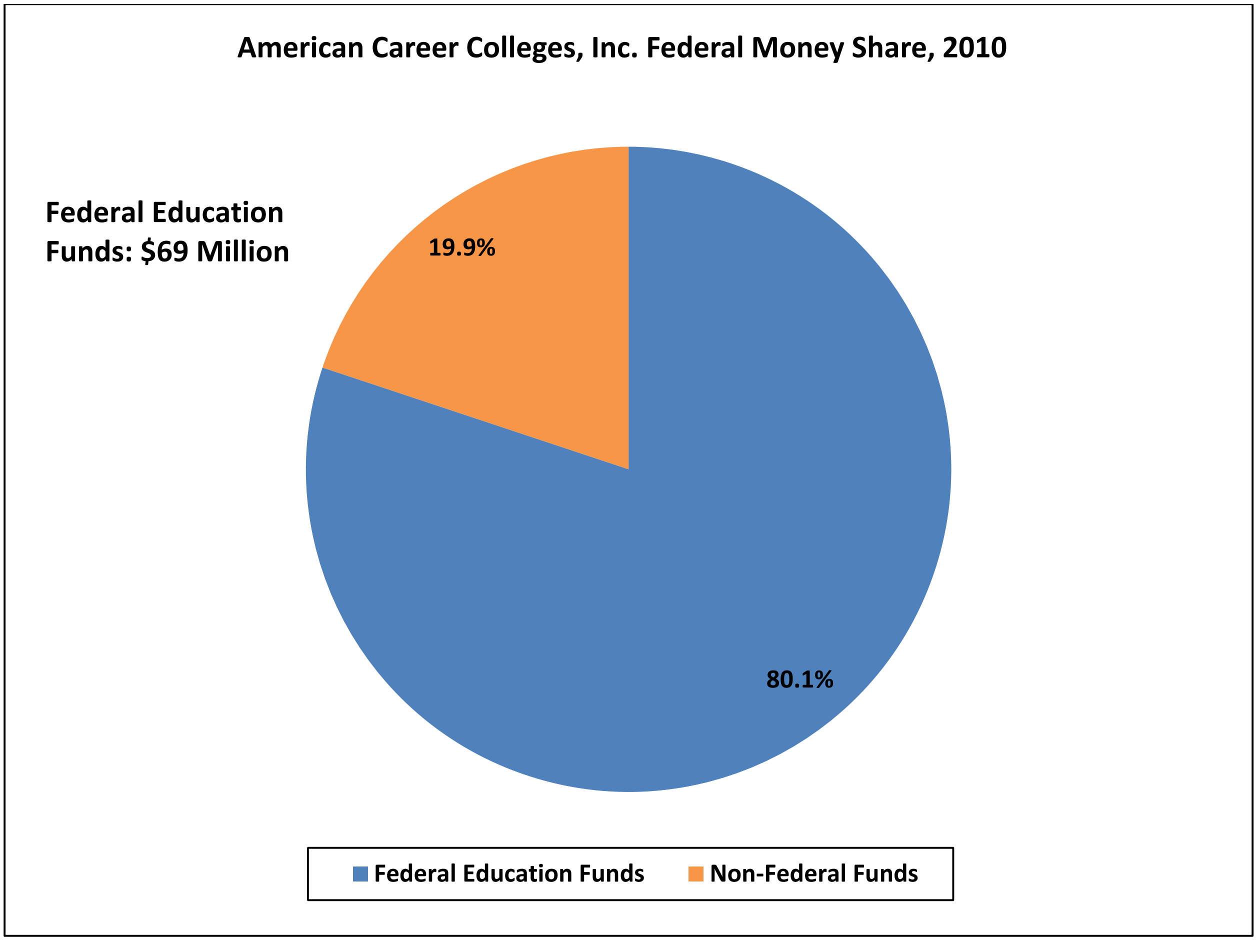
[928] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[929] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

[930] The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, the company opted not to take advantage of the provision, and did not exclude any Federal financial aid from the calculation of Federal revenues during this period.

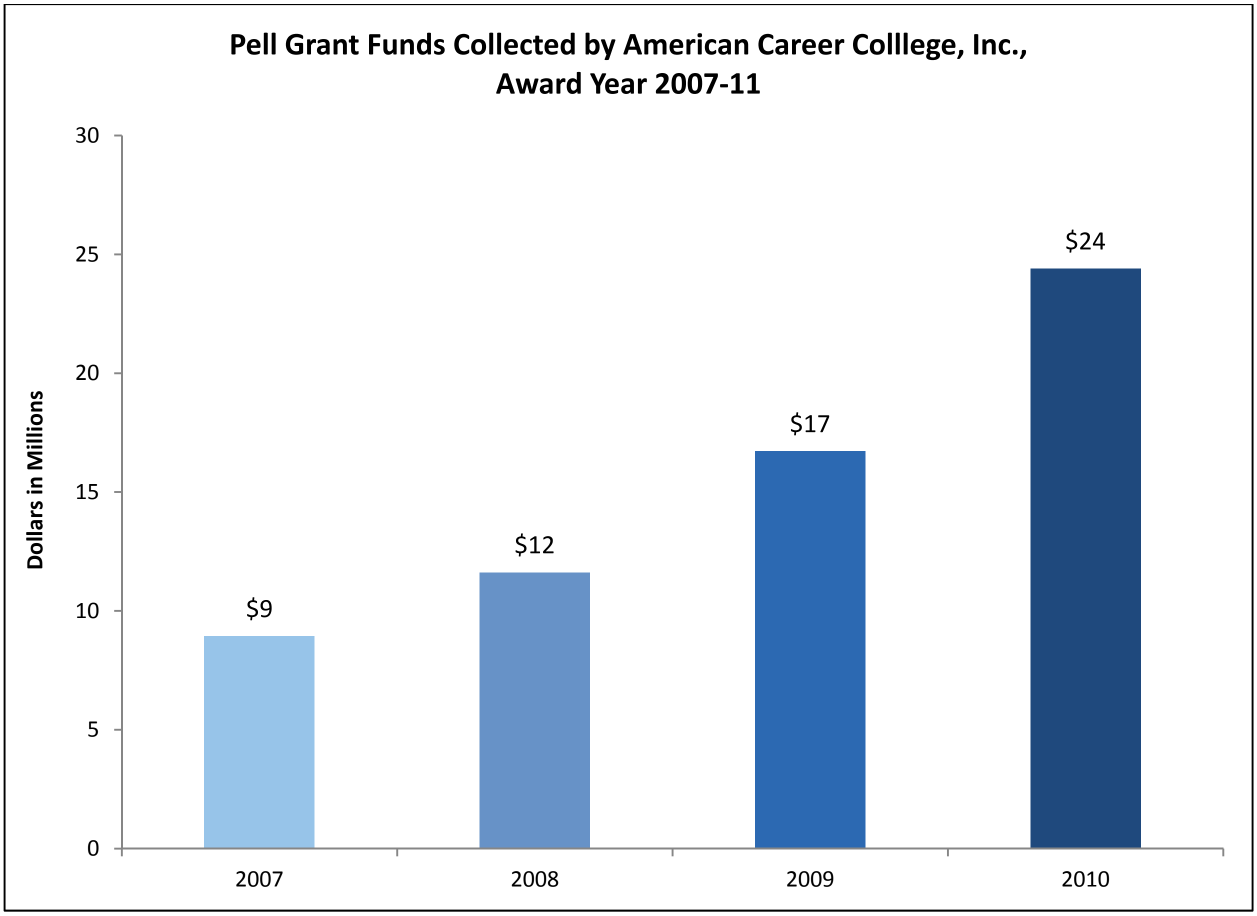
[931] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and Appendix 12.

[932] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[933] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[933] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.



American Career College collected $8.9 million in Pell grant funds in 2007, and just 3 years later, in 2010, collected $24.4 million, an increase of 173 percent.[934]

Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[935] During the same period the companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion) and 19.7 percent on profit ($3.2 billion).[936]

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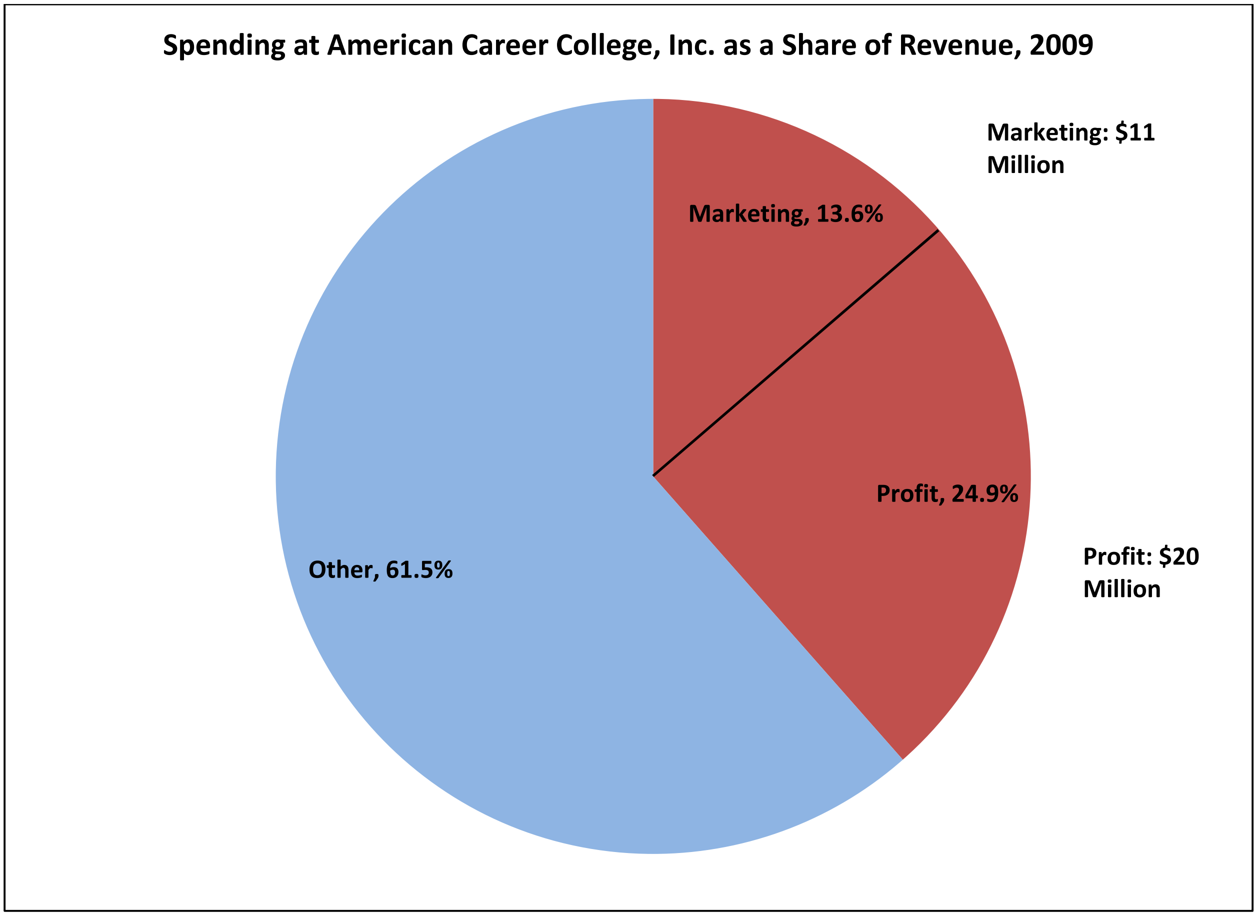
[934] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

[935] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

[936] Senate HELP Committee staff analysis of fiscal year 2009 financial statements. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

In 2009, American Career College allocated 13.6 percent, or $10.8 million, to marketing and recruiting and 24.9 percent of its revenue, or $19.8 million, to profit (operating income).[937]



American Career College devoted a total of $30.7 million to marketing, recruiting and profit in fiscal year 2009.[938] The amount of profit American Career College generated has also risen rapidly, increasing sixfold from $2.8 million in 2006 to $19.8 million in 2009.[939]

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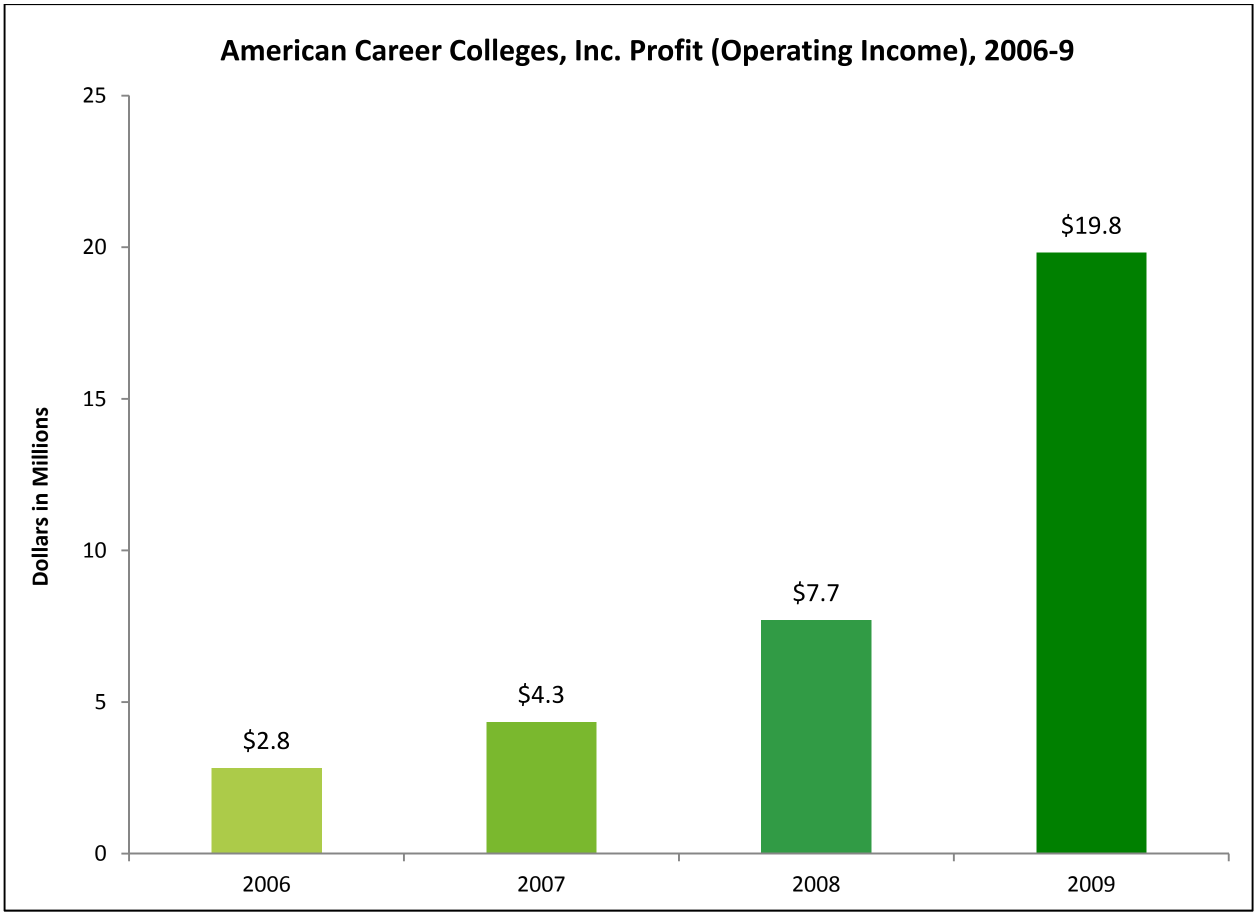
937 American Career College, *ACC financial statements for the years ended December 31, 2009 and 2008*, (ACC-0000131, at ACC-0000135); American Career College, *ACC financial statements for the years ended December 31, 2009 and 2008*, (ACC-0000065, at ACC-0000070) (full documents on file with committee). See Appendix 19.
938 Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.
939 Senate HELP Committee staff analysis. See Appendix 18.



Executive Compensation

As a privately held company, ACC is not obligated to release executive compensation figures. Financial statements show that the CEO of the company, as the sole stockholder, received a distribution of the company's profit totaling at least $18 million in 2009.[940]

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at American Career College. In the current 2011-12 school year, tuition for most of the Certificate programs cost $17,068.[941] The Certificate programs are designed to be 40 weeks long. The company's Certificate program in vocational nursing is 80 weeks and costs $34,000. Tuition for the Associate programs in surgical technology and health information technology are $35,000. Tuition for the Associate program in respiratory therapy is $45,000. These Associate degree programs are designed to be 80 weeks.

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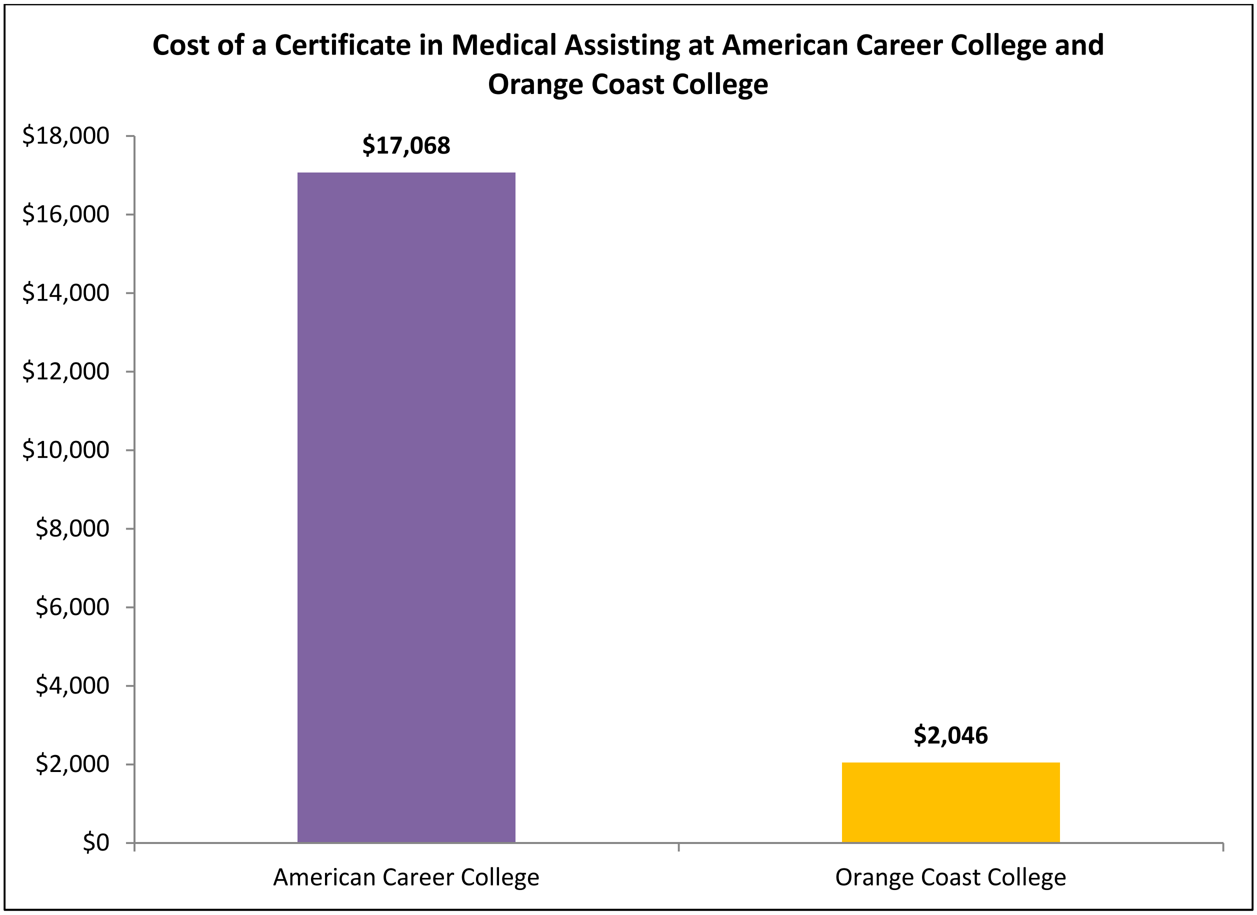
[940] American Career College, *ACC financial statements for the years ended December 31, 2009 and 2008*, (ACC-0000131, at ACC-0000135); American Career College, *ACC financial statements for the years ended December 31, 2009 and 2008*, (ACC-0000065, at ACC-0000070) (full documents on file with committee).
[941] See Appendix 14; see also, American Career Colleges, *Federal Disclosures*, http://americancareercollege.edu/general/disclosures.html (accessed April 4, 2012).

In comparison, the approximate cost for a similar healthcare Certificate program at Orange Coast College, located close to ACC's campuses, is $2,046.[942]



Outcomes

Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[943]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many students who enroll at ACC are not achieving their educational and career goals.

Retention Rates

Information provided to the committee by the company indicates that out of 5,246 Certificate students who enrolled at American Career College in 2008-9, 27 percent, or 1,396 students, withdrew by

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[942] See Appendix 14; see also, Orange Coast College, *Orange Coast College*, http://www.orangecoastcollege.edu/ (accessed June 21, 2012).
[943] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 12, 2012).

mid-2010.[944] Compared to the average withdrawal rate of 54.1 percent for the 30 schools examined by the committee, ACC performed better than average.[945] The company's Certificate students had a withdrawal rate of 26.6 percent.

Status of Students Enrolled in American Career Colleges, Inc. in 2008-9, as of 2010						
Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Certificate	5,246	69.6%	3.8%	26.6%	1,396	100

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdrew after mid-2010 when the data was produced.

Student Loan Defaults

The number of students leaving American Career College with no degree correlates with the high rates of student loan defaults by students who attended American Career College. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[946]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[947] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[948] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[949] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[950]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[951] This change represents a 32.6 percent increase over 4

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[944] Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions. See Appendix 15.

[945] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

[946] Direct Loan Default Rates, 34 CFR 668.183(c).

[947] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-2008, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.

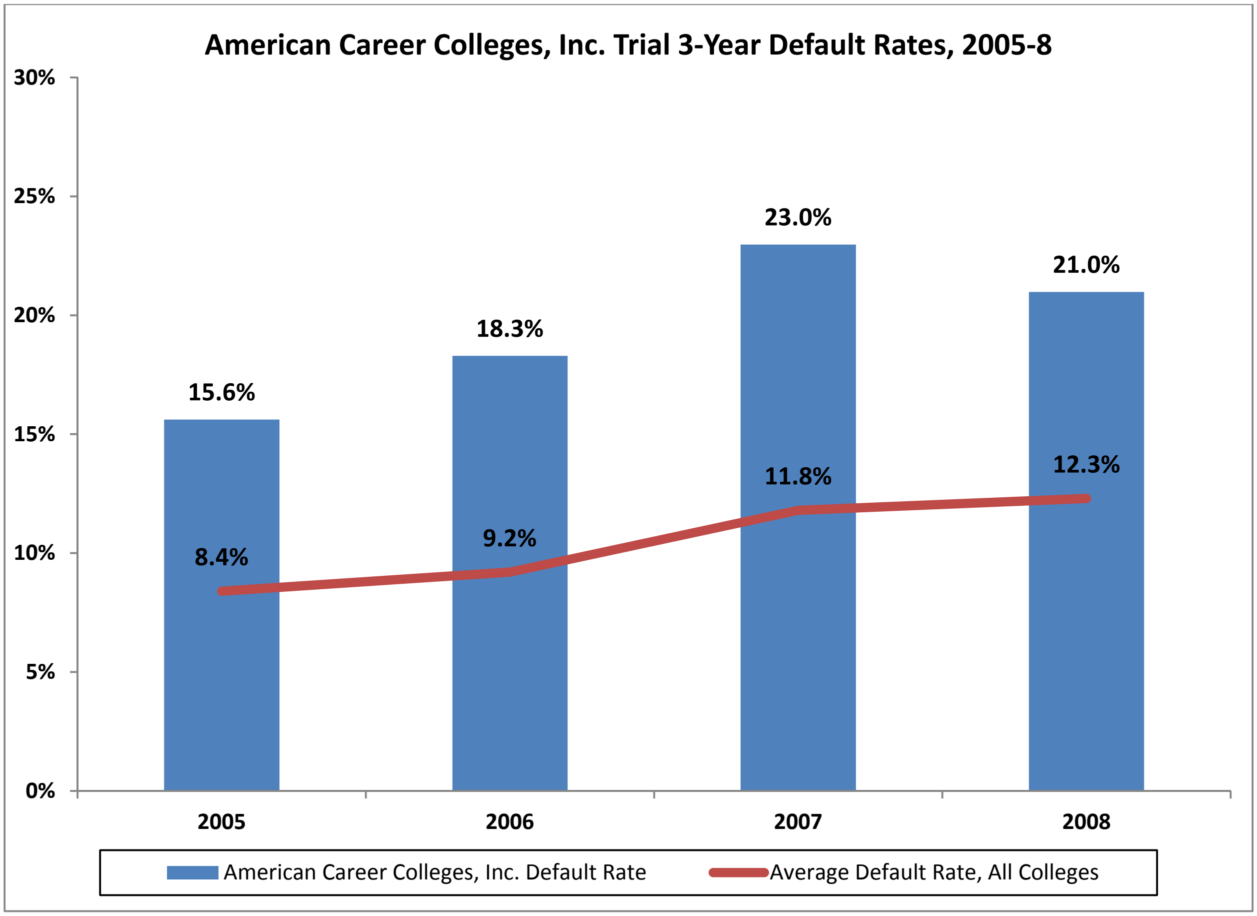
[948] Id.

[949] Id.

[950] Id.

[951] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.

years.[952] American Career College's default rate has similarly increased, growing from 15.6 percent for students entering repayment in 2005 to 23 percent for students entering repayment in 2007, before falling to 21 percent in the most recent cohort.



Instruction and Academics

The quality of any college's academics is difficult to measure. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.

American Career College spent $4,455 per student on instruction in 2009, compared to $2,168 per student on marketing, and $3,949 on profit.[953] In total, ACC spent $20.6 million on instruction in 2009, equal to about 26 percent of revenues, only slightly more than the amount that the company distributed to Mr. Pyle in profit. The amount that privately held companies the committee examined

[952] Id.

[953] Marketing figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment. See Appendix 20, Appendix 21, and 22.

spend on instruction ranges from $1,118 to $6,389 per student per year.[954] In contrast, public and non-profit 4-year colleges and universities, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge much less money than for-profit colleges. Other California-based colleges spent, on a per student basis, $3,272 at Orange Coast College, and $15,039 at University of California, Irvine.[955]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee investigated, 80 percent of the faculty is part-time, higher in some companies.[956] Likely reflecting its emphasis on bricks and mortar classes, American Career College has a more even division between full-time and part-time faculty.[957] In 2009, the company employed 108 full-time and 114 part-time faculty.[958]

Complaints that students posted at Consumer Affairs suggest that some students are not satisfied with the quality of the training they received or their job prospects after leaving school. One student wrote,:

> I attended this school in 2007 and graduated in 2008. I had joined the Medical Assistants program which promised a career in the medical field. Unfortunately, with all my hard work, this did not happen. My instructor had informed me that if I get good grades and perfect attendance she will help me get into Kaiser [hospital]. I work hard every day, never missed a day and was never late. I was Valedictorian of my class and received honor roll and perfect attendance on graduation. A month prior to graduation, the instructor informs me they had become unaccredited and Kaiser or any other hospital will not hire anyone from American Career College. Then I was told for internship, I will go to a great place and be hired on there. Again a lie! They sent me to a Spanish speaking facility. I speak English and my instructor knew this. I couldn't get that job either because I am not bilingual! I tried a few different places myself and again couldn't get hired because I am not bilingual. So now I work in a garden supply store and owe thousands of dollars to this crappy company.[959]

Another student wrote:

> Before signing up, I was promised big money, job guarantee program, lifetime job placement and etc. The only resource for jobs they have for students, is a big binder full of job posting, but the majority of jobs are for 5+ experienced assistants, or old posting [sic]. I graduated in 2004. I only had one job I found on my own, and was fired because, I

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954 Id. Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

955 See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes–which do not include construction, leasing and maintenance of physical buildings–are not passed on to students, who pay the same or higher tuition for online courses.

956 Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

957 Id.

958 Id.

959 Consumer Affairs complaint, "April of Riverside, CA on Sept. 8, 2011," http://www.consumeraffairs.com/education/american_career_college.html (accessed May 12, 2012).

> was inexperienced. The tools, and material used in dental office is quite different than what I was trained to use, so I looked pretty dumb on the job site.[960]

Another student posted a complaint regarding quality problems due to instructor turnover:

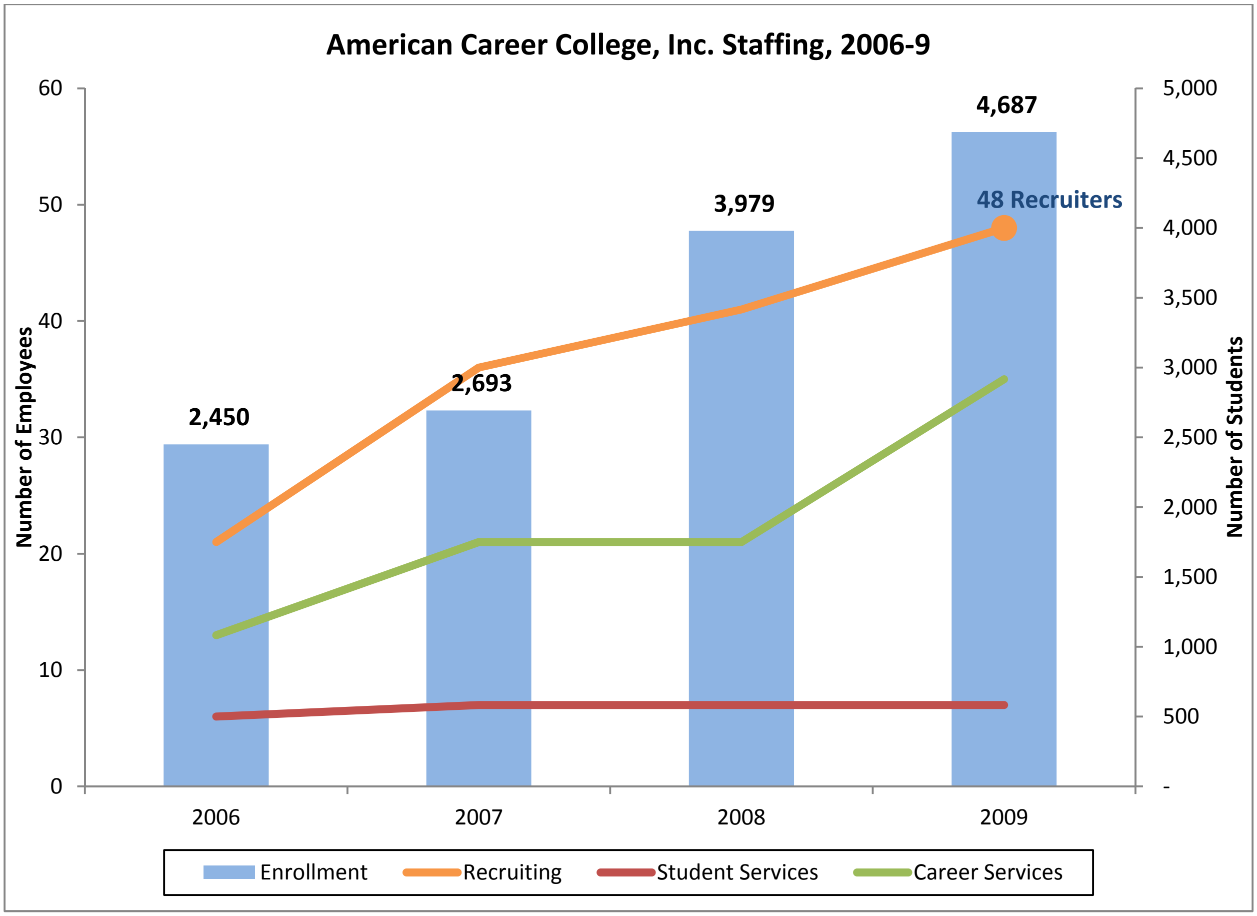
> I graduated from American Career College in September of 2009. I have not been able to find a job as a Medical Assistant. The school had not trained me in any medical software. This causes a big problem in trying to find a job. . . . While in school, we changed instructors 4 times, which made it hard to learn the new instructors [sic] teaching methods, along with the materials. I didn't feel I was learning very much. Some days, no instructor would show up and we would be in the classroom waiting. We would go to the front desk, they never knew what was going on.[961]

While student complaints may not be representative of the experience of the majority of students, these complaints do provide an important perspective on ACC's academic quality.

Staffing

While many for-profit companies employ large numbers of recruiters to enroll new students, these same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2009, with 4,687 students, ACC employed 48 recruiters, 35 career services employees and 7 student services employees.[962] That means each career counselor was responsible for 133 students and each student services staffer was responsible for 669 students. Meanwhile, the company employed one recruiter for every 98 students.

[960] Consumer Affairs complaint, "jessica of pomona, CA on Aug. 28, 2010," http://www.consumeraffairs.com/education/american_career_college.html (accessed May 12, 2012).
[961] Consumer Affairs complaint, "JULIE of Ontario, ca on March 22, 2010," http://www.consumeraffairs.com/education/american_career_college.html (accessed May 12, 2012).
[962] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.



Conclusion

ACC is a small but highly profitable education company. Nearly all of the company's revenue is derived from Federal taxpayer funds, and most of the company's profits are funneled to the company's sole shareholder, David Pyle. ACC's Certificate program tuition is approximately six times higher than tuition at nearby community colleges. The company's enrollment growth—the number of students enrolled nearly doubled between fall 2007 and fall 2009—and complaints from students also present cause for serious concern. While ACC's retention rates are higher than those at many companies examined, the company's high student loan default rates suggest that students completing its programs may not be able to obtain employment or salaries that enable them to repay the student loan debt they incur. Taken together, these issues cast serious doubt on the notion that ACC's students are receiving an education that affords them adequate value relative to the cost, and calls into question the $85.5 million investment American taxpayers made in the company in 2010.

American Public Education, Inc.

Introduction

A recent addition to the Federal student aid program, American Public Education, Inc. has expanded its offering from solely students affiliated with the armed services to all students. Its rapid growth in student enrollment, Federal funds collected and profit realized in recent years bears monitoring. Today, APEI's performance—measured by student withdrawal and default rates—is better than many of the companies examined, suggesting that students are faring better at this institution.

Company Overview

American Public Education, Incorporated ("APEI") is a publicly traded, for-profit educational institution headquartered in Charlestown, WV. APEI operates two online-only institutions: American Military University and American Public University. American Military University was founded in 1991 and instructs members of the armed services and their spouses. In 2002, the company created American Public University, which instructs civilians. Together, these institutions are known as American Public University System ("APUS"), which offers 87 degree and 68 Certificate programs. Its 10 most popular programs are: business, criminal justice, history, homeland security, information technology, intelligence, management, psychology, sports, and transportation and logistics management.[963] Most students are enrolled in the company's Bachelor's degree programs. American Public University System became eligible to receive title IV funds in 2006.

Like more than half of the regionally accredited brands examined by the committee, APEI is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC). It has been nationally accredited by the Distance Education Training Council (DETC) since 1995.[964] American Military University was previously headquartered in Virginia. It applied for regional accreditation with the Southern Association of Colleges and Schools in 1998. In 1999, American Military University was denied candidacy status because the institution did not meet the accreditors' requirements of having full-time professors and a library.[965] Bloomberg News reported that, "American Military then shifted its headquarters to West Virginia to seek regional accreditation by the Higher Learning Commission of the North Central Association, according to the minutes of a July 2002 meeting of the Virginia Council of Higher Education, based in Richmond." [966]

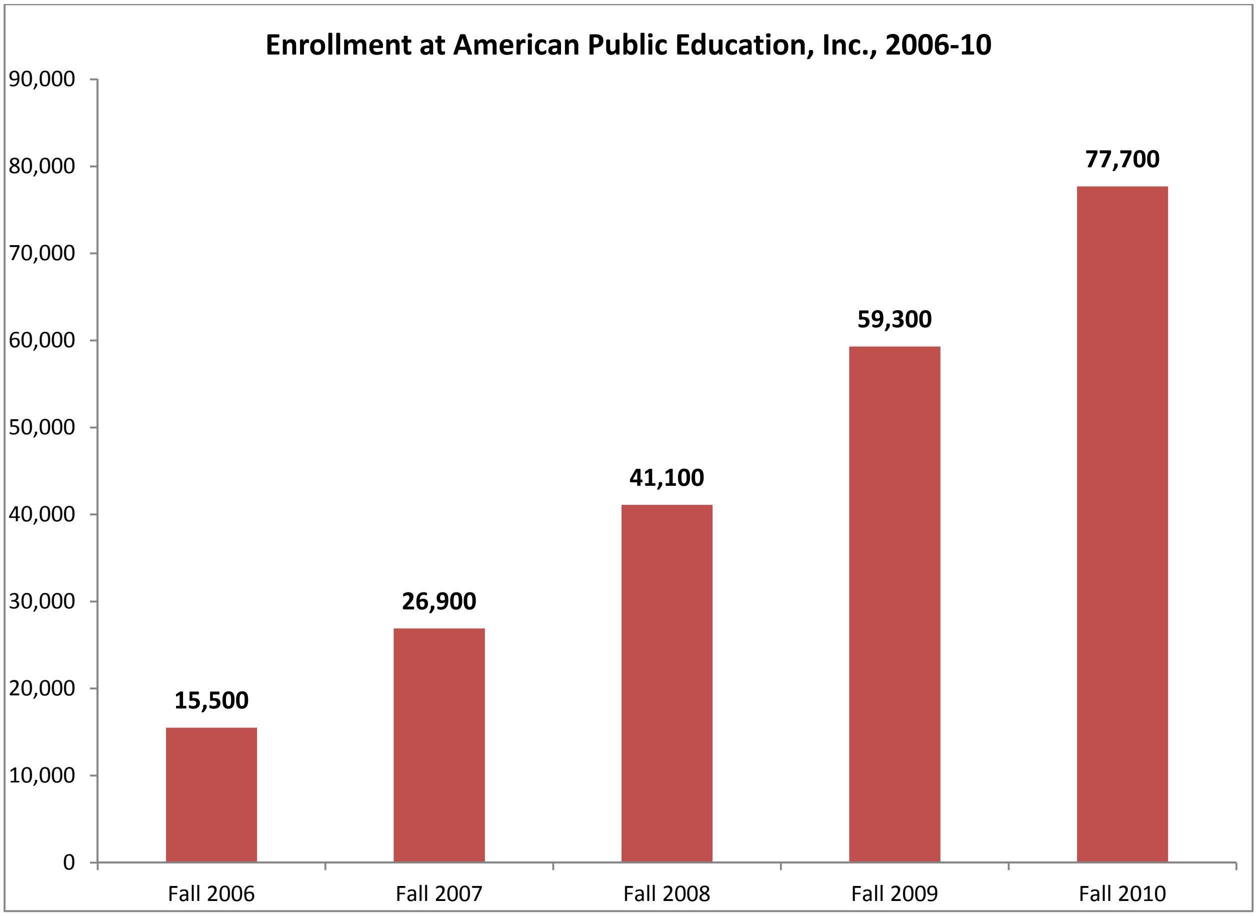
While APEI has been in existence since 1991, two private equity firms ABS Partners and Camden Partners were invested in the company prior to its initial public offering.[967] ABS Partners controlled 54 percent of the company and Camden Partners 13 percent until the November 2007 initial

[963] American Public University System *APUS Facts* 2012 http://www.apus.edu/about-us/facts.htm (accessed, May 5, 2012).
[964] Distance Education and Training Council, http://www.detc.org/school_details.php?id=309 (accessed, May 5, 2012).
[965] Dan Golden,"Marine Can't Recall His Lessons at For-Profit College,"*Bloomberg News*, December 15, 2009, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=al8HttoCG.ps (accessed June 12, 2012).
[966] Id.
[967] APEI, Inc., SEC Form 10-K, filed 3/28/2010.

public offering that took the company public.[968] Today, an ABS Capital Partners founding partner remains on the APEI board of directors.

The current chief executive officer (CEO) of APEI is Wallace Boston. Boston joined APEI in 2002 as its executive vice president and chief financial officer. He was named president and CEO in July 2004.[969]

Enrollment at APEI grew from 15,500 in the fall of 2006 to 77,700 students in the fall of 2010, a fivefold increase. [970]



The growth in enrollment has led to growth in revenue. Since APEI became eligible for title IV Federal financial aid funds, revenue nearly tripled from $69 million in 2007 to $198 million in 2010.[971]

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[968] Statement by CEO Wallace Boston at American Public Education, Inc. Presentation at Credit Suisse Group Global. Services Conference, 2/25/2008 (accessed via Fair Disclosure Wire).

[969] American Public Education, Inc., *Executive Management, Dr. Wallace E. Boston*, http://www.americanpubliceducation.com/phoenix.zhtml?c=214618&p=irol-govBio&ID=170845 (accessed May 5, 2012).

[970] Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.

[971] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[972] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006. [973]

In 2010, APEI reported 26.0 percent of revenue from title IV Federal financial aid programs.[974] However, this amount does not include the Departments of Defense and Veterans Affairs education programs. Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 51.4 percent of APEI's revenue, or $101.6 million.[975] With these funds included, 77.4 percent of APEI's total revenue was comprised of Federal education funds.[976]

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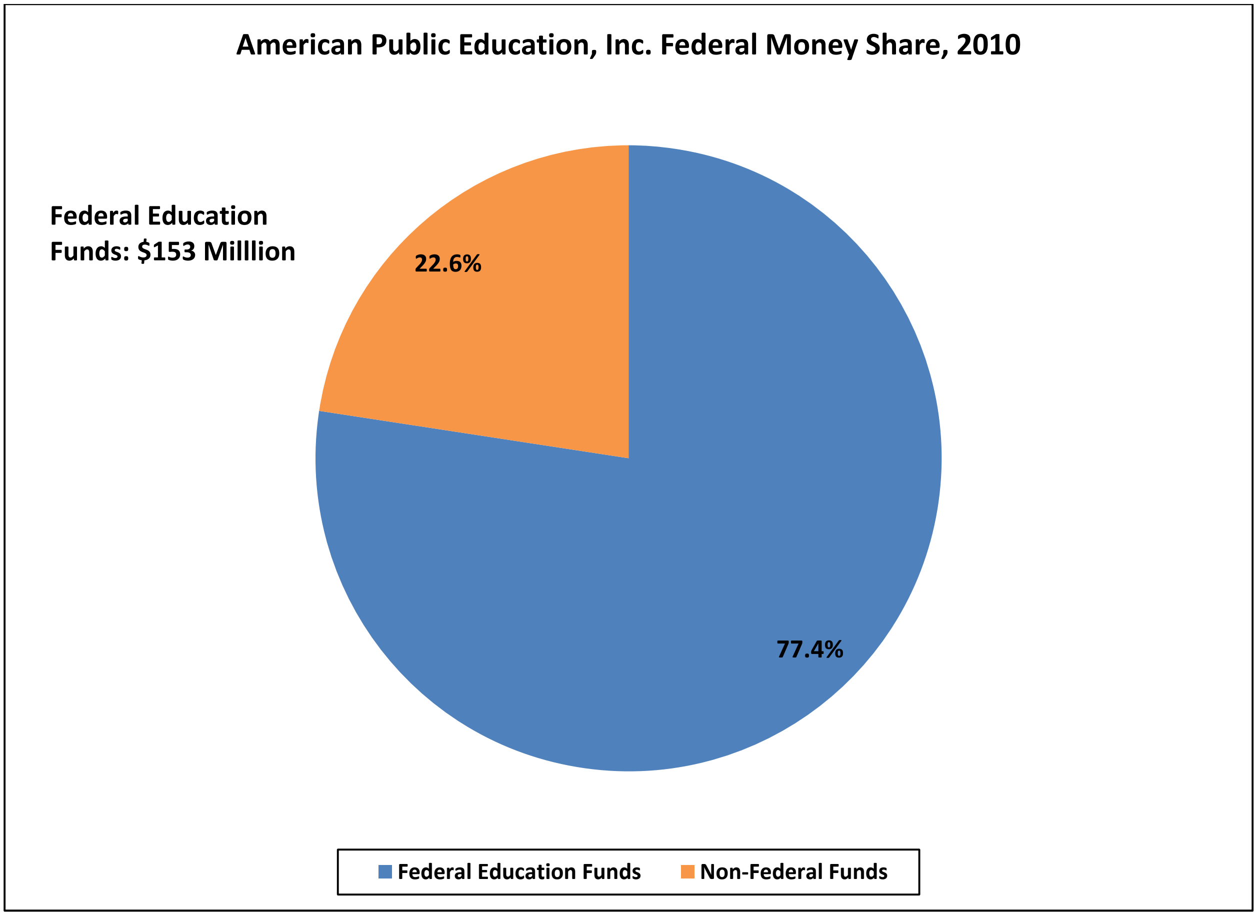
[972] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.
Senate HELP committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

[973] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[974] Senate HELP Committee staff analysis of fiscal year 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

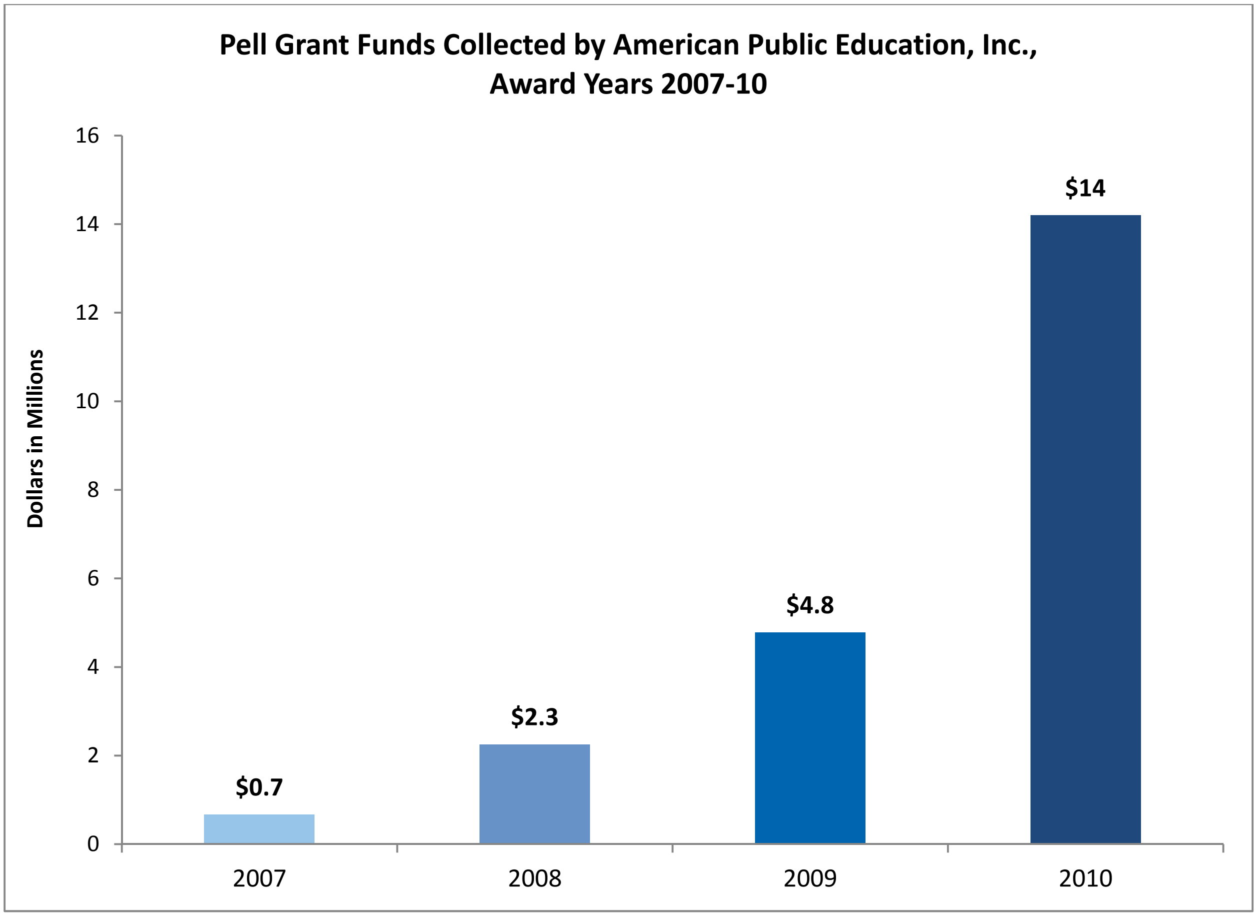
[975] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[976] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[977] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[977] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.



APEI increased the amount of Pell grants it collects more than twentyfold, from $667,907 in 2007 to $14 million in 2010.[978]

Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profits. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[979] During the same period the companies spent 23 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[980] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

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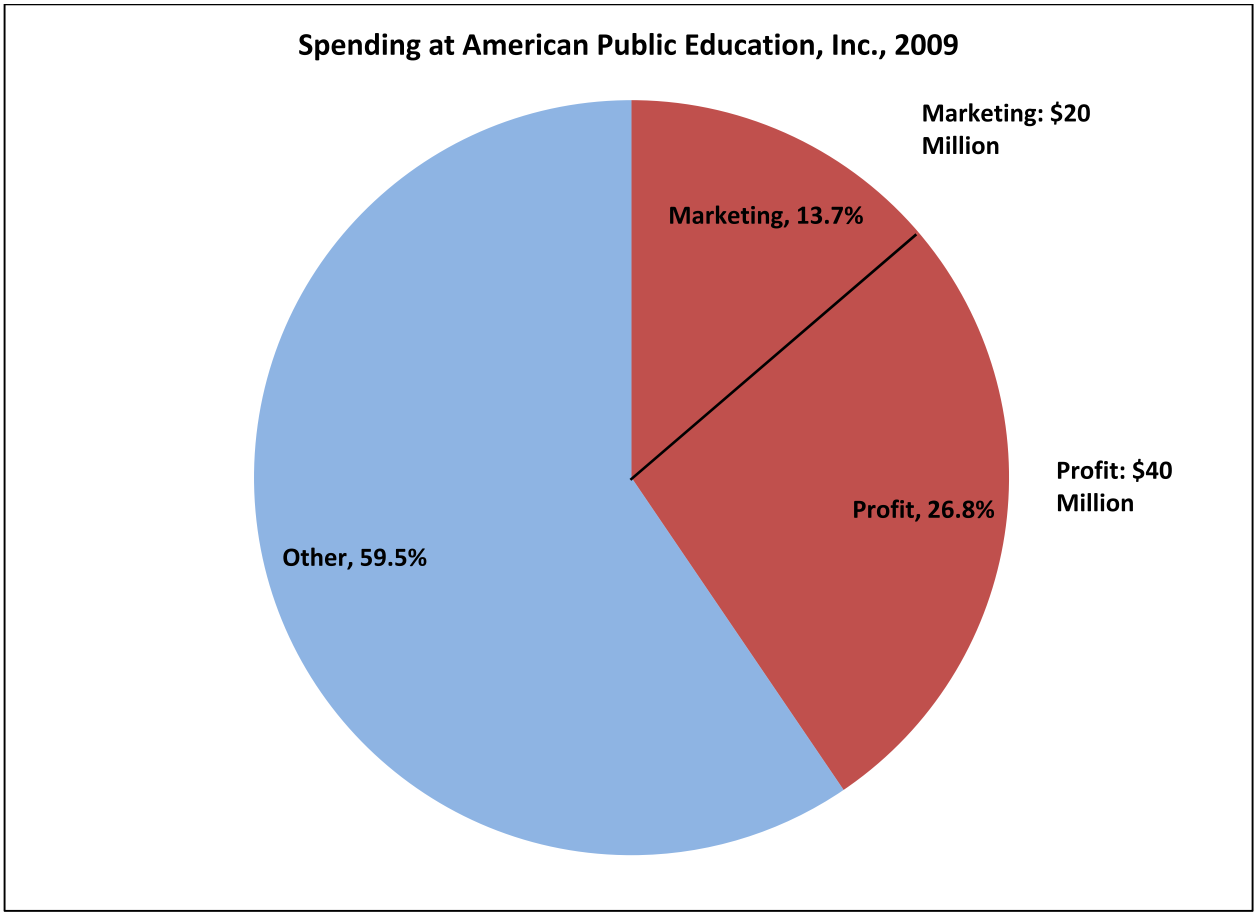
[978] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

[979] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

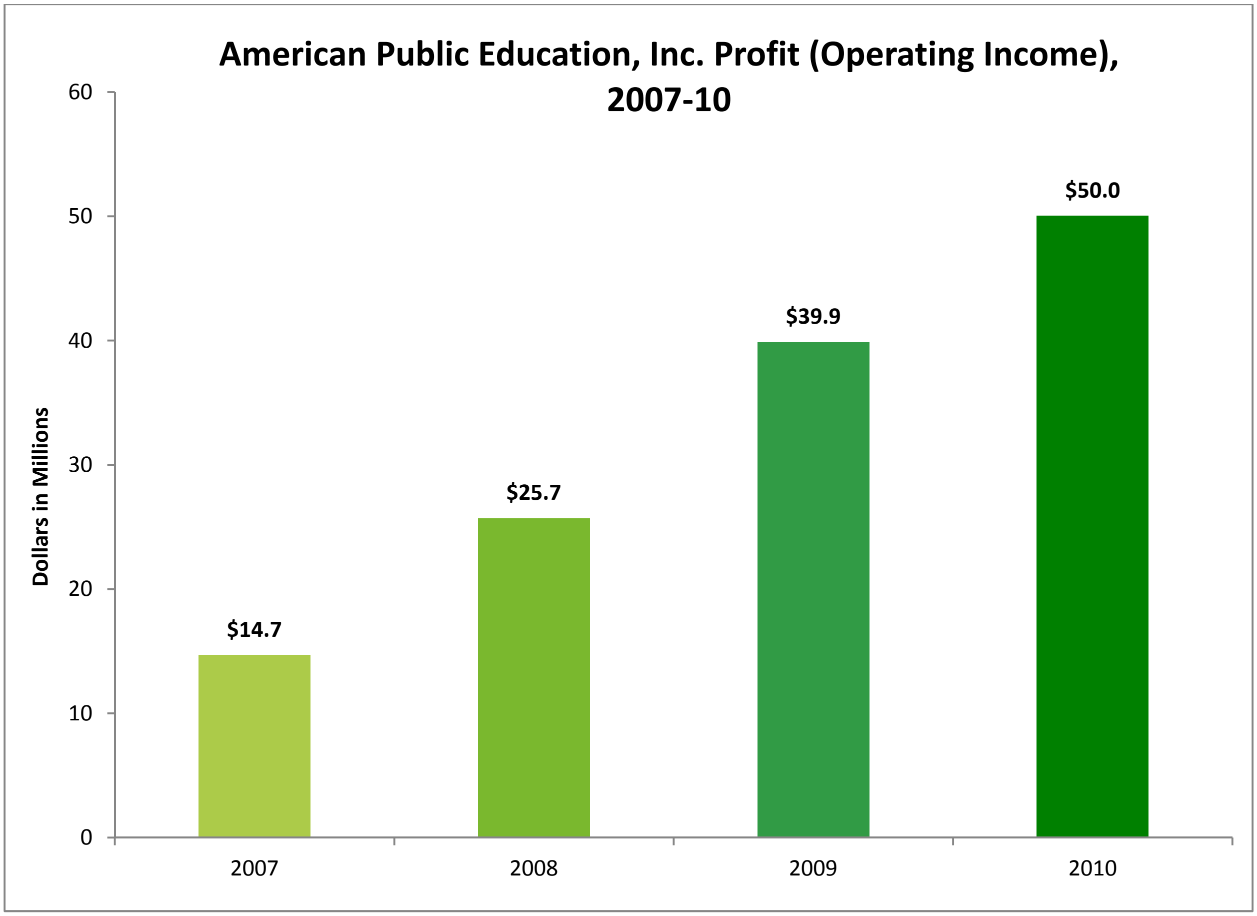
[980] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit is based on operating income. See Appendix 19.

In 2009, APEI allocated 13.7 percent, or $20 million, to marketing and recruiting and 26.8 percent of its revenue, or $40 million, to profit.[981]



APEI devoted a total of $60 million to marketing, recruiting and profit in fiscal year 2009.[982] The amount of profit APEI has generated has also increased rapidly, tripling from $14.7 million in 2006 to $50 million in 2010.

[981] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.
[982] "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.



Executive Compensation

Executives at APEI, like most for-profit executives are also more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions. In 2010, APEI CEO Wally Boston received $1.7 million in compensation, more than three times as much as the president of the West Virginia University who received $464,700in total compensation for 2009-10.[983]

[983] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.

Executive	Title	2009 Compensation	2010 Compensation
Wallace E. Boston	President and Chief Executive Officer	$961,148	$1,659,360
Harry T. Wilkins	Executive Vice President and Chief Financial Officer	$517,333	$668,143
Sharon van Wyk	Executive Vice President and Chief Operating Officer	N/A	$761,304
Carol S. Gilbert	Executive Vice President, Marketing and Programs	$490,614	$456,168
Frank B. McCluskey	Executive Vice President, Provost	$465,725	$450,111
Total [984]		$2,434,820	$3,995,086

The chief executive officers of the large publicly traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[985] Boston's $961,148 compensation package for 2009 is considerably below average for publicly traded companies.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is about the same at American Public University System. A Bachelor's degree in Business Administration at the American Public University System costs $30,350.[986] The same degree at West Virginia University costs $28,936.[987] However, American Public University charges $15,250 for an Associate degree in Business Administration[988] while Blue Ridge Community and Technical College charges $8,900.[989]

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984 Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities and Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17a.

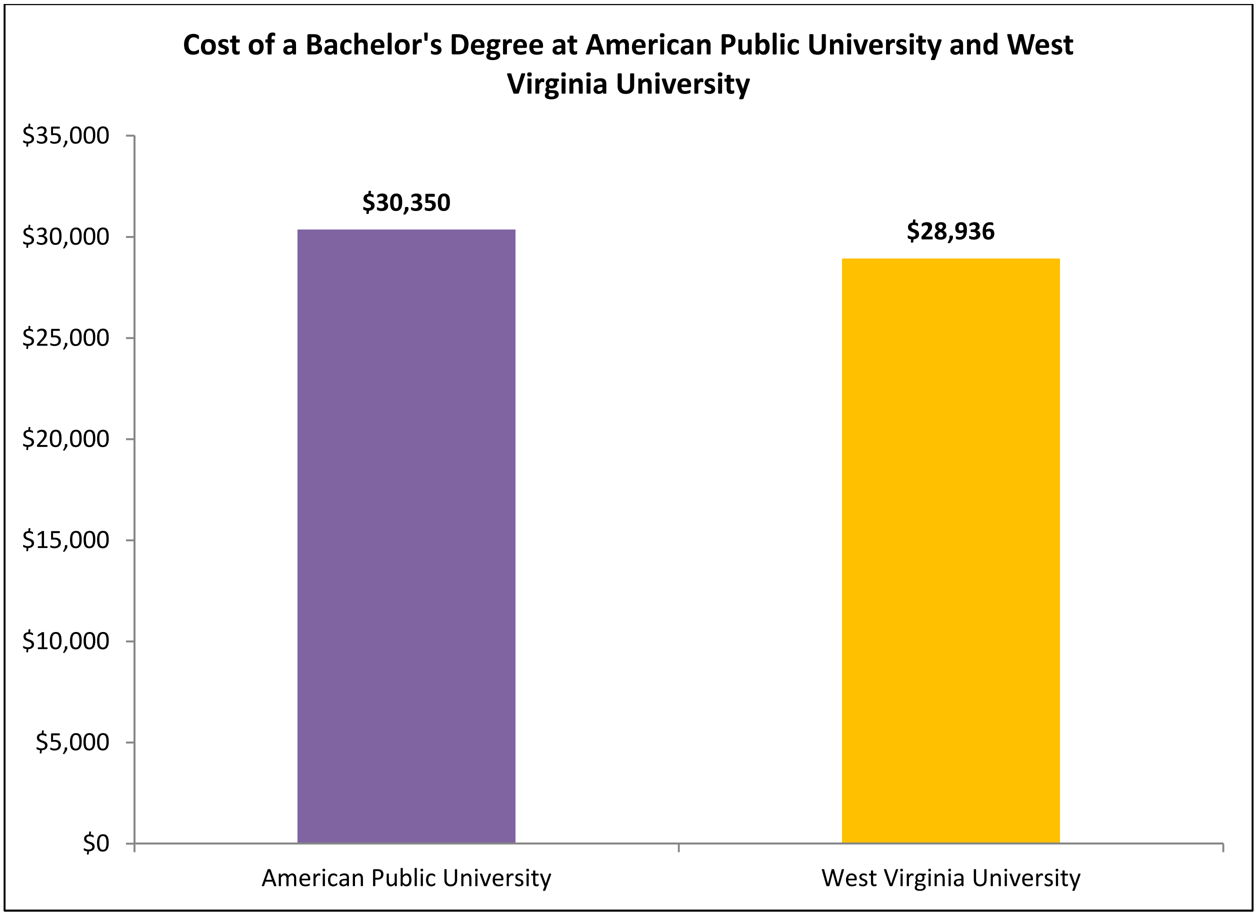
985 Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

986 See Appendix 14; see also, American Public University, *Bachelor of Business Administration*, http://www.apu.apus.edu/academic/programs/degree/15/bachelor-of-business-administration (accessed June 12, 2012).

987 See Appendix 14; see also, West Virginia University, *West Virginia University*, http://www.wvu.edu/ (accessed June 12, 2012).

988 See Appendix 14; see also, American Public University, *Associate of Arts in Business Administration*, http://www.apu.apus.edu/academic/programs/degree/1326/associate-of-arts-in-business-administrationhttp://www.apu.apus.edu/academic/programs/degree/1326/associate-of-arts-in-business-administration (accessed June 12, 2012).

989 See Appendix 14; see also, Blue Ridge Community and Technical College, *Blue Ridge Community and Technical College*, http://www.blueridgectc.edu/ (accessed June 12, 2012).



APEI is public about the fact that their institutions tie the cost of attending to the amount of available benefits from the Department of Defense Tuition Assistance program. At a conference with investors in 2009 CEO Wallace Boston said, "One of the things that makes us very attractive to military professionals is we are affordable. We've pegged our tuition exactly at what the military reimburses under the Tuition Assistance Program." [990] At a 2012 investor conference, Boston said, "We have had a mission to be affordable. We haven't increased our undergraduate tuition in 11 years." [991] Undergraduate tuition at APEI's schools costs $250 per credit hour, while graduate school tuition costs $325 per credit hour. As a result, the cost of attending American Public University System is low compared to other for-profit colleges, even for non-military students.

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations for-profit colleges must recruit as many students as possible to sign up for their programs.

Documents reviewed by the committee demonstrate that APEI emphasizes its convenience, low cost and regional accreditation as its primary selling points. APEI training materials instruct recruiters

[990] Statement of CEO Wally Boston American Public Education, Inc. at UBS Technology and Services Conference, 6/8/09 (accessed Fair Disclosure Wire).
[991] American Public Education, Inc., *Investor Presentation*, March 1, 2012.

how to respond to questions posed by potential students and emphasize the institutions' double accreditation as a selling point. APEI's proposed response states, "The Admissions Representative will inform the prospective student that we are both regionally and nationally accredited which many employers look into these accreditations [sic]." [992]

Internal company documents make clear that recruiters employed by AEPI are expected to pursue prospective students. In many cases, prospective students are new to higher education and are unaware that for-profit education companies are conducting what is a sales process, rather than a college counseling session. One APEI recruiting presentation with the title "Managing Prospects & Applicants[:] Driving the Conversation" states: "Whoever asks the questions are in control of the conversation." Further it instructs, "Ask open-ended question … this helps you understand their needs as well as any objections that may be preventing their commitment [sic]." The presentation finally goes on to list examples of "leading" questions for recruiters to ask potential students.[993] Another APEI recruiting presentation, titled "Managing Prospects & Applicants[:] Dealing with Objections," is focused in part on overcoming student "fear" and "doubt" to gain an enrollment.[994]

Yet students have little opportunity for recourse; APEI like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.[995] This clause severely limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[996]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll at APEI are not achieving their educational and career goals.

<u>Retention Rates</u>

Information APEI provided to the committee indicates that of the 19,659 Associate and Bachelor's students who enrolled at APEI in 2008-9, 37.9 percent, or 7,451 students, withdrew by mid-

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[992] American Public Education, Inc. *Admissions Quiz 4.* (2APEI-HELP-24-00000457 at 2APEI-HELP-24-00000458). NOTE: Internal Training Document with title, no date.
[993] American Public Education, Inc. *Managing Prospects & Applicants: Driving the Conversation*, (APEI, 2APEI-HELP-16-00000064 at 2APEI-HELP-16-00000064, 2APEI-HELP-16-00000067, 2APEI-HELP-16-00000069, 2APEI-HELP-16-00000070). NOTE: Internal Training Document with title, no date.
[994] American Public Education, Inc., *Managing Prospects & Applicants: Dealing with Objections* (2APEI-HELP-16-00000001, at 2APEI-HELP-16-00000001, 2APEI-HELP-16-00000004-7). NOTE: Internal Training Document with title, no date.
[995] American Public Education, Inc. No Date, *Student Enrollment Agreement* (*2APEI*-HELP-18-00000100).
[996] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, <u>http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf</u> (accessed June 2, 2012).

2010. These withdrawn students were enrolled a median of 2 months.[997] Overall, APEI's retention rate is much lower than the sector-wide withdrawal rate of 54.3 percent. Further, APEI's Bachelor's degree withdrawal rate of 35.1 percent is the second lowest of all companies examined.[998] APEI's Associate degree withdrawal rate of 46.4 percent is significantly better than the sector-wide rate of 62.8 percent. [999]

Status of Students Enrolled in American Public Education, Inc. in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	4,859	2.8%	50.8%	46.4%	2,256	54
Bachelor's Degree	14,800	2.3%	62.6%	35.1%	5,195	55
All Students	19,659	2.4%	59.7%	37.9%	7,451	55

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdrew after mid-2010 when the data was produced.

Student Loan Defaults

The number of students leaving APEI with no degree correlates with the rates of student loan defaults by students who attended APEI. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1000]

Slightly more than 1 in 5 students who attended a for-profit college, (22 percent) defaulted on a student loan, according to the most recent data.[1001] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1002] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1003] The

[997] Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions. See Appendix 15.
[998] Id. This does not include Vatterott who has the lowest bachelor's withdrawal rate of any of the 30 companies examined, because the company had a sample of only 20 students.
[999] Id. It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.
[1000] Direct Loan Default Rates, 34 CFR 668.183(c).
[1001] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[1002] Id.
[1003] Id.

consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1004]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[1005] This change represents a 32.6 percent increase over 4 years.[1006] Three-year default rates at APEI were only measured during fiscal years 2008 and 2009 because of the company's recent participation in the title IV program. In 2008, APEI's default rate was 3.3 percent; it increased precipitously to 11.1 percent in 2009.

Because of factors unique to APEI, the number of students measured in these default rates may not demonstrate a complete picture of how its students are faring. In 2007, APEI's default rate measured just 90 students and in 2008 it measured 820 students. As of the fall 2011, APEI enrolled 105,000 students in American Public University System. Because many of its students receive funding from solely the post-9/11 GI bill or the Department of Defense Tuition Assistance program, fewer borrow title IV funds to pay for their education. In addition, because APEI's enrollment at American Public University has grown so quickly in recent years, many students have not yet entered repayment and thus are not measured.

Executives at APEI are aware of the potential for higher default rates associated with their new student population. An internal memo reads, "To the extent that APUS moves toward accepting civilian students who rely upon title IV loans, it may need to modify its open enrollment to accommodate these elements, with a corresponding impact on enrollment growth." [1007]

It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. APEI, like other companies, has contracted with a third-party to manage the default rates by contacting delinquent students and sign them up for temporary forbearances and deferments. APEI hired Horizon Educational Resources to ensure that the company's default rates remain low, hoping for a fiscal year 2009 default rate below 8 percent. In an email to CEO Wallace Boston an APEI executive wrote, "APUS recently contracted with Horizon Educational Resources to monitor and reduce cohort default rates. … cure rates = 60%-70% is the goal to lead to a rate below 8% in FY09." [1008] A December 2009 default management update to the APEI board states "Horizon has cured 129 borrowers [between] October 1, 2009 – November 16, 2009." [1009] The update also states "overall more [students] are in deferment than forbearance." [1010] Deferment is a preferable option for the student because interest does not accrue. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

[1004] Id.
[1005] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-2008, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[1006] Id.
[1007] Russell Kitchner, *FW: Neg Reg Issues*, June 2010 (*2APEI*-HELP-26-00000315). NOTE: internal email.
[1008] Keith Wellings, *Re: Financial Aid Benchmarks*, August 11, 2009 (2APEI-HELP-26-00000651). NOTE: internal email.
[1009] American Public Education, Inc., *Default Management Update,* December 2009 (2APEI-HELP-26-00000543); American Public Education, Inc., *Board Meeting Online*, December 2009 (2APEI-HELP-26-00000544).
[1010] Id.

Instruction and Academics

The quality of any college's academics is difficult to measure; however the amount that a school spends on instruction per student compared to other spending is a useful measure.

APEI spent $1,784 per student on instruction in 2009, compared to $832 on marketing and $1,619 on profit.[1011] The amount that publicly traded, for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. In contrast, public and non-profit schools, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other West Virginia-based colleges spent, on a per student basis, $9,862 at West Virginia University, $2,296 at Blue Ridge Community and Technical College, and $3,571 at Mountain State University.[1012]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee investigated, 80 percent of the faculty is part-time, higher in some companies.[1013] In 2010, APEI employed 261 full-time and 1,062 part-time faculty.[1014]

Staffing

While for-profit education companies employ large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, APEI employed 80 recruiters, 28 career services employees and 205 student services employees.[1015] APEI performs better than others in the industry as the number of recruiters reported to the committee is far lower than the total number of student and career services employees.

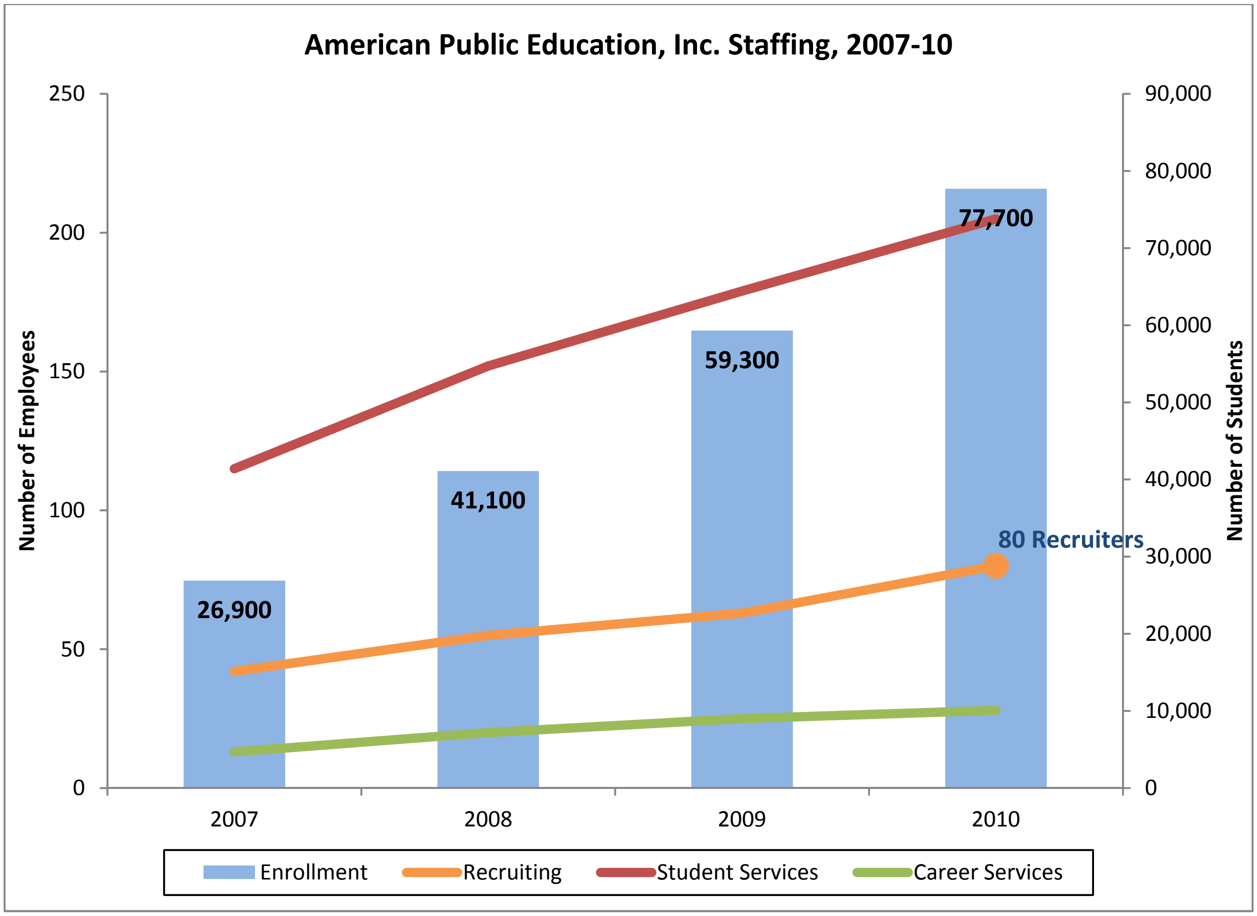
[1011] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment. Due to deficiencies in the data, it is unclear as to whether this instructional figure includes American Military University students.

[1012] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing, and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

[1013] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

[1014] Id.

[1015] Id. See Appendix 24.



Regulatory Strategies

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenues come from title IV Federal financial aid programs and that no more than 25 percent of students default within 2 years of entering loan repayment. As discussed in the main body of this report, some companies lower their reported default rates by placing students in forbearances and deferments to delay default. Moreover, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal financial aid programs.

Because of the large number of students who receive education benefits from the Departments of Defense and Veterans Affairs, APEI reports a very low 90/10 percentage. In 2010, APEI had a 90/10 ratio of 26 percent. APEI began as an institution that served solely military servicemembers, thus the military funding it collects cannot be viewed as an easy convenience to comply with the 90/10 threshold. However, like all for-profit colleges examined by the committee, APEI's reliance on Federal Government funds is considerable. During the 2010-11 Federal fiscal year, APEI collected $98 million in Tuition Assistance funds from the Department of Defense to educate 48,530 servicemen and women. In 2010-11, APEI also received $11.9 million in funds from students receiving post-9/11 GI bill benefits. Finally, in June 2010 the company announced a partnership with Wal-Mart Stores, Inc. in which APEI will provide credit for job experience and provide online classes to Wal-Mart associates.[1016]

[1016] American Public Education, Inc., "American Public University to Expand Higher Education Opportunities for Walmart Associates *Press Release*, June 3, 2010, http://www.americanpubliceducation.com/phoenix. zhtml?c=214618&p=irol-newsArticle&ID=1434260&highlight= (accessed June 14, 2012).

According to a May 2012 report by *Inside Higher Ed*, 2,800 Wal-Mart employees have enrolled in American Public University System programs.[1017] The retailer will reportedly provide up to $50 million in tuition assistance for store associates to attend American Public University over 3 years.[1018] Taken together, these considerable resources outside the Federal financial aid program explain why the company's 90/10 ratio is low.

Conclusion

Students attending APEI have significantly better rates of retention than the companies of comparable size, particularly when compared to other publicly traded companies. The students that APEI enrolls appear to be faring much better than at many companies the committee examined: just 35 percent of Bachelor's students and 46 percent of Associate students withdrew from the school during the 1-year analyzed. Moreover, the company appears to be having success in expanding its long-time model of low-cost online programs for military students to a general student population. The company is unique in that it offers tuition prices that are competitive with public colleges and universities. Even with revenues received from military students and veterans factored in, the company has well diversified sources of revenue and does not appear to face regulatory compliance challenges. This is due in part to employer partnerships, particularly with Wal-Mart that helps to pay student tuition.

However, APEI has also experienced rapid enrollment growth in recent years, growing from 15,500 students to 77,700 in the 3 years between 2006 and 2010. Moreover, the company is quite new to the Federal financial aid program. Thus it will be interesting to see if APEI is able to maintain its record of student success and low-cost programs with this rapid expansion.

[1017] Paul Fain, "Online Classes. Low Prices. Every Day." *Inside Higher Ed*, May 8, 2012, http://www.insidehighered.com/news/2012/05/08/walmart-and-american-public-u-chart-new-ground-partnership (accessed June 14, 2012).

[1018] Stephanie Clifford, and Stephanie Rosenbloom, "Wal-Mart to Offer Its Workers a College Program," *New York Times*, June 3, 2010, http://www.nytimes.com/2010/06/04/business/04walmart.html?_r=2 (accessed June 14, 2012).

Anthem Education Group

Introduction

Anthem Education Group ("Anthem") offers primarily career-focused Certificate and Associate degree programs. Unlike many for-profit education companies examined, Anthem has not experienced steady growth in student enrollment and profit realized in recent years. Largely as a result of sanctions from one of its brand's accreditors in 2007, the company was forced to close campuses leading to a decline in enrollment, a lack of profitability, and continuing shifts in management and ownership. While Anthem's relatively low student withdrawal rates suggest students are persisting in the company's programs, the company's high rates of student loan default call into question whether Anthem students are receiving an education that affords them the ability to repay the debt incurred.

Company Overview

Anthem is a privately held, for-profit education company headquartered in Phoenix, AZ, that is principally owned by the Pobiak Family Trusts, and Great Hill Equity Partners and Great Hill Investors.[1019] Through a series of acquisitions and new campus openings, the company has grown to include over 22 campuses in 15 States and an online division.

Founded in 1965, the Electronic Institute of Arizona was acquired by Dennis and Marilyn Pobiak and renamed High-Tech Institute, Inc. [1020] In 1999, Great Hill Equity Partners, a Boston private equity firm, acquired 50 percent interest in High-Tech Institute, Inc.[1021] High-Tech Institute, Inc. acquired the Chubb Institute in 2004 and renamed it Anthem institute in 2008.[1022]

In March 2009, the private equity controlled High-Tech Institute, Inc. and TCI Education, Inc. and its family of schools began to operate under the umbrella name of Anthem Education Group LLC.[1023] At the time, the company operated schools under the names High-Tech Institute, Anthem Career College, Anthem College, Anthem College Online, Anthem Institute, Morrison University and the Bryman School of Arizona.[1024]

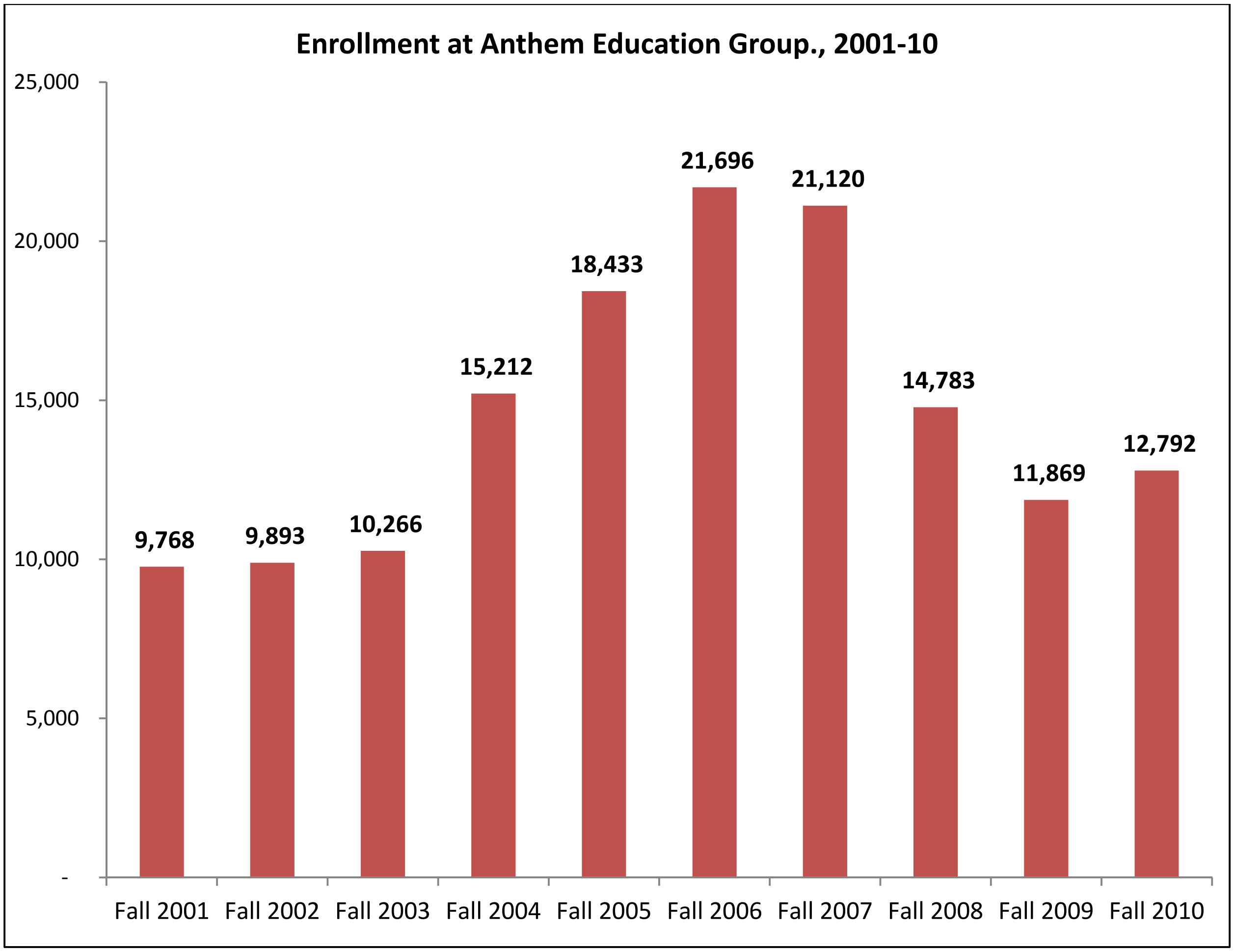
[1019] High-Tech Institute & TCI Education, *Regulatory Reporting Structure & Status*, July 2010 (2AEG-HELP-14-00000110). At the time of publication, there were reports that Anthem Education Group was undergoing a change in ownership.
[1020] High-Tech Institute, *2009 Catalog*, (2AEG-HELP-29-00000022, at 2AEG-HELP-29-00000024); See also, High-Tech Institute, *Institutional Leadership*, (2AEG-HELP-14-00001008).
[1021] High-Tech Institute, *Self-Evaluation Report to ACCSCT*, 2004, (2AEG-HELP-31-00000432, at 448).
[1022] High-Tech Institute, *Institutional Leadership*, (2AEG-HELP-14-00000996, 2AEG-HELP-14-00001008).
[1023] Great Hills Partners, *Anthem Education Group Unveiled as New Name*, March 24, 2009, http://www.greathillpartners.com/news/details/2009/129 (accessed June 14, 2012); See also, High-Tech Institute & TCI Education, *Regulatory Reporting Structure & Status*, July 2010 (2AEG-HELP-14-00000110).
[1024] Anthem operates campuses in Tennessee, Georgia, Colorado, Oregon, Wisconsin, Missouri, Texas, Florida, Arizona, California, Minnesota, New York, Pennsylvania, and Nevada.

Brands
Anthem Career College
Anthem College Online
Anthem College
Anthem Institute
High-Tech Institute
Morrison University
The Bryman School of Arizona

Anthem Education Group schools and colleges offer career-focused Diploma, Associate, Bachelor's and Master's programs in a wide variety of fields, including health care, technology, business administration, criminal justice and graphic design and animation. Schools under the Anthem Education Group banner are accredited by different national accrediting organizations, including the Accrediting Council for Independent Colleges and Schools (ACICS), Accrediting Council for Continuing Education and Training (ACCET), Accrediting Commission of Career Schools and Colleges (ACCSC), and the Accrediting Bureau of Health Education Schools (ABHES).

Unlike most of the companies examined over the course of this investigation, enrollment at Anthem has declined significantly over the last 5 years. In fall 2006, Anthem enrolled 21,696 students, but in fall 2010 enrolled only 12,792.[1025]

[1025] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education 's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.



With this dramatic drop in enrollment, revenue at Anthem has similarly decreased from $209 million in 2006 to $141 million in 2009.[1026] In the 2009 fiscal year, Anthem operated at a loss, meaning the company's expenses exceeded its revenue. However, the company shows signs that indicate it may be trending towards profitability.

Federal Revenue

Nearly all for-profit education companies derive the majority of their revenue from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1027]

[1026] Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

[1027] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education. "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

Together, the 30 companies the committee examined derived 79 percent of their revenue from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1028]

In 2010, Anthem reported 81.9 percent of revenue from title IV Federal financial aid programs.[1029] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs or revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA).[1030] Based on information the company provided, the committee estimates that Anthem discounted up to 6.2 percent of revenue, or $8.5 million, pursuant to ECASLA in 2010. Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 0.5 percent of Anthem's revenue, or $704,633.[1031] With these funds from the Departments of Defense and Veterans Affairs included, 82.4 percent of Anthem's total revenue was comprised of Federal education funds.[1032]

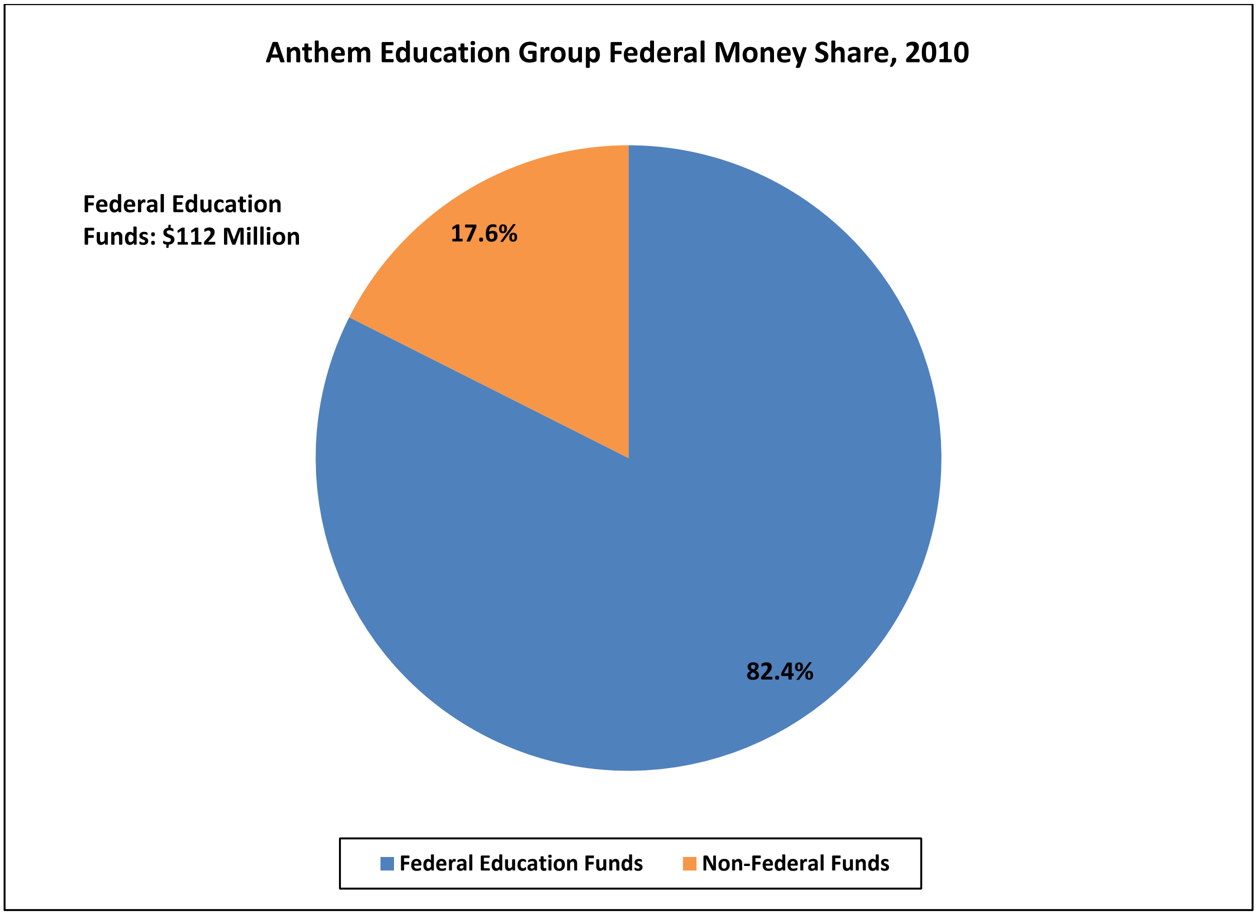
[1028] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[1029] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

[1030] The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010.

[1031] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; Post-9/11 GI bill disbursements for August 1, 2009 June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance disbursements and MyCAA disbursements for fiscal years 2009-10 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[1032] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[1033]

Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009–10 and 2010–11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

The amount in Pell grant funds Anthem collects increased by 10 percent in 3 years, from $37.3 million in 2007 to $41.1 million in 2010.[1034]

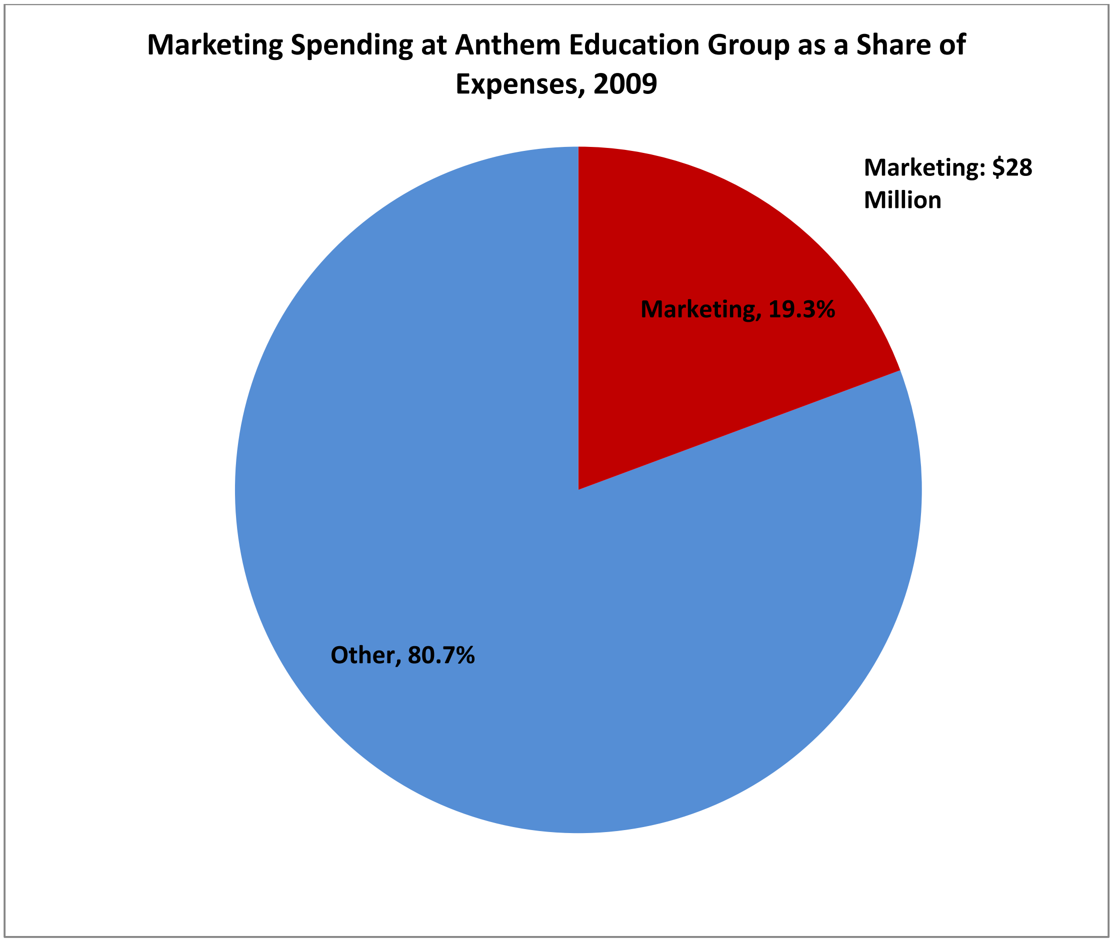
[1033] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.

[1034] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006–7 through 2009–10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

Spending

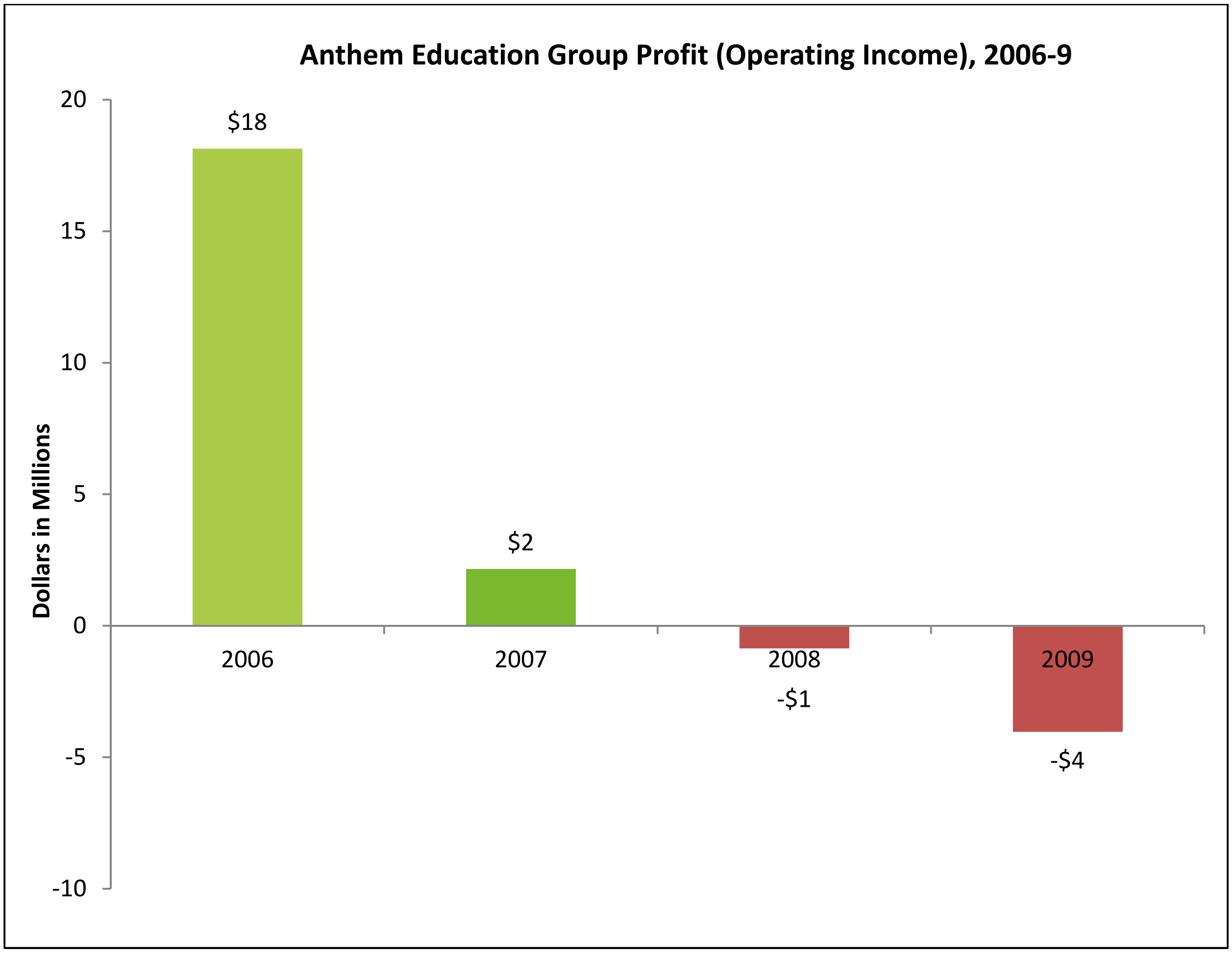
While Federal student aid programs are intended to support educational opportunities for students, for-profit education companies directed much of the revenue derived from these programs to marketing and recruiting new students and to profits. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[1035] During the same period those companies spent 23 percent of revenue, or $3.7 billion, on marketing and recruiting and 19.7 percent, or $3.2 billion, on profit.[1036] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

In 2009, Anthem Education Company devoted 19.3 percent of its revenue, or $28 million, to marketing and recruiting.[1037]



[1035] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.
[1036] Senate HELP Committee staff analysis of fiscal year 2009 financial statements and information provided to the committee by each company pursuant to the committee document request of August 5, 2010. Profit figures represent operating income before tax and other non-operating expenses including depreciation. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.
[1037] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit. "Other" includes: instruction, faculty salaries, executive compensation, lobbying, student services, maintenance, administration, facilities and other expenditures.

Unlike most of the companies examined over the course of this investigation, the amount of profit Anthem generated dropped precipitously between 2006 and 2009. In 2008, Anthem began operating at a loss; the company's expenses exceeded its revenue by $1 million.[1038] By 2009, the company's profitability further declined, and its expenses exceed its revenue by $4 million.



Executive Compensation

As a privately held company, Anthem is not obligated to release executive compensation figures.

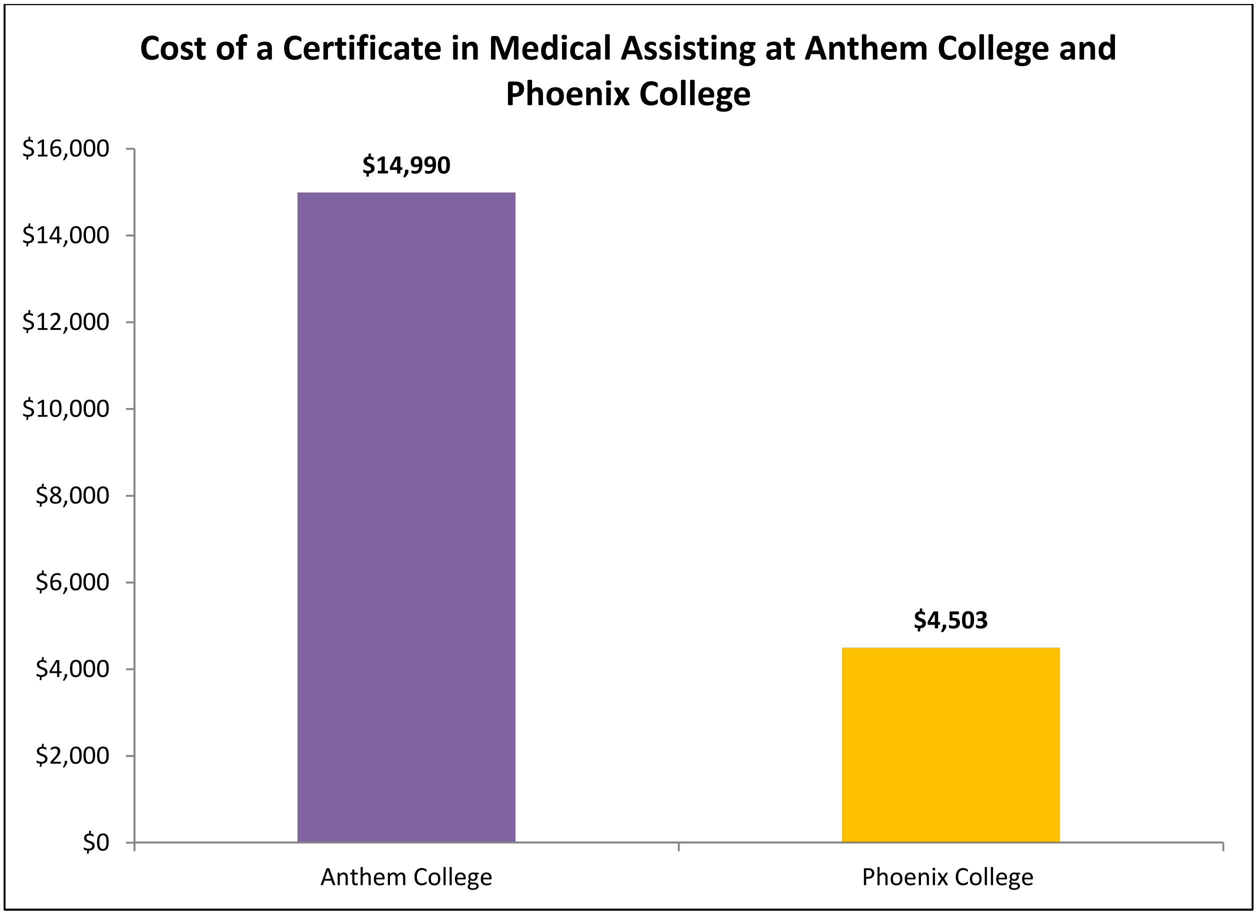
Tuition and Other Academic Charges

Compared to its public non-profit counterparts, the price of tuition is higher at Anthem. The typical cost of an Associate degree at Anthem is $19,800. A Medical Assistant Diploma at Anthem College in Phoenix, AZ, costs $14,990,[1039] more than triple the cost of the same Certificate at Phoenix College, the flagship of the Maricopa Community College system, where it costs $4,503.[1040]

1038 Senate HELP Committee staff analysis. See Appendix 18.

1039 See Appendix 14; see also, Anthem College, *Medical Assistant Diploma Program*, http://anthem.edu/phoenix-arizona/medical-assistant/diploma/ (accessed June 14, 2012).

1040 See Appendix 14; see also, Phoenix College, *Phoenix College*, http://www.pc.maricopa.edu/ (accessed June 14, 2012).



The higher tuition that Anthem charges is reflected in the amount of money that Anthem collects for each veteran that it enrolls. From 2009 to 2011, Anthem trained 178 veterans and received $1.8 million in post-9/11 GI bill benefits, averaging $10,225 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[1041]

Recruiting

Enrollment growth is critical to the business success of for-profit education companies. In order to meet revenue and profit expectations, for-profit colleges recruit as many students as possible to sign up for their programs.

An internal Anthem document lists the "characteristics of [a] typical student." The full list reads: "Single parent, Economically Disadvantaged, Unemployed or underemployed, Individuals that lack an outside support system, Low Self Confidence, Low Self Esteem, Have a desire to prove to themselves and family their success." [1042]

One complaint filed with the attorney general of Missouri described Anthem's aggressive recruiting tactics:

[1041] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[1042] Anthem Education Group, *AEG and the Education Industry*, (2AEG-HELP-14-00000996, at 2AEG-HELP-14-00001019).

> I was used as a reference for a friend applying to Allied College, and they keep on calling me on my cell phone asking if I want info to attend the College. I told them nicely at least a dozen times I'm not interested in attending don't call back. They are threatening not to admit my friend if I don't call back.[1043]

Anthem student complaints also express concern regarding misleading recruiting tactics employed by Anthem. Students complained that recruiters mislead in order to induce their enrollment. One such complaint reads:

> We (my parents and myself) were given misleading information more than once at my intake meeting with [my recruiter]. We were told that my monthly cash payment would be $50.00, upon receiving my financial paperwork, these payments were $300.00 (a huge difference for an eighteen year old).[1044]

Many student complaints assert that recruiters failed to inform prospective students of the accreditation status of various Anthem colleges.[1045] In a letter to High Tech Institute, a Minnesota assistant attorney general writes:

> One of HTI's counselors … assured her and her husband that HTI was accredited and urged her to take HTI's degree program instead of obtaining a diploma because she would be able to make more money and would be able to continue her education. [The student] states that she has since learned that she cannot obtain her Minnesota certification or transfer her credits to another school because HTI is not accredited. [The student] indicates that she and her husband are paying approximately $20,000 in student loans relating to her coursework at HTI and that she has had to start her education all over again.[1046]

Another student adds that:

> At the intake meeting with [the recruiter], I was also told that Allied College was an "accredited" college and led to believe that most, if not all of my course credits, would be transferable to a Community College or a Four Year College. After I withdrew from Allied College, I enrolled in a Community College and was informed that the "accreditation" received for Allied was not recognized by any community or Four-Year College.[1047]

[1043] Letter from attorney general of Missouri, to Allied College, February 9, 2007, (2AEG-HELP-05-00000509, at 2AEG-HELP-05-00000510). (The two Allied College campuses in St. Louis, MO, were renamed Anthem College in 2010).

[1044] Letter from [REDACTED] to High Tech Institute, February 6, 2008, (2AEG-HELP-05-00000206, at 2AEG-HELP-05-00000207).

[1045] Letter from Better Business Bureau to Allied Medical College, *RE: Case # 1307242*, October 13, 2006, (2AEG-HELP-05-00000158, at 2AEG-HELP-05-00000159). ("I had just wasted my money and time … we felt betrayed, misled and lied to by the college. I wasted $26,000 and time away from my children."); Letter from [REDACTED] to Western Regional President of High Tech Institute, April 08, 2008 (2AEG-HELP-05-00001402).

[1046] Letter from State of Minnesota Office of the Attorney General, to High Tech Insitute, *Re: Consumer Complaint from [REDACTED]*, April 24, 2008 (2AEG-HELP-05-00000803); see also Letter from State of Minnesota Office of the Attorney General, to High Tech Institute, *Re: Consumer Complaint from [REDACTED]*, April 24, 2008 (2AEG-HELP-05-00000787)("HTI told [the student] that HTI was accredited when in fact HTI accreditation was on probation … HTI is giving a state exam that no one can be hired under as HTI is not AART certified."); Letter from Kolias Law Offices, to High Tech Institute, *Re: [REDACTED] – Student ID: 072GR18952*, January 14, 2008 (2AEG-HELP-05-00000096)("it was only after he registered that you advised him that not only were you not accredited, but that you were currently on probation").

[1047] Letter from [REDACTED], to High-Tech Institute, February 6, 2008 (2AEG-HELP-05-00000206, at 2AEG-HELP-05-00000207-08).

Several other students explain that the recruiter misled them regarding the cost of tuition in the event a student chose to withdraw from the institution:

> The school representatives … mislead or did not inform us of any financial repercussions if [the student] were to leave. Secondly, the papers [the student] signed … were very ambiguous about payments after withdrawal [sic].[1048]

While student complaints may not be representative of the experience of the majority of students, they do provide an important window into practices that appear to be occurring.

Government Accountability Office Undercover Recordings

Undercover recordings made during GAO visits to the Anthem Institute in Pennsylvania show multiple instances of deceptive and misleading recruitment. In one instance, the admissions representative would not allow the undercover applicant to speak with a financial aid representative until after she enrolled.[1049]

> Student: "So, I *can* talk with financial aid before I do the enrollment and all that?"
>
> Anthem representative: "You—you would finish the uh, enrollment. If you want to meet with them today you can."
>
> Student: "But I have to finish the enrollment and then meet with them?"
>
> Anthem representative: "Right…normally the way it works is that we set up an appointment within 48 hours of when you enroll…"

In another instance, a financial aid representative fraudulently removed $250,000 in savings the undercover applicant reported from his FAFSA form.[1050] This change would not have made the undercover applicant eligible for grants, but it would have made him eligible for loans subsidized by the government.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program,

[1048] Fax from New Jersey Department of Labor and Workforce Development, to Director of Operations, Anthem Education Group, March 8, 2010 (2AEG-HELP-05-00000696, at 2AEG-HELP-05-00000699).
[1049] Audio Recording: Undercover Recordings of Visits by GAO Agents to For-Profit Schools, School 12, Scenario 1, at minute 50:58 and 52:02, available at http://harkin.senate.gov/help/gao.cfm (hereinafter GAO Audio Recording). At 50:58, prospective student is told she is required to sit with financial aid. At 52:02, this conversation begin.
[1050] GAO Audio Recording, School 12, Scenario 2 at 2:09:00 through 2:40:00. Changes to FAFSA start about 2:21:00. At 2:21:44, Anthem representative overtly suggests removing something from prospective student's FAFSA/bank balance. At 2:40:05 Anthem representative tells prospective student that she will modify the FASFA for him when it finishes processing.

take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1051]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many students who enroll at Anthem are not achieving their educational and career goals.

Retention Rates

Information Anthem provided to the committee indicates that of the 11,044 students who were enrolled in Associate and Certificate programs at Anthem in 2008–9, 34.1 percent, or 3,762 students, withdrew by mid-2010.[1052] Withdrawn students were enrolled a median of 3 to 4 months.[1053] Compared to the overall sector-wide rate of 54.1 percent for the 30 schools the committee examined, Anthem performed better than average.[1054] Looking at degree programs, Anthem's Associate's 43.6 percent withdrawal rate is significantly lower than the 62.8 percent sector-wide rate, whereas Anthem's 33.5 percent Certificate withdrawal rate is slightly lower than the 38 percent sector-wide rate.

Status of Students Enrolled in Anthem Education Group in 2008-09, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	661	34.3%	22.1%	43.6%	288	116
Certificate	10,383	63.7%	2.8%	33.5%	3,474	95
All Students	11,044	62.0%	4.0%	34.1%	3,762	97

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdrew after mid-2010 when the data was produced.

An analysis of withdrawal rates among the 11 companies that provided disaggregated data indicates that students attending online programs had higher withdrawal rates than students attending campus-based programs. Anthem students who enrolled in its online program between fall 2007 and spring 2010 had a 38.8 percent withdrawal rate, whereas their brick and mortar counterparts withdrew at a rate of 26.2 percent.

[1051] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf.
[1052] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.
[1053] Id.
[1054] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

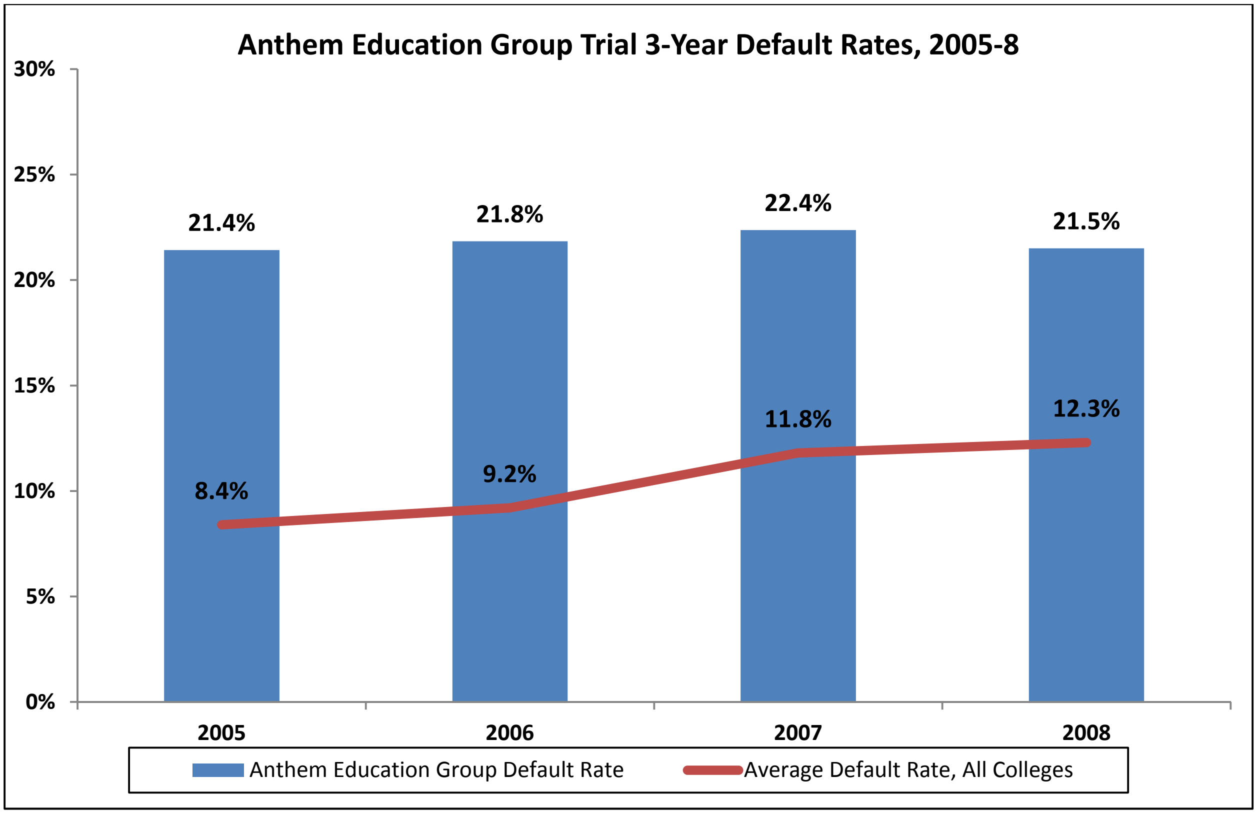
Student Loan Defaults

Notably, the relatively low number of students leaving Anthem with no degree does not correlate with the high rates of student loan defaults by students who attended Anthem. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1055]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[1056] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1057] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions. The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1058]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent. This change represents a 32.6 percent increase over 4 years.[1059] Anthem's 3-year default rate has remained fairly constant, hovering around 21.5 percent and reaching as high as 22.4 percent for students entering repayment in 2007.[1060] While Anthem's most recent default rate of 21.5 percent for students entering repayment in 2008 is slightly below the average for all for-profit colleges, it is 75 percent higher than the average default rate for all colleges.[1061]

[1055] Direct Loan Default Rates, 34 CFR 668.183(c).
[1056] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005–8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector. See Appendix 16.
[1057] Id.
[1058] Id.
[1059] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-2008, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[1060] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector. See Appendix 16.
[1061] Id. In 2008, the 3-year cohort default rate was 12.3 percent for all schools and 22.3 percent for the for-profit education sector.



Instruction and Academics

The quality of any college's academics is difficult to quantify. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful indicators.

Anthem spent $3,733 per student on instruction in 2009, compared to $1,191 per student on marketing. The amount that privately held companies examined by the committee spend on instruction ranges from $1,118 to $6,389 per student per year.[1062] In contrast, public and non-profit 4-year colleges and universities, generally spend a higher amount per student on instruction, while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other Arizona-based colleges spent, on a per student basis, $11,128 at University of Arizona, $10,219 at Midwestern University, and $3,344 at Phoenix College.[1063]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee investigated,

[1062] Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.
[1063] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

80 percent of the faculty is part-time.[1064] In 2009, Anthem employed 583 full-time and 341 part-time faculty.[1065]

While Anthem employs a higher percentage of full-time faculty than much of the sector, student complaints raise concerns regarding the quality of instruction at Anthem colleges.[1066] One graduate from Anthem's Medical Assisting program writes:

> The classes were all a joke to me, the instructors (some of the instructors do not have anything close to a formal teaching degree) would go over the tests word for word just before the test and give out detailed "study guides" that made the classes very easy … I do not feel they taught me anything that is applicable….[1067]

Another graduate concludes:

> The bottom line is I would not recommend this program to ANYONE and hope that the employment that I seek in the technology field doesn't know anything about the state of the institution. I am embarrassed to say that I attended their program and possibly as embarrassed to say that I stuck it out to the end to 'graduate'.[1068]

The most frequent complaint lodged by students expressed concern regarding the accreditation status of various Anthem colleges:

> I'm finding out that no one will accept the credits nor the degree from Allied College because of who they are accredited by and because the curriculum does not meet the standards of a criminal justice degree.[1069]

In May 2007, the Accrediting Commission of Career Schools and Colleges of Technology (ACCSCT) pulled High-Tech Institute's accreditation for its degree programs after placing the school on probation in January 2007.[1070] This meant that High-Tech Institute schools could not enroll new students in Associate degree programs and could only offer Diploma and Certificate programs. However, degree program students who were already enrolled in High-Tech Institute were allowed to complete their course work and receive a degree. Many students wrote about learning of High-Tech Institute's loss of accreditation after paying for and completing substantial coursework towards their degrees. One such student explains:

> I was not informed that your accreditation had been lost before I had signed my contract. In addition, I was informed that I would have an Associates Degree upon graduation.

[1064] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[1065] Id.
[1066] Letter from Bishop, Cunningham & Andres, Inc. to Campus President Bryman School of Arizona, *Re: [REDACTED]*, December 4, 2007 (2AEG-HELP-05-00000106, at 2AEG-HELP-05-00000107). ("[The student] does not feel she received the education she expected. There were too many students in class and very few lectures."); Letter from Student to Bryman School of Phoenix, February 10, 2008 (2AEG-HELP-05-00000144). ("The personal drama from the teachers interrupting my education was just the beginning").
[1067] Letter from Better Business Bureau to Allied Medical College, *Re: Case # 1310420,* November 22, 2006, (2AEG-HELP-05-00000166, at 2AEG-HELP-05-00000167).
[1068] Anthem correspondence, *Re: My Experience with The Chubb Insitute,* March 30, 2008 (2AEG-HELP-05-00000119, at 2AEG-HELP-05-00000126).
[1069] Letter from Better Business Bureau to Allied Medical College, *Re: Case # 1306201,* September 29, 2006 (2AEG-HELP-05-00000149, at 2AEG-HELP-00000150).
[1070] All three High-Tech Institute campuses were renamed Anthem College in 2010. These campuses are located in: Memphis, Tennessee, Nashville, Tennessee, and Las Vegas, Nevada.

> After becoming a student and 3 months into the Dental program we were informed that the accreditation was lost and no Associates Degree would be awarded. Since the degree that I would need for a better paying job would not occur I feel that I was "duped" [sic].[1071]

An attorney for another High-Tech Institute student explains the transfer of credit issues his client and many other High-Tech students experienced due to the school's loss of accreditation:

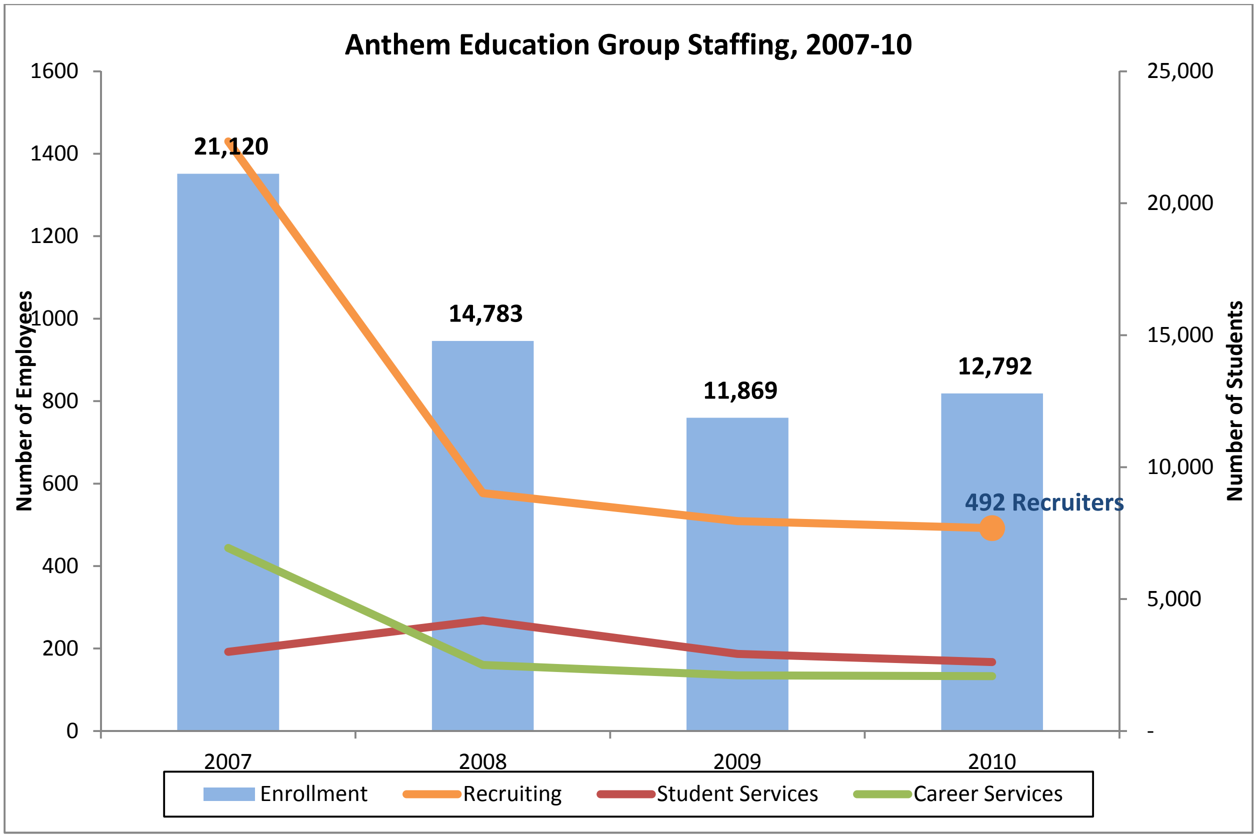
> To make matters worse, it does not appear likely other schools are prepared to accept any credits [the student] has earned at your institution. The total cost for his tuition would exceed $21,000.00 if he was graduating in March and he has already paid a substantial portion of it.[1072]

While student complaints may not be representative of the experience of the majority of Anthem students, these complaints do provide an important perspective on Anthem's academic quality.

Staffing

While for-profit education companies employ large numbers of recruiters to enroll new students, the companies often have far less staff available to provide tutoring, remedial services or career counseling and placement. In 2010, with 12,792 students, Anthem employed 492 recruiters, 133 career services employees, and 167 student services employees.[1073] That means each career counselor was responsible for 97 students and each student services staffer was responsible for 76 students. Meanwhile, the company employed one recruiter for every 29 students.

[1071] Letter to High Tech Institute, February 3, 2008 (2AEG-HELP-05-00000805, at 2AEG-HELP-05-00000810).
[1072] Letter from [REDACTED] to High Tech Institute, *Re: [REDACTED]*, February 22, 2008 (2AEG-HELP-05-00000594).
[1073] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.



Student complaints express dissatisfaction with the level of services available and the high rate of staff turnover.[1074] One student writes:

> All that they care about is getting AS MANY ENROLLMENTS as necessary to keep the school open. The staff turnover at this college is TREMENDOUS. It seems as if a person will be hired and about 2-3 weeks into the position they find out what the college is REALLY like and how people are treated and how poor the quality of education is and they bail![1075]

Another student expressed disappointment with the services available to students given the high cost of tuition:

> I think that if students are paying that much money to come to The Bryman School, we should all be entitled to the best education possible…. That means that for every 5 students they take in that's over $100,000 dollars, and they would tell us they couldn't get us what we needed because "Corporate" wouldn't approve it?[1076]

[1074] Letter from [REDACTED] to Bryman School of Phoenix, February 10, 2008 (2AEG-HELP-05-00000144). ("The frequent turnover and the constant need to regroup by each new hire took a toll on my and fellow classmates educational progress…I was delayed in starting my externship. There were no sites available due to the negative reputation of the school among the hospitals in the valley"); Letter from Florida Department of Agriculture and Consumer Services, to High Tech Institute *Re: [REDACTED]*, January 15, 2008 (2AEG-HELP-05-00000070, at 2AEG-HELP-05-0000072) ("We are very concerned about the quality of education being provided to our son … It has been reported to us that there is not a consistent educator the Medical Massage Therapy Program").

[1075] Letter from Accrediting Bureau of Health Education Schools, to President of Allied College, December 19, 2008 (2AEG-HELP-05-00000276, at 2AEG-HELP-05-00000277).

[1076] Letter from Accrediting Commission of Career Schools and Colleges of Technology, to High-Tech Institute, *Re: The Bryman School – Phoenix, Arizona*, January 29, 2007 (2AEG-HELP-05-00001532, at 2AEG-HELP-05-00001539).

Several students complained that the career services office did not help them find leads or connect them with employers. One complaint notes:

> When it came to job placement, there were many promises initially, but by the time it came time to actually get the job, the school only offered "hints" such as, "go look at websites."[1077]

While student complaints may not be representative of the experience of the majority of Anthem students, these complaints do provide an important perspective on the quality of Anthem's student and career services.

Conclusion

Although Anthem stands apart from the majority of for-profit companies investigated because it is not profitable, the company exhibits many of the same practices of more successful companies. Most notably, the company's recruiting tactics documented on the GAO undercover tape were some of the most troubling. Many of the company's challenges stem from the loss of accreditation by some programs accompanied by a drop in enrollment as the result of the closure of those campuses. While Anthem's retention rates are higher than those at many companies examined, the company's high student loan default rates suggest that students completing its programs may not be able to obtain employment or salaries that enable them to repay the student loan debt they incur. Taken together, these outcomes cast serious doubt on whether Anthem students are receiving an education that affords them adequate value relative to cost, and call into question the $112 million investment American taxpayers made in the company in 2010.

[1077] Letter from Bishop, Cunningham & Andres, Inc. to Campus President Bryman School of Arizona, *Re: [REDACTED]*, December 4, 2007 (2AEG-HELP-05-00000106, at 2AEG-HELP-05-00000107).

Apollo Group. Inc.

Introduction

As the largest for-profit education company, and the company that pioneered the modern for-profit education model, Apollo Group, Inc. has the potential to be *the* industry leader in student success. Instead the investigation demonstrates that, at least during the period examined, the company invested relatively little in students and struggled to retain Associate degree students. While the company has started to take positive steps in the right direction, more remains to be done.

Company Profile

Apollo Group, Incorporated ("Apollo") is a publicly traded for-profit educational institution headquartered in Phoenix, AZ. Apollo operates two for-profit college brands, the University of Phoenix and Western International University. In 1994, Apollo became the second for-profit college to become publicly traded. The University of Phoenix accounts for the overwhelming majority of the company's students and is the Nation's largest for-profit college. It offers Associate, Bachelor's, Master's, and Doctoral programs in over 100 different fields.[1078] Thirty-six percent of Apollo's students are enrolled in the Associate degree programs, 48 percent in Bachelor's degree programs, and 16 percent in Graduate level programs.[1079] The company's Associate degree program is exclusively online.[1080]

Apollo operates over 280 locations, and of these locations, approximately 76 are campuses that provide classes in person. The remaining installations are "learning centers" that provide local resources for students that learn online.

Like more than half of the regionally accredited brands the committee examined, both the University of Phoenix and Western International University are regionally accredited by the Higher Learning Commission. The University of Phoenix was first accredited by the HLC in 1978.

The University of Phoenix was founded by John Sperling in 1976 to assist working adults who had some college credit complete college degrees. He founded the company after San Jose State University, where he was a tenured professor, refused to expand a successful grant program Sperling had run that helped police and firefighters complete degrees at the college.[1081] At its founding, the University of Phoenix required all entering students be at least 23 years old, have at least 2 years of work experience, and have already completed significant credit towards a college degree.[1082] The company offered exclusively Bachelor's degrees. The University of Phoenix offered convenient locations designed to make it easy for working adults to attend classes on existing commuter routes. It offered a "one class at a time" structure, with frequent starts on a rolling basis. A small group of learners would move through the curriculum together, with little or no class selection choice. This

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[1078] For full list of campuses see: http://www.phoenix.edu/campus-locations.html and http://www.west.edu/why-west/campus-locations (accessed May 10, 2012).
[1079] Apollo Group, 2011 Form 10-K.
[1080] Apollo's Associate program was at one time primarily run through Axia College. In June 2011, Axia College was merged with the University of Phoenix Online.
[1081] Christopher R. Beha, "Leaving the Field: What I Learned from For-Profit Education," *Harper's Magazine*, October 2011.
[1082] Id.

innovative model proved to work extremely well for non-traditional students, and is the foundation of most for-profit education offerings today.

Sperling served as CEO of the company until August 2001, and continues to play an active role as chairman of the board. In 2001, Todd Nelson was selected as CEO after serving in a number of other roles at Apollo, and served as CEO until 2006.[1083] Under Nelson's leadership, enrollment increased from 124,800 students to 282,300 students, but the company came under repeated scrutiny.

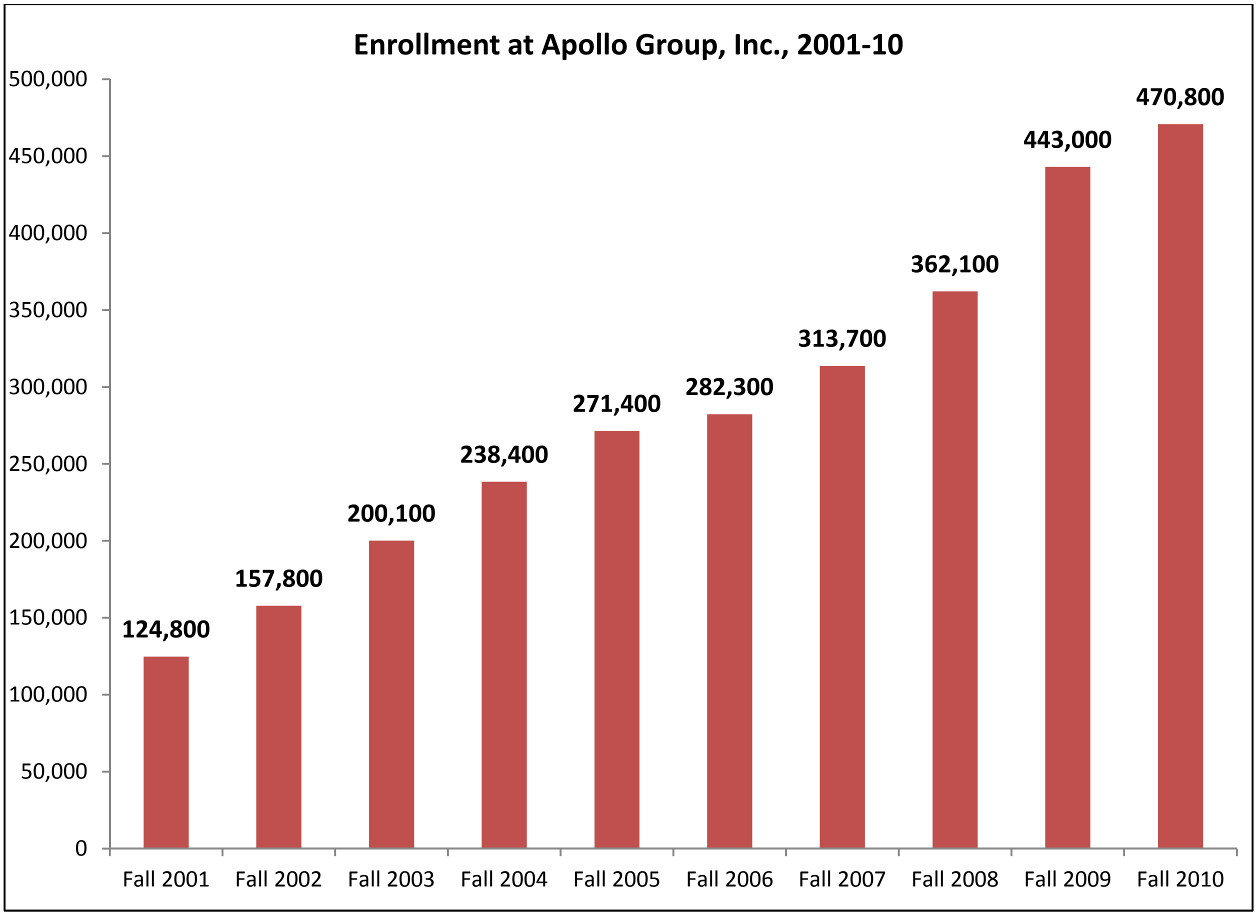
News reports of a 2006 deposition of John Sperling reported that Sperling testified that Nelson was asked to leave Apollo because, "he was mainly concerned with anything that would cause the stock to drop. ... [H]e was preoccupied primarily with the stock price and not with the functioning of the company." [1084] Interviewed by a reporter in 2009 about Nelson's tenure as CEO, the former president of the University of Phoenix Jorge Klor de Alva replied, "There was a breakdown in the culture that John had built up." [1085]

In 2003, the company was sued by two former employees under the False Claims Act for violating the incentive compensation rules then in place. This case was settled in 2009 for $78.5 million. In 2004, the Department of Education alleged that Apollo had violated the same rules regarding how much of a role the number of students enrolled could play in setting recruiter pay. The suit was settled for $9.8 million.

In 2008, Charles Edelstein became CEO, and in 2009, he was joined as co-CEO by Gregory Capelli. Capelli had joined the company in 2007, as executive vice president of Global Strategy and assistant to the executive chairman. The two remain co-CEOs, but Edelstein will step down in August 2012.

According to news reports, at John Sperling's 80th birthday party in 2001, Mr. Sperling set the goal of increasing Apollo's enrollment from an already impressive 124,800 students to 470,800.[1086] This aspiration was reinforced by a 2002 corporate goal known as "5-5-5": "Five Years, Five Million Students and Five Billion Dollars." [1087] During this period, Apollo also eliminated the requirement that students have previous college credit, added a shorter term Associate degree program, and moved to expand online enrollment.[1088]

[1083] Nelson's combined compensation and severance pay from Apollo amounted to $41.3 million. In 2007, Nelson became CEO of EDMC and continues in that role today.
[1084] Charlie Deitch, "There's big money in studying art … if you own the school," *Pittsburgh City Paper,* March 13, 2008, http://www.pittsburghcitypaper.ws/pittsburgh/art-of-the-deal/Content?oid=1339907 (accessed June 12, 2012).
[1085] Thomas Bartlett, "Phoenix Risen" *The Chronicle of Higher Education*, July 6, 2009.
[1086] Daniel Golden, "Plunge of For-Profit College Shares Make Patriarch Sperling Rail at Obama" *Bloomberg*, December 29, 2010.
[1087] 2004 Department of Education University of Phoenix Program Review Report.
[1088] Daniel Golden, "Plunge of For-Profit College Shares Make Patriarch Sperling Rail at Obama" *Bloomberg*, December 29, 2010.

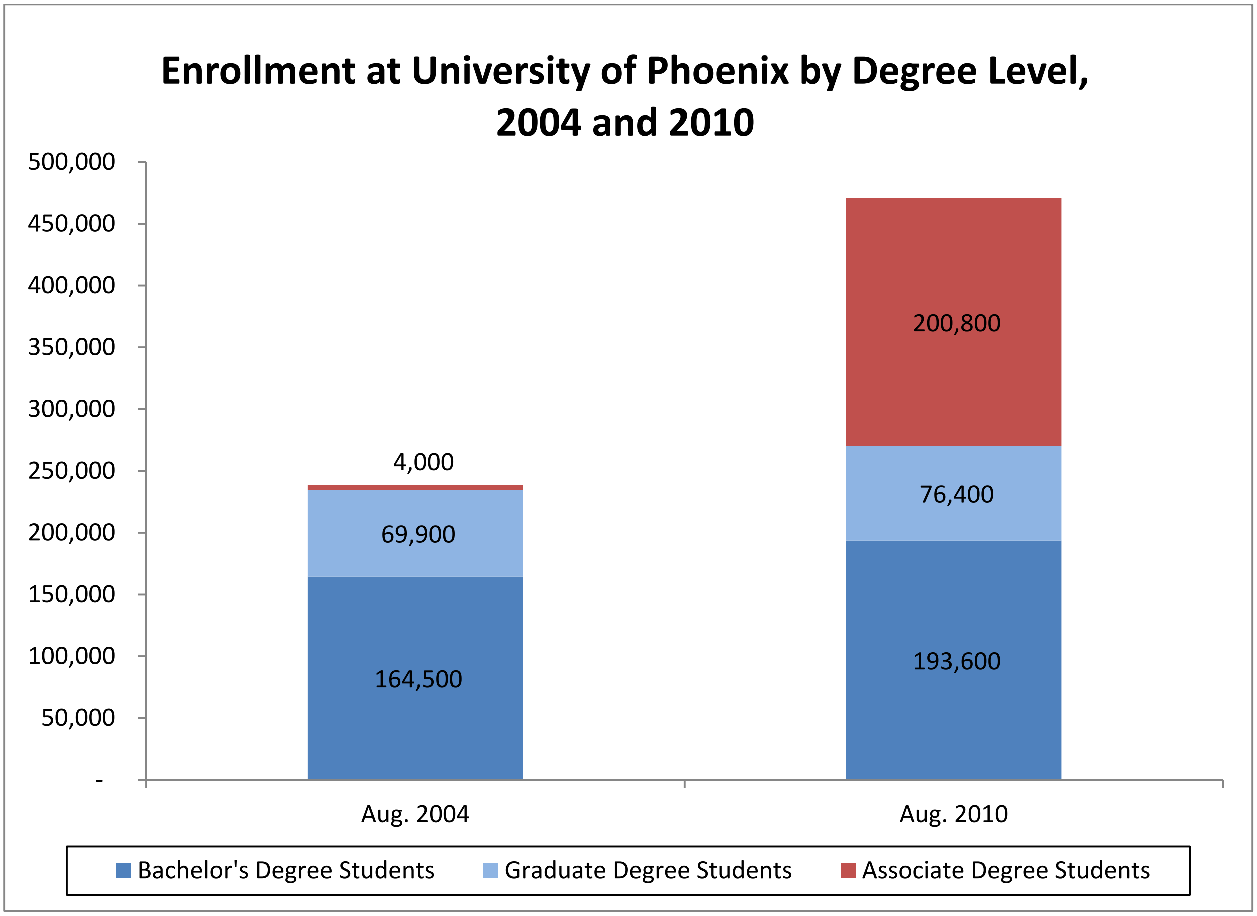


While Apollo ultimately fell short of Sperling's goal, the company experienced rapid enrollment growth, from 124,800 students in 2001 to 470,800 students in 2010, a larger number of students than the entire Big Ten

Conference.[1089] However, this growth came at a cost. In the words of former University of Phoenix senior vice president, Robert W. Tucker, "At critical junctures, John chose growth over academic integrity, which ultimately diminished a powerful educational model." [1090]

Much of this growth was driven by growth in Associate degree students at the University of Phoenix.

[1089] Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7. The Big Ten Conference enrolled 458,310 students in Fall 2010. IPEDs Enrollment Figures for Indiana University, Michigan State University, Northwestern University, Ohio State University, Penn State University, Purdue University, University of Iowa, University of Illinois, University of Michigan, University of Minnesota, University of Nebraska, and University of Wisconsin. By March 2012, Apollo's enrollment had dropped to 355,800.
[1090] "Plunge of For-Profit College Shares Make Patriarch Sperling Rail at Obama" Daniel Golden. Bloomberg. Dec 29, 2010.



In 2004, Apollo enrolled 4,000 Associate degree students, which represented 2 percent of the company's total enrollment. By 2008, the company enrolled 146,500 Associate degree students who made up 41 percent of the student body.[1091]

In late 2010, Apollo leadership initiated the University Orientation Program that required all students with less than 24 credits to successfully complete a 3-week orientation course before actually beginning classes. Any student who withdraws before the conclusion of the program incurs no financial obligation to Apollo. While not as robust as the Kaplan Commitment program initiated around the same time, which allows students to actually attend classes for 5 weeks and withdraw at no cost, the program is a promising step and appers to have had a significant impact on the number and type of students who enroll. While 80 percent of those who start the orientation ultimately enroll at Apollo, the program appears to be at least partially responsible for the drop in enrollment to 355,800 students as of March 2012.[1092] This drop in enrollment, led to a drop in both revenue and profit in 2011.

The company has also recently focused its marketing efforts towards shifting the mix of its enrollments towards Bachelor's level students.[1093] Both the drop in enrollments and the changing mix of students has been helpful to Apollo's 90/10 ratio.[1094] The company at least partly attributes the lower

[1091] Apollo Group, Inc. 10-K period ending 8/31/2008.
[1092] November 2011, Wunderlich Securities Conference; Apollo Group, Inc. 2012, Q2 Form 10-Q.
[1093] Apollo Group Investors Call, Q2 2011.
[1094] December 2011 William Blair Conference.

mix of Associate degree students as the reason it was able to remain in compliance with the 90/10 rule for fiscal year 2011.[1095]

Prior to 2011, growth in enrollment led to growth in revenue. Revenue almost doubled—from $2.7 billion in 2007 to $4.9 billion in 2010. [1096]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1097] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1098]

In 2010, Apollo reported 85.3 percent of revenue from title IV Federal financial aid programs.[1099] However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education programs. Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 3.4 percent of Apollo's revenue, or $144 million.[1100] With these funds included, 88.7 percent of Apollo's total revenue was comprised of Federal education funds.[1101]

[1095] Apollo Group Investors Call, Q2 2011. Apollo elected not to take advantage of the temporary ECASLA provision allowing for the exclusion of up to $2,000 in loans per student from their 90/10 calculation. This means that unlike a number of other for-profit education companies, their 90/10 is more reflective of the actual amount of Federal revenue the company receives.

[1096] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18. Matching the drop in enrollment, revenue fell to $4.7 billion in 2011.

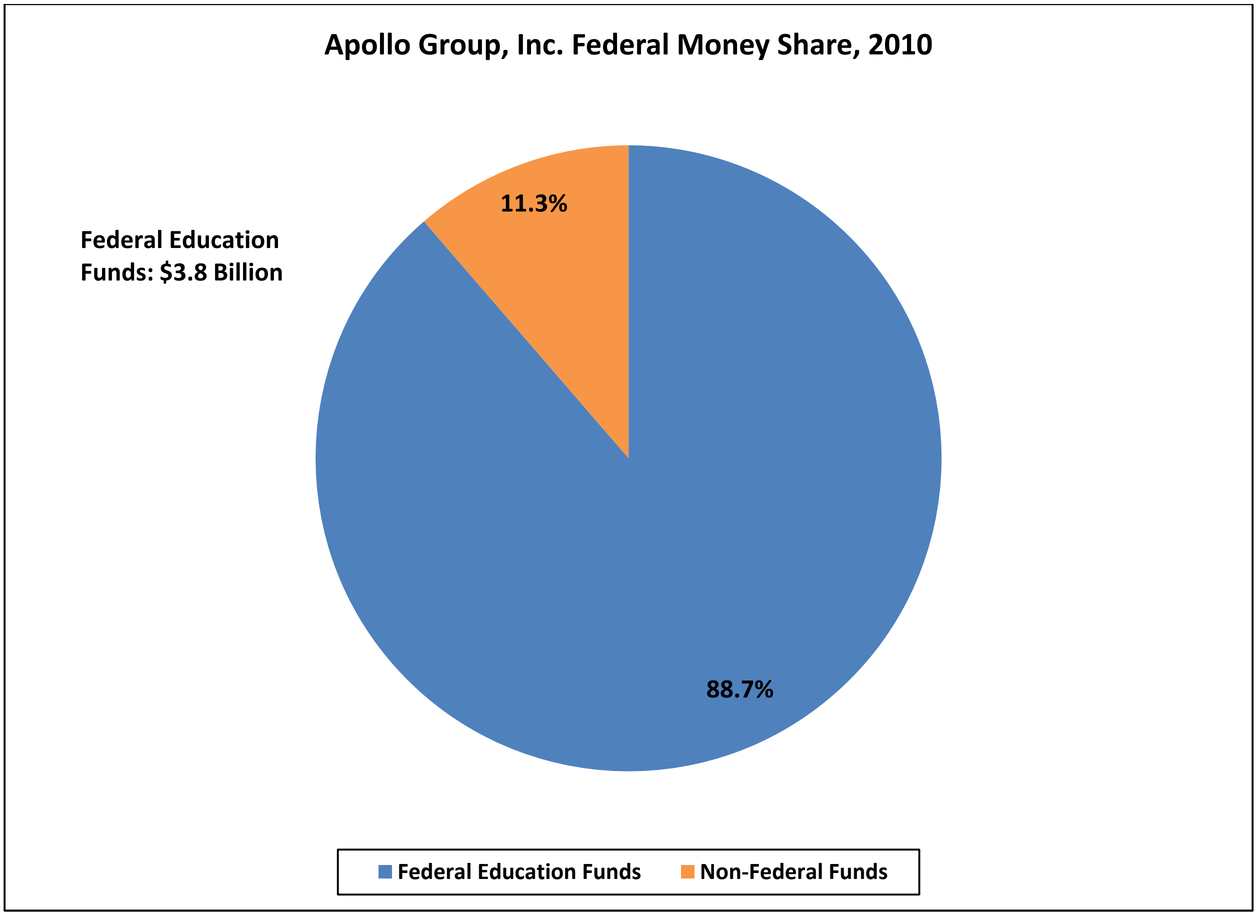
[1097] "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

[1098] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[1099] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

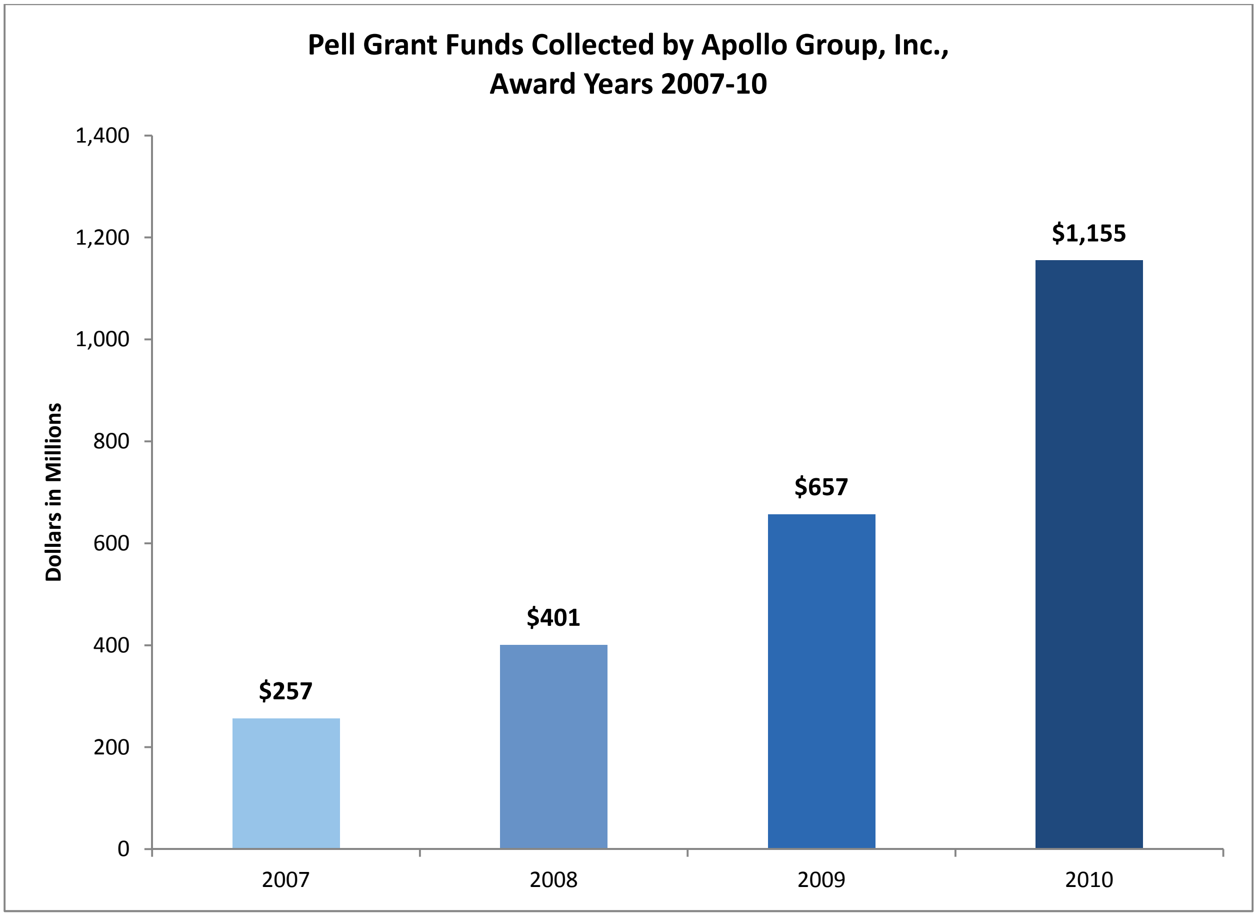
[1100] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[1101] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.



Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[1102] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[1102] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.



The result of these increases is that Apollo collects more Pell Grant dollars than any other college in the country, passing $1 billion in 2010. Apollo more than quadrupled the amount of Pell grants it collected, from $257 million in 2007 to $1.15 billion in 2010.[1103]

Spending

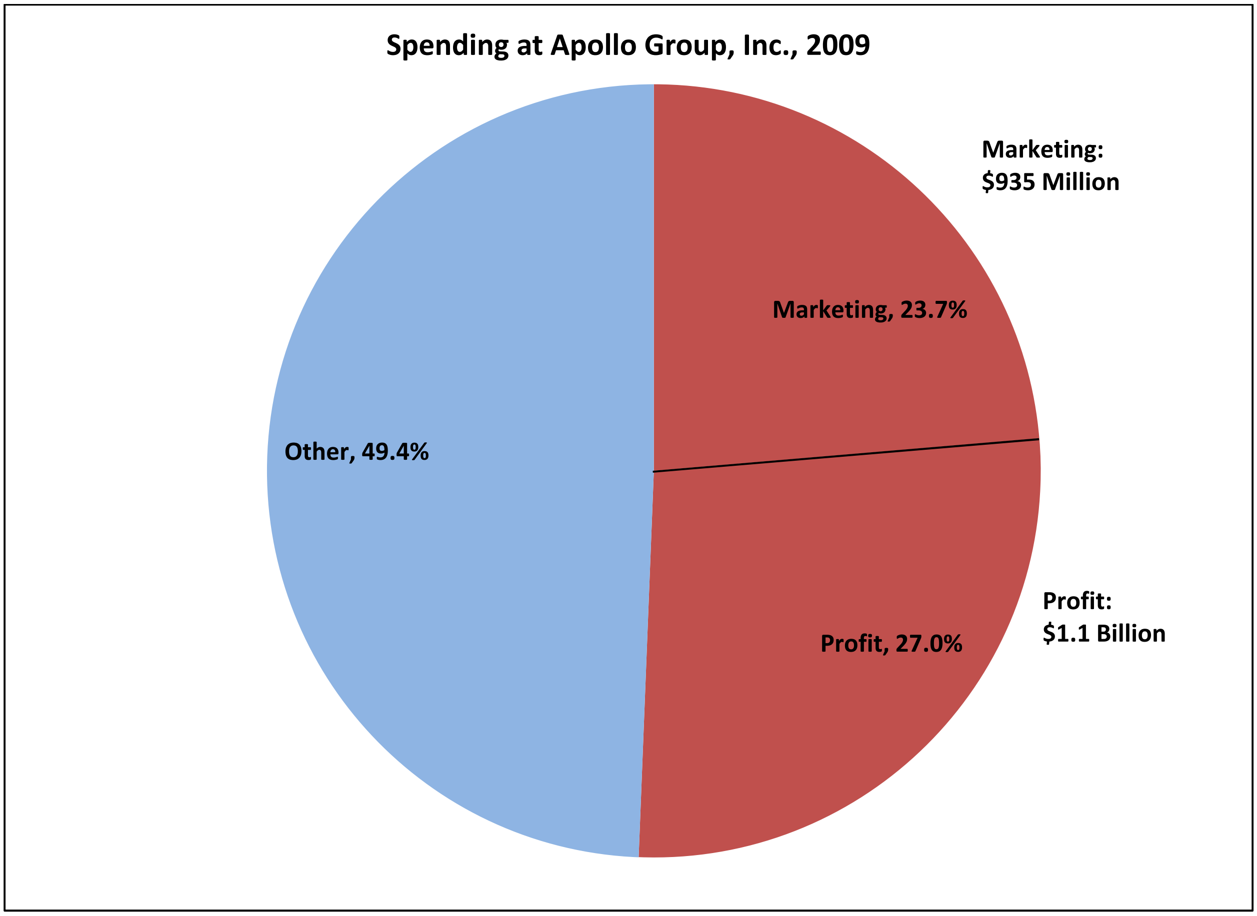
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students, and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[1104] During the same period the companies spent 23 percent of revenues on marketing and

[1103] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

[1104] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[1105] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

In 2009, Apollo allocated 27 percent of its revenue, or $1.1 billion, to profit and 23.7 percent, or $935 million, to marketing and recruiting.[1106]

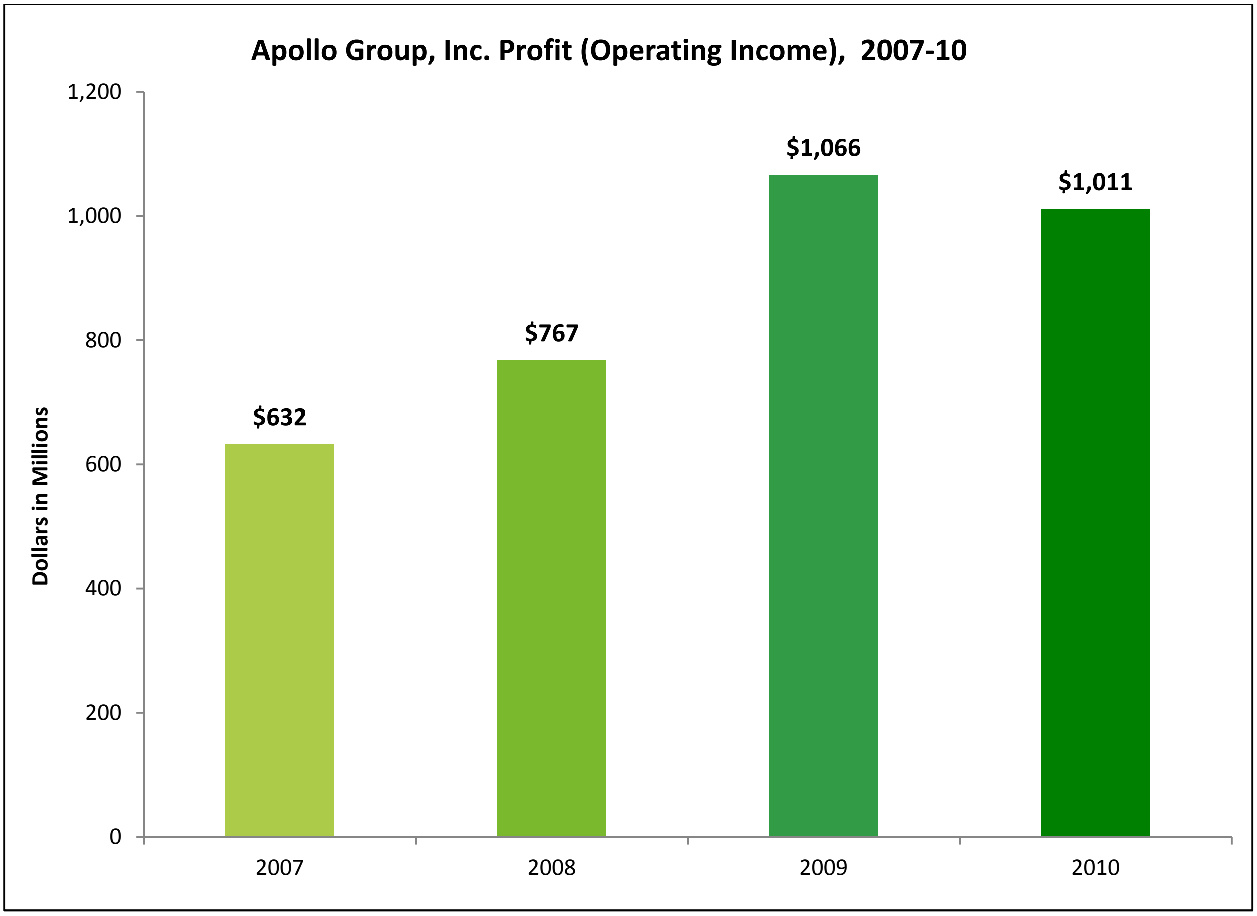


Apollo devoted a total of $2.04 billion to marketing, recruiting, and profit in fiscal year 2009.[1107] The amount of profit Apollo generated also increased rapidly, growing from $632 million in 2006 to over $1 billion in 2010. Matching the drop in enrollment, profit fell in 2011 to $961 million.

[1105] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit is based on operating income. See Appendix 19.

[1106] Id. On average, the 30 for-profit schools examined spent 23 percent of revenue on marketing and 19.4 percent on profit. "Other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.

[1107] Id.



Executive Compensation

Executives at Apollo, like most for-profit executives, are more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[1108] In 2009, Apollo Founder and Chairman John Sperling received $8.6 million in compensation, more than 13 times as much as the president of the University of Arizona, who received $633,206 in total compensation for 2009-10. Co-CEOs Charles Edelstein and Gregory Capelli together received $3.4 million. The chief executive officers of the large publicly traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[1109]

[1108] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a and Appendix 17b.
[1109] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

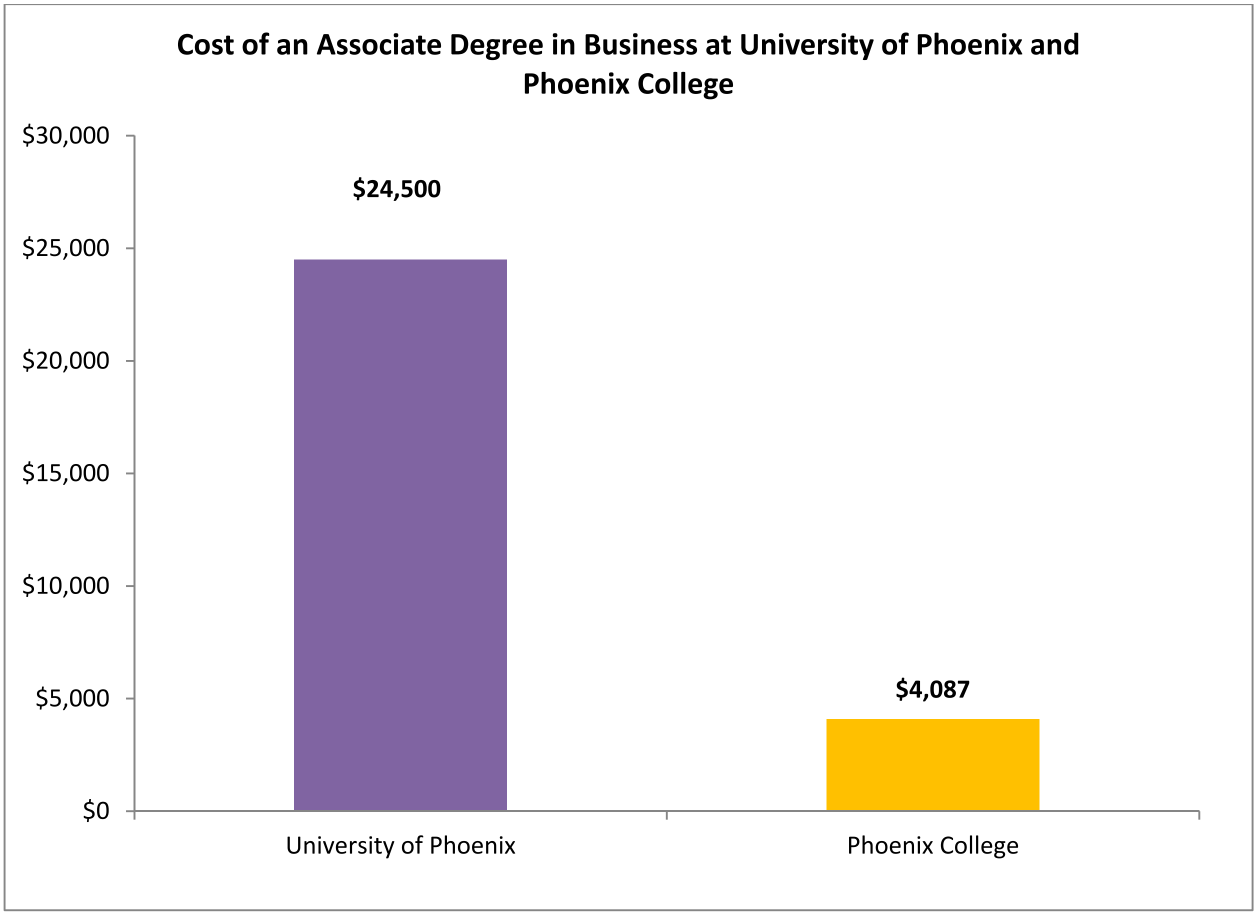
Executive	Title	2009 Compensation	2010 Compensation
John G. Sperling	Founder and Chairman	$8,617,597.00	$6,963,239.00
Joseph L. D'Amico	President and COO	$5,115,263.00	$5,500,246.00
Brian L. Schwartz	Senior VP and CFO	$2,345,379.00	$2,369,601.00
William J. Pepicello	President, University of Phoenix	$2,035,470.00	$2,035,470.00
Charles B. Edelstein	Co-CEO	$1,800,000.00	$1,636,950.00
Gregory W. Cappelli	Co-CEO	$1,659,712.00	$1,659,712.00
Total [1110]		$21,573,421.00	$20,165,218.00

Co-CEO's Gregory Capelli's 2011 compensation was $25.1 million.[1111]

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Apollo. Tuition for an Associate of Arts in Business at the University of Phoenix Online costs $24,500.[1112] The same degree costs $4,087 at Phoenix College in the Maricopa Community College system.[1113]

[1110] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities and Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.
[1111] Apollo Group 2011 DEF 14C.
[1112] See Appendix 14; see also, University of Phoenix, *School of Business*, http://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/AAFB-013B.pdf?cm_sp=Program+Page-_-SealSheet+PDF-_-AAFB (accessed April 19, 2012).
[1113] See Appendix 14; see also, Phoenix College, *Phoenix College*, http://www.pc.maricopa.edu/ (accessed April 19, 2012).

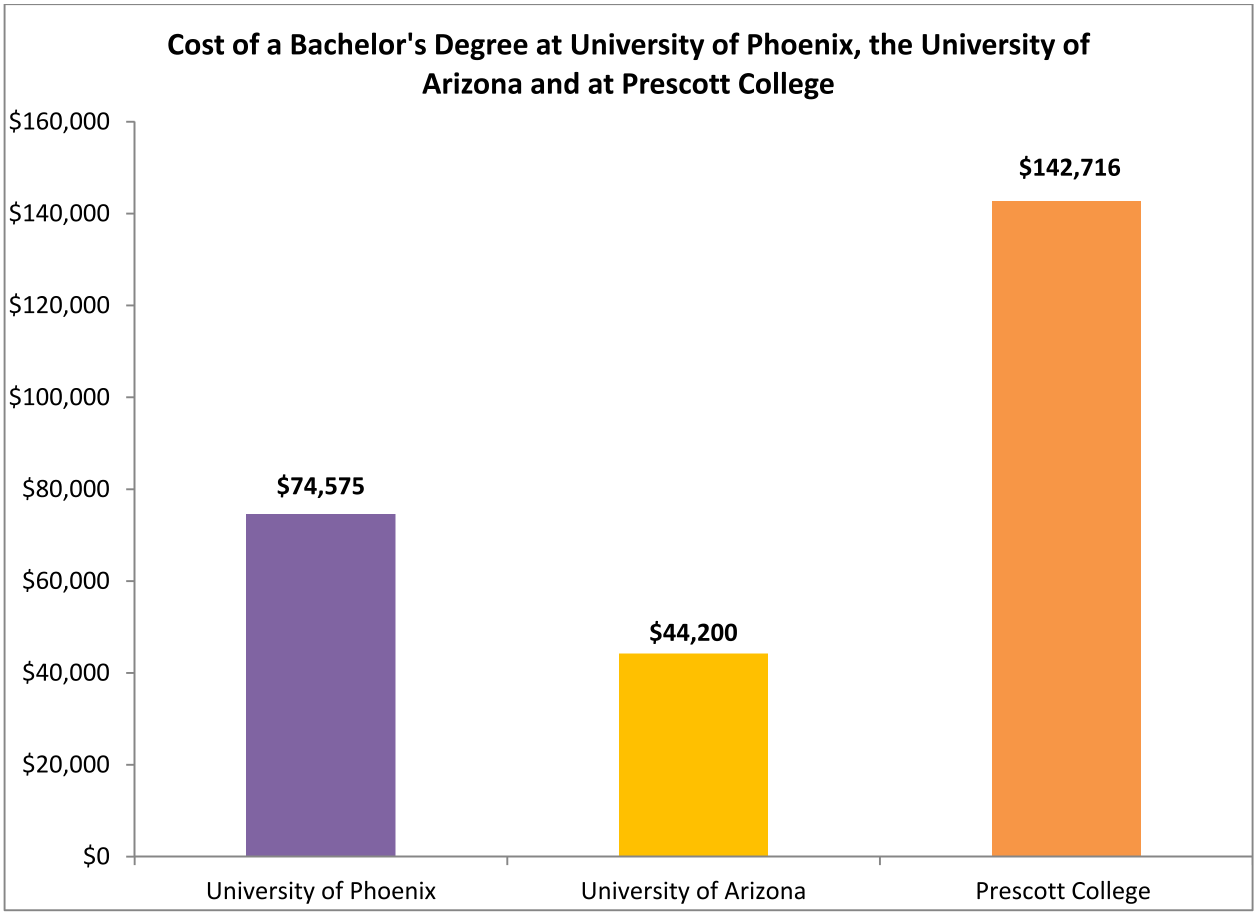


Tuition for a Bachelor's of Science in Business at the University of Phoenix in Hohokam, AZ, costs $74,575.[1114] The same degree at the University of Arizona costs $44,200.[1115] However, the cost of tuition for a Bachelor's degree at the University of Phoenix is considerably less than a Bachelor's degree at a comparable non-profit college. It costs $142,716 to obtain a Bachelor's degree at the non-profit Prescott College.[1116]

[1114] See Appendix 14; see also, University of Phoenix, *School of Business*, http://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/AAFB-013B.pdf?cm_sp=Program+Page-_-SealSheet+PDF-_-AAFBhttp://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/BSB-M-025B.pdf?cm_sp=Program+Page-_-SealSheet+PDF-_-BSB-M (accessed April 19, 2012).

[1115] See Appendix 14; see also, University of Arizona, *The University of Arizona*, http://www.arizona.edu/ (accessed April 19,2012).

[1116] See Appendix 14; see also, Prescott College, *Prescott College*, http://www.prescott.edu/ (accessed April 19, 2012).



The higher tuition that Apollo charges is reflected in the amount of money that Apollo collects for each veteran that it enrolls. From 2009-11, Apollo trained 29,336 veterans and received $210 million in post-9/11 GI bill benefits, averaging $7,158 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[1117]

According to Apollo executives, the company has increased tuition, "3 percent, 4 percent, 5 percent really in most areas of the country the last couple of years." [1118] To the company's credit, while executives have indicated in calls with investors that they have considered raising tuition as a means of addressing 90/10 concerns, unlike some other for-profit colleges, Apollo has elected not to do so.[1119]

Internal Apollo emails indicate that the company is aware tuition costs and increases are a concern for many students. According to one internal email, "they are starting to hear an increase in the reason that the student is not returning to school is because they are advising that the price increase/high tuition is preventing them from returning." [1120]

Internal documents from the period examined indicate that, when presented with questions regarding cost from prospective students, recruiters are trained not to provide direct answers. According

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[1117] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[1118] William Blair Conference, December 2011.
[1119] Apollo Group Investors Call, Q2 2011. See also Apollo Group Investors Call, Q4 2010.While Apollo is uncomfortably close to the 90/10 threshold, calls with investors suggest the company is focused on more appropriate ways to deal with the problem, including increasing debt counseling and the number of employer funded students. See Apollo Group, 2010, Q4Earnings Call with Investors; Apollo Group, 2011, Q3 Earnings Call with Investors.
[1120] Apollo Group, Internal Email, *RE: GP*, October 2, 2008 (AGI0045757, at AGI0045758).

to a 2007 training manual, if the prospect says "you're too expensive," the recruiter could respond, "Can you afford not to go?" or "If student loans will match your payment to your income when you are in repayment, why do loans scare you?" or "If you are going to be making more money, wouldn't these loans be easier to pay back?" or finally "Why would you not want to invest in yourself?" [1121] If a student complains that the University of Phoenix is expensive compared to other schools, the recruiters were given proposed responses including, "When your degree hangs on the wall in a few years . . . will you tell your friends and family you bought the cheapest degree you could find?" [1122]

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations for-profit colleges must demonstrate consistent enrollment growth each quarter.

Internal documents from the period examined by the committee demonstrate an aggressive approach to enrolling prospective students.[1123] Recruiters were trained to push prospective students to commit to attending the school by creating a sense of urgency. A 2007 manual instructed "after gaining voice-to-voice contact with your students, uncovering and developing needs, matching our benefits to their needs, and helping them to work through their concerns, you now have to challenge them to act NOW." [1124] The document goes on to state, "this chapter will help you create urgency in your students so they resist the urge to wait and get excited to begin NOW." [1125]

In order to create this sense of urgency, a 2007 training document states: "Do not tell the student we have classes running every week unless you can agree on a start date, or rolling start dates is a selling point." [1126] Another suggested response to generate a sense of urgency is, "it looks like I might be able to squeeze you into" the next start date.[1127] Apollo's training manuals instructed recruiters to avoid telling prospective students "you have plenty of time to get everything in order," because "if the student thinks he/she has plenty of time, he/she might wait and apply later." [1128]

The committee reviewed a small sampling of complaints from students who felt they were misled or deceived by recruiters.[1129] While student complaints may not be representative of the experience of the majority of students, they do provide an important window into practices that appear to be occurring. As one servicemember said in his complaint:

[1121] Apollo Group, *University of Phoenix Enrollment Counselor Guide*, 2007 (AGI0015231, at 15339). The company states that this document is no longer in use.
[1122] Apollo Group, *University of Phoenix Enrollment Counselor Guide Online Campus*, 2007 (AGI0014312, at AGI0014465). The company states that this document is no longer in use.

[1123] According to Apollo the training manuals cited in the report are no longer in use.
[1124] Apollo Group, *University of Phoenix Enrollment Counselor Guide*, 2007 (AGI0015231, at AGI0015329).
[1125] Id.
[1126] Id., at 15333; See Also, Apollo Group, *University of Phoenix Enrollment Counselor Guide Online Campus*, 2007 (AGI0014312).
[1127] Apollo Group, *University of Phoenix Enrollment Counselor Guide*, 2007 (AGI0015231, at AGI0015334).
[1128] Apollo, 2007, Enrollment Counselor Guide: School of Advanced Studies (AGI00014312, at AGI0014504) (University of Phoenix).
[1129] After extensive negotiation, Apollo provided the committee with a small sample of student complaints but failed to provide the vast majority of the 5,152 complaints students lodged with the company.

> I believe that the University of Phoenix is using deceptive practices in order to lure students into the school, the enrollment counselors tell students that they should be complete with their course of studies in a short period of time fully knowing how long it is going to take. . . . I have talked with other students at the University of Phoenix and this appears to be a common tactic used by University of Phoenix enrollment counselors [sic]. [1130]

Another military student who was billed for a class that he never took wrote:

> As a marine of 19 years, I've served in Desert Storm, Somalia, and Operation Iraqi Freedom x2. You cannot imagine the emotional battle this has taken on me after dealing with this for nearly TWO years!! An education institution such as yours earns millions of dollars each year, and yet you punish those who are willing to risk their lives and fight for your freedoms, you should be ashamed! I am very disappointed as an American that an institution such as your calls itself a place of 'higher' learning.' It was because of the selfless sacrifice of our WWII Veterans and the implementation of the GI Bill that paved the way for hundreds Colleges to open across our country. I am going to retire from the Marines after 20 years of service, I hope you will take a good look at how you treat Veteran's in the future [sic]. [1131]

The son of one Apollo student, disputing a bill, wrote, "My father did not make any loans [sic]. The school Phoenix University never told him upfront that he was applying for a loan he thought he was applying for some type of Pell Grant from the government which he would not have to repay. They told him they he was approved for a loan with your institution after the period that classes would start … My father does not speak English and is not computer savvy [sic]." [1132]

Another former student was told by an Apollo admissions counselor that her felony conviction would not hinder a career as a pharmacy technician.[1133] The student graduated with a 3.61 GPA, and $27,000 in debt, only to discover that the required licensing board placed a lifetime bar on individuals with certain felony convictions sitting for the exam.[1134]

Government Accountability Office Undercover Recordings[1135]

Undercover recordings made during GAO visits to University of Phoenix campuses in Hohokam, AZ, and Philadelphia, PA showed multiple instances of deceptive and misleading recruitment.

Recordings of the encounters at the Hohokam campus document misleading tactics with regard to the cost of attending. Asked about a Bachelor's program in elementary education that required 120 credits, the recruiter said, "This is a Bachelor's so it's four years, you would finish in exactly four years, that's the worst scenario. . . . There are ways to speed it up."[1136] Yet, when the undercover prospective student asks about cost, the recruiter quoted a price based on attending three terms a year, "With tuition

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[1130] Letter from Office of the Attorney General State of Arizona Consumer Information & Complaints to University of Phoenix, May 4, 2009 (AGI0051856).
[1131] Apollo Group, Internal Correspondence, July 7, 2009 (AGI0053273).
[1132] Letter from [REDACTED] to Apollo Group, July 27, 2009 (AGI0052827).
[1133] Letter from Aubrie Roupe, former University of Phoenix student, to Senator Tom Harkin, April 2, 2011.
[1134] Id.
[1135] Apollo was also visited by GAO for their report "Experiences of Undercover Students Enrolled in Online Classes at Selected Colleges." The GAO agent was unable to enroll at the school as they did not meet requirements for acceptance based on insufficient evidence of high school graduation.
[1136] Audio Recording: Undercover Recording of Visits by GAO Agents to For-Profit Schools, School 1 Scenario 2 at minute 11:16, available at http://harkin.senate.gov/help/gao.cfm (accessed June 14, 2012).

and books it's approximately . . . its right about $9,500 a year."[1137] In reality, if the prospective student were to take full-time classes year round to finish in less than 4 years, the cost would be greater than $9,500. In another instance, when asked about the job placement rate, the admissions representative states, "we don't have that statistic, because a lot of them move out of state. And a lot of them did."[1138]

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1139]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee and (2) student loan "cohort default rates." These metrics indicate that many students who enroll at Apollo are not achieving their educational and career goals.

Retention Rates

Information Apollo provided to the committee indicates that, of the 279,576 students who enrolled at Apollo in 2008-9, 60.5 percent, or 169,138 students, withdrew by mid-2010. Amongst all 30 companies analyzed, 599,575 students withdrew, and because of its size, Apollo accounted for 28 percent of those students. These withdrawn students were enrolled a median of 4 months.[1140] Apollo's overall withdrawal rate is significantly higher than the sector-wide withdrawal rate of 54 percent. While the withdrawal rate for Bachelor's degree students is slightly below the average of the companies examined, the withdrawal rate for Associate students is 16 percent higher than the Bachelor's withdrawal rate. The withdrawal rate for Apollo's Associate program is 66.4 percent, meaning that more than two-thirds of the students who enrolled in 2008-9, 117,738 people, withdrew by mid-2010. This is the fifth highest Associate withdrawal rate of any company examined by the committee.[1141]

Status of Students Enrolled in Apollo Group, Inc. in 2008-9, as of 2010

[1137] Audio Recording: Undercover Recording of Visits by GAO Agents to For-Profit Schools, School 1, Scenario 2 at minute 14:27 , available at http://harkin.senate.gov/help/gao.cfm (accessed June 14, 2012).
[1138] Audio Recording: Undercover Recording of Visits by GAO Agents to For-Profit Schools, School 1 Scenario 1, at 26:14, available at http://harkin.senate.gov/help/gao.cfm (accessed June 14, 2012).
[1139] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief,* August 2009 http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 12, 2012).
[1140] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.
[1141] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Associate Degree	177,368	4.7%	28.9%	66.4%	117,738	126
Bachelor's Degree	102,208	1.8%	47.9%	50.3%	51,400	115
All Students	279,576	3.6%	35.9%	60.5%	169,138	123

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Online vs. Brick and Mortar Outcomes

An analysis of withdrawal rates among the 11 companies that provided disaggregated data indicates that students enrolled in online programs had higher withdrawal rates than students enrolled in campus based programs. Overall brick and mortar Apollo students are faring significantly better than online Apollo students. However, all Associate students attended online, and when only the Bachelor's degree students are analyzed, withdrawal rates are much more evenly distributed between online and brick and mortar students. Apollo estimates that approximately 75 percent of the company's undergraduate students who default are online students.[1142]

Status of Online Students Enrolled at Apollo in 2008-9, as of mid-2010							
Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Associate	177,246	8,380	4.7%	51,191	28.9%	117,675	66.4%
Bachelor's	58,713	1,368	2.3%	28,319	48.2%	29,026	49.4%
All	235,959	9,748	4.1%	79,510	33.7%	146,701	62.2%

Status of Brick & Mortar Students Enrolled at Apollo in 2008-9, as of mid-2010							
Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Associate	2	0	0%	1	50%	1	50%
Bachelor's	42,010	377	0.9%	19,973	47.5%	21,660	51.6%
All	42,012	377	0.9%	19,974	47.5%	21,661	51.6%

Student Loan Defaults

The number of students leaving Apollo with no degree correlates with the high rates of student loan defaults by students who attended Apollo. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for

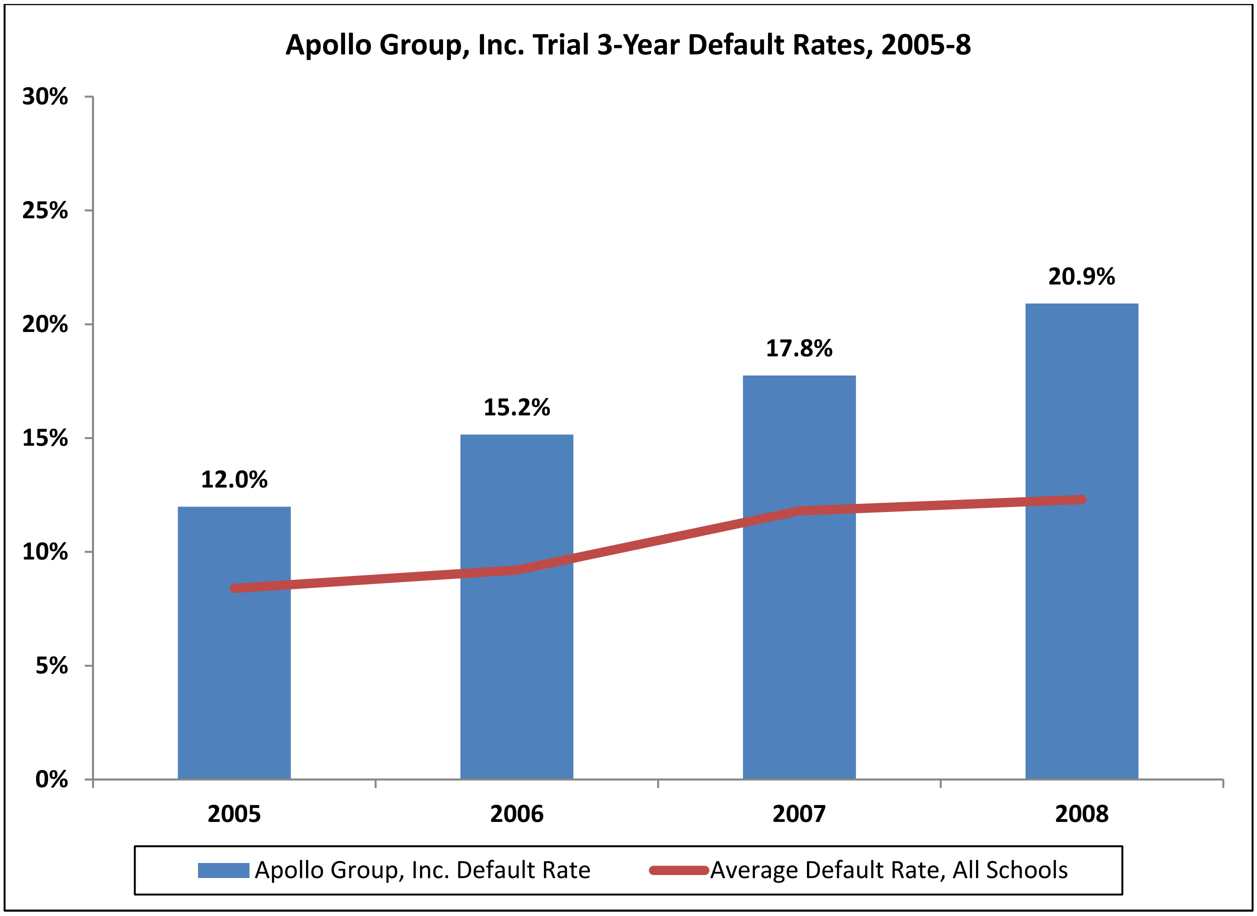
[1142] Apollo, *Default Management Plan*, September, 2010 (AGI0032838).

at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1143]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[1144] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1145] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1146] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1147]

The 3 year default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[1148] This change represents a 32.6 percent increase over 4 years.[1149] Apollo's default rate has similarly increased, growing from 12 percent for students entering repayment in 2005 to 20.9 percent for students entering repayment in 2008.[1150] The company expects the rate for 2009 to be 26.7 percent.[1151] Company officials have also told investors that they do not expect the 2010 rate to exceed 30 percent.[1152] This is important because, as of 2014, a 3-year default rate of greater than 30 percent will result in a loss of access to title IV funding.

1143 Direct Loan Default Rates, 34 CFR 668.183(c).
1144 Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-08, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
1145 Id.
1146 Id.
1147 Id.
1148 Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-08, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
1149 Id.
1150 Id.
1151 Apollo Investors Call, Q2 2012.
1152 Id.



An internal email from an associate vice president at Apollo makes clear that the long-term prognosis for students is even worse. The email documents that the company expects the lifetime default rates for Associate degree students entering repayment in 2006 to be 77.7 percent and to be 55.8 percent for students entering repayment in 2007.[1153]

Default management

It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Helping get delinquent students into repayment, deferment, or forbearance prior to default is encouraged by the Department of Education. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

Default management is sometimes accomplished by putting students who have not made payments on their student loans into temporary deferments or forbearances. While the use of deferment and forbearance is fairly widespread throughout the sector, documents produced indicate that a number of companies also pursue default management strategies that include loan counseling, education, and alternative repayment options. Default management contractors are paid to counsel students into

[1153] Apollo Internal Email, *RE: Default Information…*, May 11, 2010 (AGI0049553).(At the time all 2 year students (the Axia program) were enrolled and tracked through WIU). See Also Apollo Internal Email, *RE: HELP – PLEASE HURRY*, July 16, 2009 (AGI0049229); Apollo Internal Email, *FW: Cohort Default Rates*, September 10, 2008 (AGI0048359); Apollo Internal Email, *FW: Axia and WIU 2005 Cohort Default Rate Notification*, September 19, 2007 (AGI0048483); Apollo Internal Email, *Re: CDR for graduates….*, April 29, 2010 (AGI0048299).

repayment options that ensure that students default outside the 2-year, soon to be 3-year, statutory window, in which the Department of Education monitors defaults.

Apollo, like many other for-profit colleges, contracted with the General Revenue Corporation (GRC), a subsidiary of Sallie Mae, to "cure" students who are approaching default.[1154] The company also contracts with the i3 group for additional default management services.[1155] According to executives, i3's role is to "perform our 'swat' effort on the WIU F[iscal] Y[ear] 09 late stage delinquent student borrower population." [1156] In practice, documents indicate that nearly all "cures" are accomplished by deferment or forbearance, not by students actually repaying their loans. Some companies pay different amounts for different types of cures, but it is unclear from the documents produced if this is Apollo's practice.

This practice is troubling for taxpayers. The cohort default rate is designed not just as a sanction but also as a key indicator of a school's ability to serve its students and help them secure jobs. If schools actively work to place students in forbearance and deferment, that means taxpayers and policymakers fail to get an accurate assessment of repayment and default rates. A school that has large numbers of its students defaulting on their loans indicates problems with program quality, retention, student services, career services, and reputation in the employer community. Aggressive default management undermines the validity of the default rate indicator by masking the true number of students who end up defaulting on their loans. Critically, schools that would otherwise face penalties—including loss of access to further taxpayer funds—continue to operate because they are able to manipulate their default statistics.

Moreover, forbearances may not always be in the best interest of the student. This is because during forbearance of Federal loans, as well as during deferment of unsubsidized loans, interest still accrues. The additional interest accrued during the period of forbearance is added to the principal loan balance at the end of the forbearance, with the result that interest then accrues on an even larger balance. Thus, some students will end up paying much more over the life of their loan after a forbearance or deferment.

Instruction and Academics

The quality of any college's academics is difficult to quantify. However the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.

Apollo spent $892 per student on instruction in 2009, compared to $2,225 per student on marketing, and $2,535 per student on profit. [1157] This is one of the lowest amounts spent on instruction per student of any company analyzed. On average, the 30 for-profit education companies examined spent $2,050 on instruction per student, and the 15 publicly traded education companies spend $1,909 on

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[1154] Apollo, *Cohort Default Management Solutions Agreement,* June 22, 2010. (AGI0034246). Company redacted all information regarding fees paid to GRC.
[1155] Apollo Internal Email, Re:*i3 Contract – Ready for your execution,* August 18, 2010 (AGI0034261).
[1156] Id.
[1157] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.

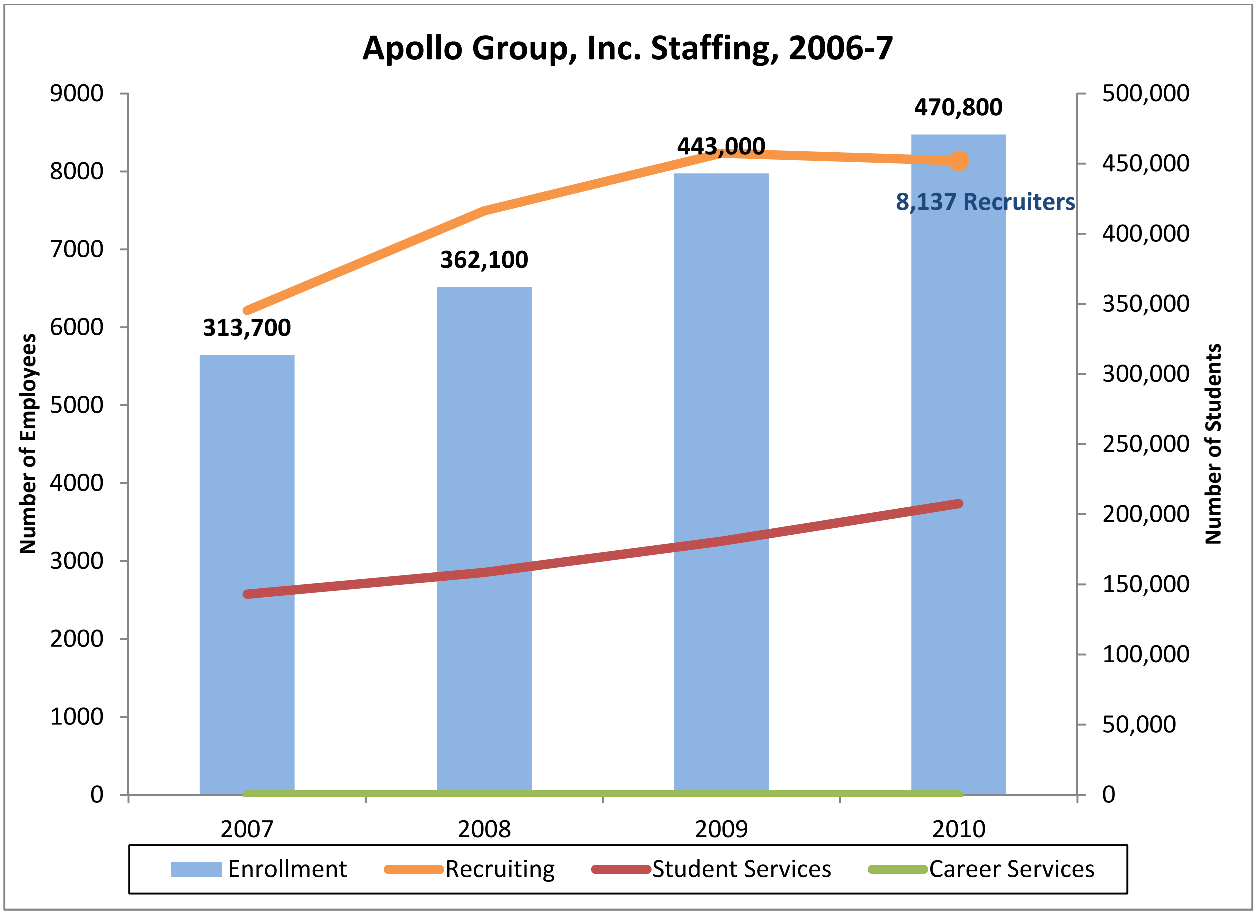
instruction per student. In contrast, public and non-profit 4-year colleges and universities, generally spend a higher amount per student on instruction while community colleges spend a more comparable amount but charge far less tuition than for-profit colleges. On a per student basis, University of Arizona spent $11,128 per student on instruction, while Midwestern University spent $10,219 per student, and Phoenix College spent $3,344 per student.[1158]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee examined, 80 percent of the faculty is part-time.[1159] In 2010, Apollo employed 1,140 full-time and 31,671 part-time faculty.[1160] Thus, fully 96 percent of Apollo's faculty was employed on a part-time basis.[1161]

In 2010, the HLC expressed concern regarding the high percentage of University of Phoenix students in directed studies and had questions about its rigor and quality.[1162] Directed studies is the practice by which students pursue independent study with more minimal instruction supervision. At least one campus (Oklahoma City) had over 40 percent of students in directed studies.[1163] The company uses directed studies as a tool for keeping students in the program and has the concern that decreasing its usage could hurt retention.[1164]

[1158] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.
[1159] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[1160] Id.
[1161] Id.
[1162] Apollo, Internal Email, *FW: DS study guidelines*, March 1, 2010 (AGI0047203).
[1163] Apollo, Directed Studies graph, March 1, 2010 (AGI0047205).
[1164] Apollo, Internal Email, *FW: DS discussion*, March 18, 2010 (AGI0047230).

Staffing



While for-profit education companies employ large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 470,800 students, Apollo employed 8,137 recruiters, 0 career services employees, and 3,737 student services employees.[1165] That means each student services staffer was responsible for 126 students, but the company employed one recruiter for every 58 students. Apollo has long taken the position, that given that their students are working adults, they are not in need of career counseling or job placement services.[1166] Additionally, because the company holds regional accreditation, their accreditor does not require tracking of how many students are employed. Apollo did not alter this position even after it began enrolling over 100,000 Associate degree seekers, or after it eliminated its age, work experience, and credit requirements.

Enforcement Actions

In November 2010, the University of Phoenix received a subpoena from the Florida Attorney General's office regarding "misrepresentations regarding financial aid" and "unfair or deceptive

[1165] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.
[1166] In the company's response, found in Appendix 6, Apollo, for the first time, stated to the committee that it utilizes a third-party provider to "accelerate the delivery of career services to University of Phoenix students."

practices regarding recruiting, enrollment, placement, etc." [1167] The Delaware attorney general also issued a subpoena to the University of Phoenix regarding the company's business practices in Delaware.[1168] The Massachusetts attorney general is investigating whether the University of Phoenix used unfair or deceptive tactics to recruit students or in connection with student financial aid.[1169]

In October 2010, Apollo announced that the Securities and Exchange Commission (SEC) had requested information from Apollo about the company's insider trading policies relating to stock sales made by John Sperling and Peter Sperling in 2009, although no additional information has been made public by the SEC. The sales in question occurred around the time the Department of Education was investigating University of Phoenix policies regarding title IV financial aid programs.[1170] In April 2012, the SEC announced an insider trading investigation based on trades prior to the February 2012 announcement of lower than expected earnings.[1171]

Conclusion

When the University of Phoenix was started in 1976, it pioneered an entirely new model of learning. That model revolutionized thinking about how to provide opportunities for higher education to underserved and non-traditional students. Yet in the 2000s, Apollo appears to have made critical decisions that prioritized financial success over student success. While Apollo has recently put in place some important reforms, both by instituting the University Orientation Program and by appearing to address some issues with recruiting and marketing practices, and career services, serious concerns remain. The company makes one of the lowest investments in per student spending on instruction and does not employ career counseling staff though the company has recently partnered with a company that provides career services. Student retention data provided by the company demonstrates that 66 percent of students seeking Associate degrees withdrew, 16 percent higher than the withdrawal rate for students in the Bachelor's programs. Because the company received $3.8 billion in Federal financial aid, including over a billion in Pell grant dollars, these poor outcomes are particularly troubling. Apollo is a mature for-profit education provider and has a demonstrated ability to provide high quality programs that lead to student success. However, at least during the period analyzed, the company did not appear to be fully meeting that goal.

[1167] Florida Office of the Attorney General, *Public Consumer-Related Investigation*, http://myfloridalegal.com/__85256309005085AB.nsf/0/9682560BAF290B1F852577C000722E75 (accessed June 19, 2012).
[1168] Apollo 10-K August 31, 2011.
[1169] Jahna Berry, "Massachusetts' AG probing University of Phoenix for alleged deceptive tactic," *The Arizona Republic* http://www.azcentral.com/business/articles/2011/05/16/20110516apollo-group-arizona-university-of-phoenix-investigated-deceptive-unfair-tactics.html (accessed June 14, 2012).
[1170]Apollo 8-K October 26, 2010.
[1171] Apollo 8-K April 18, 2012.

Bridgepoint Education, Inc.

Introduction

Bridgepoint Education, Inc. ("Bridgepoint") was created as the result of the purchase of a small religious college in 2005, and now offers primarily online 4-year degrees. Bridgepoint has experienced some of the most dramatic increases in student enrollment, Federal funds, and profit of any company examined. Along with this rapid growth, have come rapid increases in student withdrawal rates (the student withdrawal rates for the Associate programs is the highest of any company analyzed), student loan defaults, and spending on marketing and executive compensation. These outcomes call into question whether Bridgepoint's students are receiving an education that affords them to the ability to repay the loan debt they incurred.

Company Overview

Bridgepoint Education, Inc. is a publicly traded company with its headquarters in San Diego, CA. The company operates two brands, Ashford University and University of the Rockies. While each brand has one physical campus, approximately 99 percent of Bridgepoint students attend class exclusively online. Bridgepoint notes that it enrolls students in every State.

Through its Ashford University brand the company offers Bachelor's and Associate degrees in business, healthcare, education, IT and social sciences.[1172] Through its University of the Rockies brand the company offers Master's and Doctoral degrees in psychology, organizational leadership, and human services. As of the end of 2011, 73.8 percent of students were enrolled in Bachelor's programs, 13.4 percent in Associate, 11.3 percent in Master's, and 0.9 percent in Doctoral.[1173]

Bridgepoint Education, was formed in 2003 with the backing of Warburg Pincus, a Wall Street private equity firm. In 2005, the company purchased The Franciscan University of the Prairies in Clinton, IA.[1174] Franciscan University was a small regionally accredited non-profit college facing serious financial troubles because of low enrollment. At the time of purchase, Franciscan University enrolled 312 students.[1175] Bridgepoint acquired the Colorado School of Professional Psychology in 2007 and renamed it University of the Rockies. At the time of acquisition, the school had 75 students and did not offer any online courses or programs.[1176]

[1172] On March 10, 2011, the committee held its fourth hearing, "Bridgepoint Education, Inc.: A Case study in For-Profit Education and Oversight." The hearing took an in-depth look at Bridgepoint-owned Ashford University, and the 4-year transformation of a 312-student non-profit college into a 77,000-student publicly traded for-profit education company that received $496.6 million in Federal financial aid in 1 year and paid chief executive officer Andrew Clark $20.5 million. In 1990, during the Senate Permanent Subcommittee on Investigation's probe of proprietary schools, a similar case study hearing was held focusing on American Career Training Corporation (ACT), a company that operated a travel and a secretarial school in Florida. The schools opened in 1983, and became eligible for Federal financial aid in 1985. In 1983, the company enrolled 1,000 students and charged tuition of $1,295. But between 1985 and 1989, the school received revenue from 62,368 separate loans totaling $153 million (more than 90 percent of its revenue), and charged $2,195 for tuition.
[1173] Bridgepoint Education, Inc. Form 10-K (3/7/2012).
[1174] Until 2003, the school had previously been known as Mt. St. Clare College.
[1175] Bridgepoint Education, Inc. Prospectus, December 22, 2008.
[1176] Id.

Bridgepoint had its Initial Public Offering (IPO) on the New York Stock Exchange in 2009. Warburg Pincus, provided not only the initial capital to form the company but continues to own about two-thirds of the outstanding stock in the company. Warburg Pincus holds two seats on the seven-person board of Bridgepoint, with a third occupied by a director who previously worked at Warburg Pincus. In July 2011 Warburg Pincus announced that it may, in the next 36 months, sell its entire share of the company.[1177] At the company's average share price over the past 12 months, Warburg would stand to earn $773.1 million from selling its holdings.[1178]

The chief executive officer of Bridgepoint is Andrew Clark. Clark began his career at the University of Phoenix in 1992 as a recruiter. In 1996 he became a vice president and campus director for that company, where he generated the highest combined enrollments and profits of any campus in the system.[1179] In 1999 he became the regional vice president for the Mid-West Region. He then joined the upper management of American Continental University part of Career Education Corporation in 2001, where he served as the divisional vice president of operations. Dan Devine serves as Bridgepoint's chief financial officer (CFO). Mr. Clark brought on Rocky Sheng, the chief administrative officer, and Jane McAuliffe, the current chief academic officer, and Dan Devine, the chief financial officer, before the company's purchase of the Franciscan University. Mr. Sheng previously worked for University of Phoenix, where, among other roles, he handled marketing and recruiting for 12 Southern California campuses. Ms. McAuliffe served as president of Education Management Corporation's Argosy University, Sarasota, FL campus and before that in academic roles at Career Education Corporation and the University of Phoenix.

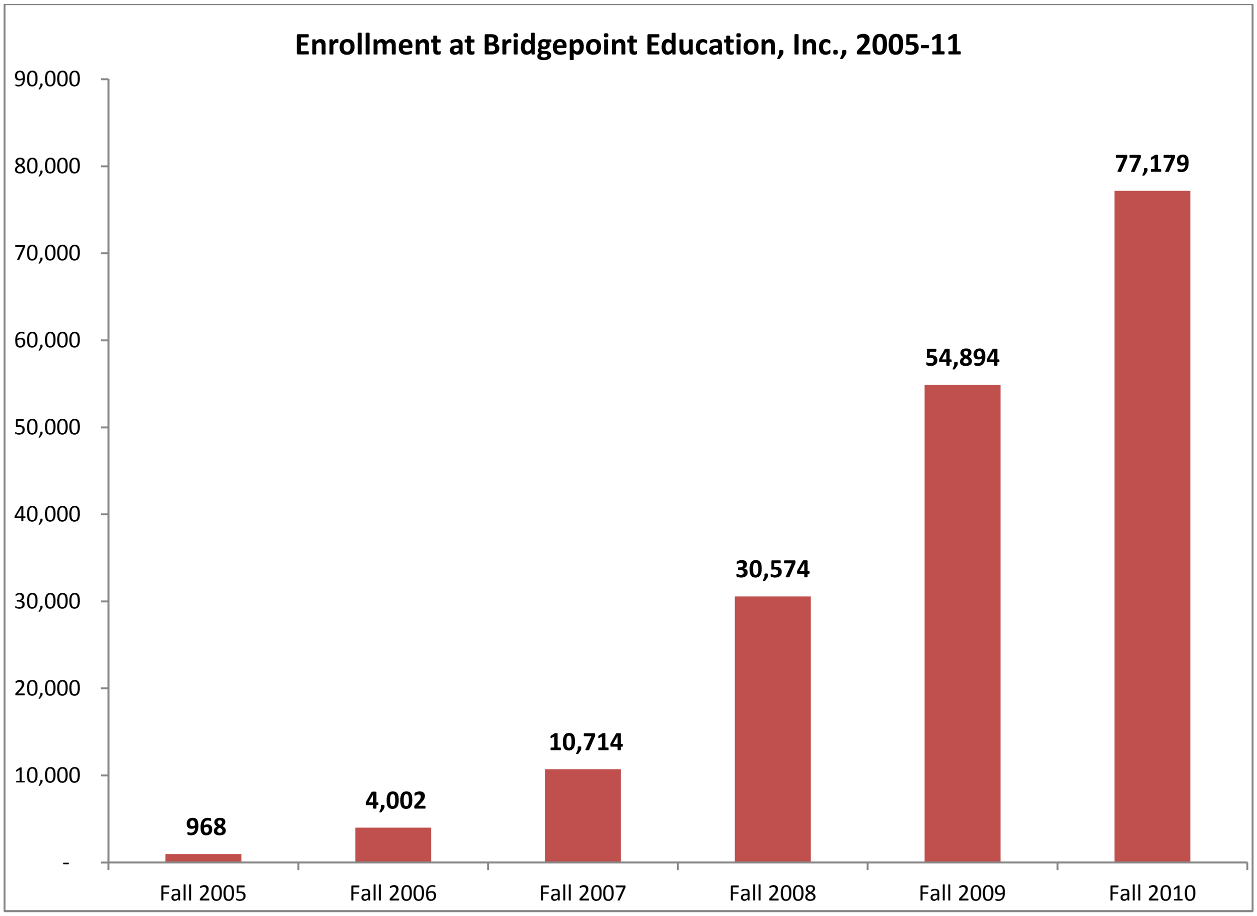
Given its rapid growth, in early 2011 the Chairman decided to hold a hearing that was a case study of Bridgepoint and to invite CEO Andrew Clark to provide testimony. Bridgepoint Chief Executive Officer Andrew Clark was invited to appear at the hearing. Attorneys for the company were notified in early January 2011 that the committee planned to hold the hearing in mid-February and intended to invite Mr. Clark. Attorneys for the company raised concerns about the timing of the testimony, given that the Department of Education Inspector General had recently issued a Final Audit Report on Bridgepoint regarding its management of Federal student aid funds and its recruiting policies and practices. Mr. Clark's representatives insisted that it was imperative that the company have the opportunity to meet with the Department of Education Office of Federal Student Aid (FSA) staff, who would ultimately be responsible for determining the penalty based on the Final Audit Report's findings before he could appear at a public hearing. The committee agreed to move the hearing to March 10 to accommodate the concerns. That meeting occurred and both the Department of Education and the inspector general's office made clear they had no concerns with the committee having Mr. Clark as a witness.[1180] Nevertheless, Mr. Clark, through counsel, declined to appear, and thus declined the opportunity to give his perspective on the issues regarding accountability and compliance with Federal law and regulation raised in the Final Audit Report and elsewhere. The hearing was held on March 10 with testimony received from the inspector general; the President of the Higher Learning Commission, Ashford University's accreditor; a retired official from the Iowa Department of Education, where Ashford is based, and a respected expert in higher education policy but without representatives of Bridgepoint in attendance.

[1177] Bridgepoint Education, Inc. Form S-3, July 22, 2011.

[1178] The average closing share price from July 11, 2011 to July 10, 2012 was $22.35; Warburg owns 34,589,220 shares of Bridgepoint stock.

[1179] Bridgepoint Education, Inc., *Andrew S. Clark, Founder, Chief Executive Officer, and President*, 2012, http://bridgepointeducation.com/aboutus/andrew_clark.htm (accessed June 14, 2012).

[1180] Letter of March 9, 2011 from Department of Education Office of Federal Student Aid COO William Taggert to Chairman Harkin.



Since 2005, enrollment at Bridgepoint has grown over 7,800 percent from 968 (including both Ashford and University of the Rockies) students that year to 77,179 students in 2010.[1181] Unlike many other for-profit education companies, Bridgepoint has not seen the same decrease in its 2011 and 2012 enrollment, and as of March 2012, the company enrolled approximately 95,000 students.

Despite its radical reinvention as a giant, for-profit, overwhelmingly online institution, Bridgepoint markets itself as a long-standing, traditional 4-year institution. The company routinely describes Ashford as: "Founded in 1918, Ashford University is committed to providing accessible, affordable, innovative, high quality degree programs to its campus, online, and accelerated students." [1182]

Bridgepoint has expanded its staff and facilities rapidly in the past few years and has added offices in Clinton, IA and Colorado Springs, CO. In April 2011 the company leased office space in Denver and hired about 750 employees for the new space.[1183]

The growth in enrollment has led to growth in revenue. Over the past 3 years, from $85.7 million in fiscal year 2007 to $713.2 million in 2010.[1184]

[1181] Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7. In 2005, Bridgepoint only owned Ashford University, which enrolled 312 students at the time of purchase in March 2005.
[1182] US News and World Report, College Rankings & Lists, http://colleges.usnews.rankingsandreviews.com/best-colleges/ashford-university-1881 (accessed April 24, 2012).
[1183] "Bridgepoint Moves More Operations to Downtown Denver," *Denver Post*, Friday March 9, 2012 http://www.bizjournals.com/denver/print-edition/2012/03/09/bridgepoint-moves-more-operations-to.html (accessed July 1, 2012).

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid funds.[1185] Between 2001 and 2010, the share of Federal financial aid flowing to for-profit colleges has increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1186] Together, the 30 companies investigated by the committee derived 79 percent of revenues from Federal student aid funds in 2010, up from 69 percent in 2006.[1187]

In 2010, Bridgepoint reported that 85.1 percent of its revenues, equal to $496.6 million, came from Federal financial aid programs.[1188] However, this amount does not include the Departments of Defense and Veteran Affairs education programs. With these funds included, Bridgepoint derived 93.7 percent of funds from Federal programs. Approximately 8.7 percent of Bridgepoint's total revenue, or $50.4 million, was collected from Department of Defense Tuition Assistance or post 9/11 GI bill funds.[1189]

[1184] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18. Bridgepoint's revenue increased to $933 million in 2011.

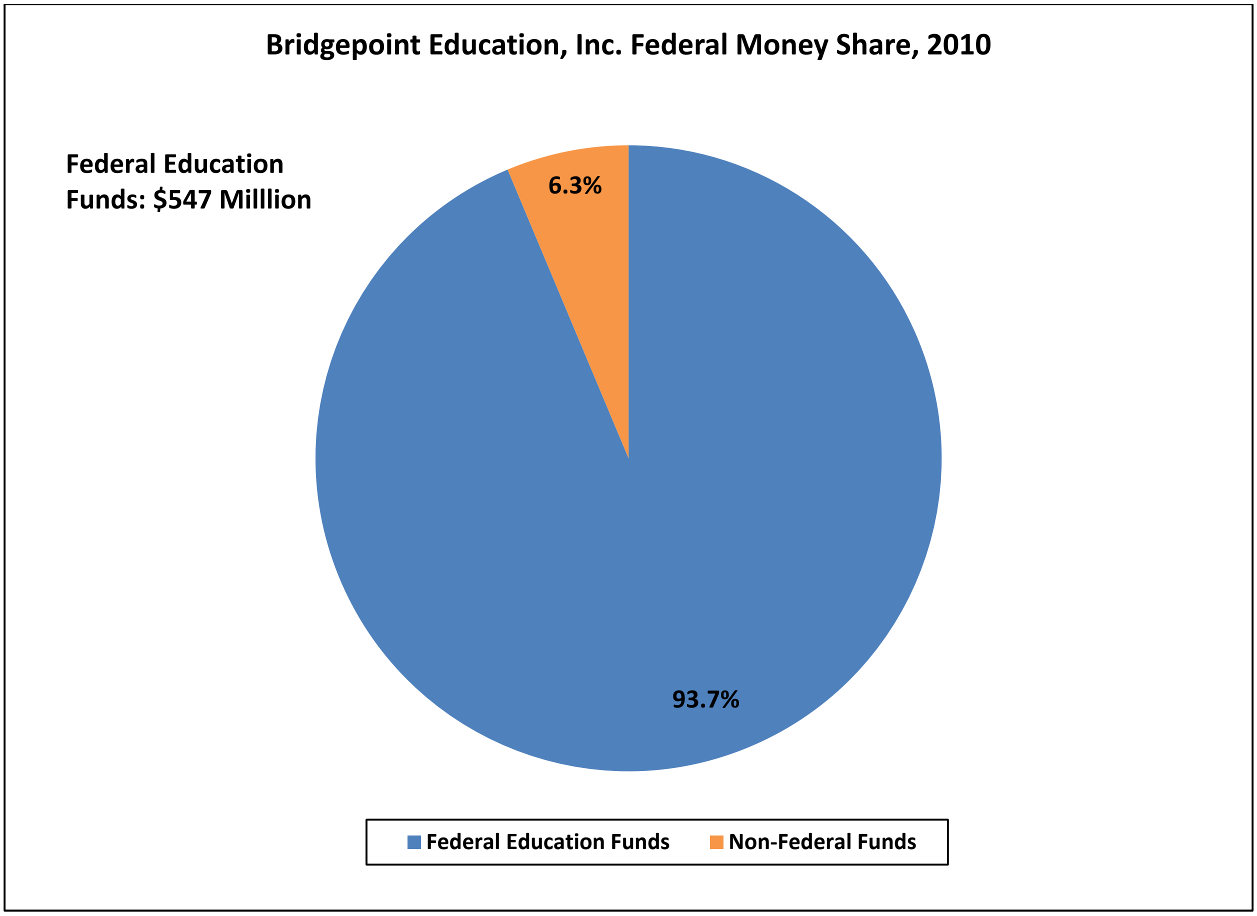
[1185] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

[1186] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

[1187] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9. "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.

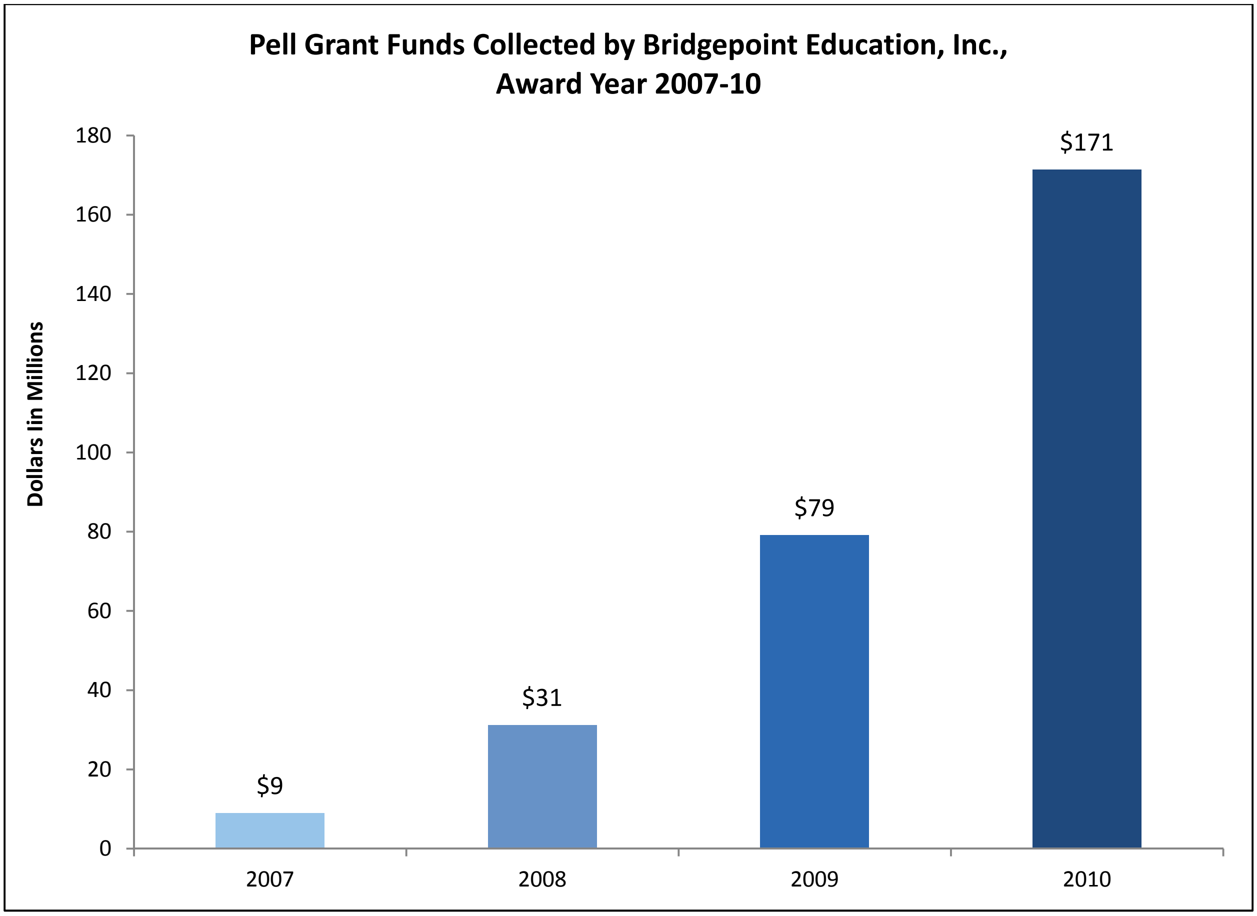
[1188] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9. The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, the company opted not to take advantage of the provision, and did not exclude any Federal financial aid from the calculation of Federal revenues during this period.

[1189] Post-9/11 GI bill disbursements for August 1, 2009–July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of the total Pell program that for-profit colleges collected increased from 14 to 25 percent.[1190] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[1190] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.

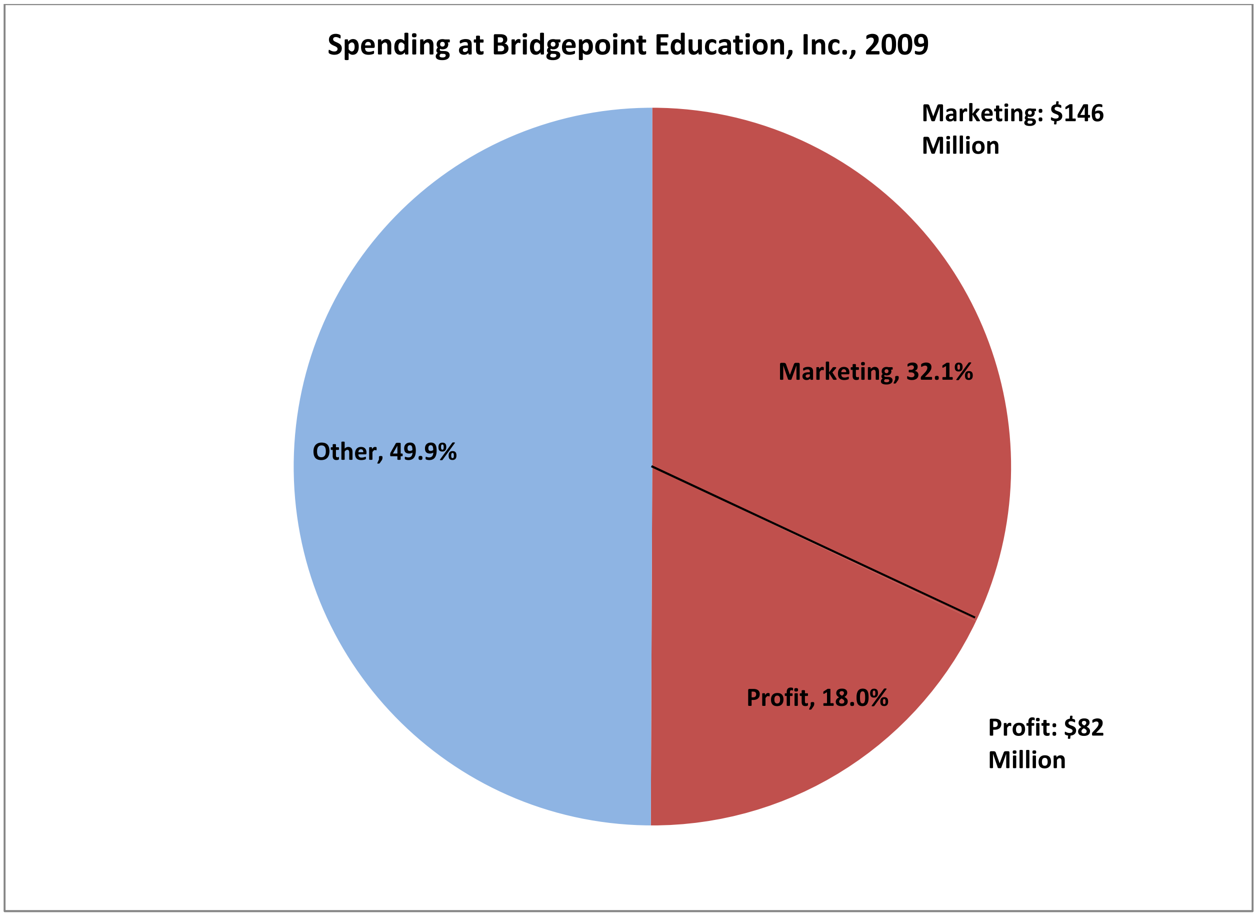


Bridgepoint collected $171.3 million in Pell funds in 2010, an increase of 1,800 percent from 3 years earlier when the company collected just $8.9 million.[1191] For 2011, the company increased the amount of Pell funds it collects by 70 percent to $290.8 million.

Spending

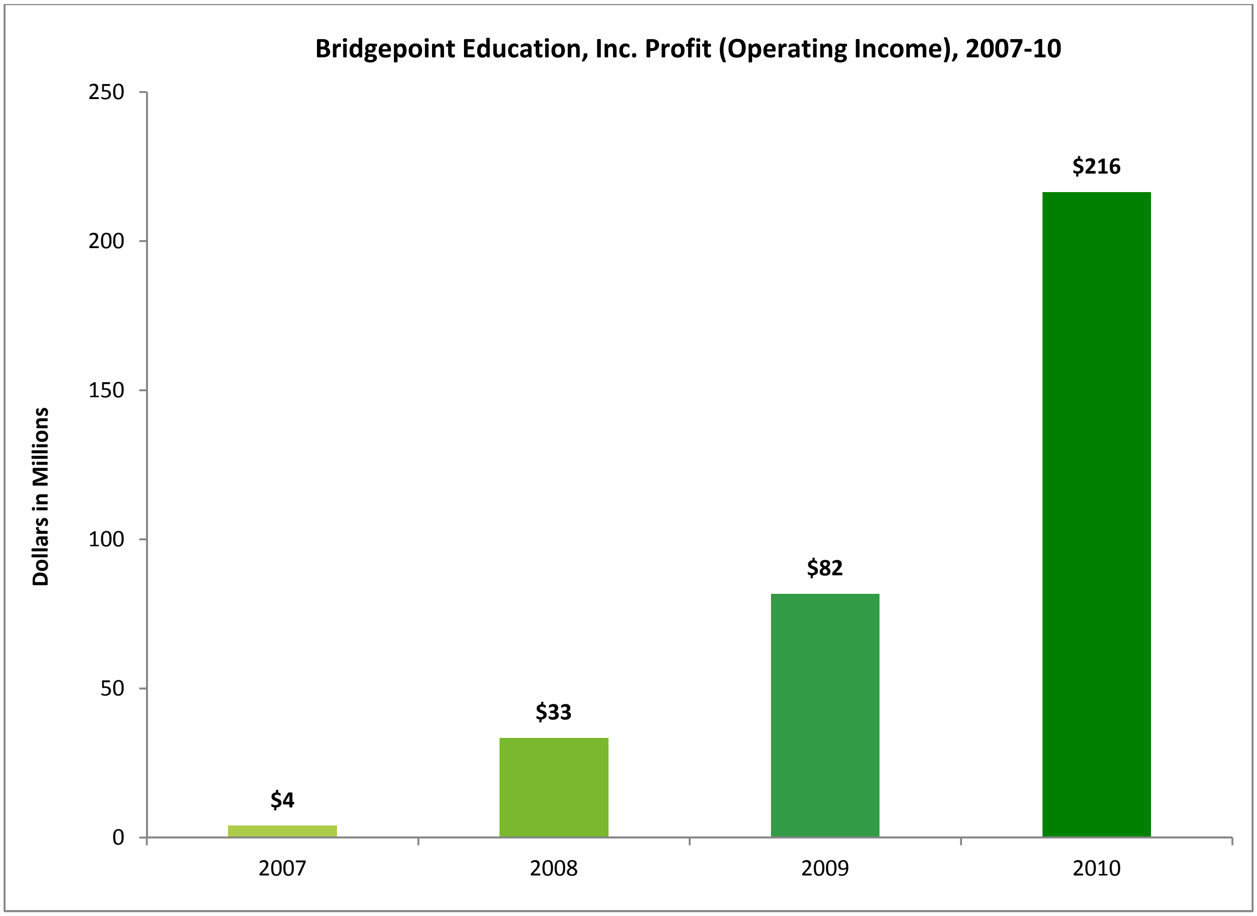
While the Federal student aid programs are intended to provide educational opportunities for students, for-profit education companies use much of their revenues for marketing and recruiting new students and for profits. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009. During the same period the companies spent 23 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[1192] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

[1191] Pell disbursements are reported by the Department of Education's student aid "award year," other revenue figures are reported on the company's fiscal year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 and 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.
[1192] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.



In 2010, Bridgepoint allocated 30.3 percent of its revenue, $216.4 million to profit and 29.7 percent of its revenue, $211.6 million, to marketing and recruiting.[1193] Bridgepoint spent a higher proportion of its revenue on marketing than any other publicly traded education company.[1194]

[1193] Id. On average, the 30 for-profit schools examined spent 23 percent of revenue on marketing and 19.4 percent on profit.
[1194] Based on 2009 marketing and recruiting spending for all publicly traded education companies, and the 2010 marketing and recruiting spending for publicly traded education companies that report their spending publicly.



The amount of profit Bridgepoint generated has also grown extremely rapidly. In 2007, Bridgepoint reported a profit of $4 million and by 2010 that profit had grown to $216 million, an increase of 5,300 percent.[1195]

Executive Compensation

Executives at Bridgepoint, like most for-profit executives are also more generously compensated than leaders of public and non-profit colleges and universities.[1196] Despite poor student outcomes the committee found that executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities. In 2009, Bridgepoint CEO Andrew Clark received $20.5 million in total compensation, including $1.1 million in salary and cash bonus, and $19.4 million in stock options.[1197] This is over 33 times as much as president of the University of Iowa, who received $610,234 in total compensation for 2009-10.

1195 Senate HELP Committee staff analysis. See Appendix 18. Bridgepoint's profit increased to $273 million in 2011.

1196 Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and Chief Executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a and Appendix 17b.

1197 The stock options contained in Clark's 2009 compensation package were the result of the companies 2009 IPO. His compensation in 2010 was $2.2 million

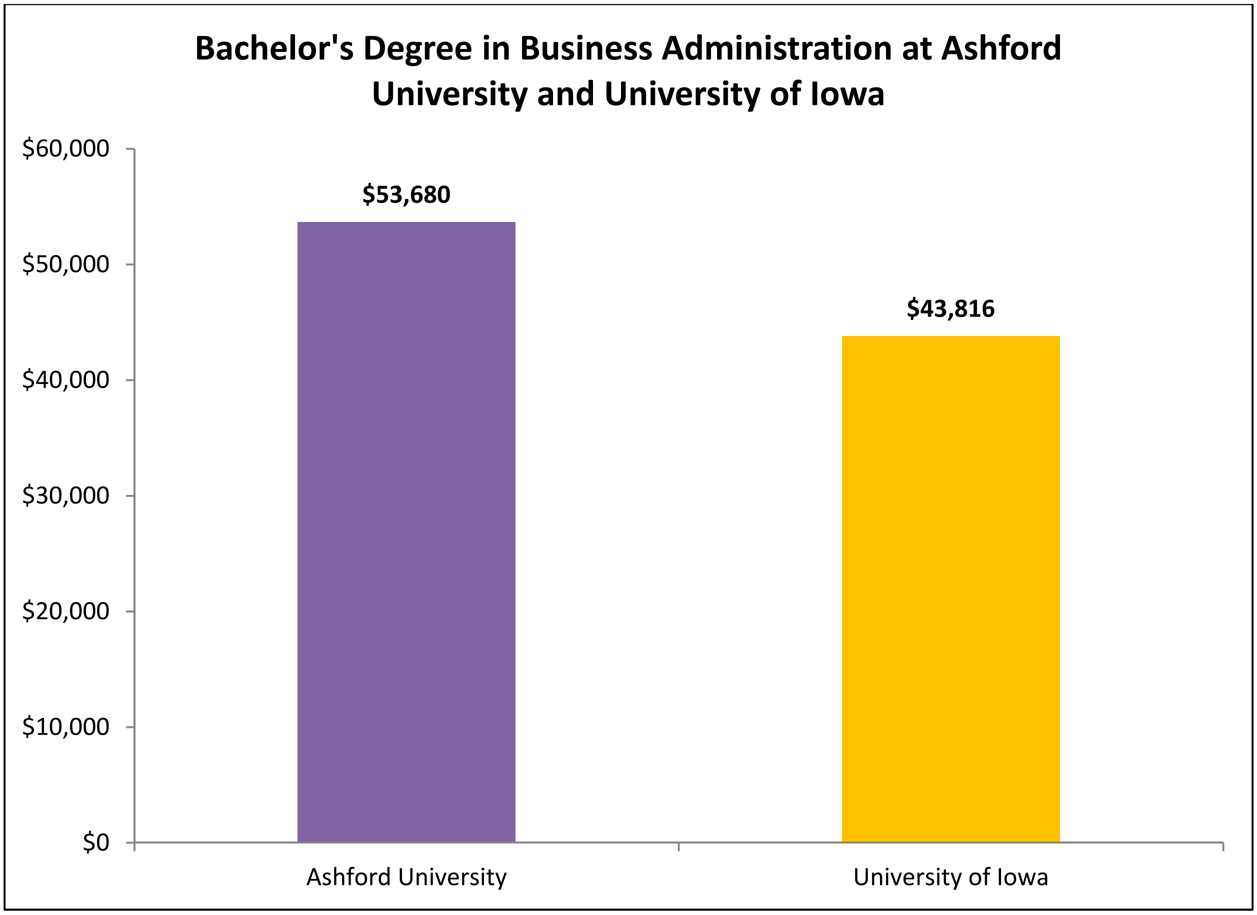
Executive	Title	2009 Compensation	2010 Compensation
Andrew S. Clark	CEO and President	$20,532,304	$2,233,826
Rodney T. Sheng	Executive VP and Chief Administrative Officer	$4,558,182	$960,455
Christopher L. Spohn	Former Senior VP and Chief Admissions Officer	$4,518,926	$910,135
Ross L. Woodard	Senior VP/Chief Marketing Officer	$3,901,932	N/A
Daniel J. Devine	Executive VP and CFO	$3,257,882	$859,440
Jane McAuliffe	Executive VP and Chief Academic Officer	N/A	$832,169
Total[1198]		$36,769,226	$5,796,025

The chief executive officers of the large publicly traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009. Clark's large compensation package is noteworthy given that 66.8 percent of the company's students who enrolled that year left by mid-2010, and 19.8 percent of students had defaulted on their student loans within 3 years.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Bridgepoint. Tuition for an Associate degree in business at Ashford University Online costs $30,574.[1199] The same degree at Eastern Iowa Community College in Davenport, IA costs $7,936.[1200] A Bachelor's degree in business administration at Ashford University Online costs $53,680.[1201] The same degree at the University of Iowa costs $43,816.[1202]

1198 Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities and Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.
1199 See Appendix 14; and see, Ashford University, *Associatesof Arts in Business*, http://www.ashford.edu/static/programdisclosures?p=oaab#oaab (accessed April 19, 2012).
1200See Appendix 14; and see, Eastern Iowa Community College, *Eastern Iowa Community Colleges*, www.eicc.edu (accessed July 12, 2012).
1201 See Appendix 14; and see, Ashford University, *Bachelor of Arts in Business Administration*, http://www.ashford.edu/static/programdisclosures?p=obaba#obaba (accessed July 12, 2012).
1202 See Appendix 14; and see, University of Iowa, *University of Iowa*¸ http://www.uiowa.edu/ (accessed July 12, 2012).



Although it is more expansive than many public institutions, Bridgepoint's Ashford University is one of the lowest cost operators among for-profit education companies. Bridgepoint's executives tout their low tuition, in large part because students can pay for the entire cost of a degree with Federal student aid. Internal Bridgepoint documents demonstrate the school's deliberate approach to matching charges to the broadly available title IV student aid.[1203] In February 2009, Bridgepoint created a new fee for most courses, called the "Course Digital Materials" fee, pushing the total cost of attendance approximately $400 above the $9,500 Stafford first-year loan limit. Bridgepoint's CEO, Andrew Clark, learned of this $400 difference, which the company described internally as a "shortfall" of money the student would have to provide, and emailed the CFO, Dan Devine, saying:

> The tuition increase for bachelor degree students is going to cause a $400 short fall!!! People are talking about crazy stuff like alternative financing. You told me there would be no short fall! You need to follow up with Sheng [the vice president for operations] immediately and then follow up with me.[1204]

Both Ashford University and University of Rockies charge a "Technology Services Fee," unique among the for-profit colleges examined by the committee because of its size and the fact that the entire fee is charged at a single point in time after a student enrolls. At Ashford the fee is $1,290, raised from $990 in 2011, and is charged to students in the sixth week of enrollment, which is the first week of students' second course. At Rockies, the fee is $250 and is charged to students on the seventh week. This fee allows Bridgepoint to collect a significant amount of money soon after a student enrolls, meaning that if a student later withdraws the company can keep the funds.

1203 Bridgepoint Education Inc, *Key Issues Messaging*, January 22, 2010 (BPI-HELP_00046828).
1204 Bridgepoint Internal Email, February 2010, re: *Re: MAJOR ISSUE* (BPI-HELP_00048618).

This fee has caused consternation among students who stated that they were not informed of the fee at the time of enrollment. One Ashford student contacted the college saying: "no one ever informed me of the $990 technology fee, which by the way the other university that I almost chose, does not charge. Consequently it felt like your advisors took advantage of my naivete's, and were less than forthcoming when it came to disclosing all the pertinent information [sic]." [1205] Another Ashford student wrote: "This 990 fee was not disclosed to me at anytime. . . . I did not receive any of the support included for this fee, I had no idea of half the things that were available to me. . . . I am not asking you to clear my tuition however, I think it is truly unfair to charge me the 990 fee for three (5 week) classes …" [1206] After Ashford representatives told the student that he or she assented to the fee when signing the enrollment agreement and the fee would not be waived, the student emailed all the other students in one of her courses and gathered 15 responses from other students saying that they had never been told about the fee.[1207]

Recruiting

Demonstrating enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations for-profit colleges must recruit as many students as possible to sign up for their programs.

During the period examined, prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, Bridgepoint awarded raises and promotions to recruiters who hit its enrollment quotas. An audit by the Department of Education's inspector general (IG) showed that 74 percent of the evaluation criteria of recruiters' job performance was related to the number of students he or she enrolled.[1208] A former recruiter wrote to Chairman Harkin to tell the story of the pressure put on her to enroll students.[1209] She began work there in 2008, during the period that the IG investigated. In her letter she stated:

> Ashford based our pay based on weekly enrollment numbers. I struggled in reaching these goals. I would make all the necessary calls, take all the necessary steps, but could not meet them. It came down to one thing, I cared about my students. Many of the prospective students were simply seeking out information, trying to see if an online university was the right fit for them. If a prospective student wasn't ready, or wanted more time to think about it, I gave them that opportunity and made sure they had my information. When I explained my situation to my manager at the time, they told me to "get them in, make them fill out the application, get them started right away before they have a chance to think about it." As you can imagine, I disagreed with this practice.

[1205] Student email sent to Jane McAullife, February 22, 2008 (BPI-HELP_00026097); See also, Student email, March 30, 2010 (BPI-HELP_00027611).
[1206] Student email sent to dispute resolution, January 17, 2009 (BPI-HELP_00028256).
[1207] Id.
[1208] U.S. Department of Education, Office of the Inspector General, *Ashford University's Administration of the Title IV, Higher Education Act Programs*, Final Audit Report, January 2011. Despite this high percentage, the Inspector General found that Bridgepoint could not prove that it satisfied the so-called "safe-harbors" that the prior formulation of the incentive compensation ruled contained because the raises it gave to recruiters did not align with the compensation matrix. In other words, evidence indicated that Bridgepoint was not following its own internal pay scale in many cases.
[1209] Letter from Merrill R. Mitchell to Senator Harkin, February 22, 2012.

She was terminated, despite the fact that, as she stated in her letter, the students she enrolled had a 100 percent retention rate.[1210] Another recruiter discussed the compensation and prizes that were tied to enrollment numbers:

> We are given a matrix that shows the numbers of students we are expected to enroll. We have daily projections, as a team we also have to meet our quotas . . . and these are high quotas. Turnover is high, most employees don't last more than 6 months, their is fierce competition between employees and teams to meet sales numbers and we will say anything necessary to suck students in [sic]. Every 6 months we get a review that looks at how many students we enrolled and what percentage of them finished their first class. As long as they finish their first class we get full credit, and after that they are no longer our problem. Also, they don't even have to pass the class for us to get credit. We just need to make sure they log In 2 separate days a week, 4 out of the 5 weeks of class. Whether they do any work doesn't matter, they just need to log in. . . . The first class is purposely designed to be super easy too . . . kinda like hooking someone on a drug [sic]. If we do well, our salaries go way up, if we don't, our salaries can go back down again. There are people making over 100,000 a year who do well. . . . Once our team got the most enrollments in a week competition [sic]. Our prize was a party at an arcade restaurant where we got food, alcoholic drinks, and game tokens all paid for on company time.[1211]

He also described how in the call center he worked in managers monitored calls closely and made sure that each recruiter was making enough calls to prospective students.[1212]

Like other education companies, Bridgepoint placed pressure on its recruiters to enroll as many students as possible through rewards and punishment. Recruiters who do not hit their enrollment quotas were chastised by managers. "You are still performing below expectations," wrote one manager to a recruiter, "specifically, you need to focus on the following areas: Schedule a minimum of 3 appointments per day; [c]onduct a minimum of 8 appointments/interviews per week; [e]nroll a minimum of 4 students by November 24, 2008." [1213] He continued: "please make sure you are focusing on the activities that will enroll students: outbound phone calls, appointment setting, and conducting interviews."

Internal documents indicate that recruiters were instructed to call prospective student "leads" eight times in the first 7 days after Bridgepoint acquires the lead.[1214] Recruiters were also told to send two emails and leave two voice messages. Recruiters "created urgency" to encourage prospective students to enroll right away by repeating scripted "Words of Wisdom" such as 'if you wait for all the lights to be green, you will never reach your goals because the lights will never be all green," and "it doesn't get any better later, it just gets later." [1215]

Recruiters were taught a sales technique known as "overcoming objections." [1216] If a student presented an "objection" to enrolling, recruiters were instructed to think of this as a "buying signal" that

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[1210] Id.
[1211] Comment sent to Department of Education by Brent Park pursuant to Gainful Employment rulemaking.
[1212] Id.
[1213] Ashford University, *Inernal Memorandum*, "Discussion Memo," October 27, 2008 (BPI-HELP_00061793). See also Email from Jeff Cross to Ashford University Associate Director of Admissions, *Re: DM approval*, May 19, 2008 (BPI-HELP_00062747); Email from Jeff Cross to Ashford University Director of Admissions, *Re: Term's*, December 10, 2008 (BPI-HELP_00063163).
[1214] Ashford University, *Leaving Effective Messages*, April 13, 2009 (BPI-HELP_00032345).
[1215] Bridgepoint Education Inc., *Creating Urgency* (BPI-HELP_00005972).
[1216] Ashford University, *Overcoming Objections* (BPI-HELP_00005921).

tells the recruiter "the student is still paying attention and the 'sale' is still alive!" If a student objected that the cost of attending is too high, the recruiter was taught to respond with questions such as, "Investing in yourself . . . You're worth it right?," and "how much more will you make once you have your degree?," and by discussing how "financing options [are] available for those who qualify." If a student raised the "credibility/reputation" of Ashford, recruiters were taught to recite promotional statements about how the college was "established in 1918," discuss the "traditional 4-year campus with sports teams, dormitories," and how the college has been "regionally accredited since 1950." In fact, Ashford University, as discussed above, is an entirely different institution than the small religious college that Bridgepoint purchased in 2005. Ninety-nine percent of students do not attend the small Iowa 4-year campus.

One recruiter said, "We are trained specifically on how to work the angle of psychology . . . we tell students this is the right thing to do, it will make their parents proud, it will make them a role model for their kids, it will help them fulfill lifelong goals. If we don't have a degree they want, we are supposed to convince them that one of ours will work for them anyway [sic]." [1217]

"Overcoming objections" and "creating urgency" were central parts of the sales training: internal documents show that managers often "coached" recruiters in these practices if they were failing to enroll enough students.[1218] In these coaching sessions, managers gave individual trainings in these areas and admonished that if they did not begin enrolling more students they could be terminated. Managers also monitored sales calls and "gave feedback" to recruiters on these areas.[1219]

A number of students who went through the sales recruiting process felt misled. One student filed a complaint with the Better Business Bureau (BBB) stating:

> I have to say that I have been misled and lied to by this university since the beginning. [Name redacted], the academic advisor sold me on transferring; I told him my main issues were my credits and the financial aid that was already approved with the other school. He called someone from Financial Aid [name redacted] who told me not to worry about financial aid.[1220]

Ashford told him that he could not continue with school unless he made payments in cash because his financial aid was being held up due to his transfer status. "I have been trying to fix this issue for years now," he told the BBB.[1221]

Another student, a military veteran, was repeatedly told by recruiters that his post-9/11 GI bill benefits would cover the entire cost of his degree, only to find out after he was enrolled that he would owe approximately $11,000 to Ashford that his benefits did not cover. [1222] "I was extremely disappointed, confused and angry," he wrote.[1223] The student continued, "I feel that I have been misled, deceived or even outright lied to in an effort to gain my contractual agreement. . . . The [recruiter's] motive for this initial disinformation is not known, or understood, however it has the perceptual

[1217] Comment sent to Department of Education by Brent Park pursuant to Gainful Employment rulemaking.
[1218] Bridgepoint Education, Inc., *[Title Redacted]*, October 13, 2008 (BPI-HELP_00063243).
[1219] Bridgepoint Education, Inc., *[Title Redacted]*, October 13, 2008 (BPI-HELP_00063587).
[1220] Bridgepoint Education, Inc., *Better Business Bureau, Complaint 8194819*, May 26, 2010 (BPI-HELP_00026263).
[1221] Id.
[1222] Ashford University, *This Constitutes My Formal Complaint*, August 9, 2010 (BPI-HELP_00026639).
[1223] Id.

appearances of meeting a specific enrollment quota or with malicious intent to deceive me into signing a contract." [1224]

Another student was told he would be able to receive his teaching license from Ashford.[1225] He found out a year later, right before his scheduled graduation, that Ashford was not allowed by the State of Iowa to award teacher licenses, so he would have to attend online a "cooperating school" in Arizona for a year. He states, "I was really blown away to find out that I had spent so much time and money at a College that I was not going to be able to obtain my teacher's license from." [1226]

Another student entered Ashford intending to become a licensed dental assistant.[1227] His letter states that recruiters told him that he could achieve this goal at Ashford.[1228] After becoming suspicious about the lack of dental classes 1 year in, he raised it with his academic advisor who told him Ashford would not lead to a dental assistant license and that "she didn't really have anything to say." [1229] He was distraught, telling the school "I feel like I was completely and utterly lied to." He is left with $9,000 in loans and $3,000 owed to the school.[1230]

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program, and 96 percent who enroll in a 4-year degree program at a for-profit college take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1231] Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll in a Bridgepoint college are withdrawing before completing a degree, and that Bridgepoint's default rate is comparatively low but has increased significantly year-over-year.

Retention Rates

Information provided to the committee by Bridgepoint indicates that out of 48,797 undergraduate students who enrolled at Ashford University in 2008-9, 66.8 percent, or 32,589 people, had withdrawn by mid-2010.[1232] These withdrawn students were enrolled a median of 19 weeks. Over the same time

[1224] Id.
[1225] Ashford University, *Formal Complaint*, August 23, 2010 (BPI-HELP_00026807).
[1226] Id.
[1227] Ashford University, Untitled Letter from student, March 17, 2010 (BPI-HELP_00027158).
[1228] Id.
[1229] Id.
[1230] Id.
[1231] Patricia Steele and Sandy Baum, "How Much Are Students Borrowing" *Policy Brief*, August 2009 http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 12, 2012).
[1232] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

period, 5.1 percent of students completed their degree, and 28.1 percent were still enrolled. Overall, Bridgepoint's retention rate exceeds the sector-wide rate withdrawal rate of 54 percent. Bridgepoint performed better in retaining Bachelor's degree students, who withdrew at a rate of 63.4 percent, than Associate degree students, who withdrew at a rate of 84.4 percent. Bridgepoint's Associate withdrawal rate was the worst of any company examined by the HELP Committee, more than 14 percent higher than the next highest college.[1233] The company also has the fourth worst Bachelor's degree withdrawal rate of any company examined.

Status of Students Enrolled in Bridgepoint Education, Inc. in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	7,931	1.2%	14.4%	84.4%	6,691	111
Bachelor's Degree	40,866	5.9%	30.7%	63.4%	25,898	140
All Students	48,797	5.1%	28.1%	66.8%	32,589	134

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Student Loan Defaults and Repayment

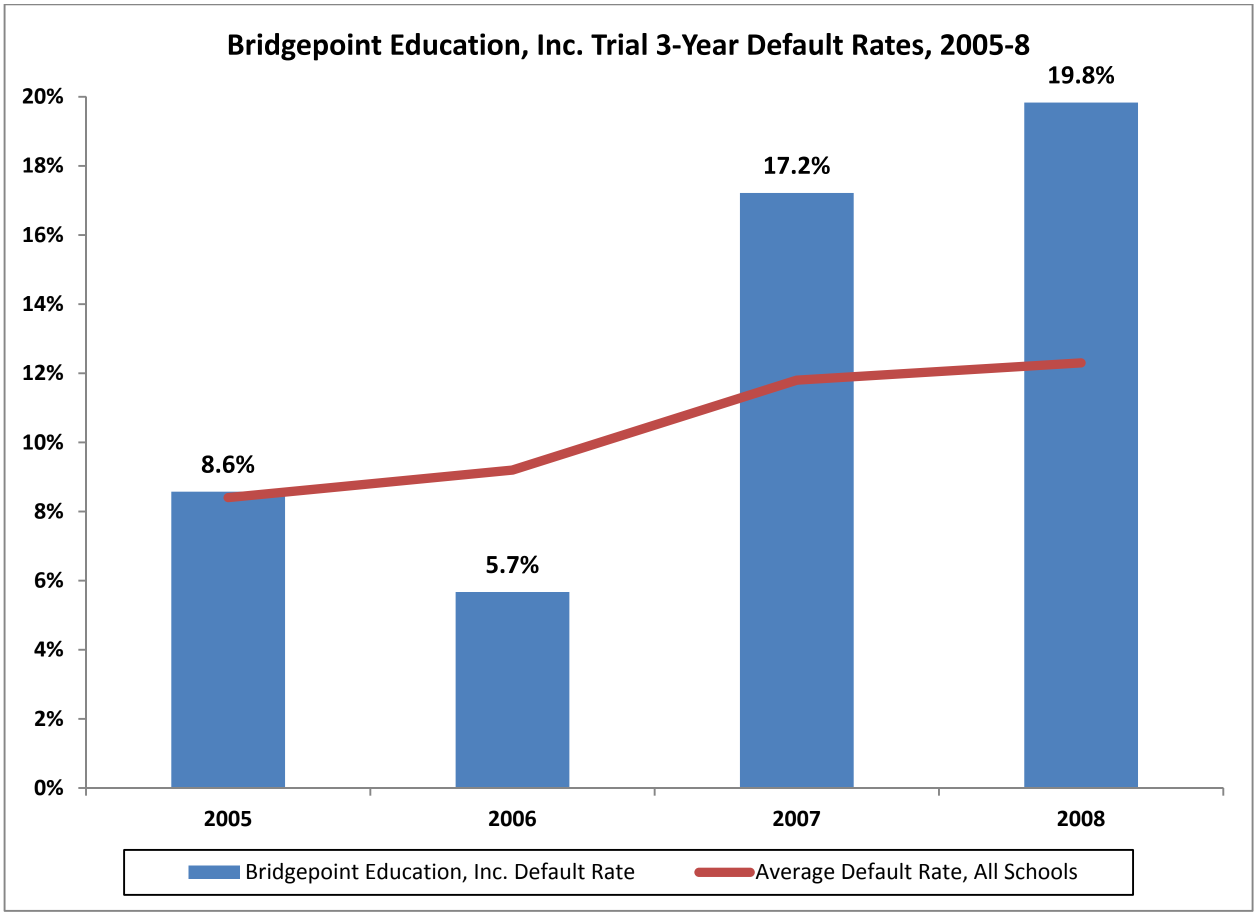
Bridgepoint's rapid enrollment growth and withdrawal rate correlates with the growing rates of student loan defaults by the company's students. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1234]

Slightly more than 1 in 5 students who attended a for-profit college, (22 percent) defaulted on a student loan, according to the most recent data.[1235] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1236] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1237] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1238]

The 3-year default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent. This change represents a 32.6 percent increase over 4 years.[1239] Bridgepoint's default rate has increased rapidly, growing from 8.6 percent for students entering repayment in 2005 to 19.8 percent for students entering repayment in 2008. Bridgepoint's default rate has had the second highest year-over-year increase of any school examined by the

[1233] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.
[1234] Direct Loan default rates, 34 CFR 668.183(c).
[1235] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal years 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[1236] Id.
[1237] Id.
[1238] Id.
[1239] Id.

committee. Only Grand Canyon Education, Inc., which has common investor roots and a similar model as Bridgepoint, has had an even larger increase.



Default management

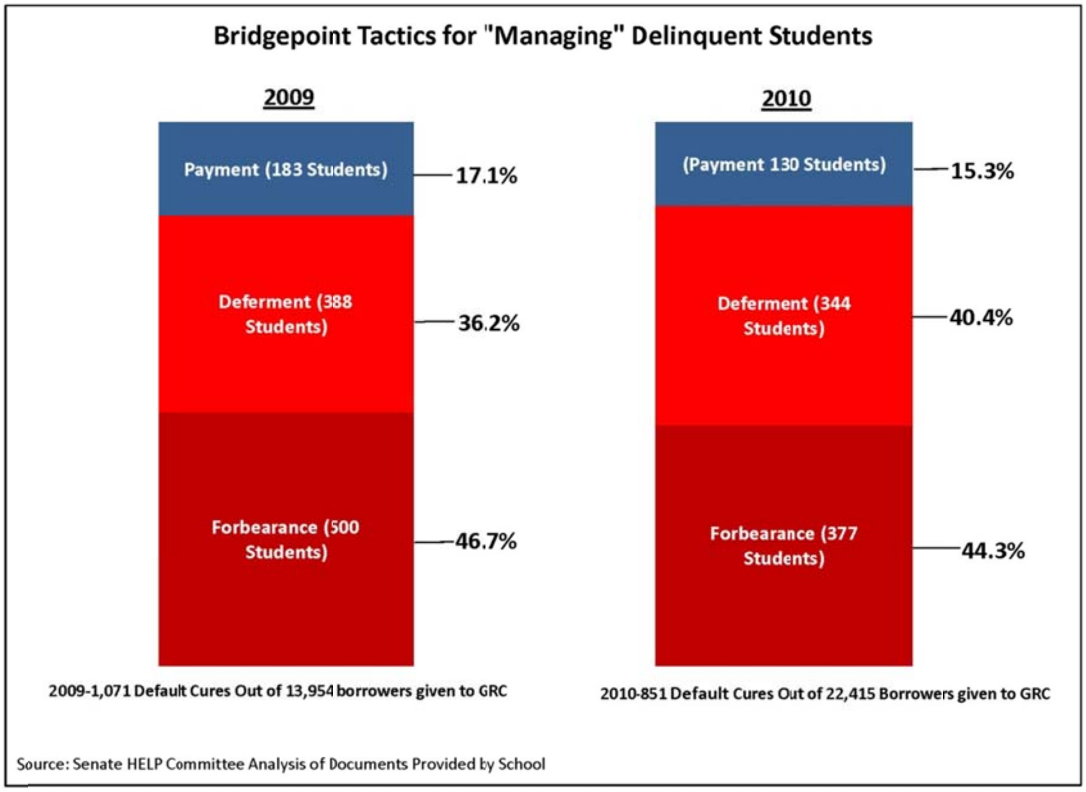
These reported default rate figures may undercount the long-term default rate given that, like many for-profit colleges, Bridgepoint has focused resources on finding ways to eliminate students from its reported default rates. Helping get delinquent students into repayment, deferment, or forbearance prior to default is encouraged by the Department of Education. However, many for-profit colleges appear to be investing in aggressive outreach for the sole purpose of ensuring that borrowers do not default within the 3-year regulatory window.

Default management is primarily accomplished by putting students who have not made payments on their student loans into temporary deferments or forbearances. Default management contractors are paid to counsel students into repayment options that ensure that students default outside the 2-year, soon to be 3-year, statutory window, in which the Department of Education monitors defaults.

Bridgepoint, like many other for-profit colleges, contracted with the General Revenue Corporation (GRC), a subsidiary of Sallie Mae, to "cure" students who are approaching default. Under the agreement, Bridgepoint pays GRC a fee of $34.00 to $38.00 per student borrower.[1240] In addition, Bridgepoint will pay GRC a bonus of 7.5 percent of the total fees if GRC succeeds in lowering

[1240] Bridgepoint Education Inc., *Cohort Default Management Services Agreement with General Revenue Corporation*, June 26, 2009 (BPI_HELP_00044540).

Bridgepoint's default rate below a specified threshold. In practice, documents indicate that nearly all "cures" are accomplished by deferment or forbearance, not by students actually repaying their loans.



This practice is troubling for taxpayers. The cohort default rate is designed not just as a sanction but also as a key indicator of a school's ability to serve its students and help them secure jobs. If schools actively work to place students in forbearance and deferment, that means taxpayers and policymakers fail to get an accurate assessment of repayment and default rates. A school that has large numbers of its students defaulting on their loans indicates problems with program quality, retention, student services, career services, and reputation in the employer community. Aggressive default management undermines the validity of the default rate indicator by masking the true number of students who end up defaulting on their loans. Critically, schools that would otherwise face penalties—including loss of access to further taxpayer funds—continue to operate because they are able to manipulate their default statistics.

Moreover, forbearances may not always be in the best interest of the student. This is because during forbearance of Federal loans, as well as during deferment of unsubsidized loans, interest still accrues. The additional interest accrued during the period of forbearance is added to the principal loan balance at the end of the forbearance, with the result that interest then accrues on an even larger balance. Thus, some students will end up paying much more over the life of their loan after a forbearance or deferment.

Instruction and Academics

The quality of any college's academics is difficult to quantify, however the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.[1241] By looking at the instructional cost that all sectors of higher education report to the Department of Education, it is possible to compare spending on actual instruction.

Bridgepoint spent $1,212 per student on instruction in 2009, compared to $2,604 on marketing per student and $1,460 on profit per student.[1242] The amount that publicly traded for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. In contrast, public and non-profit schools, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Bridgepoint spent less on instruction compared to other Iowa-based colleges. On a per student basis, the University of Iowa spent $14,882 on instruction, Upper Iowa University spent $3,734 and Eastern Iowa Community College spent $3,866.[1243]

While per student instruction expenses should be expected to be lower in an exclusively or majority online program, the savings generated by these models do not appear to be passed on to students in lower tuition costs. Similarly, the higher per student instruction costs in public and non-profit colleges may reflect a failure to embrace online models or embrace more efficient spending. However, taken as a whole these numbers demonstrate that for-profit colleges spend significantly less on instruction than similar programs in other sectors.

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty are an important factor in the educational systems that emphasize flexibility, it also raises questions regarding the commitment level of the faculty and the academic independence they are able to exercise. Among the 30 schools investigated by the committee, fully 80 percent of the faculty is part-time, with higher proportions at some companies.[1244] Bridgepoint's faculty composition was more heavily weighted towards part-time.[1245] In 2010, 98 percent of Bridgepoint's faculty, 2,977 out of 3,028, were part-time.[1246]

Students who gave feedback on course evaluations had mixed reviews of their experience. Many students had good things to say about their instructors. "The instructor was supportive, kind, and

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[1241] Undercover GAO agents enrolled in Ashford University in 2011 to test for academic integrity standards. The GAO agent took one course, an introduction learning strategies. Ashford's instructor appropriately gave the GAO agent low credit for failing to turn in assignments, and turning in unresponsive and plagiarized work. http://www.gao.gov/assets/590/586456.pdf (accessed June 20, 2012).

[1242] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment. Materials presented at the March 10, 2011 hearing, "Bridgepoint Education, Inc.: A Case study in For-Profit Education and Oversight" stated that Bridgepoint Education, Inc.'s Ashford University spent $700 per student on instruction in 2009; this amount was calculated using the enrollment figure of all students as reported to the SEC rather than the full-time equivalent enrollment reported to IPEDS. In order to create a complete comparison across all companies examined, this report uses the IPEDS full-time equivalent for the enrollment figure. The $700 figure previously reported continues to be accurate.

[1243] Senate HELP Committee staff analysis. See Appendix 23.

[1244] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

[1245] Id.

[1246] Id.

responded [to] questions in [a] timely manner," wrote one student in organizational management.[1247] An MBA student commented, "[Professor] was extremely helpful and responsive to my needs and provided constructive feedback throughout the course." However, other students did not have a positive academic experience. "The professor was obviously unqualified to teach at a university level and unfamiliar with the course. [T]he course itself was horrible written, assignments were ill conceived and comments were nonexistent [sic]." [1248]

Teaching Program

Bridgepoint's Ashford University offers programs in education that, according to the college's Web site, is a "first step toward becoming a teacher."[1249] However, the program itself does not allow a graduate to apply for certification as a teacher in any State because the program is not approved by Iowa's, nor any other States', Department of Education. In order to become a teacher, Ashford has an agreement with a college in Tempe, AZ called Rio Salado which has an Arizona-approved teaching program. Under the arrangement, Rio Salado agrees to accept Ashford graduates into a post-Baccalaureate teacher certification program, which allows a student to apply for an Arizona teaching license. Then, depending on State law, a student may or may not be able to transfer that certification to the State of their residence.

Students are often not told about this arrangement, and enroll under the impression that the Ashford degree will allow them to become a teacher in their home State. Arlie Willems, a retired Iowa Department of Education employee specializing in teacher preparation, testified at the HELP Committee's March 2011 hearing:

> Ashford recruiters paid on a commission basis have led many prospective students to believe that the completion of an Ashford online program or the combination of the Ashford-Rio Salado programs would result in an Iowa teaching license. Students relying on this misinformation in good faith have found themselves in great debt and have not attained their goal of becoming teachers. The problem is that Ashford University, unable to meet Iowa's requirements, reconfigured offerings within a new partnership [with Rio Salado] and then misrepresented their programs to prospective students driven by a business model where the bottom line is the bottom line.

One student wrote that he or she was told by the Ashford recruiter that an Ashford BA would transfer to Ohio. The student subsequently learned from the State of Ohio that neither the Ashford degree nor the Rio Salado Arizona license would allow him or her to teach there.[1250] Another Ashford student was told at enrollment she would be able to get her Kansas teachers license through Ashford but was subsequently told she would have to attend Rio Salado.[1251] Another student filed a complaint stating that she was told by the recruiter that enrolled her that she can get her Virginia teacher's license after completing her Ashford degree.[1252] The student approached the recruiter when she found out she would have to attend Rio Salado, and the recruiter again misled her that she would be able to attain her teaching license in 4 years. Afterward, the student called Rio Salado and learned the certification would

[1247] Ashford University, *End of Course Student Survey,* January 6, 2009 (BPI-HELP_00053393).
[1248] Id.
[1249] Ashford University, *Bachelor of Arts in Education Studies,* 2012 http://ashford.edu/degrees /online/baedssummary.htm (accessed June 14, 2012).
[1250] Ashford University, *Formal Grievance,* July 29, 2010 (BPI-HELP_00026393).
[1251] Ashford University, *Formal Grievance,* August 23, 2010 (BPI-HELP_00026807).
[1252] Ashford University, *Enrollment Problem,* September 30, 2008 (BPI-HELP_00028844).

take an additional 12 to 18 months.[1253] Ashford agreed that the student had been misled and refunded the student's tuition for one course.

Accreditation

Both Ashford University and University of the Rockies are accredited by the Higher Learning Commission (HLC), a regional accreditor that also accredits a significant number of other for-profit colleges. HLC, which accredited Franciscan University before its purchase by Bridgepoint, performed three reviews since the purchase: a 2005 change of control review, a 2006 comprehensive review, and a 2010 post-IPO change of control review. Following the 2006 comprehensive visit, HLC granted Ashford University full accreditation with 10 years until the next comprehensive visit. Documents that HLC reviewers had access to during the 2010 visit revealed the rapid enrollment growth and low retention rates since Bridgepoint's purchase.[1254] An "Institutional Snapshot" that Ashford provided showed that the enrollment had increased 1,150 percent in the past 3 years.[1255] It also showed the percent of first-time new students the college enrolled and retained for 1 year was 41 percent.[1256] Documents provided by HLC indicate that the agency did not take issue with these problems and again re-affirmed Ashford's full accreditation.

Sylvia Manning, the president of HLC, testified at the committee's March 2011 hearing that the agency should have had stronger policies in place and that the agency did not anticipate the explosive enrollment growth that occurred after the Bridgepoint purchase:

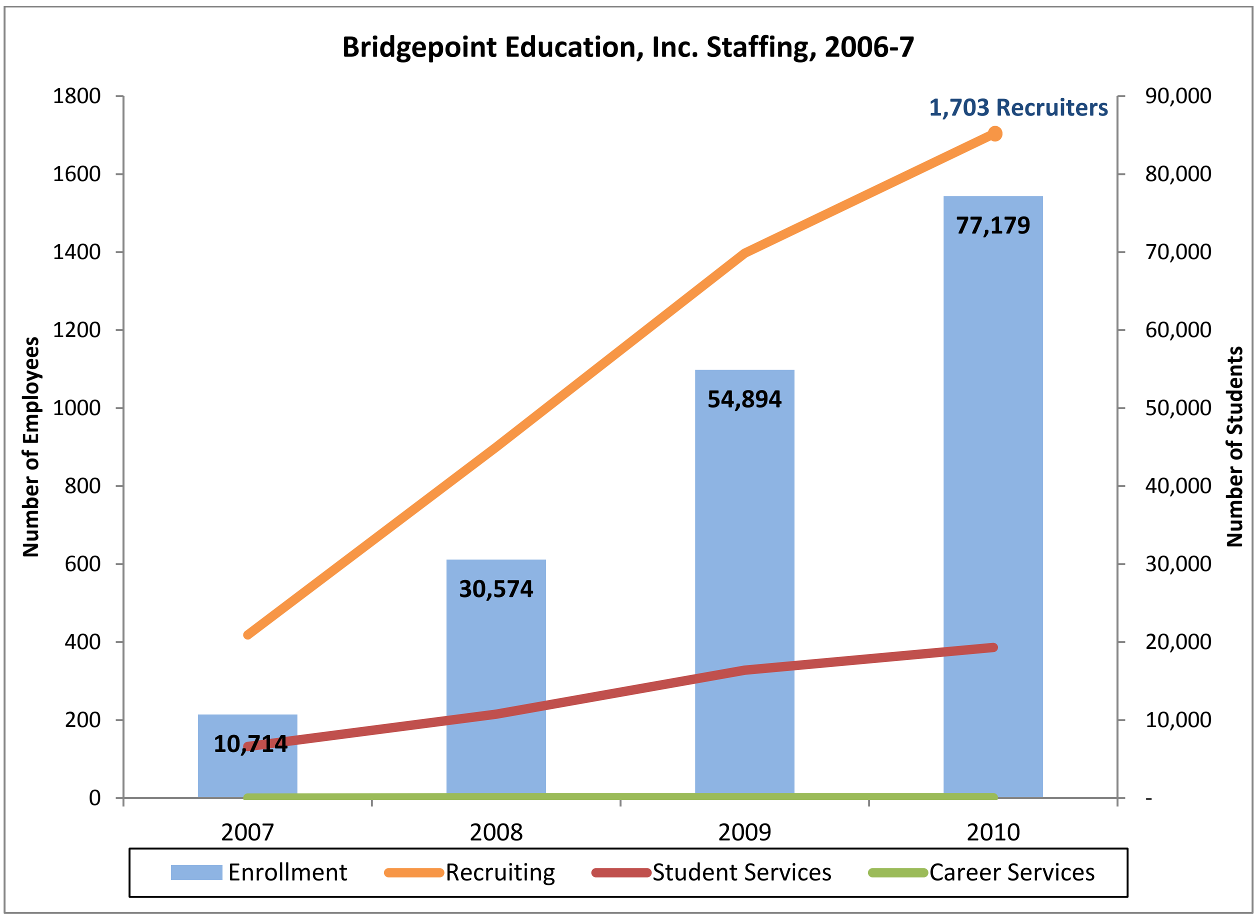
> The story about Bridgepoint happened in 2005. I came to the commission in July of 2008. In all fairness to my predecessors, I don't think they were able to foresee what would happen. When I got there in 2008, it was quite possible to see what had happened and it was possible to see that because this thing was a new phenomenon on the face of the earth, we did not have the policy framework and we did not have the procedures to deal with it adequately. And so we set about changing those policies and changing our procedures. We've done a fair amount. Now, we have made five major policy changes. What happened in 2005 and then culminated in growth by 2009 simply could not happen today.

In recognition of the fact that Ashford's online operations are primarily based in San Diego, CA HLC advised Ashford that it has until December 1, 2012 to demonstrate compliance with HLC's new "substantial presence" requirement.[1257] Institutions of higher education based in California fall under the jurisdiction of the regional accrediting agency Western Association of Schools and Colleges (WASC). Ashford applied for eligibility to pursue WASC accreditation in spring 2011.[1258] On June 15, 2012, WASC denied Ashford University's initial application for accreditation, citing its determination that the college was "not yet in substantial compliance with elements" of the Commission's standards.[1259] The

[1253] Id.
[1254] Bridgepoint Education, Inc., *Institutional Snapshot*, April 2010 (BPI-HELP_00021599).
[1255] Id.
[1256] Id.
[1257] Bridgepoint Education, Inc., *Ashford University to Run Parallel Process of Appeal and Re-application for WASC Accreditation*, http://phx.corporate-ir.net/phoenix.zhtml?c=228996&p=irol-IRHome (accessed July 10, 2012).
[1258] Western Association of Schools and Colleges, Commission Action Letter, July 3, 2012 https://www.wascsenior.org/apps/institutions/ashford-university#zoom=15&lat=41.84998&lon=-90.19784&layers=FT0BT (accessed July 10, 2012).
[1259] Western Association of Schools and Colleges, *Public Statement Regarding Ashford University*, July 9, 2012 http://www.wascsenior.org/publicstatements/public-statement-regarding-ashford-university (accessed July 10, 2012).

thorough review by WASC stands in contrast to the relatively cursory change of control reviews by HLC. WASC's peer review team consisted of 12 persons, including individuals with significant experience in online education. The Commission hired a major accounting firm to perform a pre-visit analysis of Bridgepoint's financial information.[1260] The Commission's analysis identified problems with student retention, how the college spends its resources, the independence of the governance of Ashford University from Bridgepoint Education, Inc., and assurance of academic rigor.[1261] The Commission's letter notes that "nearly 128,000 students have withdrawn in the last 5 years, during which time 240,000 new students were enrolled. This level of attrition, on its face, is not acceptable" and that "historic spending patterns show relatively high funding for recruitment compared to resources to support academic quality and student success." [1262] Ashford has indicated its intent to appeal as well as re-apply for initial accreditation.

Staffing



The committee found that while for-profit education companies employed large numbers of recruiters to enroll new students, the companies had far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 77,179 students, Bridgepoint employed 1,703

[1260] Western Association of Schools and Colleges, Commission Action Letter, July 3, 2012 https://www.wascsenior.org/apps/institutions/ashford-university#zoom=15&lat=41.84998&lon=-90.19784&layers=FT0BT (accessed July 10, 2012).
[1261] Id.
[1262] Id.

recruiters, 1 career services employee, and 386 student services employees.[1263] Each student services staffer was responsible for 200 students. Meanwhile, the company employed one recruiter for every 45 students. Bridgepoint has taken the position that it does not need to offer career services because "the vast majority of our Ashford University students (70%) are employed at the time of their enrollment at our institutions" and "data from our last two Ashford University Alumni Surveys show that nearly 85% of our alumni are employed."[1264] However, most working adults enroll in a college, especially a career-oriented for-profit college, with the goal of either changing jobs or advancing in their current job. It is far-fetched that a student would spend years working on a degree and take on student loan debt to end up with the same job he or she had when first starting. Moreover, the fact that 15 percent of Ashford's *graduates* – the survey does not cover the many students who withdraw – are unemployed does not compare favorably with the national unemployment rate of 8.2 percent.[1265]

Conclusion

As discussed in detail at the committee's March 10, 2011 hearing, a group of investors used private equity capital to purchase a small religious college of just over 300 students, and transformed it into a massive online learning operation that, as of March 31, 2012, enrolled nearly 95,000 students. Along the way, Bridgepoint generated large profits and its executives were given substantial compensation packages. However, among the for-profit education companies examined by the committee, the company has the highest Associate degree withdrawal rate with 84 percent of students who enrolled in 2008-9 leaving by mid-2010, and the fourth highest Bachelor's degree withdrawal rate with 63.4 percent withdrawing.

Employees and students of the company continue to contact the committee with their experiences of problematic recruiting practices and trouble getting the help they need. Student complaints document multiple examples of deceptive and misleading recruiting practices and students who felt that the quality of attention they received dropped once they were enrolled. Bridgepoint spends comparatively little on academic instruction. Moreover, the company provides no tutoring and no job placement services to any of the thousands of students who enroll. The one bright spot in picture of Bridgepoint is that it charges less for tuition and fees than many of its for-profit competitors, although it is still more expensive compared to attending many public institutions. Taken together, these issues cast serious doubt on the notion that Bridgepoint's students are receiving an education that affords them adequate value, and calls into question the $1.2 billion investment American taxpayers made in the company in 2010.

[1263] Senate HELP Committee staff analysis of information provided to the Committee by the company pursuant to the Committee document request of August 5, 2010. See Appendix 7 and Appendix 24.
[1264] Bridgepoint Education, Inc., *Key Issues Messaging*, January 22, 2010 (BPI-HELP_00046828).
[1265] National seasonally adjusted unemployment rate as of July 2012, U.S. Bureau of Labor Statistics.

Capella Education Company

Introduction

Like many for-profit education companies, Capella Education Company experienced steady growth in student enrollment, Federal funds collected, and profit realized in recent years. While the company's performance in graduate degree fields, measured by student withdrawal and loan default rates, is better than many companies examined, students are faring far less well in its undergraduate degree programs.

Company Profile

Capella Education Company ("Capella") is a publicly traded, for-profit education company headquartered in Minneapolis, MN. Capella Education Company owns Capella University, a university that operates exclusively online and offers Doctoral, Master's, Post-baccalaureate Certificates and Bachelor's degree programs in business, information technology, education, psychology, public health, public safety and human services. In 2011, 22 percent of Capella students enrolled in Bachelor's programs, 45 percent in Master's programs and 31 percent in Doctoral programs.

Founded in 1991 by Stephen Shank, former CEO of Tonka Corporation, Capella Education Company established Capella University in 1993 and went public in 2006 (NASDAQ: CPLA). J. Kevin Gilligan is the current CEO and chairman of the board of directors for Capella.[1266]

Like more than half of the regionally accredited brands the committee examined, Capella University is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC).[1267] At the time HLC first accredited Capella in 1997, the company enrolled fewer than 1,000 students.[1268] Capella's Master's of Science degree programs in Mental Health Counseling, Marital, Couple, and Family Counseling, and School Counseling are accredited by The Council for Accreditation of Counseling and Related Educational Programs CACREP. Capella's Bachelor of Science in Information Technology programs are accredited by ABET.

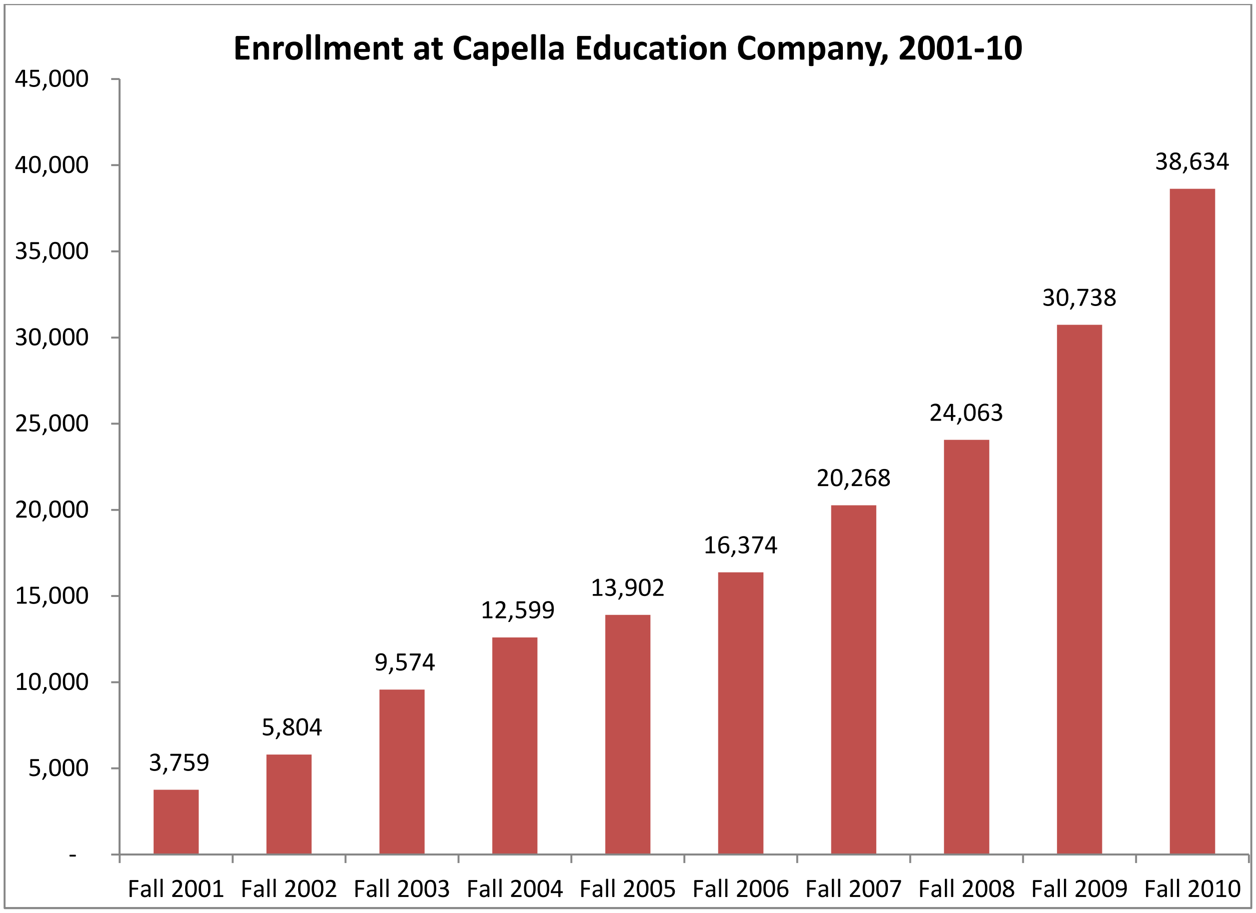
Capella University has grown immensely over the last decade. Today, Capella offers 143 graduate and undergraduate specializations, 17 Certificate programs and over 1,690 online courses. Capella students enroll from all 50 States and 59 other countries. In the fall of 2001, Capella enrolled 3,759 students. By fall 2010, Capella enrolled 38,643 students.[1269]

[1266] The company's board of directors also includes: Mark N. Green (CEO, Fair Isaac Corporation), Michael Linton (Executive VP, FMN Technologies), Michael Lomax (CEO and president, United Negro College Fund), Jody G. Miller (CEO and president, Business Talent Group), Stephen G. Shank (Founder, former chairman and CEO, Capella Education Company), Andrew M. Slavitt (CEO, Ingenix), David. W. Smith (Retired CEO, NCS Pearson Inc.), Jeffery W. Taylor (Senior VP, U.S. Government Policy and Investor Relations, Pearson plc), and Darrell R. Tukua (Retired Partner, KPMG LLP).

[1267] The 30 companies operate 71 different brands not including the Art Institute.

[1268] Capella, *About Capella: History*, 2012, http://www.capella.edu/about_capella/history.aspx (accessed June 12, 2012).

[1269] For companies that began filing with the Securities and Exchange Commission subsequent to an initial public offering between 2001 and 2010, enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education's Integrated Postsecondary Data System (hereinafter IPEDS) until Securities



Driven by this increase in enrollment, revenue at Capella has also grown rapidly, from $180 million following the company's initial public offering in 2006 to $430 million in 2011.[1270]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenue from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1271] Together, the 30

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and Exchange Commission filings become available at which time SEC filings for the August-October period of each year used. See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies. At Capella, enrollment dropped to 35,755 in fall 2011. While the company's revenue increased, profit fell by 3.7 percent to $80.1 million.

[1270] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee.

[1271] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education. "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

companies the committee examined derived 79 percent of their revenue from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1272]

In 2010, Capella reported 78.2 percent of revenue from title IV Federal student aid programs.[1273] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs or revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA). Based on information the company provided, the committee estimates that Capella may have discounted up to 1.6 percent of revenue, or $6.5 million, pursuant to ECASLA in 2010.[1274] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 2.6 percent of Capella's revenue, or $11 million.[1275] With funds from the Departments of Defense and Veterans Affairs included, 80.8 percent of Capella's total revenue was comprised of Federal education funds.[1276]

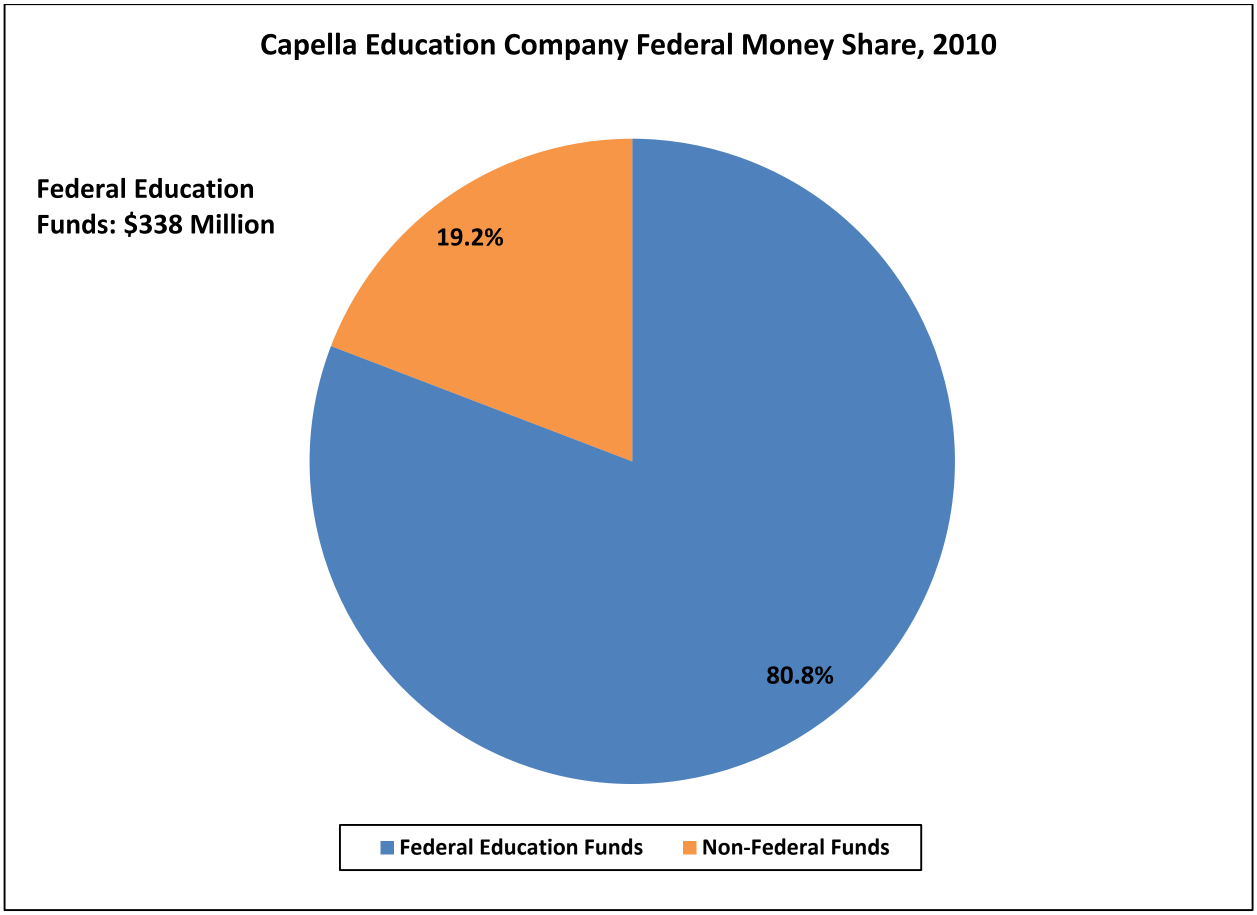
[1272] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[1273] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

[1274] Pursuant to the Ensuring Continued Access to Student Loan Act (ECASLA), for-profit education companies were allowed to exclude $2,000 in increased Stafford loan eligibility for each student during fiscal years 2009 and 2010.

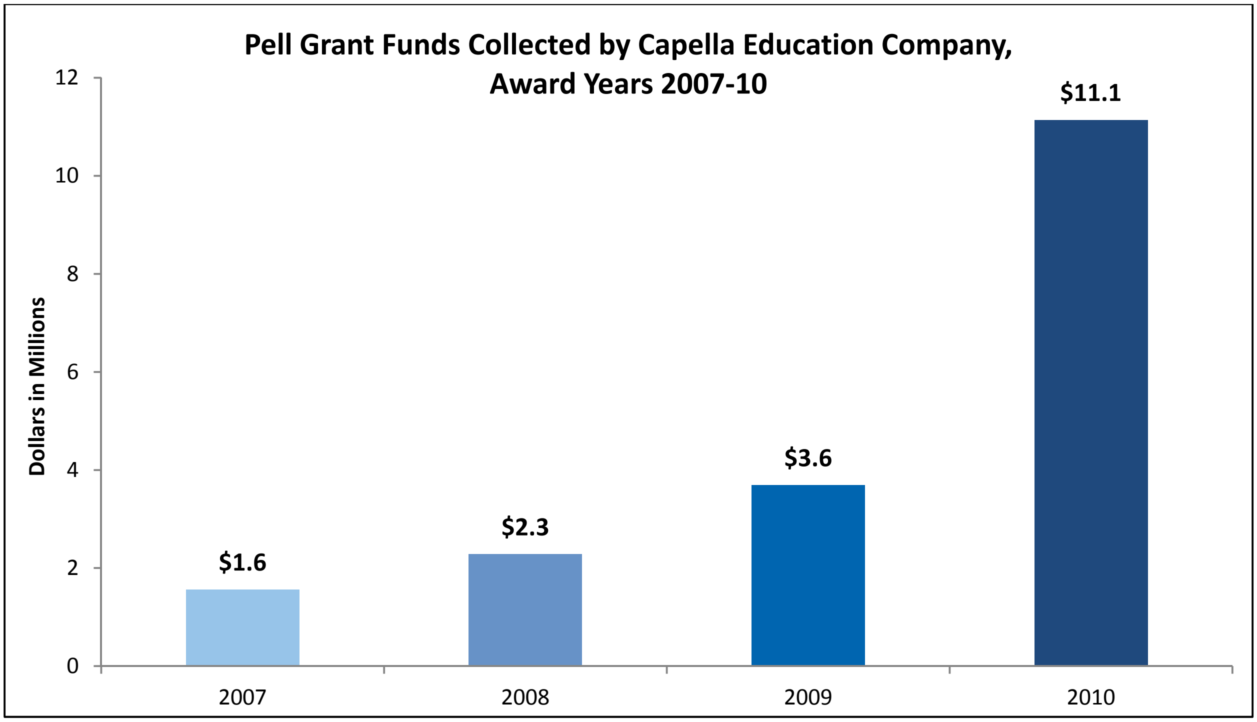
[1275] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-2011 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and Appendix 12.

[1276] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[1277] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[1277] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.



Capella collected $1.6 million in Pell grant funds in 2007, and just 3 years later, in 2010, the company collected $11.1 million. While still a small amount in dollar terms, this is an increase of nearly 700 percent.[1278]

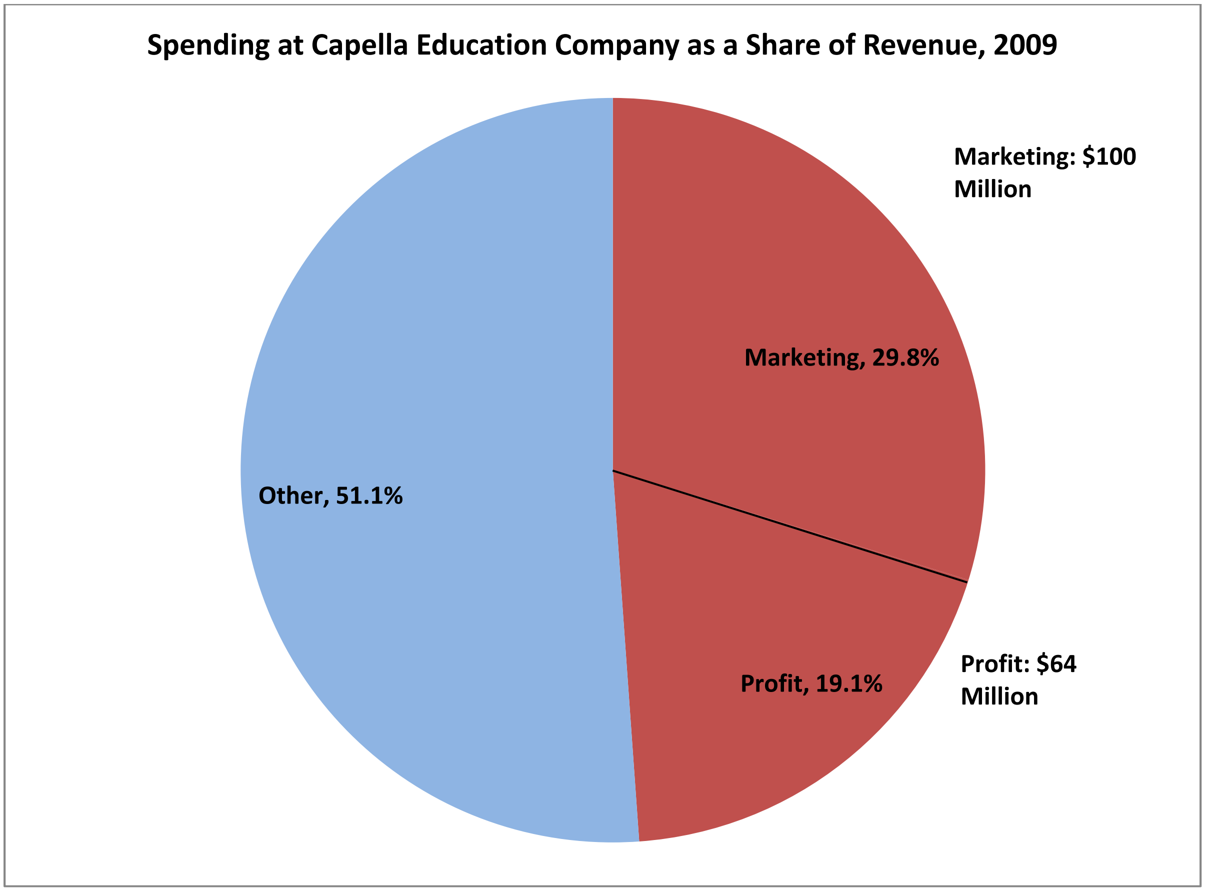
Spending

While Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[1279] During the same period, the companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion) and 19.7 percent on profit ($3.2 billion).[1280] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.[1281]

The percentage of revenue Capella allocates to marketing exceeds the for-profit sector average by a considerable margin. In 2009, Capella devoted 29.8 percent of its revenue, or $99.6 million, to

[1278] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-2007 through 2009-2010, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.
[1279] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.
[1280] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.
[1281] Id.

marketing and recruiting and 19.1 percent, or $63.9 million, to profit.[1282] On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.[1283]



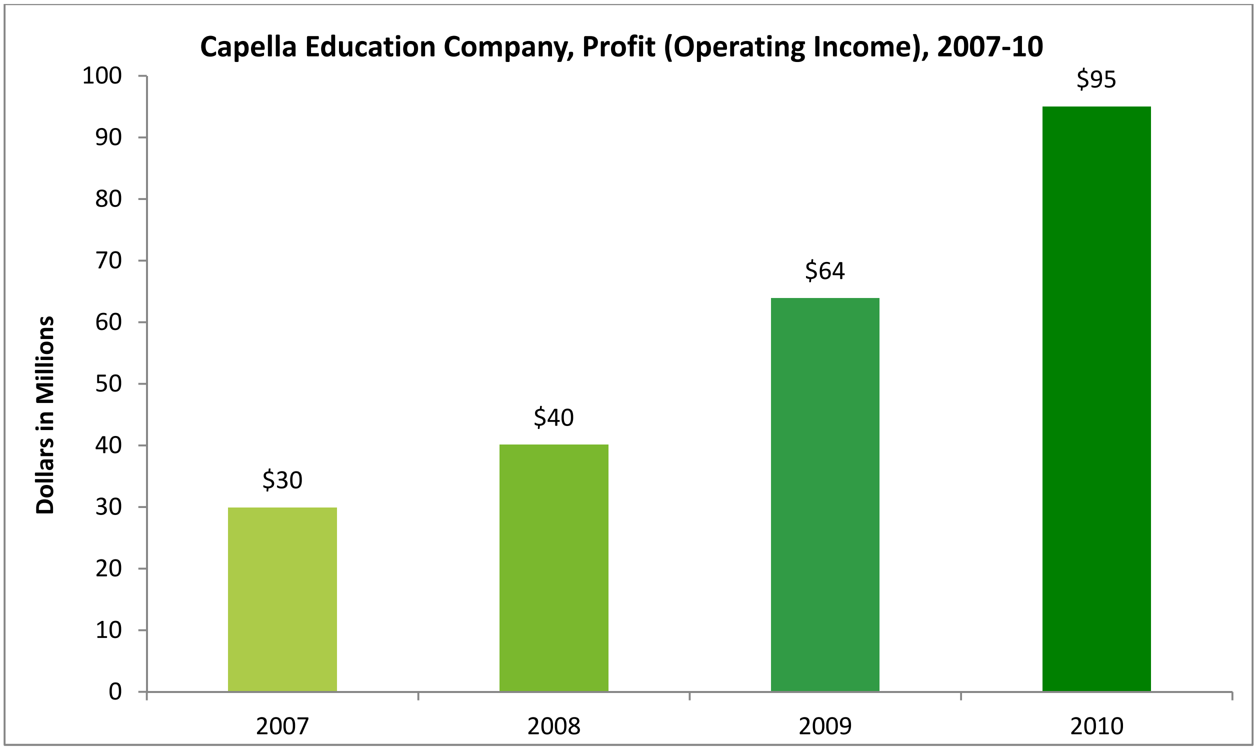
Capella devoted a total of $163.5 million to marketing, recruiting and profit in fiscal year 2009.[1284] The amount of profit Capella generated also increased rapidly, more than tripling from $30 million in 2007 to $95 million in 2010.[1285]

[1282] Id. The higher percentage Capella spent on marketing may reflect the higher cost of obtaining leads in professional graduate markets. Capella executives specifically assert that they believe it is "more expensive than marketing to much larger Associate's, Bachelor's and trade school markets." Capella correctly notes that given that the company has lower revenue than some larger companies, the actual dollars spent on marketing are significantly less than at some of its competitors despite the relatively high percentage spent on marketing. Letter from Capella University senior vice president and general counsel Gregory Thom to committee staff, June 26, 2012.

[1283] Senate HELP Committee staff analysis. See Appendix 19.

[1284] "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.

[1285] Senate HELP Committee staff analysis. See Appendix 18.



Executive Compensation

Executives at Capella, like most for-profit executives, are more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[1286] In 2009, Capella CEO J. Kevin Gilligan received $3.8 million in compensation, almost six times as much as the president of the University of Minnesota who received $646,097 in total compensation that year.[1287]

Executive	Title	2009 Compensation	2010 Compensation
J. Kevin Gilligan	Chief Executive Officer	$3,848,253.00	$2,347,197.00
Lois M. Martin	Former SVP and Chief Financial Officer	$748,499.00	$967,637.00
Stephen G. Shank	Former Chief Executive Officer		$685,879.00
Sally B. Chial	Senior Vice President - Capella Experience	$952,482.00	$644,665.00
Michael J. Offerman	Chancellor	$820,718.00	$605,422.00
Gregory W. Thom	Vice President and Senior Counsel		$564,332.00
Steve L. Polacek	SVP and Chief Financial Officer	$557,862.00	
Kyle M. Carpenter	SVP Strategic Business Development	$895,249.00	

1286 Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation.
1287 *Star Tribune*, "Salary Snapshots," 2012, http://ww3.startribune.com/dynamic/salaries/ (accessed June 12, 2012).

Jason Van De Loo	Vice President - Marketing	$742,362.00	
Total		$8,565,425	$5,815,132 [1288]

The chief executive officers of the large publicly traded, for-profit education companies received, on average, $7.3 million in fiscal year 2009.[1289] Gilligan's $3.8 million compensation package for 2009 is approximately half the average for publicly traded companies.

Tuition and Other Academic Charges

Compared to public and other for-profit colleges offering the same programs, the price of tuition is competitive but in some instances is slightly more expensive at Capella University. A Bachelor of Science in Business at Capella University costs $57,290.[1290] The same online degree at for-profit Walden University costs $56,800[1291] and $56,240 at the University of Minnesota.[1292] However, a Master's of Education costs $20,210 at Capella University, while the online Master's of Education at the University of Minnesota costs $31,235.[1293]

1288 Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.

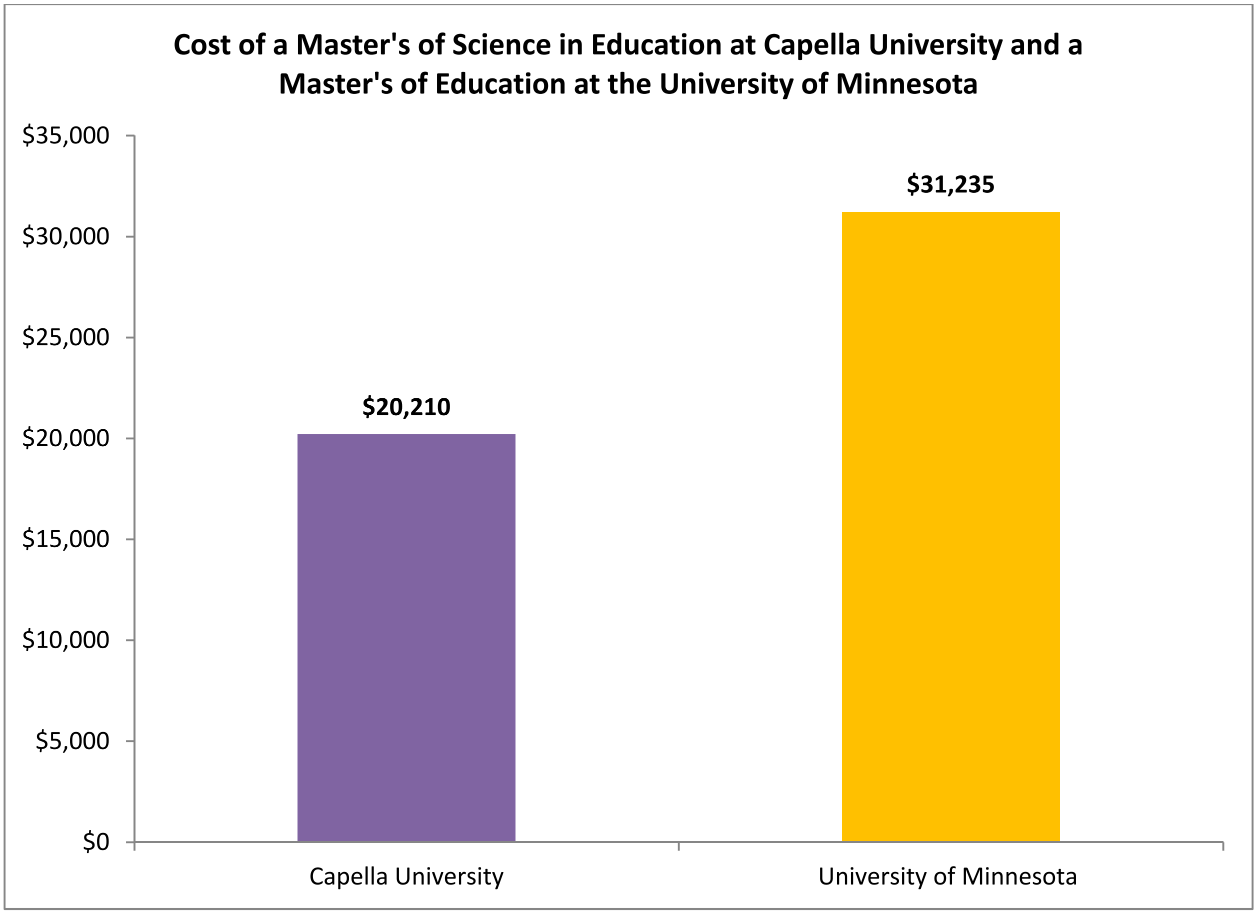
1289 Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

1290 See Appendix 14; see also, Capella University, *Business Administration*, http://www.capella.edu/schools_programs/undergraduate_studies/business/business_administration.aspx (accessed June 12, 2012).

1291 See Appendix 14; and see, Walden University, *Program Data*, 2012, http://www.waldenu.edu/Degree-Programs/Bachelors/41556.htm (accessed June 12, 2012).

1292 See Appendix 14; and see, University of Minnesota, *University of Minnesota*, http://www1.umn.edu/twincities/index.html (accessed June 12, 2012).

1293 See Appendix 14; and see, Capella, *Cost & Financial Aid*, 2012, http://www.capella.edu/tuition_financial_aid/tuition_financial_aid_index.aspx (accessed June 12, 2012); University of Minnesota, *University of Minnesota*, http://www1.umn.edu/twincities/index.html (accessed June 12, 2012).



For the last 4 years, Capella University has implemented an annual tuition increase ranging from 2.4 percent to 5 percent.[1294]

The tuition Capella charges is reflected in the amount of money that the company collects for each veteran that it enrolls. From 2009 to 2011, Capella spent an average of $9,162 to train 2,021 veterans eligible for post-9/11 GI bill benefits, compared to an average of $4,642 per veteran spent by public colleges.[1295] While Capella collects more than average for each veteran it enrolls, the public college average includes students attending less expensive 2-year degree programs which are not offered by Capella.

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations for-profit colleges recruit as many students as possible to sign up for their programs.

During the period examined and prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, internal company documents make clear that

[1294] Capella Education Co. 10-K, 2011; Capella Education Co. 10-K, 2010; Capella Education Co. 10-K, 2009; Capella Education Co. 10-K, 2008.
[1295] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the Committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.

Capella closely monitored its enrollment. In an investor report Capella lists the sources of its enrollments: "Approx. 1/3 from Military and Corporate Channels (all military affiliated learners + learners that work at a Capella partner); Approx. 1/3 from other market advertising (including referrals); Approx. 1/3 from aggregators (lowest quality lead source)." [1296]

Student complaints illustrate the sometimes aggressive recruiting tactics employed by the third party lead aggregators paid by Capella. One such complaint reads:

> My husband was looking into online universities and one of the ones he signed up for (for more information) was Capella University. The next day … personnel from their sales department began calling my cell phone. I told them to remove my number from their database. They continued to call, getting the same response from me, every hour for about four hours … The calls did not stop. At one point, I even had one lady try to argue with me after I told her not to call again! [1297]

While student complaints may not be representative of the experience of the majority of Capella students, these complaints provide an important perspective on Capella's recruiting practices.[1298]

A Capella recruiter training presentation entitled "Sales Framework Overview" provides insight into the sales culture that informs Capella's recruiting practices.[1299] The presentation explains that "selling education is unique" and as such Capella sells, "Opportunity" and "Possibly a Better Life."[1300] The presentation goes on to outline what this sale requires: "Dig deep into the prospect's needs, goals, motivations, dreams, aspirations, etc. (uncover the "why"). Use this information to position Capella as a solution." [1301] According to this training presentation, a Capella recruiter's job involves "balancing two roles," that of a counselor, who is "good at asking probing questions, getting people to talk, and uncovering needs and motivations," and that of a salesperson, who is "good at presenting information in a persuasive way and motivating others to take action." [1302]

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program,

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[1296] Capella, *Background & Annual Investor Q&A Confidential & Private*, October 26, 2009 (CAPELLA-0106278, at CAPELLA-0106292).
[1297] Capella, *Complaint Activity Report Case # 57102948*, September 7, 2007 (CAPELLA-0049370).
[1298] See also Capella, *Complaint Activity Report, Case # 57110114*, December 17, 2007 (CAPELLA-0049450) ("Capella University failed to mention that courses taken at there university are not transferable to any other school [sic]. I am now having to take an entire degree program over again at a State College in my area…so that I may obtain my Bachelors Degree [sic].").
Capella notes that over the 5 year time-frame for which they produced documents, just 151 complaints were produced from a population of 36,000 students. Letter from Capella University senior vice president and general counsel Gregory Thom to committee staff, June 26, 2012.
[1299] Capella University, *Sales Framework Overview*, 2005 (CAPELLA-0015960).
[1300] Id.
[1301] Id.
[1302] Id.

take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1303]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that while the majority of students attending graduate degree programs at Capella are achieving their goals, during the period examined the majority of students seeking undergraduate degrees are not achieving their educational and career goals.

Retention Rates

Information Capella provided to the committee indicates that out of the 5,602 Bachelor's students who enrolled at Capella in 2008-9, 60.3 percent, or 3,378 students, withdrew by mid-2010.[1304] Capella's Bachelor's withdrawal rate of 60.3 percent exceeds the sector-wide rate of 54.3 percent and is the 6th highest withdrawal rate for Bachelor's degree programs of any company examined by the committee.[1305] Although Capella's graduate degree withdrawal rates average a much lower 43.6 percent, still 7,369 students who enrolled in these graduate programs between 2008 and 2009 withdrew by mid-2010.

Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn
Bachelor's Degree	5,602	1.4%	38.3%	60.3%	3,378
Masters	11,867	3.5%	52.1%	44.3%	5,262
Doctorate	5,018	0%	58.0%	42.0%	2,107
All Students	22,487	2.2%	50%	47.8%	10,747

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdrew after mid-2010 when the data was produced.

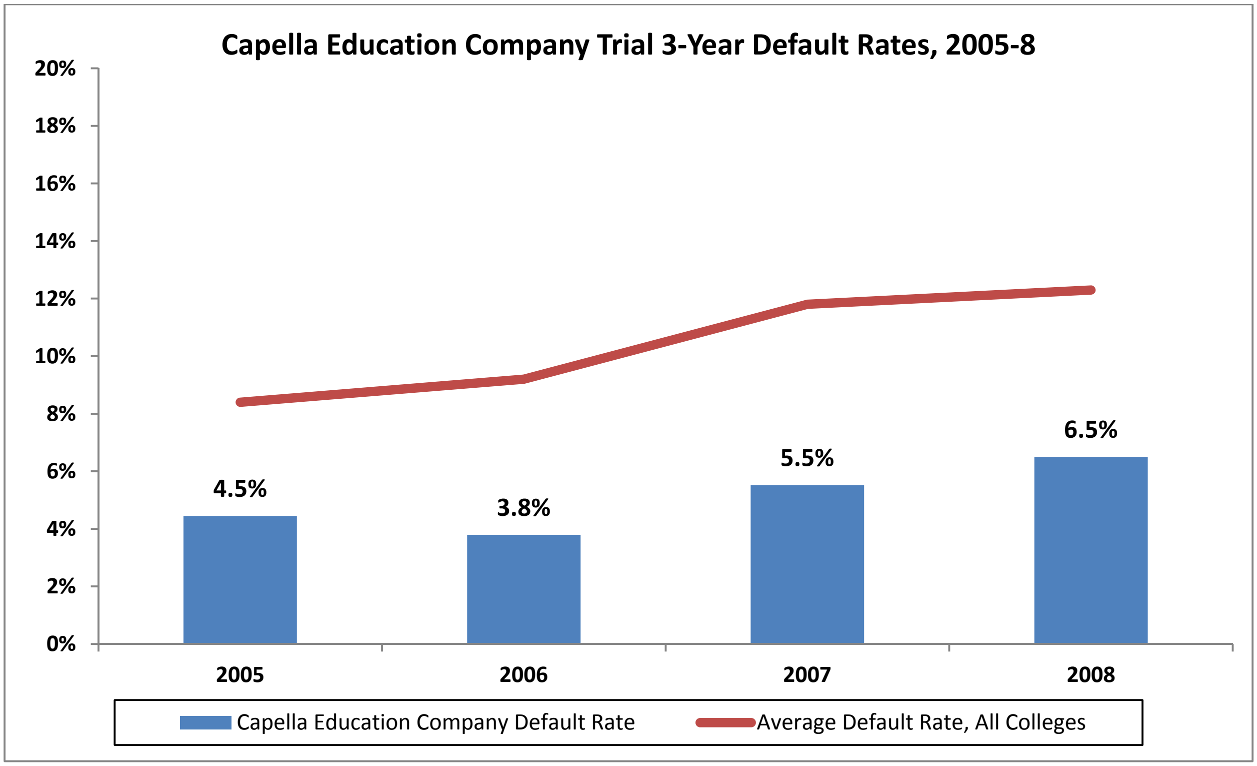
Student Loan Defaults

The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1306]

[1303] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009 http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 12, 2012).
[1304] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.
[1305] Capella company representatives indicated that the company has since instituted a rigorous first class to try and ensure that undergraduate students who enroll will succeed but students remain responsible for the cost of that course. It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.
[1306] Direct Loan default rates, 34 CFR 668.183(c).

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[1307] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1308] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions. The consequence of this higher rate is that almost half of all student loan defaults nationwide are held by students who attended for-profit colleges.[1309]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[1310] This change represents a 32.6 percent increase over 4 years.[1311] Although Capella's 3-year default rate has gradually increased, growing from 4.5 percent for students entering repayment in 2005 to 6.5 percent for students entering repayment in 2008, overall, Capella's default rate is well below the average not just among for-profit colleges but for all colleges.



It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. According to an internal email communication from 2010, Capella students in forbearance and deferment account for 9.4 percent of students considered in "active repayment." [1312] For many students, forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

[1307] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector. See Appendix 16.
[1308] Id.
[1309] Id.
[1310] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[1311] Id.
[1312] Capella Internal Email, *FW: Active Repayment*, February 21, 2010 (CAPELLA-1291450).

Instruction and Academics

The quality of any college's academics is difficult to quantify. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.

Capella spent $1,650 per student on instruction in 2009, compared to $4,538 per student on marketing and $2,912 on profit.[1313] The amount that publicly traded, for-profit companies spend on instruction ranges from $892 to $3,969 per student per year.[1314] In contrast, public and non-profit 4-year colleges and universities generally spend a higher amount per student on instruction. By comparison, on a per student basis, the University of Minnesota spent $13,247 per student on instruction, and University of Saint Thomas spent $11,361 per student.[1315]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee investigated, 80 percent of the faculty is part-time, higher in some companies.[1316] Capella is one such company with 86 percent of its faculty employed part-time. In 2010, Capella employed 165 full-time and 1,073 part-time faculty.[1317]

Student complaints indicate dissatisfaction with the instructional quality at Capella. In a letter to the President of Capella from HLC, the company's accreditor expresses concern regarding academic quality:

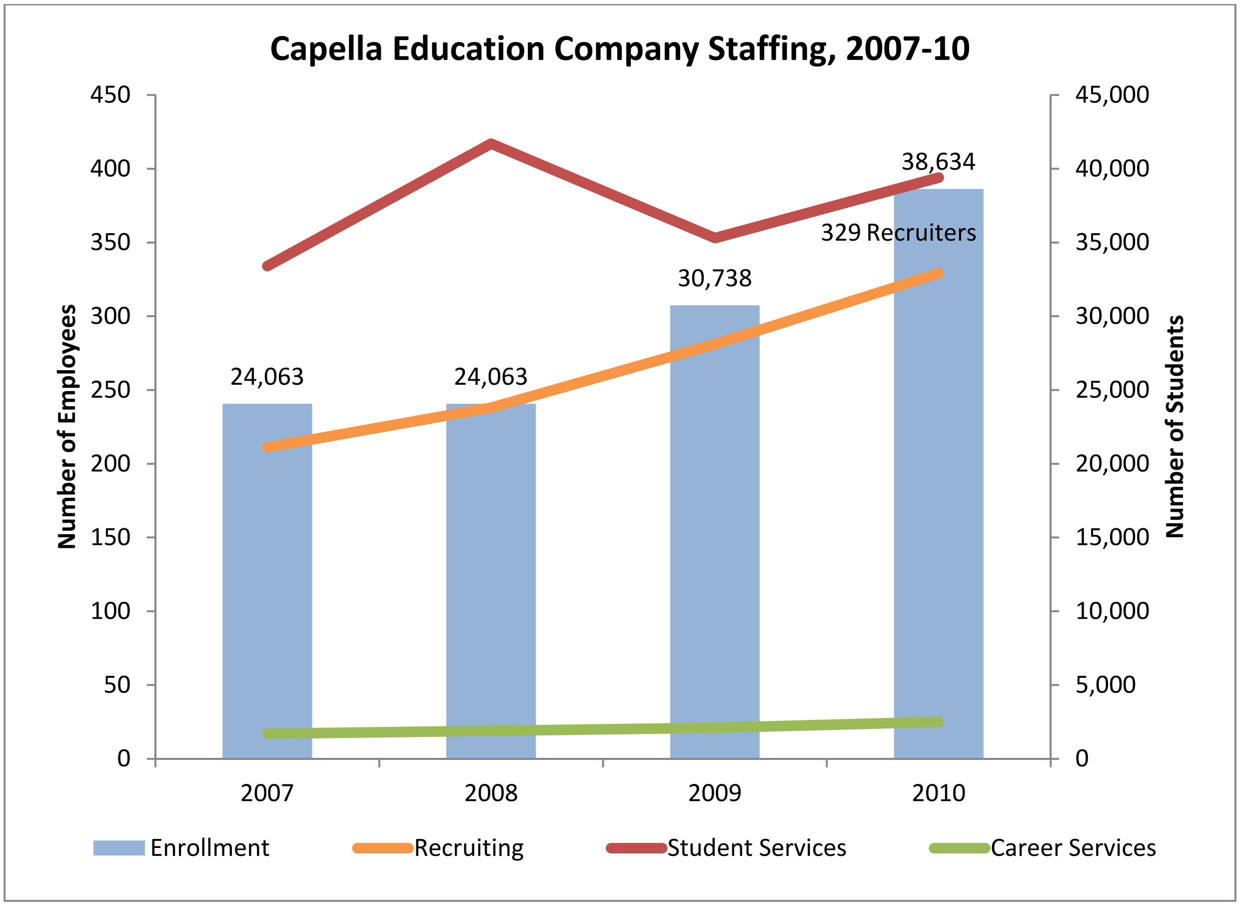
> [This student's] letter is troubling in light of two other recent complaints … These complaints, taken as a group, suggest dissatisfaction on the part of at least some graduate students with the quality of the interaction they have had in the institution's core academic programs and an unwillingness on the part of the institution to review and respond to the potential customer service issues these complaints suggest.[1318]

While student complaints may not be representative of the experience of the majority of students, these complaints do provide an important perspective on Capella's academic quality.[1319]

[1313] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.
[1314] Id.
[1315] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.
[1316] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[1317] Id.
[1318] Letter from The Higher Learning Commission to Capella University President, December 20, 2006 (CAPELLA-0049248).
[1319] See also, Letter from The Higher Learning Commission to Cappella University, August 9, 2007 (CAPELLA-0049346)("I was a 4.0 student, I as you can see was nowhere near the limit of 7 years total enrolled in the school and yet from the way I

Staffing

While many for-profit companies employ large numbers of recruiters to enroll new students, these same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. Capella, however, employs a relatively large student services staff. In 2010, with 38,634 students, Capella employed 329 recruiters, 25 career services employees and 394 student services employees.[1320] That means each career counselor was responsible for 1,430 students and each student services staffer was responsible for 91 students. Meanwhile, the company employed one recruiter for every 77 students.



have been treated, ignored, and threatened I don't feel this school deserves to be reaccredited. I am sure there are a number of students that have had similar experiences and I don't see Capella trying to make amends or change, or keep control over their employees or faculty. If they want to be an online school they need to have more accountability as far as student contact. When a student can't get their mentor to answer an email they should be able to call the school and ask why."); Capella University, *Complaint Activity Report, Case # 57105933*, February 4, 2008 (CAPELLA-0049430)("I have completed all my course work and was allowed to enrolled in mt dissertation course and my committee fail me by allowing some other professor to give comments about my dissertation which lead me to sit out a whole quarter[sic]."); Capella University, *Complaint Activity Report, Case # 57087656*, February 13, 2007 (CAPELLA-0049396)("I was registered within course 9985C—for four days. I was charged the full amount of tuition for the quarter. The course did NOT require any course work, have any course expectations and was basically a "limbo" course to take my financial aid." (emphasis in original)).

[1320] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.

Department of Education Compliance Audit

In 2006, the U.S. Department of Education's Office of the Inspector General (OIG) conducted a compliance audit of Capella focusing on its policies and procedures concerning the return of title IV funds to students who withdrew from the school. The OIG found that Capella made accounting errors in how it calculated student eligibility for government-subsidized loans, including failing to return all funds disbursed on behalf of students who dropped out before their first day of class. In response to the audit, Capella recognized these errors in its accounting practices and attested to have made changes to ensure that such errors were not repeated.[1321]

Conclusion

Graduate students attending Capella's exclusively online programs appear to be faring much better than students at many companies the committee examined. However, the company's high withdrawal rate among its growing Bachelor's student population is a serious concern. While the backward looking default rate is very low and reflects Capella's solid track record to-date, it may fail to capture the emerging challenges the company faces with 4-year degree students.

Capella also spends an unusually high portion of revenue on marketing and a relatively small amount on instruction for its exclusively online program. Moreover, with most of the faculty serving in part-time positions, the academic independence of the faculty may also be an issue that should be addressed by accreditors.

Although Capella appears to maintain aggressive enrollment goals for the more than 300 recruiters it employs, the company also appears to have better controls on recruiting practices and invests more in student services than many companies reviewed. Capella's demonstrated record of student success in graduate degree programs will hopefully guide the company in improving the student completion rates of its growing undergraduate student population.

[1321] Paul Basken, "Capella University Overcharged Student Lenders $588,000, Audit Finds," *The Chronicle of Higher Education*, March 12, 2008 http://chronicle.com/article/Capella-University-Overcharged/40631 (accessed June 12, 2012).

Career Education Corporation

Introduction

Career Education Corporation ("CEC") is one of the largest for-profit education companies offering many types of programs from certificate to Bachelor's degrees. Like many for-profit education companies, in recent years CEC has experienced significant growth in student enrollment, Federal funds collected, and profit realized. At the same time, the company has been under near constant scrutiny from accreditors and law enforcement entities. Most recently, after inquiries from the New York attorney general, the company admitted that placement data for multiple campuses had been falsified. The student withdrawal rate for the Associate program is among the highest analyzed by the committee staff and the company also has unusually high rates of students defaulting on student loans. It is unclear that CEC delivers an educational product worth the rapidly growing Federal investment taxpayers and students are making in the company.

Company Overview

CEC is a publicly traded, for-profit education company headquartered in Schaumburg, IL. Founded in 1994 by John M. Larson, CEC grew quickly by acquiring established schools and making them profitable. The company's initial focus was on institutions offering business studies, visual design and information technology programs. The first purchases made by CEC were the Al Collins Graphic Design School in Tempe, AZ, and Brooks College in California.[1322] In 2003, CEC merged with competitor Whitman Education Group, Inc., gaining control over Sanford-Brown Colleges, Ultrasound Diagnostic Schools (now known as the Sanford-Brown Institute) and Colorado Technical Universities.

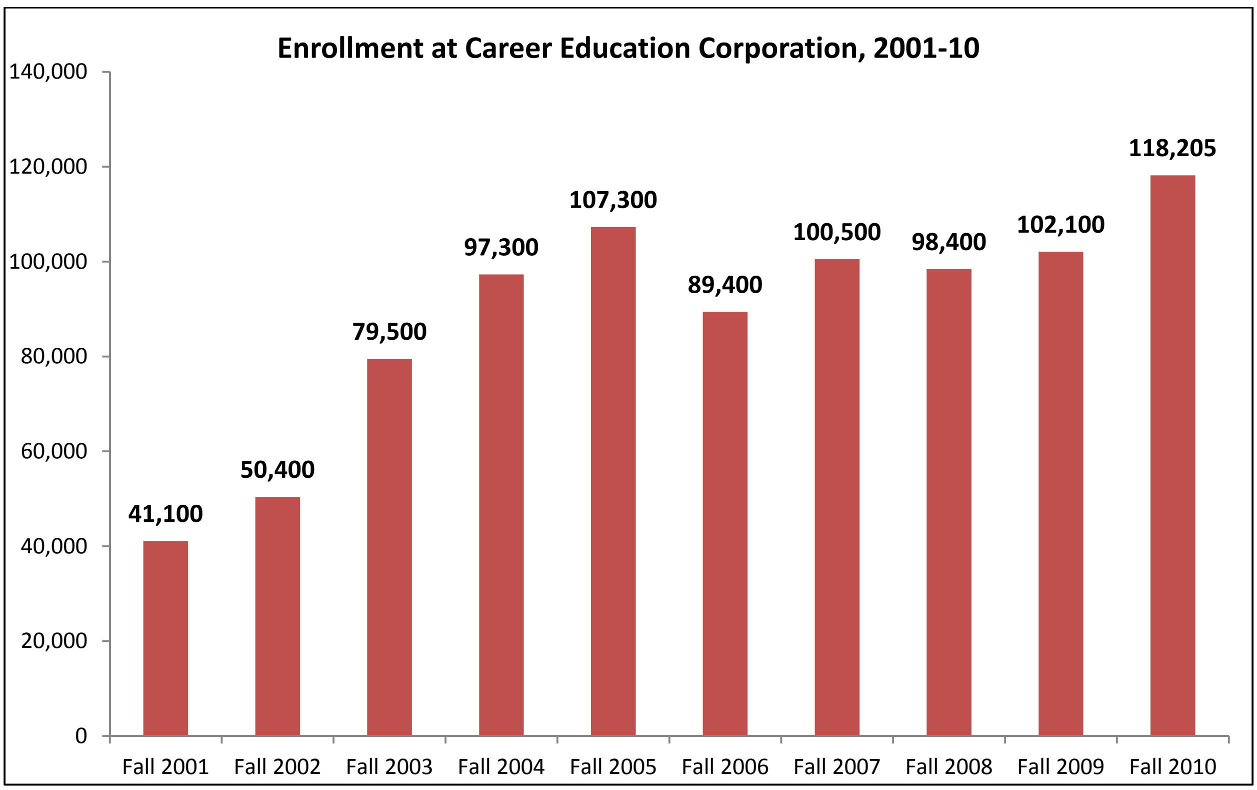
Today, CEC is the fourth largest for-profit higher education company in the country and has 83 campuses located across the United States.[1323] CEC schools offer Certificates as well as Associate, Bachelor's, Master's, and Doctoral degrees in areas including visual communication and design, culinary arts, information technology, business studies and health education. According to CEC, nearly 40 percent of its students attend one of its online programs.

[1322] After facing accreditation problems and coming under scrutiny by the U.S. Department of Education, CEC ceased enrolling students at Brooks College in 2007 and closed the Sunnyvale campus in September 2008 and the Long Beach campus in March 2009. Goldie Blumestyk, "Career Education Corp. Will Close 3 Colleges it has Tried to Sell," June 29, 2007, *The Chonicale of Higher Education*, http://chronicle.com/article/Career-Education-Corp-Will/39138 (accessed June 14, 2012).

[1323] Career Education Corporation, Form 10-K For periode December 31, 2011.

Brands	Focus
American Intercontinental University	Online graduate programs in various fields
Briarcliffe College	Undergraduate programs in various fields
Brooks Institute	Programs in arts and technological design fields
Brown College	Programs in arts and technological design fields
Collins College	Programs in arts and technological design fields
Colorado Technical University	Online graduate programs in various fields
Harrington College of Design	Programs in arts and technological design fields
International Academy of Design & Technology	Programs in arts and technological design fields
Le Cordon Bleu	Culinary Programs
Missouri College	Undergraduate programs in various fields
Sanford-Brown	Certificate and undergraduate programs in allied health

Steven H. Lesnik, former chairman of the Illinois Board of Education, was appointed president and CEO of CEC in November 2011, and has served as chairman of the board of directors since 2008. Lesnik assumed his leadership role upon the resignation of Gary E. McCullough after widespread misreporting of career placement rates and declining profits.



In the fall of 2010, 118,205 students were enrolled at CEC.[1324] Enrollment has nearly tripled over the last decade, up from 41,100 in 2001. The growth in enrollment has led to growth in revenue. Over the past 4 years, revenue has increased from $1.7 billion in 2007 to $2.1 billion in 2010.[1325]

1324 Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.

Accreditation

American InterContinental University (AIU), Colorado Technical University (CTU), Harrington College of Design, and Le Cordon Bleu College in Chicago are regionally accredited by HLC.[1326] Briarcliffe College, which provides undergraduate programs in various fields, is regionally accredited by the Commission on Higher Education of the Middle States Association of Colleges and Schools (MSA).

All other CEC brands are nationally accredited. National accreditors include the Accrediting Commission of Career Schools and Colleges (ACCSC) and the Accrediting Council for Independent Colleges and Schools (ACICS). ACICS accredits 71 campuses, all of which are subject to by a show cause order issued by ACICS as the result of the false career placement statistics. Other campuses are accredited by ACCSC, including some Brown College, Le Cordon Bleu, and Sanford-Brown campuses. In June 2012, Career Education said the Accrediting Commission of Career Schools and Colleges (ACCSC) voted to direct 10 of its institutions to show cause as to why their accreditation should not be withdrawn.

Federal Revenue

Nearly all for-profit education companies derive the majority of their revenue from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1327] Together, the 30 companies the committee examined derived 79 percent of their revenue from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1328]

In 2010, CEC reported 81.5 percent of revenue from title IV Federal financial aid programs. However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.[1329] Department of Defense Tuition Assistance and post-9/11

[1325] The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.

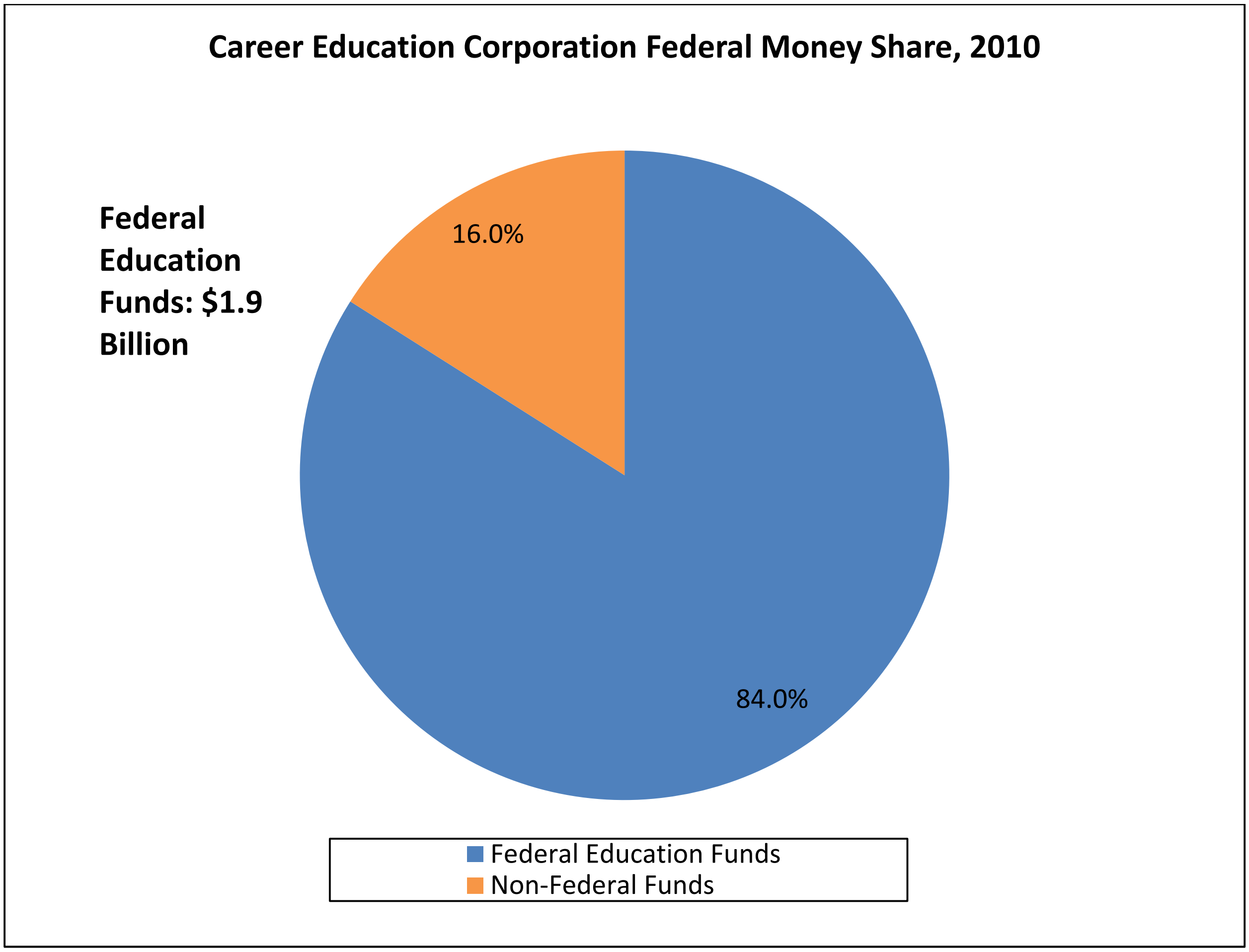
[1326] More than half of the regionally accredited brands at the 30 companies examined by the committee are accredited by the HLC.

[1327] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education. “Federal financial aid funds” as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 USC §1070 et seq.

[1328] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 15, 2011. See Appendix 9.

[1329] This amount also does not include revenue CEC was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA). The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010.

GI bill funds accounted for approximately 3.8 percent of CEC's revenue, or $71.5 million.[1330] With these funds included, 85.3 percent of CEC's total revenue was comprised of Federal education funds.[1331]



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[1332] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for

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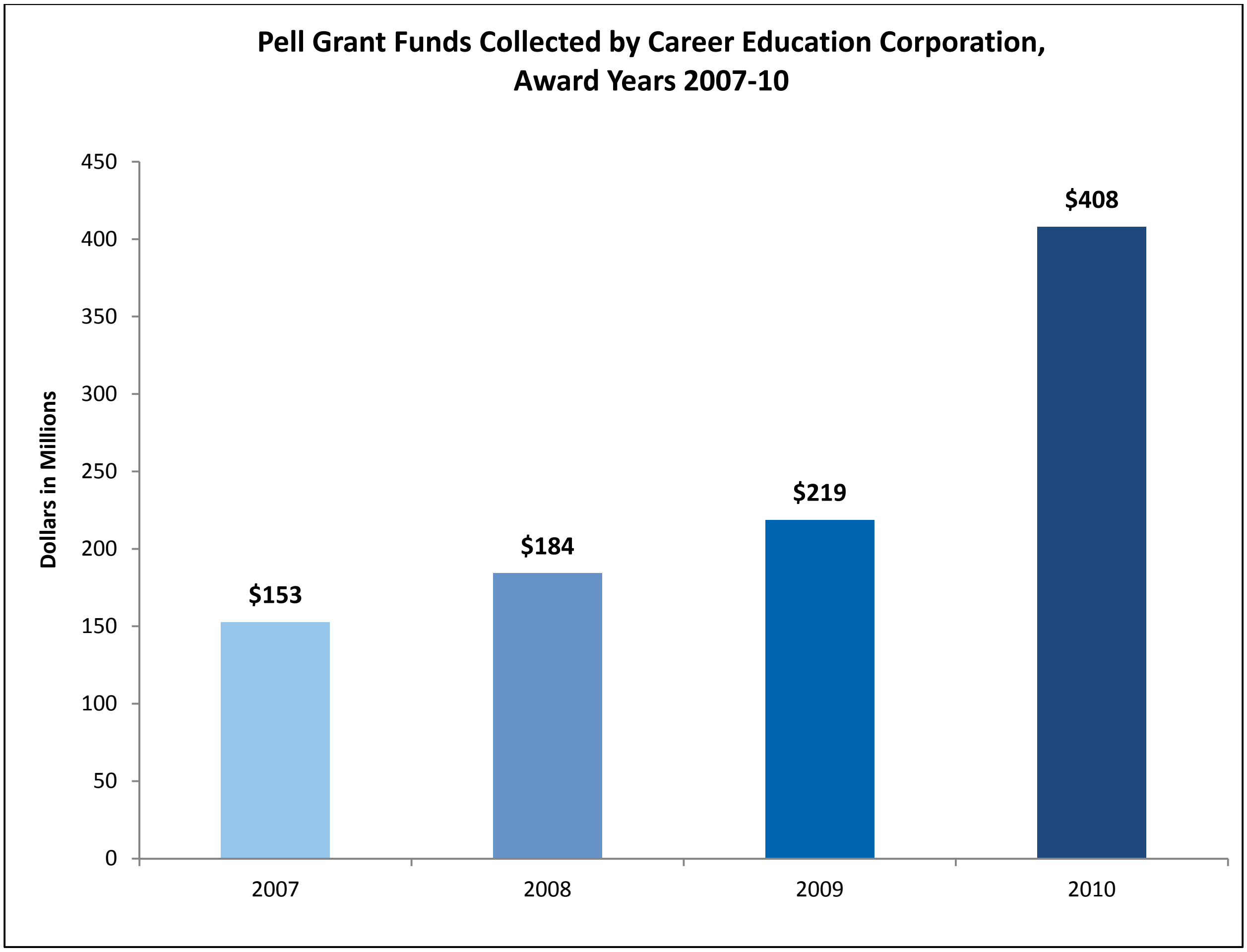
[1330] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[1331] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs, and where available Federal financial aid funds permissibly excluded pursuant to the Ensuring Continued Access to Student Loan Act of 2008 (ECASLA). See Appendix 10.

[1332] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.

the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.



CEC increased the amount of Pell grant funds it collects by 167 percent, from $152.7 million in 2007 to $407.9 million in 2010.[1333]

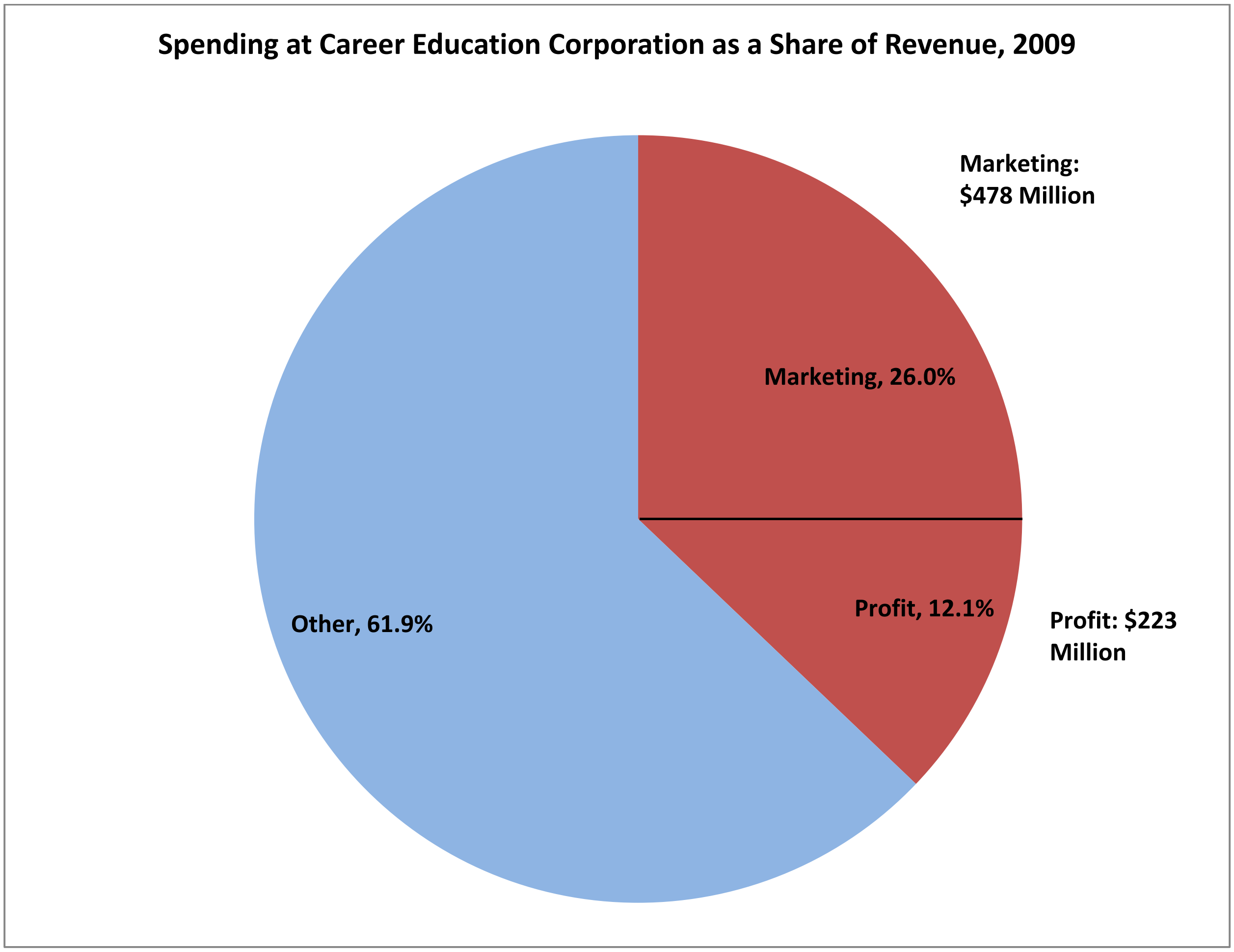
Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students, and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009. During the same period, the companies spent 22.6 percent of revenues, $3.7 billion, on marketing and recruiting

[1333] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

and 19.7 percent, $3.2 billion, on profit.[1334] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

In 2009, CEC allocated 12.1 percent of its revenue, $222.6 million, to profit, and 26.0 percent, $477.9 million, to marketing and recruiting.[1335]



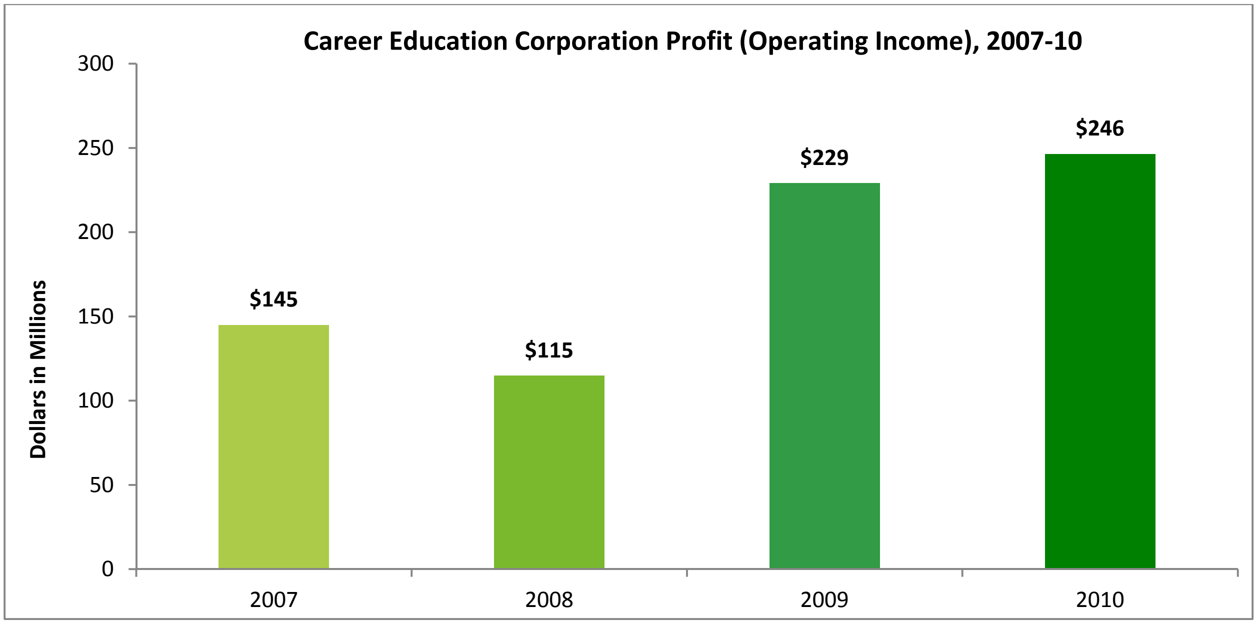
CEC devoted a total of $692 million to marketing, recruiting and profit in fiscal year 2009. [1336] The amount of profit generated by CEC has also risen in recent years. In 2007, CEC reported a profit of $144.8 million; by 2010 that profit increased by 70 percent to $246.4 million although these figures declined dramatically following revelations regarding the placement related issues.[1337]

1334 Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.

1335 Id. "Other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

1336 Id.

1337 Senate HELP Committee staff analysis. See Appendix 18. Following a drop of enrollment and revenue in 2011, profit fell to $39 million in the same year. See Career Education Corporation, 2011 10-K.



Executive Compensation

Executives at CEC, like most for-profit executives, are also more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[1338] In 2009, CEC President and CEO Gary E. McCullough received $4.6 million in compensation, more than 33 times as much as the president of the University of Illinois at Urbana-Champaign, who received $137,850 in total compensation for 2009-10.[1339] After McCullough's resignation, in the wake of the placement statistics revelations, the company provided him with a severance package worth an additional $5 million dollars over 2 years.[1340]

Executive	Title	2009 Compensation	2010 Compensation
Gary E. McCullough	President and Chief Executive Officer	$4,576,923	$4,923,791
Michael J. Graham	Executive Vice President and Chief Financial Officer	$1,633,227	$1,751,315
Jeffery D. Ayers	Senior Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	$1,156,416	$1,374,454
Deborah L. Lenart	Senior Vice President, Sanford-Brown University	$1,793,900	$1,278,029
George K. Grayeb	Senior Vice President, Health Education	$1,145,306	$1,121,574
Total[1341]		$11,557,882	$10,717,520

[1338] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and Chief Executive salary surveys published by the Chronicle of Higher Education for the 2008-09 school year. See Appendix 17a and Appendix 17b.
[1339] Daily Illini, *Salary Guide*, http://data.illinimedia.com/salaries/index/2009/cu/ (accessed June 14, 2012).
[1340] Career Education Corporation, Form 8-K November 22, 2011.
[1341] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.

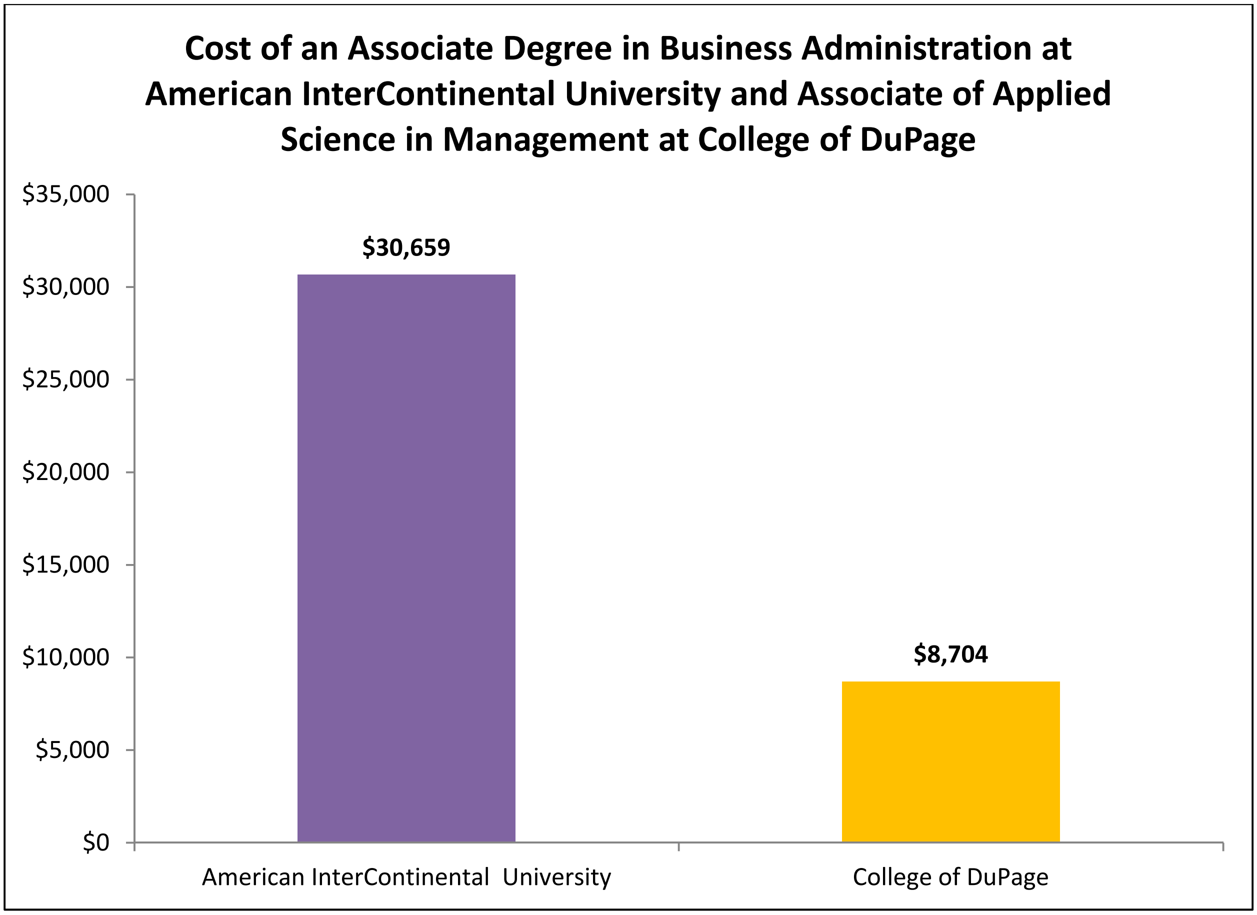
The chief executive officers of the large publicly-traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[1342]

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at some CEC-owned brands. Associate degrees at CEC are significantly more expensive. However, a Bachelor's degree at CEC's American InterContinental University is competitively priced.

An Associate degree in Business Administration and Management at CEC's American InterContinental University in Atlanta costs $30,659,[1343] over 250 percent more than an Associate degree in Management at the College of DuPage, which costs $8,704.[1344] CEC owned Sanford Brown charges $28,737 for a Certificate in Medical Assisting.[1345] The same degree from the College of DuPage costs $5,858.[1346] However, a Bachelor's degree in Business Administration at CEC's American InterContinental University in Illinois costs $67,819,[1347] while the same degree at the University of Illinois at Urbana Champagne costs $84,320.[1348]

[1342] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.
[1343] See Appendix 14; see also, American InterContinental University, *2012 Tuition Schedule*, http://catalog.careered.com/~/media/Catalogs/39/Fees.ashx (accessed June 14, 2012).
[1344] See Appendix 14; see also, College of DuPage, *College of DuPage*, http://www.cod.edu/ (accessed June 14, 2012).
[1345] Sanford-Brown College, *Tuition, Fees, and Median Loan Debt Disclosure*, http://www.sanfordbrown.edu/~/media/Disclosures/SB/Tinley-Park/Sanford-Brown-College-Tinley-Park-032103-14-Tuition-Debt-Disclosure.ashx (July 13, 2012).
[1346] College of DuPage, *College of DuPage*, http://www.cod.edu/ (accessed June 14, 2012).
[1347] See Appendix 14; see also, Sanford-Brown College, *Tuition, Fees, and Median Loan Debt Disclosure*, http://www.sanfordbrown.edu/~/media/Disclosures/SB/Fenton/Sanford-Brown-College-Fenton-022052-00-Tuition-Debt-Disclosure.ashx (accessed July 12, 2012).
[1348] See Appendix 14; see also, University of Illinois, *University of Illinois at Urbana-Champaign*, http://illinois.edu/ (accessed July 12, 2012).



The higher tuition that CEC charges is reflected in the amount of money that CEC collects for each veteran that it enrolls. From 2009 to 2011, CEC trained 10,045 veterans and received $129.7 million in post-9/11 GI bill benefits, averaging $12,908 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[1349]

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations, for-profit colleges recruit as many students as possible to sign up for their programs.

During the period examined, and prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, documents clearly reflect the pressure on recruiters to meet enrollment targets. In an internal training document, "Telephone Tips," CEC instructs its recruiters to "NOT GIVE TOO MUCH INFORMATION" and "create a sense of urgency" during calls with prospective students [emphasis in original].[1350]

[1349] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[1350] Career Education Corporation, *Telephone Techniques* (CEC000014470, at CEC000014473).

A CEC "Telephone Techniques" manual instructs recruiters to "limit the time frames that you offer to that student [for an in-person appointment] and always express to them how busy your schedule is. . . . If you offer too many time availabilities, it appears as though there is no urgency or demand." [1351]

In 2005, several CEC schools in the New York area were the subject of a CBS news magazine "60 Minutes" report focusing on misrepresentations made by admission representatives to prospective students. A CBS associate producer visited the schools posing as a prospective student and uncovered several instances of misrepresentations by admissions representatives.[1352] At one of the schools, the Katherine Gibbs School,[1353] the producer asked about graduation rates and was told that 89 percent graduated, when, in fact, the school's graduation rate was 29 percent. At another school, a Sanford Brown Institute campus, the undercover producer was told by an admissions representative that the school was highly selective; however the undercover producer was unable to disqualify herself from admission into the medical assistant program. She admitted to low grades, prior drug use and a "problem with blood," and received only 14 of 50 questions on her second attempt at passing the admissions test, but she still she was accepted into the program.

Three former admission counselors at Brooks College told 60 Minutes they were expected to enroll three high school graduates a week, regardless of the student's ability to complete the coursework.[1354] According to these former CEC employees, if they did not meet those quotas, they would lose their jobs. One of the former admission counselors described the aggressive sales tactics that they were required to employ on the job: "we were really sales people … the job was a lot like a used-car lot, because if I couldn't close you, my boss would come in, try to close you." [1355] He also explained how they mislead prospective students: "We're telling you that you're gonna have a 95 percent chance that you are gonna have a job paying $35,000 to $45,000 a year by the time they are done in 18 months. We later found out it's not true at all." [1356] Another commented: "You need three things, you need $50, a pulse, you've got to be able to sign your name. That's about it." [1357]

Although it is easy to get in, students have little opportunity for recourse if the school does not deliver on its promises. CEC, like many other for-profit education companies, includes a binding arbitration clause in its standard enrollment agreement.[1358] This clause severely limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of

[1351] Id. at CEC000014471.
[1352] Rebecca Leung. "For-Profit College: Costly Lesson," *60 Minutes*, February 11, 2009, http://www.cbsnews.com/stories/2005/01/31/60minutes/main670479.shtml.
[1353] In 2008, CEC converted two of the nine campuses in the Gibbs brand, Vienna, Virginia and Melville, New York, to its Sanford-Brown College brand. The remaining seven campuses, including the Katharine Gibbs School in New York City, were scheduled to close in December 2009.
[1354] Rebecca Leung. "For-Profit College: Costly Lesson," *60 Minutes*, February 11, 2009. http://www.cbsnews.com/stories/2005/01/31/60minutes/main670479.shtml.
[1355] Id.
[1356] Id.
[1357] Id.
[1358] Career Education Corporation, *American InterContinental University: Enrollment Agreement* (CEC000018486,at CEC000018488).

students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program, and 96 percent who enroll in a 4-year degree program at a for-profit college take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1359]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll in at CEC are not achieving their educational and career goals.

Retention Rates

Information CEC provided to the committee indicates that, out of 97,393 students who enrolled at CEC in 2008-09, 53.1 percent, or 51,733, withdrew by mid-2010. These withdrawn students were enrolled a median of 4 months.[1360] Overall, CEC's retention rate tracks the sector-wide rate withdrawal rate of 54.1 percent. CEC's Bachelor's degree withdrawal rate of 51.4 percent is the ninth highest of the 30 schools examined. The company's Associate degree withdrawal rate of 61.7 percent is slightly lower that the sector-wide rates of 62.9 percent, and its Certificate program withdrawal rate of 32.9 percent is significantly lower that the sector-wide Certificate withdrawal rate of 38.5 percent.[1361] Still, this data analysis indicates that more than half of the company's students who enrolled in 2008-09 left CEC by mid-2010 without a degree.

Status of Students Enrolled at Career Education Corporation in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	54,553	24.8%	13.6%	61.7%	33,634	122
Bachelor's Degree	21,726	19%	29.6%	51.4%	11,157	143
Certificate	21,114	55.9%	11.2%	32.9%	6,942	127
All	97,393	30.2%	16.6%	53.1%	51,733	127

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

[1359] Patricia Steele & Sandy Baum, "How Much Are College Students Borrowing?" *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 14, 2012).
[1360] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.
[1361] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

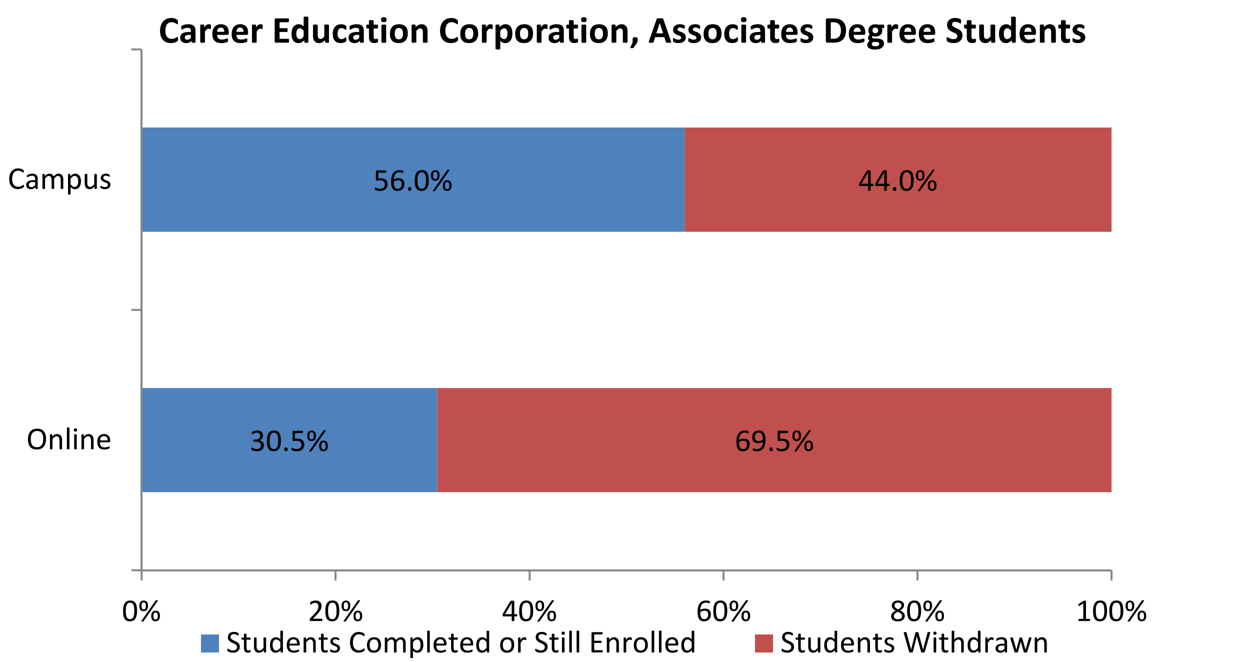
Online v. Brick and Mortar Retention

Status of Bricks & Mortar Students Enrolled at CEC in 2008-9, as of 2010					
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**
Associate Degree	16,803	32.4%	23.6%	44.0%	7,395
Bachelor's Degree	9,338	3.7%	42.6%	53.7%	5,013
All	47,255	25.7%	21.8%	40.9%	19,350

Status of Online Students Enrolled at Career Education Corporation in 2008-9, as of 2010					
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**
Associate Degree	37,750	21.4%	9.1%	69.5%	26,239
Bachelor's Degree	12,388	30.6%	19.8%	49.6%	6,144
All	50,138	23.6%	11.8%	64.6%	32,383

Among the eleven companies that provided data in a way that could be analyzed, students attending online programs had higher withdrawal rates than students attending campus based programs. A comparison of the outcomes for students who attended CEC online and students who attended brick and mortar campuses indicates that online Associate degree students withdrew at a significantly higher rate than their brick and mortar counterparts.[1362]

[1362] CEC does not offer Certificate programs online.



Source: HELP Committee analysis of documents provided by Career Education Corporation for students enrolling between 2008 and 2009.

Student Loan Defaults

The number of students leaving CEC with no degree correlates with the rates of student loan defaults by students who attended CEC. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1363]

Slightly more than 1 in 5 students who attended a for-profit college, 22 percent, defaulted on a student loan, according to the most recent data.[1364] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1365] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1366] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1367]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent. This change represents a 32.6 percent increase over 4 years.[1368] CEC's 3-year default has fluctuated over the last 4 years, but has gradually increased since 2006,

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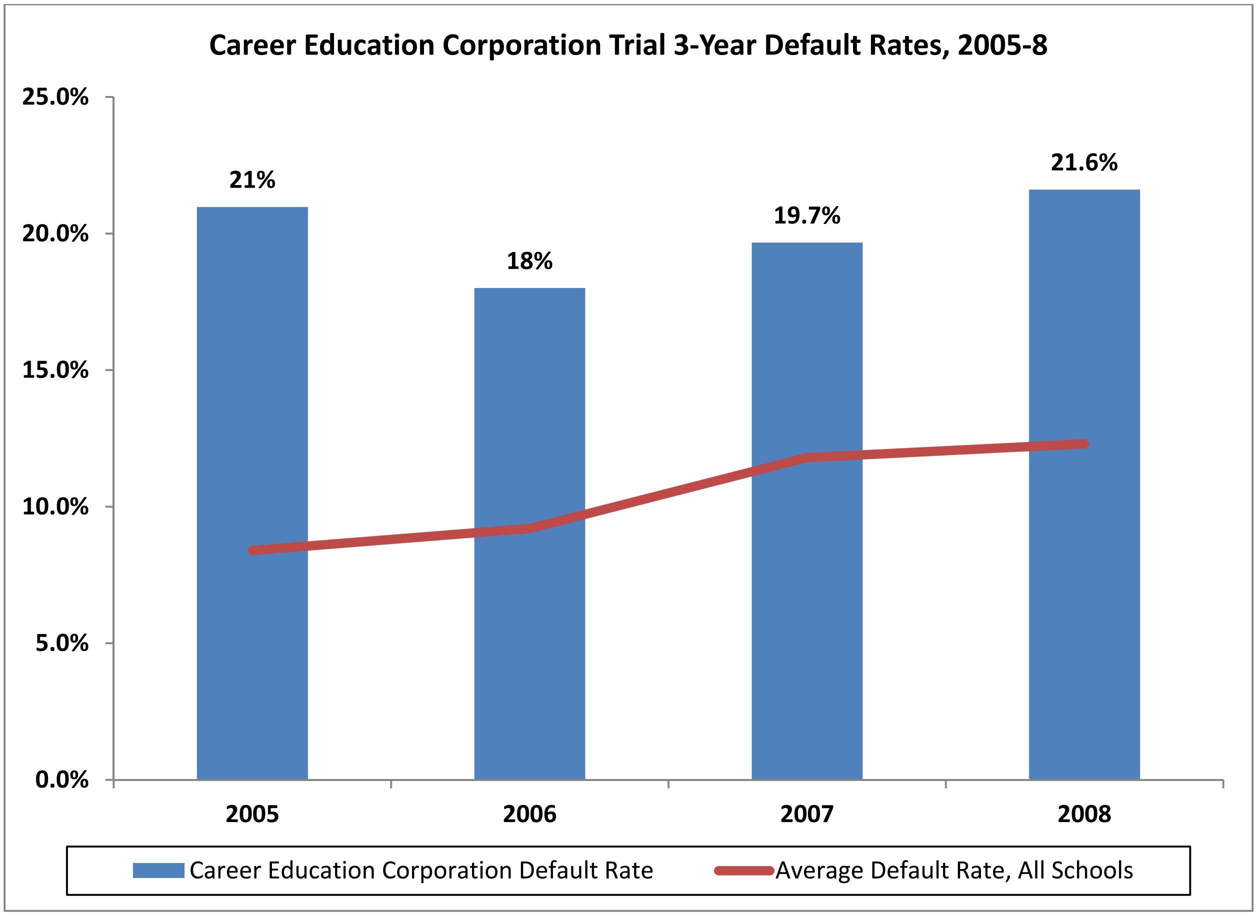
[1363] Direct Loan default rates, 34 CFR 668.183(c).
[1364] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.

[1365] Id.
[1366] Id.
[1367] Id.
[1368] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.

growing from 18 percent for students entering repayment in 2006 to 21.6 percent for students entering repayment in 2008. CEC's most recent default rate is almost double the average rate for all colleges.



The default rate at some CEC's campuses is even higher. Thirty-one percent of students who entered repayment in 2008, after attending CEC's Sanford-Brown Institute in Rhode Island, had defaulted within 3 years. Other Sanford Brown College campuses also rank among the highest; 27.3 percent students at the Texas campus who entered repayment in 2008 defaulted within three years, and 28.5 percent of students at the Connecticut campus defaulted. At Gibbs College in Massachusetts, a school CEC has since closed, 27.4 percent of students who entered repayment in 2008 defaulted within 3 years.

Default Management

CEC has focused significant resources on finding ways to eliminate students from its reported default rates. Helping get delinquent students into repayment, deferment, or forbearance prior to default is encouraged by the Department of Education. However, many for-profit colleges appear to be investing in aggressive tactics for the sole purpose of ensuring that borrowers do not default within the 3 year regulatory window.

Default management is primarily accomplished by putting students who have not made payments on their student loans into temporary deferments or forbearances. While the use of deferment and forbearance is fairly widespread throughout the sector, documents produced indicate that a number of companies, including CEC, also pursue default management strategies that include loan counseling, education, and alternative repayment options. Unlike many companies, CEC's manuals and contracts typically begin by addressing "repayment obstacles" and informing students of alternative repayment plans including income-based repayment.[1369]

This is particularly important because forbearances may not always be in the best interest of the student. This is because during forbearance of Federal loans, as well as during deferment of unsubsidized loans, interest still accrues. The additional interest accrued during the period of forbearance is added to the principal loan balance at the end of the forbearance, with the result that interest then accrues on an even larger balance. Thus, some students will end up paying much more over the life of their loan after a forbearance or deferment.

However, CEC's 2009 "Cohort Default Management Guide" shows an aggressive approach to contacting students. The guide counsels that a student should be contacted an average of 46 times by phone, plus 12 times by letters and emails, once that student's loans entered repayment.[1370] Another internal training document, CEC's "skip tracing guide to locating students," sets out recommendations and procedures to track down students for which the school does not have a valid phone number or address.[1371]

The guide also recommends calling relatives to get to the student: "When talking to a relative or reference you want to try to make them your best friend" in order to get them to tell the employee the students contact information. After relatives, the guide tells employees to call "associates" and neighbors of the student. The guide recommends not allowing a third party to ask questions about why the school is calling: "If they start to ask questions they are more likely to put their guard up and not help you contact the student." Finally, the guide suggests calling the student's place of employment, if any.[1372]

Calling a student's employer to inform them of overdue loans could be disruptive and potentially damage the student's reputation at work. For other kinds of personal debt, the Fair Debt Collection Practices Act prohibits debt collectors from contacting a person's place of employment if the debt collector knows the employer disapproves. Nonetheless, the guide instructs: "in the event that they will not give you the department [the student works for] you should ask the Human Resources or Payroll representative if they can relay a message to the student for you."

These practices are troubling. The cohort default rate is designed not just as a sanction but also as a key indicator of a school's ability to serve its students and help them secure jobs. If schools actively work to place students in forbearance and deferment, that means taxpayers and policymakers fail to get an accurate assessment of repayment and default rates. A school that has large numbers of its students defaulting on their loans indicates problems with program quality, retention, student services, career services, and reputation in the employer community. Aggressive default management undermines the validity of the default rate indicator by masking the true number of students who end up defaulting on their loans. Critically, schools that would otherwise face penalties—including loss of access to further taxpayer funds—continue to operate because they are able to manipulate their default statistics.

[1369] Career Education Corporation, March 23, 2009, *Cohort Default Management Plan* (CEC000012944, at CEC000012949).
[1370] Id. at CEC000012950. Even with such repeated student contacts, CEC had a consolidated default rate of 21.6 percent, the rate at one campus exceeded 31 percent, and another three surpassed 25 percent.
[1371] Career Education Corporation, A skip tracing guide to location Students (CEC000012813).
[1372] Id.

Instruction and Academics

The quality of any college's academics is difficult to measure. However, the amount that a school spends on instruction per student compared to other spending is a useful indicator. CEC spent $1,521 per student on instruction in 2009, compared to $3,142 per student on marketing and $1,505 per student on profit.[1373] The amount that publicly traded for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. In contrast, public and non-profit schools generally spend a higher amount per student on instruction, while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other Illinois-based colleges spent, on a per student basis, $11,776 at the University of Illinois at Champagne, $10,018 at DePaul University and $4,603 at College of DuPage.[1374]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee examined, 80 percent of the faculty is part-time, higher in some companies.[1375] In 2010, CEC employed 1,867 full-time and 5,005 part-time faculty.[1376]

Programmatic Accreditation

Institutions that offer programs that lack programmatic accreditation are highly inconsistent in how they disclose this lack of programmatic accreditation. Some make a note on the programs' Web pages, albeit rarely in a prominent location. Others bury the disclosure deep in their Web sites or in the fine print within pages of enrollment agreements, while framing the disclosure in terms that prevent students from recognizing the gravity of this issue. The committee discovered multiple examples of students who were recruited into non-accredited programs under the mistaken belief that their investment of time and money would lead to a valuable credential and access to a job in the field.

Yasmine Issa, who testified before the committee on June 24, 2010, attended CEC's Sanford-Brown College in New York.[1377] Ms. Issa enrolled in the 18-month sonography program with the goal of securing employment performing ultrasounds in an obstetrical office. She completed the program in 2008 at a cost of $32,000. Only after completing the program did she learn from prospective employers

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[1373] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students. Denominator is IPEDS "full-time equivalent" enrollment. Due to deficiencies in the data, it is unclear as to whether this instructional figure includes American Military University students.
[1374] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.
[1375] Senate HELP Committee staff analysis of information provided to the committee by the companies pursuant to the committee document request of August 5, 2010. See Appendix 24.
[1376] Id.
[1377] Yasmine Issa, *Emerging Risk? Federal Spending on For-Profit Education*, Hearings Before the Senate Committee on Health, Educucation, Labor, and Pensions, 112th Congress (2010) (testimony of Yasmine Issa), available at http://help.senate.gov/imo/media/doc/Issa.pdf.

that in order to be employable she needed to be certified by the American Registry for Diagnostic Medical Sonographers (ARDMS). She also learned that because the CEC program she completed was not programmatically accredited, she could not sit for the certification exam until she completed a year of work in the field.[1378] However, she was unable to complete this requirement because, absent a license, no employer would hire her.

It was not until after completing the sonography program that Ms. Issa learned of the program's lack of programmatic accreditation. She could have taken the certification exam without work experience had her degree program been programmatically accredited. Because CEC failed to openly disclose the programmatic accreditation status, Ms. Issa was stuck with a functionally useless degree. As she put it, "I thought that going to school to learn a marketable skill would allow me to provide for my family. Instead, it has left me more than $20,000 in debt and unable to be hired in the field I trained for."

Sanford-Brown's Programmatic Accreditation Disclosures

Committee staff examined three programs at Sanford-Brown, the CEC school Ms. Issa attended, for which programmatic accreditations are important: surgical technology, dialysis technology and veterinary technology. A review of program information provided by Sanford-Brown's Web site demonstrates that the company is not forthright in its presentation of its degree programs' programmatic accreditation status. Programmatic accreditation information is buried deep within the site, presented in difficult-to-read paragraphs, and fails to note those campuses that lack accreditation. Further, the page's discussion of accreditation minimizes the relationship between accreditation and graduates' prospects for professional success.

Programmatic Accreditation and Employment for the Three Fields

The three programs the committee examined vary somewhat in terms of how strictly programmatic accreditation is required to find work in the field. Surgical technologists regularly seek certification from the National Board of Surgical Technology and Surgical Assisting (NBSTSA). While certification from the NBSTSA is not an absolute requirement for employment, the Bureau of Labor Statistics reports that most employers seek to hire certified surgical technologists.[1379] Students may sit for the certification exam if they graduated from a program accredited by the Commission on Accreditation of Allied Health Education Programs (CAAHEP). While an alternate path to certification exists for students from unaccredited programs, it requires that students accumulate years of on-the-job training or work experience.

As with the surgical technology program, accreditation in the field of dialysis technology impacts the professional success of program graduates. Many employers and some States require that dialysis technicians be certified. Indeed, under regulations promulgated by the Centers for Medicare & Medicaid Services (CMS) in 2008, clinics must demonstrate that all technicians have passed either a national certification exam or state-sanctioned test that meets the basic conditions outlined by CMS.[1380] In order to sit for one of the national certification exams, applicants must either graduate from an

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[1378] ARDMS is not itself a programmatic accrediting agency, rather it allows students to sit for examination who graduate from programs accredited by the Commission on Accreditation of Allied Health Education Programs (CAAHEP). The program Ms. Issa attended is not accredited by CAAHEP.

[1379] See U.S. Department of Labor, Bureau of Labor Statistics, *Occupational Outlook Handbook, 2010-11 Edition: Surgical Technologists*, http://www.bls.gov/oco/ocos106.htm (accessed Oct. 31, 2011).

[1380] Id.

accredited program or from a program that provides students with hands-on, clinical training.[1381] Despite these requirements, Sanford-Brown claims that "graduates who have diligently attended class and their externship, studied, and practiced their skills should have the skills to seek entry-level employment as dialysis technicians."[1382]

Finally, certification is especially important in the field of veterinary technology. Most States require that veterinary technicians pass a credentialing examination, and even in those States that do not, most employers strongly prefer to hire certified technicians.[1383] The majority of jurisdictions rely on the Veterinary Technician National Examination (VTNE) as a means of evaluating applicants' suitability for practice and eligibility to be credentialed.[1384] Although an independent credentialing body determines the format of the VTNE, the State Boards of Veterinary Examiners or other State agencies tasked with regulating the exam typically require that VTNE candidates graduate from a training program that is accredited by either the American or Canadian Veterinary Medical Association.[1385]

Misleading Disclosures

Sanford-Brown offers programs in surgical technology at 10 campuses, including three that are not programmatically accredited. Yet the online promotional materials detailing the three programs that lack programmatic accreditation do not mention the programs' status. Sanford-Brown does publish information about the accreditation and licensure of its training programs online, but only discloses accreditation status in a single location on its Web site.[1386] Prospective students investigating the suitability of a program or campus will not find such accreditation information on the pages describing the program itself. Rather, they would have to select a particular campus,[1387] read through the curricular information provided for the surgical technology program available at that location, and then click the link titled "For accreditation and certification information and disclosures for this and other Sanford-Brown programs and campuses, please click here." [1388] That, in turn, would take the student to a page providing an extensive list of the credentials and licenses issued to each Sanford-Brown campus and program. Even after navigating that long list, however, a student would only see a list of the programs and campuses that have achieved accreditation, not locations that continue to offer training but lack programmatic accreditation.

[1381] U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, Conditions for Coverage for End-Stage Renal Disease Facilities Final Rule, 42 CFR §§ 405, 410, 413 et al. (2008), http://www.cms.gov/CFCsAndCoPs/downloads/ESRDfinalrule0415.pdf (accessed June 14, 2012).

[1382] Sanford-Brown, *Certificate Program in Dialysis Technology*, http://www.sanfordbrown.edu/Areas-Of-Study/Allied-Health-Technicians-And-Therapists/Dialysis-Technology/Certificate-Program-In-Dialysis-Technology (accessed Nov. 22, 2011).

[1383] See U.S. Department of Labor, Bureau of Labor Statistics, *Occupational Outlook Handbook, 2010-11 Edition*: *Veterinary Technologists and Technicians*, http://www.bls.gov/oco/ocos183.htm (accessed Nov. 22, 2011).

[1384] See American Association of Veterinary State Boards, *Veterinary Technician National Exam*, http://www.aavsb.org/VTNE (accessed Nov. 22, 2011).

[1385] See American Association of Veterinary State Boards, *Eligibility for First Timers*, http://www.aavsb.org/VTNE/eligibility for first timers (accessed Nov. 22, 2011).

[1386] See Sanford-Brown, *Accreditation & Licensure*, http://www.sanfordbrown.edu/About-Us/Accreditation-And-Certification (accessed Oct. 31, 2011).

[1387] See Sanford-Brown, *Surgical Technology*, http://www.sanfordbrown.edu/Areas-Of-Study/Allied-Health-Technicians-And-Therapists/Surgical-Technology (accessed Oct. 31, 2011) (providing a list of every Sanford-Brown campus at which a surgical technology program is available).

[1388] See Sanford-Brown, *Associate of Applied Science Degree Program in Surgical Technology*, http://www.sanfordbrown.edu/Areas-of-Study/allied-health-technicians-and-therapists/surgical-technology/Associate-of-Applied-Science-Degree-Program-in-Surgical-Technology (accessed Oct. 31, 2011) (describing the associate degree program available at the St. Peters, Missouri, location).

Thus, Sanford-Brown's surgical technology programs at campuses in New York City, Skokie, IL, and St. Peters, MO, do not appear on the "Accreditation & Licensure" page, as each currently lacks programmatic accreditation. Similarly, the six campuses that lack programmatic accreditation for dialysis technology and the four campuses that lack accreditation for veterinary studies are all omitted from the disclosures. However, the locations do remain listed among the campuses offering those degree programs, and no mention is made of the fact that the programs lack accreditation.

In addition to obfuscating the accreditation status of individual Sanford-Brown programs, the page on which the accreditation and licensure information is published downplays the role of accreditation. The Sanford-Brown Web site states that "accreditation is a voluntary process which may be undertaken by schools to demonstrate compliance with specific standards designed to indicate a level of education quality." [1389]

The online program description for the veterinary technology program offered at Sanford-Brown's Portland, OR, campus claims that "graduates who have diligently attended class and their clinical, studied, and practiced their skills should have the skills to seek entry-level employment as veterinary technicians." [1390] In truth, the program has not been accredited by the AVMA. And, the Oregon Veterinary Medical Examining Board (OVMEB) demands that VTNE applicants graduate from an AVMA-accredited program. Applicants with solely on-the-job experience are not allowed to sit for the test.[1391] While graduates of the program may be able to move to other States to gain entry in the field, this would present an untenable burden for many people.

In sum, the company diminishes the significance of programmatic accreditation in its disclosures and sometimes fails to inform prospective students that the lack of accreditation can stand as a barrier to professional success following graduation.

Staffing

While for-profit education companies employed large numbers of recruiters to enroll new students, some companies frequently employee far fewer staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 118,205 students, CEC employed 2,668 recruiters, 293 career services employees and 865 student services employees.[1392] Each career counselor was responsible for 403 students and each student services staffer was responsible for 137 students, but the company employed one recruiter for every 44 students.

Regulatory Strategies

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenues come from title IV Federal financial aid programs, and that no more than 25 percent of students default within 2 years of entering loan repayment. As discussed above, some companies lower their reported default rates by placing students in forbearances and deferments to delay

[1389] Id.
[1390] See Sanford-Brown, *Accreditation & Licensure*, http://www.sanfordbrown.edu/About-Us/Accreditation-And-Certification (accessed Oct. 31, 2011).
[1391] Oregon Veterinary Medical Examining Board, *Veterinary Applications*, http://www.oregon.gov/OVMEB/applications.shtml (accessed Oct. 31, 2011).
[1392] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.

default. Moreover, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of their revenues come from title IV Federal financial aid programs.

In addition to pursuing military servicemembers and veterans, which is discussed above, other 90/10 tactics CEC employs include delaying disbursement of funds students borrow to pay living expenses while attending school. A senior student finance executive at Sanford-Brown relayed this strategy in a 2008 internal company email:

> just had a call with the campus President's to discuss stipend requests and their impact on the 90/10 calculations [sic]. As has been discussed on our calls, these requests have a largely negative impact on our cash figure for the 90/10, and this year they are REALLY hurting us! As such, from today going forward, we are instituting a 2 to 3 week turn around time on cutting stipends—this means that the student will not receive their until 2 to 3 weeks from the date of their request … students will need to be told that due to the influx of requests due to the end of the year, the processing time has been delayed, and we cannot guarantee their funds by the Christmas holiday. I apologize for the inconvenience this may cause … currently our 90/10 is 89.82% so we are very close to being over, which we cannot afford [emphasis in original].[1393]

An August 2009 email from the same Sanford-Brown student finance executive outlines another strategy employed "to mitigate the 90/10 current percentage for the SBC Fenton OPEID:" [1394]

> 1) We will begin holding PELL GRANT for AUGUST STARTS ONLY beginning today, 8/18/09 until further notice for the SBC Fenton and SBC St. Peters campuses 2) Today we are at 90.2% so are very close to being below 90%, but not there yet—unlike last year, it will take a minimal affect to move the number 3)[1395]

Notably, in an exchange in this same email chain, another CEC executive questions the "guidance" information CEC financial aid employees were instructed to use to answer student questions regarding the reason for holding back their financial aid:

> Last year during this time, the [Central Processing Center] started to receive several calls in regards to this issue and students questioning why they were not able to receive their disbursements. I think the below guidance may be a root cause to the call that are directed our way. Can you provide any insight as to why this is the SBU guidance?
>
> Question: Didn't this happen last year? Is there a problem with the financial aid department?
>
> Answer: During the fall of 2007, the campus switched to a Central Processing Center for financial aid accounting. At that time, we did experience several challenges to our database and records management. Currently, as part of our management improvement process, we are holding back funds until such time that we are certain that have met all the federal guidelines.[1396]

[1393] Career Education Corporation, Internal E-mail, December 2008, *FW:Stipend Request* (CEC000026550, at CEC000026551).
[1394] Career Education Corporation, Internal E-mail, August 2009, *FW:SBC 90/10 - Hold Pell* (CEC000026555, at CEC000026556).
[1395] Id.
[1396] Id.

In response, the senior student finance executive explains the rationale for the misinformation employees were instructed to relate to students:

> This document was prepared by the Corp PR team a few years ago when we first began holding back funds … I believe the original intent of this section was to provide an operational reason that we holding [sic] funds as opposed to explaining the exact details on 90/10 to the students.[1397]

Student Lawsuits

Over the last few years, many former Sanford–Brown students have sued the school for its practice of misleading recruiting.[1398] In 2007, 12 former students filed a lawsuit against Sanford-Brown College and CEC alleging that Sanford-Brown engaged in aggressive and misleading recruiting tactics and misled them about the transferability of Sanford-Brown's credits and the nature of its curriculum, training, and faculty.[1399] One year later, four nursing students filed a class action lawsuit alleging that the college "fraudulently induced them and the class to join a medical assistant program through a number of deceptive acts." [1400] In late 2010, this lawsuit was granted class action status.[1401]

Since 2010, at least 18 lawsuits have been filed against Sanford-Brown College and CEC in Illinois by students alleging that the college and its owner engaged in an "ongoing pattern and practice of deceptive conduct." [1402] The students claim that the representations made to them by Sanford-Brown sales representatives amount to fraud. These students spent thousands of dollars in exchange for what was sold to them as highly-specialized career training with promises of gainful employment, however they later learned that there were no opportunities for employment in their fields and that their course credits would not transfer to other colleges. An attorney for some the students, Gary Burger, explains: "This is not just a function of the bad economy. It's been true for a long time … The way they get these people to sign up as students is with high-pressure sales reps. They have quotas. And they're instructed to play on people's emotions to get them hooked in—and to get them to apply for student loans."[1403]

One student, who spent $15,000 on a Medical Coding and Billing degree and was assured by a Sanford-Brown sales representative that the college would find her a job, was unable to find full-time employment or transfer any of her Sanford-Brown credits to the local community college after graduating.[1404] According to her lawsuit, the former president of the Sanford-Brown College in Hazelwood, IL, testified that the company's "concern over finances seemed to force admissions people not to tell the truth about what the outcomes were going to be for the students and what they could

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[1397] Id.
[1398] Angela Riley,"Students Sue Sanford Brown College in Missouri for Fraud," *St. Louis Daily Record & St. Louis Countian*, January 6, 2009.
[1399] Leisa Zigman, "Students File Suit Against Sanford-Brown College," *KSDK News Channel*, August 2, 2007, http://www.ksdk.com/news/story.aspx?storyid=125898.
[1400] Steve Gonzalez, "Class action: Sanford Brown students duped into med assistant program," *The Madison County Record*, February 13, 2008, http://www.madisonrecord.com/news/207882-class-action-sanford-brown-students-duped-into-med-assistant-program.
[1401] Tim Barker, "For-Profit Colleges Under Fire in Lawsuits," *STLToday.com*, March 14, 2011, http://www.stltoday.com/news/local/education/article_3c4cb200-9ea1-5656-aa18-8dac41ddfa3f.html.
[1402] Sarah Fenske, "Sanford-Brown College Slapped With Dozen-Plus Lawsuits," *Riverfront Times*, October 12, 2011, http://blogs.riverfronttimes.com/dailyrft/2011/10/sanford-brown_college__career_education_corporation.php.
[1403] Id.
[1404] Id.

expect upon graduation" and that "admissions advisors were sales persons with tremendous pressure placed on them to get prospective students to enroll." [1405]

In 2011, CEC agreed to pay $40 million to settle a class action lawsuit involving another of one its subsidiaries, the California Culinary Academy in San Francisco.[1406] In that case, former students allege that the college's admissions representatives and catalog boasted a job placement rate of 97 percent, but that the college did not tell applicants that the statistics included graduates working as baristas, prep cooks, line cooks and waiters, jobs for which no degree was necessary. The complaint also contends that wages for a "substantial majority" of the jobs included in the statistics paid $12 an hour or less.[1407] Additionally, the college personnel allegedly made up fake job placements and listed graduates as working at certain business who had never worked there.[1408]

In yet another lawsuit, former students at CEC's Le Cordon Bleu College of Culinary Arts in Los Angeles alleged similar fraudulent job placement claims. In that case, Le Cordon Bleu allegedly advertised job placement rates of up to 96 percent for its culinary arts program and 75 percent for its patisserie and baking program.[1409]

State and Federal Investigations

In 2005, following media coverage of whistleblower and student allegations about the company's admissions practices, State agencies in New Jersey and Pennsylvania investigated the recruiting and financial-aid practices of two Sanford Brown Institute campuses and the State consumer agency in California restricted the license of another CEC owned college.[1410] That same year, the Securities and Exchange Commission and the U.S. Department of Justice launched investigations of CEC. CEC revealed that it was being investigated by the civil division of the Justice Department as a result of a lawsuit under the False Claims Act alleging that some CEC colleges made false statements to the government in order to obtain Federal funds for which they were not entitled. The Justice Department also sought documents relating to information CEC gave prospective students about job-placement rates and tuition costs.

Also in 2005, the U.S. Department of Education put a freeze on CEC's expansion while investigators examined the company's financial records and compliance with Federal financial-aid regulations.[1411] In a letter to CEC, the Education Department said it was concerned by the company's "history of noncompliance" with Federal laws governing Federal financial-aid funds.[1412] The department said it also "had some concerns about misrepresentations" by company staff to prospective students at

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[1405] Id.
[1406] Erica Perez, "For-profit education company inflated job placement rates," *Californiawatch.org*, August 10, 2011, http://californiawatch.org/dailyreport/profit-education-company-inflated-job-placement-rates-11987 (accessed June 14, 2012).
[1407] Id
[1408] Id.
[1409] Shannon Rasberry, "For-Profit College Co. Encouraged Students with False Job Placement Data," *Student Loans Blog*, http://studentloansblog.nextstudent.com/2011/08/11/for-profit-college-co-encouraged-student-loans-with-false-job-placement-data/ (accessed June 14, 2012).
[1410] Eric Wills, "2 More States Open Investigations Into Colleges Owned by Career Education Corp.," *The Chronicle of Higher Education*, August 3, 2005, http://chronicle.com/article/2-More-States-Open/120885/ (accessed June 14, 2012).
[1411] Stephen Burd. "Promises and Profit," *The Chronicle of Higher Education* January 13, 2006, http://chronicle.com/article/PromisesProfits/12779/ (accessed June 14, 2012).
[1412] Goldie Blumenstyk "The Chronicle Index of For-Profit Higher Education," The Chronicle of Hight Education, August, 11, 2006, http://chronicle.com/article/The-Chronicle-Index-of/12758.

its Brooks College.[1413] In January 2007, the U.S. Department of Education lifted its restrictions on the company opening new schools or acquiring existing ones.[1414]

As of 2012, the attorney general of Florida is investigating Sanford-Brown to "determine whether they have violated Florida law prohibiting deceptive or unfair business practices," and the attorney general of New York is investigating CEC for "possible violations of New York's securities, finance and other laws." [1415]

Career Placement Investigation

In 2011, after receiving a subpoena from the New York attorney general's office requesting information about its career placement statistics, CEC hired outside legal counsel to conduct an extensive audit and subsequently revised 2010 placement rates for 49 of its campuses to correct "irregularities."[1416] The 2010 job placement rates at all 49 campuses were incorrect, and 36 of those campuses' newly revised job placement rates were below the campus accreditor's minimum threshold of 65 percent job placement.[1417] The CEO of CEC, Gary McCullough, resigned when these widespread misrepresentations were uncovered.[1418]

These recent revelations of systematic misreporting by CEC also indicate the weaknesses of its accreditors' verification of placement rates. These 49 campuses are accredited by the largest national accreditor, the Accrediting Council for Independent Colleges and Schools (ACICS). ACICS has stated that it independently verifies each program's job placement rates. However, significant doubt is cast on this assertion given the broad scope of CEC's falsification. Moreover, ACICS typically verifies job placement rate data only during the years when a campus is due for a site visit.[1419] As of May 5, 2012, ACICS placed 4 of these 49 campuses on probation due to job placement rates that did not meet its expectations.[1420]

At the time of publication, the placement rate audit CEC performed following the scandal was not yet public. The company's Securities and Exchange Commission filings note that improper practices were discovered as part of a third-party review of all its domestic campuses, which number 83 in total. The company had only announced information about the audit's progress regarding the first 49 campuses.[1421]

[1413] Id.

[1414] "Career Education Announces the U.S. Department of Education Lifts Growth Restrictions," *Reuters*, January 22, 2007, http://www.reuters.com/article/2007/01/22/idUSIN20070122070908CECO20070122 (accessed June 14, 2012).

[1415] California Watch, *State Attorney's General Investigating For-Profit Colleges*, http://californiawatch.org/data/state-attorneys-general-investigating-profit-colleges.

[1416] Career Education Corporation, Form 10-Q For period ending September 30, 2011.

[1417] Id. As discussed above, in 2005, an investigation by "60 Minutes" also found significant discrepancies in the job placement promises made to prospective students at a CEC campus. In response to the news report, CEC expressed disappointment that the news outlet "opted to paint us … with a broad brush based on a few allegations." See Business Wire, *Career Education Corporation Comments on "60 Minutes" Story*, January 31, 2005, http://www.businesswire.com/news/home/20050130005030/en/Career-Education-Corporation-Comments-60-Minutes-Story (accessed December 18, 2011).

[1418] Id.

[1419] ACICS requires schools to report placement rates every year.

[1420] The campuses ACICS placed on probation include: the online campus of International Academy of Design and Technology, the Sanford-Brown Institute Landover, MD campus, Sanford-Brown College Indianapolis, IN campus and the Sanford-Brown College West Allis, WI campus.

[1421] Career Education Corporation, Form 10-Q for period ending September 30, 2011.

Conclusion

Career Education Corporation is one of the most diverse for-profit education companies operating at least six different brands. Overall students attending CEC brand colleges have withdrawal close to the average of all companies examined with 51 percent of Bachelor's and 61 percent of Associate students withdrawing but given the size of the company that translates to over 50,000 students leaving the company's colleges with no Certificate or degree. The company appears to offer little in the way of student support services, and has struggled to address allegations of misleading and deceptive recruiting tactics as well as misrepresentations in its job placement rates. Moreover, the company has a high rate of student loan default, with 21.6 percent of students defaulting within 3 years. This likely reflects an inability on the part of some students to find jobs that allow them to repay the debt they incur. Taken together, these issues cast serious doubt on the notion that CEC's students are receiving an education that affords them adequate value relative to the cost. It is unclear whether taxpayers or students are obtaining value from the $1.9 billion investment that taxpayers made in CEC in 2010.

Chancellor University

Introduction

Chancellor University ("Chancellor") is a for-profit college acquired in 2008. However, because company's regional accreditor placed Chancellor on probation and mandated additional growth restrictions, the company's expansion plans faltered. Moreover, little data is available to show a complete picture of how students are faring.

Company Overview

Chancellor University is a privately held, for-profit education company headquartered in Seven Hills, OH. Started in Cleveland, OH, during World War II, and after the merger of Spencerian Business College and Berkey and Spencerian College, Chancellor was originally known as Dyke & Spencerian College and taught penmanship and accounting. Since its founding, the name and tax status of the school has changed several times.[1422] The school became Chancellor University in 2008 when Significant Partners LLC bought nonprofit Myers University and renamed it. At the time of its purchase, Myers University was deeply in debt and on probation with its regional accreditor. In 2009, former general electric chief executive officer Jack Welch bought a minority stake in Chancellor University. Welch's investment created Chancellors's M.B.A. program and the Jack Welch Management Institute, an online Executive M.B.A. program that launched in 2010.[1423]

Chancellor has one campus in Seven Hills, OH, along with an online division. It offers Certificate, Associate, Bachelor's and Master's degree programs in business, accounting, corporate management, human resource management, marketing, management information systems, criminal justice, paralegal education, public administration, health services management, healthcare, graphic design, and public safety and general arts. All degree and Certificate programs are offered both on campus and online.

Like more than half of the regionally accredited brands the committee examined, Chancellor University is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools ("HLC"). In October 2008, following a focused visit to Chancellor in September of that year, HLC placed Chancellor, then Myers University, on probation. This action arose out of the recommendation of the visiting team and was based on the finding that Chancellor was in danger of not meeting its accrediting criteria related to mission, governance, integrity, resources and planning. After another comprehensive visit to the school the following year, in February 2010, HLC issued Chancellor a "show cause" order, the final chance for Chancellor to provide evidence to persuade the HLC not to end its accreditation.[1424] HLC concerns related to Chancellor's governance, finances, and student outcomes.

In the fall of 2009, the Ohio Board of Regents, which authorizes private institutions' degree-granting powers, placed Chancellor on 3-year "provisional" status requiring it to submit annual progress

[1422] Chancellor Universtiy, About CU: History, http://www.chancelloru.edu/history.aspx (access June 14, 2012).
[1423] Jennifer Epstein, "For-Profit, Without Profit," Inside Higher Ed, August, 20, 2010, http://www.insidehighered.com/news/2010/08/20/chancellor (access June 14, 2012).
[1424] Higher Learning Commission, "Public Disclosure Notice on Chancellor University," February 24, 2011, http://www.ncahlc.org/download/_PublicDisclosureNotices/PDN_1837.pdf (accessed June 14,2010).

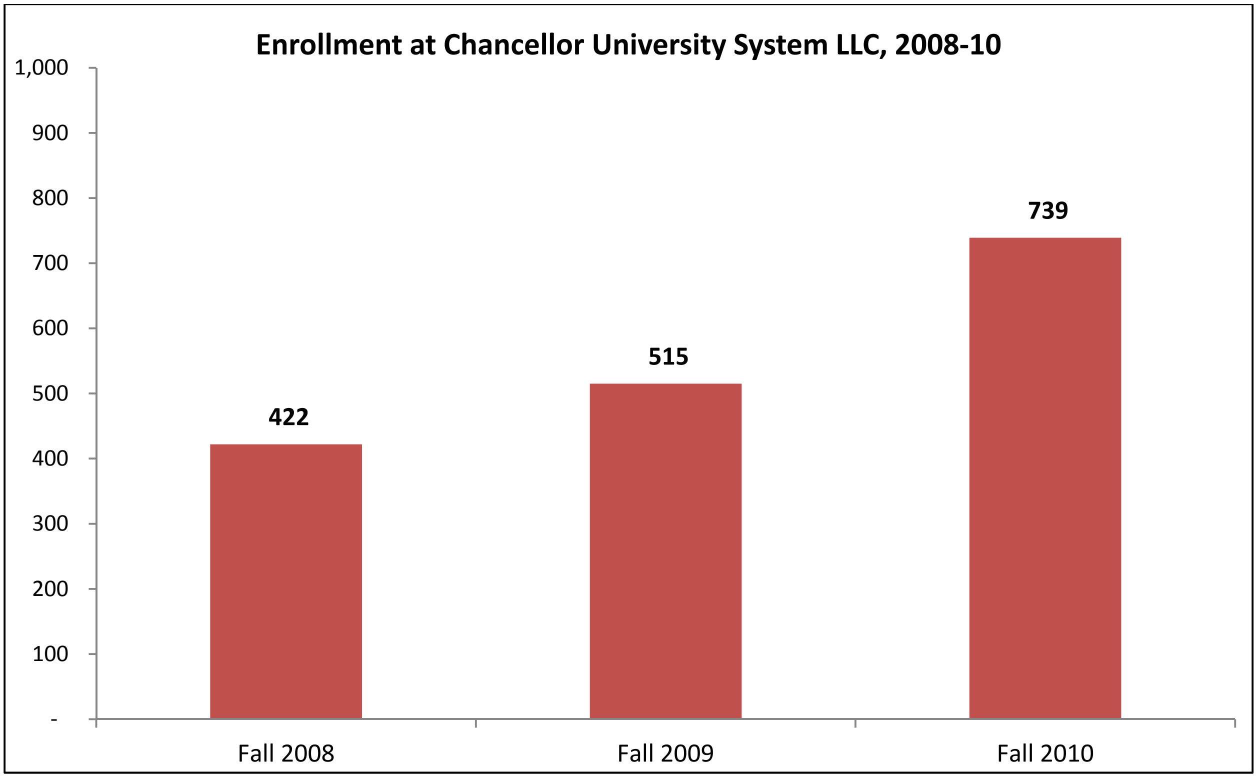
reports each September. Moreover, Chancellor's reauthorization is contingent on its maintaining its regional accreditation.

In November 2011, Jack Welch announced that he was removing the Jack Welch Management Institute from Chancellor and subsequently sold the program to Strayer Education, Inc., an established for-profit college company. Though Chancellor continues to offer a Master's program in business, this was a significant blow to Chancellor's financial health as the Jack Welch Management Institute was integral to Significant Partners' strategy for growing Chancellor.[1425]

The high rate of turnover among top executives at Chancellor further reflects the company's tumultuous financial condition. Bob Daugherty is the current president and assumed his leadership role in the summer of 2010. Bob Barker, who spent 20 years as an executive at the University of Phoenix before becoming a for-profit education entrepreneur, was Chancellor's CEO for about 6 months prior to Daugherty. George Kidd, a former president of nonprofit Tiffin University, served as the president of Chancellor prior to Barker.[1426]

Enrollment at Chancellor has grown by 75 percent since becoming a for-profit college in 2008, growing from 422 students in the fall of 2008 to 739 students by the fall of 2010.[1427] However, Chancellor has not been profitable since it was acquired and has been operating on an annual budget deficit.

[1425] Timothy Magaw, "Chancellor University Loses Jack Welch Management Institute," *Crain's Cleveland Business*, November 11, 2001, http://www.crainscleveland.com/apps/pbcs.dll/article?AID=/20111111/FREE/111119952 (accessed June 14,2010).
[1426] Jennifer Epstein, "For-Profit, Without Profit," Inside Higher Ed, August, 20, 2010, http://www.insidehighered.com/news/2010/08/20/chancellor (accessed June 14, 2012).
[1427] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.



Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs.[1428] Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1429] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1430]

In 2010, Chancellor reported 86.7 percent of revenue from title IV Federal financial aid programs.[1431] However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education programs.[1432] Department of Defense Tuition Assistance and post-9/11

[1428] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 USC §1070 et seq.

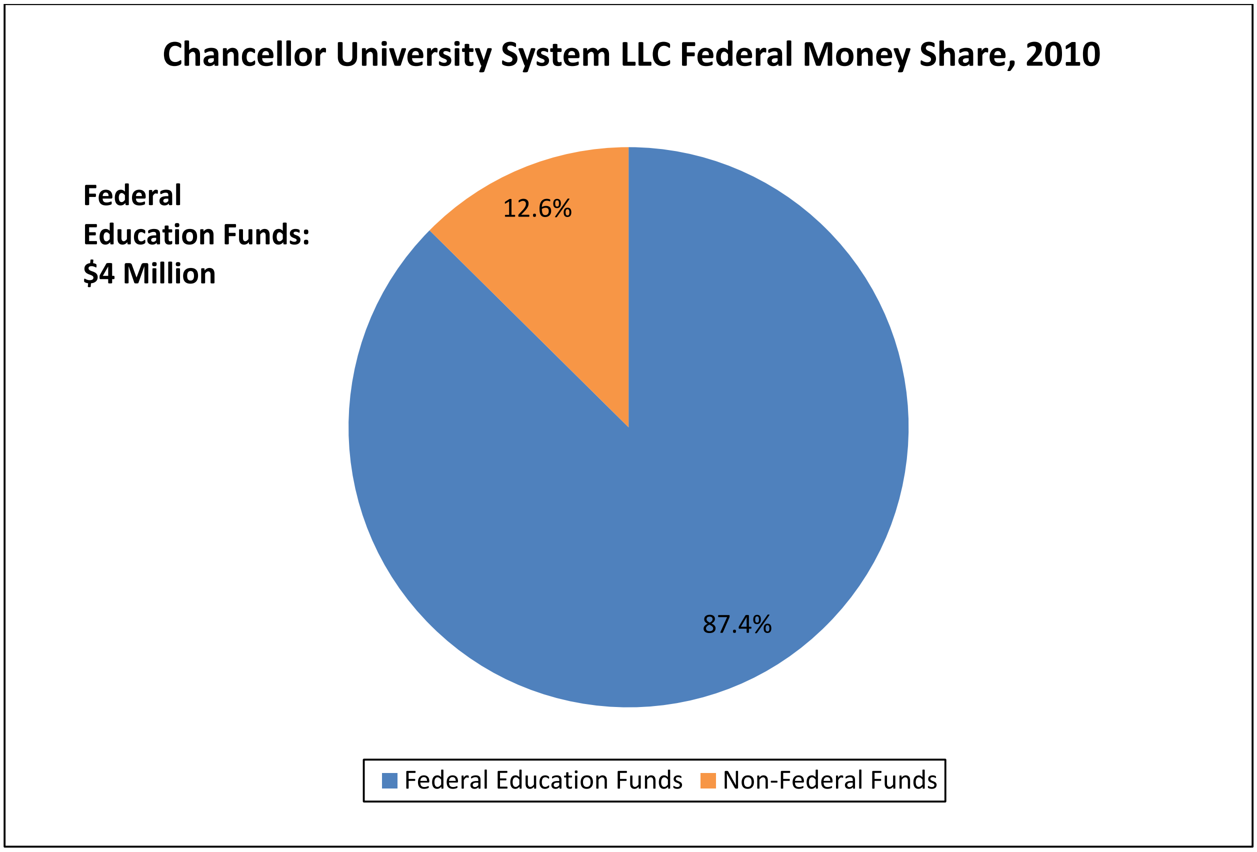
[1429] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

[1430] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[1431] Senate HELP Committee staff analysis of fiscal year 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

[1432] The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the

GI bill funds accounted for approximately 0.7 percent of Chancellor's revenue, or $32,342.[1433] With these funds included, 87.4 percent of Chancellor's total revenue was comprised of Federal education funds.[1434]



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[1435] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell

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calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for Chancellor could not be extrapolated from the data the company provided to the committee.

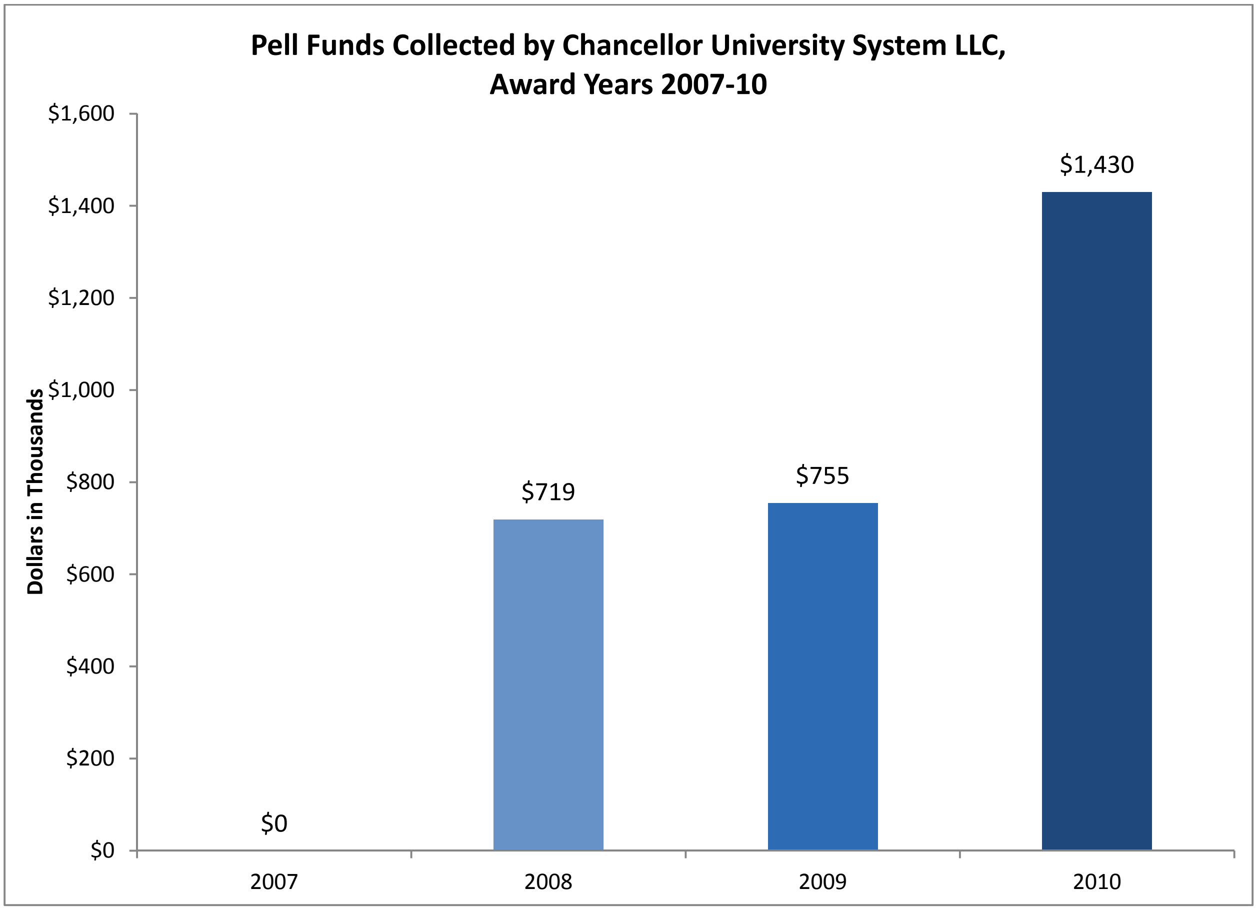
[1433] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-2011 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[1434] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.

[1435] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.

awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

Chancellor doubled the amount of Pell grant funds it collected since becoming a for-profit institution, from $719,485 in 2008 to $1.4 million in 2010.[1436]



Spending

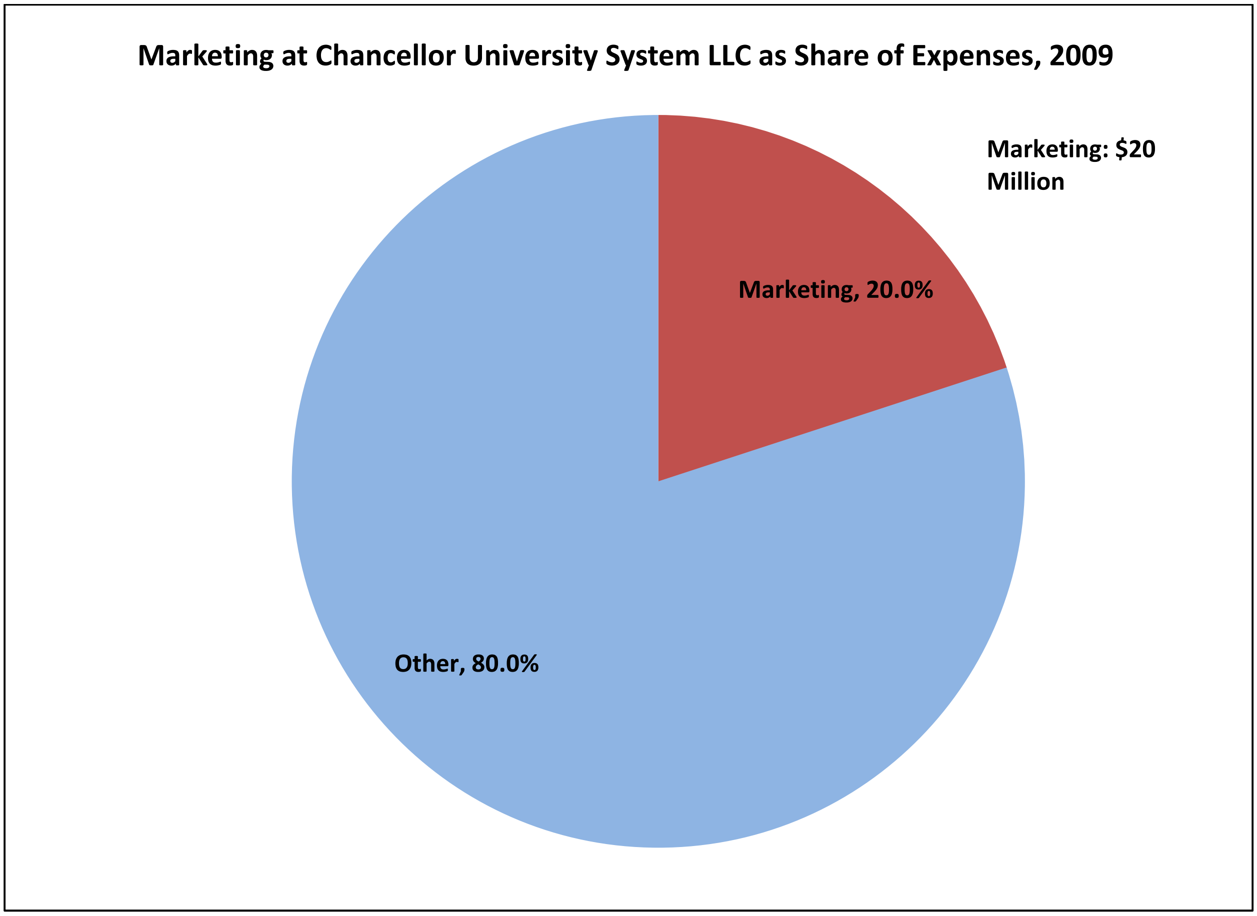
While Federal student aid programs are intended to provide educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[1437] During

[1436] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

[1437] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

the same period the companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion) and 19.7 percent on profit ($3.2 billion).[1438]

In 2009, Chancellor allocated 20 percent of its expenditures, or $20 million, to marketing and recruiting.[1439]



However, as previously noted, unlike the majority of for-profit education companies examined over the course of this investigation, Chancellor has been operating at a loss since becoming a for-profit institution in 2008.[1440] In 2009, the company's expenses exceeded its revenue by $6.9 million.

Executive Compensation

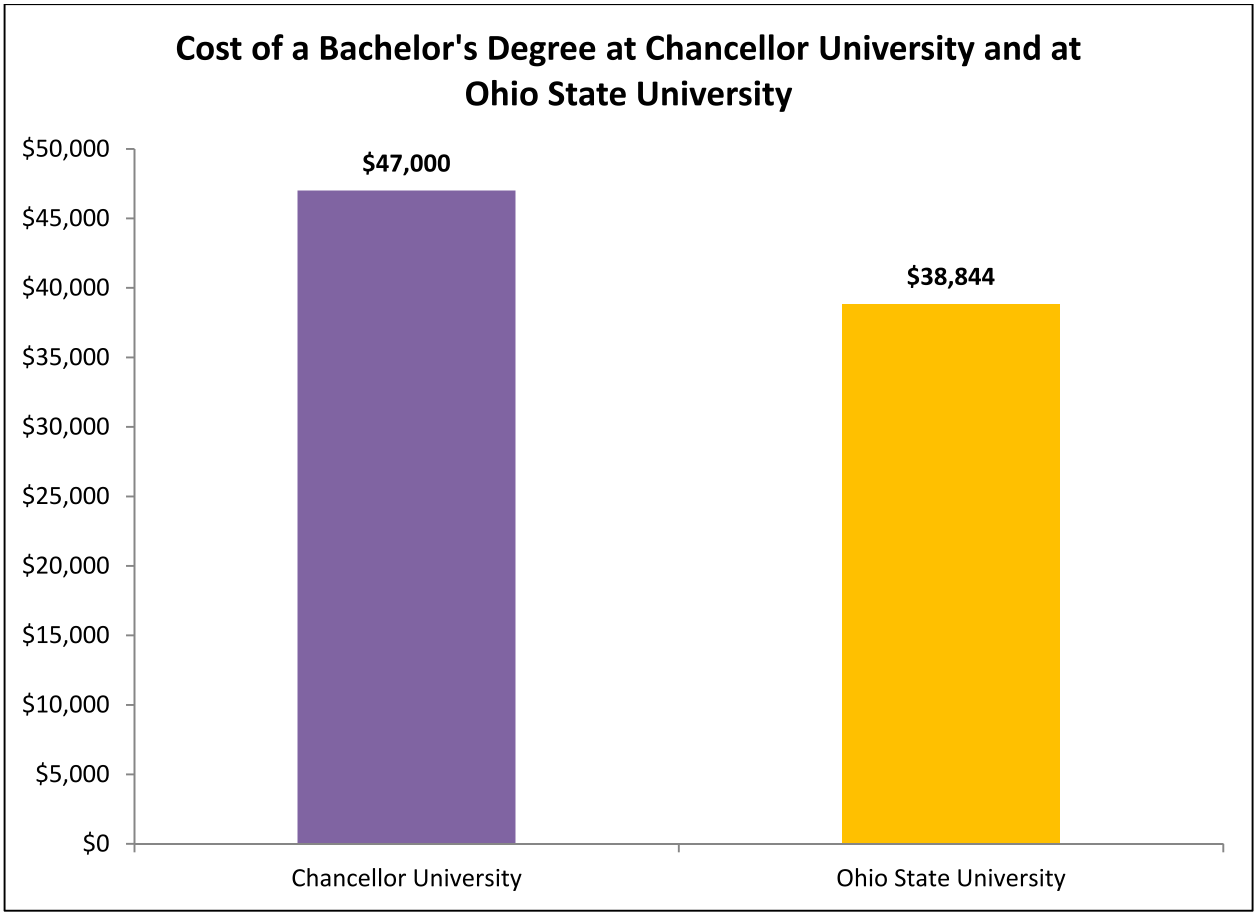
As a private-held company, Chancellor is not obligated to release executive compensation figures.

[1438] Senate HELP Committee staff analysis of fiscal year 2009 financial statements. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19. "Other" includes: instruction, faculty salaries, executive compensation, lobbying, student services, maintenance, administration, facilities and other expenditures.
[1439] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

[1440] Senate HELP Committee staff analysis. See Appendix 18.

Tuition and Other Academic Charges

Compared to public colleges offering the same degrees, the price of tuition at Chancellor is more expensive. A Bachelor of Science in Business Administration with a concentration in accounting costs $47,000 at Chancellor,[1441] while the same degree at Ohio State University costs $38,844.[1442]



Recruiting

Enrollment growth is critical to the business success of for-profit education companies. In order to meet revenue and profit expectations for-profit colleges recruit as many students as possible to sign up for their programs.

Chancellor has come under scrutiny for overzealous recruiting. In 2010, Chancellor was named in a Bloomberg Businessweek article exposing for-profit colleges that were targeting the homeless for heavy recruitment.[1443] According to BusinessWeek, Chancellor began focused recruiting efforts in homeless shelters in Cleveland after it realized that University of Phoenix, owned by Apollo Group, was

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[1441] See Appendix 14; see also Chancellor University, *Gainful Employment*, http://www.chancelloru.edu/gainful-employment.aspx (accessed July 12, 2012). There is no difference in cost between online and a brick and mortar campus.
[1442] See Appendix 14; see also, The Ohio State University, *Ohio State University*, http://undergrad.osu.edu/ (accessed June 14, 2012).
[1443] Daniel Golden, "The Homeless at College," *Bloomberg Buisnessweek*, April 30, 2010, http://www.businessweek.com/magazine/content/10_19/b4177064219731.htm (accessed June 14, 2012).

also doing so. Estimating that this kind of recruiting could produce "a minimum of at least 10 enrollees by spring term," Chancellor sent officials to give presentations at a dozen social services programs. According to one shelter coordinator, their pitch was "very heavy handed. It was beating the drum, 'Go to Chancellor. This is what we offer. Financial aid, financial aid, financial aid.'" After Chancellor's presentation, the same coordinator, who worked for a women's shelter, reports being hounded with phone calls and emails to "get these women rolling." As of the time of the article's publication in 2010, Chancellor stopped its recruiting in Cleveland shelters. According to Chancellor CEO Bob Barker, the shelter recruiting was discontinued for failing to recruit enough new students.

Targeting the homeless, a group that is both uniquely vulnerable and particularly poorly situated to succeed in higher education, is particularly concerning because student loan debt is extremely hard to discharge. BusinessWeek reported finding people in Cleveland shelters with trade school debts from 20 years ago. Those who don't repay their student loans may forfeit their chances for public housing and are also ineligible for Federal financial aid to return to college.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, the committee found that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1444]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates," An analysis of these metrics indicates that many students who enroll at Chancellor are not achieving their educational and career goals.

Retention Rates

Unlike all other companies examined by the committee, Chancellor failed to produce information that would allow the committee to accurately analyze the number of students that withdrew from Chancellor.[1445]

Student Loan Defaults

The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1446]

Slightly more than 1 in 5 students, who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[1447] In contrast, 1 student in 11 at public and non-profit

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[1444] Patricia Steele & Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy* Brief, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 14, 2012).
[1445] Chancellor produced documents listing the students who "formally ceased to attend" Chancellor in 2009 and 2010, but these documents do not distinguish between students who withdrew and students who completed their program, noting that "Chancellor University does not have a formal withdrawal policy." See Appendix 15.
[1446] Direct Loan Default Rates, 34 CFR 668.183(c).

schools defaulted within the same period.[1448] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1449] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1450]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[1451] This change represents a 32.6 percent increase over 4 years.[1452] Chancellor's default rate for students entering repayment in 2008 was 14 percent, well below the average for the for-profit education sector. However, because 2008 was Chancellor's first year in operation, this default rate does not account for the majority of its student population.

Instruction and Academics

The quality of any college's academics is difficult to measure; however the amount that a school spends on instruction per student compared to other spending is a useful indicator. By looking at the instructional cost that all sectors of higher education report to the Department of Education, it is possible to compare spending on actual instruction.

Chancellor spent $10,893 per student on instruction in 2009, compared to $5,726 on marketing.[1453] The amount that privately held companies the committee examined spend on instruction ranges from $1,118 to $6,389 per student per year.[1454] In contrast, public and non-profit 4-year colleges and universities, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other Ohio-based colleges spent, on a per student basis, $15,466 at Ohio State University's Main Campus, $10,416 at University of Dayton, and $4,867 at Cuyahoga Community College.[1455]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee investigated,

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1447 Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
1448 Id.
1449 Id.
1450 Id.
1451 Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-2008, http://federalstudentaid.ed.gov/datacenter/cohort.html Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
1452 Id.
1453 Marketing figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment. See Appendix 21 and Appendix 22.
1454 Id. Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.
1455 See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

80 percent of the faculty is part-time.[1456] Seventy percent of Chancellor's faculty is employed part-time.[1457] In 2010, the company employed 20 full-time and 50 part-time faculty.[1458]

Staffing

While for-profit education companies employ large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 739 students, Chancellor employed 14 recruiters, 3 career services employees, and 15 student services employees.[1459]

Conclusion

Chancellor is an example of what can occur when genuine oversight is brought to bear by accreditors. To the extent that Chancellor expands and becomes profitable it is likely to do so with solid student outcomes and quality curriculums.

Chancellor remains under review by the State of Ohio and its regional accreditor. There are signs that the school is experiencing a crisis in management as it continues to operate at a loss and has failed to attract enough students to generate the revenue it needs to remain solvent. It recently lost Jack Welch's Management Institute, the signature program around which the college had hoped to grow. It is unclear if the company will be able to resolve the concerns of the State and the accreditors.

[1456] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[1457] Id.
[1458] Id.
[1459] Id. See Appendix 7 and Appendix 24.

Concorde

Introduction

Concorde Career Colleges, Inc. ("Concorde") provides traditional vocational programs, primarily Certificates, at its on-ground campus locations. In recent years, Concorde has experienced steady growth in Federal funds collected and profit realized. While Concorde's moderate student withdrawal rates suggest students are persisting in its programs, the company's high rates of student loan default call into question whether Concorde students are receiving an education that affords them to the ability to repay the debt incurred.

Company Overview

Concorde Career Colleges, Inc. is a privately held, for-profit education company headquartered in Kansas City, MO. The company operates 15 campuses in seven States, does not operate programs online and offers diplomas and Associate degrees in healthcare programs.

Thirteen of the company's campuses are accredited by Accrediting Commission of Career Schools and Colleges (ACCSC). The Arlington, TX, campus is accredited by the Accrediting Bureau of Health Education Schools (ABHES). The Memphis, TN, campus is accredited by Council on Occupational Education (COE).

Concorde Career Colleges, Inc. was spun-off from CenCor, a company which operated vocational schools, in 1988.[1460] The newly formed Concorde Career Colleges, Inc. took over more than 20 campuses, eventually consolidating them to 11 by 2000. In 2006, Liberty Partners, a Wall Street private equity firm, bought Concorde Career Colleges. A Florida State retirement fund is the primary investor in the Liberty-managed corporate entity that in turn owns Concorde.[1461] Concorde pays Liberty Partners $240,000 a year in "management fees." [1462] The company began to grow its program offerings and open new campuses in 2006 and the growth has continued to the present.

In the fall of 2010, 7,952 students were enrolled at Concorde.[1463] While enrollment at Concorde has fluctuated over the last decade, it has increased by 20 percent since the company's purchase by Liberty Partners in 2006.[1464]

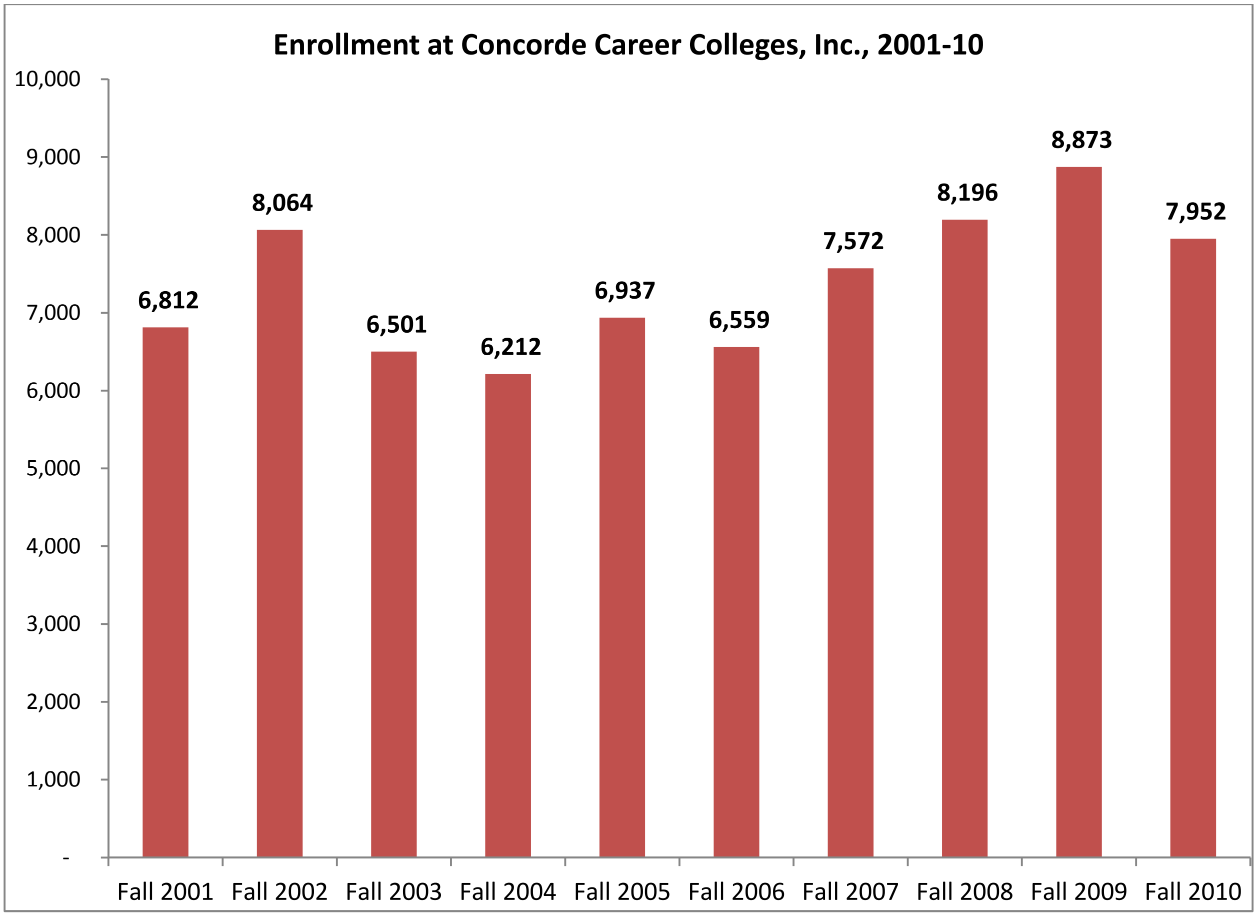
[1460] Concorde Career College, Inc., June 2009, *Executive Summary* (CCC000042376, at CCC000042386).

[1461] Concorde Career Colleges, Inc., April 14, 2009, Letter to ACCSCT *Re: Concord Career Institute, Miramar (054977)* (CCC000059502, at CCC000059514).

[1462] Concorde Career Colleges, Inc., *Accountant's Reports and Consolidated Financial Statements: December 31, 2009 and 2008* (CCC000000992, at CCC000001000) [unredacted document on file with committee].

[1463] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education 's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7. Concorde Career College, Concorde Career College, *Enrollment Agreement* (CCC000113229).

[1464] The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.



Over the last 4 years, Concorde's revenue has grown by over 300 percent from $33.1 million in 2006 to $147.1 million in 2009.[1465]

Federal Revenue

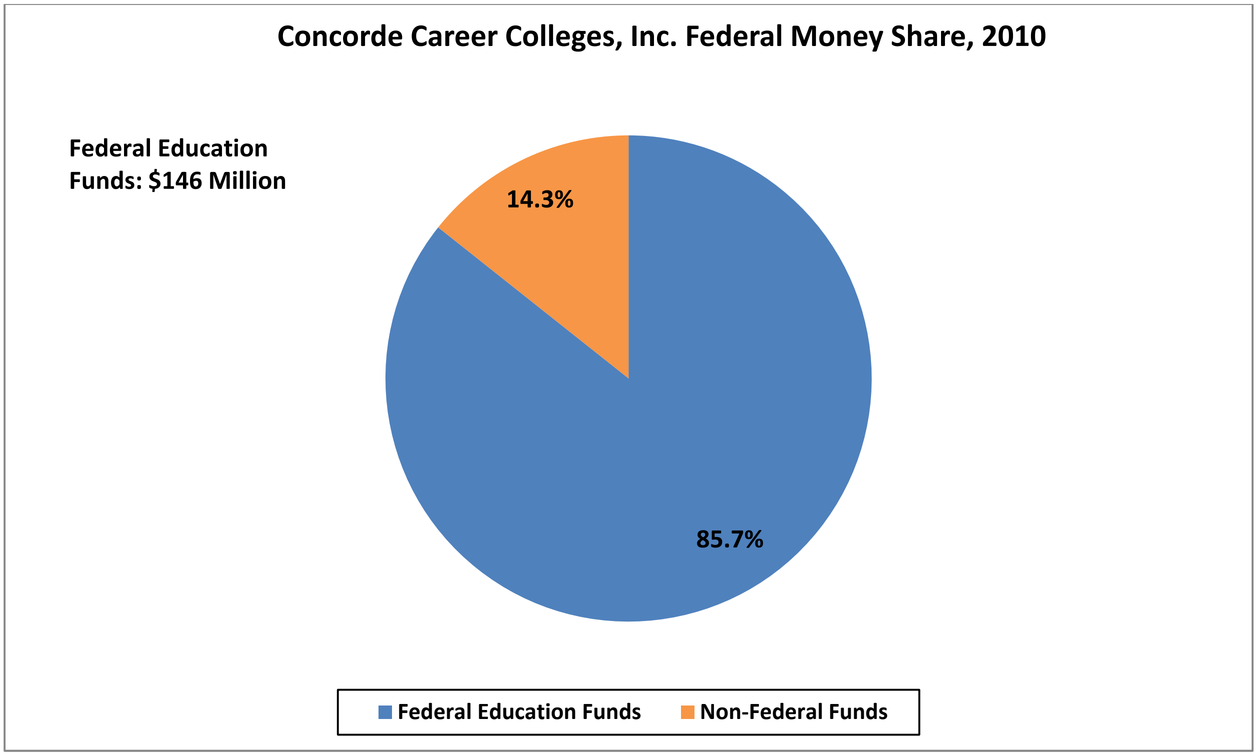
Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1466] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1467]

1465 Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

1466 "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

1467 Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

In 2010, Concorde reported 83.3 percent of revenue from title IV Federal financial aid programs.[1468] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.[1469] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 2.5 percent of Concorde's revenue, or $4.1 million.[1470] With these funds included, 85.7 percent of Concorde's total revenue was comprised of Federal education funds.[1471]



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[1468] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

[1469] The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for Concorde could not be extrapolated from the data Concorde provided to the committee.

[1470] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[1471] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.

collected increased from 14 to 25 percent.[1472] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

Concorde nearly doubled the amount of Pell grants it collects in 3 years, from $21.1 million in 2007 to $39.8 million in 2010.[1473]

Financial Integrity

The company's auditors found that Concorde failed to properly return student aid money to the Department of Education when students dropped out.[1474] Concorde improperly retained approximately $500,000 due to incomplete recordkeeping and error in the "return to title IV" calculations. Most of these errors occurred in 2008, a year when the company nearly doubled its profit from $7.4 million to $13.9 million compared to the previous year.

Due to accounting standards, the 2006 acquisition of Concorde by Liberty Partners private equity resulted in a significant reduction in the company's tangible worth.[1475] Because of this reduction, the Department of Education required Concorde to post a letter of credit of approximately $12 million to satisfy the Department's standards of financial responsibility. This letter of credit is required because of concerns that the company would not be able to make refunds of student aid or provide teach-out facilities should the school unexpectedly close.

Spending

While Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenues derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[1476] During the same period the companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[1477]

[1472] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012).

[1473] Pell disbursements are reported according to the Department of Education's student aid "award year," other revenue figures are reported according to the company's fiscal year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 and 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012). See Appendix 13.

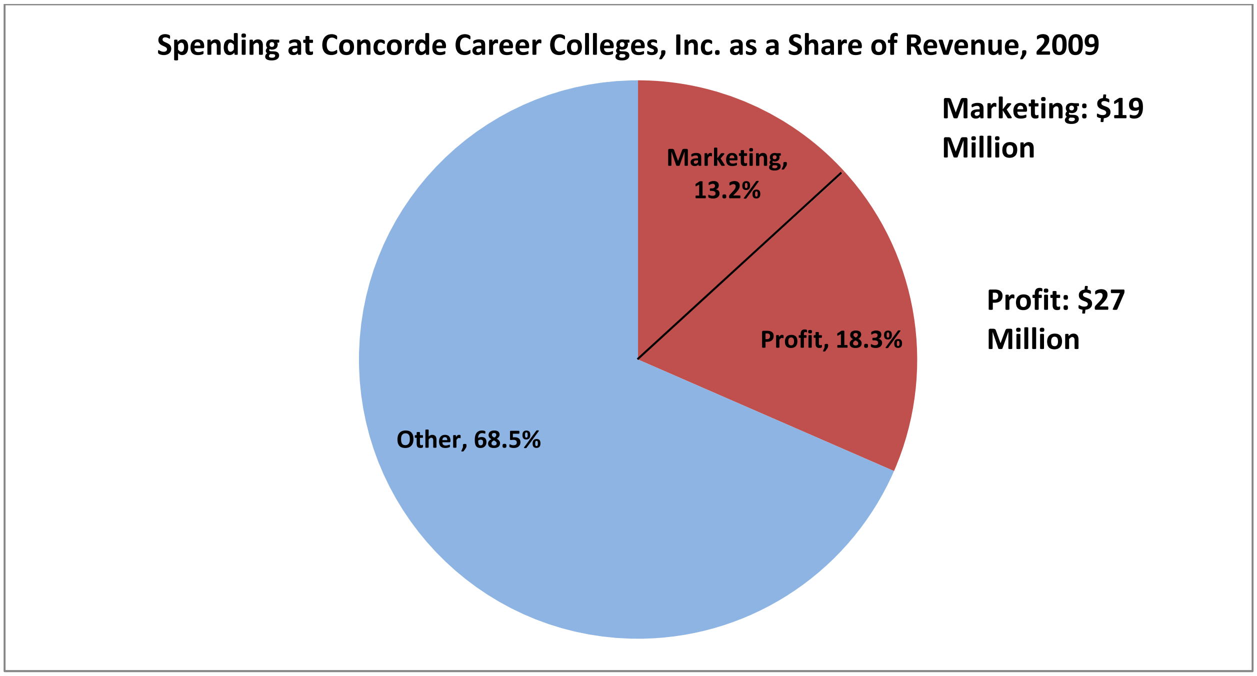
[1474] Concorde Career Colleges, Inc., *Accountant's Reports and Consolidated Financial Statements: December 31, 2009 and 2008* (CCC000000992, at CCC000001017). [unredacted document on file with committee].

[1475] Id., at CCC000001000.

[1476] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

[1477] Senate HELP Committee staff analysis of fiscal year 2009 financial statements. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.

In 2009, Concorde allocated 13.2 percent of its revenue, or $19.5 million, to marketing[1478] and recruiting and 18.3 percent, or $26.9 million, to profit.[1479]



The amount of profit Concorde has generated increased rapidly since the company's acquisition by Liberty Partners. In the year of the acquisition, Concorde recorded a profit of $2.6 million.[1480] The next year, the profit nearly tripled to $7.4 million. In 2009, the company reported a profit of $26.9 million.[1481] Liberty Partners has not taken distributions of these profits out of the company, however, Concorde pays an annual "management fee" of $240,000 to the private equity firm.[1482]

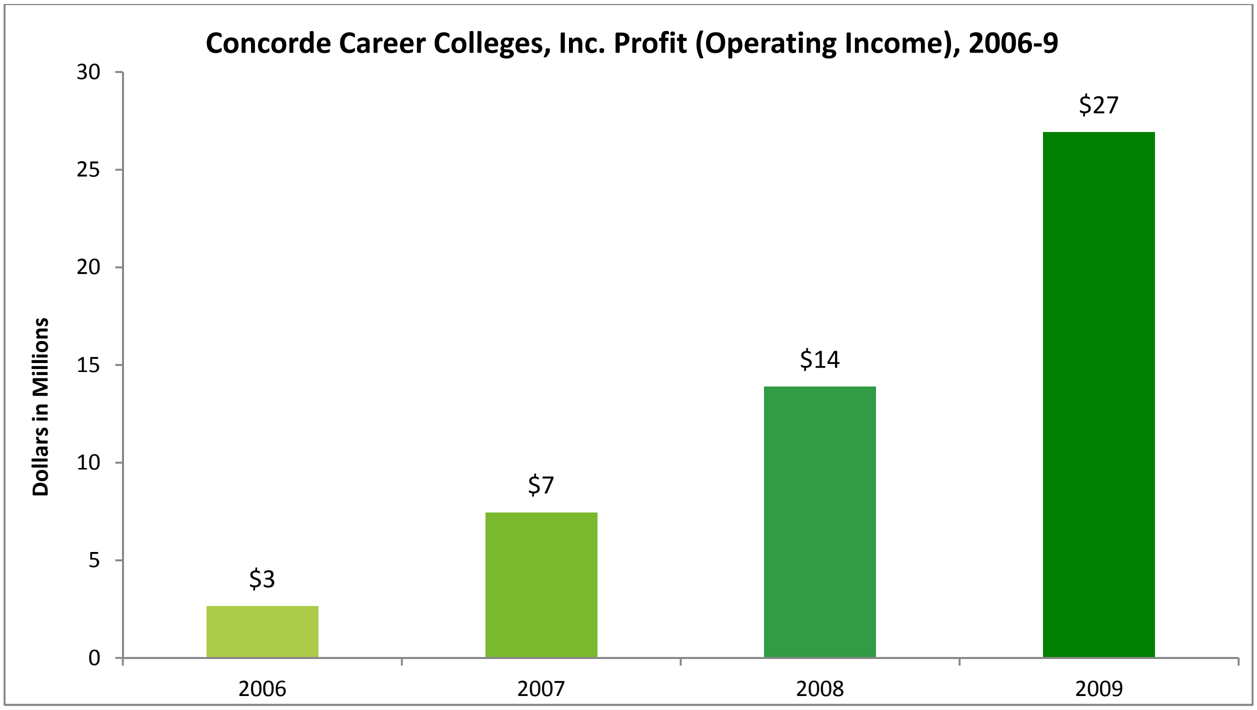
1478 At least some of this money was dedicated to visiting "welfare offices" and "unemployment offices." Concorde Internal Email, June 2010, re: *FW: Recruitment at Unemployment and Welfare offices* (CCC000105156). The company states that the employees did not work for the admissions office and that they were visiting workforce training centers that were co-located with the "welfare" and "unemployment" offices mentioned in the internal email.

1479 On the chart detailing spending, "Other" includes: instruction, faculty salaries, executive compensation, lobbying, student services, maintenance, administration, facilities and other expenditures. On average, the 30 for-profit schools examined spent 22.6 percent of revenue on marketing and 19.4 percent on profit.

1480 Senate HELP Committee staff analysis. See Appendix 18.

1481 Id.

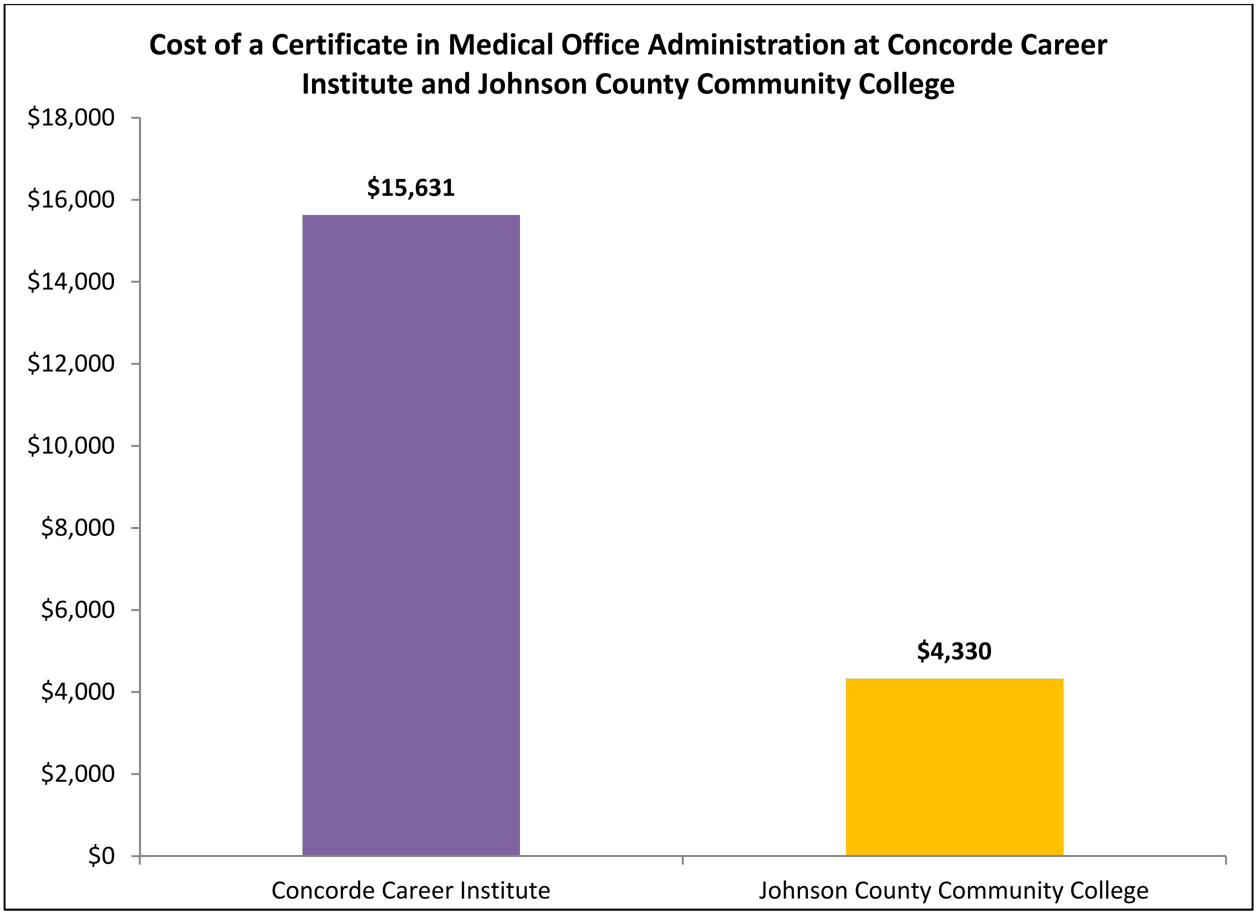
1482 Concorde Career Colleges, Inc., *Accountant's Reports and Consolidated Financial Statements: December 31, 2009 and 2008* (CCC000000992, at CCC000001010) [unredacted document on file with committee].



Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Concorde. In the current 2011-12 school year, the price of Certificate programs ranges from about $10,000 to $35,000.[1483] The Certificate programs are designed to take 8 to 12 months. The price of tuition varies by program and by campus location. A Certificate in Medical Office Administration at the Kansas City campus costs $15,631.[1484] The same program at Johnson County Community College costs $4,330.[1485] The company's Associate degree programs are priced from about $24,000 to $58,000 and typically take 14 to 17 months.

[1483] All tuition information from 2012 course catalogs: http://www.concorde.edu/campus (accessed April 4, 2012). Lowest cost: Patient Care Technician program, Miramar campus. Highest cost: Vocational Nursing (weekend), Garden Grove campus. Includes tuition, fees, equipment and books.
[1484] See Appendix 14; see also, Concorde Career Colleges, *Medical Office Administration*, http://www.concorde.edu/docs/programs/disclosure/momkc_moa-info-051412.pdf (accessed April 4, 2012).
[1485] See Appendix 14; see also, Johnson County Community College, *Johnson County Community College*, http://www.jccc.edu/ (accessed July 12, 2012).



The higher tuition that Concorde charges is reflected in the amount of money that Concorde collects for each veteran that it enrolls. From 2009 to 2011, Concorde trained 555 veterans and received $7.3 million in post-9/11 GI bill benefits, averaging $13,159 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[1486]

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1487]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll in at Concorde are not achieving their educational and career goals.

[1486] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[1487] Patricia Steele & Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 14, 2012).

Retention Rates

Information Concorde provided to the committee indicates that out of the 11,104 students who enrolled in Concorde in 2008-9, 27.1 percent of students had withdrawn by September 30, 2010.[1488] These withdrawn students were enrolled a median of 2 months. Overall, Concorde's withdrawal rate is significantly better than the average sector-wide withdrawal rate of 54.1 percent. The company's Certificate students, who make up the bulk of all enrolled students, had a withdrawal rate of 27.1 percent while 32.1 percent of the company's Associate degree students withdrew by 2010.[1489]

Status of Students Enrolled at Concorde Career Colleges, Inc. in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	1,100	48.0%	19.9%	32.1%	353	127
Certificate	10,004	72.0%	1.5%	26.6%	2,660	57
All Students	11,104	69.6%	3.3%	27.1%	3,013	65

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Internal documents show that since 2006 Concorde has made significant strides in improving student retention and has enticed students who withdrew to re-enroll.[1490] According to an internal survey, "average monthly net (of restarts) attrition decreas[ed] from 5.0% in 2006 to 3.0% YTD April 2009."[1491] Company executives wrote that:

> Concorde has segmented its at-risk and withdrawn students into three groups: dismissals, attendance withdrawals, and students withdrawn in good standing. Student service resources have been augmented and tailored to better meet completion and re-entry needs of these segments. As a result, restarts have increased by 109% since 2006. Further, students are now required to sign individual learning contracts upon entering their respective program, creating a higher level of commitment and accountability for its students. Concorde also offers extensive remedial classes as well as tutoring, especially for students in the more rigorous Clinical programs.[1492]

[1488] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

[1489] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

[1490] Concorde Career College, Inc., June 2009, *Executive Summary* (CCC000042376, at CCC000042392).

[1491] Id.

[1492] Id.

Concorde also helped students pass licensing exams at higher rates by requiring "all students to take a comprehensive exam at the end of their program to ensure preparedness for the exams required by each program's respective licensing body." [1493]

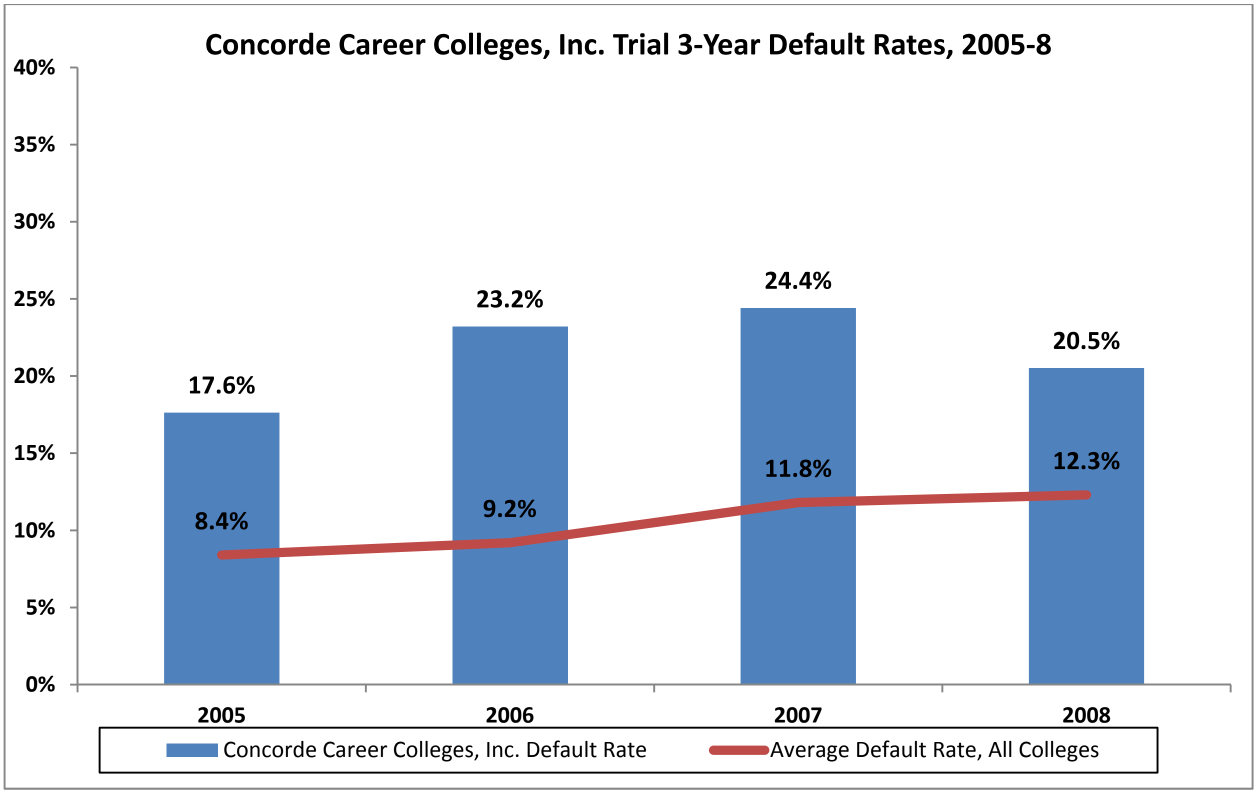
Student Loan Defaults and Repayment

The number of students leaving Concorde with no degree correlates with the high rates of student loan defaults by students who attended Concorde. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1494]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[1495] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1496] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1497] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1498]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent. This change represents a 32.6 percent increase over 4 years.[1499] Concorde's default rate has moved up and down within a range of about 7 percent between the 2005 and 2008 cohort years. The company reported a consolidated default rate of 17.6 percent for students entering repayment in 2005, growing to 24.4 percent in 2007, and falling to 20.5 percent in 2008.

[1493] Id.
[1494] Direct Loan Default Rates, 34 CFR 668.183(c).
[1495] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-2008, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[1496] Id.
[1497] Id.
[1498] Id.
[1499] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-2008, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.



It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Concorde's default management script instructs employees to tell students, without mentioning payment options, "the government offers deferment and forbearance options to take your loans out of the delinquent status. . . . I am going to conference in your Loan Management Advisor … to help us complete the process." [1500] Similarly, the letter that the school sends students who are late paying their loans only mentions deferment and forbearance.[1501] When a student is in forbearance their loan balances continue to grow as the result of accumulating interest but default is averted both for the student and the company. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

Instruction and Academics

The quality of any college's academics is difficult to measure. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.

Concorde spent $4,625 per student on instruction in 2009, compared to $2,129 on marketing, $2,940 on profit.[1502] The amount that privately held companies examined by the committee spend on

[1500] Concorde Career College, *Script* (CCC000052355). The company states that the script is not the one currently in use.
[1501] Concorde Career College, Internal Form Letter from Loan Management Advisor (CCC000060626). The company states that the form letter is not the one currently in use.
[1502] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session

instruction ranges from $1,118 to $6,389 per student per year.[1503] In contrast, public and non-profit schools, generally spend a higher amount per student on instruction. Other Missouri-based colleges spent, on a per student basis, $9,762 at University of Missouri-Columbia, $5,610 at Webster University, and $5,801 at Johnson County Community College.[1504]

Student complaints reflect a number of concerns with Concorde's academic quality. While student complaints may not be representative of the experience of the majority of students, these complaints provide an important perspective on Concorde's academic quality. Twenty-two students, an entire class of nursing students at one campus, wrote to school administrators that "instructors [were] late to start class … [by] 20-40 minutes," lectures were "vague" and "lack[ed] structure," instructors were "ill prepared" and spent time "searching for lost papers or tests or equipment," they were not being taught crucial material about anatomy and pathology, when instructors were absent the class was "left to sit unlectured, unguided, untested and uninformed," and classes were sometimes excused an hour early.[1505] Another student at a different campus wrote that she got great encouragement and service when she was a prospective student but that "Once [she] signed the [enrollment] paperwork it seemed everything changed." [1506] "My first 3 modules were horrible. I stayed because I had an obligation to my contract and I wanted to prove to myself that I was CAPABLE. . . . To our disappointment the first instructor was rude and abrupt to the point that . . . everyone in the class was afraid to ask a question about the homework or lecture or afraid of being singled out or belittled." [1507]

Other students complained about the clinical education sites the company had contracted with. A vocational nursing student, who graduated with a 4.0 GPA, wrote that "we were promised that our clinical hours would be spent mainly at acute care hospitals" where they could get hands-on experience.[1508] "We ended up having a total of 10 days at an acute care hospital, the rest spent mainly in skilled nursing homes and . . . public health clinics where we were not even able to perform nursing duties. We spent the majority of our days filing charts in a chart room." The student also said the class was frustrated because of the high faculty turnover: the San Bernardino campus had cycled through three Directors of Nursing and two Assistant Directors in the first year.[1509] Internal company documents indicate that the company's campuses have experienced large turnover. Annual turnover for all campuses was around 42 percent in 2008 and 35 percent through the first 9 months of 2009, with turnover among all clinical faculty at 41 and 32 percent, respectively, for those periods.[1510] But turnover was much higher in specific departments and at specific campuses. Turnover in "core faculty" ranged from 4 percent to 61 percent. In one extreme case, one campus nursing faculty experienced a turnover of 218 percent in 2009. Turnover in the "clinical faculty" at an other campus was 79 percent.

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instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.

[1503] Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

[1504] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

[1505] Concorde Career College, Complaint Letter from the LVN Class of 2010 to Concorde Dean (CCC000109599, at CCC000109599-600).

[1506] Concorde Career College, April 20, 2009, Response Letter to Student Complaint (CCC000109294, at CCC000109295).

[1507] Id.

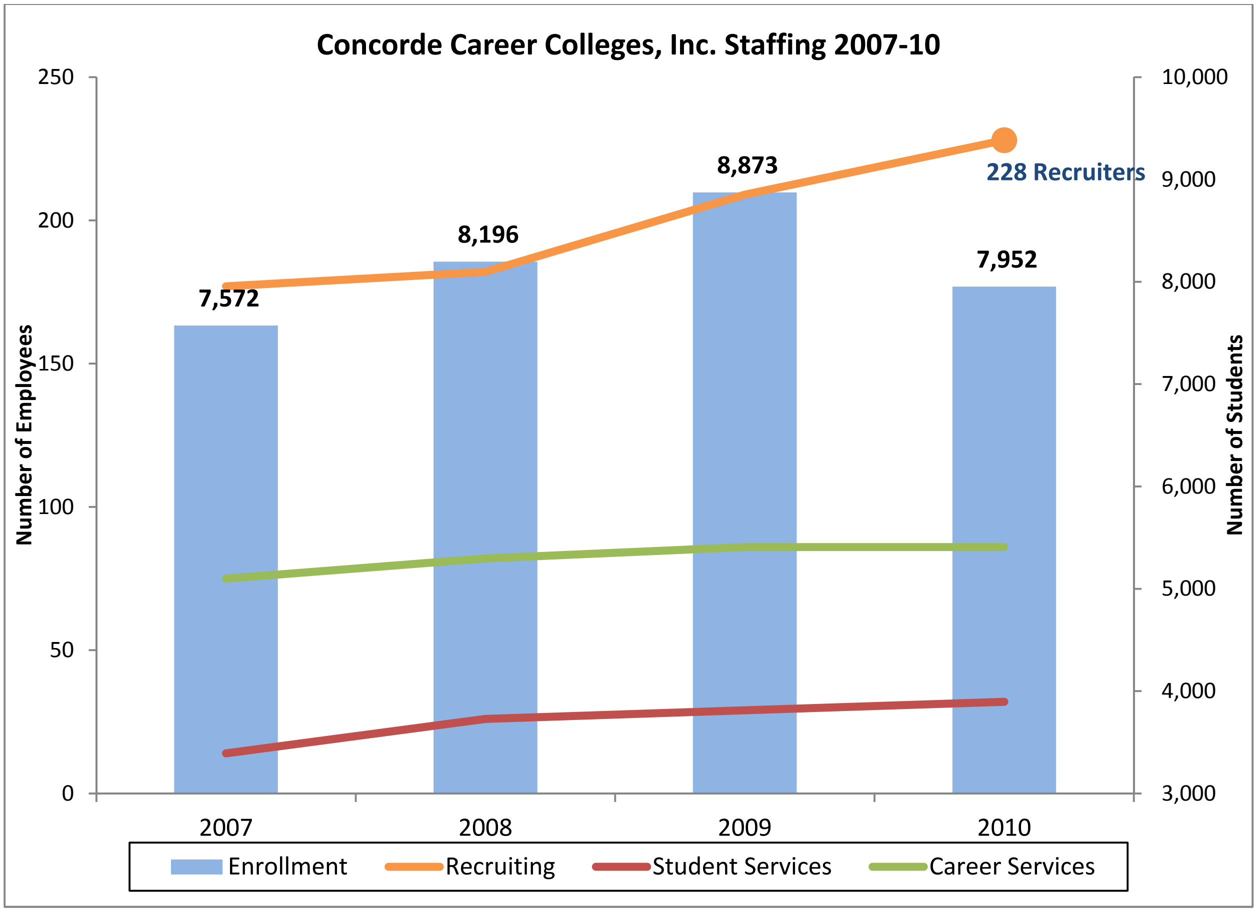
[1508] Concorde Career College, March 11, 2010, Student Complaint Letter (CCC000109630).

[1509] Id.

[1510] Concorde Career College, December 21, 2009, *Board of Directors Meeting* (CCC000000545, at CCC000000558).

Staffing

While many for-profit companies employ large numbers of recruiters to enroll new students, these same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 7,952 students, Concorde employed 228 recruiters, 86 career services employees and 32 student services employees.[1511] That means each career counselor was responsible for 92 students and each student services staffer was responsible for 248 students. Meanwhile, the company employed one recruiter for every 34 students.



Career Services

For-profit schools promote themselves as career-oriented skill-focused places. Indeed, most for-profit education advertising focuses on "getting the job" after graduating from school. Concorde emphasizes its role in helping students secure jobs in their field of training. "Students come to Concorde Career College for one important reason — to train for a new career in a medical field. Once you graduate, Concorde offers valuable assistance to help you find that all-important healthcare job," the company's Web site reads.[1512] But student complaints show that students' experiences with job

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[1511] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.

[1512] Concorde Career Colleges, Inc., *Graduate Employment*, http://www.concorde.edu/graduate-employment (accessed April 24, 2012).

placement did not always match these advertisements.[1513] "It was made to sound like they had connections that a graduate could utilize at any point in their career as long as they asked for help," one student wrote.[1514] "The only 'job placement' the school does is search three websites (Craig's List, Monster, and one other one) . . . Everyone searches these websites." The student also felt that the school misled her about the job market for dental assistants. "It is much harder to gain employment. The employment is very low pay when it comes to the amount of money you pay for the program and the time you spend completing the program. . . . The school makes out like you are training for a career. A job that barely makes more than minimum wage and does not offer benefits does not sound like a career."

A surgical technology student wrote:

> when I first met with a Concorde [admissions] Rep. he said that once I graduated . . . they placed 98% of there students [sic]. . . . As of 4 [months] post graduation only 1 out of 7 have a job in their field of surgical technology, and this individual had no help with finding this position either. I was also told that I would be prepared for the [Certified Surgical Technologist] exam, and that they had a 80% [sic] pass rate on this exam, again that was not true, only 50% of our class passed the exam as did the graduateing [sic] class a month before mine. . . . So, now I have no job, no certification, and a huge student loan coming due.[1515]

A vocational nursing student wrote, "one week prior to my exit from school, the financial office informed me that I owed $297.00. I was required to sign a contract indicated that I will pay $25.00 every month commencing on May or June, 2009 in order to be release [sic] to graduate. I graduate on May 5, 2009 and have not been able to obtain a job. . . . For the past seven months I have been living from place to place, staying in homeless shelter in order to try to complete the nursing program."[1516]

Institutional Loans

Concorde operates a small institutional loan program to lend money to its students to cover institutional charges. The company had $10.9 million in outstanding loans as of November 2009. The interest rate on these loans is 18 percent.[1517]

[1513] While student complaints may not be representative of the experience of the majority of students, these complaints provide an important perspective on the way some students perceived the problems with the company's career services and job placement.
[1514] Concorde Career Colleges, December 4, 2009, Complaint Letter from Student (CCC000110342). The BBB closed the case after the student indicated she "was satisfied to see that school is willing to admit publicly that the average salary for a dental assistant is $11.57 and the current rate of placement is down to 83% . . . I realize this is probably going to be the best I can get the school to admit to so I will accept it and move on."
[1515] Concorde Career Colleges, February 25, 2009, Better Business Bureau Letter (CCC000110051, at CCC00011055). The BBB decided the complaint in favor of the school, but the student was not satisfied and she indicated she would pursue legal action.
[1516] Concorde Career Colleges, June 22, 2009, Student Complaint Letter, (CCC000109313).
[1517] Concord Career Colleges Internal Email, September 05, 2008, *RE: Concorde loans charging interest* (CCC000107536). In September 2008, after complaints from campus financial aid directors, the corporate office stopped charging interest on these loans for students who did not take out their full eligibility for title IV student aid. The 18 percent interest rate was retained for all other borrowers.

Regulatory Strategies

For-profit education companies are subject to two main regulatory provisions: that no more than 90 percent of revenues come from title IV Federal financial aid programs and that no more than 25 percent of students default within 2 years of entering loan repayment. As discussed in the body of this report, some companies including Concorde lower their reported default rates by placing students in forbearances and deferments to delay default. Moreover, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal financial aid programs.

In order to stay under 90 percent, internal documents indicate that Concorde employed a number of tactics that include limiting Federal loan disbursements and maximizing cash payments from students.

Internal documents reveal that multiple Concorde campuses were making what one executive termed "unauthorized FFELP loan reductions" to manage the company's 90/10 situation.[1518] The executive, the company's national director of financial aid who has since left the company, wrote, "Concorde has been following a policy of meeting only institutional charges with Title IV Awards [and] has forgotten that institutional policy is not what the Feds want us to do, and therefore we must do it in a complex but compliant way." This "institutional policy" suggests that the company may have been limiting the amount of Federal aid its students receive, requiring students to use other sources of funding to pay tuition and other charges. Federal student loans generally carry low interest and valuable alternative repayment options that private loans do not. Another email, from the company's controller indicates that students "with additional Title IV eligibility" were "required to make 10% student payments through Concorde [institutional] loans."[1519] Concorde loans at the time carried an interest rate of 18 percent; the Controller pointed out that "these students would be paying a significantly lower interest rate" with Federal loans and requests that the campus presidents "go back and modify" the Concorde loan promissory notes for students in that situation. Two years earlier, another employee had raised the same issue.[1520] The company states that the practice was limited to a small number of campuses and that it was ended by November 2008.

Conclusion

Like most companies examined, Concorde tuition is more costly than tuition at public colleges offering the same programs. Moreover, an audit by the Department of Education Inspector General also revealed that Concorde improperly retained approximately $500,000 in taxpayer dollars due to incomplete recordkeeping and errors in its "return to title IV" calculations. While Concorde's student withdrawal rates are significantly lower than average, the company's high student loan default rates suggest that students completing its programs may not be able to obtain employment or salaries that enable them to repay the debt they incur. Taken together, these issues cast serious doubt on whether Concorde students are receiving an education that affords them adequate value relative to cost, and call into question the $146 million investment American taxpayers made in the company in 2010

[1518] Concord Career Colleges Internal Email, May 15, 2008, *FW:Formula 4 --34CFR 690.63e* (CCC000106391, at CCC000106392).
[1519] Concord Career Colleges Internal Email, September 05, 2008, *RE: Concorde loans charging interest* (CCC000107536).
[1520] Concord Career Colleges Internal Email, December 13, 2006, *Conference Call Questions* (CCC000098707). See also Concord Career Colleges Internal Email, January 06, 2010, *COL Stipends* (CCC000105786).

Corinthian Colleges

Introduction

Corinthian Colleges, Inc. ("Corinthian") offers Certificate and Associate programs in many areas as well as a small Bachelor's program both online and at on-ground campus locations. Like many for-profit education companies, Corinthian has experienced significant growth in student enrollment, Federal funds collected, and profit realized. Although Corinthian College Inc. offers primarily Certificates and 2-year degrees, the company's tuition prices are among the highest the committee examined. This forces many students to both borrow the maximum available Federal financial aid and to take on additional private debt. The student withdrawal rates for the Associate programs are among the highest analyzed by the committee staff and the withdrawal rates for the Certificate programs are above the sector average. The company also had unusually high rates of students defaulting on student loans during the period examined. It is unclear that Corinthian delivers an educational product worth the rapidly growing Federal investment taxpayers and students are making in the company.

Company Profile

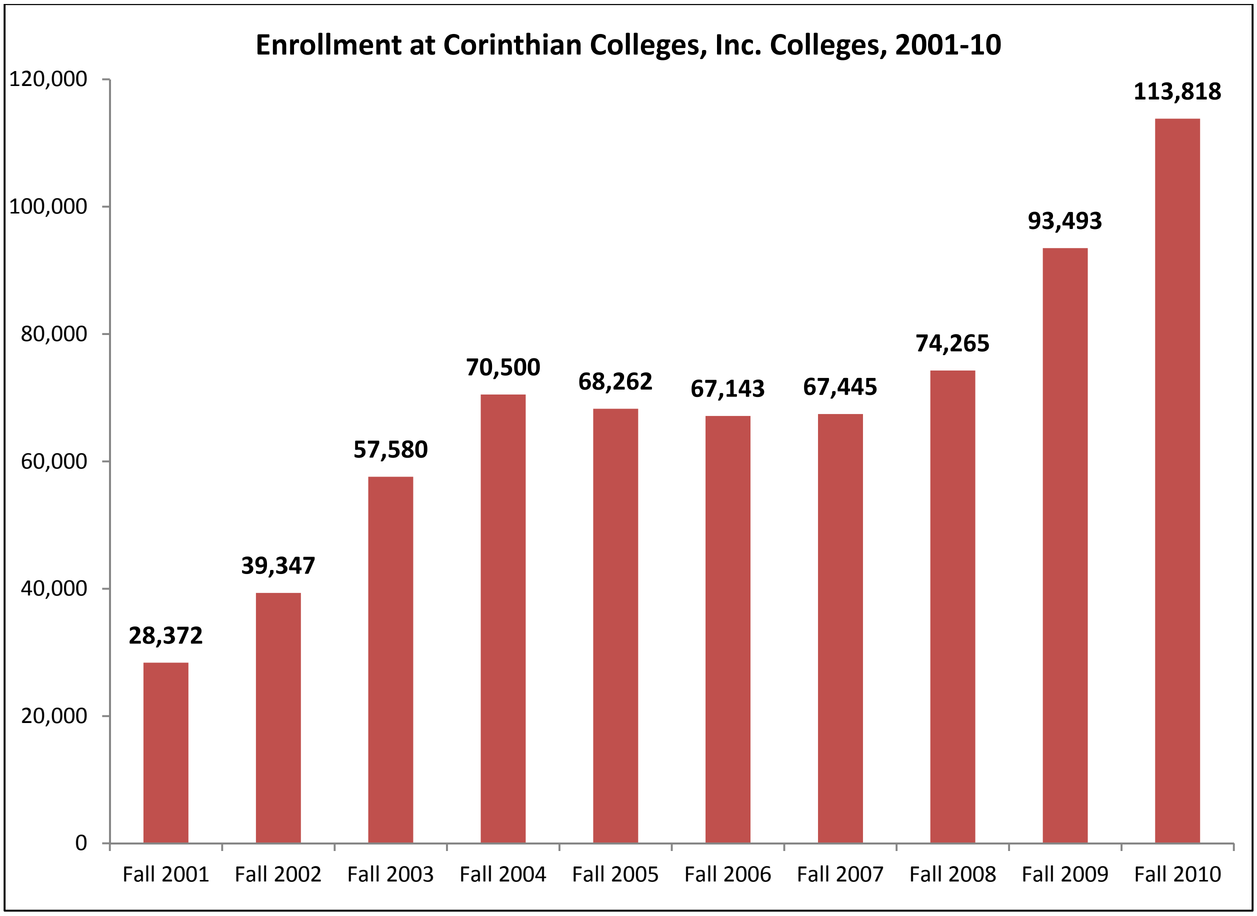
Corinthian is a publicly traded, for-profit education company headquartered in Santa Ana, CA. Corinthian operates a total of 105 campuses in 25 States, along with an online division, and offers diploma and degree programs in health care, business, criminal justice, transportation technology and maintenance, construction trades, and information technology.[1521] Committee staff estimates that approximately 34 percent of Corinthian students are enrolled online, and 64 percent are enrolled in diploma (non-degree) programs.

Brands
Everest
Heald College
Wyotech

Individual Corinthian-branded campuses are primarily accredited through two national accreditors: the Accrediting Commission of Career Schools and Colleges (ACCSC) and the Accrediting Council for Independent Colleges and Schools (ACICS). The current chair of the board of ACCSC also serves as the executive vice president of operations for Corinthian. Some of the Everest College campuses are also regionally accredited by the Higher Learning Commission (HLC), a division of the North Central Association of Colleges and Schools. Heald College campuses are regionally accredited by the Western Association of Schools and Colleges (WASC).

[1521] Corinthian Colleges, Inc., *Company History*, http://www.cci.edu/about/history (accessed June 18, 2012).

Corinthian was founded in 1995 and went public in 1999. The current CEO and chairman of the board is Jack D. Massimino. Before joining Corinthian, Mr. Massimino was an executive in the health care industry.



In the fall of 2010, 113,818 students were enrolled at Corinthian.[1522] Enrollment quadrupled in 10 years, growing from 28,372 in 2001. Enrollment fell to 94,000 in 2011.[1523]

Corinthian's growth strategy focuses on expanding short-term Diploma program offerings across its campuses in healthcare and trades.[1524] It is also piloting three new Diploma programs in personal care, IT, and business, and is continuing to increase the number of Associate degree offerings.[1525] The growth in enrollment led to growth in revenue. In 4 years, revenue nearly doubled, from $909 million in 2006 to $1.76 billion in 2010.[1526]

[1522] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education 's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7.
[1523] The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.
[1524] Corinthian Colleges, Inc., August 23, 2012, Q4 Investor Call; See also Corinthian Colleges, Inc., August 25, 2009, Q4 Investor Call.
[1525] Id.
[1526] Revenue increased in 2011 from $1.8 billion to $1.9 billion. Profit fell to a net loss of $83 million in the same year. Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1527] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1528]

In 2010, Corinthian reported 81.9 percent of revenue from title IV Federal financial aid programs.[1529] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs or revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA).[1530] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 1.2 percent of Corinthian's revenue, or $21.2 million.[1531] With these funds from the Departments of Defense and Veterans Affairs included, 83.1 percent of Corinthian's total revenue was comprised of Federal education funds.[1532] Based on information the company provided, the committee estimates thatCorinthian may have discounted up to 8 percent of revenue, or $137.7 million, pursuant to ECASLA.

[1527] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education. "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

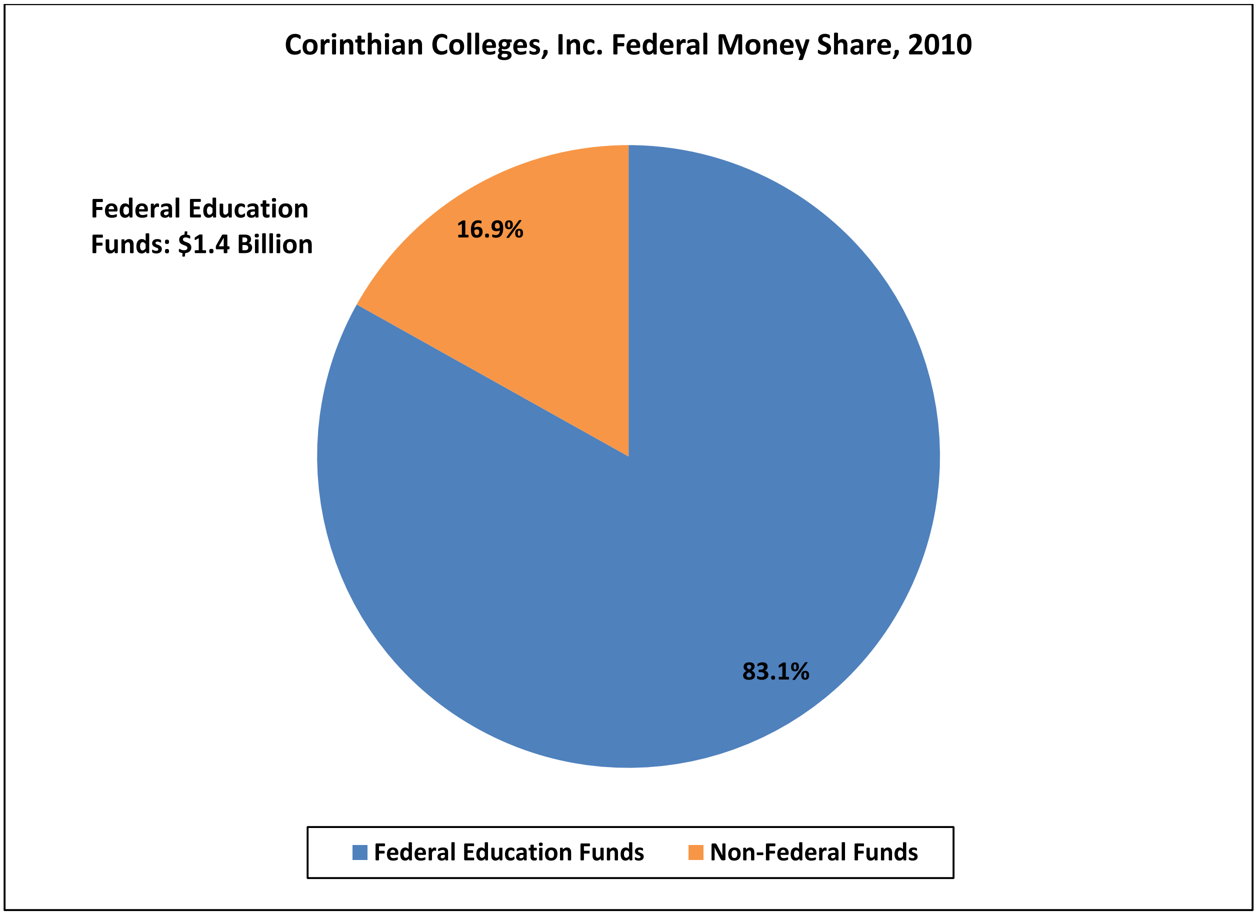
[1528] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 15, 2011. See Appendix 9.

[1529] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 15, 2011. See Appendix 9.

[1530] Pursuant to the Ensuring Continued Access to Student Loan Act (ECASLA), for-profit education companies were allowed to exclude $2,000 in increased Stafford loan eligibility for each student during fiscal years 2009 and 2010.

[1531] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the Committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the Committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[1532] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.

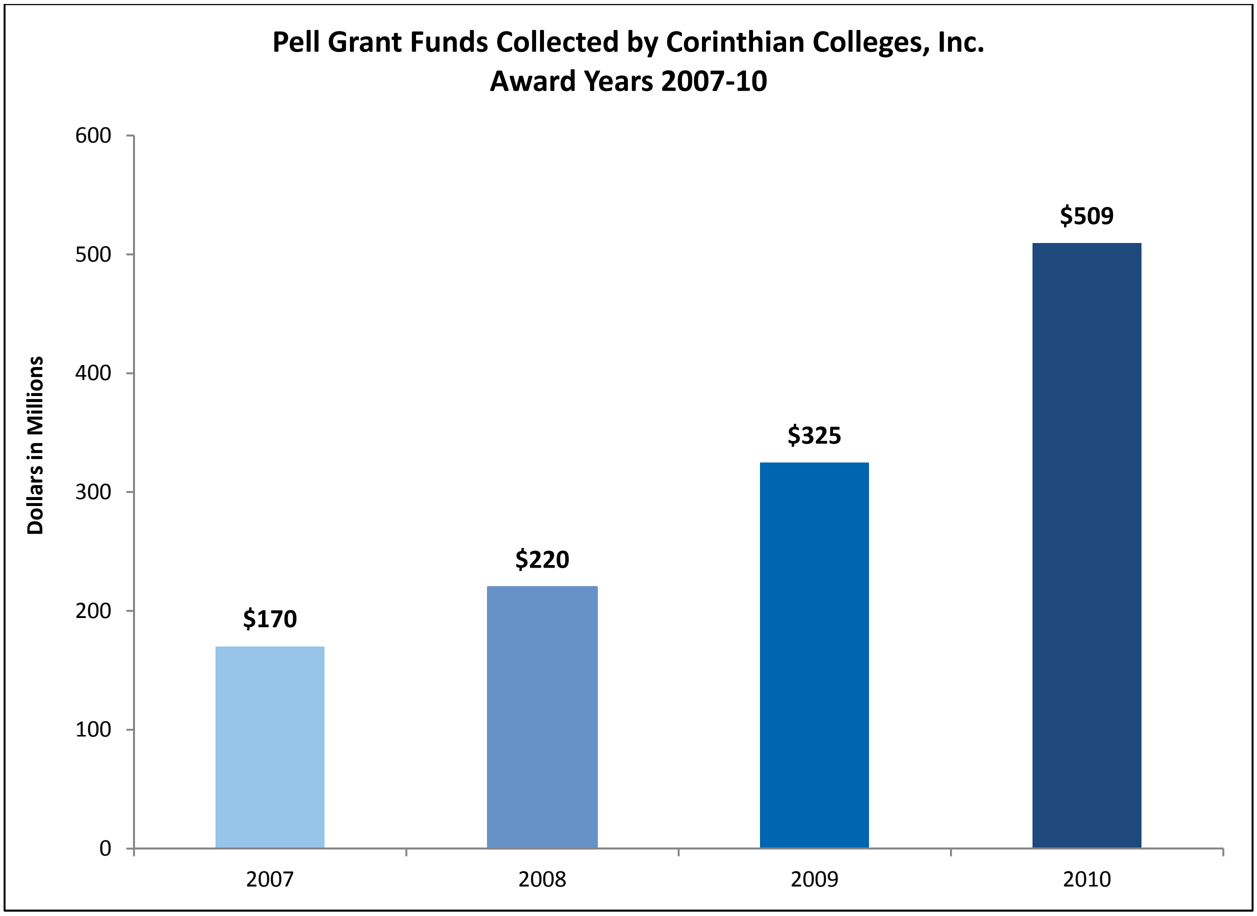


The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[1533] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

Corinthian tripled the amount of Pell grants it collects in just 3 years, from $170.2 million in 2007 to $509.3 million in 2010. [1534]

[1533] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.

[1534] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 and 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html.

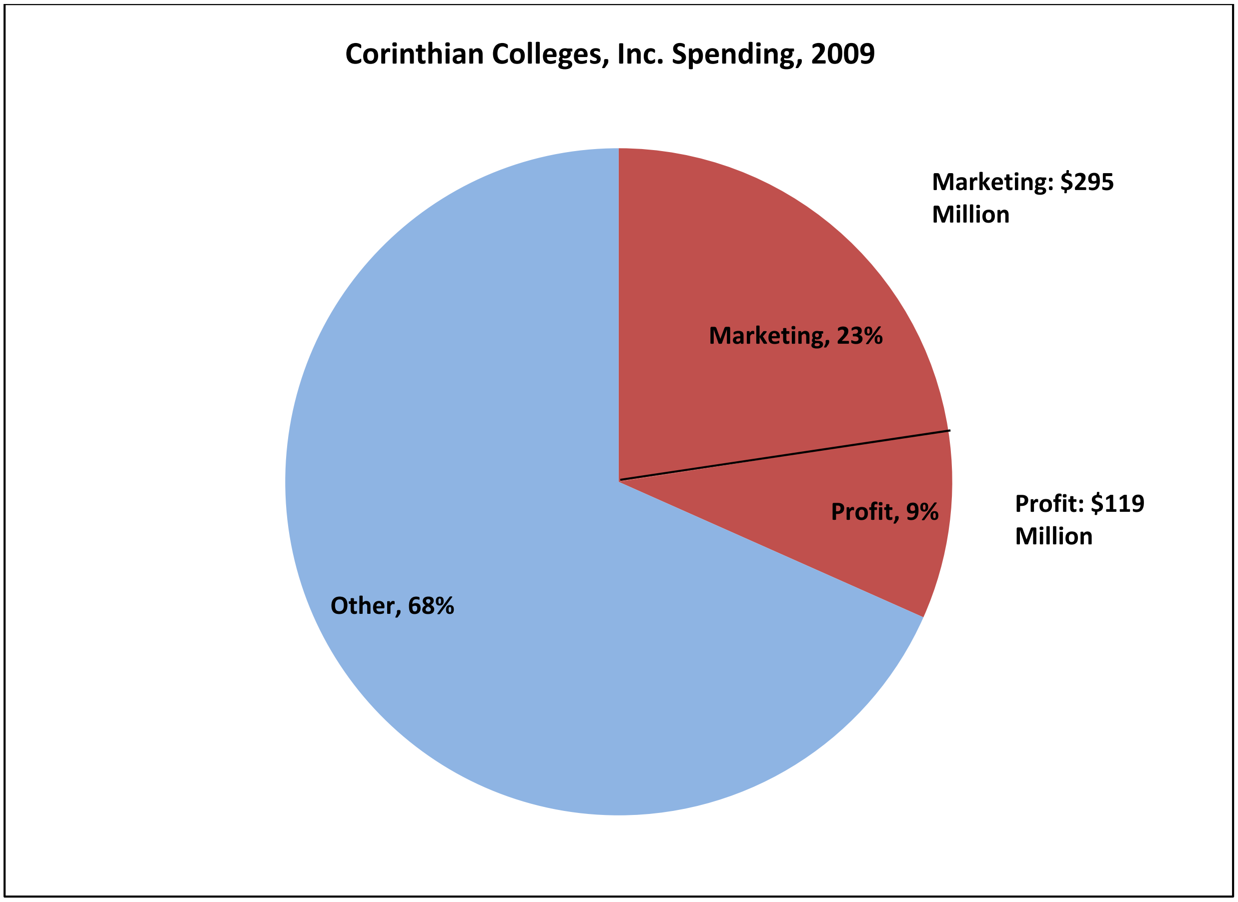


Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[1535] During the same period those companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion) and dedicated 19.7 percent to profit ($3.2 billion).[1536] These 15 companies allocated a total of $6.9 billion to marketing, recruiting and profit in fiscal year 2009.

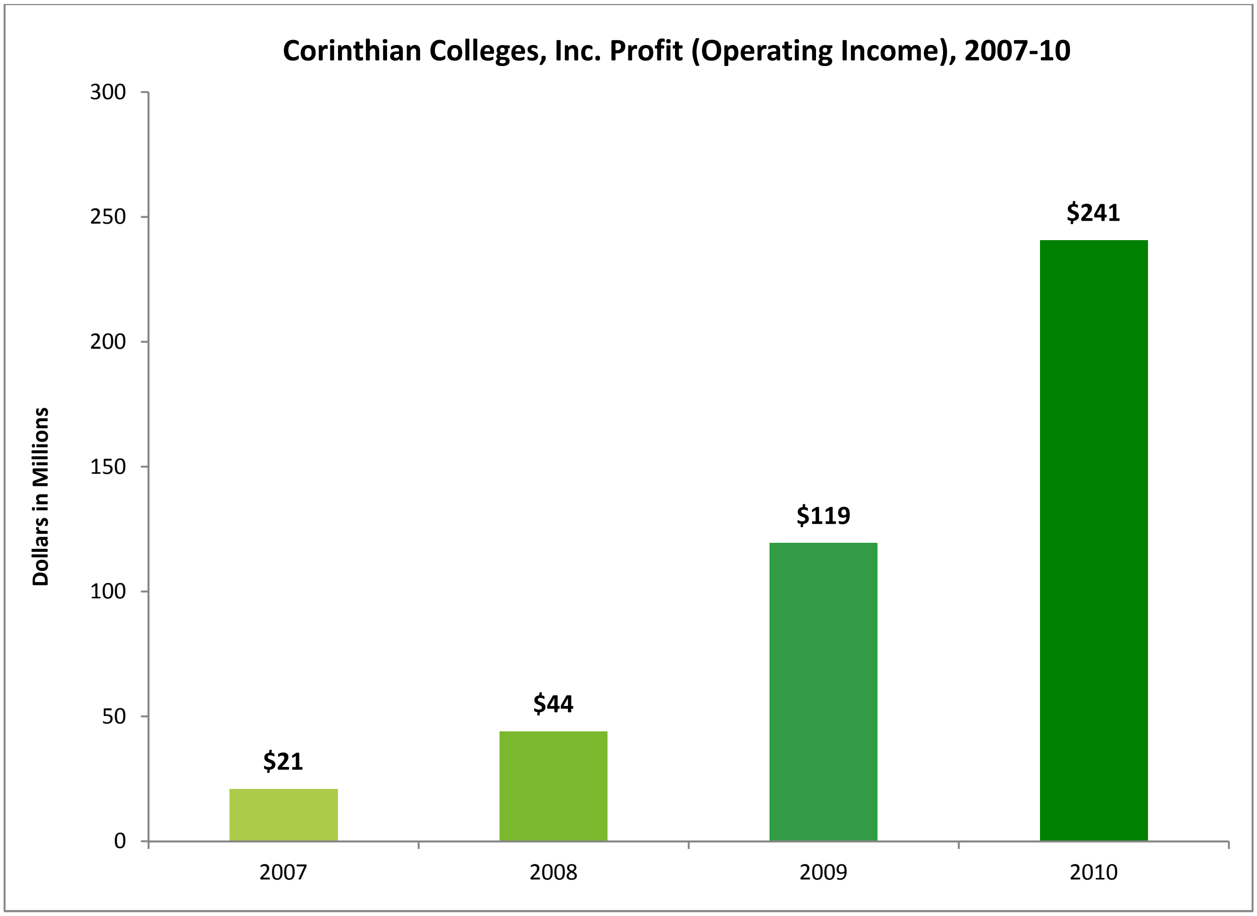
In 2009, Corinthian allocated 9.1 percent of its revenue, or $119.2 million, to profit, and 22.5 percent, or $294.7 million, to marketing and recruiting.[1537]

[1535] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.
[1536] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation.
[1537] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit. The "other" category in the chart below includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.



As a percentage of revenue, Corinthian spends close to the average of the 30 companies examined on marketing and recruiting, and allocates a lower proportion than most to profit. However, the amount of profit Corinthian generated rose rapidly over the last several years. In 2007, Corinthian reported a profit of $21 million, and by 2010 that profit had increased 11-fold, growing to $240.8 million. Due to a drop in enrollment, Corinthian had a net loss of $83 million in 2011.[1538]

[1538] Corinthian announced the net loss for 2011, attributing it in part to the company's decision to no longer enroll higher risk "Ability to Benefit" students. See Corinthian Colleges, Inc., November 1, 2011, *Corinthian Colleges Reports Fiscal 2012 First Quarter Results*, http://newsroom.cci.edu/releasedetail.cfm?ReleaseID=619610 (accessed June 18, 2012). Corinthian's decision regarding Ability to Benefit students was taken to help reduce the company's cohort default rates. See Corinthian Colleges, Inc. Investor Call, Q3 May 3, 2011.



Executive Compensation

Executives at Corinthian, like most for-profit executives, are more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[1539] In 2009, Corinthian's current CEO Jack Massimino received $3.3 million in compensation, more than eight times as much as the president of the University of California at Irvine, who received $382,980 in total compensation for 2009-10.

The chief executive officers of the large publicly traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[1540] Massimino's $3.3 million compensation package for 2009 is under half the average for the publicly traded companies. Moreover, compensation agreements make clear that pay is based on enrollment and profit goals, not student success.[1541] In fact, 75 percent of Mr. Massimino's compensation is based on "operating profit performance."

[1539] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and Chief Executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.

[1540] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

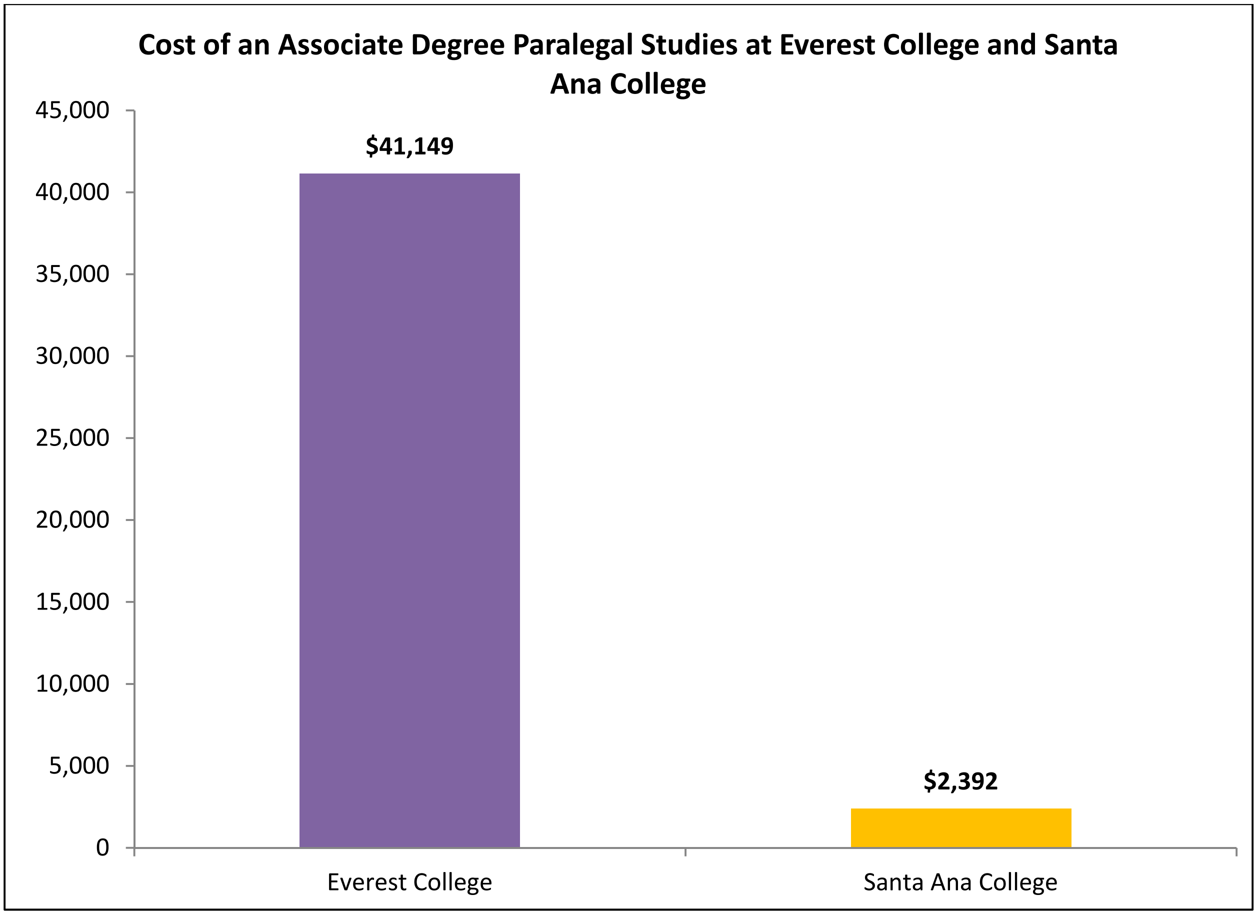
[1541] Corinthian Colleges, Inc., Form DEF 14A, October 6, 2011.

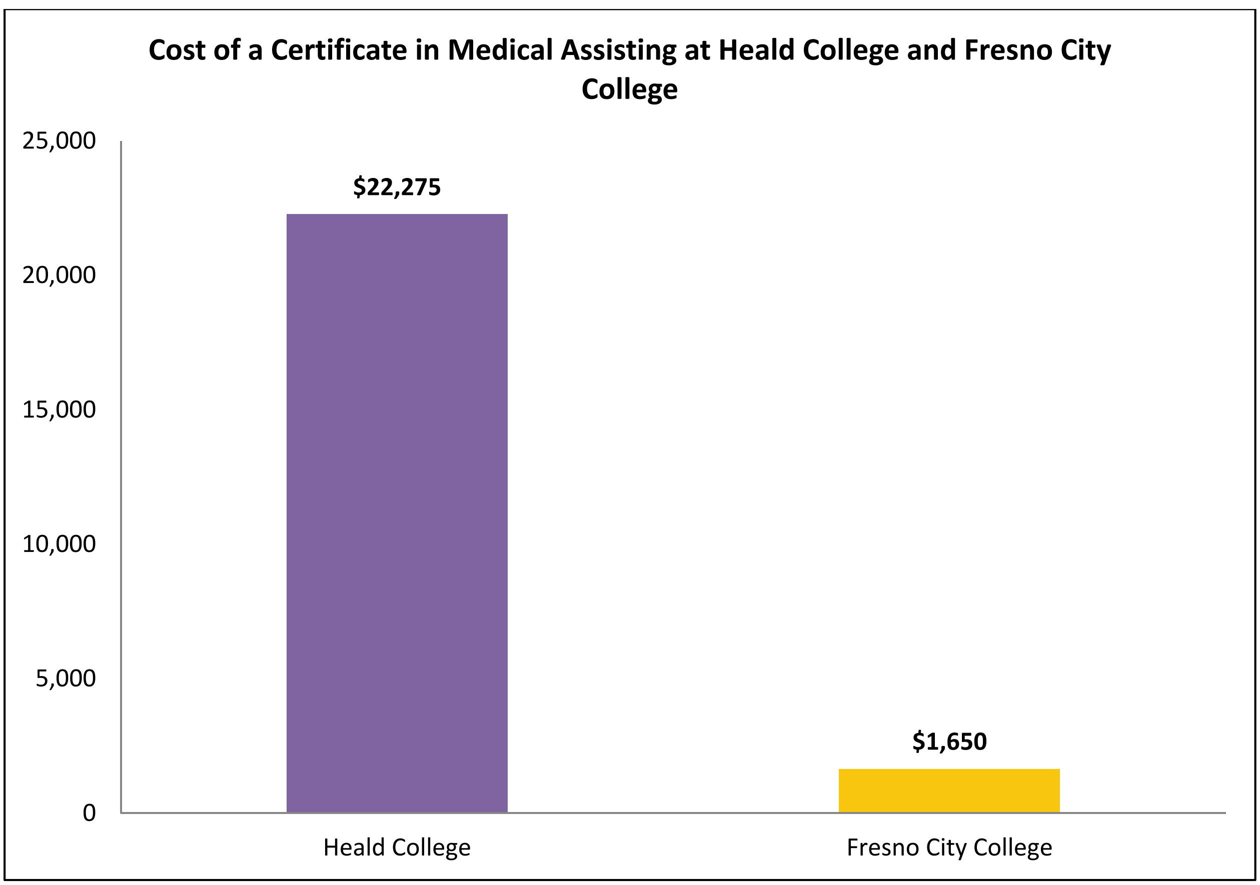
Executive	Title	2009 Compensation	2010 Compensation
Jack Massimino	Executive Chairman; also CEO after Nov. 2010	$3,343,434.00	$3,032,703.00
Peter Waller	Chief Executive Officer	$1,984,619.00	$4,463,882.00
Kenneth S. Ord	Executive Vice President and Chief Financial Officer	$1,472,628.00	$1,605,529.00
Beth Wilson	Executive Vice President	$1,409,213.00	$1,516,676.00
Matt Ouimet	President and Chief Operating Officer	$1,406,812.00	$2,021,538.00
Total[1542]		$9,616,706.00	$12,640,328.00

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Corinthian. The Medical Assistant diploma program at Corinthian's Heald College in Fresno, CA, costs $22,275.[1543] A comparable program at Fresno City College costs $1,650.[1544] An Associate degree in paralegal studies at Corinthian-Owned Everest College in Ontario, CA, costs $41,149[1545], compared to $2,392 for the same degree at Santa Ana College.[1546] Everest College charges $82,280 for a Bachelor's Degree in Business.[1547] The same degree is available at the University of California – Irvine for $55,880.[1548] Corinthian's cost for a diploma was among the highest surveyed by the committee, and the cost of an Associate degree at Corinthian was the highest surveyed, surpassing the next highest-cost school (ITT) by 17 percent. Moreover, Corinthian was extremely lacking in transparency regarding these costs. Prior to new regulations requiring tuition disclosures, committee staff struggled to accurately determine the cost of most Corinthian programs.[1549]

[1542] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.
[1543] See Appendix 14; see also, Corinthian Colleges, Inc., *Program Disclosures: Heald College, Fresno*, http://disclosures.heald.edu/disclosures/heald-college-fresno.pdf (accessed June 18, 2012).
[1544] See Appendix 14; See also, Fresno City College, *Fresno City College*, http://www.fresnocitycollege.edu/ (accessed June 18, 2012).
[1545] See Appendix 14; See also, Corinthian Colleges, Inc., *Program Disclosures: Everest College, Ontario Metro*, http://disclosures.everest.edu/disclosures/everest-college-ontario-metro.pdf (accessed June 18, 2012).
[1546] See Appendix 14; See also, Santa Ana College, *Santa Ana College*, http://www.sac.edu/Pages/default.aspx (accessed July 12, 2012).
[1547] See Appendix 14; See also, Everest University, *Program Disclosures*, http://disclosures.everest.edu/disclosures/everest-university-tampa.pdf?cache1342188115 (accessed July 13, 2012).
[1548] See Appendix 14; See also, University of California – Irvine, *University of California – Irvine*, http://www.uci.edu/ (accessed July 13, 2012).
[1549] Committee staff examined internal documents produced by the company, Corinthian's schools' Web sites, and academic and course catalogues in an attempt to determine the cost of the programs. However, committee staff was unable to reliably determine the cost of completing a degree at the Corinthian's schools prior to new regulations requiring tuition disclosures.


Cost of an Associate Degree Paralegal Studies at Everest College and Santa Ana College
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
$41,149
$2,392
Everest College
Santa Ana College


Cost of a Certificate in Medical Assisting at Heald College and Fresno City College
25,000
20,000
15,000
10,000
5,000
0
$22,275
$1,650
Heald College
Fresno City College

The sharply higher tuition that Corinthian charges is reflected in the amount of money that Corinthian collects for each veteran that it enrolls. From 2009-11, Corinthian trained 4,676 veterans and received $60 million in post-9/11 GI bill benefits, the eighth-largest dollar amount collected by any company. Corinthian collected an average of $12,885 per veteran, compared to an average of $4,642 per veteran trained at a public college in the same period.[1550]

Corinthian implemented a 12 percent tuition increase in February 2011, and like much of the industry, increases its tuition regularly.[1551] However, recruiters are trained to discourage and deflect questions about cost from students. In an admissions representative training document, in the section on "Common Objections and Responses," recruiters are trained to deflect the question "How much does it cost" using the following script:

> John, the cost of the program will vary depending on several factors. Is your question really how much is it going to cost you in out-of-pocket dollars? (Response). In order for me to answer the question, first we would have to determine the right program for you. Second, we would have to determine what time-frame you expect to complete the program (only true if credit hour charging is used); and finally, the Student Finance office would determine the types of financial assistance you may be eligible for. Could you tell me why you are asking about the cost?" (Proceed with phone script).[1552]

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations, for-profit colleges recruit as many students as possible to sign up for their programs.

Internal company documents from the 2005-10 period make clear that recruiters employed by Corinthian were trained that selling the program, not advising students, is the primary responsibility of the position. One 2005 hiring manual states: "remember that this is a sales position and the new hire must understand that from the very beginning." [1553] Once a recruiter is hired, managers check the numbers of "appointments being set, interviews conduct[ed], applications taken and daily enrollment" twice a day.[1554] Moreover, Corinthian also recommended that managers not "distribute an equal amount of [leads] to a new Ad Rep nor an Ad Rep that in underperforming versus a top producing Ad Rep [sic]." [1555]

It is possible that these aggressive recruiting tactics result in a student body that is underprepared for college. On June 26, 2012, the first set of data from the Department of Education, regarding the gainful employment regulations, indicated that 5 percent of programs (193 programs at 93 institutions)

[1550] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the Committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[1551] Corinthian Colleges, Inc., February 1, 2011, Q2 Investor Call; See Department of Education, *College Affordability and Transparency Center*, http://collegecost.ed.gov/catc/Default.aspx# (accessed June 18, 2012).
[1552] Corinthian Colleges, Inc., October 2005, *Admissions Representative Training Manual* (CCi-00046774, at CCi-00046777); See also Corinthian Colleges, Inc., *Phone Script* (CCI-00047154), Corinthian Colleges, Inc., *Overcoming Phone Obstacles* (CCi-00046688).
[1553] Corinthian Colleges, Inc., *Admissions Representative Training Manual* (CCi-00045716) describing the job as "a sales position"; See also Corinthian Colleges, Inc., *CCI Director of Admissions Operations* (CCi-00045638).
[1554] Id.
[1555] Id.

all operated by for-profit colleges failed to meet all three gainful employment criteria.[1556] These three standards include: (1) at least 35 percent of the program's former students are repaying their loans; (2) the estimated annual loan payment of a typical graduate does not exceed 12 percent of his or her total earnings; and (3) the estimated annual loan payment of a typical graduate does not exceed 30 percent of his or her discretionary income. According to analysis from *Inside Higher Ed*, Corinthian was the company with the most programs, 43 in total, failing all three criteria.[1557]

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis shows that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1558]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll in at Corinthian are not achieving their educational and career goals.

Retention Rates

[1556] U.S. Department of Education, "Five Percent of Career Training Programs Risk Losing Access to Federal Funds; 35 Percent Meet All Three Standards Under Gainful Employment Regulation," Press Release, June 26, 2012, http://www.ed.gov/news/press-releases/five-percent-career-training-programs-risk-losing-access-federal-funds-35-percen (accessed July 6, 2012).

[1557] US Department of Education, Federal Student Aid Data Center, *2011 Gainful Employment Informational Metrics*, http://federalstudentaid.ed.gov/datacenter/gainful1.html (accessed July 6, 2012); See also Libby A. Nelson, Missing the Mark on 'Gainful,' *Inside Higher Ed*, June 26, 2012, http://www.insidehighered.com/news/2012/06/26/education-department-releases-data-gainful-employment-rule (accessed July 6, 2012). On June 30, 2012, the District Court for the District of Columbia struck down the gainful employment rule stating that the Department had failed to provide sufficient justification for the requirement that 35 percent of students are repaying loans. *Association of Private Colleges and Universities v. Duncan*, 2012 DC D 1:11-CV-01314-RC U, p. 29-31, available at http://big.assets.huffingtonpost.com/judgeordergainful.pdf (accessed July 6, 2012).

[1558] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 18, 2012).

Status of Students Enrolled in Corinthian Colleges, Inc. in 2008-09, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	44,436	6.9%	26.6%	66.5%	29,547	124
Bachelor's Degree	3,139	6.1%	34.8%	59.2%	1,889	138
Certificate	83,291	56.6%	1.7%	41.7%	34,714	79
All Students[1559]	130,920	39%	11%	50.5%	66,150	101

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Information Corinthian provided to the committee indicates that, of the 130,920 students who enrolled at Corinthian in 2008-9, 50.5 percent, or 66,150 people, withdrew by mid-2010. The median withdrawn student was enrolled for just over 3 months.[1560] Overall, Corinthian's retention rate was slightly lower than the average withdrawal rate of 54 percent across the 30 companies. Corinthian's Associate degree student withdrawal rate was one of the 10 worst among the companies examined, with 66.5 percent withdrawing. The smaller Bachelor's program also had a high withdrawal rate of 59.2 percent.

Because two-thirds of Corinthian's students enrolled in Certificate programs, with a much lower withdrawal rate of 41.7 percent, the overall withdrawal rates are better than might be expected. However, the withdrawal rate for Certificate programs is still higher than the average of 38 percent. The Certificate students who withdrew did so very quickly, with the median student withdrawing in 2.5 months, one of the fastest rates noted. While a rapid withdrawal rate reduces the debt load for the student, it also suggests problems with the quality of the program and raises questions about recruitment practices.

Student Loan Defaults

The number of students leaving Corinthian with no degree correlates with the exceptionally high rates of student loan defaults by students who attended Corinthian. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.

[1559] The Committee analyzed data for students who enrolled at each company between July 1, 2008 and June 30, 2009. This dataset did not include Corinthian students who enrolled prior to July 1, 2008. The inclusion of these students could potentially have resulted in a lower overall percentage of students withdrawing.

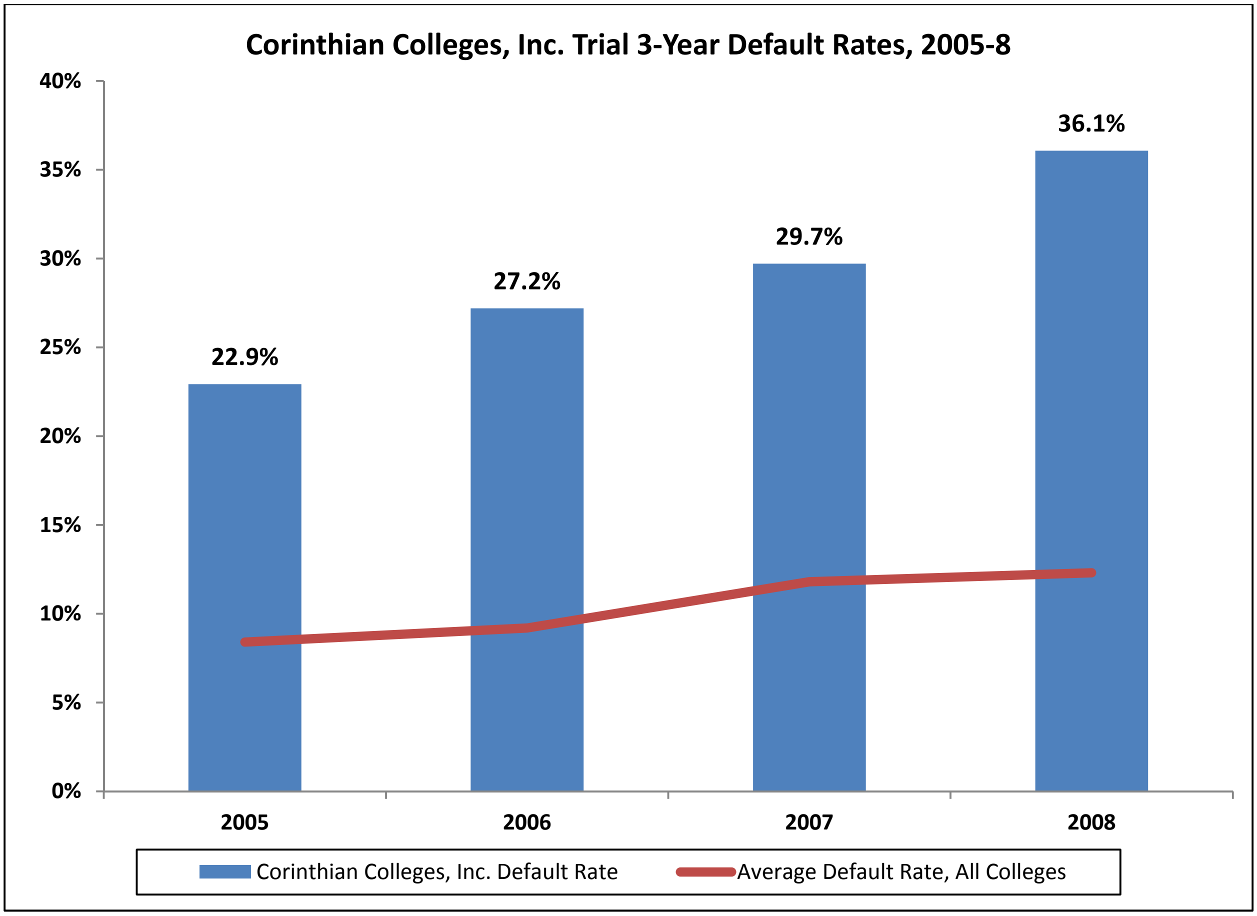
[1560] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[1561] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1562] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1563] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1564]

Beginning in 2014, any school will lose eligibility for Federal financial aid if its 3-year cohort default rate is greater than 40 percent in a single year, or if the cohort default rate is greater than 30 percent for each of the 3 most recent years.[1565] Corinthian's trial 3-year cohort default rates for students entering repayment in 2008 were over 40 percent at 13 campuses and over 30 percent at an additional 65 campuses.[1566] Further, all 14 of Corinthian's Everest campuses in California, as well as two Heald and two Wyotech campuses in California, were recently removed from eligibility for California's student grant program because those campuses had a default rate of more than 24.6 percent.[1567]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent. This change represents a 32.6 percent increase over 4 years.[1568] Corinthian's default rate has similarly increased, growing from 22.9 percent for students entering repayment in 2005 to 36.1 percent for students entering repayment in 2008.[1569] This is by far the highest default rate of any publicly traded company examined, and the second highest overall.[1570] The default rate is 64 percent higher than the rate for all for-profit colleges. While the company's high default rate is likely due in part to the high cost of Corinthian' programs, it also raises serious questions regarding the quality of the programs Corinthian provides, and whether its students who complete programs earn high enough wages to repay the debt they take on. Had the 3-year cohort default rate provision been in effect in 2011, Corinthian would have faced the loss of access to title IV financial aid dollars.

[1561] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[1562] Id.
[1563] Id.
[1564] Id.
[1565] H.R. 4137, *The Higher Education Opportunity Act*, 110th Congress, (2008).
[1566] Department of Education 3-year cohort default rate, for students entering repayment in fiscal year 2008.
[1567] Corinthian owns more than one-fourth of the schools removed from the Cal Grant program. Nanette Asimov, "Some For-Profit Colleges Booted from Cal Grants," *San Francisco Chronicle*, February 6, 2012, http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2012/02/05/BAU11N1V83.DTL (accessed May 14, 2012).
[1568] Department of Education 3-year cohort default rate, for students entering repayment in fiscal years 2005, 2006, 2007 and 2008. Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-08, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[1569] Department of Education consolidated cohort default rates. In March 2012 Corinthian announced that its 2009 3-year default rate had fallen by 7.3 percent to 28.8 percent.
[1570] Med-Com or Drake University has the highest 3-year default rate.



The default picture at some individual campuses is particularly dire. Corinthian's Everest Institute campus in San Antonio, TX, had 32.7 percent of its students default within 3-years for students entering repayment in 2005. That campus' proportion of students defaulting jumped to 54.5 percent for students entering repayment in 2008. Aggressive tactics led to a significant drop, though to a still high 37 percent of students from the campus in default from the 2009 cohort.[1571] Six additional campuses also had draft 2009 cohort default rates at or above 35 percent, according to the company's March 2012 SEC filings: Everest College in Los Angeles, CA (37 percent); Everest College in Ontario, CA (35.4 percent); Everest College in Renton, WA (37.2 percent); Everest College in Resada, CA (35 percent); Everest College in Thornton, CO (35.2 percent); and WyoTech in Long Beach, CA (36.6 percent).[1572]

Default Management

Corinthian has focused significant resources on finding ways to eliminate students from its reported default rates. Helping get delinquent students into repayment, deferment, or forbearance prior to default is encouraged by the Department of Education. However, many for-profit colleges appear to be investing in aggressive tactics for the sole purpose of ensuring that borrowers do not default within the 3-year regulatory window.

Default management is primarily accomplished by putting students who have not made payments on their student loans into temporary deferments or forbearances. While the use of deferment and forbearance is fairly widespread throughout the sector, documents produced indicate that a number of companies also pursue default management strategies that include loan counseling, education, and

[1571] Corinthian Colleges, Inc., Form 8-K, June 30, 2012.
[1572] Id.

alternative repayment options. Default management contractors are paid to counsel students into repayment options that ensure that students default outside the 2-year, soon to be 3-year, statutory window in which the Department of Education monitors defaults.

Forbearances may not always be in the best interest of the student. This is because during forbearance of Federal loans, as well as during deferment of unsubsidized loans, interest still accrues. The additional interest accrued during the period of forbearance is added to the principal loan balance at the end of the forbearance, with the result that interest then accrues on an even larger balance. Thus, some students will end up paying much more over the life of their loan after a forbearance or deferment.

Confronted with a default rate that was beginning to cause investor concern, Corinthian executives announced in 2010 that they would start investing $10 million per year in their existing default management program.[1573] The company has been up front that those efforts are focused on moving students into forbearance or deferment, rather than counseling students on how to begin making payments on their loans. As Corinthian executives told investors in May 2011, “Forbearance, as you well know, is a pretty easy, just a question you have to agree to it and you're on your way” [sic].[1574] The company made it clear that while the company was seeing benefits from the effort, the number of students *repaying* their loans changed little: “Our payment rate really has not moved a whole heck of a lot from where it was prior to this effort.” [1575]

Like many other for-profit colleges, Corinthian contracted with the General Revenue Corporation (GRC), a subsidiary of Sallie Mae, to “cure” students who were approaching default.[1576] Corinthian also hired two additional contractors to manage their default rates and instituted an in-house effort as well.[1577] Documents indicate GRC devoted 60 full-time employees to call former Corinthian students who were late making payments but not yet in default. The two additional firms, ROI and TEAM Enterprises, sent out 30 or more people to knock on former students’ doors to secure “cures.” [1578] This same document reveals that students in late stages of delinquency but not yet in default—when they are the biggest threat to Corinthian’s default rate—could be contacted up to 110 times per month.[1579] Another internal document shows that, in order to achieve the company’s desired default rate, the call center run by GRC would make between 2 and 2.5 million calls a year, or 429 calls per employee per day to former Corinthian students.[1580]

Corinthian also built its own internal default management operation, complete with a call center and dozens of employees.[1581] Compensation was directly tied to the number of students an employee successfully eliminates from the company’s default rate. Emails show that managers pushed employees to secure as many “cures” as possible. “Team Central . . . you did it!” reads one email sent to dozens of

[1573] Corinthian Colleges, Inc., May 4, 2010, Q3 Investor Call.
[1574] Corinthian Colleges, Inc., May 3, 2011, Q3 Investor Call.
[1575] Id.
[1576] While a “cure” means that a student is moved from delinquency to forbearance, deferment, or payment status, few students are actually being placed in payment status.
[1577] Corinthian College, Inc., Internal Default Prevention Operations Presentation (CCi-00056216) discussing “FY2010 Key Accomplishments”; see also Corinthian Colleges, Inc., Contract with GRC (CCi-00067423; Corinthian Colleges, Inc. Internal E-mail, January 18, 2012, *Update on Outside Default Aversion Vendors & Student Loan Specialist Team* (CCi-00067498).
[1578] Id.
[1579] Id.
[1580] Corinthian Colleges, Inc., *Default Prevention Staff Presentation* (CCi-00057049).
[1581] Corinthian College, Inc., *Default Prevention Operations Presentation* (CCi-00056216).

line-level default management employees, "We cured 243 students on Wednesday . . . our Division is leading CCi and that is a direct reflection of your daily efforts to drive down our CDR." [1582]

Emails also demonstrate a willingness to reprimand if targets are not hit: "Tuesday saw the lowest number of staff calling in the past several days. This led to less calls and less students we talked to. We all know two truths: This must be a campus-wide effort and this is definitely a numbers game [sic]."[1583] In an internal training presentation, the last step when contacting a former student is to "close the sale".[1584] Corinthian also began offering students gift cards to McDonald's in February 2010, for campuses with high default rates, to incentivize students to contact the default management department.[1585] The campaign was conducted by email and mobile phone text messages, which explicitly referred to postponing student loan payments.[1586]

These investments in default rate management are working.[1587] In the company's August 2011 investor call, the CFO forecast that the company expected to lower its average default rate from 36.1 percent for students entering repayment in 2008 to between 18-20 percent by the 2010 cohort.[1588] In March 2012, the company announced progress towards this goal, with a 2009 rate of 28.8 percent a 1-year decrease of 7.3 percent.[1589] Additionally, executives recently announced that these efforts have resulted in a reduction of the 2-year default rates from 21.5 percent to 6.7 percent between the 2009 and 2010 cohorts.[1590]

Corinthian was especially successful in reducing the default rate of its worst performing OPEIDS. The company went from 13 to 0 OPEIDs above 40 percent, and 29 to 7 OPEIDs above 35 percent, significantly reducing their risk of violating the cohort default rate rule.[1591]

Corinthian Colleges Institutions by Default Rate		
	2008 3-Year Default Rates	2009 3-Year Default Rates
Number of Institutions with a Default Rate above 40 Percent	13	0
Number of Institutions with a Default Rate above 35 Percent	29	7
Number of Institutions with a Default Rate above 30 Percent	36	25
Number of Institutions with a Default Rate above 25 Percent	40	36
Number of Institutions with a Default Rate below 25 Percent	9	13

This practice is troubling for taxpayers. The cohort default rate is designed not just as a sanction but also as a key indicator of a school's ability to serve its students and help them secure jobs. If schools

1582 Corinthian Colleges Internal E-mail, April 29, 2010, *CDR Daily Activity 4-28-10* (CCi-00068416).
1583 Corinthian Internal Email, April 2010, re: *CDR Daily Activity 4-20-10* (CCi-00068830).
1584 Corinthian Colleges, Inc., *Counseling At Risk Borrowers* (CCi-00056493).
1585 Corinthian Colleges, Inc., January 28, 2010, *E-mail and Text Incentive Plan* (CCi-00056773). The company notes that this plan was altered before implementation.
1586 Id.
1587 On February 28, 2012, Corinthian announced the sale of Everest College Campuses in Hayward, San Jose, San Francisco, and the Wilshire Area of Los Angeles. Three of the four sale schools have 3-year CDRs over 30 percent. Corinthian also announced the closure of Everest Campuses in Ft. Lauderdale, Decatur, and Arlington for falling below the company's student outcome or financial performance standards. The sale or closure of these seven campuses is likely to have a further positive effect on Corinthian's CDR rates.
1588 Corinthian Colleges, Inc., August 23, 2011 Q4 Investor Call.
1589 Corinthian Colleges, Inc., Form 8-K, March 5, 2012.
1590 Corinthian Colleges, Inc., Form 8-K, February 28, 2012.
1591 For some purposes including cohort default rates, the U.S. Department of Education identifies schools by "Office of Postsecondary Education Identification" number (OPEID). One OPEID number may consist of a main campus and branch campuses.

actively work to place students in forbearance and deferment, that means taxpayers and policymakers fail to get an accurate assessment of repayment and default rates. A school that has large numbers of its students defaulting on their loans indicates problems with program quality, retention, student services, career services, and reputation in the employer community. Aggressive default management undermines the validity of the default rate indicator by masking the true number of students who end up defaulting on their loans. Critically, schools that would otherwise face penalties—including loss of access to further taxpayer funds—continue to operate because they are able to manipulate their default statistics.

Instruction and Academics

The quality of any college's academics is difficult to quantify. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures. Unfortunately, despite repeated requests and in contrast to most other companies Corinthian failed to produce student complaints.[1592] By looking at the instructional cost that all sectors of higher education report to the Department of Education, it is possible to compare spending on actual instruction.

Corinthian spent $3,969 per student on instruction in 2009, compared to $2,465 on marketing and $998 on profit.[1593] The amount that publicly traded for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. Thus Corinthian's per student spending is in the upper range of the for-profit colleges the committee examined. In contrast, public and non-profit 4-year colleges and universities generally spend a higher amount per student on instruction, while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. By comparison, on a per student basis, the public University of California in Los Angeles spent $30,331 per student on instruction, the private University of Southern California spent $35,920, and local community college Orange Coast College spent $3,272 per student.[1594]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools examined by the committee, 80 percent of the faculty is part-time, with higher percentages in some companies.[1595] In 2010,

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[1592] The committee sought student complaints from each of the 30 companies examined, which provided valuable information regarding the quality concerns, if any, of students. However, Corinthian declined to comply with this part of the committee's document request, and further failed to comply after follow-up conversations with committee staff noted the company's omission.

[1593] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment. Because Corinthian purchased Heald Colleges recently, this data excludes enrollment from those campuses.

[1594] Senate HELP Committee staff analysis. See Appendix 23.

[1595] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

Corinthian employed 2,577 full-time and 3,857 part-time faculty, meaning that it employed more full-time faculty than the average.[1596]

Nonetheless, a review of documents from an undercover GAO investigation raises serious questions about the academic quality of Corinthian's programs. In the investigation, undercover GAO employees enrolled in 12 different online colleges using fictitious identities and academic credentials, including an online program at Corinthian's Everest University.[1597]

The course structure at Everest consisted of self-directed reading from books and Web sites, online discussion-threads, online tests, individual written assignments or power-points and some courses included group assignments.[1598] Interaction with the teacher was primarily through text-based chat rooms, discussion posts and direct emails. Few of the courses featured video or audio lecture components.

The GAO's employees used various tactics to examine academic standards, including submitting obviously plagiarized, non-responsive or objectively incorrect work and failing to submit assignments. The employees' experiences reflect, in many cases, a lack of academic integrity and rigor on the part of Corinthian's Everest College, as well as other for-profit schools.[1599]

GAO employees enrolled in three different courses at Corinthian's Everest University.[1600] These employees repeatedly submitted plagiarized work for each of those courses. Two of the three courses granted full or partial credit for multiple plagiarized assignments, and instructors in one of those courses never acknowledged the plagiarism in any way. In line with the methodology established by GAO the student ultimately failed the courses, the failure to discipline the student is contrary to Everest's academic honesty policy which provides for discipline ranging from expulsion to reduced credit.[1601]

These failures were not due to the plagiarism being difficult to detect. For instance, as the main component of an assignment for a psychology course, students were asked to answer the question: "Why do psychologists study the brain and the nervous system?" The agent responded with the following, copied verbatim from Answers.com, with a link to the page included:

> It is because our body affects our behavior, cognition, perception. different moods and certain reactions that we do are governed by certain neurotransmitters that depends on the brain and the nervous system, so that it will be of use [sic]. The brain is the command center of our whole body so whatever its state or nature is very important in

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[1596] Id.

[1597] GAO employees attempted to enroll at 15 different institutions using fictitious (and unverifiable) proof of graduation from high school or its equivalent. Only 3 of the 15 schools declined or rescinded the students' admission as a result of those unverifiable credentials, while the other 12 institutions allowed admission. *See* U.S. Government Accountability Office, *For Profit Schools: Experiences of Undercover Students Enrolled in Online Classes at Selected Colleges*, Report to the Chairman, Committee on Health, Education, Labor and Pensions, October 2011, http://www.gao.gov/assets/590/586456.pdf (accessed, June 18, 2012) [hereinafter GAO II].

[1598] GAO Investigation Documentation, CFS 2167 Computer Application Course Syllabus (DALLAS-334171).

[1599] GAO additionally provided work papers to the Chairman, including screenshots and printouts of submitted coursework and communications with the school.

[1600] While the identity of individual companies were not made public at the time of the release of the GAO report *For-Profit Schools - Experiences of Undercover Students Enrolled in Online Classes at Selected Colleges*, the information was provided to the committee. Corinthian-owned Everest College was school number 7 in the report.

[1601] GAO II at 20. While GAO's undercover employees received full or partial credit for many plagiarized assignments, none received passing final grades for a course. The employee's failing grades were partly due to their submission of objectively incorrect or non-responsive assignments, and partly due to their failure to submit any work for other assignments.

understanding behavior and mental processes. In addition, psychology is the study of behavior and mental processes so it makes sense,

http://wiki.answers.com/Q/Why_do_psychologist_study_the_brain_and_nervous_system [1602]

The professor awarded a B+ for the assignment and provided the following feedback regarding the copied material: "you did an excellent job detailing this post-please do not use wiki or other sources which are not credible such as about.com or answerbag." [1603] The professor did not note the plagiarism in this or several other assignments during the course. After consistently submitting plagiarized work each week, the professor finally noted the misconduct during the final week of the course, and submitted an incident report to the school.[1604] However, the school did not follow up with disciplinary action.[1605]

The professor of a Computer Science course failed to notice plagiarized submissions that were copied verbatim from other students' discussion posts for the same assignment. For example, for a discussion post assignment in a Computer Science course at Everest University, the agent copied a short post submitted by another student 24-hours earlier.[1606] The professor gave a low grade for the post (10/25), but only critiqued it for being short and incomplete.[1607]

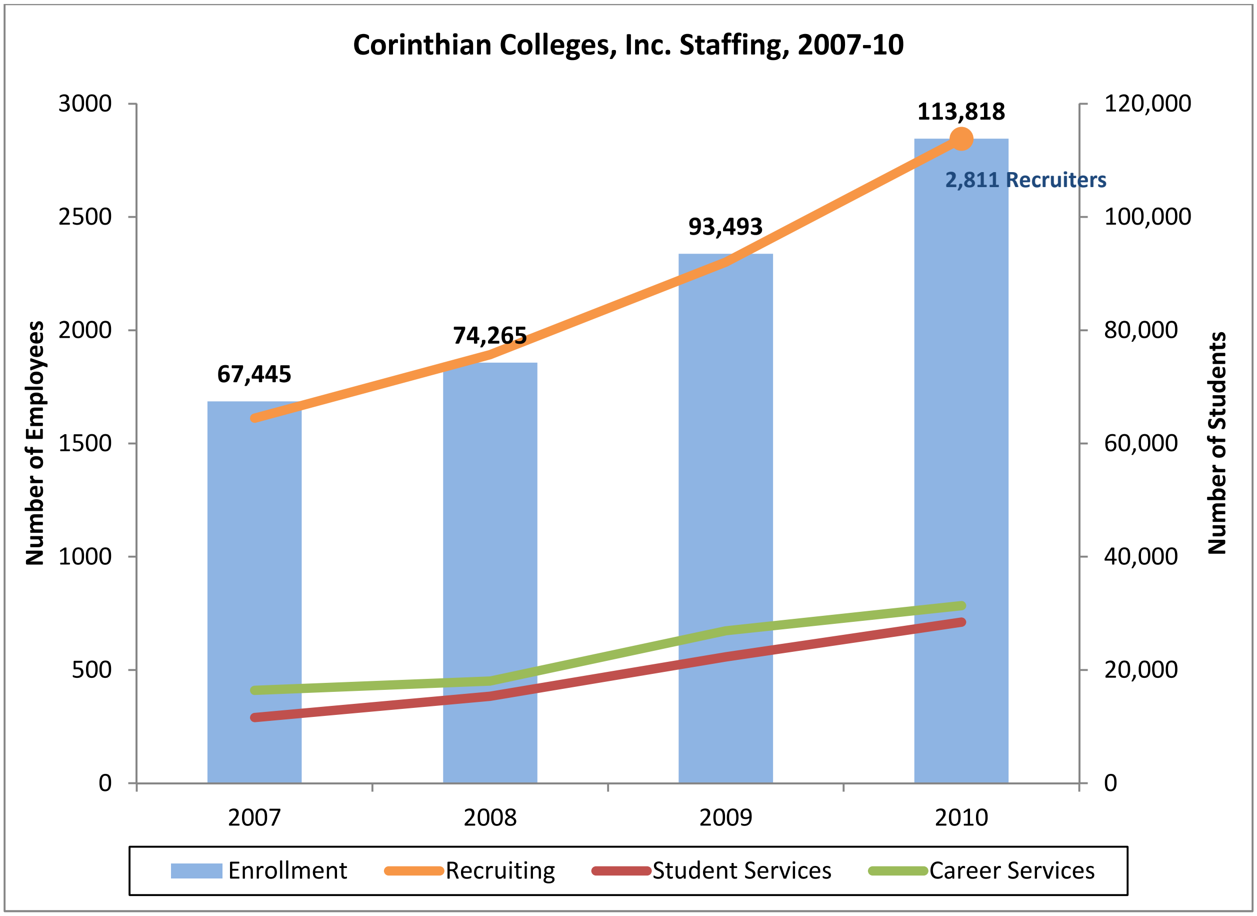
The most responsible reaction to the plagiarized work came from a teacher of a "Learning Strategies and Techniques" course, who consistently noted the dishonest conduct and gave little or no credit for plagiarized assignments. However, even though the teacher filed incident reports for multiple assignments, Everest failed to follow-up with disciplinary action.[1608]

Further, because of the structure of these courses, there is often little interaction with teachers. What interaction does occur is typically via email or text-chat, but those communications often reflect little time or attention from the teacher. Given the examples described above, it is unclear whether some teachers even reviewed assignments prior to awarding grades for those assignments. While other teachers regularly offered help to students, at least one seemed to do so by copying-and-pasting the exact same feedback for multiple assignments, including identical grammatical and typographical errors in the teacher's comments.[1609] This teacher included the following feedback for 5 of 10 discussion assignments, usually with just one or two additional sentences identifying the assignment in question:

> Remember that you must response to entire of the main question as well as two responses to other people's posts. As we learn from each other responses to the course material. Please let me know if there is any assistance I can provide to assist you in succeeding in the course next discussion [sic].[1610]

[1602] GAO Investigation Documentation, CFS 2167 Computer Application Course Syllabus (DALLAS-334889).
[1603] Id.
[1604] GAO Investigation Documentation, Week 2 Graded Activity: Class Discussion (DALLAS-334889).
[1605] GAO II.
[1606] GAO Investigation Documentation, Week 5 Graded Activity: Class Discussion (DALLAS-336134).
[1607] GAO Investigation Documentation, Everest Professor Feedback 335023 (DALLAS-335023).
[1608] GAO Investigation Documentation, Everest Professor Feedback 335083 (DALLAS-335083).
[1609] GAO Investigation Documentation, Everest Professor Feedback 335023 (DALLAS-335023).
[1610] Id.

Staffing



While for-profit education companies employ large numbers of recruiters to enroll new students, the companies have far less staff to provide tutoring, remedial services, or career counseling and placement. In 2010, with 113,818 students, Corinthian employed 2,811 recruiters, 784 career services employees, and 711 student services employees.[1611] That means each career counselor was responsible for 145 students, and each student services staffer was responsible for 160 students. Meanwhile, the company employed one recruiter for every 40 students.

Career Services

For-profit schools promote themselves as career-oriented, skill-focused training centers. Indeed, most for-profit education advertising focuses on "getting the job" after graduating from school. With one career services employee for every 145 students, Corinthian has a relatively robust career services program compared to other education companies examined the committee. However, investigations from the attorney general of California and the Texas Workforce Commission have both documented serious problems with the integrity of the campuses' job placement claims. Those investigations are discussed below in the section on Enforcement Actions.

[1611] Senate HELP Committee staff analysis of information provided to the Committee by the company pursuant to the Committee document request of August 5, 2010. See Appendix 7 and Appendix 24.

Regulatory Strategies

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenue come from title IV Federal financial aid programs, and that no more than 25 percent of students default within 2 years of entering loan repayment. Many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal financial aid programs.

Corinthian is clearly struggling to ensure that the amount of title IV Federal financial aid dollars it receives does not exceed 90 percent ("90/10"). Corinthian has been very upfront that it raised tuition as a means to comply with 90/10. The result is that the campuses' Certificate and Associate programs have some of the highest tuition of any comparable programs at either non-profit or for-profit colleges. One financial analyst, Ariel Sokol, called Corinthian's 2011 decision to raise tuition 12 percent "perhaps the most counterproductive public negotiating tactic that we've ever witnessed." [1612] He noted Corinthian announced the tuition increase "as if they are somehow the victims" when in reality the company knowingly pursued this kind of a revenue growth strategy notwithstanding the existence of 90/10.[1613] "It's not as if it happened by surprise," and now, "students are being burdened with debt they can't repay."[1614] For the company, "that's not a viable long-term strategy." [1615]

Documents provided by the company show that some of the school's administrators were concerned about tuition increases and the effect it would have on students. The director of one of the company's programs sent an email in May of 2008 raising those concerns. "I know that for the RN program we have seen more credit worthy students and some are paying over $600/month cash. Again with the [6% tuition increase] I don't know if they could continue to do this." [1616] The company's response to this concern was to claim: "The only way we have available to us" to manage 90/10 exposure "is to create a gap by raising tuition." [1617]

Tuition is so high that Federal financial aid will not always cover the program costs, so students must often find alternate financing. Thus, Corinthian offers students institutional loans to help cover the gap. Under the Higher Education Act (HEA), schools were allowed to count 50 percent of institutional loans to the non-Federal revenue side of the 90/10 ratio from July 1, 2008 until July 1, 2012.[1618] Corinthian partnered with a third-party lender to create the Genesis loan program in 2008. Corinthian estimates that 55 percent of those loan balenceswill default at some point.[1619] Nonetheless, the CFO of Corinthian explained to investors: "under the current rules we can have these institutional loans count as part of the 10 percent. So, again, we get the benefit of the incremental dollars net of the discount. So if

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[1612] Goldie Blymenstyk, "Colleges Scramble to Avoid Violating Federal-Aid Limit: For-Profits Tactics to Comply With 90/10 Rule Raise Questions," *The Chronicle of Higher of Education*, April 2, 2011, http://chronicle.com/article/Colleges-Scramble-to-Avoid/126986/ (accessed May 8, 2012).
[1613] Id.
[1614] Id.
[1615] Id.
[1616] Corinthian Colleges Internal E-mail, May 13, 2008, *FW: Tuition Increase Nursing* (CCi-00053436). The company notes that the final tuition increases for 2008 differ from what was reflected in this document.
[1617] Id.
[1618] The Act allows schools to count the "net present value" of the loans at the time of disbursement. The net present value is an estimation of the ultimate value of the payments over the life of the loan taking into account defaults and inflation. The Education Department later enacted a regulation allowing schools to simply count 50 percent of the value of an institutional loan instead of going through the net present value calculation. Most schools have elected this approach.
[1619] Corinthian Colleges, Inc., August 24, 2009, Q4 Investor Call.

on an ongoing basis 45 percent of that price increase came to us after discount, we get the benefit of that in our 90/10 calculation as part of the 10 percent." [1620]

In 2009, Corinthian Colleges lent $65 million to its students through the Genesis program at an average interest rate of 14.8 percent, with some students paying as much as 18 percent.[1621] For comparison, the Federal Reserve calculated that the average interest rate on a credit card in 2009 was 13.4 percent, and the interest rate on a Federal Stafford Loan was 5.6 percent (currently 3.4 percent).

Corinthian partnered with another third party lender, ASFG, in June of 2011 to arrange a more complicated loan program.[1622] Corinthian was clear about the reasons for entering into the transaction; the company told investors: "the ASFG arrangement helped us meet our 90/10 requirement of generating at least 10 percent of revenue from non-title IV sources." [1623] The arrangement called for $450 million to lend to Corinthian students over 2 years. According to ASFG's Web site, their loans carry an interest rate of 11.9 to 17.9 percent, nearly three and a half times the current Federal subsidized interest rate of 3.4 percent.[1624] Corinthian is obligated to purchase every loan on which no payment has been made for 90 days.

The company expects that it will be obligated to buy back about 55 percent of the ASFG loans, in line with its previous Genesis institutional loan program in which the company set the reserve at 55 percent based on their own internal analysis of expected defaults.[1625]

Enforcement Actions

In 2007, the California attorney general entered into a settlement with Corinthian schools after establishing evidence that the company deliberately and persistently misled prospective students about the schools' placement rates.[1626] Margaret Reiter, former supervising deputy attorney general, testified at the committee's June 24, 2010, hearing that every single program the AG examined had inflated its placement numbers by as much as 37 percent. For most programs, only a third to a half of students obtained employment. Ms. Reiter further testified that, in her long experience with consumer fraud cases, the for-profit college industry was among the "most persistent, egregious, and widespread" consumer abuses she had ever seen.[1627]

In 2010, Corinthian also admitted that administrators at one of its Everest College campuses in Texas falsified the employment records of 288 graduates over 4 years. Of those graduates, 176 allegedly worked for a business that had been created by a friend of the school's career services director; this business did not have any actual employees. The other 119 graduates were said to be working for a company that only employed a total of seven Everest College students.[1628]

[1620] Corinthian Colleges, Inc., February 1, 2011 Q2 Investor Call.
[1621] Note that in 2010 Corinthian has since lowered its rate to 6.8 percent.
[1622] However, Corinthian does not directly issue these loans.
[1623] Corinthian Colleges, Inc., August 23, 2011, Q4 Investor Call.
[1624] See, for example, FinAid, *Private Student Loans*, The SmartStudent Guide to Financial Aid, http://www.finaid.org/loans/privatestudentloans.phtml.
[1625] Corinthian Career Colleges, Form 8-K, June 30, 2011.
[1626] Margaret Reiter, Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Hearing on Waste, Fraud, and Abuse in the For-Profit Education Sector*, 112th Congress (2010).
[1627] Id.
[1628] HigherEd Watch, "Statement by Corinthian Colleges Regarding Everest College: Arlington Mid-Cities Campus," October 11, 2010,

As of 2012, the attorney general of Florida is investigating Corinthian's Everest College regarding "Alleged misrepresentations regarding financial aid; alleged unfair/deceptive practices regarding recruitment, enrolment, accreditation, placement, graduation rates, etc." [1629] The U.S. Consumer Financial Protection Bureau is also investigating Corinthian to determine whether the company engaged in "unlawful acts or practices relating to the advertising, marketing, or origination of private student loans." [1630]

Conclusion

Corinthian charges some of the highest tuition prices of any of the companies the committee analyzed. Until new regulations requiring cost disclosures went into effect, it was very difficult to accurately determine the cost of Corinthian's programs. The high cost of Corinthian's programs is particularly troubling given that the bulk of the programs are non-degree Certificate and diploma programs and 2-year Associate degree programs that yield lower increases in earning power. The cost of attending Corinthian is so high that the company has created its own loan program to enable students to borrow money in excess of Federal lending limits.

The company has some of the highest student withdrawal rates of any company examined, with 67 percent of Associates students who enrolled in 2008-9 leaving the company by mid-2010. The company also has by far the highest rate of students defaulting on student loans of any publicly traded education company, with 36 percent of students who entered repayment in 2008 defaulting with 3 years of leaving the company's schools. This likely reflects the high cost of attending and the inability of some students to find jobs that allow then to repay the debt they incur. Corinthian has engaged in a transparent effort to lower its rate of student defaults by aggressively working to contact students and have them enter forbearance and deferment but it is unclear whether those policies lead to more students repaying loans or lead to future defaults. It is unclear whether taxpayers or students are obtaining value from the $1.7 billion investment that taxpayers made in Corinthian in 2010.

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http://higheredwatch.newamerica.net/sites/newamerica.net/files/articles/1011_corinthian_statement%5B1%5D.pdf (accessed June 18, 2012).

[1629] Florida Office of the Attorney General, *Active Public Consumer-Related Investigation*, http://www.myfloridalegal.com/lit_ec.nsf/investigations/3B283CFAC6AF9709852577C00072A46E (accessed June 18, 2012).

[1630] Corinthian Colleges, Inc., Form 10-Q, May 4, 2012.

DeVry, Inc.

Introduction

DeVry, Inc. is the third largest for-profit education company. Like many for-profit education companies, DeVry has experienced significant growth in student enrollment, Federal funds collected, and profit realized. However, the company's performance, measured by student withdrawal and default rates, closely tracks the sector average, and is a cause for concern. Nevertheless, the leadership of DeVry has demonstrated a commitment to investing in students and student services, and in engaging in a dialogue to improve, steps which distinguish the company from others in the sector.

Company Profile

DeVry, Incorporated ("DeVry") is a publicly traded, for-profit education company headquartered in Downers Grove, IL. DeVry operates a total of 96 campuses, along with an online division, and offers Certificate, Associate, Bachelors and Graduate level programs focusing primarily on business, technology, and healthcare.[1631] Business students make up almost half of DeVry's enrollment, with technology students comprising 27 percent and healthcare students 26 percent.[1632] Compared to others in the sector, DeVry places more emphasis in training students for high demand fields, like nursing, that are more expensive to offer but that are more responsive to workforce needs. Just over half the company's students are enrolled in Bachelor's programs.[1633]

Brands
Carrington Colleges Group
Chamberlain College of Nursing
DeVry University
Keller Graduate School of Management

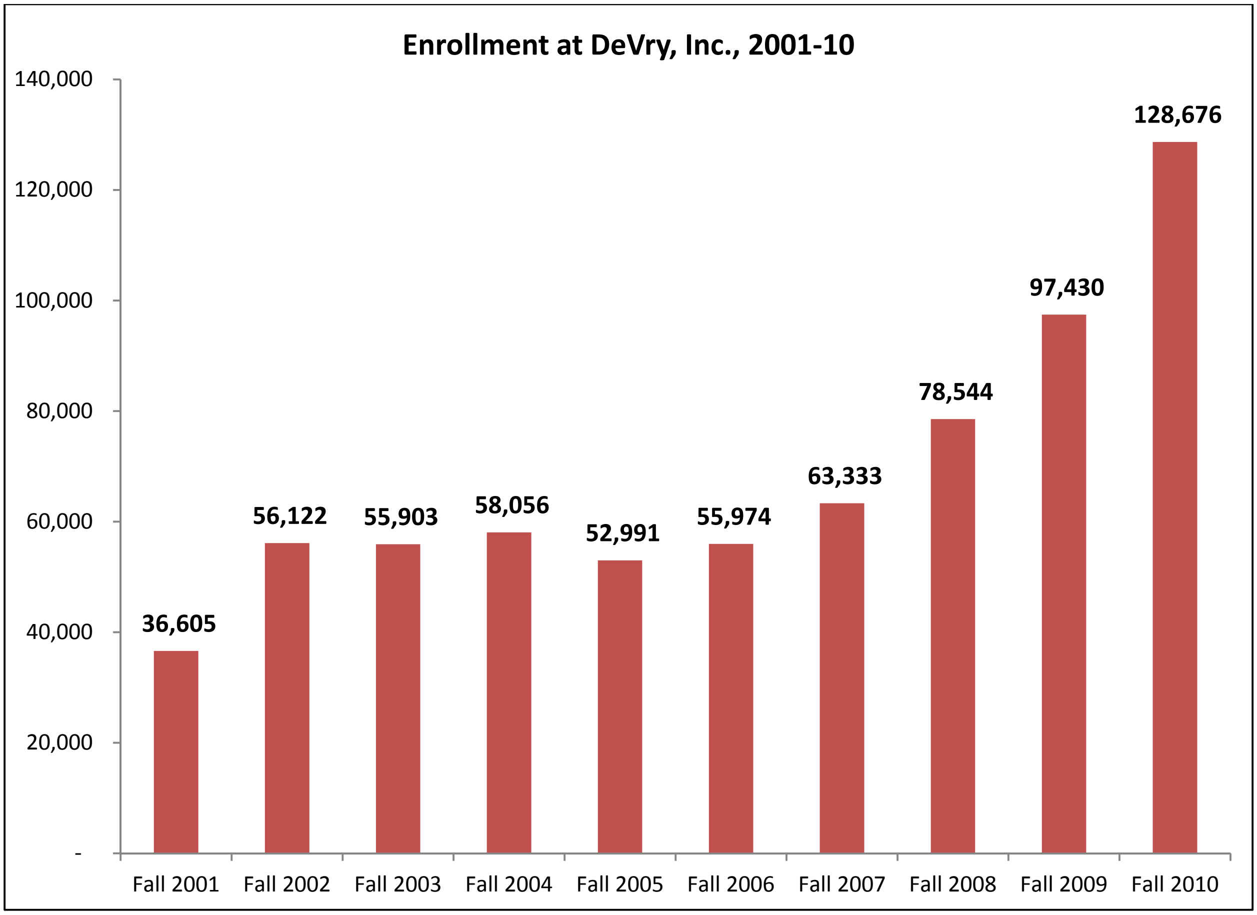
Like more than half of the regionally accredited brands the committee examined, DeVry University, the Keller Graduate School of Management, and the Chamberlain College of Nursing are regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC). Carrington College California is regionally accredited by the Accrediting Commission for Community and Junior Colleges of the Western Association of Schools and Colleges (WASC). Carrington College is nationally accredited by the Accrediting Council for Independent Colleges and Schools (ACICS).

[1631] See DeVry, Inc. *DeVry University Locations*. http://www.devry.edu/locations/search_locations.jsp (accessed June 19,2012), DeVry, Inc., *Keller Graduate School of Management of DeVry University: Campus Locations*, http://www.keller.edu/graduate-school-campus-locations (accessed June 19, 2012), DeVry, Inc., Carrington Part of the DeVry Education Family: Campus Locations, http://carrington.edu/cc/schools/ (accessed June 19, 2012), DeVry, Inc., *Chamberlain College of Nursing*, http://www.chamberlain.edu/ (accessed May 8, 2012).

[1632] DeVry, Inc., Feb 16, 2011, Deutsche Bank Securities Inc. Small and Mid Cap Conference.

[1633] DeVry, Inc., May 11, 2011, Barclays Capital Inc. Global Services Conference.

DeVry was founded in 1973 and has been publicly traded on the New York Stock Exchange since its 1991 initial public offering. The current chief executive officer of DeVry is Daniel Hamburger. Hamburger joined DeVry in 2002 as executive vice president responsible for DeVry's online operations and Becker Professional Education. He was named president and chief operating officer in 2004, and CEO in 2006.



In the fall of 2010, 128,676 students were enrolled at DeVry, which constituted a 250 percent increase over its fall 2000 enrollment.[1634] This growth in enrollment led to growth in revenue. Revenue more than doubled from $933 million in 2007 to $1.9 billion in 2010.[1635]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1636] Together, the 30

[1634] Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.

[1635] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18. DeVry's revenue increased to $2.2 billion in 2011.

[1636] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq. Senate HELP Committee staff analysis of U.S. Department of Education, Federal

companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1637]

In 2010, DeVry reported 77.5 percent of revenue from title IV Federal financial aid programs.[1638] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.[1639] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 3.4 percent of DeVry's revenue, or $53 million.[1640] With these funds included, 80.9 percent of DeVry's total revenue was comprised of Federal education funds.[1641]

Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

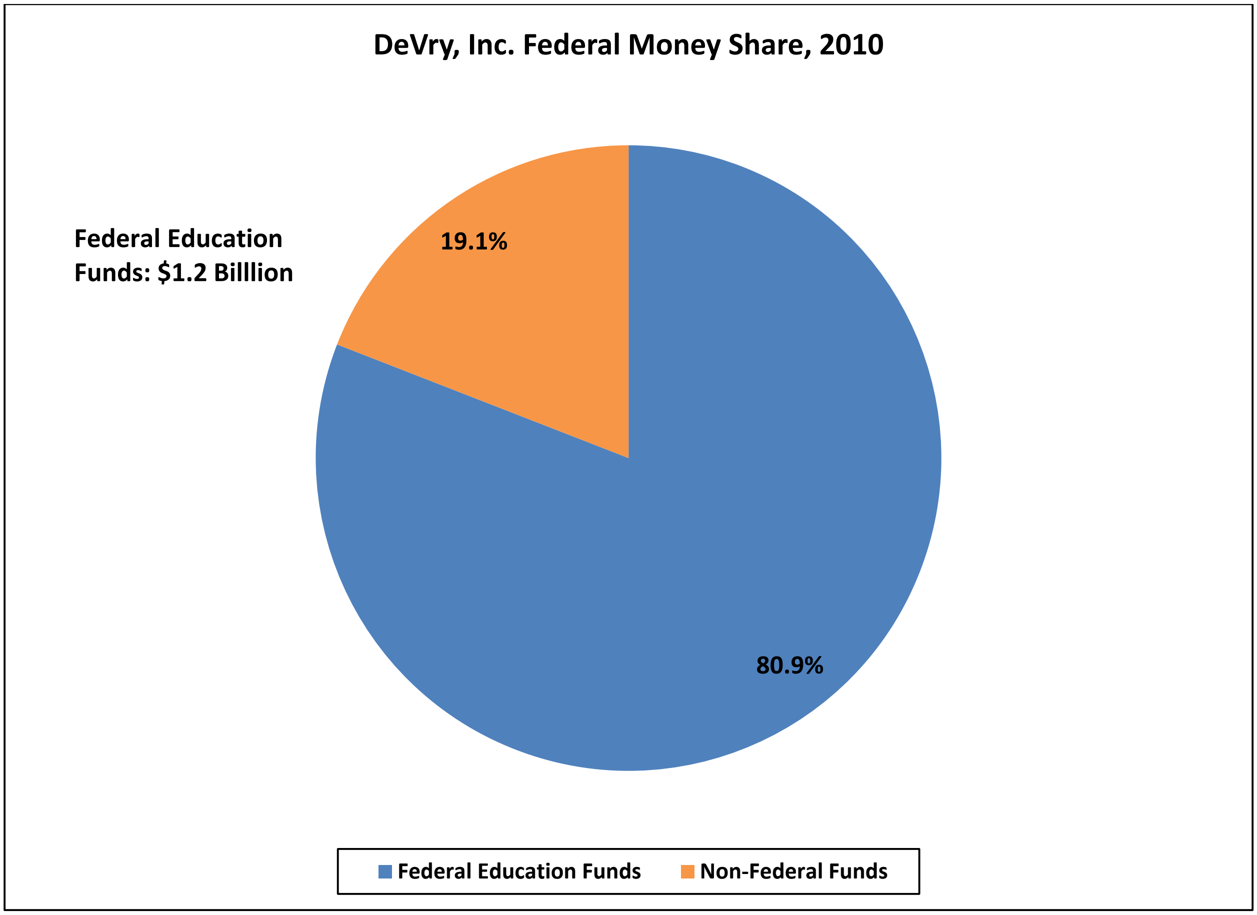
[1637] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[1638] Id.

[1639] The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, the company opted not to take advantage of the provision, and did not exclude any Federal financial aid from the calculation of Federal revenues during this period.

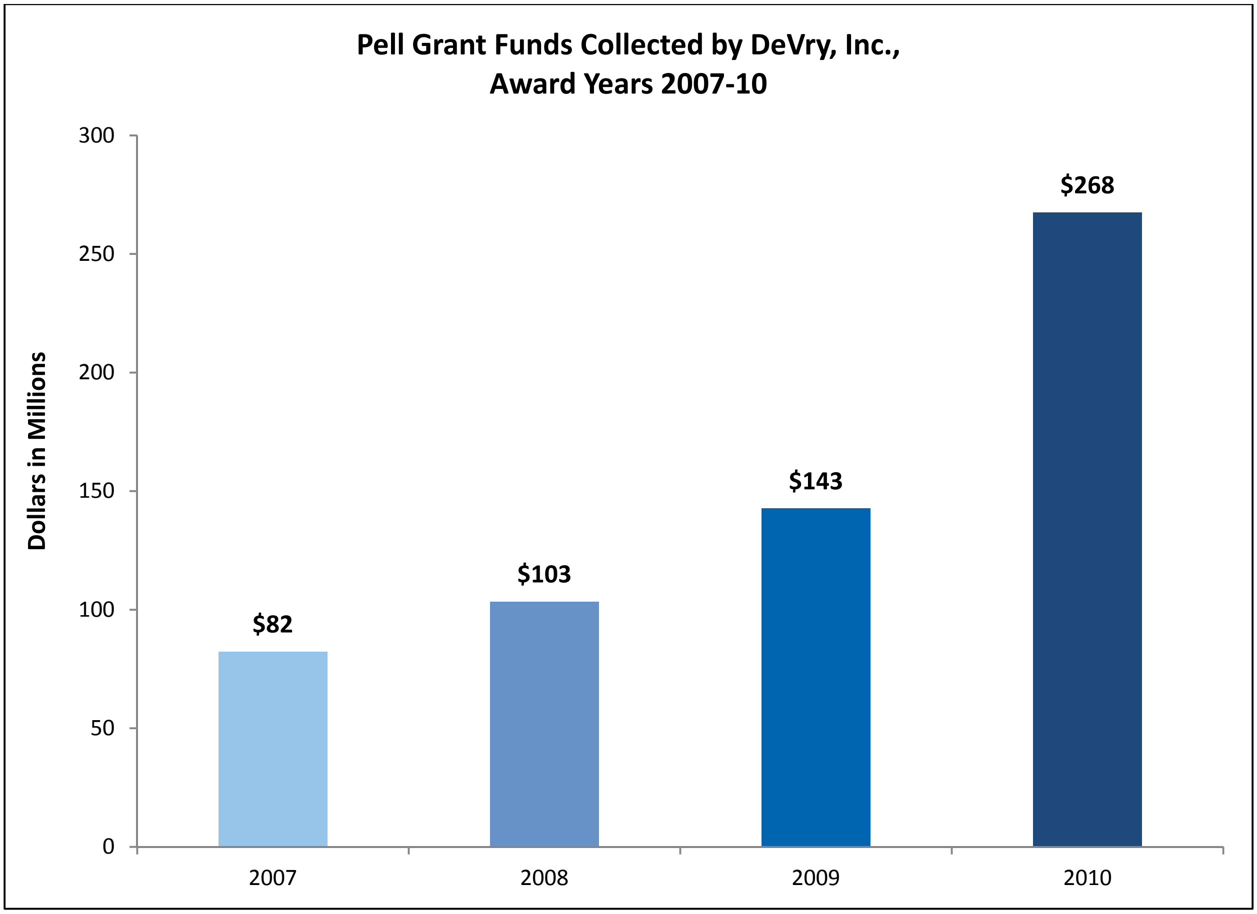
[1640] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[1641] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.



Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[1642] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[1642] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 20012 and 2010-11, http://Federalstudentaid.ed.gov/datacenter/programmatic.html.



DeVry more than tripled the amount of Pell grant funds it collected in just 3 years, from $82 million in 2007 to $268 million in 2010.[1643]

Spending

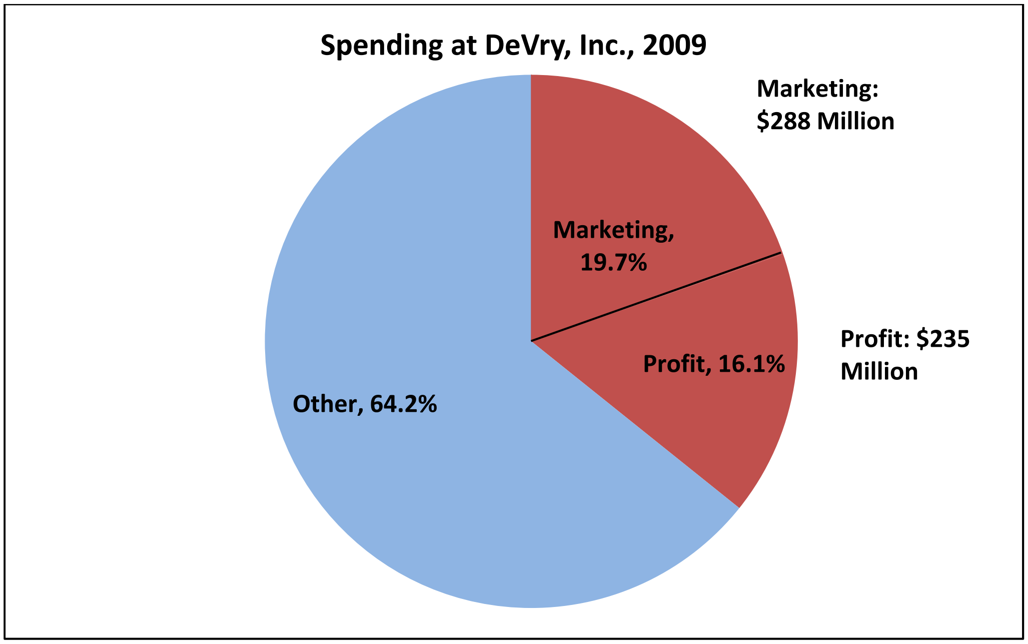
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[1644] During the same period those companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion) and 19.7 percent on profit ($3.2 billion).[1645] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

[1643] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

[1644] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

[1645] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings and information provided to the committee by the company pursuant to the committee document request of August 5, 2010. Profit figures represent operating income before tax and other non-operating expenses including depreciation as reported in

In 2009, DeVry allocated 19.7 percent of its revenue, or $287.6 million, to marketing and recruiting and 16.1 percent, or $234.8 million, to profit.[1646]



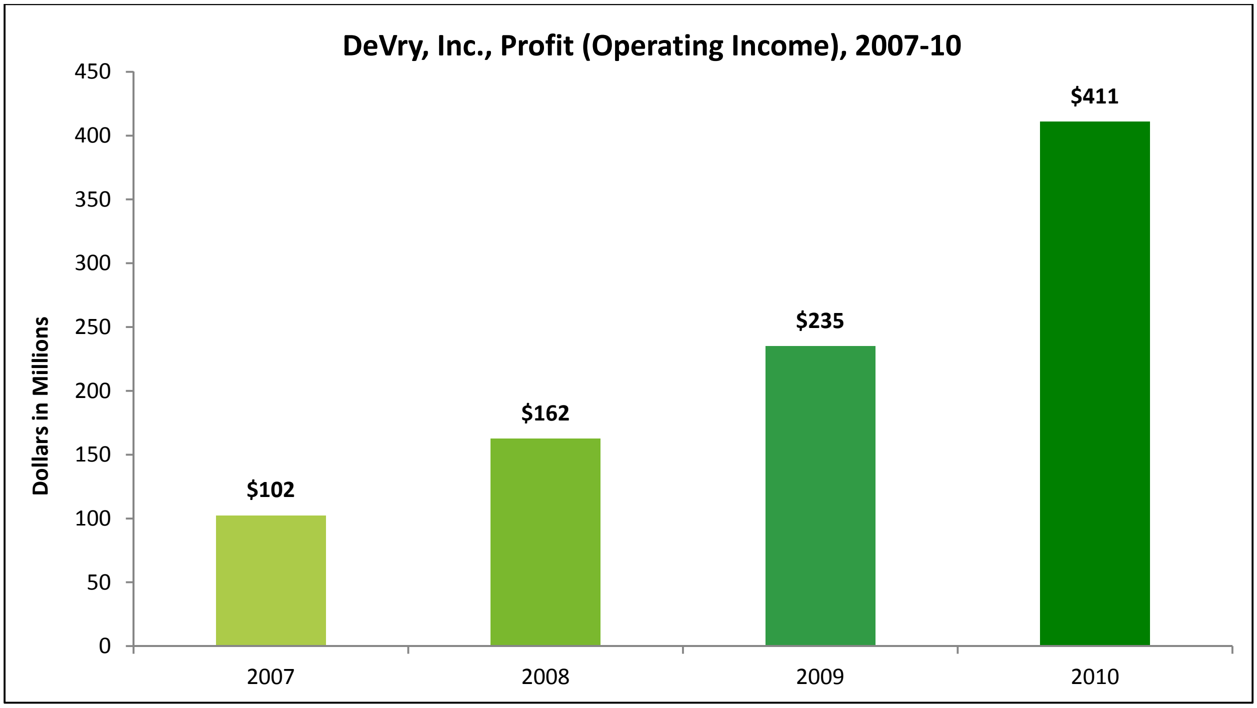
DeVry devoted a total of $522.4 million to marketing, recruiting, and profit in fiscal year 2009.[1647] The amount of profit DeVry generated also increased rapidly, quadrupling from $102.3 million in 2007 to $410.9 million in 2010.[1648]

SEC filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.

[1646] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

[1647] Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying, and other expenditures.

[1648] Senate HELP Committee staff analysis. See Appendix 18. DeVry's profit increased to $494 million in 2011.



Executive Compensation

Executives at DeVry, like most for-profit executives, are more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[1649] In 2009, DeVry CEO Daniel Hamburger received $6.3 million in compensation, more than 46 times as much as the president of the University of Illinois at Urbana-Champaign who received $137,850 in total compensation for 2009-10.[1650]

[1649] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.
[1650] Id.

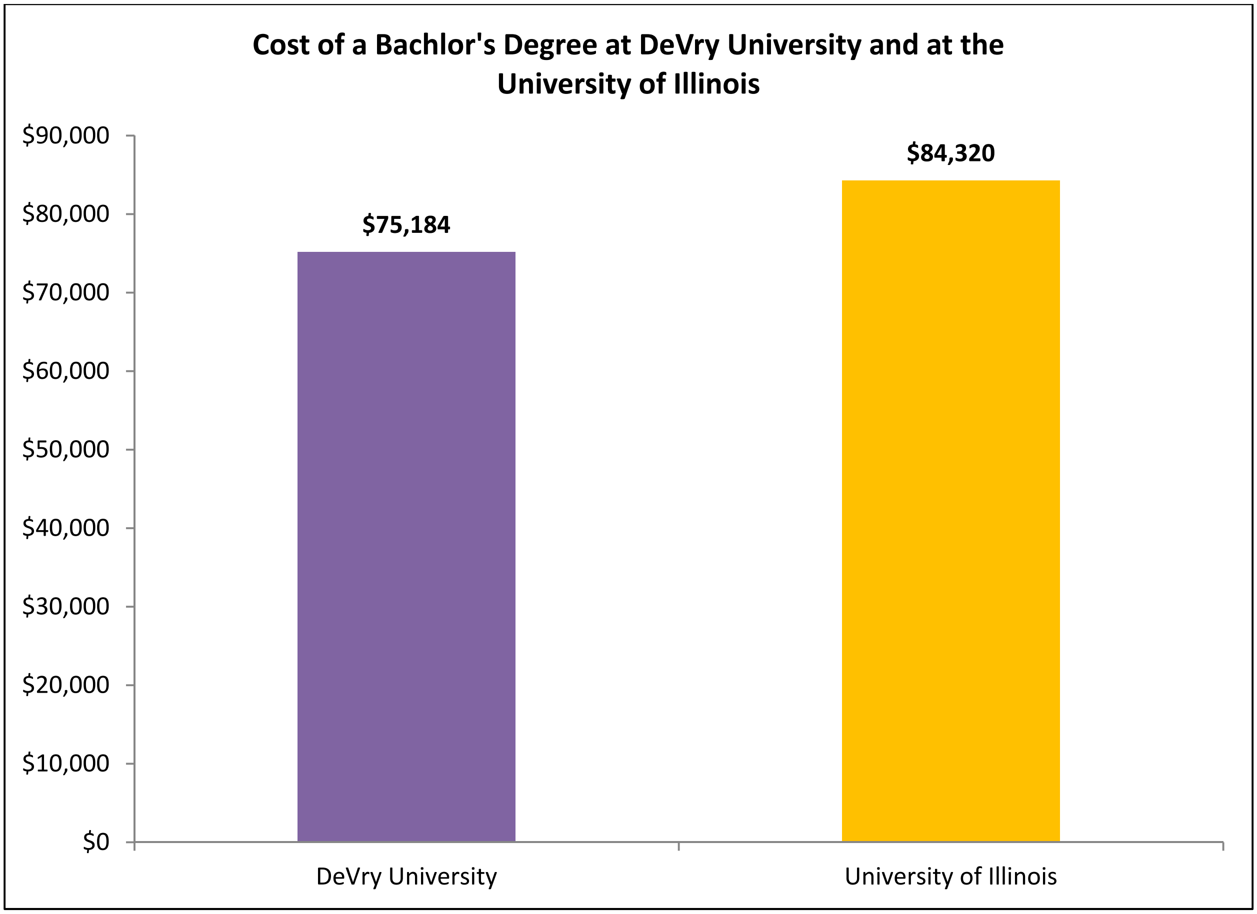
Executive	Title	2009 Compensation	2010 Compensation
Daniel Hamburger	CEO and President	$6,387,081	$6,058,205
David J. Pauldine	President, DeVry University	$1,401,553	$1,565,349
Richard M. Gunst	CFO and Treasuer	$1,234,842	$1,447,317
Steven Riehs	President, DeVry Online Services	$895,755	$976,980
Thomas C. Shepherd	President, Ross University	$714,688	n/a
William B. Hughson	President, Healthcare Group	n/a	$874,794
Total		$10,633,919	$10,922,645[1651]

The chief executive officers of the large publicly traded, for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[1652] Hamburger's $6.3 million compensation package for 2009 is slightly below average for publicly traded education companies. However, it is still noteworthy given that more than half of the company's students who enrolled that year left by mid-2010 and almost a fifth of DeVry students defaulted on their student loans within 3 years.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition for an Associate degree is higher at DeVry. An Associate of Science in Medical Assisting from DeVry's Carrington College in California costs $30,781.[1653] The same degree at San Jose City College, cost $3,116.[1654] However, the cost of tuition for a Bachelor of Science in Business Administration at DeVry's Chicago, IL campus is $75,184,[1655] considerably less than same program at the costly University of Illinois, at costs $84,320.[1656]

[1651] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities and Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.
[1652] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.
[1653] See Appendix 14; see also, DeVry, Inc., *Carrington Part of the DeVry Education Family: Medical Assisting Program*, http://carrington.edu/ccc/programs/medical-assisting/ (accessed June 20, 2012).
[1654] See Appendix 14; see also, San Jose City College, *San Jose City College*, http://www.sjcc.edu/ (accessed June 19, 2012).
[1655] See Appendix 14; see also, DeVry, Inc., *DeVry University: Gainful Employment Disclosures*, http://www.devry.edu/degree-programs/college-business-management/business-administration-consumer-info.jsp (accessed June 19, 2012).
[1656] See Appendix 14; see also, University of Illinois at Urbana Champaign, *University of Illinois*, http://illinois.edu/ (accessed June 20, 2012).



The high tuition that DeVry charges is reflected in the amount of money that DeVry collects for each veteran that it enrolls. From 2009 to 2011, DeVry trained 14,056 veterans and received $143 million in post-9/11 GI bill benefits, averaging $10,214 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[1657]

Historically, the company has increased tuition between 3 and 6 percent every year.[1658] DeVry appears to have given some thought to the idea of aggressive price increases as demonstrated in an internal presentation which states that "a compelling argument exists for implementing more aggressive price increases in the next five years." [1659] The presentation goes on to note, "higher priced players do not appear to have slower enrollment growth" [1660] and that "recent increases in federal loans may help offset the current credit environment and allow students to finance the increases." [1661]

An internal presentation regarding tuition at DeVry's Chamberlain College of Nursing recommended that Chamberlain "could take an <u>aggressive price leadership</u> position. So long as out-of-pocket expenses can remain minimal, significant price increases will likely create minimal

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[1657] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[1658] DeVry, Inc., May 11, 2011, Barclays Capital Inc. Global Services Conference.
[1659] DeVry, Inc., September 5, 2008, Developing Full Potential Pricing in Higher Education (DEVRY0036430, at DEVRY0036431).
[1660] Id.
[1661] Id. at DEVRY0036436

changes in demand."[1662] The presentation went on to note that "students seem total price agnostic [sic]."[1663]

However, the company appeared to be aware of the limitations of such an approach and ultimately, to the company's credit, decided not to pursue such a strategy. An internal email from the president of DeVry University named a number of "reasons to be careful about a strategy to more aggressively raise prices," including:

-It appears pricing has some elasticity to it?
-Congressional scrutiny
-Is raising prices more aggressively really a strategy?[1664]

Another internal DeVry email discussed not announcing any price increases until the release of the gainful employment regulation since many of the company's programs could potentially have been in violation.[1665]

When potential students inquire about the cost of tuition at DeVry, recruiters are trained to respond that: "I understand how cost is a concern. Is cost the only concern that you have? Do you plan to make your decision about a school based on cost alone?"[1666]

Due to the high price of tuition, some students must rely on alternative financing in addition to Federal financial aid. Institutional loan programs can also help the company meet a regulatory requirement that no more than 90 percent of its revenue come from Federal financial aid dollars ("90/10"). DeVry operates an institutional loan program, under which the company itself lends money to students who cannot obtain alternative loans from private lenders. This source of revenue, too, allows the company to lower its 90/10 figure. The program is relatively small, with just $4.7 million lent out in 2010.[1667] The company charged students an interest rate of 12 percent.[1668]

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations, for-profit colleges recruit as many students as possible to sign up for their programs.

Although titled "enrollment advisors" or "enrollment counselors," an internal document makes the job function of these DeVry employees clear: "This is a sales position."[1669]

At DeVry, recruiters are encouraged to consider "how else do you think you can create urgency with a student?"[1670] Recruiting materials counsel recruiters to use tactics like "the Tie Down."[1671] The

[1662] DeVry Inc., February 4, 2009, Net Promoter Score, Strategic Pricing, Brand Building (DEVRY0036668 at DEVRY0036696 (emphasis in original).
[1663] Id. at DEVRY0036698 [SIC].
[1664] DeVry Internal Email, September 8, 2010, *FW: pricing* (DEVRY0036666).
[1665] DeVry Internal Email, April 12, 2010, *USEdu Proposed Pricing* (DEVRY0034862).
[1666] DeVry, Inc., Chamberlain Online: RN to BSN Common Phone Objections (DEVRY0085118); See also DeVry Inc., Advance Advisor Academy & Certification: Overcoming Objections *(*DEVRY0085677).
[1667] DeVry, Inc., *DEVRY INC INSTITUTIONAL LOAN PROGRAMS* (DEVRY0037499, at DEVRY0037501). Document on file with committee.
[1668] Id.
[1669] DeVry, Inc., Chamberlain College of Nursing: New Hire Training (DEVRY0089835, at DEVRY0089928).

purpose of such a technique is "to get the prospect to say yes as many times as you possibly can throughout the call so that when you ask for the final yes it almost seems ridiculous that they would say no."[1672] Another similar tactic is "The Alternate of Choice."[1673] The stated rationale of this tactic "is to give the nurse the illusion of control while you actually maintain control. You give options with the purpose of getting them to make a decision."[1674]

One pervasive sales technique is to manipulate a prospective student's emotions as a strategy to sell an enrollment contract. "A true sales person knows that before you fix it you want the person to feel the pain of the problem. That is why we keep going deeper … What implications does this problem have on this nurse, on her family on her finances? This is where we really start to make the nurse feel the pain of her situation."[1675]

Yet students have little opportunity for recourse; DeVry like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.[1676] While company executives have indicated an intent to revise the agreement, this clause can severely limit the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group.

Military Specific Lead Generators

DeVry contracts with QuinStreet, Inc., a publicly traded corporation that aggressively targets servicemembers and manages Web sites that initially appear to provide information of general interest to service members, with domain names such as: GIBill.com, Military-Net.com and MilitaryGIBill.com.[1677] Some of these QuinStreet sites use layouts and logos similar to official military Web sites, but do not inform users that the purpose of the site is to collect contact information on behalf of paying for-profit clients such as DeVry.

QuinStreet's 2010 initial public offering filing indicates that DeVry accounted for 19 percent of QuinStreet's net revenue for 2009 and 12 percent for the first half of 2010.[1678] However, in the same filing, QuinStreet also indicated that DeVry had retained an advertising agency and reduced its purchases of leads.[1679]

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a

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[1670] Id., at DEVRY0089854.
[1671] Id., at DEVRY0089952.
[1672] Id.
[1673] Id., at DEVRY0089954.
[1674] Id.
[1675] Id., at DEVRY0089948.
[1676] DeVry, Inc., Summer 2010, Enrollment Agreement (DEVRY0094127).
[1677] In June 2012 QuinStreet reached a settlement with 20 State attorneys general under which the company will turn over the Web site GIBill.com to the Department of Veterans Affairs and pay a $2.5 million fine. Additionally, all QuinStreet military-related sites will have unavoidable, clear and conspicuous disclosures that clarify the site is not owned or operated by the U.S. Government.
[1678] DeVry, Inc., February 10, 2010, QuinStreet Prospectus.
[1679] Id.

2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1680]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee and (2) student loan "cohort default rates." These metrics indicate that many students who enroll at DeVry are not achieving their educational and career goals.

Retention Rates

Information DeVry provided to the committee indicates that of the 64,722 students who enrolled at DeVry in 2008-9, 52.2 percent, or 33,795 students, withdrew by mid-2010.[1681] These withdrawn students were enrolled a median of 3 ½ months.[1682] Overall, DeVry's retention rate closely tracks the sector-wide withdrawal rate of 54.1 percent. The majority of DeVry's students are enrolled in 4-year Bachelor's degrees. More than half of these students, or 23,215 people, withdrew by mid-2010. DeVry's Bachelor's degree withdrawal rate is the 11th highest of the companies analyzed.[1683] In contrast, with 54.3 percent of Associate students withdrawing in the period analyzed, DeVry performs significantly better than the sector average of 62.9 percent withdrawn.

Status of Students Enrolled in DeVry, Inc. in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	13,539	12.1%	33.5%	54.3%	7,358	112
Bachelor's Degree	41,177	6.9%	36.7%	56.4%	23,215	112
Certificate	10,006	65.8%	2.0%	32.2%	3,222	96
All Students	64,722	17.1%	30.7%	52.2%	33,795	110

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

[1680] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 18, 2012).
[1681] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.
[1682] Id.
[1683] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

Online vs. Bricks and Mortar Outcomes

An analysis of withdrawal rates among the 11 companies that provided disaggregated data indicates that students enrolled in online programs had higher withdrawal rates than students enrolled in campus-based programs. Students who attended DeVry online withdrew at a higher rate (57.9 percent) than students who attended its bricks and mortar campuses (49.4 percent). The difference is most significant at the Associate degree level, where online DeVry Associate degree students have a 7 percent higher withdrawal rate than their bricks and mortar counterparts.

Status of Online Students Enrolled in DeVry, Inc. in 2008-9, as of 2010							
Degree Type	**Enrollment**	**Students Completed**	**Completed**	**Students Still Enrolled**	**Still Enrolled**	**Students Withdrawn**	**Withdrawn**
Associate	5,045	151	3.0%	1,924	38.1%	2,970	58.9%
Bachelor's	16,808	1,546	9.2%	5,581	33.2%	9,681	57.6%
All	21,853	1,697	7.8%	7,505	34.3%	12,651	57.9%

Status of Bricks and Mortar Students Enrolled in DeVry, Inc. in 2008-9, as of 2010							
Degree Type	**Enrollment**	**Students Completed**	**Completed**	**Students Still Enrolled**	**Still Enrolled**	**Students Withdrawn**	**Withdrawn**
Associate	8,494	1,488	17.5%	2,618	30.8%	4,388	51.7%
Bachelor's	21,455	1,137	5.3%	8,191	38.2%	12,127	56.5%
All	39,955	9,211	23.1%	11,007	27.5%	19,737	49.4%

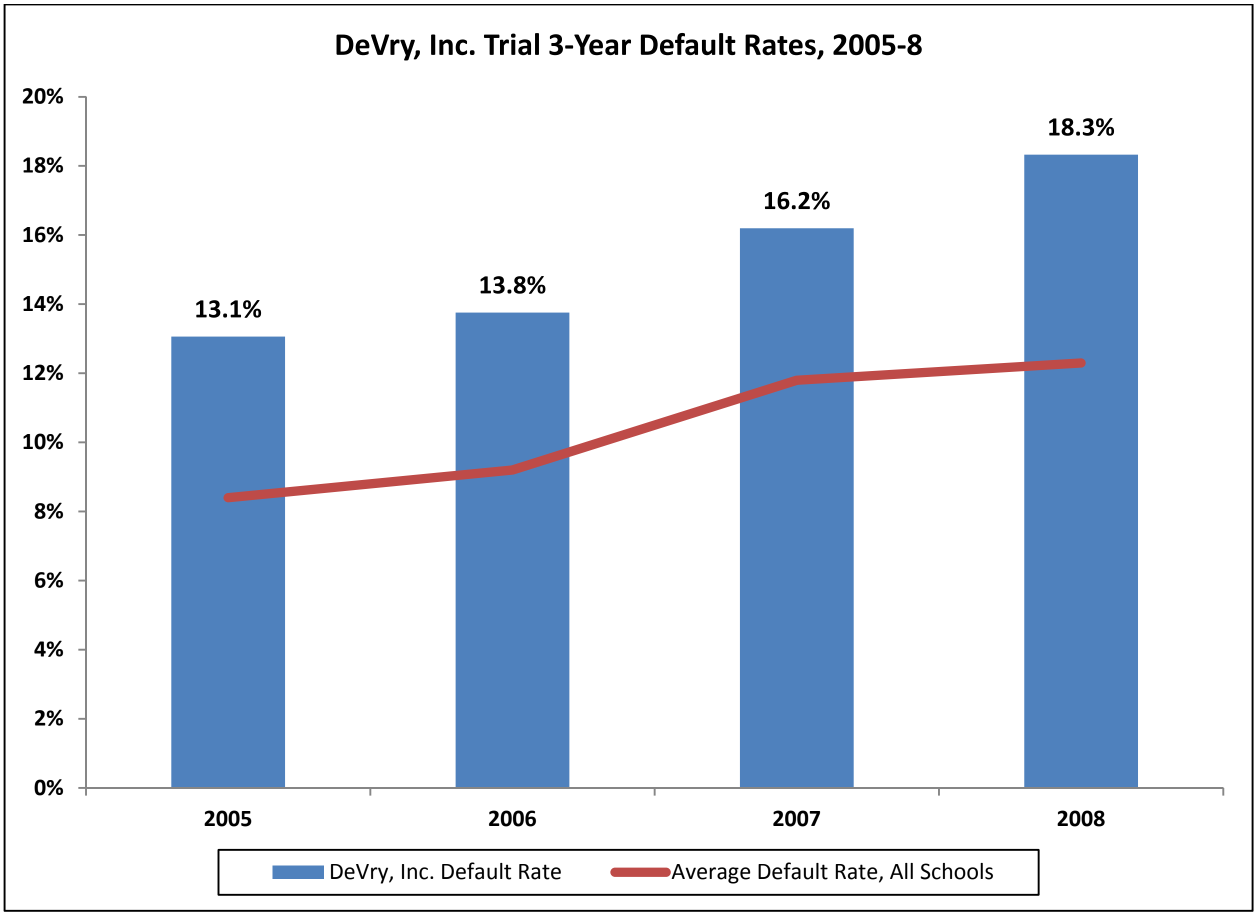
Student Loan Defaults

The number of students leaving DeVry with no degree correlates with the high rate of student loan defaults by students who attended DeVry. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1684]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[1685] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1686] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1687] The consequence of this higher rate is that almost half of all student loan defaults nationwide are held by students who attended for-profit colleges.[1688]

[1684] Direct Loan Default Rates, 34 CFR § 668.183(c).
[1685] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector. See Appendix 16.
[1686] Id.
[1687] Id.
[1688] Id.

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[1689] This change represents a 32.6 percent increase over 4 years.[1690] DeVry's 3-year default rate has similarly increased, growing from 13.1 percent for students entering repayment in 2005 to 18.3 percent for students entering repayment in 2008.

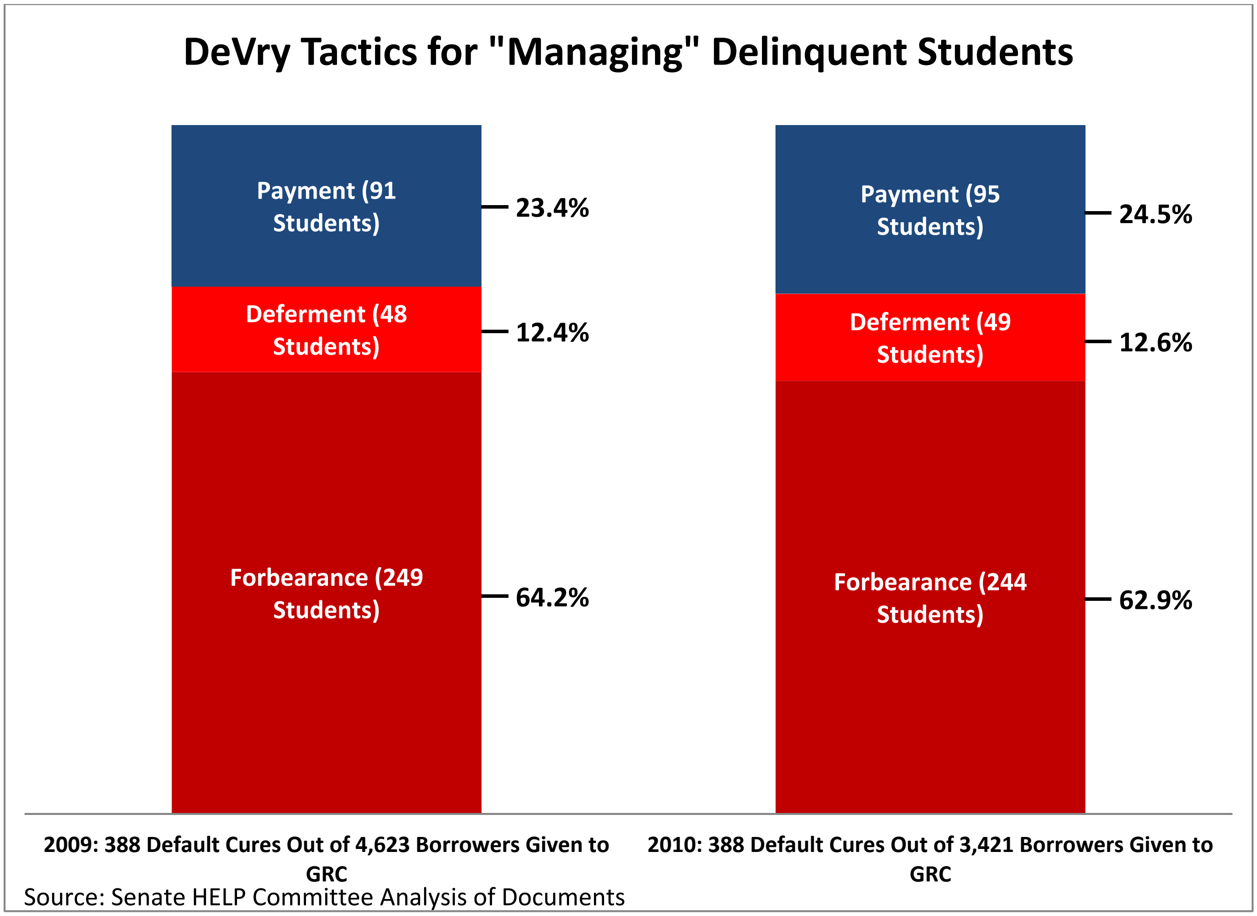


The default picture at some individual campuses is particularly dire. At DeVry's Carrington College of California campuses, 28 percent of students entering repayment in 2008 defaulted within 3 years.

It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. DeVry hired the General Revenue Corporation (GRC), a subsidiary of Sallie Mae, to contact students and sign them up for temporary forbearances and deferments. GRC operates call centers with hundreds of employees trained to "cure" student defaults. Under the agreement, DeVry pays GRC a fee of $45.50 per student borrower.[1691] Unlike other companies, DeVry prioritizes repayment by paying GRC a bonus for students placed in repayments and certain deferments, but not for forbearances.[1692] When a student is in forbearance their loan balances continue to grow as the result of accumulating interest but default is

[1689] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-2008, http://federalstudentaid.ed.gov/datacenter/cohort.html Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[1690] Id.
[1691] DeVry, April 16, 2010, Cohort Default Management Agreement with GRC (DEVRY0037214, at DEVRY0037224).
[1692] DeVry, Inc., Services Agreement with Chaperone LLC (DEVRY0037204, at DEVRY0037212), DeVry, Inc., Default Management Update (DEVRY0037181).

averted both for the student and the company. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.



In 2010, 24.5 percent of DeVry students cured by GRC were cured because they made a payment on their loan.

Instruction and Academics

The quality of any college's academics is difficult to quantify. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.

DeVry spent $2,989 per student on instruction in 2009, compared to $4,054 per student on marketing and $2,890 per student on profit.[1693] The amount that publicly traded, for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. In contrast, public and non-profit 4-year colleges and universities, generally spend a higher amount per student on instruction while

[1693] Senate HELP Committee staff analysis. See Appendix 20, 21, and 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.

community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other Illinois-based colleges spent, on a per student basis, $11,776 at the University of Illinois at Champagne, $10,018 at DePaul University and $4,603 at College of DuPage.[1694]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee examined, 80 percent of the faculty is part-time.[1695] In 2010, DeVry employed 1,476 full-time and 7,349 part-time faculty.[1696]

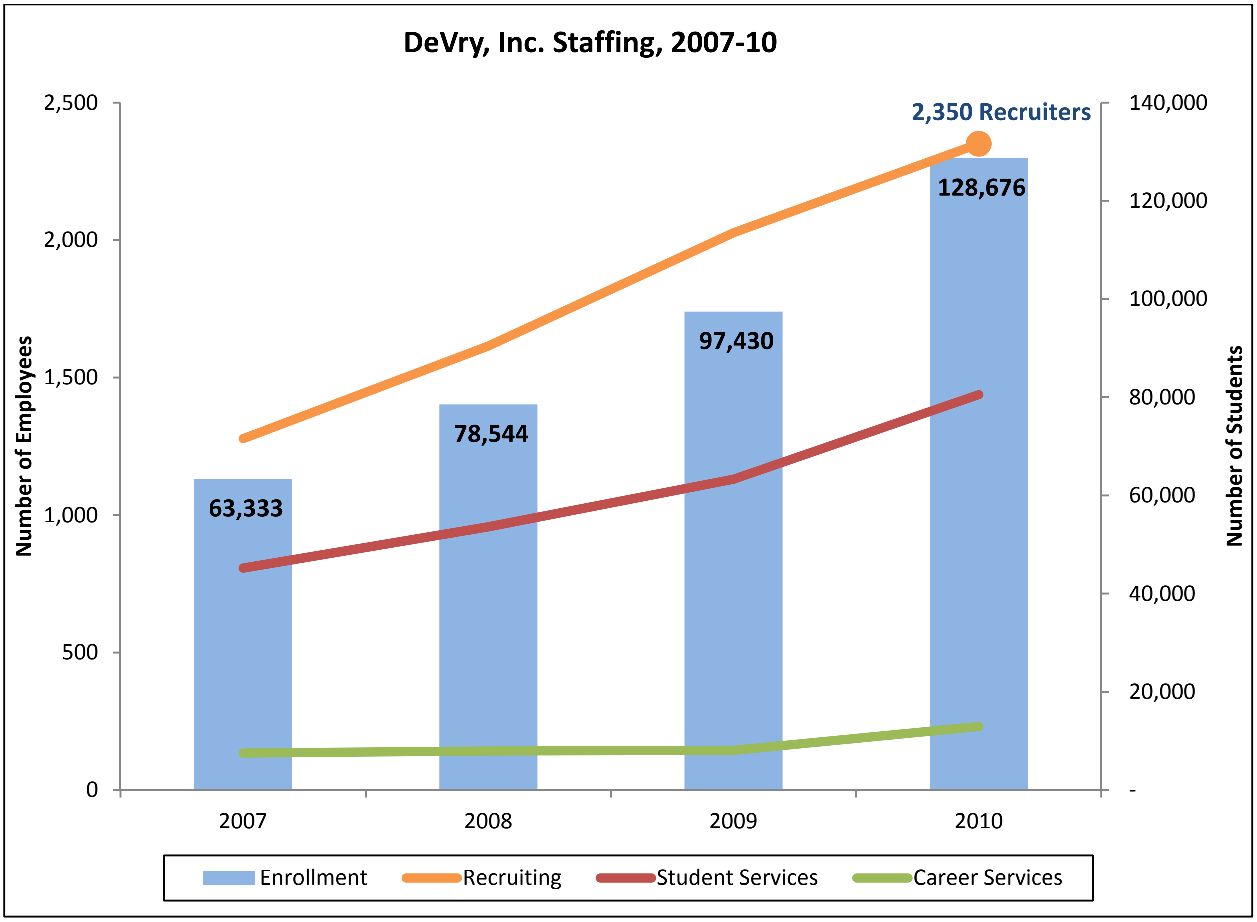
A DeVry presentation on improving academic quality details student concerns with the Chamberlain College of Nursing. One student wrote, "Clinicals are very disorganized. There is no communication between the clinical coordinator and the student when things are needed to compliant [sic]. Clinical experience has not been the best because I feel like I have learned nothing. Some of my instructors are not willing to help me or encourage me to be hands on and learn to my best benefit." [1697] Another student wrote, "I am afraid to go out in the real world – I am not getting what I need here." [1698] A different student wrote, "I don't feel that I can be a competent nurse based on what I am learning here … I am afraid that I am going to end of killing patients [sic]." [1699]

While student complaints may not be representative of the experience of the majority of students, these complaints do provide an important perspective on DeVry's academic quality.

Staffing

While for-profit education companies employ large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 128,676 students, DeVry employed 2,350 recruiters, 231 career services employees and 1,438 student services employees.[1700] That means each career counselor was responsible for 557 students and each student services staffer was responsible for 89 students, but the company employed one recruiter for every 52 students.

[1694] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.
[1695] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[1696] Id.
[1697] DeVry Inc., February 4, 2009, Net Promoter Score, Strategic Pricing, Brand Building (DEVRY0036668, at DEVRY0036683).
[1698] Id.
[1699] Id.
[1700] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.



Compared to the other large publicly traded companies examined, DeVry does provide its students with relatively robust career placement services. In her testimony before the committee, Sharon Thomas Parrott, DeVry's senior vice president of Government and Regulatory Affairs, outlined the company's efforts:

> Our 200-plus career services professionals support new graduates by connecting students with internship opportunities and facilitating student, graduate and employer interaction at career fairs and networking opportunities. Our career services professionals provide group and individual career advising sessions, career development courses, interview preparation and practice and resume and cover letter guidance.[1701]

Conclusion

Like other for-profit education companies of its size, DeVry's high tuition cost and low retention rates are issues of particular concern. DeVry has grown rapidly in recent years, crossing the $1 billion mark in Federal financial aid dollars and increasing the amount of Pell the company received to $268 million in 2010. However, compared to other for-profit education companies the committee examined, DeVry appears to have better controls on its recruiting practices and a more robust set of student services. Additionally, unlike most other large publicly traded companies, the committee received few complaints from employee whistleblowers and students. Although not conclusive, this dearth of

[1701] Sharon Thomas Parrot (Senior Vice President, Government and Regulatory Affairs & Chief Compliance Officer DeVry Education), Testimony before Senate Committee on Health, Education, Labor, and Pensions, 111th Congress (2010).

negative feedback demonstrates DeVry's stronger commitment to student services and its workplace based programs. More fundamentally, the leadership at DeVry exhibits an ongoing commitment to seeking solutions that better serve students, albeit without sacrificing healthy profits or limiting marketing. As CEO Daniel Hamburger said when he testified before the committee, "our organizational philosophy can be summed up as, 'Quality leads to growth.'" [1702]

[1702] Daniel Hamburger (President and CEO, DeVry Inc.) Written Statement for the Senate Committee on Health, Education, Labor, and Pensions. 112th Congress (2011).

ECPI

Introduction

Like many for-profit education companies, ECPI Colleges, Inc. ("ECPI") has experienced steady growth in student enrollment, Federal funds collected, and profit realized in recent years. The company is family-owned and has consistently served a predominantly military population since 1966. The company's performance measured by student withdrawal rates at the brick and mortar campuses is better than many of the companies examined; however, withdrawal rates for its smaller online programs and high default rates are troubling.

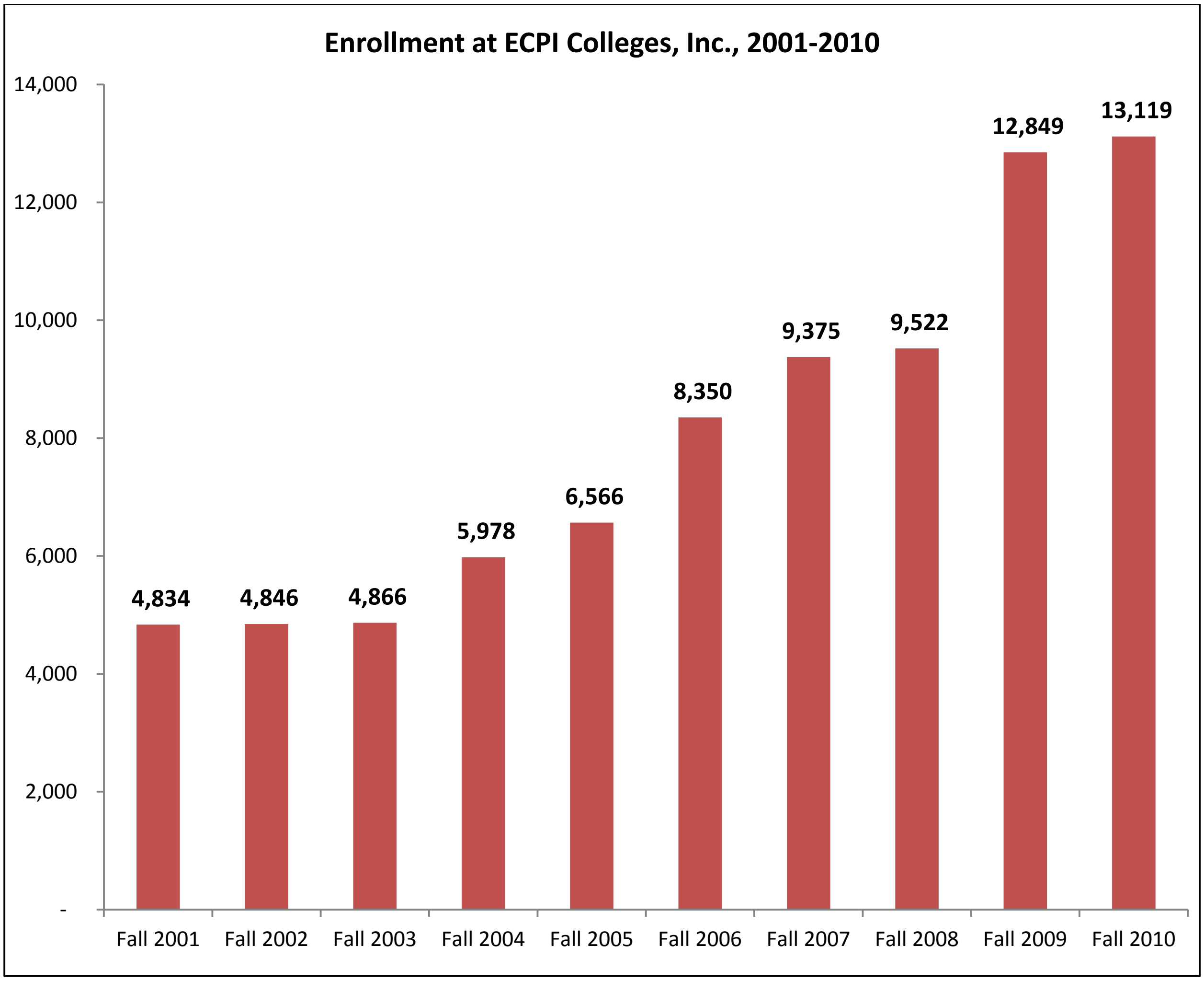
Company Overview

ECPI is a privately held, for-profit education company based in Virginia Beach, VA. ECPI has 14 campuses in Virginia, North Carolina, and South Carolina, along with an online division and offers Certificate, Associate, Bachelor's and Master's degrees in technology, allied health, business, and culinary programs.[1703] The committee estimates that approximately 14 percent of ECPI students are enrolled online, and 58 percent are enrolled in an Associate degree program.

ECPI is regionally accredited by the Southern Association of Colleges and Schools. The company was founded in 1966 by Richard Dreyfus, and his son, Mark Dreyfus, is the current president.[1704]

In the fall of 2010, ECPI enrolled 13,119 students, many of whom were veterans and servicemembers.[1705] The company has grown significantly over the last several years, more than tripling since the fall of 2003, when it enrolled just 4,866 students.[1706]

[1703] ECPI University, March 5, 2012, *2012 Catalog: Volume 20 Issue 1*, http://www.ecpi.edu/assets/uploads/2012/03/ECPI_University_Catalog.pdf (accessed April 12, 2012).
[1704] Id.
[1705] Enrollment figures from IPEDS Fall enrollment. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.
[1706] Id.



The growth in enrollment led to growth in revenue. Revenues at ECPI increased 176 percent between 2006 and 2009.[1707]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenue from Federal financial aid programs.[1708] Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1709] Together, the

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[1707] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

[1708] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

[1709] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

30 companies the committee examined derived 79 percent of their revenue from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1710]

In 2010, ECPI reported 74.5 percent of revenue from title IV Federal financial aid programs.[1711] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs or revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA).[1712] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 7.7 percent of ECPI's revenue.[1713] With the Departments of Defense and Veterans Affairs funds included, 82.2 percent of ECPI's total revenue was comprised of Federal education funds.[1714] The committee estimates that ECPI also discounted as much as 5.1 percent of revenue, pursuant to ECASLA.

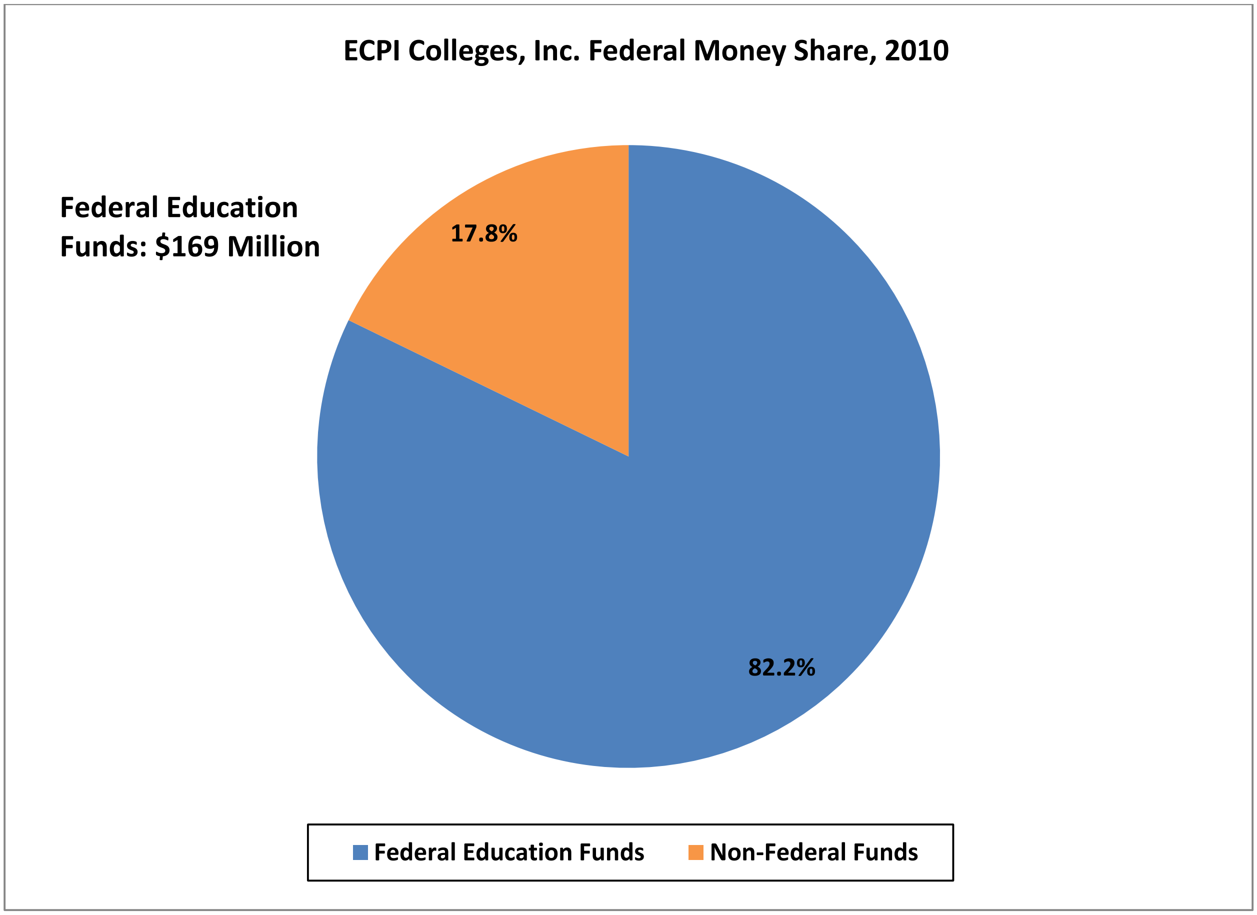
[1710] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[1711] Id.

[1712] Pursuant to the Ensuring Continued Access to Student Loan Act (ECASLA), for-profit education companies were allowed to exclude $2,000 in increased Stafford loan eligibility for each student during fiscal years 2009 and 2010.

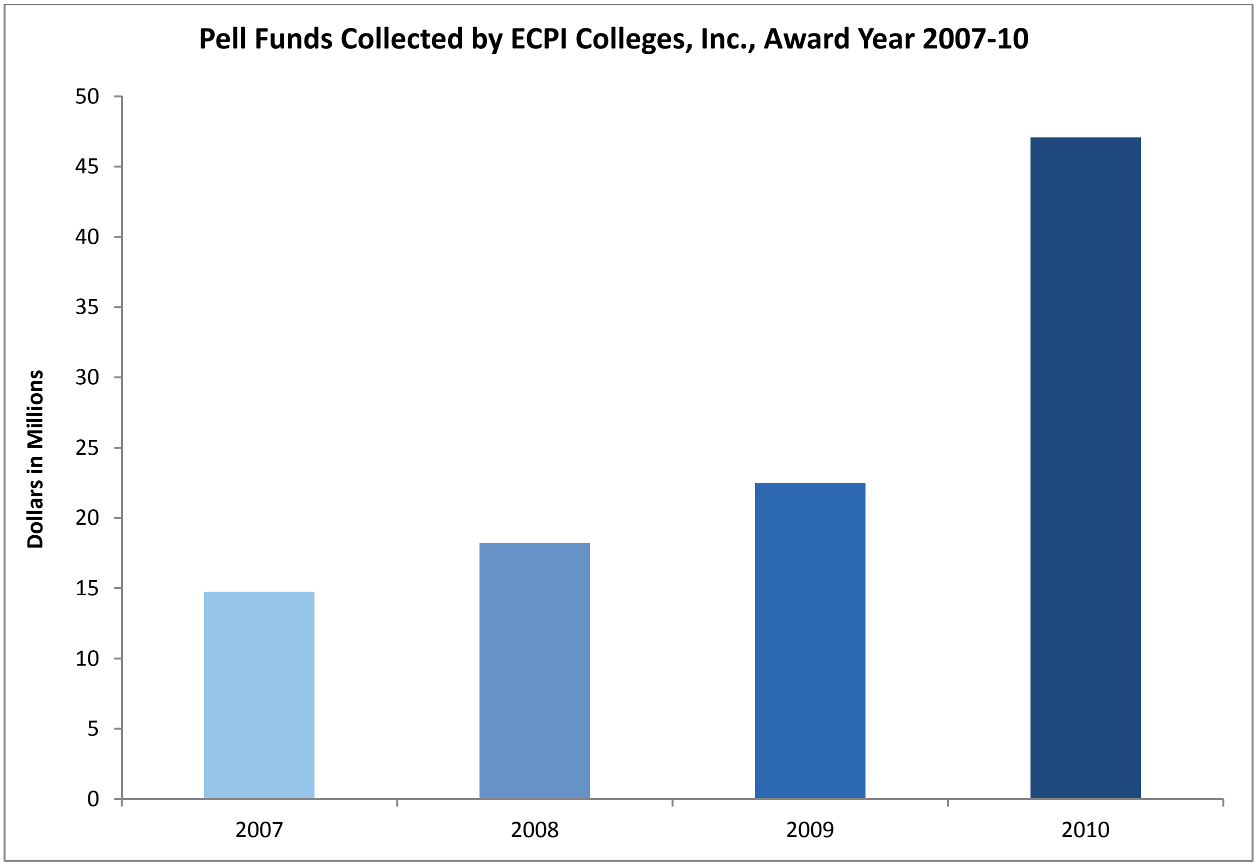
[1713] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[1714] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[1715] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[1715] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.



ECPI more than tripled the amount of Pell grant funds it collected in just 3 years between 2007 and 2010.[1716]

Spending

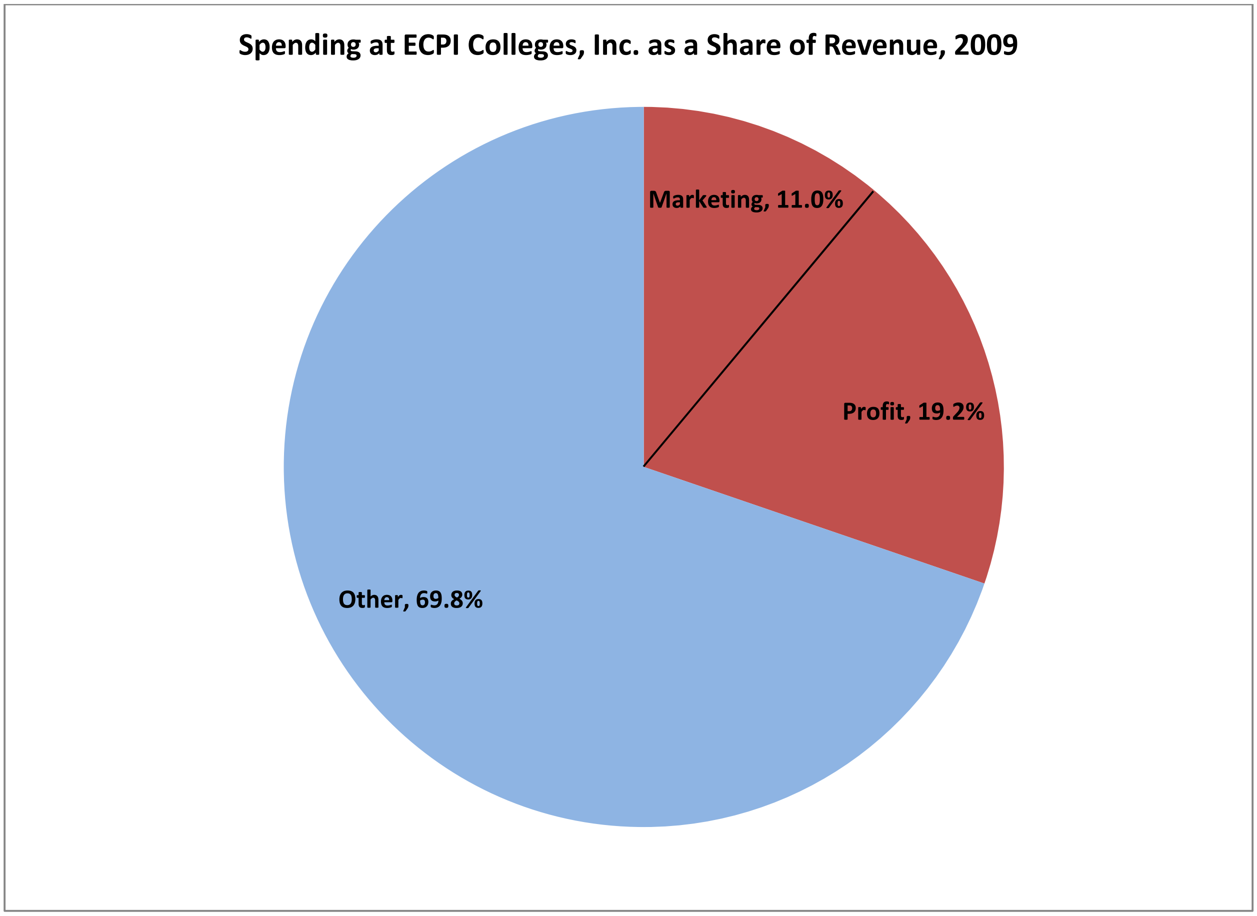
While Federal student aid programs are intended to provide educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[1717] During the same period the companies allocated 23 percent of revenues to marketing and recruiting and 19.7 percent to profit.[1718] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.[1719]

[1716] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

[1717] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

[1718] Senate HELP Committee staff analysis of fiscal year 2009 financial statements and information provided to the committee by each company pursuant to the committee document request of August 5, 2010. Profit is based on operating

In 2009, privately held ECPI allocated 11 percent of its revenue to marketing and recruiting, and 19.2 percent to profit.[1720]



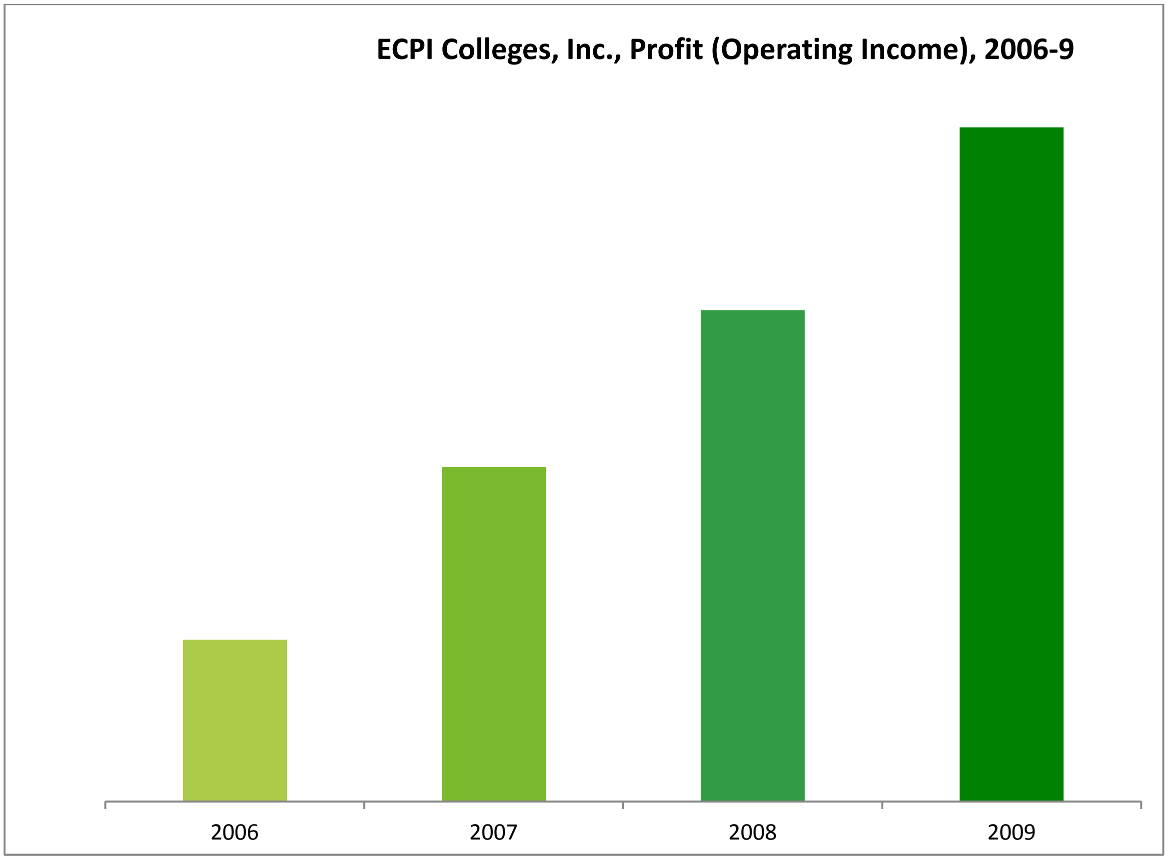
The amount of profit ECPI generated has also risen rapidly in recent years, quadrupling between 2006 and 2009.[1721]

income. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.

1719 Id.

1720 Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.

1721 Senate HELP Committee staff analysis. See Appendix 18.



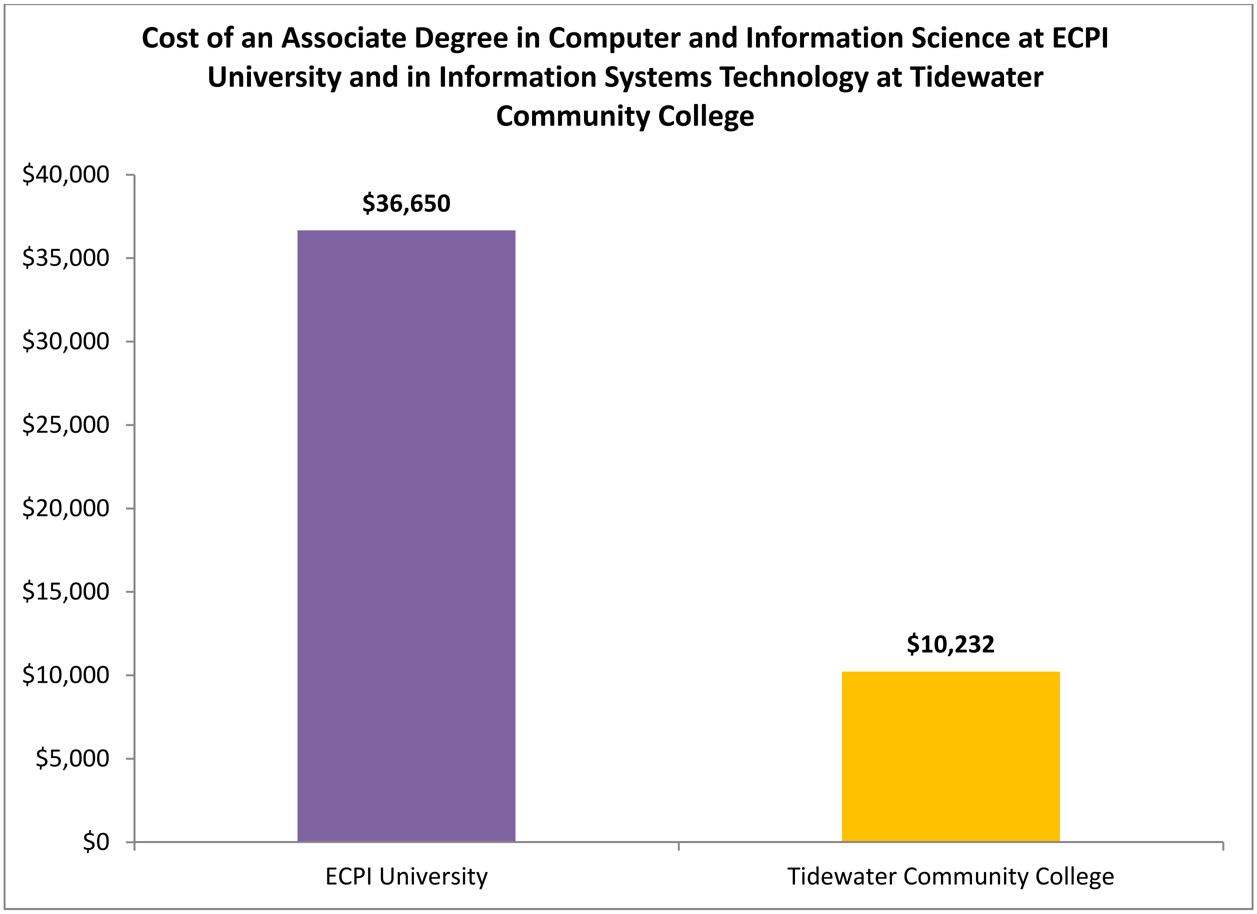
Executive Compensation

As a privatelyheld company, ECPI is not obligated to release executive compensation figures.

Tuition and Other Academic Charges

Compared to its public non-profit counterparts, it is more expensive to obtain a degree at ECPI. An Associate degree in Computer and Information Science at ECPI costs $36,650,[1722] compared to the cost of an Associate Degree in Information Systems Technology at Tidewater Community College in Virginia which costs $10,232.[1723] ECPI charges $58,550 for a Bachelor's degree in Business Administration.[1724] The same degree costs $51,912 at the University of Virginia.[1725]

1722 See Appendix 14; see also, EPCI University, *Network Security*, http://www.ecpi.edu/technology/program/network-security-associate-degree/ (accessed July 12, 2012).
1723 See Appendix 14; see also, Tidewater Community College, *Tuition & Fees for In-State*, http://www.tcc.edu/students/admissions/tuition/tuition_is.htm (accessed June 19, 2012); Tidewater Community College. *Tidewater Community College*, http://www.tcc.edu/ (accessed June 20, 2012).
1724 See Appendix 14; see also, EPCI University, *Business Administration*, http://www.ecpi.edu/business/program/business-administration-bachelor-degree/ (accessed July 12, 2012).
1725 See Appendix 14; see also, University of Virginia, *University of Virginia*, http://www.virginia.edu/ (accessed July 12, 2012)



Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations for-profit colleges recruit as many students as possible to sign up for their programs.

During the period examined, and prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, problematic recruiting practices were documented in student complaints. One student wrote:

> Upon signing up for this school, we had been given misleading and false information. The admissions rep … told us there was a forensic lab in place. However, to our surprise there is no existing lab. We will be completed with our crime scene forensic course on 2/7/08 and we have not had any hands-on experience in this class.[1726]

Another student notes:

> Because ECPI was not regionally accredited at the time I received my Bachelors degree, I have not been able to enter any graduate school of my choice [sic]. … These schools do

[1726] EPCI University, February 1, 2008, Student Complaint Letter (E0014870). To ECPI's credit, the school followed up with a site visit by an Associate Dean for the company, who recommended some extensive changes to the program complained about. Id.

not accept degrees from nationally accredited schools. This was not disclosed to me by … my admissions advisor, and in fact he stated that I could go on to any school to earn my Masters degree once I had a Bachelors degree from ECPI [sic].[1727]

While student complaints may not be representative of the experience of the majority of students, these complaints provide an important perspective on ECPI's recruiting practices. Yet students have little opportunity for recourse; ECPI, like many other for-profit education companies, includes a binding arbitration clause in its standard enrollment agreement.[1728] This clause severely limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1729]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that while more students attending ECPI are successful that at many other for-profit colleges, many other students who enroll in at ECPI are not achieving their educational and career goals.

Retention Rates

Information ECPI provided to the committee indicates that of the 7,869 students who enrolled at ECPI in 2008-9, 46.2 percent, or 3,638 students, withdrew by mid-2010.[1730] Overall, ECPI's withdrawal rate was better than the sector-wide withdrawal rate of 54.1 percent. Looking at degree programs, ECPI's Associate (47.0 percent) and Bachelor's (51.1 percent) withdrawal rates are also lower than the sector-wide rates (62.8 percent and 54.3 percent respectively).[1731]

Status of Students Enrolled in ECPI Colleges, Inc. in 2008-9, as of 2010

[1727] EPCI University, April 23, 2009, Student Complaint Letter (E0014918).
[1728] EPCI University, Enrollment Agreement (E0008277).
[1729] Patricia Steele & Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 18. 2012).
[1730] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.
[1731] Id. It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Associate Degree	4,589	25.3%	27.8%	47.0%	2,155	175
Bachelor's Degree	1,409	2.8%	46.1%	51.1%	720	184
Certificate	1,871	42.4%	16.8%	40.8%	763	171
All Students	7,869	25.3%	28.5%	46.2%	3,638	176

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Online vs. Brick and Mortar Outcomes

An analysis of withdrawal rates among the 11 companies that provided disaggregated data indicates that students enrolled in online programs had higher withdrawal rates than students enrolled in campus-based programs. Students who attended ECPI online withdrew at a much higher rate (67.4 percent) than students who attended its brick and mortar campuses (43.9 percent). The difference is most significant at the Associate degree level, where online ECPI Associate degree students have a withdrawal rate that is 27 percentage points higher than their brick and mortar counterparts.

Status of Online Students Enrolled in ECPI Colleges, Inc. in 2008-9, as of 2010					
Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn
Associate Degree	383	14.8%	13.3%	71.8%	275
Bachelor's Degree	400	5.0%	31.8%	63.3%	253
All Students	783	9.8%	22.7%	67.4%	528

Status of Brick-and-Mortar Students Enrolled in ECPI Colleges, Inc. in 2008-9, as of 2010					
Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn
Associate	4,206	26.2%	29.1%	44.7%	1,880
Bachelor's	1,009	1.9%	51.8%	46.3%	467
Certificate	1,871	42.4%	16.8%	40.8%	763
All	7,086	27.0%	29.1%	43.9%	3,110

Student Loan Defaults

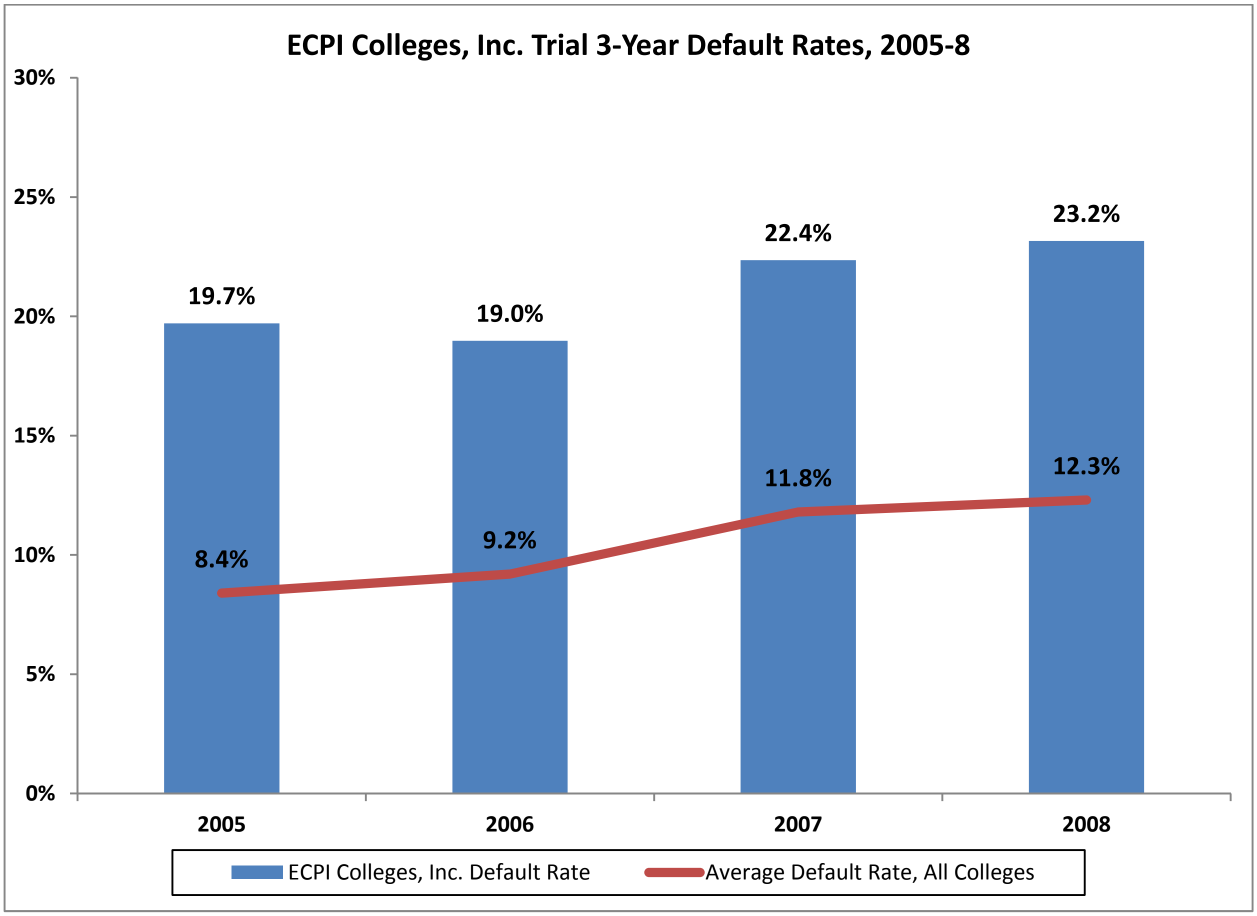
The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1732]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[1733] In contrast, 1 student in 11 at public and non-profit

[1732] Direct Loan Default Rates, 34 CFR § 668.183(c).

schools defaulted within the same period.[1734] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1735] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1736]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[1737] This change represents a 32.6 percent increase over 4 years.[1738] ECPI's default rate has similarly increased, growing from 19.7 percent for students entering repayment in 2005 to 23.2 percent for students entering repayment in 2008. ECPI's most recent default rate is slightly higher than the rate for all for-profit colleges.



It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. By doing so, companies improve their default rate statistics. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of

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1733 Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
1734 Id.
1735 Id.
1736 Id.
1737 Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
1738 Id.

Education uses to track defaults. As one for-profit executive from ECPI explained, "Career colleges have worked hard to manage their default rates for the cohort period, which has been a considerable job and expense, but beyond that period, we know there is a big drop off for most." [1739]

Other debt management options, like income based repayment or income contingent repayment, would serve students better than forbearance or deferment, but take longer and require significantly more paperwork. As a result, many schools spend little time or real attention to options other than forbearance or deferment. ECPI executives estimated that as many as 90 percent of late stage delinquencies are "cured through [forbearance and deferment] and some by consolidation." [1740] And, as one ECPI executive told his default management subordinates, "We do know that [forbearance] is the only successful answer most of the time" for lowering reported default rates, but that the company should inform students of options other than forbearance.[1741]

The company's emphasis on forbearances as the tool to improve their statistics was reflected throughout the chain of command. One ECPI default management employee, after securing a forbearance from a former student, commented to her boss, "Wow, this will be #10 [forbearance/deferment] submitted this week. . . . Also, there are a few that have called servicer to request [forbearance] due to our calls." Her boss responds, "Are we good or are we good!!!" and then the vice president of Financial Aid chimes in, "This is great!" [1742]

That same vice president prepared a speech for a leadership institute explaining cohort default rate management: "So, what do we have to do to keep someone out of default? On average, we only have to get students to pay or forbear their loans for 6 months! With the proper effort, it really isn't that hard to keep your default rate low!" [1743]

Instruction and Academics

The quality of any college's academics is difficult to quantify; however the amount that a school spends on instruction per student compared to other spending is a useful measure. ECPI spent $3,852 per student on instruction in 2009, compared to $1,303 per student on marketing, and $2,271 on profit.[1744] The amount that privately held companies examined by the committee spend on instruction ranges from $1,118 to $6,389 per student per year.[1745] In contrast, other Virginia-based public and non-profit schools spent, on a per student basis, $14,567 at the University of Virginia-Main Campus, $3,789 at Tidewater Community College, and $1,957 at Liberty University.[1746]

[1739] EPCI Univeristy Internal Email, November 15, 2007, *RE: Grijalva Amendment Yesterday* (E0016579, at E0016580).
[1740] EPCI University Internal Email, July 15, 2010, *RE: FY09 rates* (E0016590).
[1741] EPCI University Internal Email, November 17, 2008, *RE: Ecpl Loan Help* [sic] (E0016551, at E0016553).
[1742] Id.
[1743] EPCI University Internal Memorandum, CDR Management Presentation (E0007942, at E007943).
[1744] Senate HELP Committee staff analysis. See Appendix 20, 21, and 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.
[1745] Id. Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.
[1746] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction,

While per student instruction expenses should be expected to be lower in an exclusively or majority online program, the savings generated by these models do not appear to be passed on to students in lower tuition costs. Similarly, the higher per student instruction costs in public and non-profit colleges may reflect a failure to embrace online models or embrace more efficient spending. However taken as a whole these numbers demonstrate that for-profit colleges spend significantly less on instruction than similar programs in other sectors.

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee examined, 80 percent of the faculty is part-time, higher in some companies.[1747] This is not the case at ECPI where in 2010, 598 faculty were employed part-time while 532 were full-time faculty.[1748]

However, in 2009, the school's regional accreditor the Southern Association of Colleges and Schools issued a warning to ECPI for failing to comply with standards of quality regarding the number of full-time faculty and the effectiveness of its educational programs.[1749] Regarding the faculty, in a January 12, 2010 letter, the accreditor warned:

> [ECPI] has not yet demonstrated compliance because, although data are provided regarding the percentage of full-time versus part-time faculty as well as courses taught by each faculty member on each campus, the course load for a number of faculty per semester seems excessive…A further report is requested which should demonstrate the number of full-time faculty is adequate to ensure the quality and integrity of academic programs…[1750]

In response to the accreditor's warning, ECPI reported back that they were reducing the number of part-time faculty. The company asserted that it employed 266 adjunct (part-time) faculty in Fall of 2009, and 215 in Spring of 2010.[1751] ECPI also highlighted for the accreditor that the part-time faculty decreased in size by 20 percent.[1752]

Regarding institutional effectiveness, the accreditor warned: "[ECPI] has not yet demonstrated compliance because, although the institution provided data on course completion rates, graduation rates, and curriculum changes, evidence was not found regarding the extent to which goals are matched to student outcomes, or how assessment results are used for improvement." [1753] ECPI's accreditation is due for renewal in 2013.

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leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

[1747] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

[1748] Id.

[1749] ECPI University, First Monitoring Report (E0008473, at E008477).

[1750] Id. at E008478.

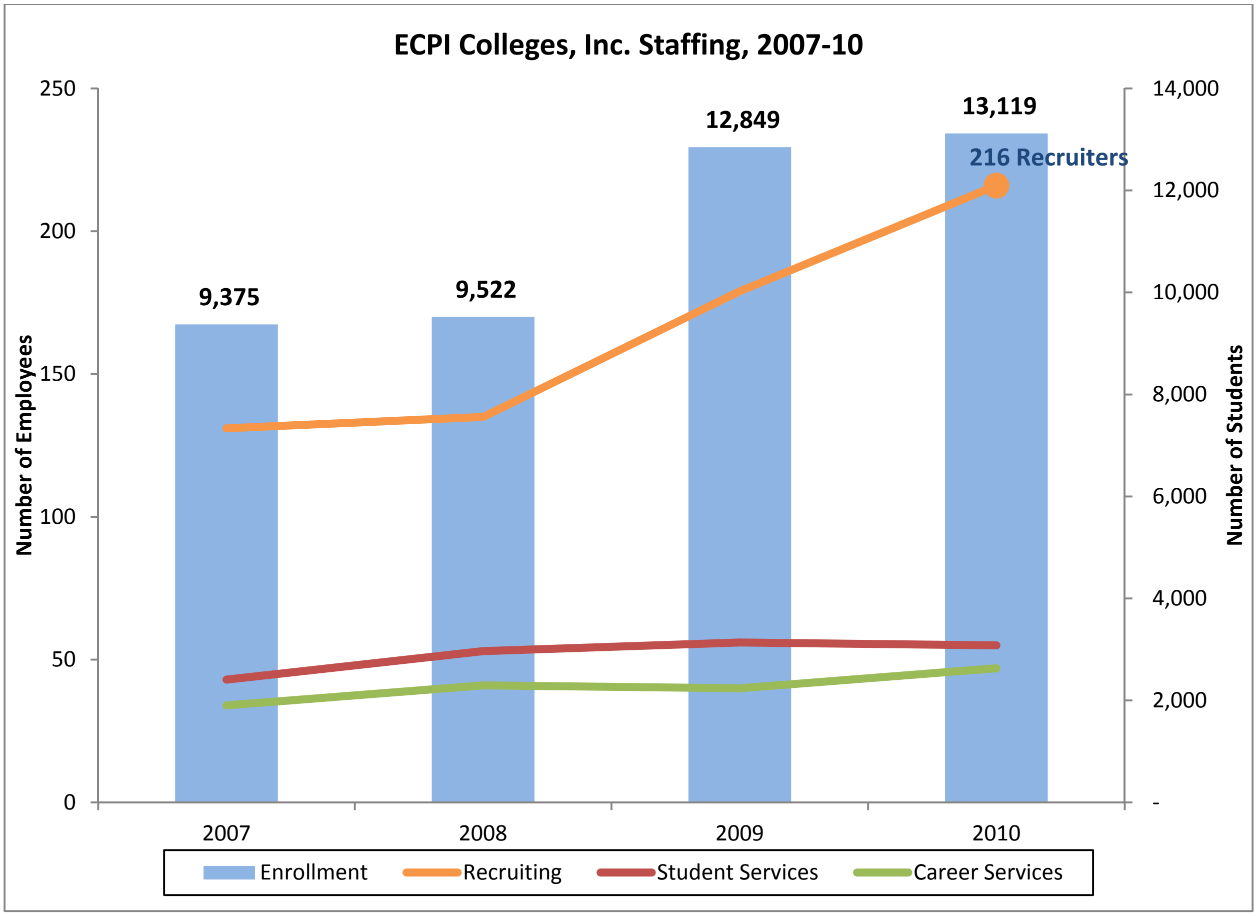
[1751] Id. at E008490.

[1752] Id. In response to the committee's document request, ECPI reported that it employed 428 part-time teaching staff in fiscal-year 2009 and 598 in fiscal-year 2010.

[1753] Id.

Staffing

While for-profit education companies employed large numbers of recruiters to enroll new students, the same companies frequently employ less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 13,119 students, ECPI employed 216 recruiters, 55 student services staff, and 47 career services and placement staff.[1754] That means each career counselor was responsible for 279 students and each student services staffer was responsible for 239 students. Meanwhile, the company employed one recruiter for every 60 students.



Conclusion

Students attending privately held and family-managed ECPI appear to fare better than students at many other for-profit colleges. Overall less than 50 percent of students withdrew from the 2- and 4-year degree programs offered by the company during the 1-year period examined. However, the small online division has significantly worse student outcomes, and the company has seen significant recent increases in the number of students unable to make payments on student loans and entering default. The recent surge in enrollment appears to have had consequences for students attending the programs. The company appears to avoid many of the tactics used by larger publicly traded companies and by companies with private equity owners, and devotes a relatively small share of revenues to marketing and

[1754] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and 24.

recruiting new students. While ECPI has thus far maintained regional accreditation by one of the more rigorous regional accreditation agencies, the company will need to focus on improving student outcomes rather than prioritizing growth in upcoming years.

Education America, Inc.

Introduction

Education America, Inc.(Remington) primarily offers career-focused Certificate and Associate degree programs primarily at campus locations. Unlike most companies examined, Remington has experienced relatively steady enrollment over the past 10 years and has recently seen its profit decline. Remington's moderate student withdrawal rates suggest students are persisting in the company's programs, however, the company's high rates of student loan default call into question whether Remington's students are receiving an education that affords them to the ability to repay the debt incurred.

Company Overview

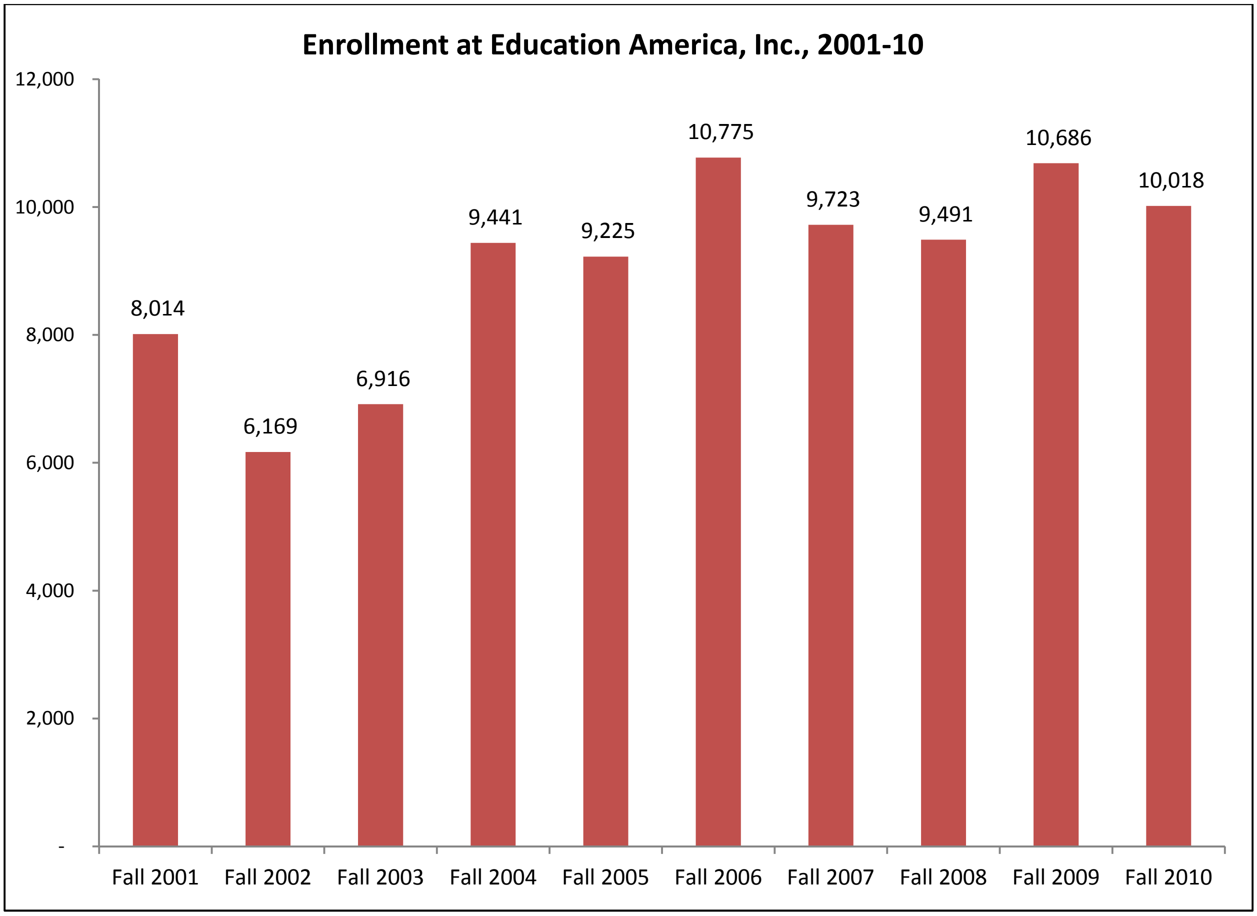
Education America, Inc. (Remington) is a non-profit education company currently headquartered in Heathrow, FL.[1755] The company was founded in 1985 by Jerry Barnett, and was originally headquartered in Little Rock, AK.[1756] The current president of Remington is Jack W. Forrest. Forrest became president in 2005, when majority shareholder and founder Jerry Barnett stepped down.[1757]

Remington operates 19 campuses in 10 States and a small online division.[1758] The company offers programs in the fields of business, graphic design/CADD, beauty and fitness, criminal justice, information technology, healthcare, nursing, culinary arts, electronics, HVAC and engineering technology. The majority of students are enrolled in Certificate programs. All campuses offer Certificate programs and Associate degrees, except for the Orlando campus which offers solely Bachelor's degrees in nursing. The Tampa and Honolulu campuses also offer Bachelor's degrees. The online division offers Associate and Bachelor's degrees, but not Certificate programs.

Remington campuses are nationally accredited by the Accrediting Commission of Career Schools and Colleges (ACCSC), with the exception of the Colorado Springs campus, which is accredited by the Accrediting Council for Independent Colleges and Schools (ACICS). ACICS's 2012 chair-elect currently serves as the executive vice president, general counsel, and chief compliance officer at Education Corporation of America.

Enrollment at Remington has remained fairly steady over the last decade, and 10,018 students were enrolled as of fall of 2010.[1759]

[1755] Education America, Inc. operates Remington College.
[1756] Business Wire, "Remington College Marks 25th Anniversary by Giving Back to its Campus Communities" January 6, 2010, http://www.businesswire.com/news/home/20100106006350/en (accessed June, 19, 2012).
[1757] Memphis Business Journal, "Remington College HQ Leaving Little Rock for Florida," http://www.bizjournals.com/memphis/stories/2005/06/20/daily13.html (accessed June 19, 2012).
[1758] Education America, Inc., Remington College: Find a Remington College Campus Near You, http://www.remingtoncollege.edu/campus-locations/ (accessed May 12, 2012).
[1759] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education 's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7.



Revenue at Remington has also remained relatively level, decreasing slightly from $138.8 million in 2006 to $136.4 million in 2010.[1760]

Conversion to Non-profit Status

In January 2011 Remington announced that it had made a "loan" to a non-profit entity, Remington Colleges, Inc., to purchase Remington and operate it as a non-profit. The new nonprofit entity is expected to pay back the sales price, which was not disclosed, over 15 years, from its excess cash flows.[1761]

Remington did not publicly disclose the terms of the transaction. It is unclear as to how the value of the school was determined. No publicly available information reveals whether appraisers were brought in, whether they received second opinions, and what process was used to determine the value of intangibles, such as reputation.

[1760] The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a drop in revenue and profit at some companies.
Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the Committee. See Appendix 18.

[1761] Goldie Blumenstyk, January 20, 2011, "Another College Take the Path From For-Profit to Nonprofit," *The Chronicle of Higher Education*, http://www.intered.com/storage/deptofed/CHE_AnotherCollegeGoesNonProfit.pdf (accessed June 20, 2012).

All the managers and executives (including President and CEO Jack Forrest) will continue to work for the college, and founder Jerry Barnett will serve as a consultant to the college and has been appointed to serve on its new five member board.[1762] Meanwhile, as recently as January 2011 (after the change in status), Jack W. Forrest, president and CEO of Remington, was still referring to revenue in excess of operating expenses as "profits." [1763]

By "selling" themselves to a nonprofit institution of higher education, Remington is free from not only the obligation to pay taxes, but from regulatory requirements that pertain only to for-profit colleges, including the 90/10 rule which requires for-profit institutions derive at least 10 percent of their revenue from non-title IV funds.[1764] Institutions that violate 90/10 for 2 consecutive years lose their Federal aid eligibility for at least 2 years.

According to data provided by the Department of Education, Remington reported a 2010 90/10 ratio of 83.9 percent.[1765] Not included in this percentage, however, is revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA).[1766] Based on information the company provided, the committee estimates that Remington discounted up to 6.2 percent of revenue, or $10.5 million, pursuant to ECASLA. With these funds included, Remington's 2010 90/10 ratio was an estimated 90.1 percent, and as such, upon the expiration of this exception, the company faced the risk of violating the 90/10 rule. This concern likely served as the prime impetus for conversion to nonprofit status. Remington president and CEO Jack W. Forrest admitted that one of the reasons for changing Remington's status was in order to avoid the 90 percent limit on Federal funding.[1767] Conversion to nonprofit status to avoid a regulation would seem to defeat the purpose of the nonprofit tax status, which is to provide an educational and charitable public service that justifies exemption from Federal taxes.

As a non-profit, Remington is also eligible for much higher levels of State based grant aid. In Florida for example, students are eligible for up to $2,425 at non-profit schools compared to $945 at for-profit schools.[1768]

Federal Revenue

Nearly all for-profit education companies derive the majority of their revenue from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds

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[1762] Id.

[1763] Id.

[1764] Id. The U.S. Department of Education has advised Remington that it may require the college to continue to adhere to the 90/10 rule for a few years as a condition of the conversion.

[1765] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[1766] Pursuant to the Ensuring Continued Access to Student Loan Act (ECASLA), for-profit education companies were allowed to exclude $2,000 in increased Stafford loan eligibility for each student during fiscal years 2009 and 2010.

[1767] Goldie Blumenstyk, January 20, 2011, "Another College Take the Path From For-Profit to Nonprofit," *The Chronicle of Higher Education*, http://www.intered.com/storage/deptofed/CHE_AnotherCollegeGoesNonProfit.pdf (accessed June 20, 2012).

[1768] Florida Department of Education, July 1, 2010, HB5001 Conference Committee Report, http://www.fldoe.org/GR/Bill_Summary/2010/HB5001.pdf (accessed June 20, 2012); Florida House of Representative, HB 5001 Appropriations, http://www.myfloridahouse.gov/sections/Bills/billsdetail.aspx?BillId=44560 (accessed June 20, 2012).

flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1769] Together, the 30 companies the committee examined derived 79 percent of their revenue from title IV Federal financial aid programs in 2010, up from 69 percent in 2006. [1770]

In 2010, Remington reported 83.9 percent of revenue from title IV Federal financial aid programs. [1771] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs or, as mentioned above, any revenue discounted pursuant to ECASLA. Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 2 percent of Remington's revenue, or $3.4 million.[1772] With funds from the Departments of Defense and Veterans Affairs included, 85.9 percent of Remington's total revenue was comprised of Federal education funds.[1773]

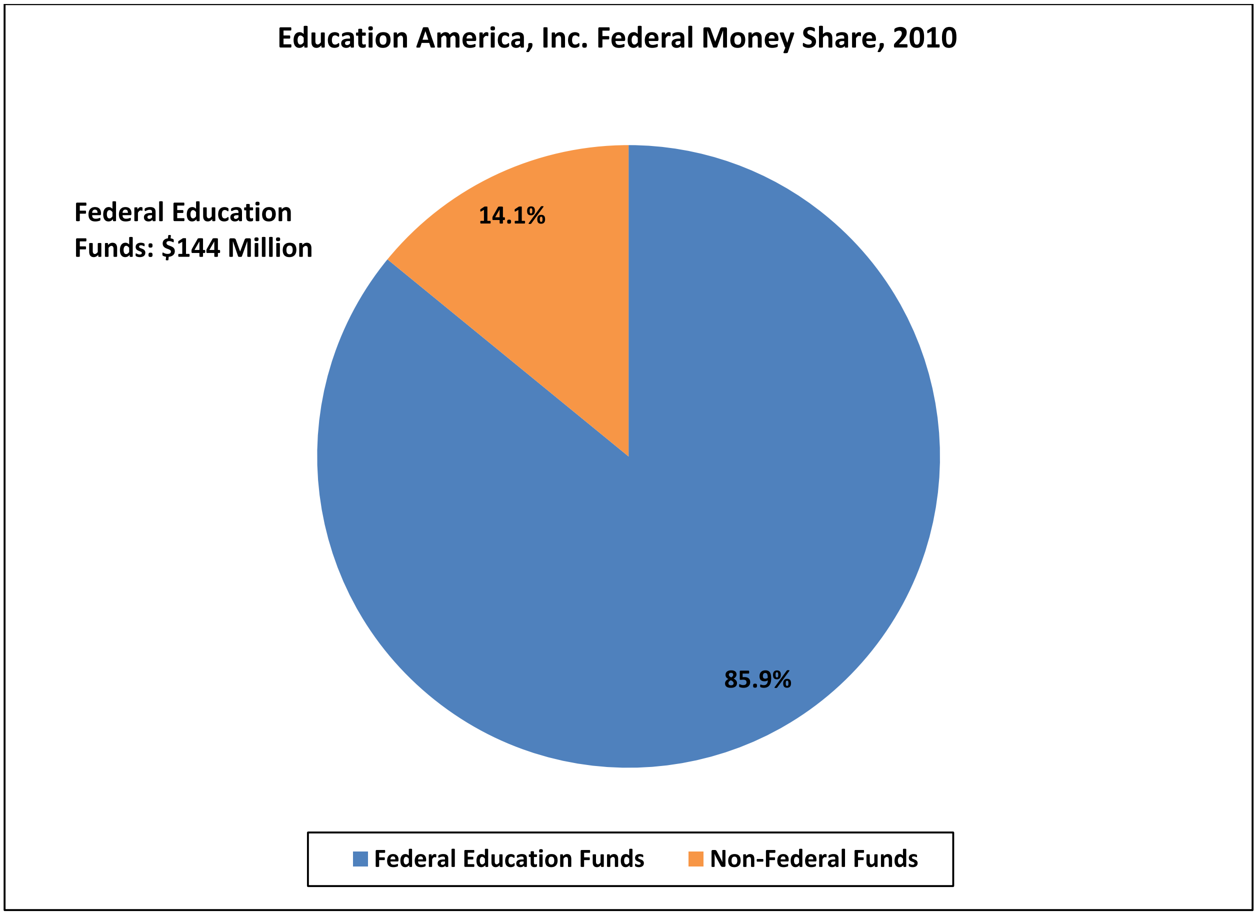
[1769] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education. "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

[1770] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

[1771] Id.

[1772] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[1773] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.

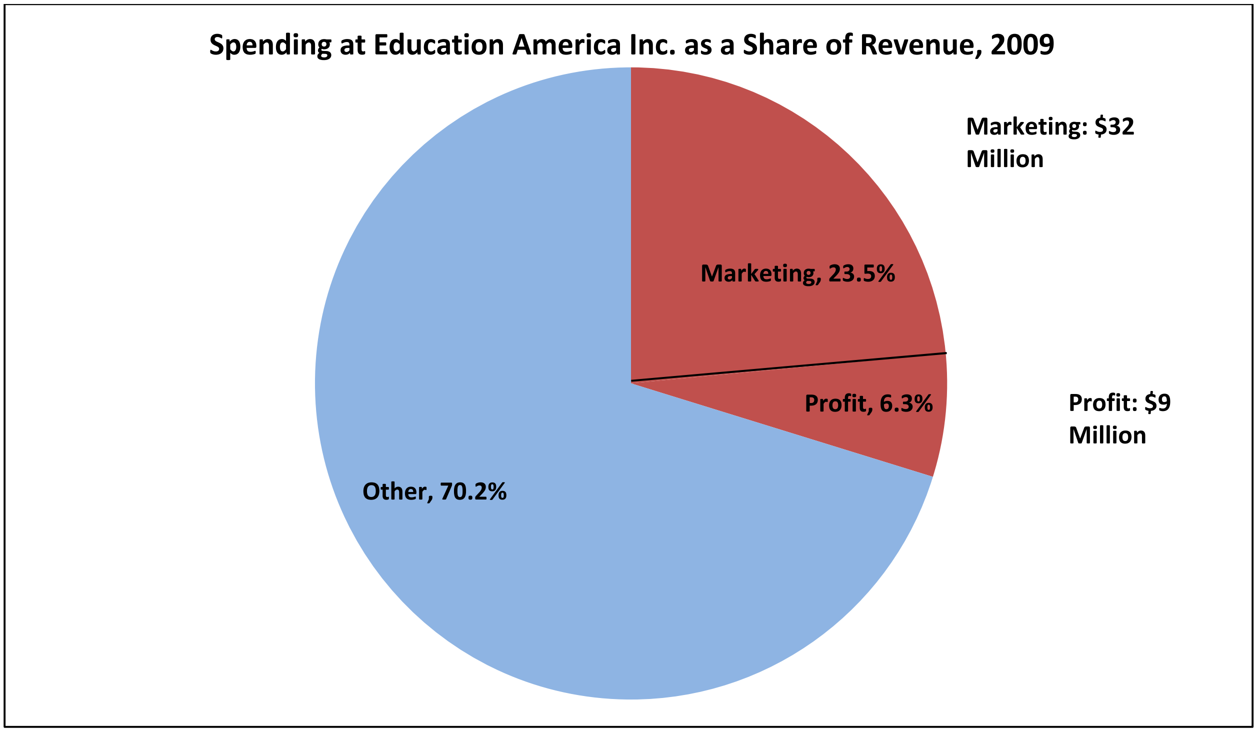


Spending

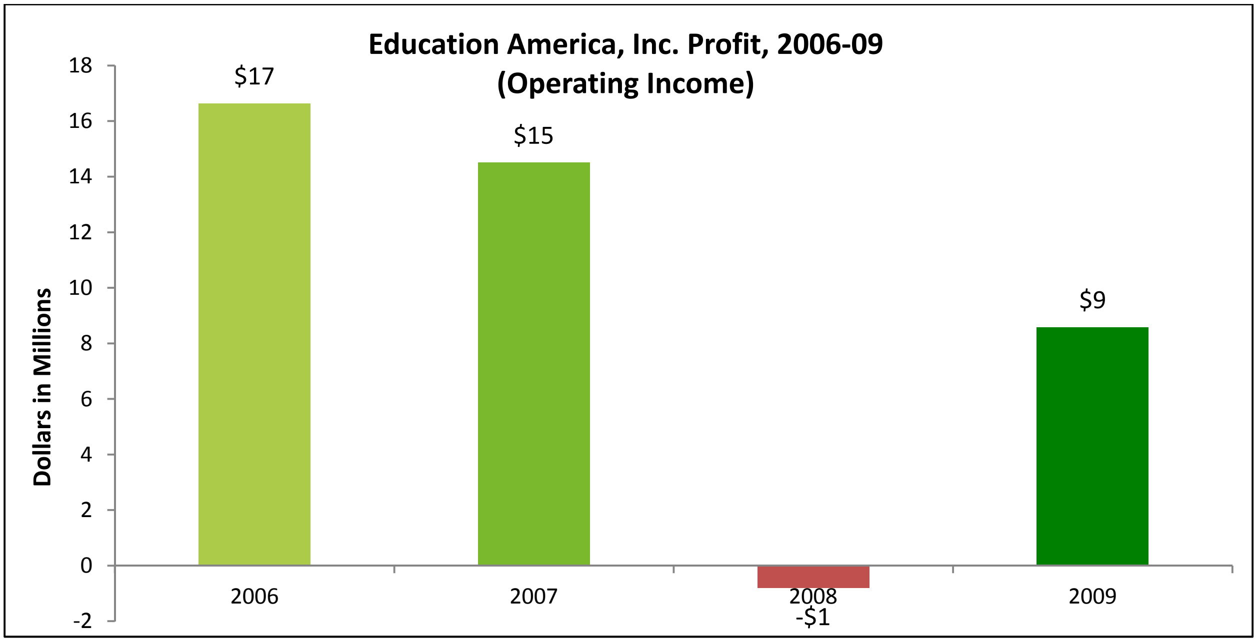
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009. During the same period the companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion) and 19.7 percent on profit ($3.2 billion).[1774] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

In 2009, Remington allocated 23.5 percent of its revenue, $32 million, to marketing and recruiting and 6.3 percent, $8.6 million, to profit.[1775]

[1774] Senate HELP Committee staff analysis of fiscal year 2009 financial statements. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.
[1775] Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, and other expenditures.



The amount of profit Remington generated has declined since 2006. In 2006, Remington reported a profit of $16.6 million and by 2010 that profit decreased by nearly half to $8.6 million, dropping as low as an operating loss of $793,000 in 2008.[1776]



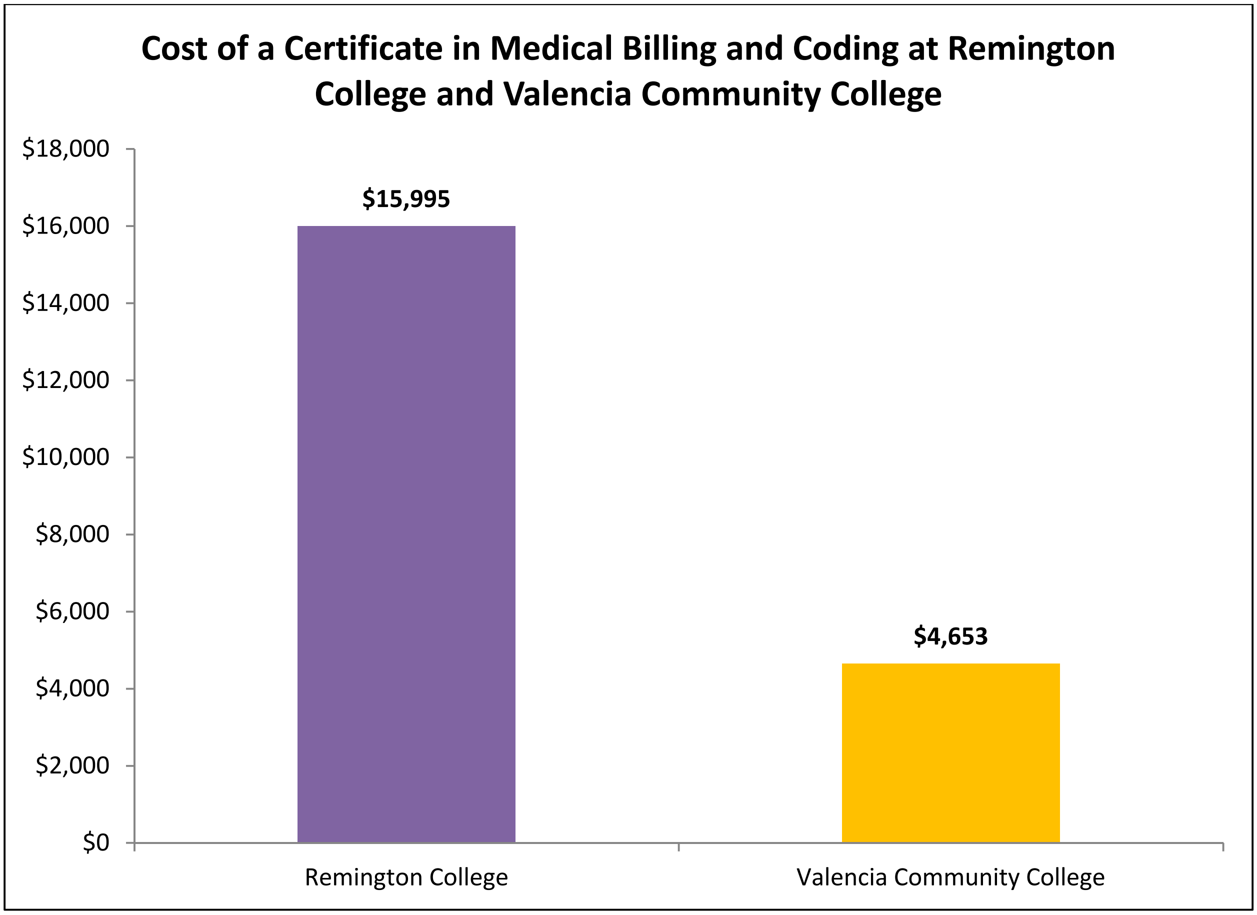
Executive Compensation

As a privately held company, Remington is not obligated to release executive compensation figures.

[1776] Senate HELP Committee staff analysis. See Appendix 18.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Remington. A Certificate in medical assisting at Remington's Tampa campus costs $15,995.[1777] A similar degree at Valencia Community College costs $4,653.[1778]



Internal Remington communications indicate that company executives are concerned with the high cost of tuition. Specifically, they expressed concern that increasing tuition for incoming students will cause students to "decide to go elsewhere for their education," [1779] and that higher tuition "will make things harder on our students." [1780]

Student complaints express concern regarding the price of tuition at Remington. While student complaints may not be representative of the experience of the majority of students, they do provide an important window into practices that appear to be occurring. One student wrote about withdrawing from Remington after attending classes for only 3 weeks before. This student wrote:

> Iwent to this school to get a education what I feel I got was taken for alot of money, they are saying Iowe them over 3 thousand dollars for only 3 weeks of school . . . I was first

[1777] See Appendix 14; see also, Remington College, *Medical Assisting Certificate Program*, http://www.remingtoncollege.edu/ma-disclosures/ (accessed June 20, 2012).
[1778] See Appendix 14; see also, Erwin Technical Center, *Erwin Technical Center*, http://erwin.edu/CourseDetail.aspx?CourseId=75 (accessed June 20, 2012).
[1779] Education America Internal Email, June 17, 2010, *RE: HEA and the 90/10 rule* (11-000085),
[1780] Id., at 11-000020

told it would be about 1,7500 when I got the bill, it was for 3,276.02. big difference [sic].[1781]

Part of Remington's strategy for dealing with 90/10 was to increase tuition.[1782] Other companies examined have similarly increased tuition in an effort to avoid violating this regulation. However, it is striking that these companies fail to consider, or consider and dismiss, the possibility of reducing tuition and attracting some students who are willing and able to make cash payments towards their education, thus meeting the policy goal of the regulation: to ensure that colleges and the programs they offer are of sufficient quality to draw some cash-paying students. In fact, one executive wrote, "even though prices continue to rise, from an affordability perspective, this is the best situation we have ever been able to offer our students." [1783]

The higher tuition that Remington charges is reflected in the amount of money that Remington collects for each veteran that it enrolls. From 2009 to 2011, Remington trained 574 veterans at a cost of $7.9 million ($13,807 per veteran). In contrast, on average it costs a public institution $4,874 per veteran trained.

Recruiting

Enrollment growth is critical to the business success of for-profit education companies. In order to meet revenue and profit expectations for-profit colleges recruit as many students as possible to sign up for their programs.

Student complaints illustrate that, in some cases at least, recruiters mislead or lied to prospective students in order to induce their enrollment. According to one former student, recruiters assured students that Remington credits would unquestionably be transferrable to a 4-year public university.[1784] Another student reports being rushed through the financial aid process, and as a result, he or she did not realize the full amount of their financial obligation. The student wrote:

> They . . . rush you through when you are filling out the paper work to begin school so you do not really know what all you are filling out. They wait until the end of your program to tell you they need more money or paperwork or you will not graduate.[1785]

A different student complained that he or she had been charged more than $6,000 for room and board and transportation, none of which Remington provides.[1786]

Yet students have little opportunity for recourse; Remington like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.[1787] This clause severely limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group.

[1781] Education American, Inc., Student Complaint Letter, (5-000132).
[1782] Education American Internal Memorandum, July 14, 2008, *Tuition Price Changes* (11-000018, at 11-000020); Education American Internal Email, June 17, 2008, *RE: HEA and the 90/10 rule* (11-000085); Education American Internal Memorandum, April 21, 2006, *Effective Dates for Upcoming Annual Tuition Increases* (11-000014, at 11-000015).
[1783] Id.
[1784] Education America Internal E-mail, December 17, 2009, *I need someone's help. Please.*(5-000332)
[1785] Education America, Inc., April 11, 2007, Student Complaint Letter (5-000102, at 5-000103).
[1786] Education America, Inc., August, 20, 2010, Complaint Activity Report (5-000312).
[1787] Education America, Inc., September 17, 2004, Program Application and Enrollment Agreement (29-000001).

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1788]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll at Remington are not achieving their educational and career goals.

Retention Rates

Information provided to the committee by Remington indicates that of the 10,319 students who were enrolled at Remington in 2008-9, 39.6 percent, or 4,089 students, withdrew by mid-2010. These withdrawn students were enrolled a median of 3 ½ months.[1789] The withdrawal rates for all Remington's degrees are lower than average sector-wide withdrawal rates.[1790]

Status of Students Enrolled in Education America, Inc. in 2008-9, as of 2010						
Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Associate Degree	2,342	12.2%	31.7%	56.1%	1,314	152
Certificate	7,977	64.7%	0.5%	34.8%	2,775	87
All Students	10,319	52.8%	7.6%	39.6%	4,089	108

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

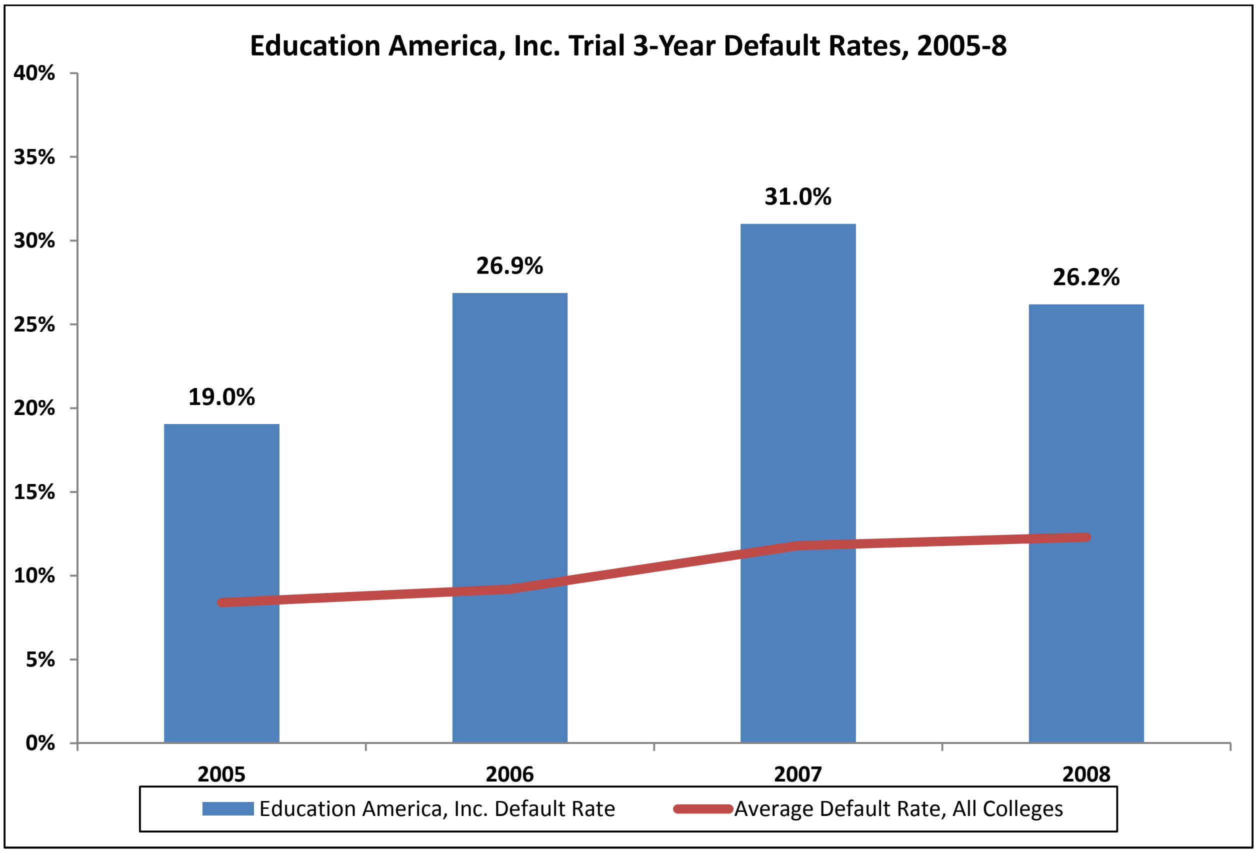
Student Loan Defaults

The low number of students leaving Remington with no degree does not correlate with the high rate of student loan defaults by students who attended Remington.

[1788] Patricia Steele & Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 18, 2012).
[1789] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.
[1790] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1791] Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[1792] In contrast, 1 student in 11 at public and nonprofit schools defaulted within the same period.[1793] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions. [1794] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[1795] This change represents a 32.6 percent increase over 4 years.[1796] Remington's 3-year default rate has similarly increased, growing from 19 percent for students entering repayment in 2005 to 26.2 percent for students entering repayment in 2008. Remington's most recent default rate is nearly a fifth higher than the rate for all for-profit colleges and is more than double the average default rate for all schools.



[1791] Direct Loan Default Rates, 34 CFR § 668.183(c).
[1792] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html (accessed July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default by sector.
[1793] Id.
[1794] Id.
[1795] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html (accessed July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[1796] Id.

Instruction and Academics

The quality of any college's academics is difficult to measure, however the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures. By looking at the instructional cost that all sectors of higher education report to the Department of Education, it is possible to compare spending on actual instruction.

Remington spent $2,922 per student on instruction in 2009, compared to $2,472 on marketing and $2,193 on profit.[1797] The amount that privately held companies examined by the committee spend on instruction ranges from $1,118 to $6,389 per student per year.[1798] In contrast, public and nonprofit 4-year colleges and universities, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. For comparison, on a per student basis, Valencia Community College spent $2,617.[1799]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools investigated by the committee, 80 percent of the faculty is part-time.[1800] Likely reflecting its heavy emphasis on brick and mortar classes, Remington has a more even division between full-time and part-time faculty. In 2010, the company employed 547 full-time and 365 part-time faculty.[1801]

Academic quality concerns are reflected in the student complaints. One student writes about a professor: "While he is a nice gentleman, he has minimal knowledge of the subject and plans to do complete book study."[1802] Another student writes: "We had a teacher that did not teach us the course material and instead, would complete her own homework for her school at the back of the class while a test engine was put up on the projector for the class to go through."[1803]

Students report instructors who taught with expired materials, did not have adequate credentials, or could not communicate well in English.[1804] Others report that they were not adequately prepared by

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[1797] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.

[1798] Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

[1799] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

[1800] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

[1801] Id.

[1802] Education America, Inc., Student Complaint (5-000004).

[1803] Education America Internal E-mail, February 3, 2010, *Remington Complaint*, (5-000147).

[1804] Education American, Inc., May 18, 2007, *West Tempe Justice Court: Civil Complaint* (5-000343); Education America, Inc., June 19, 2008, *Better Business Bureau of West Florida: Complain Activity Report* (5-000168, at 5-0000169).

their instructors for the national licensing exam in their field of study.[1805] In some cases, classes were missing teachers for weeks out of a semester. As one student writes:

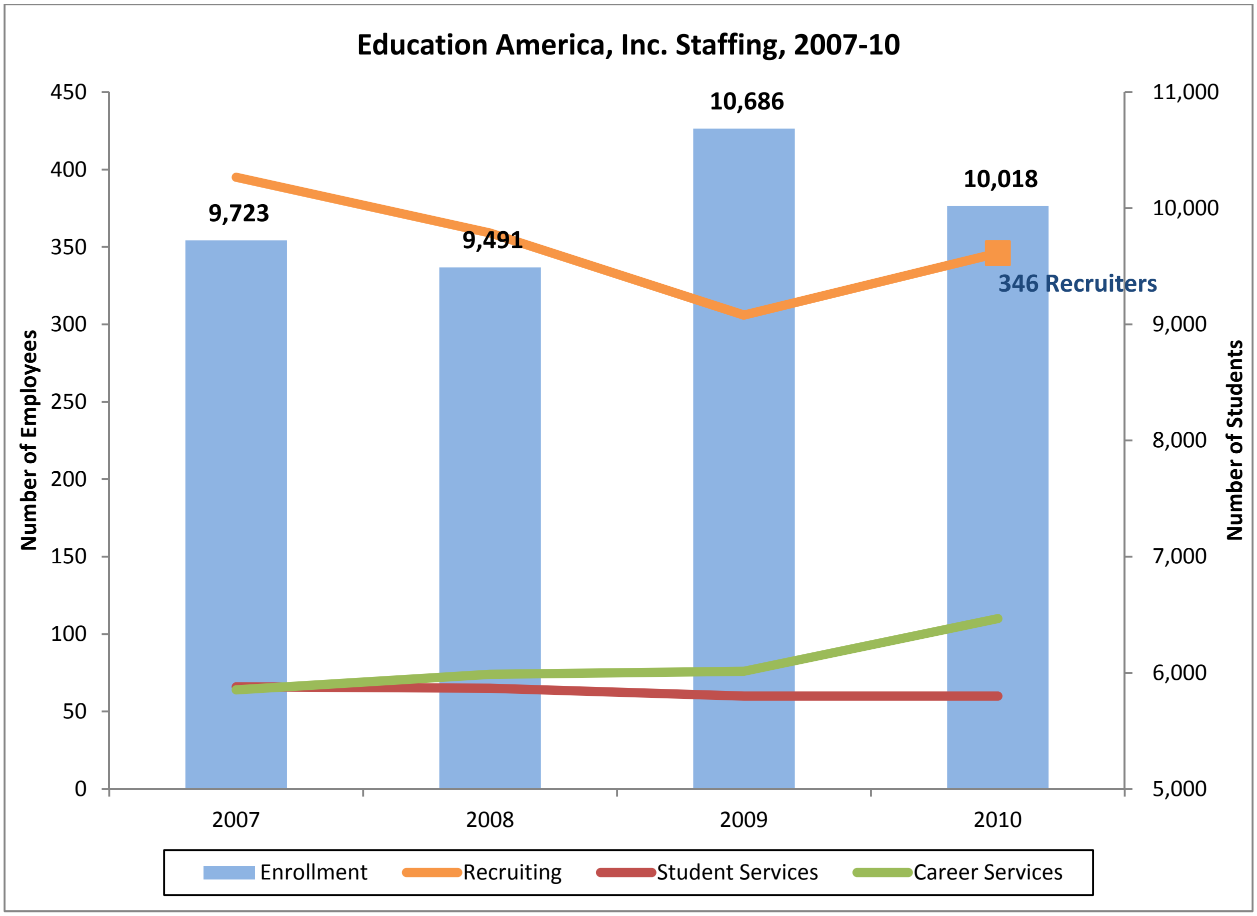
> The reason for this is because that class I attended at Remington College this past semester did not have a teacher for eight weeks. Instead, what we had was the Director of Education, … teaching the information that was not relevant to the curriculum and a substitute who taught bits and pieces of the book. This class was on Monday, Tuesdays, and Thursdays from 6:00 p.m. until 11:00 p.m. They would come at 6:00 p.m., sometimes 6:30 p.m. and would leave at 8:30 p.m. because either [they] would have to go home or the substitute would have to teach his class that started at that time.[1806]

Another student complained that the education he or she received was not worth the money he or she paid, and that he or she frequently felt disrespected by the staff. The student wrote:

> This school turned out to be a lazy, 'push em thru ' waste of money. The instructors were changing quarterly and nothing was ever in sync. Staff changed often also and it was hard to find help when needed. . . I believe this school needs to be looked at as long as it is getting Federal funds and being considered an accredited school. Whatever the student, we still deserve to be treated with dignity, not like street rats that feed their bank account.[1807]

[1805] Education America, Inc., May 18, 2007, *West Tempe Justice Court: Civil Complaint* (5-000343)
[1806] Education America Internal E-mail, November 19, 2009, *FW: Complaint against Remington College Tampa Campus* (5-000031).
[1807] Education America, Inc., Complaint Summary (5-000005, at 5-000006).

Staffing



While for-profit education companies employ large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 10,018 students, Remington employed 346 recruiters, 110 career services employees, and 60 student services employees.[1808] That means each career counselor was responsible for 91 students and each student services staffer was responsible for 167 students. Meanwhile, the company employed one recruiter for every 29 students.

Student complaints express dissatisfaction with the level of services available. One student reports that, due to understaffing and a lack of organization in the financial aid department, his or her financial aid paperwork was not processed on time and she was told she would have to pay out of pocket.[1809] That student wrote:

> Between February, 2009 and June, 2009, I was working with Remington to get all of my paperwork completed. The financial aid department told me they would contact me if they needed help with anything else. On June 2, 2009, financial aid contacted me and stated, 'If we do not get everything finished by tomorrow, then you will have to pay monthly for school.' I asked, 'Why is this just now getting taken care of?' In response,

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[1808] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.
[1809] Education America, Inc., July 9, 2009, Better Business Bureau of Southern Colorado: Complaint Activity Report (5-000058).

> 'The girl that was working on your file is no longer here and corporate just now brought your file to attention.'[1810]

Several students complained that the career services office did not help them find leads or connect them with employers. These students noted that all the office does, when the office does anything, is send job postings the students had already found themselves.[1811] As one student writes:

> I didn't receive any "help" until after I had complained. I was finally contacted by [a career services counselor] and all she ever did was tweak my resume slightly and alert me to job postings I already had knowledge of and jobs that I had already applied to. Then, after promising to help me secure employment, she never stayed in contact with me.[1812]

Conclusion

Remington traditionally offered skill-based Certificate and Associate degree programs, prior to its conversion to a non-profit company in 2011. The committee is concerned about the apparent lack of controls in place to regulate these for-profit to non-profit conversions, particularly given that its purpose appears to have been, at least in part, to escape the regulatory requirements governing for-profit colleges. While Remington's retention rates are higher than those at many companies examined, the company's high student loan default rates suggest that students completing its programs may not be able to obtain employment or salaries that enable them to repay the debt they incur. Taken together, these outcomes cast serious doubt on whether Remington students are receiving an education that affords them adequate value relative to cost, and call into question the $144 million investment American taxpayers made in the company in 2010.

[1810] Id.
[1811] See, e.g., Education America Inc., Letter to Accrediting Commission (5-000021); Education America, Inc., April 23, 2010, Better Business Bureau of Southern Colorado: Complaint Activity Report (5-000013); Education America, Inc., July 9, 2009, Better Business Bureau of Ohio: Complaint Activity Report (5-000298); Education America, Inc., April 23, 2010, Letter from the Accrediting Commission (5-000107, at 5-000109),
[1812] Id.

Education Management Corporation

Introduction

Education Management Corporation is one of largest for-profit education companies and operates a wide variety of brands and programs. Like many others in the sector, in recent years, the company has experienced significant growth in enrollment, Federal revenues and profit. While the diversity of brands and programs makes it difficult to draw conclusions about the company, the cost of many programs, particularly those offered by the Art Institutes, is fairly substantial, and students completing these programs seem to struggle to find jobs. More critically, when the student outcomes for the company as a whole are examined, the company has some of the highest numbers of students leaving the company's programs without completing a certificate or degree of any company examined.

Company Overview

Education Management Corporation ("EDMC") is a publicly traded for-profit education company headquartered in Pittsburgh, PA. EDMC operates a total of 107 campuses in 32 States, along with an online division, and offers Associate, Bachelor's, Certificate, Master's and Doctoral programs in media arts, health sciences, design, behavioral sciences, culinary, and business.[1813] About half of the company's students are in Bachelor's level programs, and approximately 25 percent of the company's students are attending school exclusively online.[1814]

Brands
Argosy University
Brown Mackie College
South University
The Art Institutes[1815]
Western State University College of Law

EDMC operates four major brands and an ABA-accredited law school. The company has acquired much of its capacity through acquisition, meaning that its brands have multiple accreditors and many different identification numbers with the Department of Education. The largest of these brands is The Art Institute, which represents about half of the company and whose primary focus is media, arts, design, and fashion programs.[1816] The majority of students at The Art Institutes are younger than 25 and are primarily in Bachelor's programs.[1817] At Argosy, the majority of students are in graduate programs in behavioral health and education.[1818] The average student at Argosy is 36 years old.[1819] At Brown Mackie College, the majority of students are in Associate programs in health sciences, legal, and

[1813] A list of campuses can be found at: http://www.artinstitutes.edu/locations.aspx, http://www.argosy.edu/locations/default.aspx, http://www.brownmackie.edu/#, http://www.southuniversity.edu/# (accessed May 17, 2012).
[1814] Barclay's Bank High Yield Bond and Syndicated Loan Conference Transcripts (March 27, 2012).
[1815] The Art Institute Brand includes the Miami International University of Art and Design, the New England Institute of Art, and the Illinois Institute of Art.
[1816] Barclay's Bank High Yield Bond and Syndicated Loan Conference Transcripts (March 27, 2012).
[1817] Id.
[1818] Id.
[1819] Id.

business.[1820] At South University, the majority of students are in the health sciences (in nursing or pharmacy) with the largest concentration of students in Bachelor's programs.[1821]

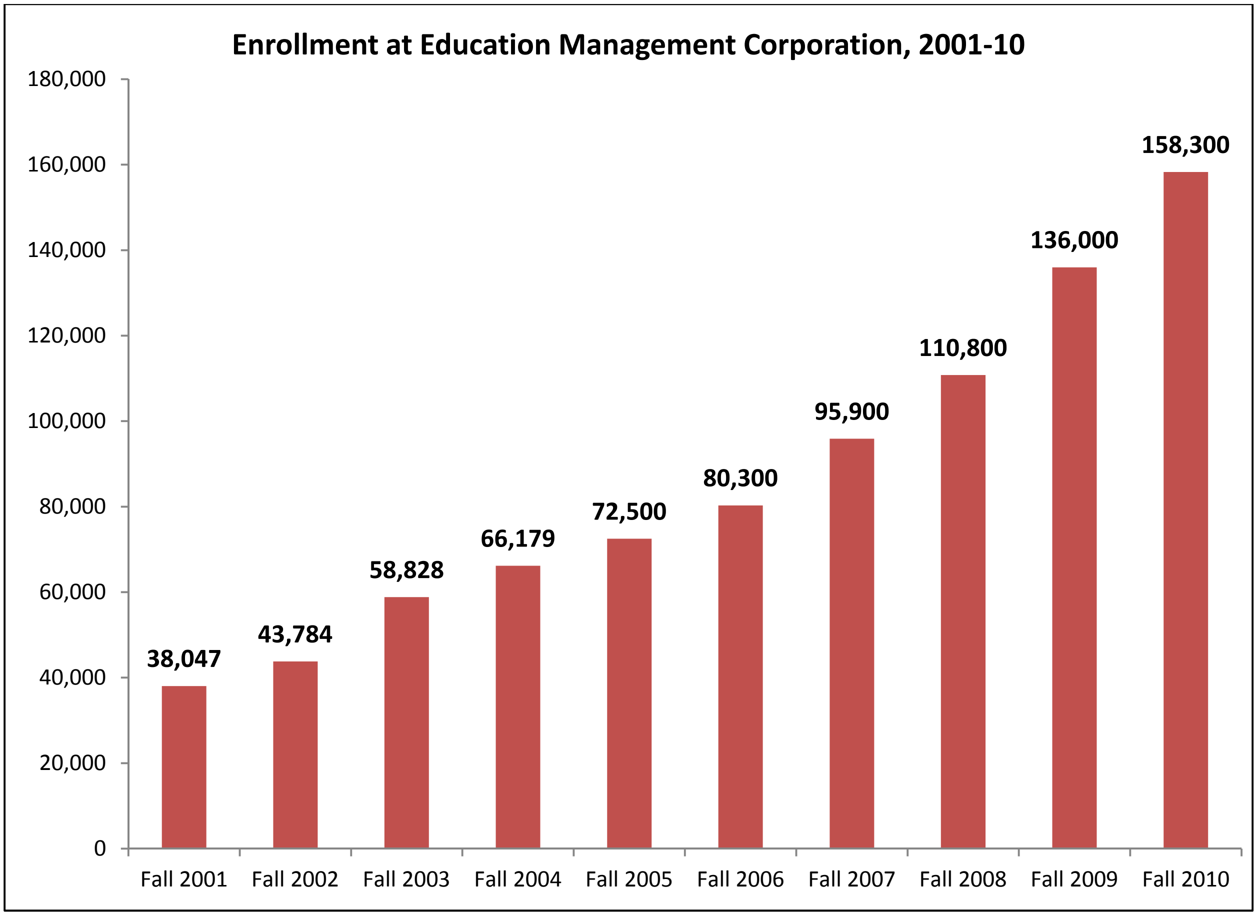
The Art Institute is both nationally and regionally accredited on a campus by campus basis. The Art Institutes' national accreditors are the Accrediting Commission of Career Schools and Colleges (ACCSC) and the Accrediting Council for Independent Colleges and Schools (ACICS) and its regional accreditors are the Commission on Colleges, Southern Association of Colleges and Schools (SACS), the Middle States Commission on Higher Education (MSC), the New England Association of Schools and Colleges (NEASC), the Northwest Commission on Colleges and Universities (NWECCU), and the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC). Argosy University is regionally accredited by the Commission on Colleges of the Western Association of Schools and Colleges (WASC), South University is regionally accredited by SACS, and Brown-Mackie College campuses are either regionally or national accredited by either ACICS or HLC.

While EDMC has been in existence since 1962, and completed its initial public offering (IPO) in 1996, in 2006 the company was purchased for $3.4 billion by two private equity firms, Providence Equity Partners and Leeds Equity Partners, together with Goldman Sachs. Interviewed in August 2010, the company's former CFO, who retired shortly after the buyout, stated: "you take on that amount of private-equity debt, you need to earn high rates of return for these investors, I was worried that the quality of the experience for employees and students was going to deteriorate." [1822]

In 2009, the three investors undertook an IPO, and EDMC once again became publicly traded. Goldman Sachs continues to own 41.8 percent of the company, Providence Equity Partners 31.5 percent, and Leeds Equity Partners 7.6 percent.[1823]

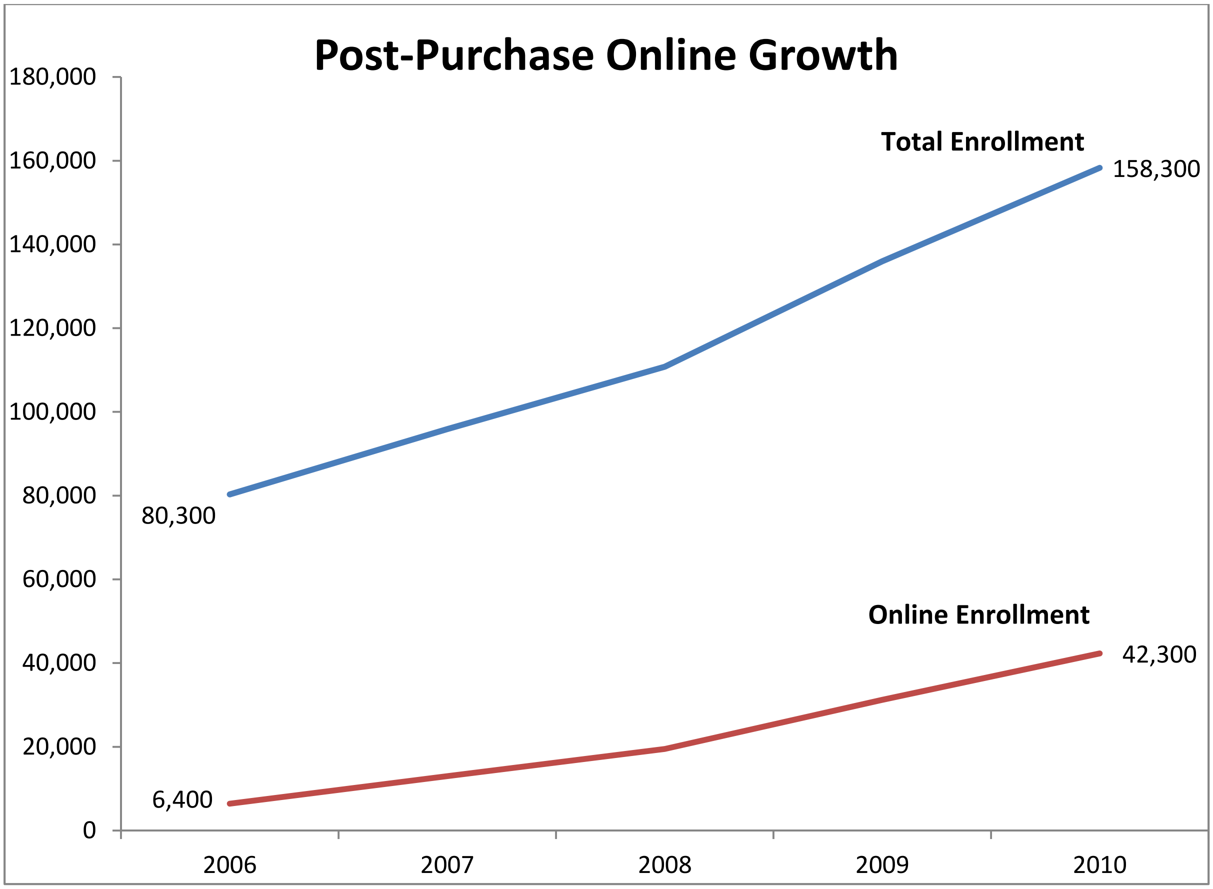
The current chief executive officer of EDMC is Todd Nelson. Nelson became CEO shortly after the 2006 buyout. Before coming to EDMC, Nelson spent 21 years at the Apollo Group, including six as CEO. Executives of Goldman Sachs currently hold 3 of the 10 seats on the board while Providence Equity Partners holds two and Leeds Equity Partners one.

[1820] Id.
[1821] Id.
[1822] John Hechinger, "Stripper Finds Degree Profitable for Goldman Wasn't Worth It." *Bloomberg*, August 6, 2010, http://www.bloomberg.com/news/print/2010-08-05/stripper-s-college-degree-profitable-for-goldman-finds-70-000-was-wasted.html (accessed June 14, 2012).
[1823] EDMC 2011 10-K.



Enrollment at EDMC has grown more than four-fold since 2001, from 38,047 students that year to 158,300 students in 2010.[1824] Sixty-four percent of this growth has come since EDMC's 2006 purchase. Growth has fallen, however, in the last year.[1825] Executives attribute the drop to the incentive compensation ban that took effect in July 2011, which prohibited paying recruiters based on the number of students enrolled.[1826] The company plans to continue to expand by opening four to five new locations a year.[1827]

[1824] Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7. As of Q3 2012 the company's enrollment was 134,900 students.
[1825] Despite the drop in enrollment, EDMC's revenue and profit both increased from 2010 to 2011.
[1826] EDMC, 2012, Q3 Investor Call.
[1827] Barclay's Bank High Yield Bond and Syndicated Loan Conference Transcripts (March 27, 2012).



Since the 2006 passage of a Federal law allowing colleges to provide exclusively online programs, online enrollment has also grown fairly quickly, increasing more than six-fold from 6,400 students that to 42,300 students in 2010.

The growth in enrollment has led to growth in revenue. Revenue has more than doubled, from $1.3 billion in 2007 to $2.5 billion in 2010.[1828]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1829] Together, the 30

[1828] EDMC's revenue in 2011 was $2.9 billion. Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

[1829] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the Committee by the U.S. Department of Education. "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1830]

In 2010, EDMC reported 77.4 percent of revenue from title IV Federal financial aid programs.[1831] However, this amount does not include the Departments of Defense and Veterans Affairs education programs.[1832] Approximately 2.5 percent of EDMC's total revenue, or $58.5 million, was collected from Department of Defense Tuition Assistance or post 9/11 GI bill funds.[1833] With these funds included, 80 percent of EDMC's total revenue was comprised of Federal education funds.[1834] This figure does not include revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA).[1835] Based on information the company provided to the committee, EDMC may have excluded as much as $450 million, or 19 percent of revenue, in 2010.

[1830] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

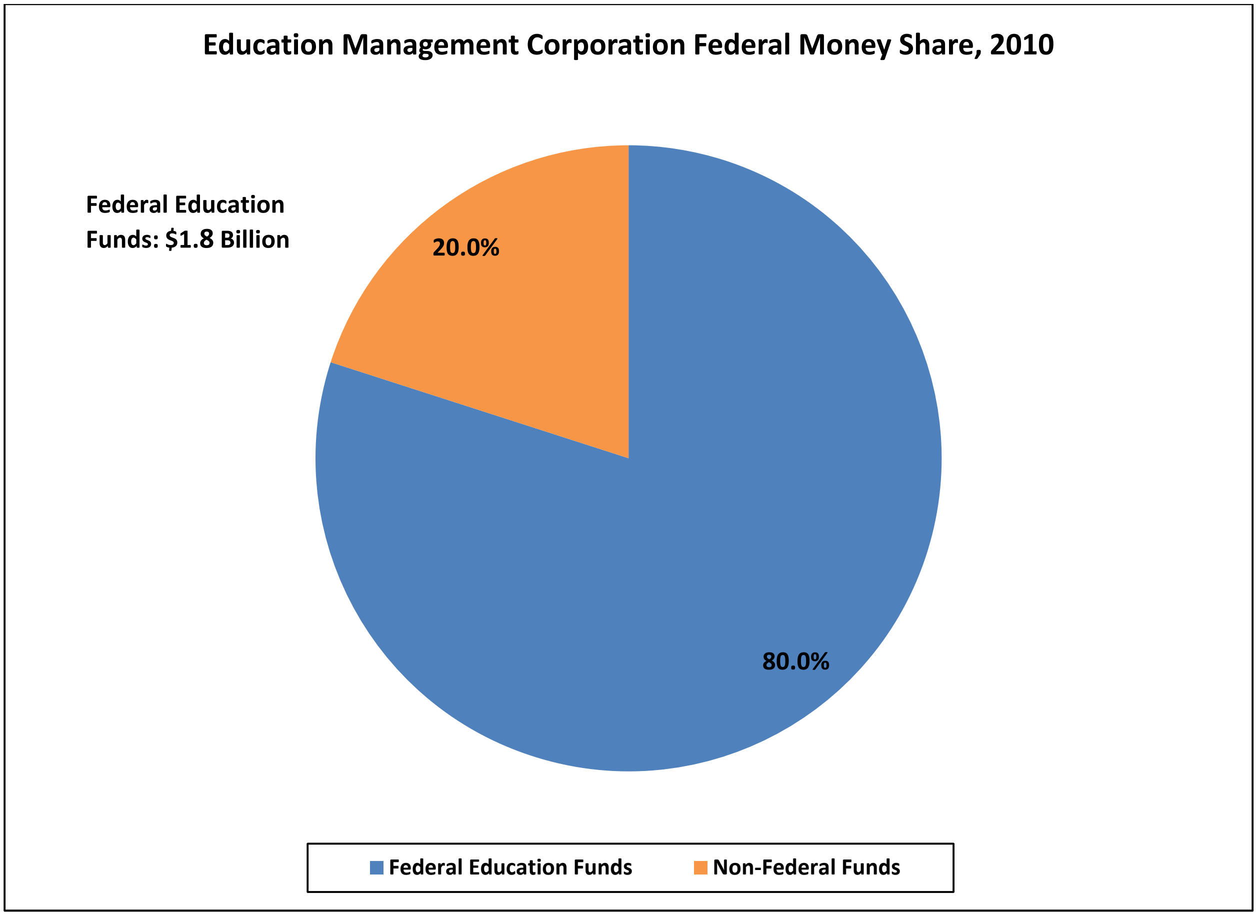
[1831] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

[1832] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[1833] Id.

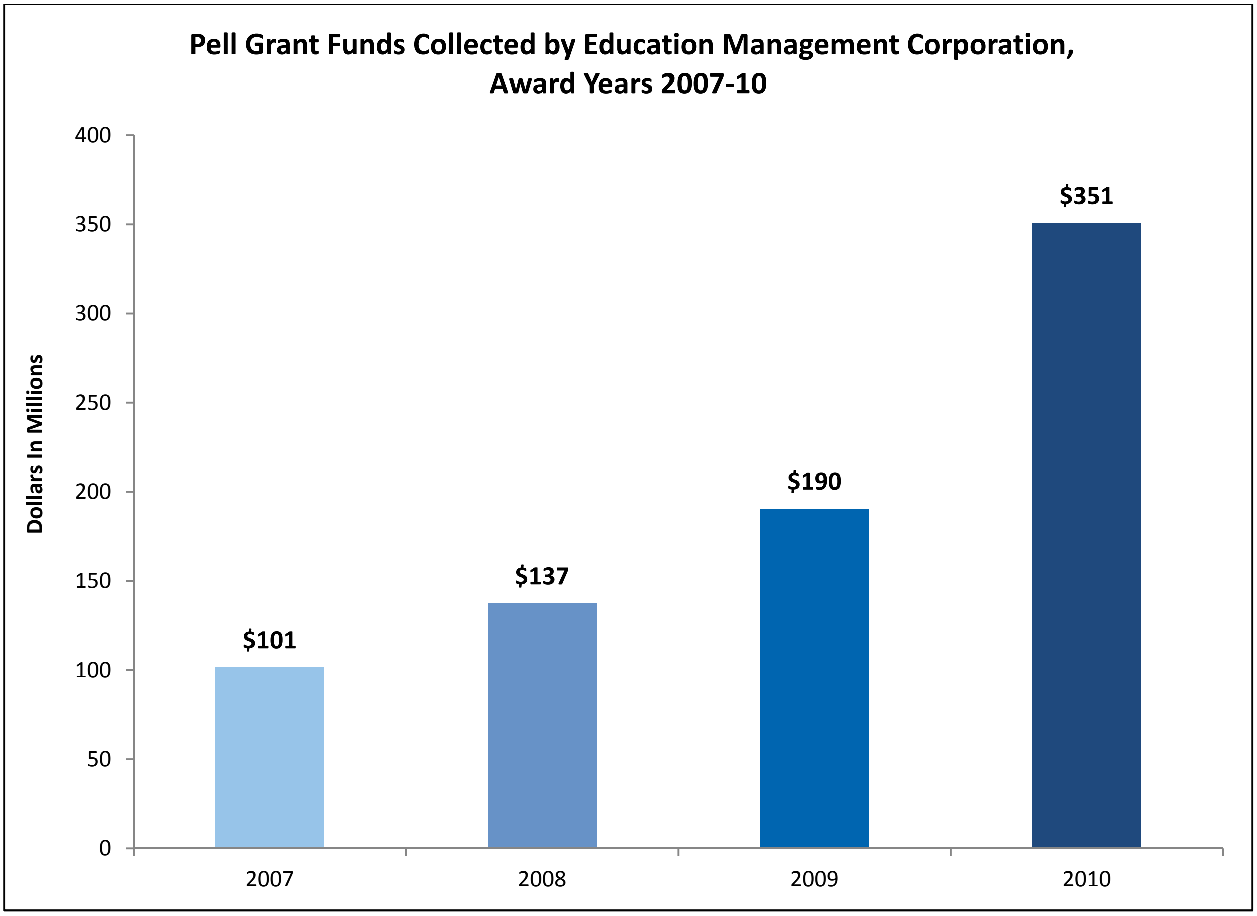
[1834] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.

[1835] The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for EDMC could not be extrapolated from the data the company provided to the committee.



Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[1836] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[1836] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.



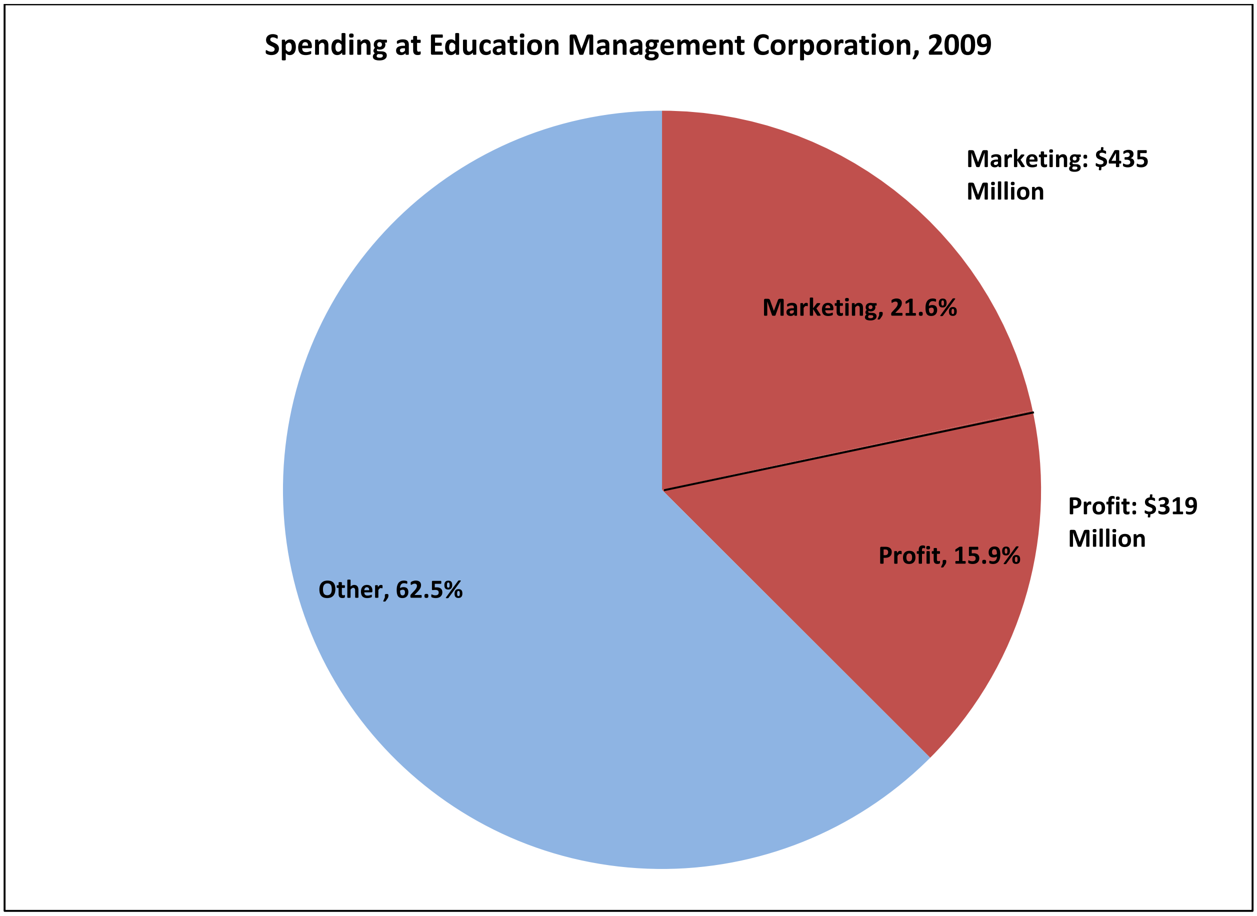
EDMC more than tripled the amount of Pell grant funds it collected, from $101 million in 2007 to $351 million in 2010.[1837]

Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[1838] During the same period, the companies spent 23 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[1839] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

[1837] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012). See Appendix 13.
[1838] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.
[1839] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings and information provided to the committee by the company pursuant to the committee document request of August 5, 2010. Profit figures represent operating income before tax and other non-operating expenses including depreciation. Marketing and

In 2009, EDMC allocated 21.6 percent of its revenue, or $435 million, to marketing and recruiting, and 16 percent, or $319 million, to profit.[1840]



EDMC devoted a total of $754 million to marketing, recruiting and profit in fiscal year 2009. The amount of profit EDMC has generated has also risen steadily. In 2007, EDMC reported a profit of $228 million, and by 2010 that profit had grown to $419 million.[1841]

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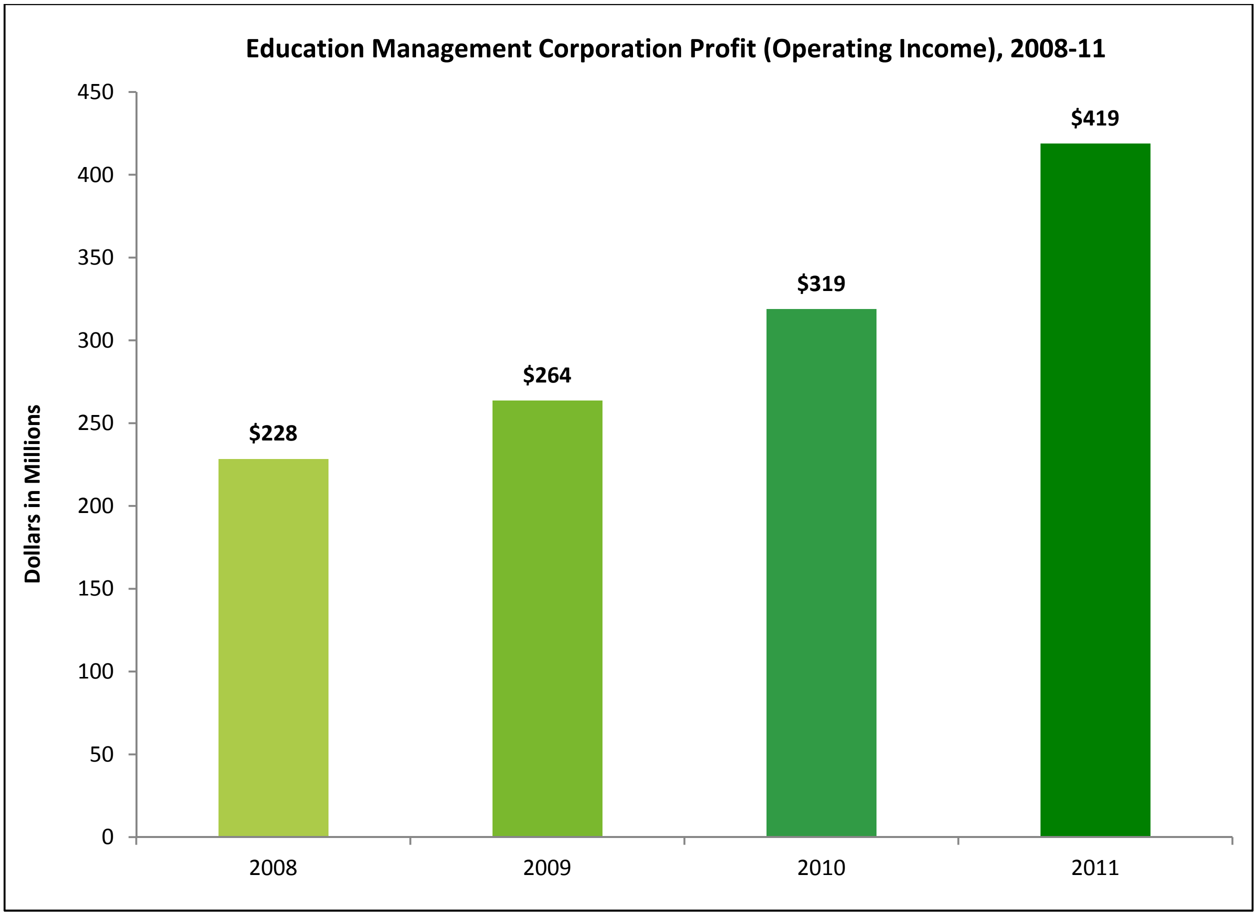
recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.

[1840] Id. "Other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures. On average, the 30 for-profit schools examined spent 23 percent of revenue on marketing and 19.4 percent on profit.

[1841] Senate HELP Committee staff analysis. See Appendix 18. EDMC's profit in 2011 was $501 million.



Executive Compensation

Executives at EDMC, like most for-profit executives, are more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[1842] In 2009, EDMC CEO Todd Nelson received $1.8 million in compensation.[1843] This is over twice as much as the president of the Pennsylvania State University System who received $800,592 in total compensation for 2009-10.

[1842] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.
[1843] Nelson's compensation in 2011 was $13 million.

Executive	Title	2009 Compensation	2010 Compensation
Todd S. Nelson	CEO	$1,812,996	$3,804,121
Edward H. West	President and CFO	$1,551,802	$5,486,905
John M. Mazzoni	President, The Art Institutes	$806,152	$1,010,542
John T. South III	Senior VP and Chancellor of South University	$754,339	$972,267
Danny D. Finuf	President, Brown Mackie Colleges	$714,957	$1,003,319
Total		$5,640,246	$12,277,154[1844]

The chief executive officers of the large publicly traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[1845] While Nelson's $1.8 million compensation package for 2009 is one-fourth the average publicly traded higher education companies, it is still noteworthy given that more than half of the company's students who enrolled that year left by 2010.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at EDMC. Tuition for a Bachelor's Degree in Fashion and Retail Management at EDMC's Art Institute of Pittsburgh costs $94,765.[1846] A Bachelor's of Science in Business at EDMC's Argosy University $67,545.[1847] The same degree at Penn State University costs $64,892.[1848] An Associate's Degree in Web Design and Interactive Media at the Art Institute of Pittsburgh costs $47,410.[1849] The Community College of Allegheny County offers the same degree for $6,800.[1850]

[1844] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.

[1845] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

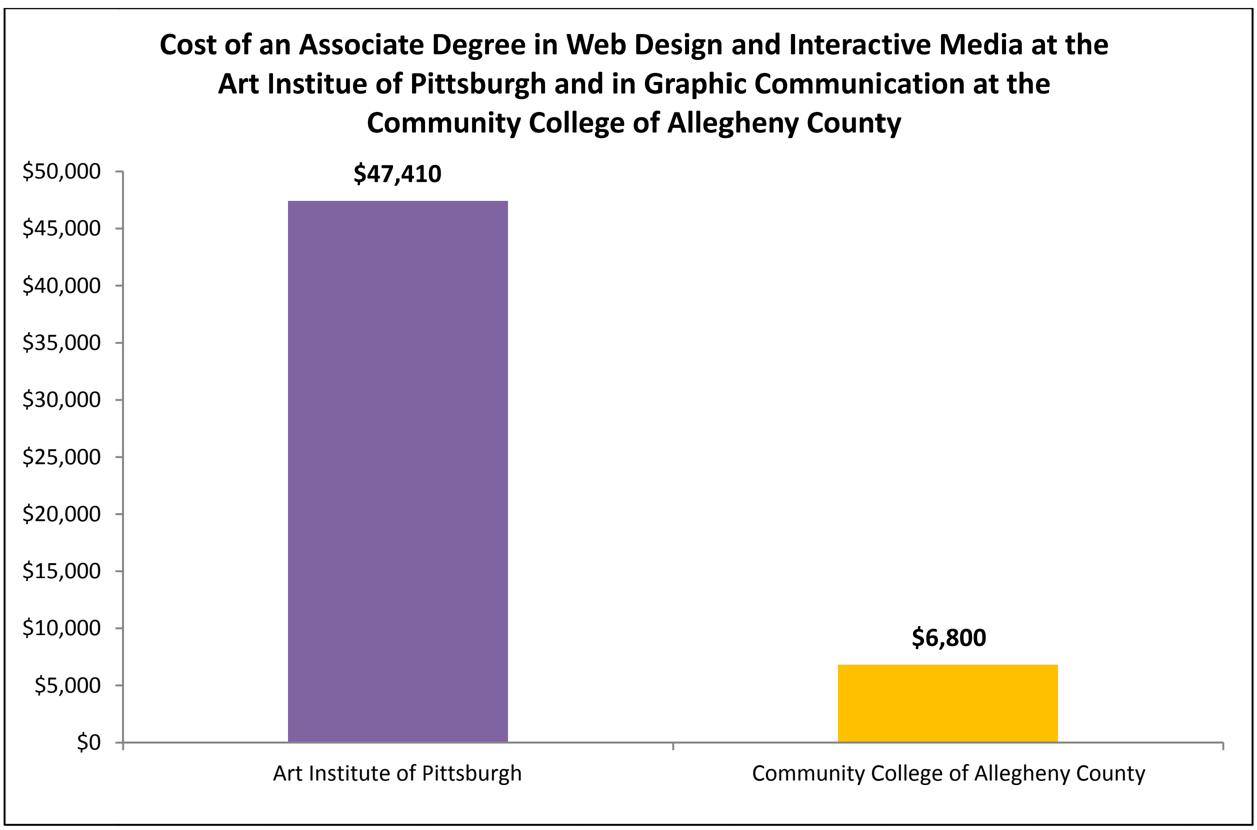
[1846] See Appendix 14; See also, The Art Institute of Pittsburgh, *Fashion – Programs & Curriculum*, http://www.artinstitutes.edu/pittsburgh/fashion/fashion-and-retail-management-bs-4012.aspx (accessed July 12, 2012).

[1847] See Appendix 14; See also, Argosy University, *Bachelor of Science in Business Administration*, http://online.argosy.edu/college/undergraduate_studies/bsa/index.aspx (accessed July 12, 2012).

[1848] See Appendix 14; see also, Penn State University, *Penn State*, http://www.psu.edu/ (accessed July 12, 2012).

[1849] See Appendix 14; See also, The Art Institute of Pittsburgh, *Graphic Design*, http://www.artinstitutes.edu/pittsburgh/design/graphic-design-as-4312.aspx (accessed July 12, 2012).

[1850] See Appendix 14; see also, Community College of Allegheny County, *Community College of Allegheny County*, http://www.ccac.edu/ (accessed July 13, 2012).



The higher tuition that EDMC charges is reflected in the amount of money that EDMC collects for each veteran that it enrolls. From 2009 to 2011, EDMC trained 11,197 veterans and received $173 million in post-9/11 GI bill benefits, averaging $15,479 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[1851]

Internal documents produced to the committee indicate that when potential students inquire about the cost of tuition at EDMC, recruiters are trained to respond that:

> Most students who are investing in their education are concerned about the money, because it's just that, an investment that pays off in the future. Most students ultimately decide that this is the best possible investment on can make. However, I think many people are concerned about out of pocket expense. Is that your concern?[1852]

In some cases, tuition increases have caused concern at the campus level. In a 2005 email, the director of admissions of the Art Institute of Charlotte stated, "I would prefer it not go up that much, but I think this is out of our control" and that ultimately, "You name it, we'll sell it." [1853] The group vice president for The Art Institutes-West recommended in a 2006 email, "I would recommend we have two enrollments agreements for H.S. student so that it is not a piss off factor having to tell them tuition is increasing just after they started [sic]." [1854]

At least one campus president has gone as far as to question the prudence of a particular tuition increase. In 2007, the president of the Art Institutes International of Minnesota wrote, "While I do not agree with an October increase for the above stated reasons, at least if we'd been informed our admissions team would have used that to push up July and August starts. What do we gain compared to what we may lose by doing this? More importantly is this the right thing to do?" [1855] This followed an earlier email in which he wrote, "a decision to subsequently increase their rate might be viewed very negatively. [Redacted] is concerned they will see it as bait and switch." [1856] After a later tuition increase, the same executive wrote that he preferred, "not to have any comment about why this increased [sic] is warranted as indicated in the original BPC-approved letter because no matter what justification given it will be challenged and we think it is better to not attempt to explain it." [1857]

In 2007, the president of the Illinois Institute of Art wrote in response to a price increase, "I am really concerned that we will lose many of those students since many of the parents are telling SFS [Student Financial Services] that they feel that they have been deceived. I am also facing a moral[e] [sic] problem in SFS department. They have been very excited to have moved so many students and now they feel that their work has actually been a negative [sic]." [1858] There has been at least some recognition of the burden that these tuition increases represent. The director of Administrative and Financial Services at the Art Institute of Tampa wrote in a 2007 email, "As we move forward in the

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[1851] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[1852] EDMC, *Common Objections and Answers* (EDMC-916-000052623). See Also EDMC, 2008, *Financial Aid Training: Overcoming Objections Negotiating Payment Plans*, (EDMC-916-000078645), EDMC, *Estimator Negotiation*, (EDMC-916-000077530), EDMC Internal Email, November 18, 2006, re: Tuition increase Roll-out Plan (EDMC-916-000210820).
[1853] EDMC Internal Email, September 8, 2005, re: *Tuition Increase* (EDMC-916-000227277, at EDMC-916-000227278). The company notes that, at this time, EDMC had a tuition "lock-in" program in place, meaning that as long as a student met the criteria for the lock-in, the student's per-credit tuition rate remained flat through the student's matriculation, and such students would not be impacted by tuition increases.
[1854] EDMC Internal Email, November 2, 2006, re: *Recommendation* (EDMC-916-000221049).
[1855] EDMC Internal Email, May 21, 2007, re: *October Tuition* (EDMC-916-000220745, at EDMC-916-000220746); See Also EDMC Internal Email, June 7, 2010, re: *AUO Pricing* (EDMC-916-000229388).
[1856] EDMC Internal Email, May 21, 2007, re: *October Tuition* (EDMC-916-000220745, at EDMC-916-00022047-48).
[1857] EDMC Internal Email, June 11, 2007, re: *FW: Tuition Increase for October 1, 2007* (EDMC-916-000220815).
[1858] EDMC Internal Email, May 9, 2007, re: *New Tuition Increase* (EDMC-916-000212577).

year, and tuition is increasing, it is getting harder and harder to package students without increasing the amount of institutional aid we give…"[1859]

In 2008, EDMC executives discussed deleting from the enrollment agreement the provision that required 90 days' notice before the company could raise tuition. In response, the president of Brown Mackie College wrote, "the problem is when we change the tuition on existing students if we do not provide them with this time it creates a back lash on the school and our potential for student drops is larger. They need to absorb the information and get over the initial emotional impact [sic]."[1860] The company ultimately decided not to eliminate the notice period.

A 2008 email from the president of South University's Montgomery, AL, campus further illustrated the attitude of some EDMC executives towards tuition increases. He stated that, "Although we all know intellectually why we are doing this, the fact remains that the sticker shock of a tuition increase of this magnitude, coupled with the financing issues we will face with the resulting gaps, could easily cause a blip in our enrollment and new start plans for fall."[1861]

The changes EDMC executives considered in response to the gainful employment regulation indicate the company's awareness of the burden its high cost represents.[1862] In a November 2010 call with investors, EDMC President and CFO Edward West discussed possible changes the company might have to undertake in order to comply, including:

> -restructuring of programs, thereby altering the length of the program and lowering potential debt levels.
>
> -reducing student cost burden, across all programs and are evaluating the reduction of costs associated with supply kits and miscellaneous student fees.
>
> -Increased institutional scholarships or tuition reductions.[1863]

On June 26, 2012, the first set of data indicated that 5 percent of programs (193 programs at 93 institutions) all operated by for-profit colleges failed to meet all three gainful employment criteria.[1864] EDMC was among the companies with more than five programs failing all three criteria.[1865]

Finally, an email from the vice president of Argosy University Online highlights the company's mindfulness of the limitations of raising tuition to help comply with 90/10. "While I recognize a higher tuition price point has the potential to positively impact 90/10," he wrote, "I don't think it can be the

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1859 EDMC Internal Email, August 27, 2007, re: *FBAR 08242007.xls* (EDMC-916-000229657).
1860 EDMC Internal Email, May 24, 2008, re: *Tuition Increase* (EDMC-916-000212943).
1861 EDMC Internal Email, June 24, 2008, (EDMC-916-000211780); See also, EDMC Internal Email, December 15, 2006, re: *Enrollment Agreement for Schaumburg* (EDMC-916-00022752).
1862 On June 30, 2012, the District Court for the District of Columbia struck down the gainful employment rule stating that the Department had failed to provide sufficient justification for the requirement that 35 percent of students are repaying loans. *Association of Private Colleges and Universities v. Duncan*, 2012 DC D 1:11-CV-01314-RC U, p. 29-31, available at http://big.assets.huffingtonpost.com/judgeordergainful.pdf (accessed July 6, 2012).
1863 EDMC 2011, Q1 Investor Call.
1864 U.S. Department of Education, "Five Percent of Career Training Programs Risk Losing Access to Federal Funds; 35 Percent Meet All Three Standards Under Gainful Employment Regulation," Press Release, June 26, 2012, http://www.ed.gov/news/press-releases/five-percent-career-training-programs-risk-losing-access-federal-funds-35-percen (accessed July 6, 2012).
1865 U.S. Department of Education, Federal Student Aid Data Center, *2011 Gainful Employment Informational Metrics*, http://federalstudentaid.ed.gov/datacenter/gainful1.html (accessed July 6, 2012). See also Libby A. Nelson, Missing the Mark on 'Gainful,' *Inside Higher Ed*, June 26, 2012, http://www.insidehighered.com/news/2012/06/26/education-department-releases-data-gainful-employment-rule (accessed July 6, 2012).

solution as it will constrain our ability to get enrollments. We are already priced higher than any of our competitors so if this were a driving factor in 90/10 we would be in a much better position as it relates to 90/10." [1866]

Institutional Loans

Due to the high price of tuition at some for-profit colleges, some students must rely on alternative financing in addition to Federal financial aid to pay tuition fees. For the 3-year period from 2008 to 2011, institutional loan programs could help a company meet a regulatory requirement that no more than 90 percent of revenues come from Federal student aid dollars ("90/10"). Specifically, 50 percent of the value of these loans could be counted towards the ten side of the calculation. EDMC created a new "Education Finance Loan" program in 2008, carrying interest rates up to 11 percent. The company made $19 million in loans in 2009, and more than tripled the size of the program the next year to $65.9 million.[1867] However, with the temporary exception expiring in 2011, EDMC announced that it would shut down its institutional loan program and look to sell off the loans that it holds on its books.[1868]

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely tracked by Wall Street analysts. In order to meet revenue and profit expectations, for-profit colleges must recruit as many students as possible to sign up for their programs.

During the period examined, and prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, documents clearly reflect the pressure on recruiters to meet enrollment targets. An EDMC manager's email illustrates this point: "The goal is 100 March starts and we only have 47 on the books. So we must take no less than 15 March apps each week for the next 6 weeks." [1869] Another email adds, "WE ARE FAR BEHIND WHERE WE NEED TO BE!!!" [emphasis in original].[1870] An email further notes, "I want you to take a look at your personal conversion rates and see if you can find an opportunity this week to get over the 60% mark. As a department we are struggling and this is an area I feel we can really impact to get to October. We are only averaging 48% and we need to be in the mid 60's to impact October…Remember, we have them on campus already let's close them here and not have to do double time on the phones later." [1871]

EDMC managers use carrots such as "GET OUT OF WORK AT 3p.m." cards to push recruiters to enroll more students [emphasis in original].[1872] Other times much larger prizes are offered, like company-paid trips. "Looks like [recruiter's name] might be going to Hawaii!!!" a recruitment manager emails her recruiting staff after looking at the daily enrollment report.[1873] The company asserts,

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[1866] EDMC Internal Email, June 7, 2010, re: *AUO Pricing* (EDMC-916-000229388).
[1867] EDMC Investor Call, March 2010.
[1868] Daniel Malloy, "EDMC Ends Loans During Tough Times for Industry: Credit Still Tight for Students at For-Profits," *Pittsburgh Post Gazette,* March 20, 2011, http://old.post-gazette.com/pg/11079/1133033-28.stm (accessed June 14, 2012).
[1869] EDMC Internal Email, February 13, 2008, re: *No NSR Tomorrow!!!* (EDMC-916-000232415).
[1870] EDMC Internal Email, June 29, 2008, re: *FW: Conversion* (EDMC-916-000234003).
[1871] EDMC Internal Email, August 10, 2007, re: *Conversion* (EDMC-916-000234083).
[1872] EDMC Internal Email, May 16, 2008, re: *FW: Conversion* (EDMC-916-000234047).
[1873] EDMC Internal Email, December 23, 2008, re: *FW: CARS Report Attached: DB=aich TYPE=pdf File* (EDMC-916-000232456).

however, that EDMC never sponsored any trip to Hawaii for any of its admissions personnel or other employees.

According to a news report quoting a former admissions employee who worked for 3 years at Argosy University Online, "You'd probe to find a weakness, you basically take all that failure and all those bad decisions, and you spin it around and put it right back in their face as guilt, to go to this shitty university and run up all of this debt." [1874]

Students have little opportunity for recourse; EDMC like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.[1875] This clause severely limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group.

Military Money and MyCAA

Documents also demonstrate a focus on recruiting students eligible for military benefits. Internal documents suggest that EDMC was particularly interested in recruiting military spouses. In 2009, an EDMC 90/10 compliance document stated as a goal “Capitalize on $6k lifetime spouse benefit and the ability of the spouse to use funds from new GI Bill.” [1876]

A July 30, 2010, email from the vice president for EDMC’s Art Institute Online demonstrates a similarly determined attitude towards maximizing military families’ benefits. In her email she states that she wanted to ensure “we are leveraging the military spouse benefits to the fullest extent possible” for 90/10.[1877] And in February 2012, the Art Institutes, in partnership with Military Families United, announced a scholarship program specifically for military spouses to augment their earned benefits.[1878]

Internal documents also reflect a focus on recruiting veterans as a 90/10 compliance strategy. The same 2009 document discussing 90/10 compliance also suggests “grow military students” as a 90/10 strategy and suggests that South University “start location next to a military base.” [1879] In a 2009 email, discussing 90/10 compliance, the president of Brown Mackie College further stated, “Never give up especially when dealing with important issues such as 90/10. The VA is a terrific opportunity. With the new additional funding that takes place in August this could really have a nice impact for your campus and for future VA students.” [1880]

[1874] Kris Kirkham, “With Goldman’s Foray Into Higher Education, A Predatory Pursuit of Students and Revenues,” *Huffington Post Business*, December 14, 2011, http://www.huffingtonpost.com/2011/10/14/goldman-sachs-for-profit-college_n_997409.html?view=print&comm_ref=false (accessed June 14, 2012).

[1875] EDMC, *Brown Mackie College Enrollment Agreement* (EDMC-916-000000085, at EDMC-916-000000086). The company does stipulate however, that they will not elect to arbitrate any individual claim of less than $5000 brought in small claims court.

[1876] EDMC, November 6, 2009, *90-10 Project Tracker-Student Mix* (EDMC-916-000000483, at EDMC-916-000000488). The company asserts that this project was not implemented.

[1877] EDMC Internal Email, July 30, 2012, re: *FW: Possible Opportunities for EDMC “90:10”* (EDMC-916-000228222).

[1878] Robert Jackson, “Military families Deserve Access to Career Colleges,” *Stars and Stripes*, March 16, 2012, http://www.stripes.com/military-families-deserve-access-to-career-colleges-1.171843 (accessed May 20, 2012). See also Education Management Corporation, “Military Families United Partners with The Art Institutes to Provide Scholarships to Spouses of All Armed Forces Members,” Press Release, February 3, 2012, http://phx.corporate-ir.net/phoenix.zhtml?c=87813&p=irol-newsArticle&ID=1656526&highlight= (accessed May 20, 2012).

[1879] EDMC, November 6, 2009, *90-10 Project Tracker-Student Mix* (EDMC-916-000000483, at EDMC-916-000000488). The company asserts that this project was not implemented. See also EDMC Online Higher Education, August 5, 2009, *Military Initiative-Serving Those Who Serve,”* (EDMC-916-000228187).

[1880] EDMC Internal Email, May 4, 2009, re: *90/10* (EDMC-916-000200233).

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1881]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee and (2) student loan "cohort default rates." These metrics indicate that many students who enroll at EDMC are not achieving their educational and career goals.

Retention Rates

Information EDMC provided to the committee indicates that of the 78,661 students who enrolled at EDMC-owned colleges in 2008-9, 62.1 percent, or 48,840 students, withdrew as of mid-10.[1882] This is the fourth highest withdrawal rate of any company examined by the committee. These students were enrolled a median of 4 months.[1883] Further, a considerably higher percentage of students withdrew from EDMC compared to the overall withdrawal rate of 54 percent.[1884]

EDMC's Certificate program has the highest withdrawal rate of all Certificate programs examined and is substantially higher than the sector-wide rate of 38.5 percent. EDMC's Associate and Bachelor's programs also rank amongst the ten highest withdrawal rates for both categories. Additionally, EDMC's Bachelor degree withdrawal rate is significantly higher than the sector-wide rate of 54.3 percent.

Status of Students Enrolled at Education Management Corporation in 2008-9, as of 2010						
Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Associate Degree	32,107	2.9%	33.5%	63.7%	20,444	162
Bachelor's	38,133	0.6%	37.5%	61.9%	23,609	175

[1881] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 14, 2012).
[1882] Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.
[1883] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.
[1884] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

Degree						
Certificate	8,421	30.2%	13.0%	56.8%	4,787	141
All	78,661	4.7%	33.2%	62.1%	48,840	166

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

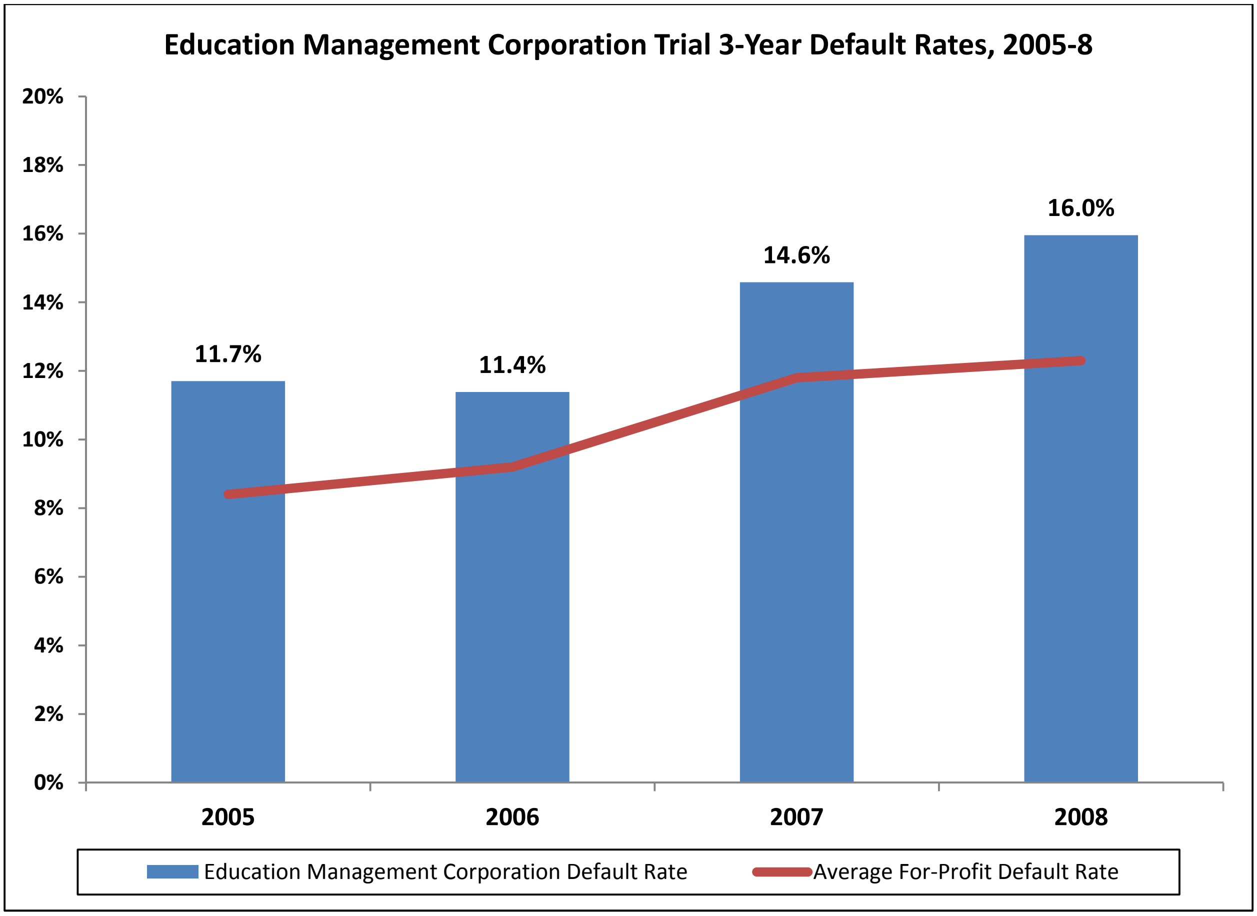
Student Loan Defaults

The number of students leaving EDMC shortly after enrolling correlates with the high rates of student loan defaults by students who attended EDMC. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3-years of entering repayment, which usually begins 6 months after leaving college.[1885]

Slightly more than 1 in 5 students who attended a for-profit college, (22 percent) defaulted on a student loan, according to the most recent data.[1886] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1887] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1888] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1889]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 23 percent. This change represents a 32.6 percent increase over 4 years.[1890] EDMC's default rate has similarly increased, growing from 11.7 percent for students entering repayment in 2005 to 16 percent for students entering repayment in 2008.

[1885] Direct Loan Default Rates, 34 CFR 668.183(c).
[1886] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[1887] Id.
[1888] Id.
[1889] Id.
[1890] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.



The default picture at some individual campuses is particularly dire. At EDMC's Brown Mackie College Arizona campuses 33.3 percent of its students entering repayment in 2008 defaulted within 3 years. Additional poor performing campuses include Brown Mackie Colleges in Cincinnati, OH (24.9 percent default rate) and Findlay, OH (23.1 percent default rate).

However, EDMC's overall default rate is much lower than some of the similarly sized companies examined, and the company remains well within compliance with the regulation that no more than 30 percent of students may default after 3 years.

Default management

It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Helping get delinquent students into repayment, deferment, or forbearance prior to default is encouraged by the Department of Education. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

Default management is primarily accomplished by putting students who have not made payments on their student loans into temporary deferments or forbearances. While the use of deferment and forbearance is fairly widespread throughout the sector, documents produced indicate that a number of companies also pursue default management strategies that include loan counseling, education, and alternative repayment options. Default management contractors are paid to counsel students into repayment options that ensure that students default outside the 2-year, soon to be 3-year, statutory window, in which the Department of Education monitors defaults.

EMDC, like many other for-profit colleges, contracted with the General Revenue Corporation (GRC), a subsidiary of Sallie Mae, to "cure" students who are approaching default.[1891] In practice, documents indicate that at many companies, nearly all "cures" are accomplished by deferment or forbearance, not by students actually repaying their loans.

Internal documents suggest that EDMC is taking aggressive action to manage their default rate. "Get comfortable with doing a verbal forbearance!!!," instructs EDMC's Spring 2010 Default Prevention presentation.[1892] The same presentation adds, "DON'T B AFRAID-KEEP CALLING and KEEP CALLING LET THEM KNOW THIS IS NOT GOING TO GO AWAY" and that "It's time to be aggressive since we are now in a 3 year CDR window-defaults are likely to double/triple!! Take action now!!" [1893]

This practice is troubling for taxpayers. The cohort default rate is designed not just as a sanction but also as a key indicator of a school's ability to serve its students and help them secure jobs. If schools actively work to place students in forbearance and deferment, that means taxpayers and policymakers fail to get an accurate assessment of repayment and default rates. A school that has large numbers of its students defaulting on their loans indicates problems with program quality, retention, student services, career services, and reputation in the employer community. Aggressive default management undermines the validity of the default rate indicator by masking the true number of students who end up defaulting on their loans. Critically, schools that would otherwise face penalties—including loss of access to further taxpayer funds—continue to operate because they are able to manipulate their default statistics.

Moreover, forbearances may not always be in the best interest of the student. This is because during forbearance of Federal loans, as well as during deferment of unsubsidized loans, interest still accrues. The additional interest accrued during the period of forbearance is added to the principal loan balance at the end of the forbearance, with the result that interest then accrues on an even larger balance. Thus, some students will end up paying much more over the life of their loan after a forbearance or deferment.

Instruction and Academics

The quality of any college's academics is generally difficult to quantify. However the amount that a school spends on instruction per student compared to other spending, and what students say about their experience, are two useful measures.

EDMC spent $3,460 per student on instruction in 2009, compared to $4,158 per student on marketing and $3,460 per student on profit.[1894] The amount that publicly traded for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. EDMC has one of the highest

[1891] EDMC, *Cohort Default Management Services Agreement* (EDMC-916-000083105).
[1892] EDMC, Spring 2010, *EDMC Default Prevention* (EDMC-916-000082490, at EDMC-916-000082537).
[1893] Id. at EDMC-916-000082539.
[1894] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.

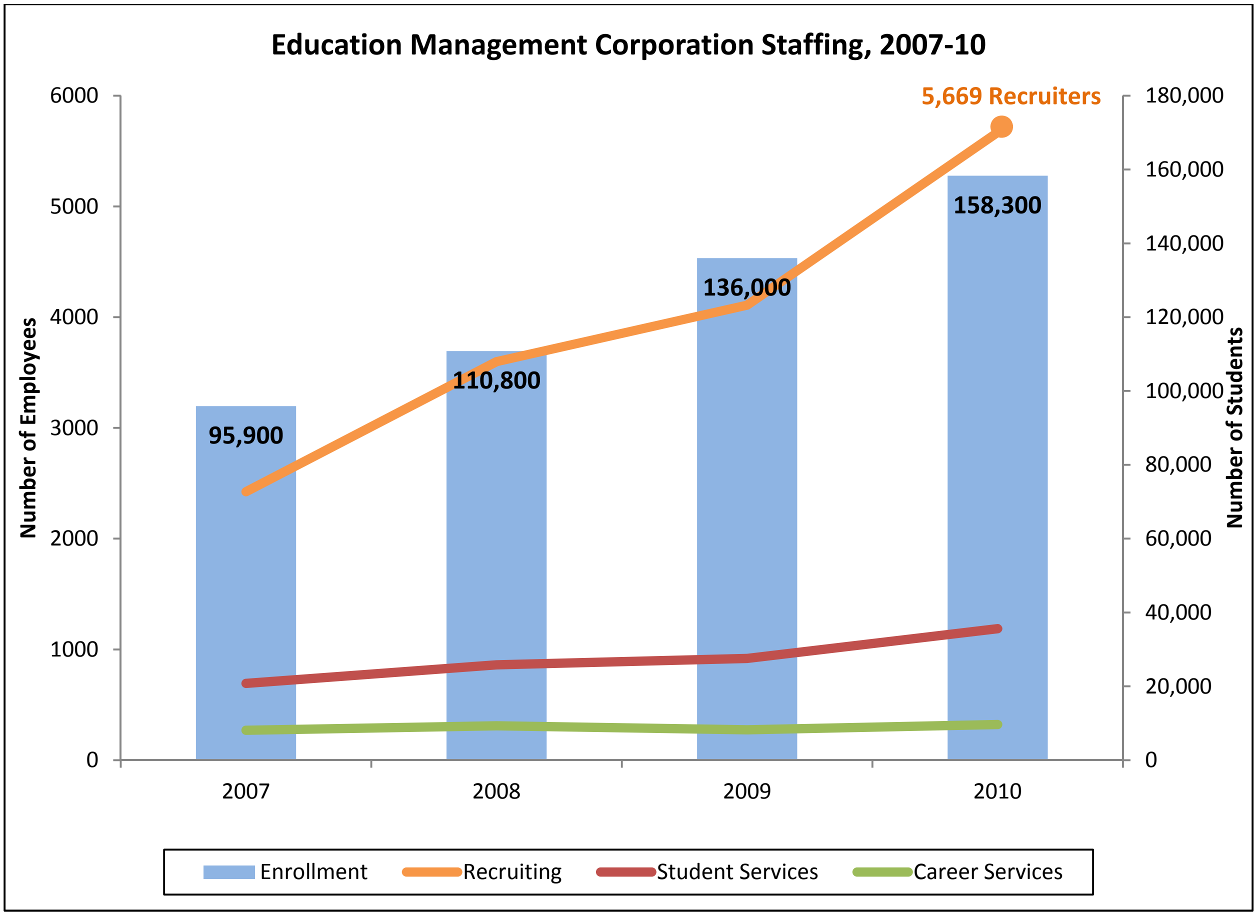
instructional expenditures amongst large publicly traded for-profit education companies, and unlike many of their competitors, EDMC spends more per student on instruction than they do on profit.

In contrast, public and non-profit 4-year colleges and universities, generally spend a higher amount per student on instruction, while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. On a per student basis, Penn State University spent $16,507 on instruction, the University of Pennsylvania spent $38,974, and Community College of Allegheny County spent $4,173.[1895]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee examined, 80 percent of the faculty is part-time, higher in some companies.[1896] In 2010, EDMC employed 3,726 full-time and 9,055 part-time faculty, meaning that it had far more full-time faculty than similarly sized for-profit education companies and likely more vibrant faculty involvement in academics.[1897]

[1895] Senate HELP Committee staff analysis. See Appendix 23.
Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.
[1896] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[1897] Id.

Staffing



While for-profit education companies employed large numbers of recruiters to enroll new students, the same companies frequently employ far less staff available to provide services including tutoring, remedial services or career counseling and job placement. In 2010, with 158,300 students, EDMC employed 5,669 recruiters, 321 career services employees, and 1,187 student services employees.[1898] That means each career counselor was responsible for 493 students and each student services staffer was responsible for 133 students, but the company employed one recruiter for every 28 students.

Career Services

Many EDMC brands are regionally accredited, and regional accreditors generally do not require that placement services be tracked and reported. Some of EDMC's national accreditors do require the company demonstrate that a certain amount of students are placed in jobs as a condition of accreditation. At the HELP Committee's September 30, 2010, hearing Kathleen Bittle, who was employed as both a recruiter and career counselor for EDMC, testified regarding the disparity between job placement staff and recruitment staff. She testified:

> I see a systemic problem here when there are only nine employees servicing the students that are being recruited by an admissions workforce of almost 1600. Career Services employees are being paid nearly a third of what the top performers in the admissions

[1898] Id. See Appendix 7 and Appendix 24.

department receive. I believe these facts speak volumes as to where the real priorities lie within these companies.[1899]

Ms. Bittel was responsible for assisting as many as 180 departing students at a time. "I would have loved to have been able to do so much more for my grads, but there was no time," she told the committee.

Bittel explained that placement counselors work under a quota system. Each job placement staffer was required to document that a certain percentage of graduates were employed in a job in their field of study. If she met her quota of 85.9 percent of her students placed in their fields, Ms. Bittel's testified, she could earn a 33 percent bonus (up to $12,000 per year over her salary of $36,000).[1900] Conversely, she testified that she was repeatedly told that she would be fired if she failed to meet her placement quotas.[1901]

The first step in meeting the quota, she said, was eliminating certain graduates from the calculation altogether. For instance, graduates would typically be excluded from placement calculations if the counselor reports that they are military spouses or stay-at-home parents, even if they are unemployed or working in a low wage retail job. "Established professionals" working in an unrelated field can also be excluded. This is true even though these individuals presumably pursued a degree to further a career in their field of study.[1902]

If a student cannot be excluded, placement counselors must then see if a graduate is working in their field of study. As Ms. Bittel explained, her colleagues at EDMC "were expected to convince graduates that skills they used in jobs such as working as waiters, payroll clerks, retail sales, and gas station attendants were actually related to their course of study in areas like graphic design and residential planning" so that the students would consent to sign documentation that they were employed in their field.[1903]

Ms. Bittel testified that, particularly with graphic design students, one of the most successful strategies was to encourage them to take freelance work and pursue self-employment. While she felt this was one of the few options available for some of the students she counseled, it is unclear whether many of those students were genuinely self-employed and supporting themselves.

Regulatory Strategies

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenues come from title IV Federal financial aid programs, and that no more than 25 percent of students default within 2 years of entering loan repayment. In addition to using tuition pricing and focusing on military recruiting as a means of complying with the 90/10 rule, documents make clear that EDMC also uses a variety of other tactics that while not violating any law or regulation, are of questionable benefit to students and taxpayers. These include: making it difficult for students to

[1899] Kathleen A. Bittel (Acme, PA), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *The Federal Investment in For-Profit Education: Are Students Succeeding?*, 111th Congress (2010).
[1900] In contrast, Bittel was paid $55,000 as an assistant director of admissions.
[1901] Id.
[1902] Id.
[1903] Kathleen A. Bittel (Acme, Pennsylvania), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *The Federal Investment in For-Profit Education: Are Students Succeeding?,* 111th Congress (2010).

get stipends, manipulation of campus identifiers (OPEIDs), considering delaying the drawdown of title IV funds, and the use of scholarship programs. [1904]

EDMC appears to have erected a number of hurdles that have the effect of slowing disbursement of funds students borrow to pay living expenses while attending school. An internal document titled "90/10 plan FY2010" states that EDMC "put in place a tougher stipend check process which has cut our stipends down dramatically. Students are required to fill out budgets and get letters from their child care provider to support their stipend request. They are also counseled on the effect of taking out more loans." [1905]

For-profit colleges must report their 90/10 ratio by assigned Office of Postsecondary Education ID numbers (OPEID), rather than by campus or corporate owner. For-profit education companies that have grown in part by acquiring other schools, including EDMC have numerous OPEIDS. One OPEID may consist of a main campus and multiple branch campuses. Schools with multiple OPEID numbers can shift campuses to different OPEID numbers and classify them as branches even when they are many States apart.[1906] An internal email from the president of Brown Mackie College in 2007 helps to illustrate this technique: "remember that Atlanta is a branch of Ai Charlotte because of 90/10. They need to do more to support Ai and there number is ridiculously high" [sic].[1907] EDMC discussed internally a consolidation and reorganization of its campuses in late 2009, at least in part, because of 90/10.[1908] Specifically the school planned on Argosy University transferring its accreditation from HLC to WASC and merging with the Western State University College of Law, three Art Institutes of California, and five branch locations. A 2008 presentation also suggested that Brown Mackie College, "restructure … main campuses from 8 to 5 to improve and protect consolidated 90/10 results." [1909]

EDMC also puts a strong emphasis on requiring regular payments from students. 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 to make payments on their loans later, EDMC's executives appear to take a rather strong handed approach to collection. A company executive wrote regarding collecting cash payments, "I am not telling you to kick students out of school if they do not make their payments (that is for you to decide when all options have been exhausted and the student balance is getting ridiculously high) but I am saying that you need to look at your current system and see how fluid the process is. Do students really believe you will track them down when they miss a payment?" [1910]

Since the 90/10 regulation requires schools to use cash basis accounting, schools may delay drawing down title IV funds from the Department of Education for certain campuses and thus push that aid into the next fiscal year.[1911] While this practice is legal, stopping the flow of aid hurts students

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[1904] See EDMC, November 6, 2009, *90-10 Project Tracker-Student Mix* (EDMC-916-000000483, Richard Them, EDMC, July 17, 2009, *90/10 Update* (EDMC-916-000000494), EDMC, December 17, 2009, *Potential Sources of Cash from Non-Title IV Eligible Education Services* (EDMC-916-000185685).

[1905] EDMC, *90/10 Plan FY2010* (EDMC-916-000227880). The company states that EDMC has never held back stipend amounts or any other funding from students; See also EDMC Internal Email, December 10, 2009, re: *Quad Cities 90/10* (EDMC-916-000179548). The company states that this practice was not approved by the EDMC, and did not in fact happen.

[1906] These shifts require the approval of the Department of Education and the accreditor. The moves are rarely contested.

[1907] EDMC Internal Email, September 7, 2007, re: *FW: BMC August 2007 90-10s* (EDMC-916-000217079).

[1908] EDMC, December 15, 2009, *WASC Announcement: Communication Plan* (EDMC-916-000200071, at EDMC-916-000200074) (on file with the committee); See also EDMC Internal Email, April 16, 2009, re: *BMC-Tuscon as Main Campus for Additional Campuses: State Aid in New Mexico* (EDMC-916-000207311).

[1909] EDMC, July 21, 2009, *Brown Mackie College: EDMC Executive Management Team Meeting* (EDMC-916-000228434, at EDMC-916-000228438).

[1910] EDMC Internal Email, May 4, 2009, re: *90/10* (EDMC-916-000200233, at EDMC-916-000200234).

[1911] While this practice does not violate the 90/10 rule, it may be proscribed in certain instances in which a college violates its cash management obligations to provide students with timely stipend checks.

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 housing, food, transportation, and childcare. As noted by the senior vice president of Strategic Operations for EDMC, "pulling the lever [withholding disbursements] would ensure we stay under 90% in FY'10. . . . The trade-off is student and school disruption and potentially lost revenue to bad debt on drops." [1912] The company ultimately opted not to cease drawing down title IV funds at the end of Fiscal Year 2010. In a separate exchange, the senior vice president in charge of student finance told the chief administrative officer that EDMC has used delayed aid disbursal in the past at a few campus locations.[1913]

Scholarships are becoming an increasingly important tool to manage 90/10 and student debt. If a scholarship is awarded by an organization independent of the school, it may be counted toward the 10 side of the equation. Some for-profit education companies appear to be creating scholarship programs that appear to be awarded by outside non-profit organizations, but in reality some control of the design and control and funding of the program comes from within the campus.

In 2009, EDMC proposed using a non-profit entity called the "Education Foundation" to bestow scholarships that would help the company's 90/10 ratio.[1914] The foundation awards scholarships only to students at EDMC schools.[1915] The money is gathered from EDMC employee donations and corporate foundations that represent companies doing business with EDMC, including Bank of America, Journey Education Marketing, Wiley and McGraw-Hill publishers, and Vending Management Services, Inc.[1916] In 2009, the Education Foundation awarded more than 400 scholarships ranging up to $5,000 each. Documents show that in 2009, the company was hoping to "quadruple the amount of employee contributions and school fund raising activity" explicitly for the purpose of 90/10 compliance.[1917] EDMC asserts that EDMC Foundation funds are not included in the 90/10 calculation. Additionally, as part of their 90/10 plan EDMC's Brown Mackie Akron Campus, "started numerous fund raising campaigns on campus for the EDMC Scholarship Fund which is has increased in dollars. These include silent auction items, pie in the face campaign, raffle of student parking spaces, book buy back funds and other planned events [sic]." [1918]

Enforcement Actions

In August 2011, the Justice Department intervened in a lawsuit filed under the Federal False Claims Act regarding whether the EDMC's practices in the early 2000s violated restrictions on paying recruiters exclusively based on how many students they enrolled. The case, in which five State attorneies general have intervened (along with the District of Columbia), is similar to those brought

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[1912] EDMC Internal Email, March 18, 2010, re: *90-10 Forecast Summary-March 17 2010 updated* (EDMC-916-000228111); See also EDMC Internal Email, August 21, 2009, re: *FW: 90/10 assistance requested* (EDMC-916-000183672).
[1913] EDMC Internal Email, August 29, 2008, re: *90/10 definition?* (EDMC-916-000208935). The company asserts that this activity occurred prior to Brown Mackie College's acquisition by EDMC; See also EDMC Internal Email, November 6, 2009, re: *Argosy* (EDMC-916-000184580).
[1914]EDMC, November 6, 2009, *90-10 Project Tracker-Student Mix* (EDMC-916-000000483, at EDMC-916-000000484).
[1915] The Education Foundation, "What is The Education Foundation," http://www.educationfdn.org/about.php (accessed June 14, 2012).
[1916] See: The Education Foundation Spring 2009 Newsletter, http://www.educationfdn.org/docs/newsletter%20archives/newsletter_spring_2009.pdf (accessed June 14, 2012); The Education Foundation Program Brochure: "Building Futures Through the Education Foundation," http://www.educationfdn.org/docs/Tri-fold-2010-brochurefinal.pdf (accessed June 14, 2012).
[1917] EDMC, November 6, 2009, *90-10 Project Tracker-Student Mix* (EDMC-916-000000483, at EDMC-916-00000084).
[1918] EDMC, *90/10 Plan FY 2010 Akron* (EDMC-916-000227880).

against the Apollo Group, Grand Canyon Education, and DeVry.[1919] In May 2012, a judge dismissed part of the case against EDMC finding that the written recruitment compensation polices then in place did not violate the law, but allowed the suit to go forward regarding whether the company followed the stated recruitment policies in practice.

EDMC is also separately under investigation by a number of State attorney generals. The Florida attorney general is currently investigating Argosy University for "alleged misrepresentations regarding financial aid; alleged unfair/deceptive practices regarding recruitment, enrollment, accreditation, placement, graduation rates, etc." [1920] The New York attorney general is investigating the company as to whether the schools and their recruiters misrepresent their ability to find students jobs, the quality of instruction, the cost of attending, and their programs accreditation.[1921] The attorney general of Kentucky is also investigating the business practices at Brown Mackie College.[1922] Additionally, the City Attorney of San Francisco is investigating recruiting practices, job placement reporting, and other issues at the Art Institute of San Francisco and the seven other Art Institutes located in California.[1923]

The Department of Education Inspector General is also looking at the Art Institute of Pittsburgh and South University regarding issues related to academic progress standards and State licensing of online programs.[1924]

Conclusion

EDMC is one of the largest for-profit education companies in the United States and receives a tremendous amount of taxpayer support. Yet the company had extremely high student withdrawal rates even when compared to similarly large for-profit education providers. The high withdrawal rate has serious repercussions for students given the debt that rapidly accrues, especially for those attending expensive Art Institute programs. The company is also clearly struggling to remain in compliance with the requirement that no more than 90 percent of revenues come from Federal financial aid dollars, and internal documents demonstrate the use of multiple and sometimes questionable practices to ensure that the requirement is satisfied. While the company spends slightly less on marketing and recruiting than the industry average, the high withdrawal rate during the period examined suggests that the company may have been more focused on demonstrating enrollment growth (and the corresponding growth in profit) than on ensuring that the company was enrolling students who could benefit from its programs. Largely based on the high numbers of students leaving the programs without completing a Certificate or degree, it is not clear that the $1.8 billion taxpayers made in the company in 2010 is a worthwhile investment.

[1919] California, Florida, Illinois, Indiana, and Minnesota are the State attorney generals who have intervened in the case. Kentucky, which does not have a False Claims Act, filed a motion to intervene in the case under its consumer protection laws, but was denied by the court.
[1920] Florida Office of the Attorney General, "Active Public Consumer-Related Investigation," http://myfloridalegal.com/__85256309005085AB.nsf/0/31BC85F3813C963C852577C00072D4CE (accessed June 14, 2012).
[1921] EDMC Form 10-Q, March 31, 2012
[1922] Id.
[1923] Id.
[1924] Id.

Grand Canyon Education, Inc.

Introduction

Grand Canyon Education, Inc. ("Grand Canyon") was created as the result of the purchase of a small religious college in 2003, and now offers primarily online 4-year and graduate degrees. Like many for-profit education companies, Grand Canyon has experienced steady growth in student enrollment, Federal funds collected and profit realized in recent years. While the company has relatively low rates of student loan defaults, Grand Canyon Bachelor's students withdraw at a higher rate than many others the committee examined. In many ways similar to both Apollo and Bridgepoint, the company offers relatively few student services and provides no career planning assistance to its students.

The proportion of the company's students who default is far lower than the sector average and the company does not appear to focus on putting former students in deferment and forbearance instead of providing them with the means to repay their loans.

Company Overview

Grand Canyon Education, Inc. is a publicly traded, for-profit education company based in Phoenix, AZ. Grand Canyon Education, Inc. was formed in 2003 in order to acquire the assets of Grand Canyon University, a private, religious, non-profit college, founded in 1949. The university was acquired and converted into a for-profit education company in 2004 and went public on the NASDAQ stock exchange in 2008. In its initial public offering (IPO), the company raised about $230 million.[1925]

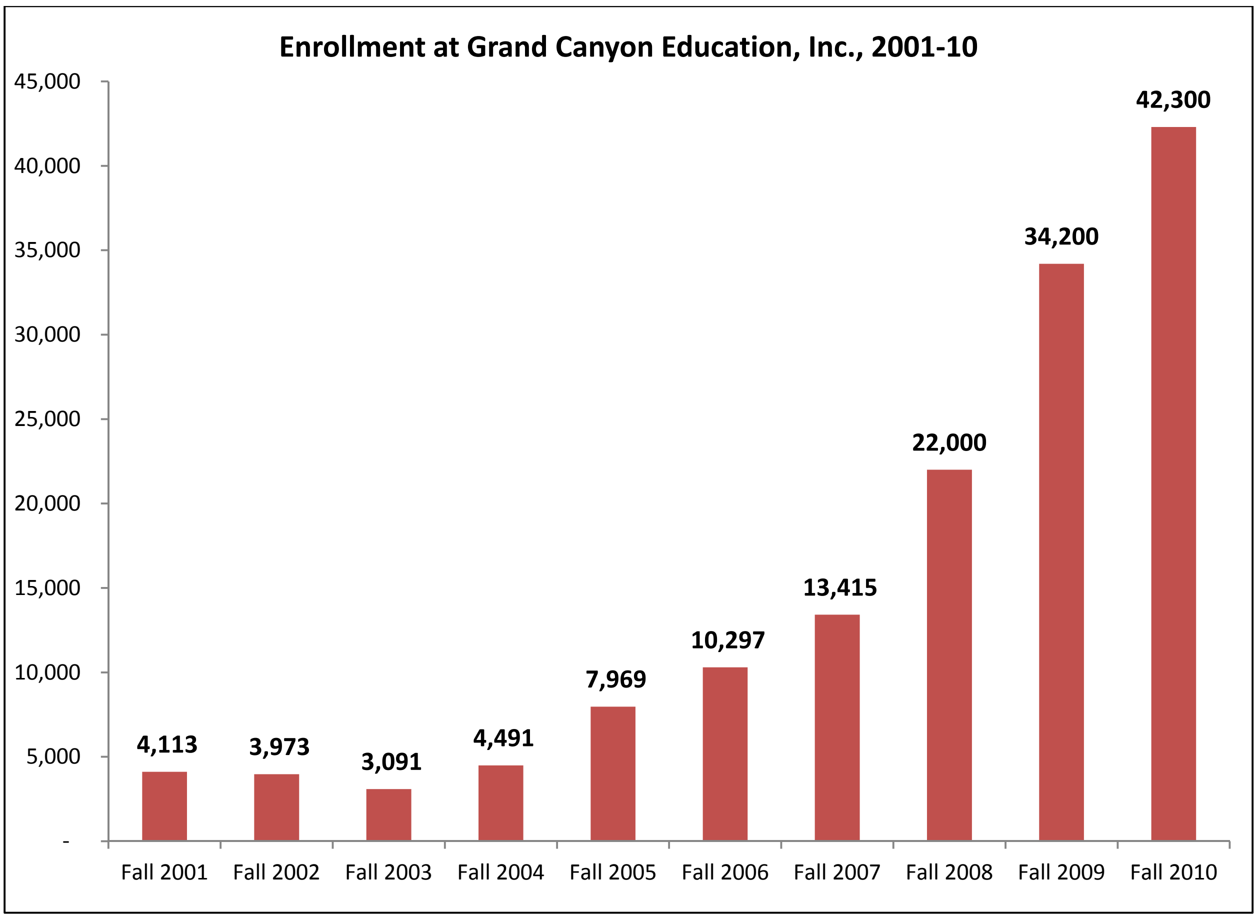
Grand Canyon offers Doctoral, Master's, and Bachelor's degrees in the fields of business administration, education, health care administration, nursing, and public administration, among other subjects. While Grand Canyon operates a physical campus in Phoenix, the vast majority of its students are enrolled in online programs. Approximately 89 percent of Grand Canyon students are enrolled online.[1926] Grand Canyon plans on growing its ground campus to 12,000 students by 2015.[1927]

Like more than half of the regionally accredited brands the committee examined, Grand Canyon University is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools ("HLC"). The current chief executive officer (CEO) of Grand Canyon is Brian Mueller. Immediately prior to joining Grand Canyon, Mueller was president and a director of Apollo Group, Inc., operator of the University of Phoenix. He also served in a variety of positions with the University of Phoenix Online, including CEO, chief operating officer, and senior vice president. Under his leadership, online enrollment at the University of Phoenix grew from 3,500 to 340,000. Executive vice president Stan Meyer and Chief Financial Officer Dan Bacchus were also with the Apollo Group prior to joining Grand Canyon.

[1925] Angela Gonzales, "Grand Canyon Education Looks to Raise $151M," *Phoenix Business Journal*, September 3, 2009, http://www.significantfederation.com/blog/news/grand-canyon-education-looks-to-raise-151m.html (accessed June 14, 2012).
[1926] Grand Canyon University, "Grand Canyon Education, Inc. Reports Third Quarter 2011 Results," Press Release, November 7, 2011, http://investors.gcu.edu (accessed June 14, 2012).
[1927] Grand Canyon University, 2011, Q3 Investor Call.

Grand Canyon was formed by investor Michael Clifford, who was also involved in the formation of Bridgepoint Education, Inc. Clifford has since been involved in more transactions involving the conversion of Christian non-profit colleges into for-profit educational companies. The conversion of Grand Canyon, a small college with a strong religious mission, into a for-profit company caused consternation among the school's faculty. The Dean of the Christian Studies department, who was fired in 2005, said that while he had hoped the new managers would pay attention to the core values and mission of the college, he eventually realized, "when it came down to it they were not going to make decisions based on our mission, our values, and our history. They were going to make them for one reason. Profit. Period. So why keep calling yourself Christian?" [1928] The former dean expressed his opinion that the company kept the religious label for strategic marketing purposes.

Grand Canyon has grown significantly since its conversion, with enrollment increasing from 4,491 students in the fall of 2004 to 42,300 in the fall of 2010.[1929] Enrollment has nearly doubled since the company's IPO in 2008.



The growth in enrollment has led to growth in revenue. Revenue at Grand Canyon has grown more than five-fold from $72.1 million in 2006 to $385.6 million in 2010 and has more than doubled since the company's 2008 IPO. [1930]

[1928] Elizabeth Redden, "For-Profit, For-God." *Inside Higher Ed.*, August 3, 2009 http://www.insidehighered.com/news/2009/08/03/christian (accessed June 14, 2012).
[1929] Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1931] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1932]

In 2010, Grand Canyon reported 84.9 percent of revenue came from title IV Federal financial aid programs.[1933] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.[1934] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 2.2 percent of Grand Canyon's revenue, or $7.3 million.[1935] With these funds included, 87.1 percent of Grand Canyon's total revenue was comprised of Federal education funds.[1936]

[1930] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

[1931] "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 USC §1070 et seq.
Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

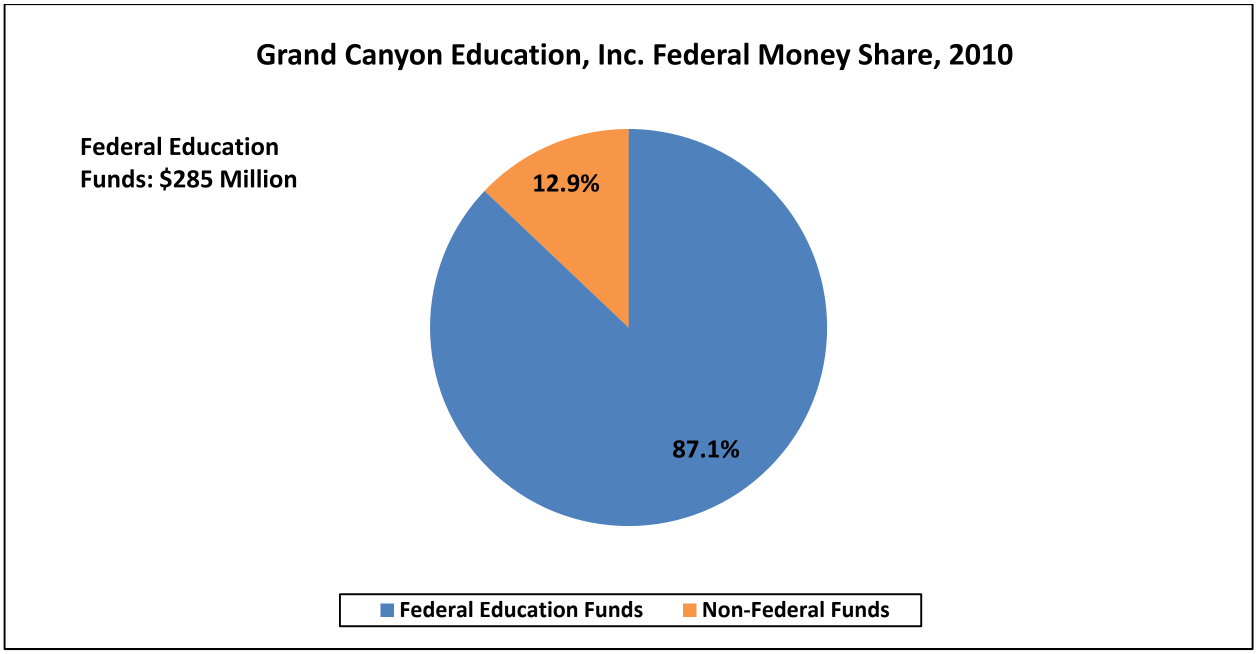
[1932] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[1933] Senate HELP Committee staff analysis of fiscal year 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

[1934] The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for Grand Canyon could not be extrapolated from the data the company provided to the committee.

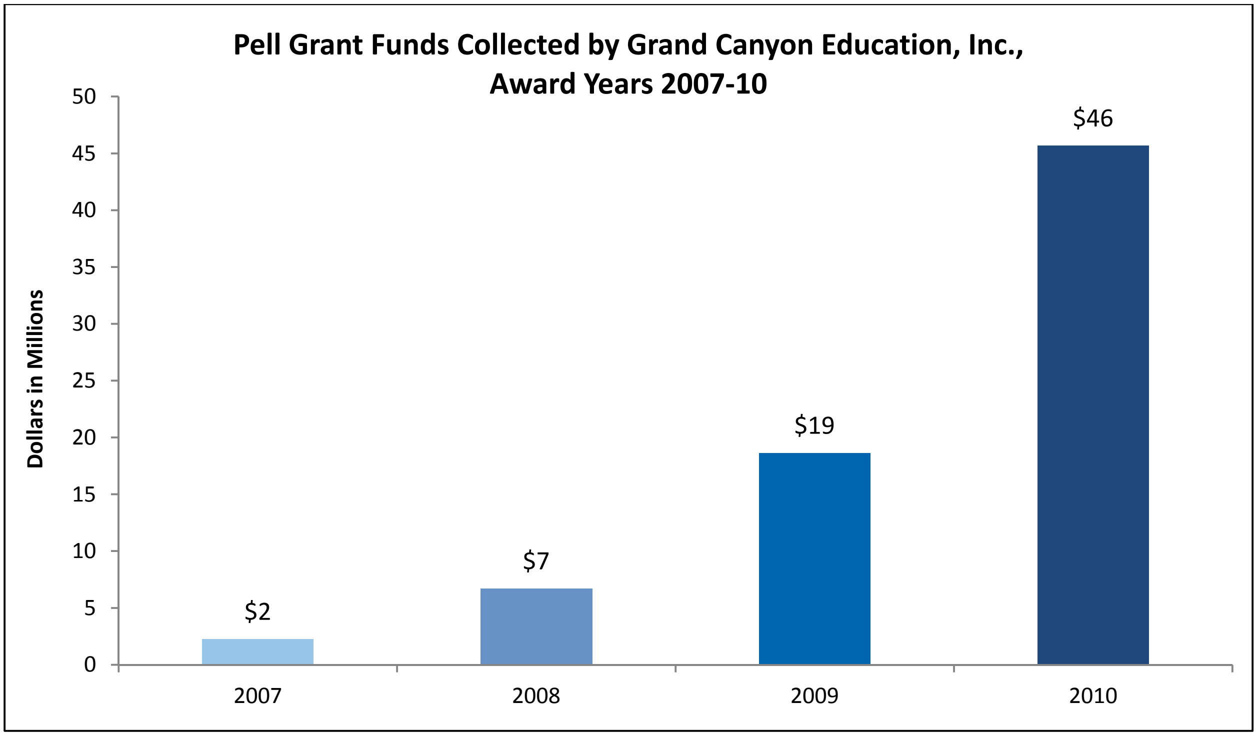
[1935] As explained in Appendix 11 and 12, data provided by the Department of Defense and the Department of Veterans Affairs was provided on an award year basis for both 2009-10 and 2010-11. Committee staff calculated the average monthly amount of benefits collected from DOD and VA for each company, and estimated the amount of benefits received during the company's 2010 fiscal year.
Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year.

[1936] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs, and where available Federal financial aid funds permissibly excluded pursuant to the Ensuring Continued Access to Student Loan Act of 2008 (ECASLA).



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[1937] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[1937] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.



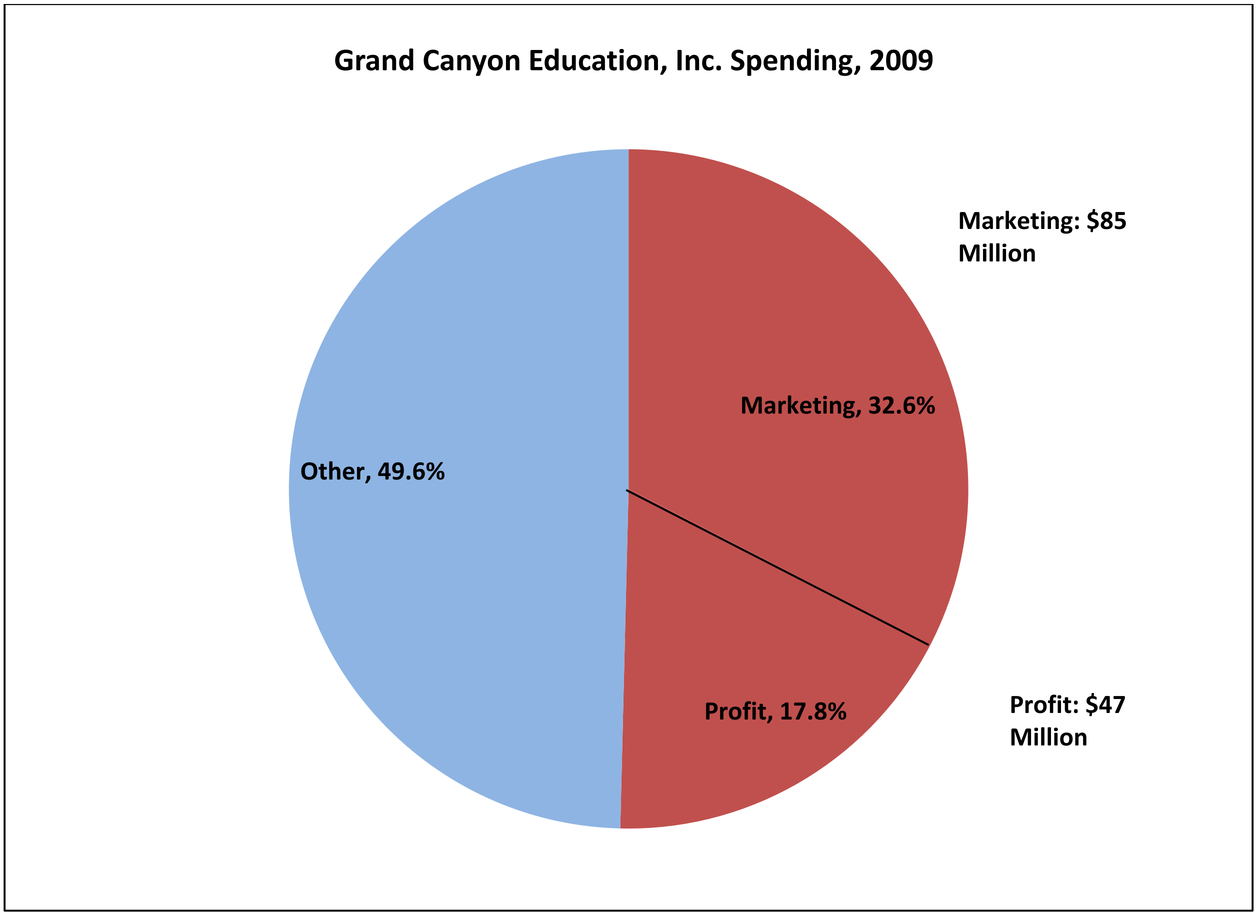
During 2007, Grand Canyon collected $2.3 million in Federal Pell grants.[1938] Just 3 years later, during 2010, the company collected $45.7 million, an increase of over 1,400 percent.[1939] This increase occurred because of the company's new participation in the title IV program and rapid enrollment growth among students who rely on Federal student aid programs.

Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[1940] During the same period the companies spent 22.6 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[1941]

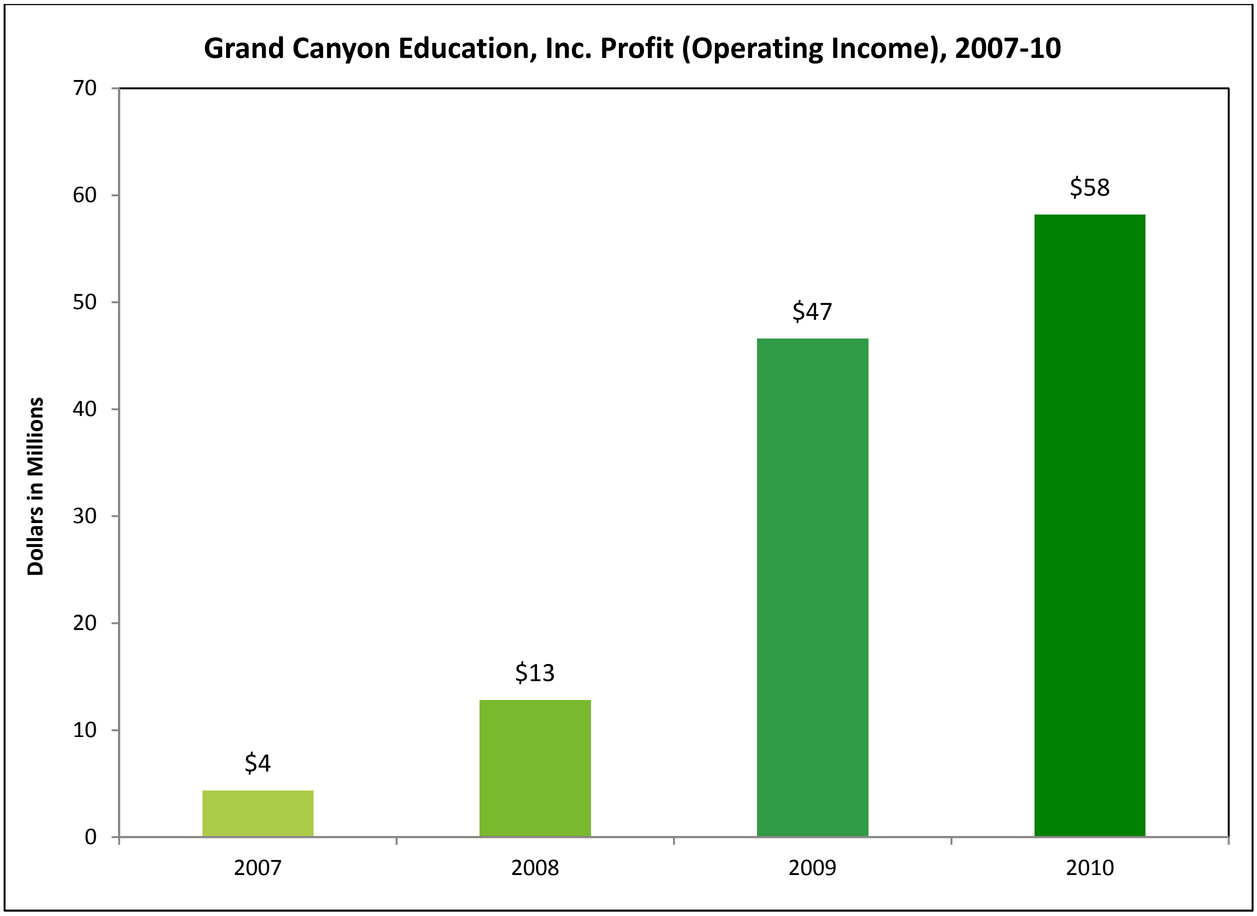
[1938] Pell disbursements are reported according to the Department of Education's student aid "award year," other revenue figures are reported according to the company's fiscal year.
[1939] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 and 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html.
[1940] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.
[1941] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit is based on operating income.

In 2009, Grand Canyon allocated 17.8 percent, or $47 million, of its revenue to profit and 32.6 percent, or $85 million, to marketing and recruiting.[1942] The percentage of revenue that Grand Canyon devoted to marketing is the second highest of all the companies examined by the committee.



Grand Canyon's profit has grown dramatically since the company's IPO, from $4.3 million in 2007 to $58.1 million in 2010, a 1,250 percent increase.

[1942] "Other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.



Executive Compensation

Executives at Grand Canyon, like most for-profit executives, are more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[1943] In 2009, Grand Canyon CEO Brian Mueller received $2.2 million in compensation, more than three times as much as the president of the University of Arizona who received $633,206 in total compensation for 2009-10.

[1943] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.

Executive	Title	2008 Compensation	2009 Compensation	2010 Compensation
Brian E. Mueller	CEO & Director	$1,965,023	$2,167,364	$1,028,705
Dr. W. Stan Meyer	Executive VP	$282,365	$991,256	$457,941
Daniel E. Bachus	CFO	$254,667	$981,058	$415,161
Joseph N. Mildenhall	Chief Information Officer	Not Available for 2008	$705,313	$720,968
Dr. Kathy Player	President	$455,514	$664,535	$420,184
Christopher C. Richardson	General Counsel & Director	$323,250	$434,497	$379,019
Brent D. Richardson	Executive Chairman	$345,038	$337,508	$340,333
Total[1944]			**$6,281,531**	**$3,762,311**

The chief executive officers of the large publicly traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[1945] Mueller's $2.2 million compensation package for 2009 is slightly less than one-fourth the average for publicly traded education companies. However, it is still noteworthy given that 60 percent of the company's students who enrolled that year left by mid-2010.

Tuition and Other Academic Charges

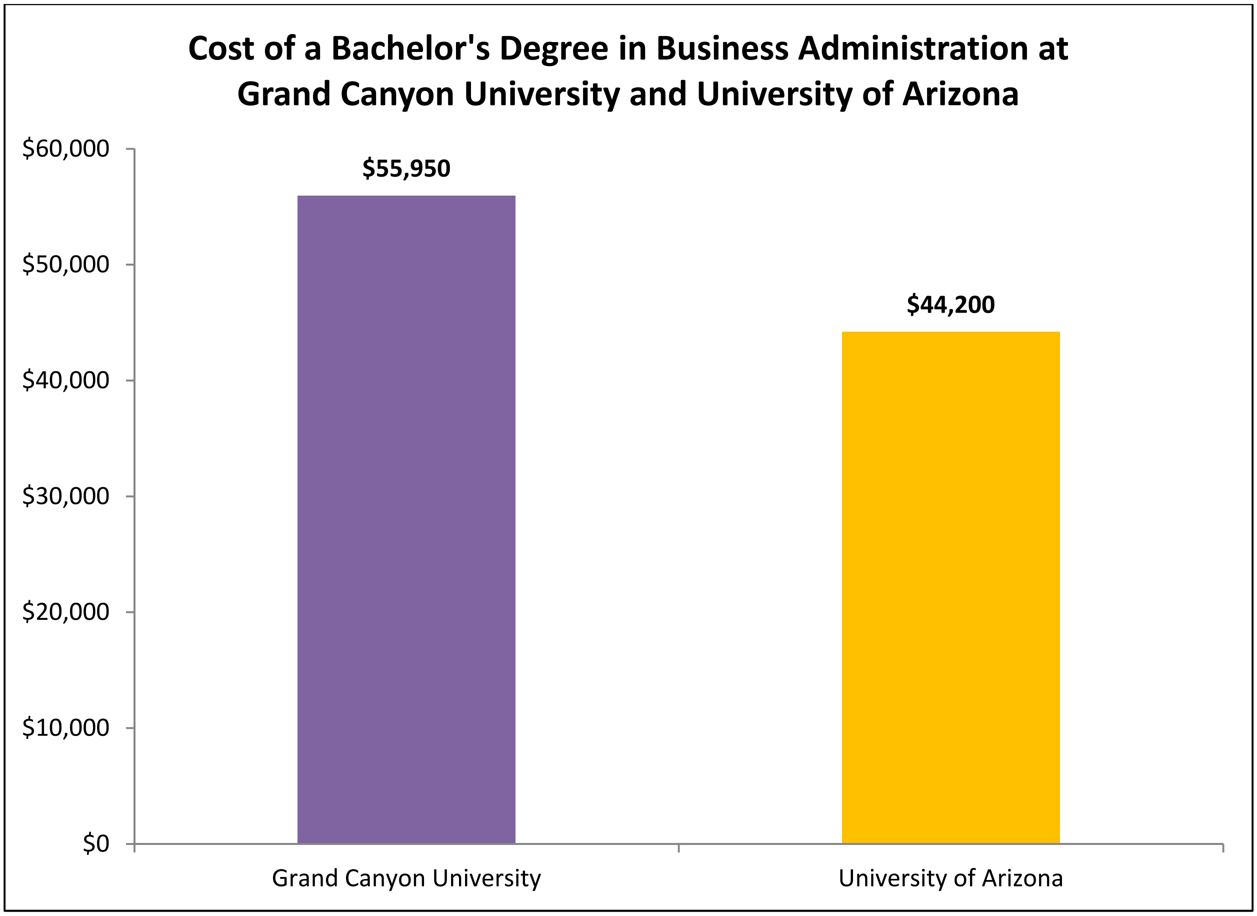
Compared to public colleges offering the same programs, the price of tuition is higher at Grand Canyon University. A Bachelor's of Science in Business Administration at Grand Canyon University costs $55,950.[1946] The same degree at University of Arizona costs approximately $44,200.[1947]

[1944] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.

[1945] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

[1946] See Appendix 14; and see, Grand Canyon University, *Degree Programs*, http://www.gcu.edu/degree-programs/?name=Bachelor+of+Science+in+Business+Administration (accessed July 12, 2012). Grand Canyon estimates the cost of this program as between $55,950–$69,350, including books and supplies.

[1947] See Appendix 14; and see, University of Arizona, *University of Arizona*, www.arizona.edu (accessed July 12, 2012).



These tuition disparities persist despite statements from representatives of the school that tuition would be competitive with local public universities due to the large influx of investor money following the company's IPO in 2008.[1948]

The higher tuition that Grand Canyon charges is reflected in the amount of money that Grand Canyon collects for each veteran that it enrolls. From 2009-11, Grand Canyon trained 1,788 veterans and received $10 million in VA benefits ($5,817 per veteran). In contrast, public institutions, on average, took in $4,642 per veteran trained.[1949]

If potential students object that Grand Canyon is too expensive, a Grand Canyon training instructs recruiters to respond:

> Is price a deciding factor for you when comparing colleges. How much were you expecting to pay for college? Many people have thought the same thing about our programs, but after researching the competitors you'll see we are very reasonable. In addition, can you afford not to go back to school? With the recent research on how much

[1948] "University of Phoenix, Grand Canyon University Prosper in Recession," *Significant Federation*, February 20, 2009, http://www.significantfederation.com/blog/significantfederation/university-of-phoenix-grand-canyon-university-prosper-in-recession.html (accessed June 14, 2012).
[1949] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.

> more money you're apt to make after you earn your degree, isn't it time to get started now.[1950]

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations for-profit colleges recruit as many students as possible to sign up for their programs.

During the period examined, prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, internal documents from Grand Canyon reflect an aggressive recruiting posture. Recruiters at Grand Canyon were expected to make 80-89 phone calls a day to prospective students.[1951] They were encouraged to create a sense of urgency and "assume that **NOW** is a good time to talk with the student." [1952] Grand Canyon counseled recruiters to "use the FERN [Frustrations, Effects, Rewards, and Next Steps] technique to uncover a student['s] motivation, the need for earning the degree and paint a picture of two futures: with a degree and without a degree." [1953] Like many other for-profit colleges, Grand Canyon recruiting documents taught methods to uncover prospective students' pain and pleasure points.[1954] "The strongest, most basic force is avoiding or overcoming a threat or pain," one training presentation tells employees, "For a prospective student to need a solution, this need must be propelled by the desire to avoid or overcome an existing problem." [1955] The training encouraged asking "probing questions, which slowly peel away pain layers." [1956]

Unlike many other for-profit colleges, Grand Canyon's enrollment agreement does not include a binding arbitration clause.[1957]

Recruiting Efforts at Wounded Warrior Centers and Veterans' Hospitals

The committee found some companies' pursuit of military benefits led them to recruit from the most vulnerable military populations, sometimes recruiting directly from wounded warrior centers and veterans hospitals. A recruiter at Grand Canyon University sent a superior the following note regarding her recruiting event for a wounded warrior unit:

> We were a big hit[.] I consolidated our position with the Army National Guard at this event…I also made many contacts with the wounded warrior unit that I had not been able to make in the past (the post has a non-solicitation policy)…I also gained 5 solid leads that will turn into applications this next week. Here is the receipt.[1958]

1950 Grand Canyon University, January 29, 2010, *Overcoming Objections Phase 4* (GCUHELP006343, at GCUHELP006355); See also Grand Canyon University, 2009, *GCU Student Services Training: Chapter 11: Enrollment Strategies* (GCUHELP003958).
1951 Grand Canyon University, *Enrollment Manager, What is Your Role?* (GCUHELP006204 at GCUHELP006214).
1952 Grand Canyon University, March 31, 2010, *GROW your Prospects* (GCUHELP011957).
1953 Grand Canyon University, 2009, *GCU Student Services Training: Chapter 11: Enrollment Strategies* (GCUHELP003958 at GCUHELP003962); See also Grand Canyon University, 2005, *Chapter V. Selling* (GCUHELP004306).
1954 Grand Canyon University, January 29, 2010, *Overcoming Objections Phase 4* (GCUHELP006343, at GCUHELP006349).
1955 Id. at GCUHELP006345.
1956 Id.
1957 Grand Canyon University, *Enrollment Agreement* (GCUHELP004756).
1958 Grand Canyon University Internal Email, April 1, 2010, re: *Pizza Receipt* (GCUHELP 019907).

Grand Canyon states that a small proportion of the company's revenues come from military program funds and that the company does not "target" military and former military students.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1959]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the Committee, and (2) student loan "cohort default rates." These metrics indicate that many students who enroll at Grand Canyon are not achieving their educational and career goals.

Retention Rates

Information Grand Canyon provided to the committee indicates that out of 17,643 students who enrolled at Grand Canyon in 2008-9, 58.5 percent, or 10,212 students, withdrew by mid-2010. Compared to the average withdrawal rate of 54.1 percent for the 30 schools the committee examined, Grand Canyon's withdrawal rate was slightly higher. However, Grand Canyon enrolls a significant portion of Master's degree students, who withdrew at a lower rate.

Status of Students Enrolled in Grand Canyon Education, Inc. in 2008-9, as of 2010						
Degree Type	Enrollment	Percent Completed	Percent Still Enrolled	Students Withdrawn	Withdrawn	Median Days Attended
Bachelor's	17,463	3.2%	38.3%	10,212	58.5%	125
Master's	9,960	12.2%	45.3%	4,227	42.4%	132
All	27,423	6.5%	40.9%	14,439	52.7%	127

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Online vs. *Brick and Mortar Outcomes*

An analysis of withdrawal rates among the 11 companies that provided disaggregated data indicates that students enrolled in online programs had higher withdrawal rates than students enrolled in campus based programs. A comparison of the outcomes for students who attended Grand Canyon online and students who attended the brick and mortar campus indicates that online Bachelor's degree students withdrew at a significantly higher rate, 59.6 percent, compared with their brick and mortar counterparts who withdrew at a rate of 37.9 percent.

[1959] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 14, 2012).

Status of Online Students Enrolled in Grand Canyon in 2008-9, as of 2010							
Degree Type	Enrollment	Students Completed	Percent Completed	Still Enrolled	Percent Still Enrolled	Students Withdrawn	Withdrawn
Bachelor's	16,581	456	2.8%	6,247	37.7%	9,878	59.6%

Status of Brick and Mortar Students Enrolled in Grand Canyon in 2008-9, as of 2010							
Degree Type	Enrollment	Students Completed	Completed	Still Enrolled	Percent Still Enrolled	Students Withdrawn	Withdrawn
Bachelor's	882	105	11.9%	443	50.2%	334	37.9%

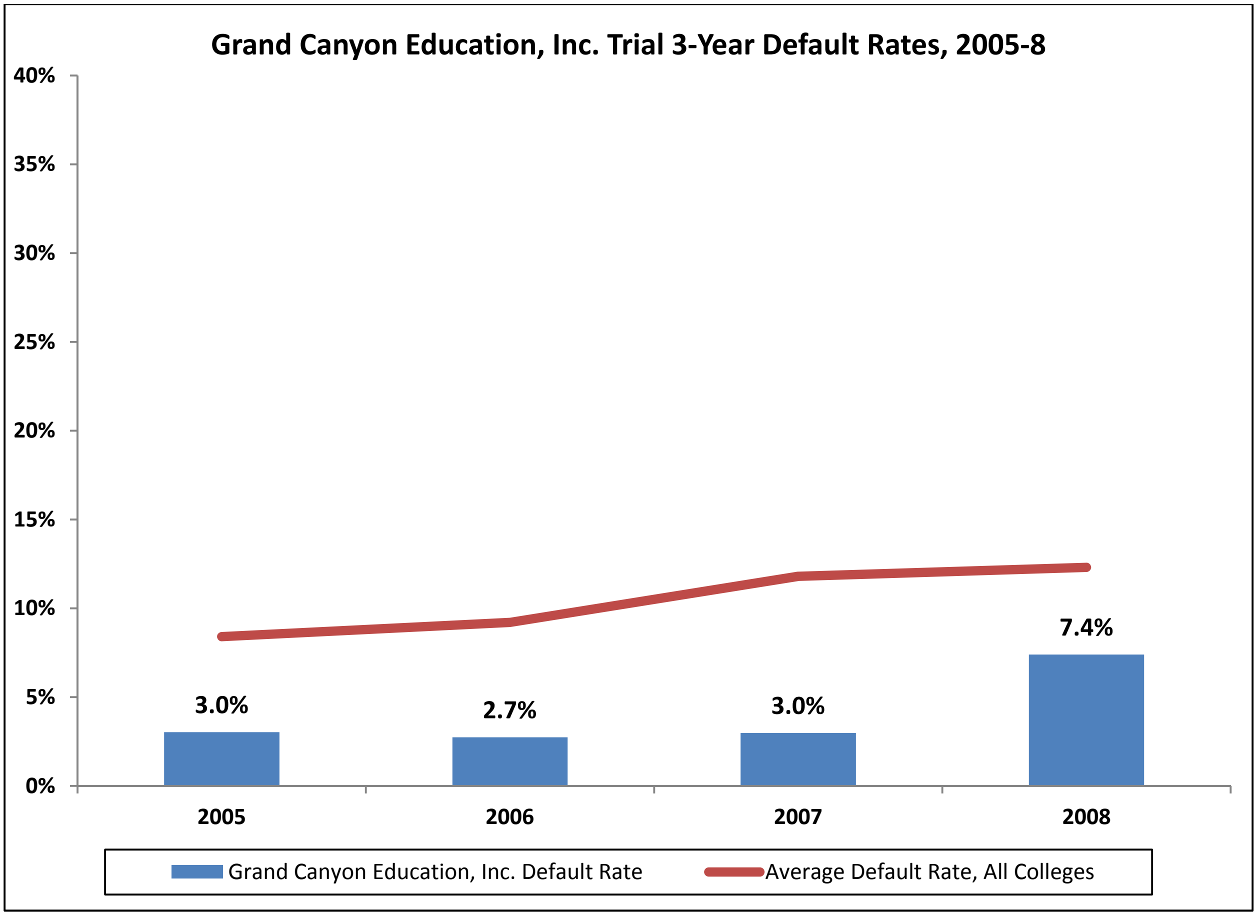
Student Loan Defaults

The number of students leaving Grand Canyon without degrees does not correlate with the low rate of student loan defaults by students who attended Grand Canyon. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1960]

Slightly more than 1 in 5 students who attended a for-profit college, 22 percent, defaulted on a student loan, according to the most recent data.[1961] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1962] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1963] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1964]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent. This change represents a 32.6 percent increase over 4 years.[1965] While the 3-year default rate at Grand Canyon has gradually increased, growing from 3.0 percent for students entering repayment in 2005 to 7.4 percent for students entering repayment in 2008, its default rate is significantly below the average 3-year default rate for the for-profit education sector and one of the lowest rates among the 30 schools examined by the committee.

[1960] Direct Loan Default Rates, 34 CFR § 668.183(c).
[1961] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[1962] Id.
[1963] Id.
[1964] Id.
[1965] U.S. Department of Education 3-year cohort default rate, for students entering repayment in fiscal years 2005, 2006, 2007 and 2008. Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal years 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.



However, since the default rate is a lagging indicator – for instance, most of the students in the 2008 cohort who eventually graduated entered Grand Canyon in 2003 or 2004 when the college's enrollment was much lower and the school had not embarked on its online-focused high-growth path – it almost certainly underrepresents the current default picture. The company estimates that its 3-year default rate will increase to between 14 and 15 percent.[1966]

It is likely that some companies' reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Moreover, when a student is in forbearance their loan balances continue to grow as the result of accumulating interest but default is averted both for the student and the company. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

Documents produced by Grand Canyon indicate that the company has *not* aggressively pursued forbearance and deferment over loan counseling, education, and alternative repayment options, as some companies have done. Company executives, however, expressed keen interest in the shift to a 3-year cohort default rate window. Just before 3-year cohort data was officially released, the chief financial officer of the company asked a newly-hired default management specialist "why adding a third year causes such a spike in CDR?" [1967] The employee responded that "Schools figured out how to keep students in deferments and forbearances just long enough to stay out of the two year cohorts," and "Students at a certain point run out of options and are no longer able to apply for forbearances and

[1966] Grand Canyon University, Q4 2011, Call with Investors.
[1967] Grand Canyon University Internal Email, September 4, 2009, re: *2008 Default Rate Projections* (GCUHELP019302).

such. They realize the payments are too high and they don't pay anything." [1968] He also cited the bad economy as a factor.[1969] He indicated that in order to keep the 3-year default rates low he would take the positive step of "build[ing] relationships with students while they are in school that will carry for a long time after graduation or withdrawal" [1970]

While some for-profit institutions retain the services of third-party default management companies to reduce default rates, Grand Canyon tasks internal company staff with reaching out to students on the verge of delinquency. The school's "Default Aversion Team" contacts delinquent borrowers in concert with the loan service and collection agencies.[1971] The team succeeded in "averting" 412 former students from default in December 2009 through May 2010; it is not clear from the documents provided how many of these students were placed in forbearance and deferment or were able to make payments on their loans. [1972] An internal email indicates that the team planned "to focus more on proactive measures such as: grace letters, grace phone calls, and a Borrower Education Webpage" and to educate students "as much as possible before withdrawing or graduating.[1973]

Instruction and Academics

The quality of any college's academics is difficult to measure. However, the amount that a school spends on instruction per student compared to other spending is a useful indicator.

Grand Canyon spent $2,177 per student on instruction in 2009, compared to $3,389 per student on marketing and $1,848 per student on profit.[1974] The amount that publicly traded for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. In contrast, public and non-profit 4-year colleges and universities, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other Arizona-based colleges spent, on a per student basis, $10,336 at University of Arizona, $10,219 at Midwestern University, and $4,305 at Phoenix College, a local community college.[1975]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee examined, 80

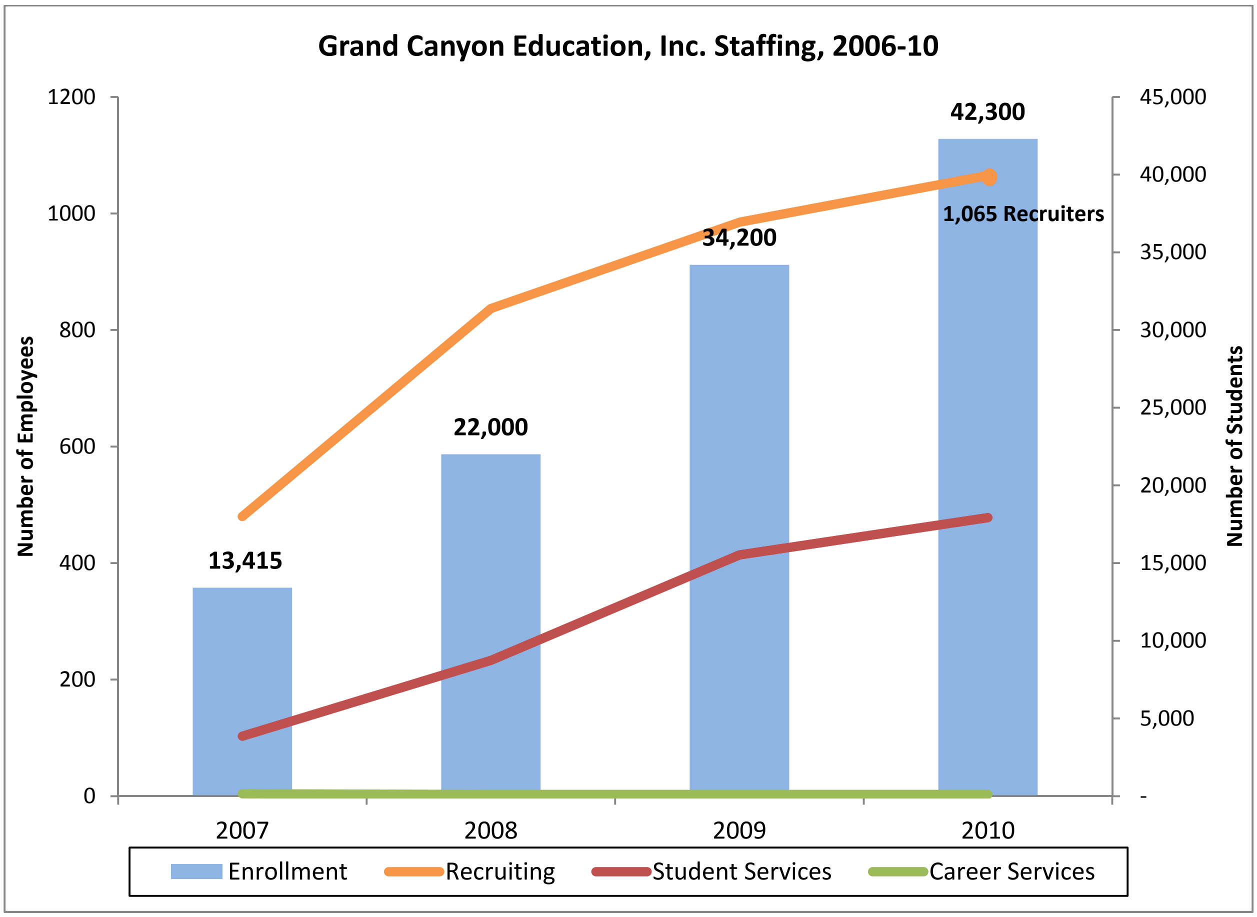
1968 Grand Canyon University Internal Email, September 4, 2009, re: *2008 Default Rate Projections* (GCUHELP019302).
1969 Id.
1970 Id.
1971 Grand Canyon University Internal Email, June 17, 2010; re: *June 2010 CDR Projections* (GCUHELP019938).
1972 Grand Canyon University Internal Email, June 17, 2010; re: *June 2010 CDR Projections* (GCUHELP019938).
1973 Grand Canyon University Internal Email, March 11, 2010, re: *2009 Default Rate Forecaster-March* (GCUHELP019937).
1974 IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. Instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.
1975 Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

percent of the faculty is part-time, higher in some companies.[1976] Grand Canyon has one of the highest proportions of part-time faculty. In 2010, the company employed 99 full-time and 2,442 part-time faculty.[1977] The company fired 17 full-time professors in 2005 that had been with the college before its conversion to a for-profit company.[1978]

Staffing

While for-profit education companies employed large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 42,300 students, Grand Canyon employed 1,065 recruiters, 3 career services employees and 478 student services employees.[1979]

That means each career counselor was responsible for 14,100 students and each student services staffer was responsible for 88 students, but the company employed one recruiter for every 40 students.



[1976] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[1977] Id.
[1978] Elizabeth Redden, "For-Profit For God," *Inside Higher Ed*, August 3, 2009, http://www.insidehighered.com/news/2009/08/03/christian (accessed June 14, 2012).
[1979] Id. See Appendix 7 and Appendix 24.

Enforcement Actions

In August 2008, the Inspector General of the Department of Education started an investigation and served an administrative subpoena on Grand Canyon Education requiring it to provide certain records and information related to performance reviews and salary adjustments for all of its enrollment counselors and managers from January 1, 2004 to August 2008. On September 11, 2008, Grand Canyon Education was served with a lawsuit that charged that it violated the ban on recruiter incentive compensation. The case was settled on August 18, 2010, for $5.2 million.[1980]

Conclusion

Grand Canyon Bachelor's students withdraw at a higher rate than many others the committee examined. However, the company's low default rate does not reflect the high proportion of students leaving Grand Canyon with student debt but no college degree. This default rate is a lagging indicator, as many of the students who entered repayment in 2008 enrolled in Grand Canyon in 2003 or 2004 when the school's enrollment was much lower and before its online-program enrollment grew. As the company continues to grow, it is likely that its default rate will increase. Moreover, the high percentage of its revenue Grand Canyon spends on marketing relative to instruction and the low number of career services employees also present areas of particular concern.

[1980] Megha Mandavia, "Grand Canyon settles False Claims Act case for $5.2 mln," *Reuters*, August 18, 2010, http://www.reuters.com/article/2010/08/18/grandcanyoneducation-idUSSGE67H0JC20100818 (accessed July 7, 2012).

Henley Putnam University

Introduction

Henley-Putnam University provides programs exclusively to veterans and members of the armed services and receives the majority of its funds from the Departments of Defense and Veterans Affairs education benefit programs. Since this company does not participate in title IV Federal financial aid programs, it is exempt from consumer protections and all measurements of student progress—from basic enrollment numbers to student default rates—required by the Department of Education. As a result, it is difficult to assess how well the company is serving students or taxpayers.

Company Overview

Henley-Putnam University ("Henley-Putnam") is a privately held, for-profit education company based in San Jose, CA. As a relatively small private company that does not participate in title IV funding programs, there is limited public information available about Henley-Putnam. The company operates exclusively online and offers diploma, degree, and graduate programs in the homeland security and counter intelligence fields. Henley-Putnam is accredited by the Distance Education and Training Council (DETC).

Henley-Putnam was founded in 2001 as the California University of Protection and Intelligence Management by former members of the CIA, U.S. Secret Service, FBI and others in the intelligence community. In July 2006, the private equity group Liberty Capital Partners, Inc. ("Liberty Partners") acquired Henley-Putnam.[1981] In a February 2008 letter to its accreditor, Henley-Putnam stated that Liberty Partners owned 56 percent of Henley-Putnam University and "Liberty Partners has exercised control over Henley-Putnam." [1982] Prior to that letter, the primary owner of the Liberty Partners fund that controlled Henley-Putnam was the Florida State Board of Administration, a State employee's investment fund.[1983] The current CEO of Henley-Putnam is James P. Killin, who was CEO of several software and healthcare companies prior to starting at Henley-Putnam. According to documents provided by Henley-Putnam in 2010, three Liberty Partners executives—chairman Peter Bennett, president and CEO G. Michael Stakias and senior managing director Michael Levine—served on the board of Henley-Putnam LLC.[1984]

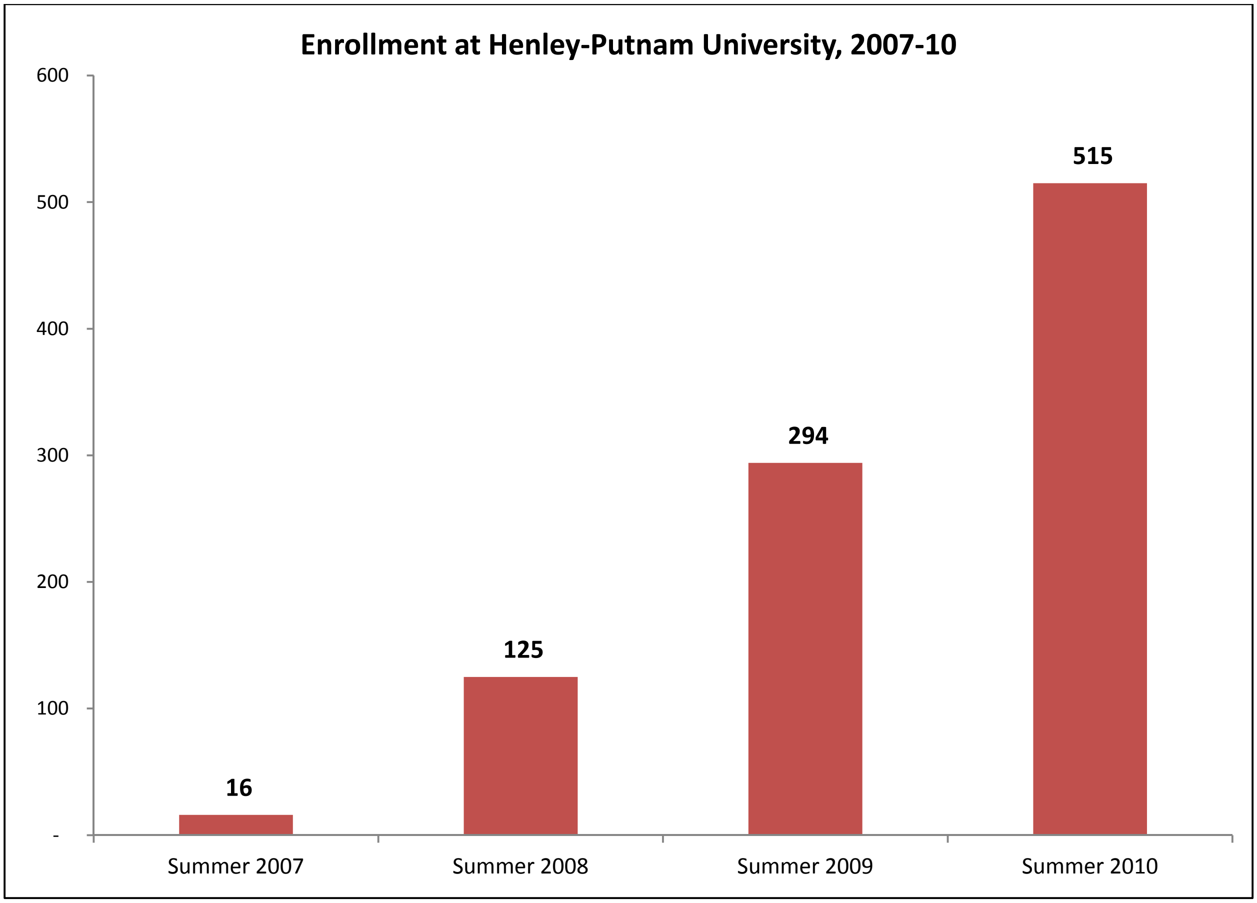
Enrollment at Henley-Putnam has increased significantly since 2008, growing from 125 students to 515 students by the summer of 2010.

[1981] Liberty Partners, "Henley-Putnam University Portfolio", http://www.libertypartners.com/index.cfm/Fuseaction/Portfolio.viewCompany/companyID/44.cfm (accessed June 14, 2012).

[1982] Letter from Gregory H. Vonn Gehr, CEO of Henley-Putnam University, to Mike Lambrt, executive director for DETC Accrediting Commission, February 26, 2008, re: *Restructuring of Liberty Partners' Majority Stock Ownership* (HPU0001810, at HPU001811).

[1983] Id.

[1984] Henley Putnam University Employee Directory, HPU0001808, at HPU0001809; See also Liberty Partners, "Our Team" http://www.libertypartners.com/index.cfm/fuseaction/Team.Main.cfm (accessed June 14, 2012).



The growth in enrollment has led to growth in revenue. The company's revenue grew from \$181,179 in 2007 to \$2.1 million in 2009.[1985] With \$2.1 million in revenue, Henley-Putnam is the smallest of the 30 for-profit education companies examined.

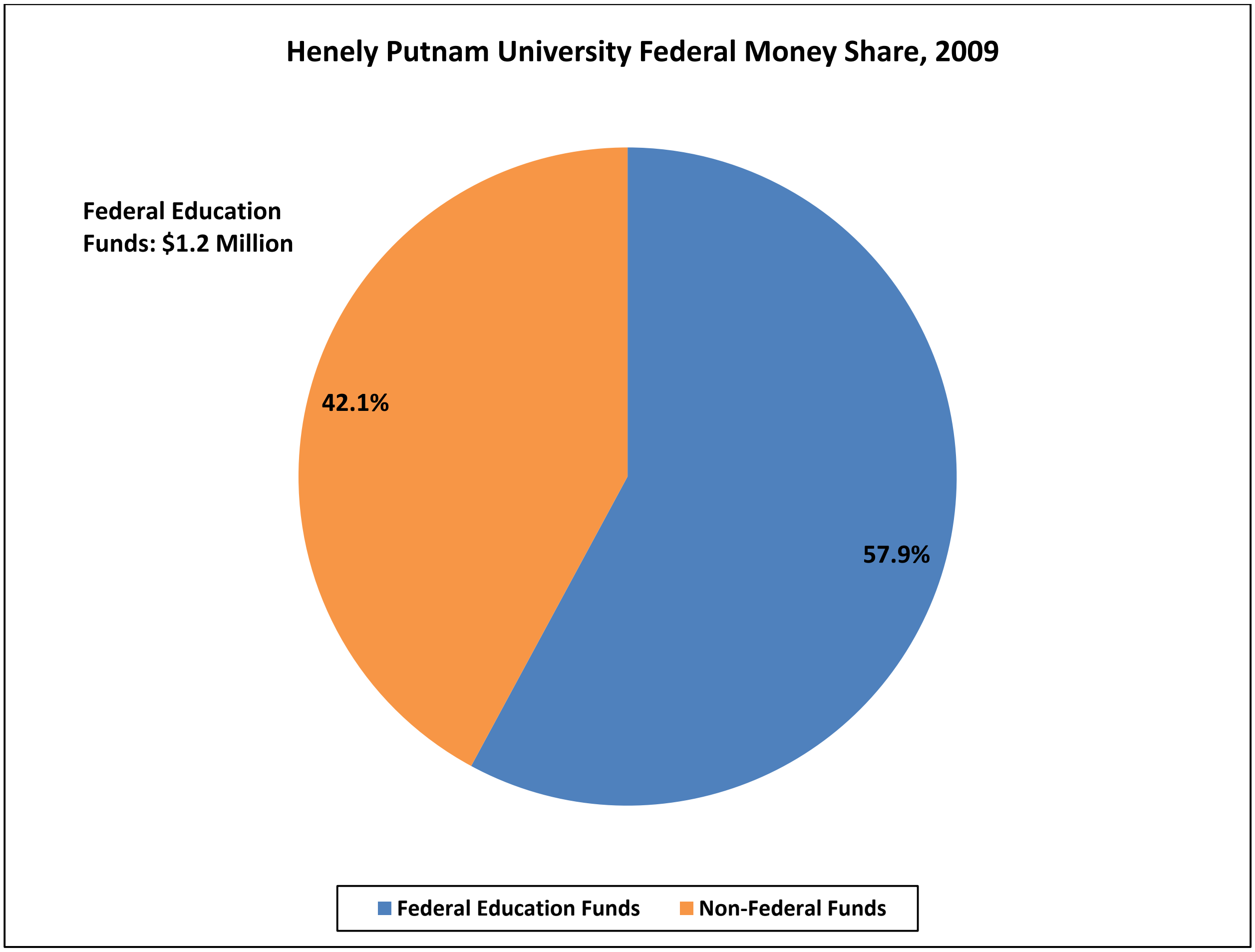
Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid funds.[1986] While Henley-Putnam stands apart from other companies examined by the committee in that it does not participate in title IV funding programs, Henley-Putnam does derive a majority of its revenue from Departments of Defense and Veterans Affairs military education benefit programs. In 2009, funds from these Federal programs accounted for approximately 57.9 percent, or \$1.2 million, of Henley-Putnam's revenue.[1987]

[1985] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

[1986] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

[1987] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of



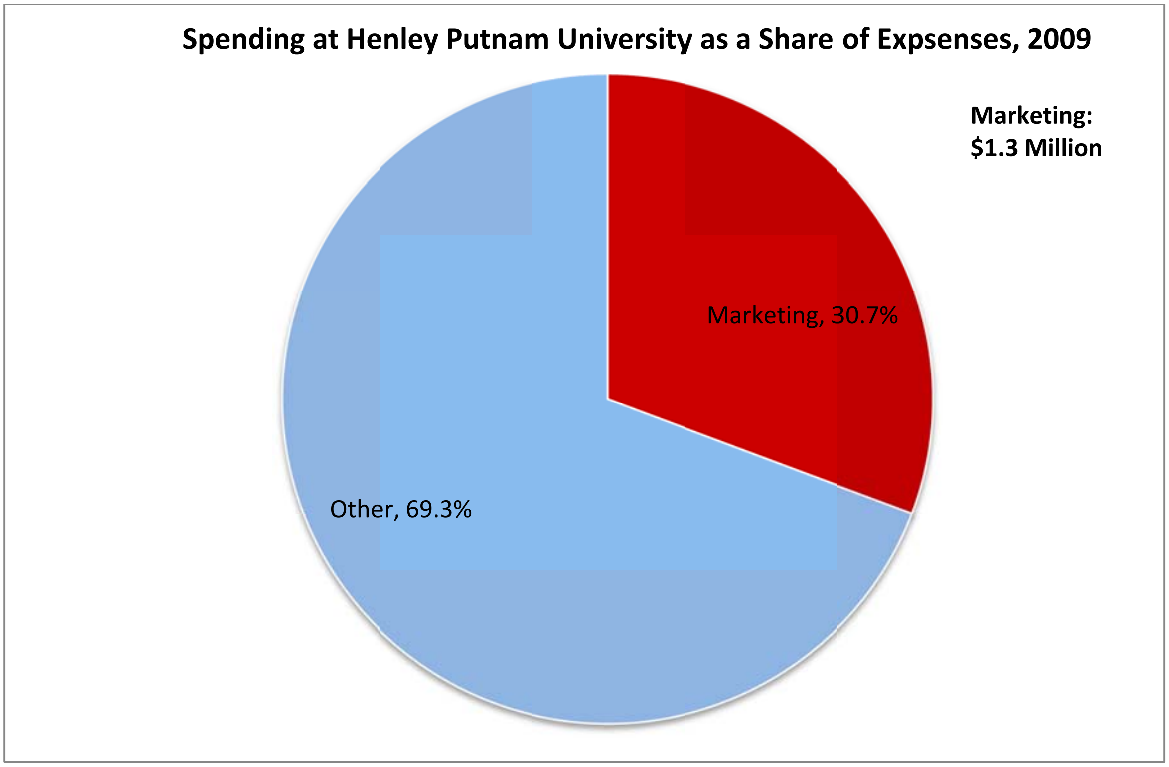
Spending

While Federal student aid programs are intended to provide educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit.

However, due to the start-up nature of Henley-Putnam and the limited amount of information available, it is unclear whether these concerns apply to this company. In 2009, Henley-Putnam devoted 30.7 percent of its spending, or $1.3 million, to marketing and recruiting.[1988]

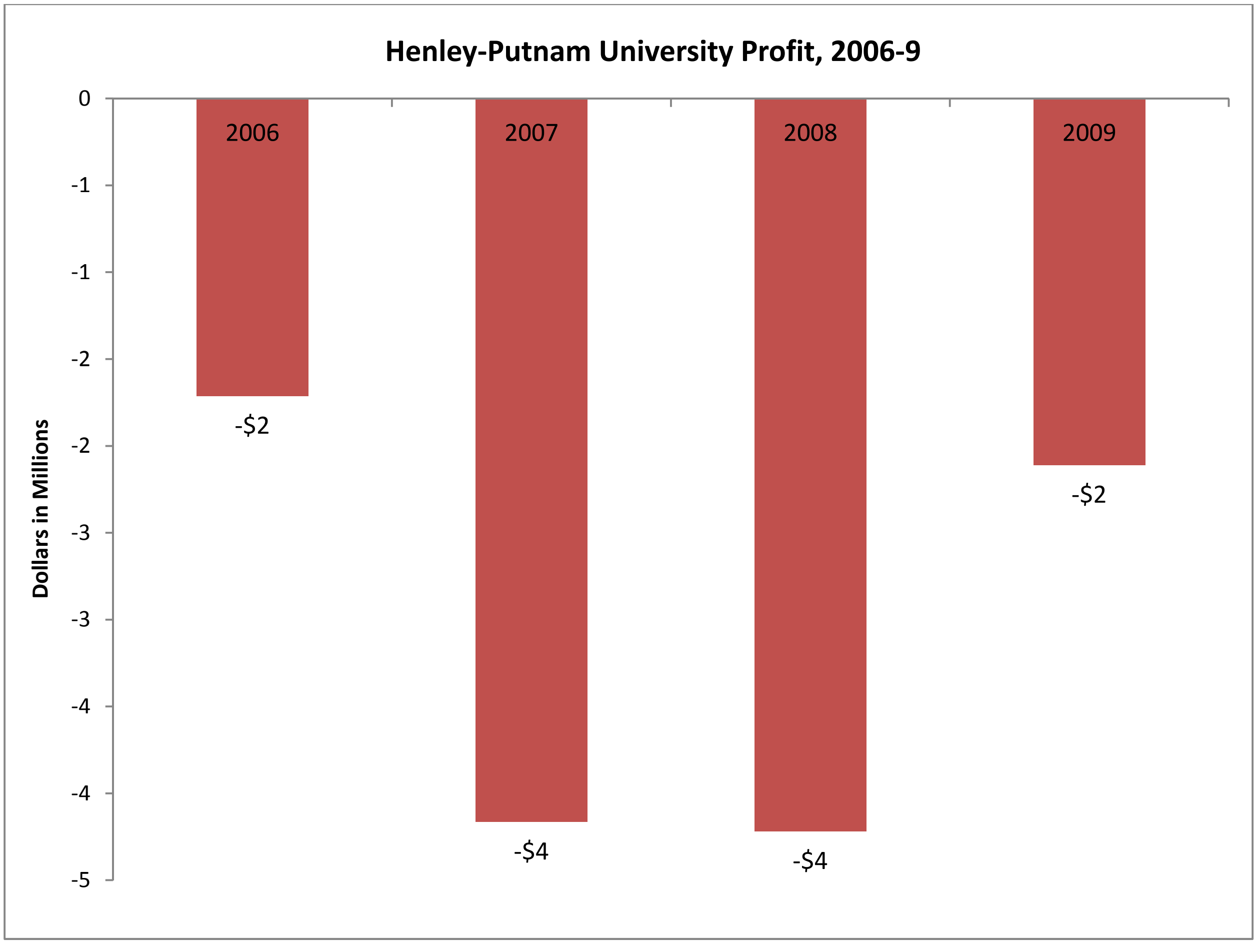
benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2009 fiscal year. See Appendix 10. "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.

[1988] Senate HELP Committee staff analysis of fiscal year 2009 financial statements and information provided to the committee by each company pursuant to the committee document request of August 5, 2010. See Appendix 19.



Although the company has increased enrollment and revenue, as of 2009 Henley-Putnam was not yet profitable. The company operated at a loss of $2.1 million in 2009 and $4.2 million in 2008.[1989]

[1989] Senate HELP Committee staff analysis. See Appendix 18.



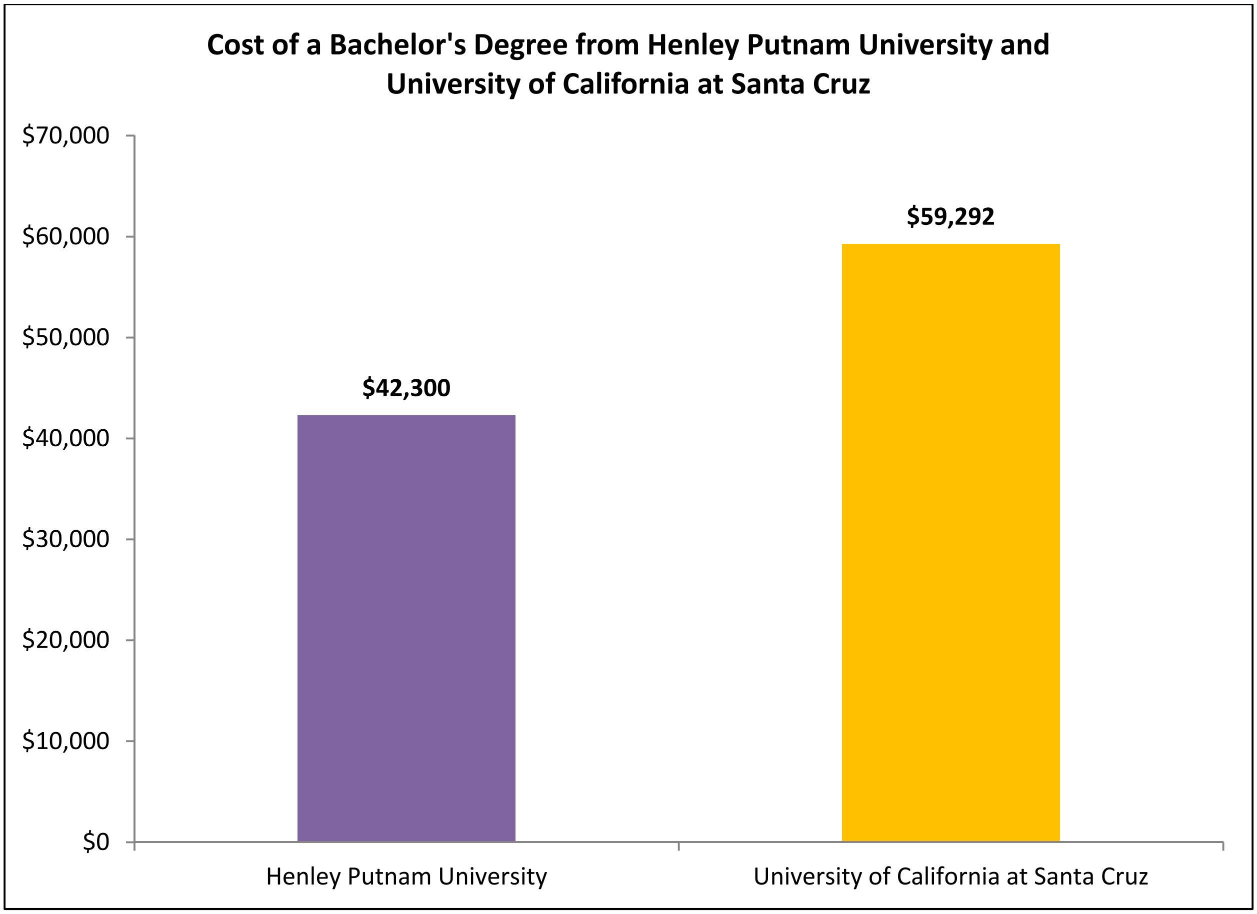
Executive Compensation

As a privately held company, Henley-Putnam is not obligated to release executive compensation figures.

Tuition and Other Academic Charges

Henley-Putnam is one of the four companies examined by the committee that offers Bachelor's degree programs for less tuition than nearby public universities. A Bachelor's at Henley-Putnam costs $42,300,[1990] but costs $59,292 at University of California at Santa Cruz.[1991]

[1990] See Appendix 14; see also, Henley Putnam University, *Admissions*, http://www.henley-putnam.edu/admissions/tuition.aspx (accessed July 12, 2012).
[1991] See Appendix 14; see also, University of California Santa-Cruz, University of California Santa Cruz, http://www.ucsc.edu/ (accessed July 12, 2012).



Outcomes

Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1992]

Two metrics are key to assessing student outcomes: (1) retention rates based on information produced by the companies, and (2) student loan "cohort default rates." However, because the Department of Education only measures student loan default and repayment rates for title IV loan programs, and Henley-Putnam does not participate in title IV programs, no information is available on the company's default rate.

Retention Rates

Information provided to the committee by Henley-Putnam indicates that out of the 107 students who enrolled at Henley-Putnam in 2008-9, 45.8 percent, or 49 students, had withdrawn by mid-2010.[1993] The company's small overall enrollment, and especially small enrollment during the 2008-9 year, makes this withdrawal rate difficult to compare to other institutions. Nonetheless, Henley-Putnam's

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[1992] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 14, 2012).
[1993] Senate HELP Committee staff analysis. See Appendix 15. Henley-Putnam did not produce information on student retention for graduate programs.

withdrawal rate is lower than the 54.3 percent average Bachelor's degree program rate for the entire sector.[1994]

Status of Students Enrolled in Henley-Putnam University in 2008-9, as of 2010						
Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Bachelor's Degree	107	0.9%	53.3%	45.8%	49	263

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdrew after mid-2010 when the data was produced.

Instruction and Academics

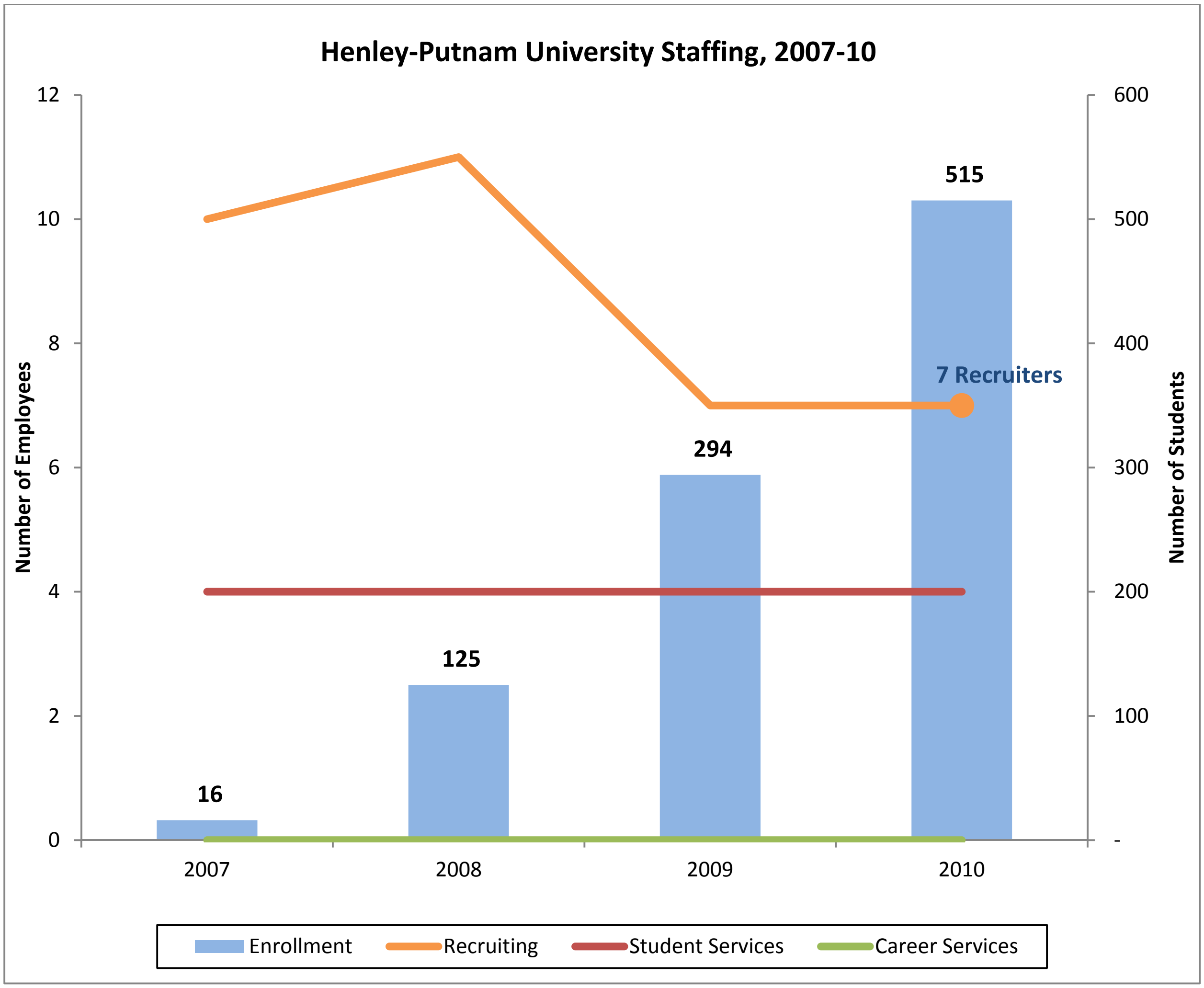
The quality of any college's academics is difficult to measure, however the amount that a school spends on instruction per student compared to other spending is a useful measure. Henley-Putnam, however, did not produce information on its instructional spending or student complaints on the subject of their academic experiences.

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools investigated by the committee, 80 percent of faculty is part-time, higher in some companies.[1995] Henley-Putnam is one such company.[1996] The company's entire faculty is part-time.[1997]

Staffing

While for-profit education companies employ large numbers of recruiters to enroll new students, the companies have less staff to provide tutoring, remedial services or career counseling and placement. In 2009, Henley-Putnam employed seven recruiters, four student services employees, but no career services staff.[1998]

[1994] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.
[1995] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[1996] Id.
[1997] Id.
[1998] Id. See Appendix 7 and Appendix 24.



Conclusion

Little information is available about Henley-Putnam. Without this information, is it difficult to draw any conclusions about the company's performance in terms of its value to its students or to taxpayers. Yet the company seems to be growing rapidly and increasing enrollment in its national security programs. As a company that derives a majority of its revenues from Federal dollars, and particularly as one that is not subject to any of the oversight requirements of the Department of Education under title IV programs, Henley-Putnam should be subject to stringent oversight by the Departments of Defense and Veterans Affairs.

Herzing University

Introduction

Like many for-profit education companies, Herzing, Inc. ("Herzing") has experienced steady growth in student enrollment, Federal funds collected and profit realized in recent years. Students attending privately held and family-managed Herzing appear to fare better than students at some other for-profit colleges. However, the recent surge in enrollment appears to have a negative impact on student outcomes.

Company Overview

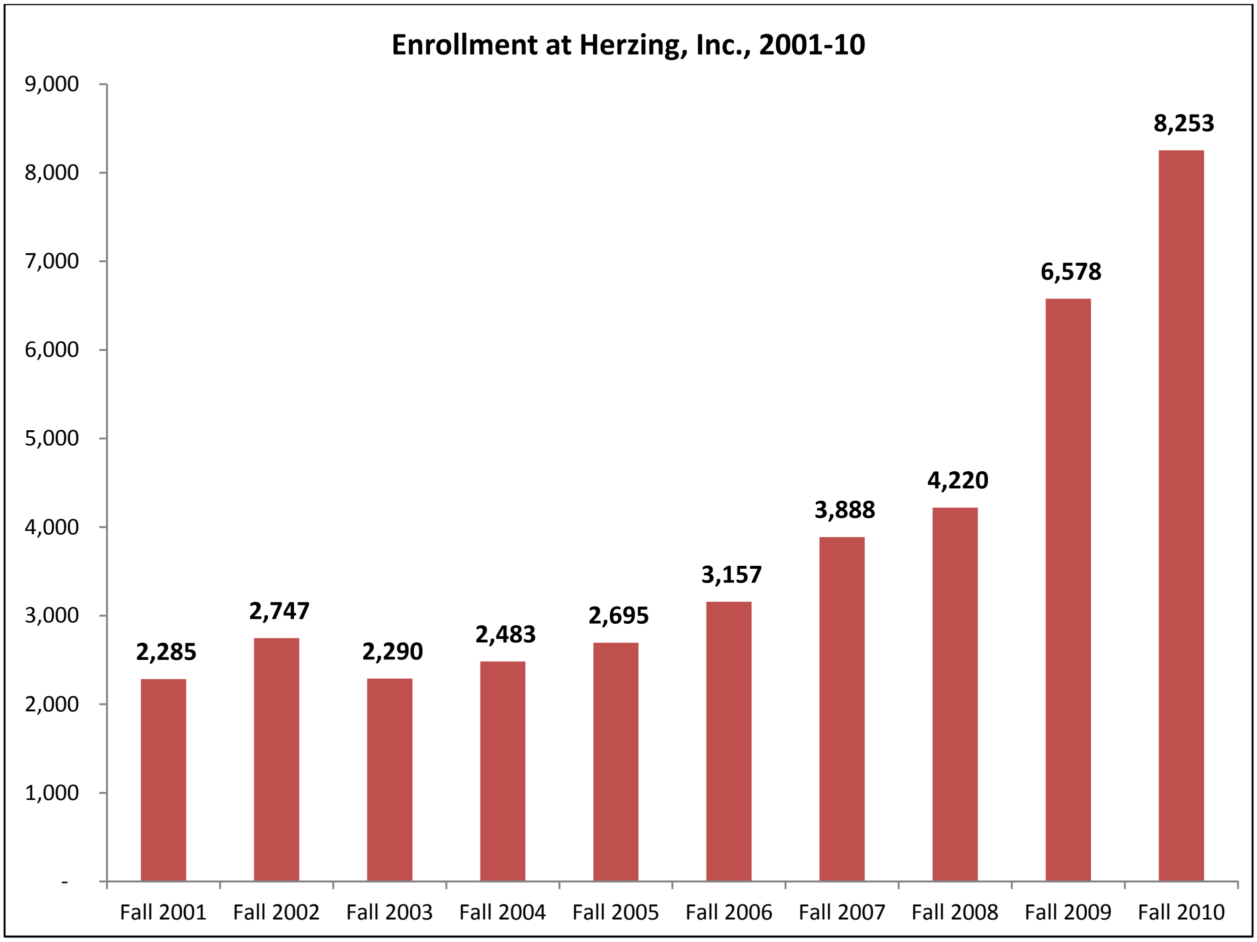
Herzing is a privately held, for-profit education company headquartered in Milwaukee, WI. Founded in 1965 by Henry and Suzanne Herzing, the company was originally a computer training institute. Today, Herzing offers Associate and Bachelor's degree programs in the fields of business management, electronics, healthcare, graphic design, and public safety as well as Master's degrees (online only). Herzing operates 11 campuses in 8 States.[1999]

The current president of Herzing University is Renee Herzing, who succeeded her father Henry Herzing in March 2009. Henry Herzing continues to serve as CFO and on the board of directors. Herzing remains owned by the Herzing family and it is unclear what outside investors the company may have.

Like more than half of the regionally accredited brands the committee examined, Herzing University is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC). [2000] At the time HLC accredited Herzing in 2004, the company enrolled 2,483 students. HLC has recently taken steps to place growth restrictions on all Associate and Bachelor's degree programs.[2001]

While it is significantly smaller than many companies the committee examined, Herzing has grown significantly over the last decade. Enrollment at Herzing has increased 260 percent since 2001. In the fall of 2001, Herzing enrolled 2,285 students. By the fall of 2010, the company enrolled 8,253 students.[2002]

[1999] Akron, Atlanta, Birmingham, Brookfield, Kenosha, Madison, Minneapolis, New Orleans, Omaha, Orlando, and Toledo.
[2000] The 30 companies operate 71 different brands not including the Art Institute.
[2001] The Higher Learning Commission, "Currently or Previously Affiliated Institutions: Herzing University" http://www.ncahlc.org/component/com_directory/Action,ShowBasic/Itemid,/instid,2838/ (accessed June 14, 2012).
[2002] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education 's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.



Driven by this increase in enrollment, revenue at Herzing has grown steadily, increasing 48 percent between 2006 and 2009.[2003]

Federal Revenue

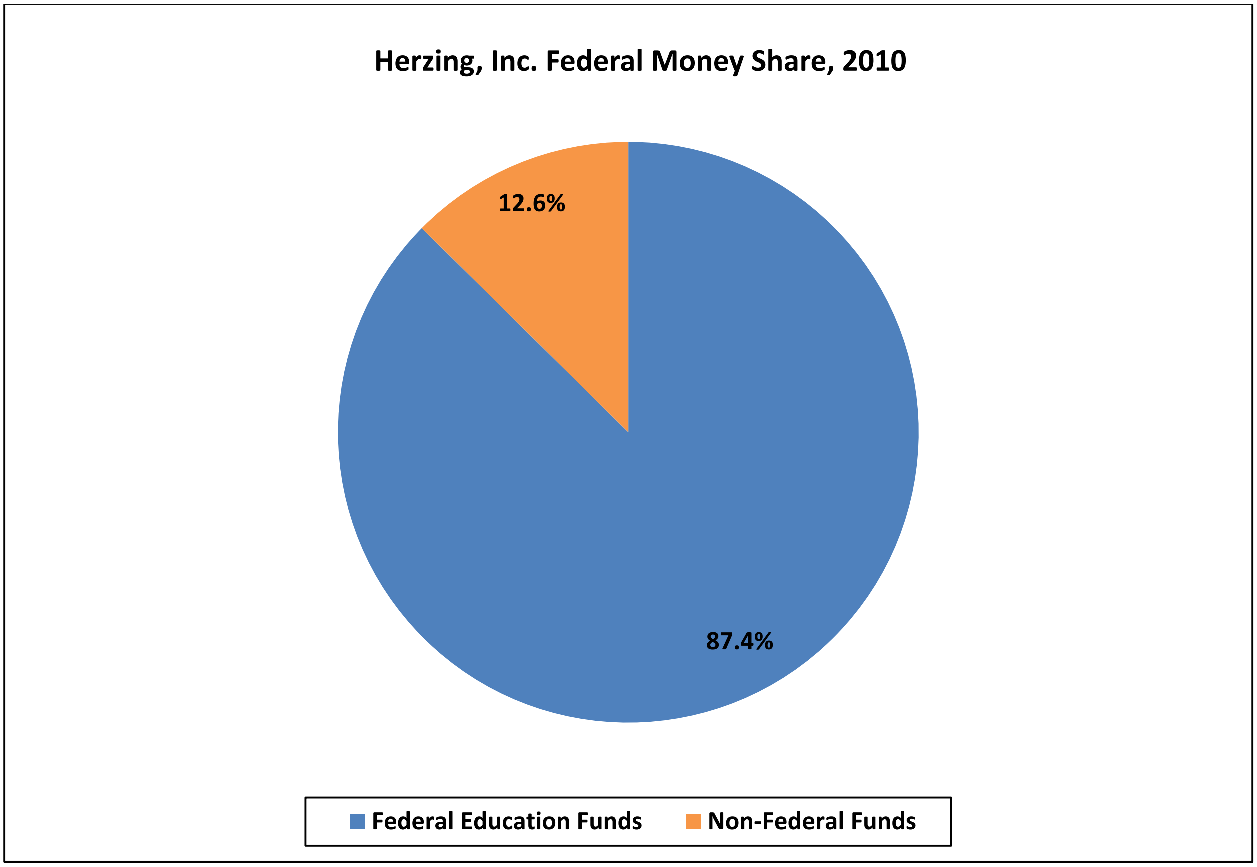
Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2004] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[2005]

[2003] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are from the company financial statements produced to the committee.

[2004] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education. "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

[2005] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

In 2010, Herzing reported 86.1 percent of revenue from title IV Federal financial aid programs.[2006] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.[2007] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 1.3 percent of Herzing's revenue, or $1.5 million.[2008] With these funds included, 87.4 percent of Herzing's total 2010 revenue was comprised of Federal education funds.[2009]



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole

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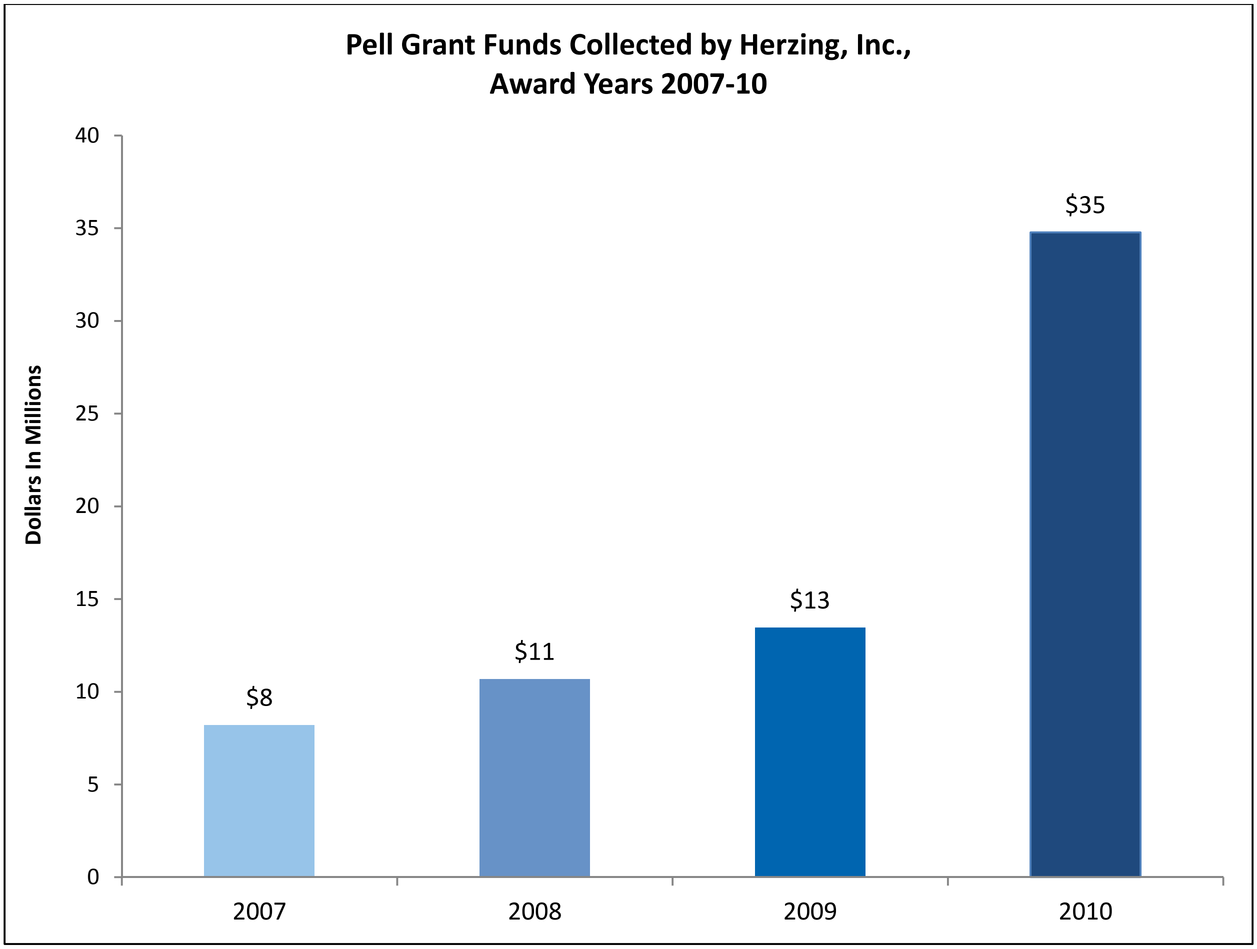
[2006] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

[2007] The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for Herzing could not be extrapolated from the data the company provided to the committee.

[2008] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[2009] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.

increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[2010] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.



Herzing more than tripled the amount of Pell grant funds it collected in just three years, from $8.2 million in 2007 to $34.8 million in 2010, with a dramatic surge between 2009 and 2010.[2011]

Spending

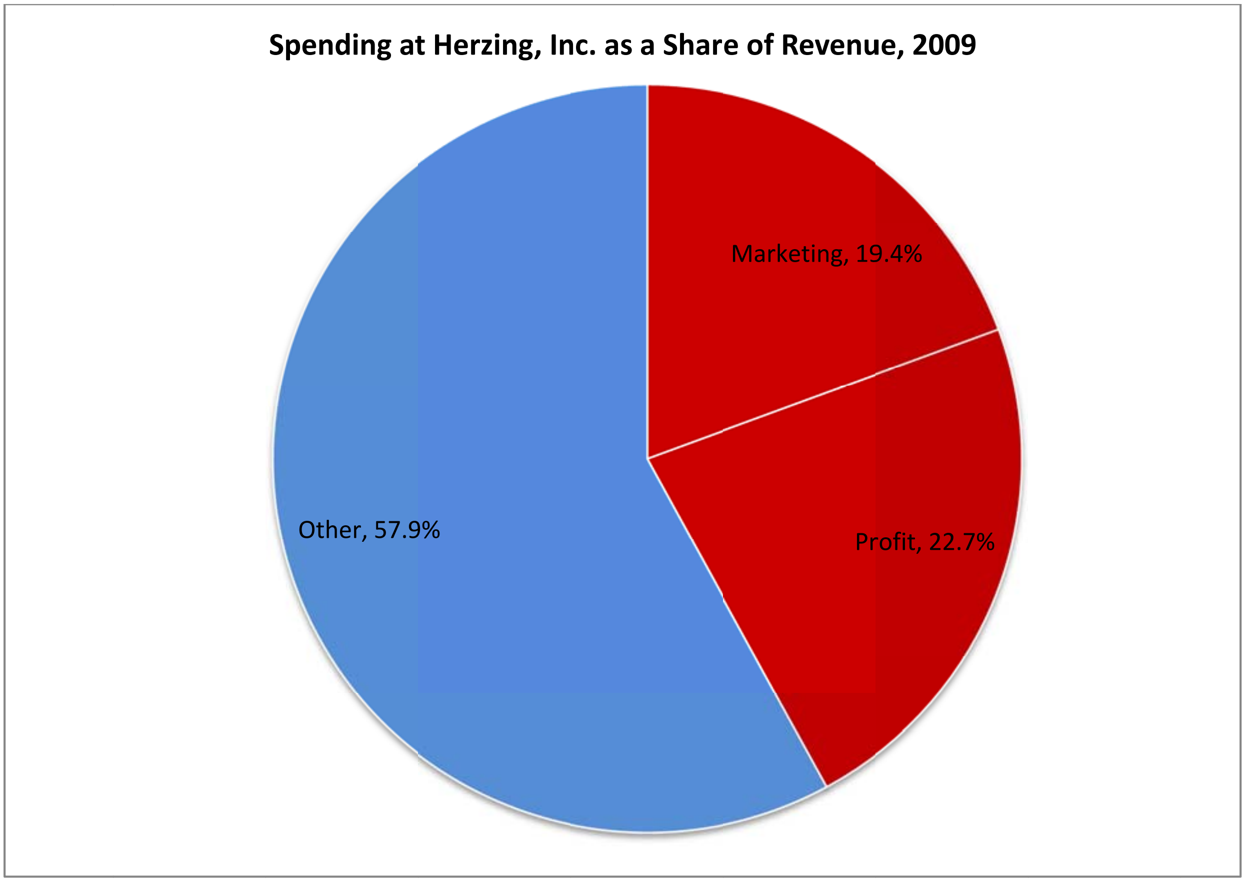
While Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded

[2010] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012).

[2011] Pell disbursements are reported according to the Department of Education's student aid "award year," other revenue figures are reported according to the company's fiscal year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 and 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012). See Appendix 13.

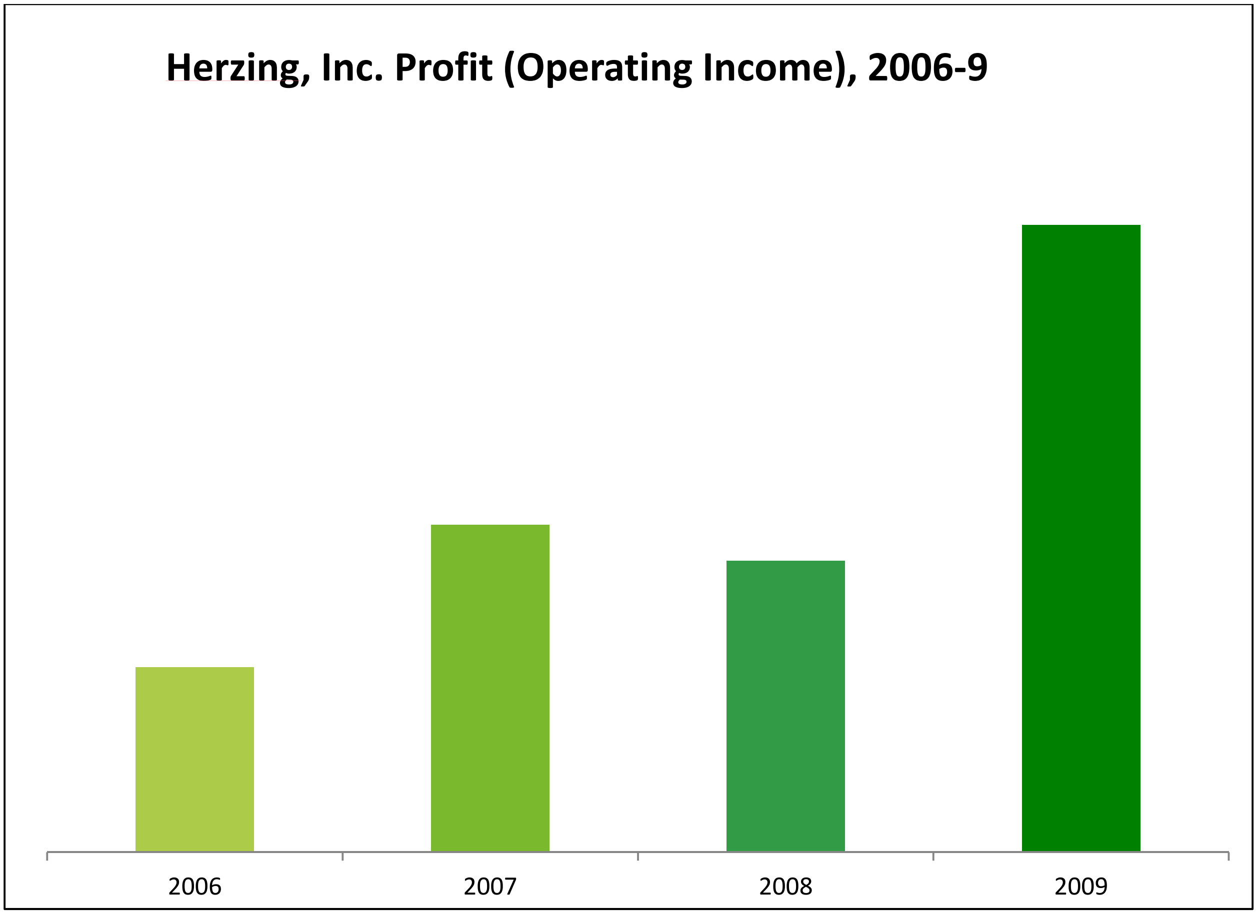
education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[2012] During the same period, the companies spent 23 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[2013] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

In fiscal year 2009, Herzing devoted 19.4 percent of its revenue, to marketing and recruiting and 22.7 percent, to pre-tax profit.[2014]



The amount of profit Herzing generated also increased rapidly, rising 71 percent between 2006 and 2010.[2015]

[2012] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.
[2013] Senate HELP Committee staff analysis of fiscal year 2009 financial statements. Marketing and recruiting includes all spending on marketing, advertising, admissions, and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation.
[2014] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.
[2015] Senate HELP Committee staff analysis. See Appendix 18.



Executive Compensation

As a privately held company, Herzing is not obligated to release executive compensation figures.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Herzing. A Diploma in Medical Assisting at Herzing University costs $22,800.[2016] The same degree at Milwaukee Area Technical College costs $5,459.[2017] Herzing charges $27,300 for an Associates in Business Management;[2018] Milwaukee Area Technical College offers an Associates in Business Management for $7,420.[2019] A Bachelor of Science in Business Management with a concentration in

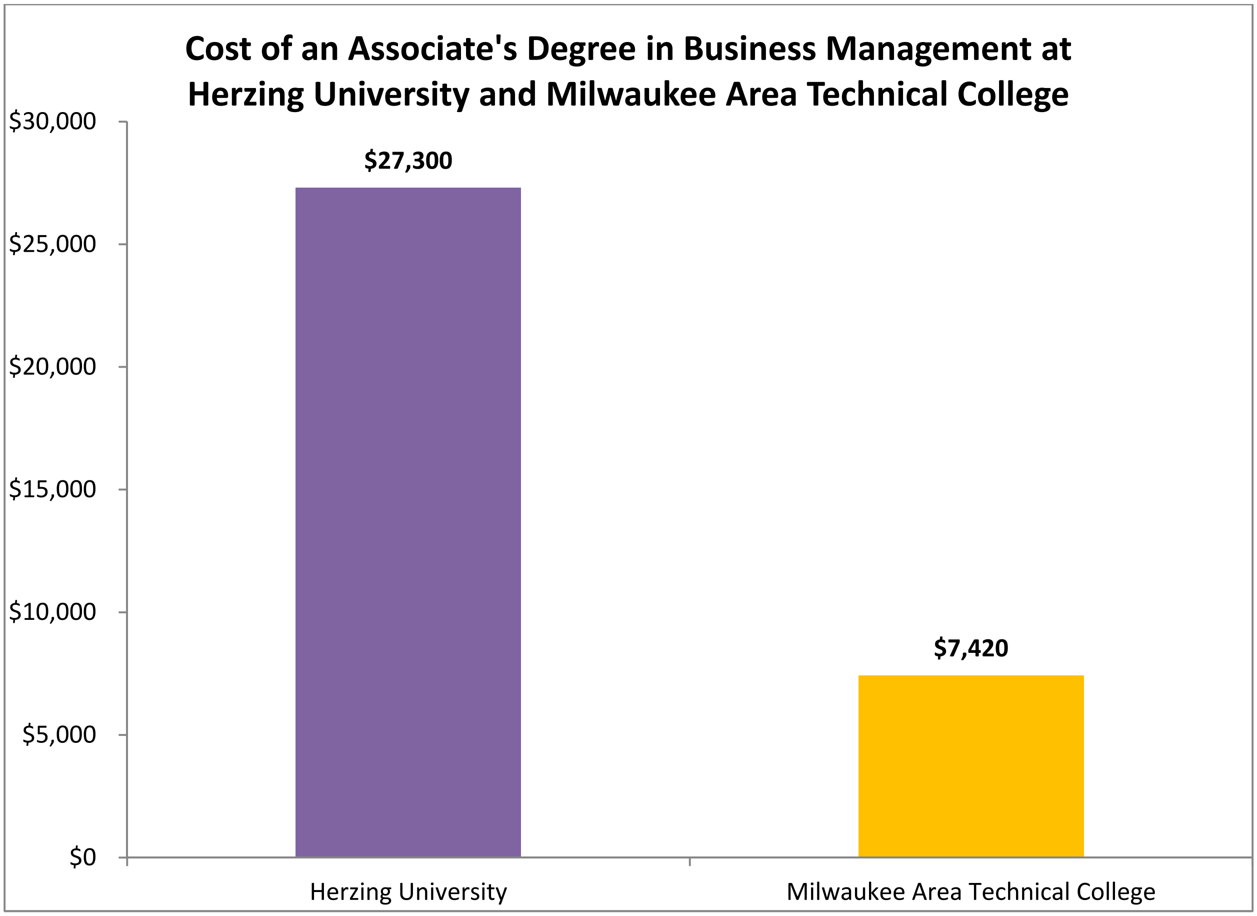
[2016] See Appendix 14; see also, Herzing University, *Medical Assisting Services*, http://www.herzing.edu/academics/medical-assisting-services (accessed July 13, 2012).

[2017] See Appendix 14; see also, Milwaukee Area Technical College, *Milwaukee Area Technical College*, http://www.matc.edu (accessed July 13, 2012).

[2018] See Appendix 14; see also, Herzing University, *Business Management*, http://www.herzing.edu/academics/business-management (accessed July 13, 2012). Herzing estimates the cost of this program as between $27,300-30,300, making $27,300 the most conservative estimate as to degree cost.

[2019] See Appendix 14; see also, See Appendix 14; see also, Milwaukee Area Technical College, *Milwaukee Area Technical College*, http://www.matc.edu (accessed July 13, 2012).

business administration costs $57,000 at Herzing University,[2020] while a Bachelor's degree in Business at the University of Wisconsin-Madison costs $50,480.[2021]



The higher tuition that Herzing charges is reflected in the amount of money that Herzing collects for each veteran that it enrolls. From 2009-11, Herzing trained 278 veterans and received $2.7 million in post-9/11 GI bill benefits, averaging $9,695 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[2022]

Internal Herzing emails indicate that company executives are aware that cost of tuition is a growing problem. A 2009 email from the Director of Admissions at the Madison campus states that:

> Many of our students are already coming to us with large amounts of loans from prior institutions. Any increase will make it much more difficult for students to be able to graduate in their programs. This is only adding to the student's debt without them gaining additional marketable skills/degrees.[2023]

He also states:

[2020] See Appendix 14; see also, Herzing University, *Business Management*, http://www.herzing.edu/academics/business-management (accessed July 13, 2012).

[2021] See Appendix 14; see also, University of Wisconsin-Madison, *Wisconsin*, http://www.wisc.edu/ (accessed July 13, 2012).

[2022] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.

[2023] Herzing Internal Email, November 6, 2009, re: *Tuition Increase Recommendations* (HP000006785).

We would prefer to see no increase as there is already a struggle for many students….With the lack of alternate loans available we are worried students will not be able to afford even entering our program and go elsewhere.[2024]

Complaints help to document student concern regarding the cost of attendance. After being of informed about a tuition increase, one student complained:

I am not sure why the cost of tuition needs to be increased. … Because I have invested so much money and time into this institution, I feel I have no other choice but to stick it out.[2025]

She ends the letter by asking if the school has cut the budget in order to help save money. The school responded that students should write to Congress and ask that Pell Grants be increased. Another student noted:

This now means [I] will have to spend an EXTRA $1350 to go to this already expensive RN program.[2026]

She continues:

I wish this [annual] increase was brought to my attention before [I] signed all the papers to be admitted.[2027]

While student complaints may not be representative of the experience of the majority of students, they do provide an important window into practices that appear to be occurring.

Recruiting

Enrollment growth is critical to the business success of for-profit education companies. In order to meet revenue and profit expectations for-profit colleges recruit as many students as possible to sign up for their programs.

During the period examined and prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, documents clearly reflect the pressure on recruiters to meet enrollment targets.

A Herzing recruiter training document entitled "Handling Objections" coaches recruiters on how to overcome prospective students' objections to enrolling at the school.[2028] According to the document the most common objections are:

1. Now is not a good time, too much going on- family, job, planning a wedding, moving etc.
2. Tuition is too high compared to community college.
3. Too much money for a diploma program.
4. Can't afford tuition at this time.

[2024] Id.
[2025] Herzing Internal Email, February 10, 2009, re: *Don Madelung & [redacted] on Local Radio 2/7/2009* (HP000006830, at HP000006831).
[2026] Herzing Internal Email, February 13, 2012, re: *Annual Tuition Increase* (HP000006912). (emphasis in original)
[2027] Id.
[2028] Herzing, *Handling Objections: A Step by Step Process* (HP000004085).

5. Don’t want loans, only grants.
6. Concerned about placement, looking for guarantee.
7. Leery about the credibility of an online school.[2029]

The document also explains the source of these objections:

Why do prospects object?
Fear.

- Fear of risk.
    - Risk of loss.
        - Loss of money.
        - Loss of time.

Eliminate the fear = overcoming the objections.[2030]

Because “preparation is the key,” the document outlines how to effectively prepare for these student objections: “Build a comprehensive list of objections. Prepare an objection response form. Keep the list up to date, add new objection and responses as they occur. Set up a Strategic Tactical Objections Response Meeting (S.T.O.R.M) to deal with new objections.” [2031]

Students complained that recruiters mislead and outright lied to them in order to induce their enrollment. One such complaint reads:

> When I contacted Herzing College about the Medical Coding program, I was informed that I would be a Coder II upon completion. That is false. In order to obtain the status of Coder II you must have three years of experience to be eligible to take the certification test.[2032]

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[2033]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan “cohort default rates.” These metrics indicate that many students who enroll at Herzing are not achieving their educational and career goals.

[2029] Id. at HP000004097.
[2030] Id. at HP000004087.
[2031] Id. at HP000004088.
[2032] Herzing, November 2007, *Student Complaint Summary* (HP000002215, at HP000002216).
[2033] Patricia Steele and Sandy Baum, August 2009, “How Much Are College Students Borrowing?,” *College Board Policy Brief*, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 14, 2012).

Retention Rates

Information Herzing provided to the committee indicates that of the 4,196 students who enrolled at Herzing in 2008-9, 52 percent, or 2,180 students, withdrew by mid-2010.[2034] Overall, Herzing's withdrawal rate of 52 percent closely tracks the withdrawal rate of 54.1 percent for the 30 schools the committee examined.[2035] Herzing's 52.7 percent withdrawal rate from the Associate degree program and 49.3 percent withdrawal rate from the Bachelor's degree programs are lower than the sector-wide rates of 62.8 percent and 54.3 percent respectively. However, Herzing's Certificate program students, who made up one-quarter of its enrollees in 2008-9, withdrew at a rate of 52.5 percent, which is significantly higher than the 38 percent average of the companies examined.

Status of Students Enrolled at Herzing, Inc. in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	2,237	13.0%	34.4%	52.7%	1,178	149
Bachelor's Degree	841	4.5%	46.1%	49.3%	415	161
Certificate	1,118	20.8%	26.7%	52.5%	587	150
All Students	4,196	13.4%	34.7%	52.0%	2,180	151

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Online vs. Brick and Mortar Outcomes

An analysis of withdrawal rates among the 11 companies that provided disaggregated data indicates that students attending online programs had higher withdrawal rates than student attending campus based programs. Overall, online students at Herzing withdrew at a higher rate, 54.9 percent, than their brick and mortar counterparts, at 50.4 percent. This holds true for both Associate and Certificate withdrawal rates with online students withdrawing at higher rates, 57.4 percent and 56.2 percent respectively, than those at brick and mortar campuses, 51.2 percent and 47 percent. However, online Bachelor's degree students have a higher rate of retention than brick and mortar Bachelor's students, with 50.5 percent of brick and mortar students leaving compared to 46.7 percent of online students. In general, even with 10 percent more students withdrawing from online Certificate programs, the disparity between online and brick and mortar students is less pronounced at Herzing than at other companies analyzed.

[2034] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

[2035] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

Status of Online Students Enrolled at Herzing, Inc. in 2008-9, as of 2010							
Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Associate	523	28	5.4%	195	37.3%	300	57.4%
Bachelor's	257	5	1.9%	132	51.4%	120	46.7%
Certificate	665	88	13.2%	203	30.5%	374	56.2%
All	1,445	121	8.4%	530	36.7%	794	54.9%

Status of Brick and Mortar Students Enrolled at Herzing, Inc. in 2008-9, as of 2010							
Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Associate	1,714	262	15.3%	574	33.5%	878	51.2%
Bachelor's	584	33	5.7%	256	43.8%	295	50.5%
Certificate	453	145	32.0%	95	21.0%	213	47.0%
All	2,751	440	16.0%	925	33.6%	1,386	50.4%

Herzing's accreditor HLC appears to have particular concerns about the learning outcomes of its students and has placed stipulations on Herzing's accreditation status that prevent the addition of new undergraduate programs and require commission staff approval for graduate level programs.[2036] HLC has also scheduled a focused visit to Herzing to examine "integrity of public information and on learning outcomes assessment." [2037]

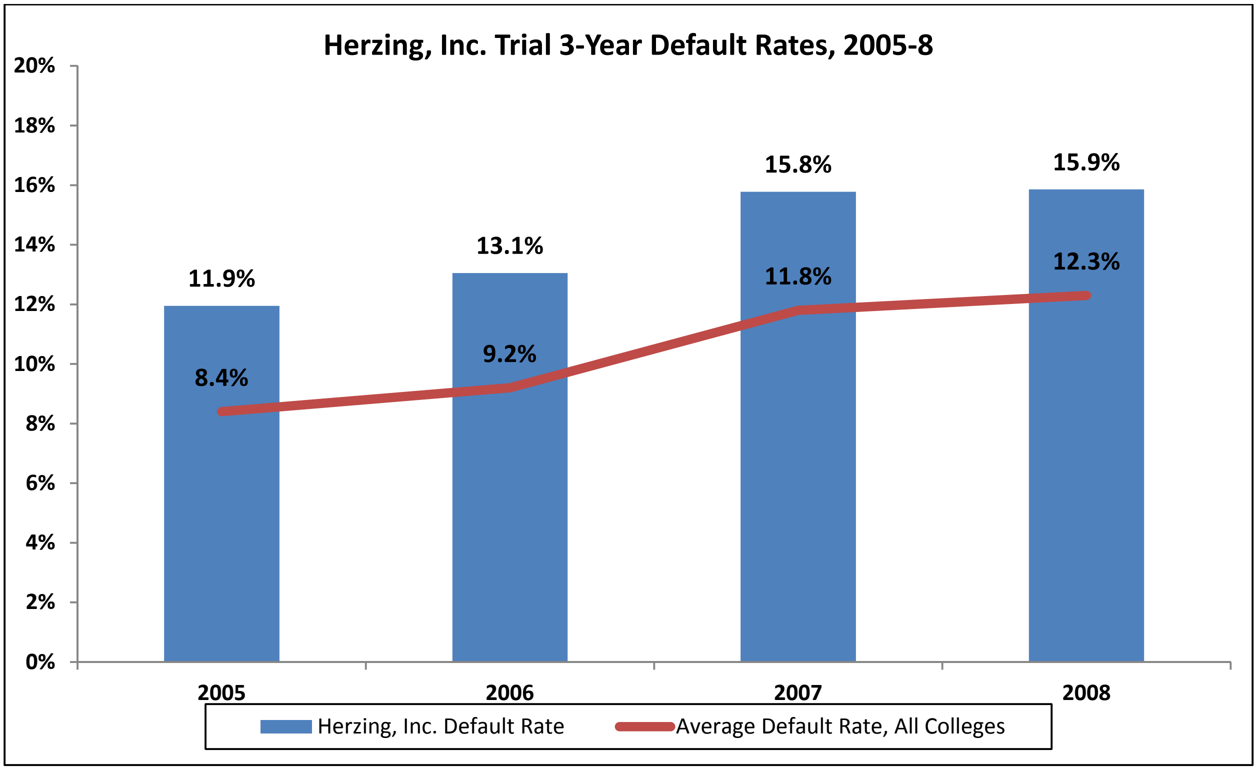
Student Loan Defaults

The number of students leaving Herzing with no degree correlates with the high rate of student loan defaults by students who attended Herzing. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[2038]

Slightly more than one in five students, who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[2039] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2040] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2041] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[2042]

[2036] The Higher Learning Commission, "Currently or Previously Affiliated Institutions: Herzing University" http://www.ncahlc.org/component/com_directory/Action,ShowBasic/Itemid,/instid,2838/ (accessed June 14, 2012).
[2037] Id.
[2038] Direct Loan Default Rates, 34 CFR 668.183(c).
[2039] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html (accessed July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default by sector.
[2040] Id.
[2041] Id.
[2042] Id.

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[2043] This change represents a 32.6 percent increase over 4 years.[2044] Herzing's 3-year default rate has gradually increased, growing from 11.9 percent for students entering repayment in 2005 to 15.9 percent for students entering repayment in 2008.



Instruction and Academics

The quality of any college's academics is difficult to measure. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.

Herzing spent $3,822 per student on instruction in 2009, compared to $2,447 per student on marketing, and $2,864 per student on profit.[2045] The amount that privately held companies the committee examined spend on instruction ranges from $1,118 to $6,389 per student per year.[2046] In contrast, public and non-profit schools, generally spend a higher amount per student on instruction. By

[2043] Id.
[2044] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-2008, http://federalstudentaid.ed.gov/datacenter/cohort.html (accessed July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[2045] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.
[2046] Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

comparison, on a per student basis, the University of Wisconsin spent $14,329 per student on instruction and Marquette University spent $9,141 per student. Milwaukee Area Technical College spends 11,970 per student.[2047]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 companies the committee examined, 80 percent of the faculty is part-time.[2048] In 2010, Herzing employed 187 full-time and 283 part-time faculty, a far higher ratio of full-time to part-time faculty than at an many companies examined.[2049]

However, student complaints reflect concern with the academic quality. One Herzing student writes:

> We are currently in our fourth week of class and … I can honestly say that I have not learned anything in this class.[2050]

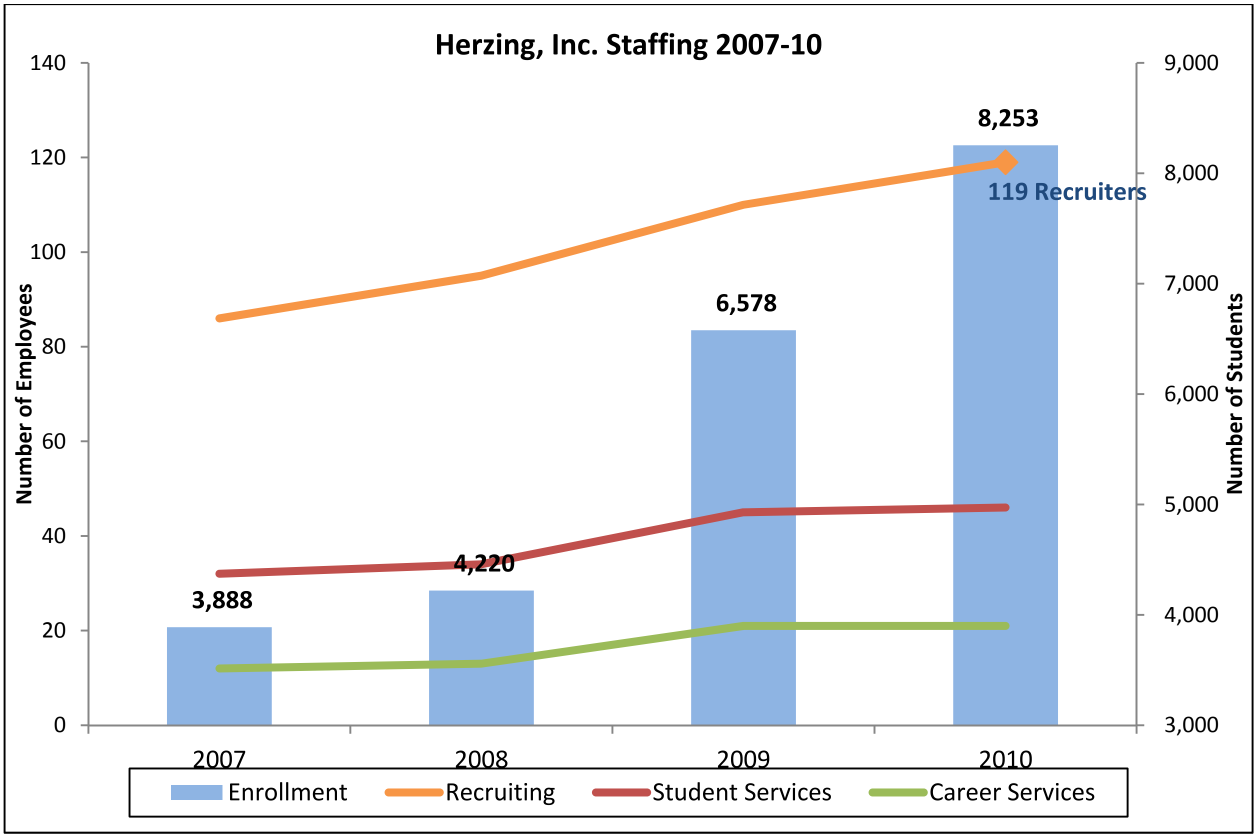
She goes on to note that on several occasions when students asked teachers basic questions, the teacher was unable to answer.

While student complaints may not be representative of the experience of the majority of Herzing students, these complaints do provide an important perspective on Herzing's academic quality.

Staffing

While for-profit education companies employ large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services, or career counseling and placement. In 2010, with 8,253 students, Herzing employed 119 recruiters, 46 student services employees and 21 career services, and placement staff.[2051] That means each career counselor was responsible for 393 students and each student services staffer was responsible for 179 students. Notably, these numbers have not increased significantly as student enrollment has exploded. Meanwhile, the company employed one recruiter for every 69 students.

[2047] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.
[2048] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[2049] Id.
[2050] Herzing, Student Complaint, November 25, 2009 (HP000002321).
[2051] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.



Many Student complaints express dissatisfaction with the level of services available at Herzing. One student reports receiving very attentive treatment while being recruited, but then not getting phone calls returned once enrolled. She states:

> In my experience, communication between Herzing and on-line students does not exist.[2052]

She continues:

> I am absolutely astonished at the lack of communication, lack of effort and lack of support that I have had from Herzing.[2053]

Several students complained that the career services office did not help them find leads or connect them with employers. A student notes that all the office does is send job postings the student had already found himself. He continues:

> If I would have known I would be without a job a year after I finished school then I would have never [come] to your school.[2054]

Another student wrote about withdrawing from Herzing after taking two classes and deciding the program was not for him. He notes that he paid for the classes he took, but ended up receiving nonstop calls from the school for payment for the entire program—about $9,000. He concludes:

[2052] Herzing Internal Email, May 27, 2009, re: *Herzing – Birmingham, AL- (important)* (HP000002285, at HP000002287).
[2053] Id, at HP000002288.
[2054] Herzing Complaint, September 14, 2009, (HP000002319).

> I believe it would be only fair if I [paid] for the classes I did complete, (even the ones with a failing grade). I do not think it is right or just to charge me for classes I did not take.[2055]

While student complaints may not be representative of the experience of the majority of Herzing students, these complaints do provide an important perspective on the quality of student and career services at Herzing.

Regulatory Strategies

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenues come from title IV Federal financial aid programs ("90/10") and that no more than 25 percent of students default within 2 years of entering loan repayment. Many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal financial aid programs. Internal documents indicate that rather than reducing tuition and requiring a student contribution, Herzing employs various other tactics to generate non-title IV revenue including increasing State funding, creating a tuition "gap," maximizing cash payments and providing institutional loans.

According to an internal Herzing memo, potential revenue streams for increasing non-title IV funds include pursing military funding, corporate funding, Native American tribal funding, international funding and State funding.[2056]

State funding can also make a significant difference as an email from founder and CFO Henry Herzing points out:

> that Ohio eliminating the state grant in mid year caused the problem whereas in states like Minnesota there is no problem with the state grant.[2057]

An email from the Chairman to the CEO illustrates the company's strategy. He states that:

> In Akron and possibly Alabama and Toledo hire a rep to focus on WIA, veterans, rehabilitation, workmen's compensation clients, and tuition reimbursement or corporate contracts…we could discount as much as it takes to get the business if the company or institution pays… Let's be aggressive in getting sponsored students-offering 40 to 50% discounts in Ohio-High priority… Our goal should be to get under 85% so we are not living on the edge. [2058]

Another part of Herzing's strategy for dealing with 90/10 has been to increase the cost of tuition. This has been a source of some concern as indicated in a November 2009 email from the director of financial services:

> … to assist in 90/10, our students will have higher cash payments or they will have to apply for alternative loans. In my experience, and especially lately, the majority of our students cannot afford higher payments. We have people coming in weekly asking to

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[2055] Herzing Complaint, April 1, 2009 (HP000002165, at HP000002166).
[2056] Herzing Internal Memorandum, December 7, 2009, re: *90/10 Mitigation and Business Development* (HP000001046).
[2057] Herzing Internal Email, September 19, 2009, re: *FW: Slides Board meeting Sept 09 EFC Equal to Zero by Campus.pptx* (HP000006680).
[2058] Herzing Internal Email, November 25, 2009, re: *90/10 Initiatives-possibilities* (HP000005715).

> reduce their contributions or take out the maximum loans to increase their credit balances.[2059]

Rather than looking at options to improve the company's regulatory issues, Herzing's preferred solution would appear to be to eliminate 90/10 altogether as the former CEO Henry Herzing states:

> 90/10 is a multi-front battle, like cancer-we won't find one single solution other than abolition.[2060]

While it is relatively small compared to others in the for-profit sector, Herzing's institutional loan program also helps to mitigate the impact of 90/10.[2061] In 2010, Herzing originated 39 loans with a total principal of $69,646 (an average loan amount $1785.80). These loans had an interest rate of 12 percent and default rate of 18.21 percent.

Conclusion

While Herzing has experienced rapid growth, it remains one of the smaller companies the committee examined. More than half the company's students withdrew during the period examined, but these withdrawal rates are below the sector average. While the company does not appear to invest in student services that could reduce withdrawal rates, it also appears to avoid many of the tactics used by larger publicly traded companies and private equity-owned companies. Moreover, Herzing faces challenges to remain in compliance with the regulation that no more than 90 percent of revenue come from Federal financial aid dollars. Moving forward, the company will need to focus on improving student outcomes rather than prioritizing growth.

[2059] Herzing Internal Email, November 30, 2009, re: *Tuition* (HP000005730, at HP000005732).
[2060] Herzing Internal Email, September 4, 2009, re: *90/10 combining* (HP000006166).
[2061] The company started its institutional loan program in 2009.

ITT Educational Services

Introduction

ITT Educational Services Corporation, Incorporated ("ITT") is one of the largest for-profit education companies, and offers primarily 2-year and some 4-year degrees in a number of subjects. Like many others in the sector, in recent years ITT has experienced significant growth in student enrollment, Federal funds collected, and profit realized. While the company student withdrawal rates are lower than many large publicly traded for-profit education companies, ITT's student loan default rates are higher than most. Additionally, ITT offers some of the most expensive programs of any for-profit college, forcing many students to borrow the maximum available Federal aid and to take on additional private debt.

Company Profile

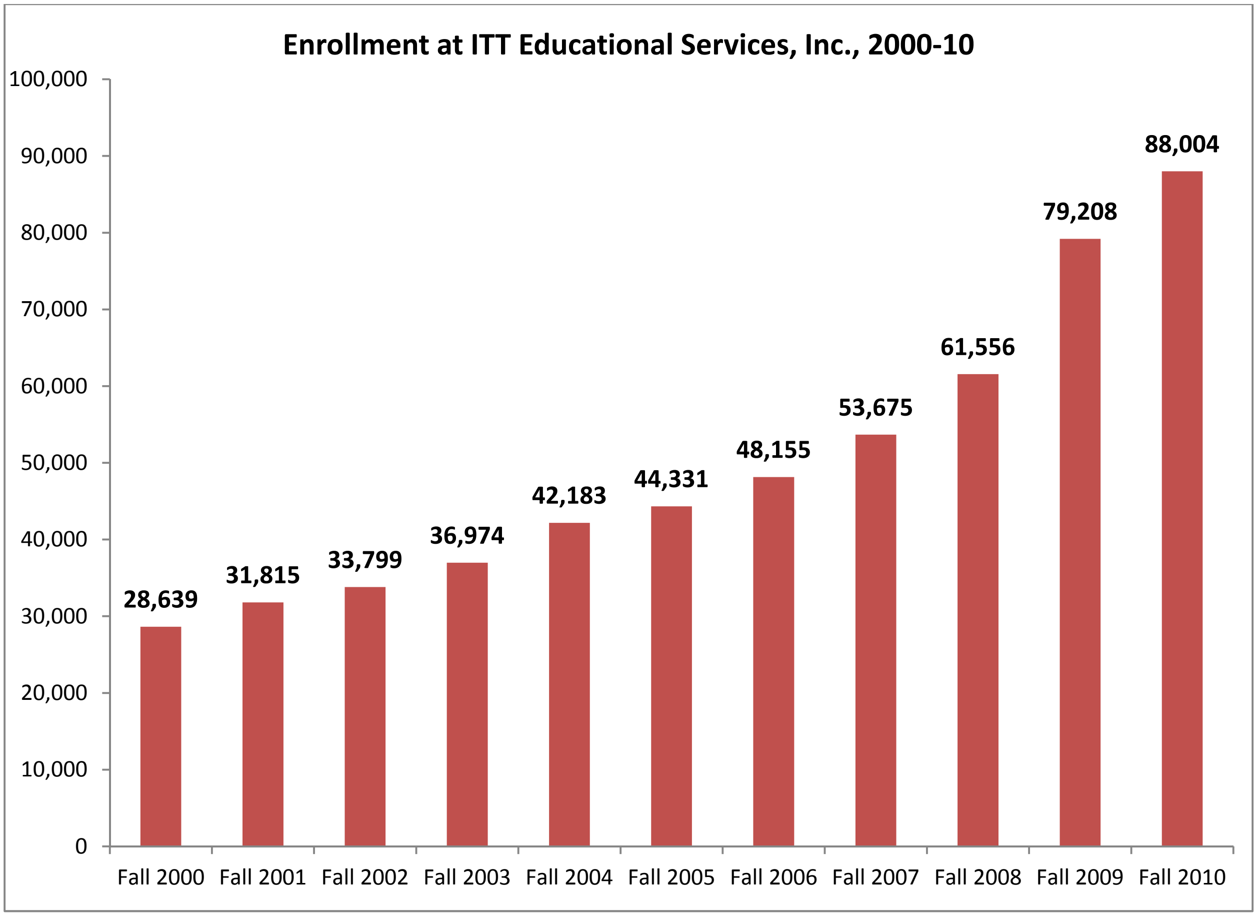
ITT is a publicly traded for-profit educational institution headquartered in Carmel, IN. ITT operates a total of 145 campuses in 35 States, along with an online division, and offers Associate, Bachelor's and Master's programs in electronics, drafting and design, criminal justice, business, information technology, health sciences, and nursing.[2062] Approximately 85 percent of ITT students are enrolled in associate programs.[2063] The largest programs at ITT are IT computer network systems, computer and electronics engineering technology, and computer drafting and design, which account for 75 percent of all students.[2064]

ITT operates two brands, ITT Technical Institute ("ITT Tech"), which accounts for 99 percent of the company's students, and Daniel Webster College, New Hampshire-based with approximately 600 students. ITT Tech campuses are accredited through a national accreditor, the Accrediting Council for Independent Colleges and Schools (ACICS). Daniel Webster College is regionally accredited by the New England Association of Schools and Colleges, Inc. (NEASC).

ITT was founded in 1946 and has been publicly traded since its 1994 initial public offering (IPO). Large institutional investors in the company include Blum Capital Partners (which owns 15.8 percent of the company), Wellington Management Company (13.99 percent), Select Equity Group (6.5 percent), and Providence Equity Group (5.6 percent).[2065]

The current chairman and chief executive officer of ITT is Kevin Modany. Modany has served as chairman since February 2008, and as CEO since April 2007. He also served as president from April 2005 through March 2007.

[2062] For list of campuses see http://www.itt-tech.edu/campus/ (Accessed May 4, 2012).
[2063] ITT Educational Services, "ITT Educational Services at Robert W. Baird and Co. Inc. Business Solutions Conference," *Lexis Nexis*, February 29, 2012.
[2064] ITT Educational Services, "ITT Educational Services at Robert W. Baird and Co. Inc. Business Solutions Conference," *Lexis Nexis*, February 23, 2011.
[2065] Blum Capital Partners (S13D Filed 2/28/2012), Wellington Management Company (S13G Filed 2/14/2012), Select Equity Group (S13G Filed 2/14/2012), and Providence Equity Group (S13G Filed 2/13/2012).



In the fall of 2010, 88,004 students were enrolled at ITT,[2066] a more than 200 percent increase since 2000. Enrollment fell slightly, in 2011 to 79,219 students. This drop in enrollment led to a drop in both revenue and profit. Eighty percent of the variance in new students is attributable to the company's decision to limit new enrollment in the criminal justice program.[2067] According to ITT's CEO, the reason for this limitation is concern regarding outcomes of criminal justice students.[2068]

ITT's growth has been the result of aggressive campus expansion, as the company adds about 8 to 10 new locations per year.[2069] The company has identified at least 50 additional locations that they see as "viable opportunities to continue to expand." [2070]

ITT's revenue has grown along with enrollment, more than doubling from $757.8 million in 2006 to $1.6 billion in 2010.[2071]

[2066] Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.
[2067] ITT Educational Services, 2011, Q4 Earnings Conference Call with Investors.
[2068] Id. Internal documents demonstrate that at one individual campus criminal justice has the highest drop-out rate. ITT Educational Services, Criminal Justice and Composition March Department Meeting (ITT-00036911).
[2069] ITT Educational Services at Robert W. Baird and Co. Inc. Business Solutions Conference. February 29, 2012.
[2070] Id.
[2071] Matching the drop in enrollment, revenue fell in $1.4 billion in 2011.
Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

Daniel Webster College

Daniel Webster College was acquired by ITT in 2009 for $20.6 million.[2072] According to news reports, the primary rationale for the purchase was because ITT wanted to acquire a regionally accredited college.[2073]

Following the acquisition, ITT fired one fourth of the staff, including the school president. Interviewed in early 2012, the former president stated, "ITT didn't have much interest in anything other than having acquired a regionally accredited institution" and that "if [he] had to do it all over again, [he] wouldn't have gone anywhere near ITT. The fundamental nature of the college has changed." [2074] He went on, "ITT came in and said, 'we only want faculty to teach, we'll develop curricula in Carmel, Indiana and give them to you." [2075]

Asked about Daniel Webster's growth potential, Michael Clifford (an investor involved in the formation of both Grand Canyon Education and Bridgepoint Education) noted that he believed that Daniel Webster College, "could parallel Grand Canyon or Bridgepoint's growth curve." [2076] While ITT initially had difficulty obtaining approval from the regional accreditor, after 2 years the company has finally obtained approval to begin to offer online programs (specifically business administration at the Associate, Bachelor's, and Master's level).[2077]

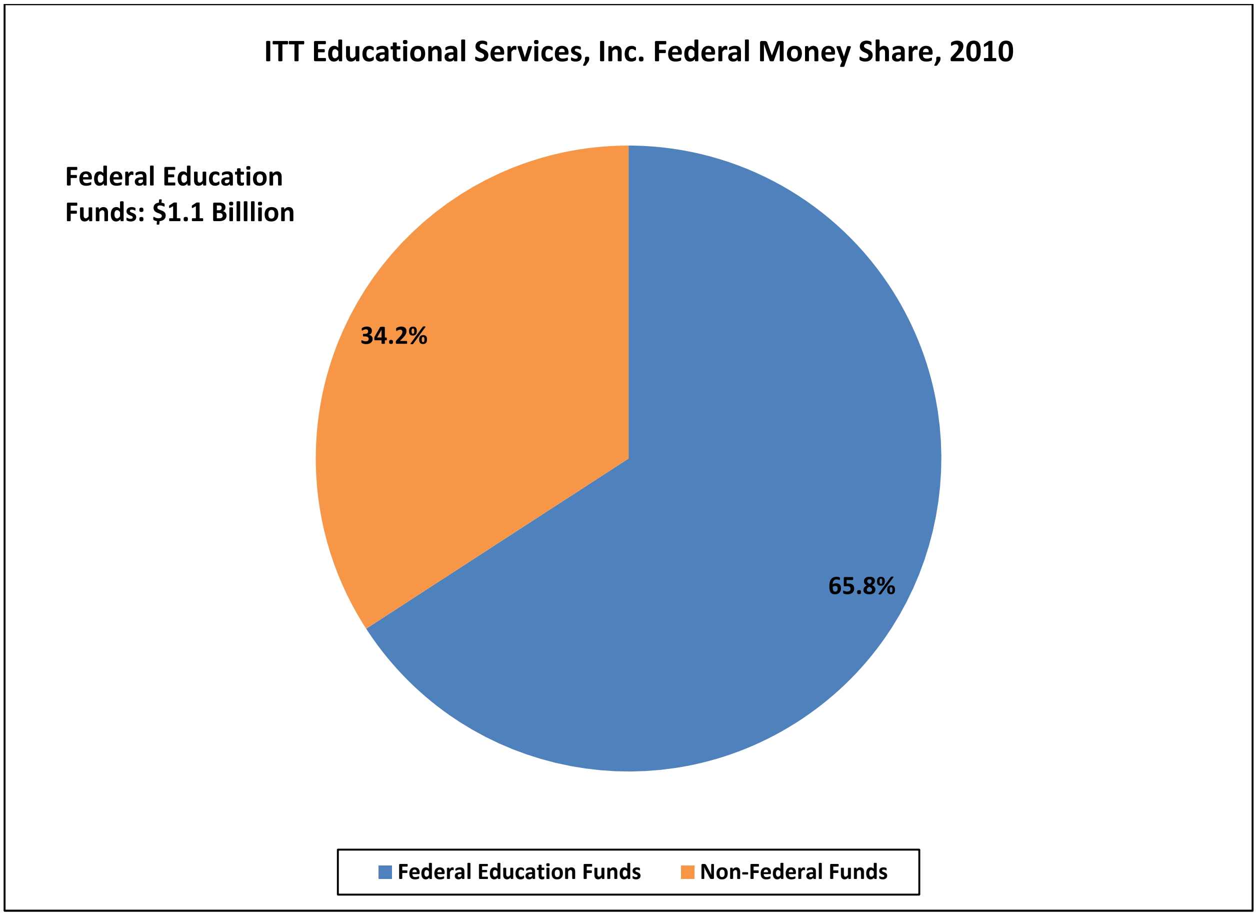
Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2078] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 68 percent in 2006.[2079]

In 2010, ITT reported 60.8 percent of revenue from title IV Federal student aid programs.[2080] However this amount does not include revenue received from the Departments of Defense and Veterans

[2072] ITT Educational Services, 2009, Q2 Earnings Conference Call with Investors.
[2073] "Your Taxes Support For-Profits as They Buy Colleges" Bloomberg. Daniel Golden. March 4, 2012.
[2074] Id.
[2075] Id.
[2076] Id.
[2077] ITT Educational Services, "ITT Educational Services at Robert W. Baird and Co. Inc. Business Solutions Conference," *Lexis Nexis*, February 29, 2012.
[2078] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. § 1070 et seq. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012), 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.
[2079] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.
[2080] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

Affairs education programs.[2081] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 5.1 percent of ITT's revenue, or $87.8 million.[2082] With these funds from the Departments of Defense and Veterans Affairs included, 65.8 percent of ITT's total revenue was comprised of Federal education funds.[2083] Additionally, ITT was able to mitigate potential 90/10 issues through the creation of a large scale semi-private lending program known as PEAKS.



Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; and the share of total Pell disbursements that for-profit

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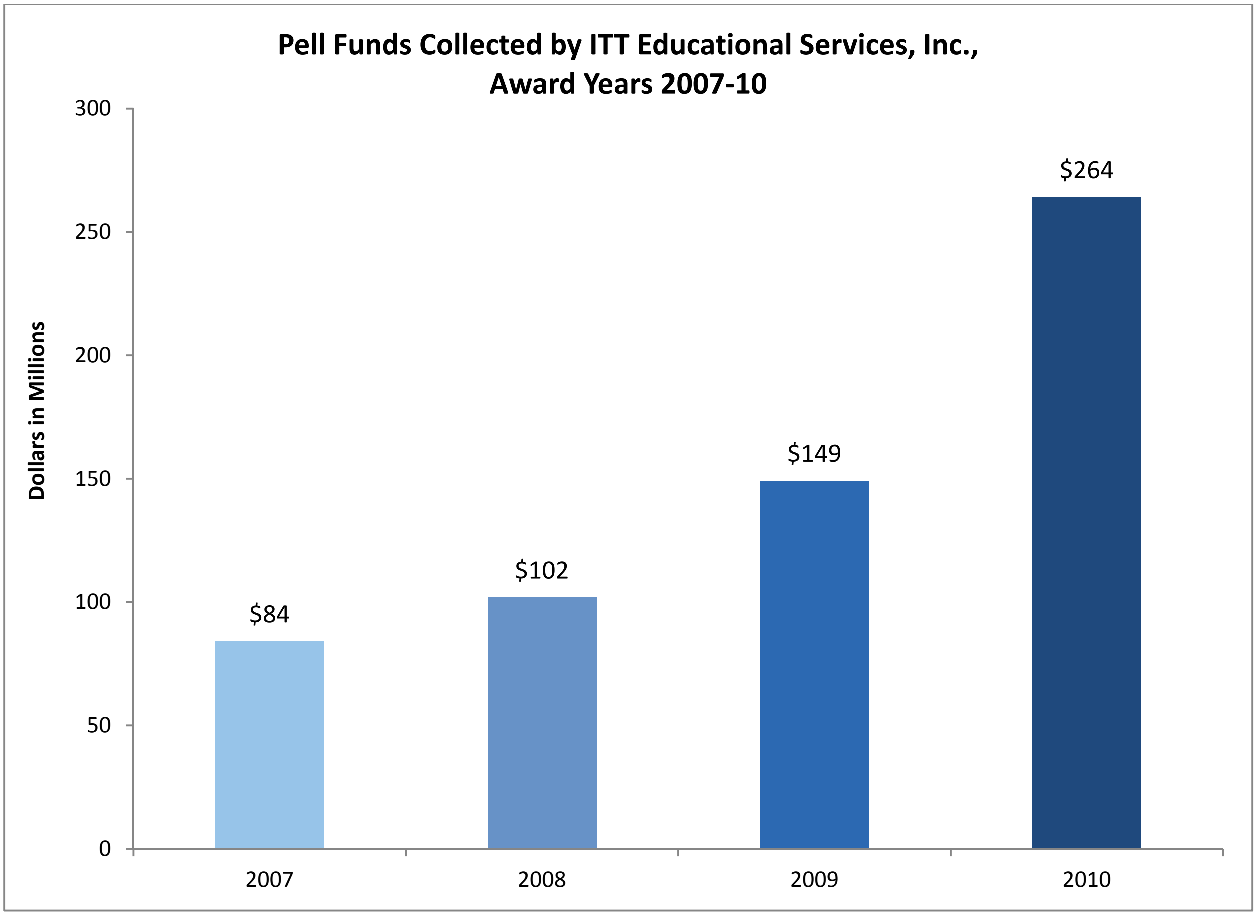
2081 The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for ITT could not be extrapolated from the data the company provided to the committee.

2082 Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

2083 "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.

colleges collected increased from 14 to 25 percent.[2084] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive 2 Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.



ITT tripled the amount of Pell grants it collected, from $84 million in 2007 to $264 million in 2010.[2085]

Spending

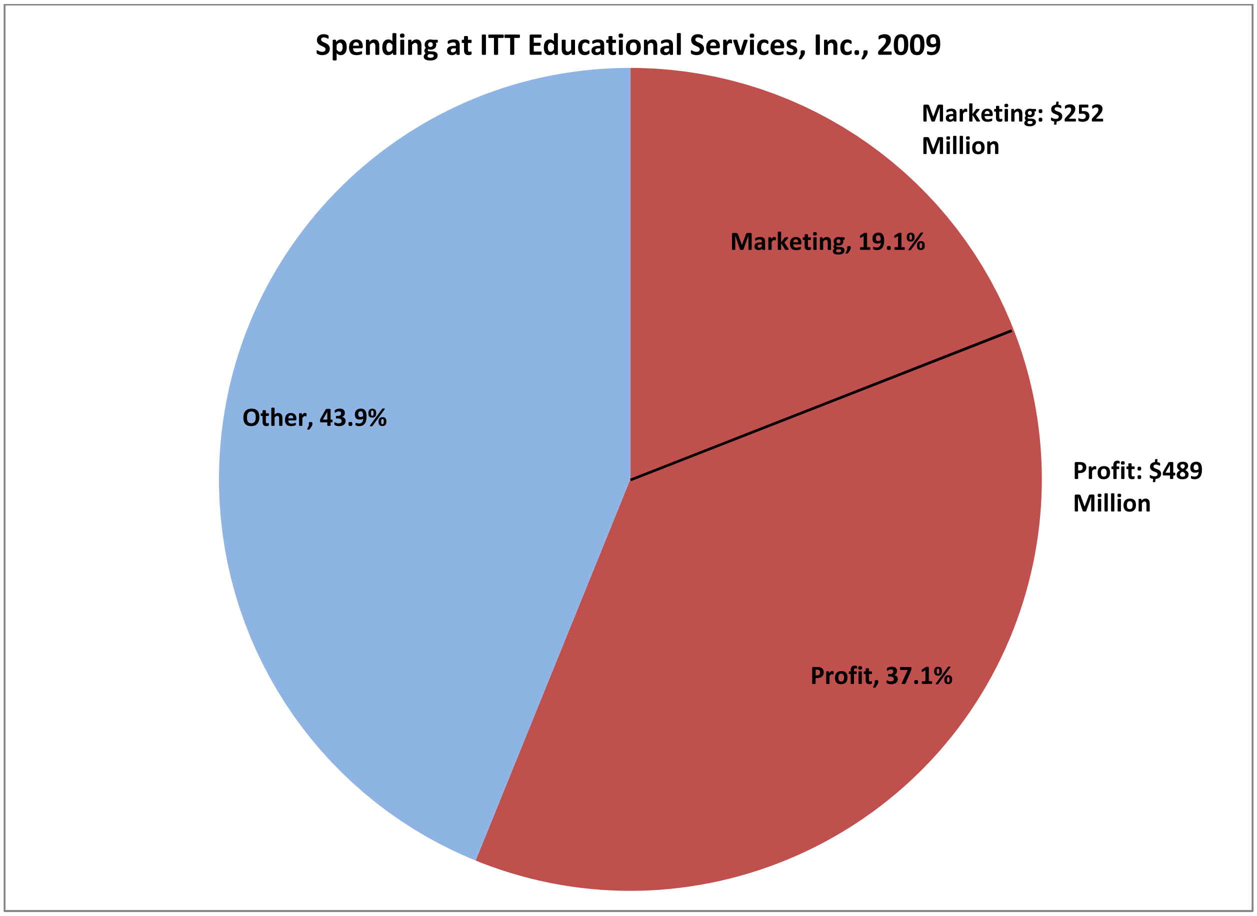
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded

[2084] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.

[2085] Pell disbursements are reported according to the Department of Education's student aid "award year," other revenue figures are reported according to the company's fiscal year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 and 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012). See Appendix 13.

education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[2086] During the same period the companies spent 23 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[2087] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

In 2009, ITT allocated 37.1 percent of its revenue, $489 million, to profit, and 19.1 percent, $252 million, to marketing and recruiting.[2088] ITT's 37.1 percent profit margin is the highest amongst the 30 companies the committee examined.



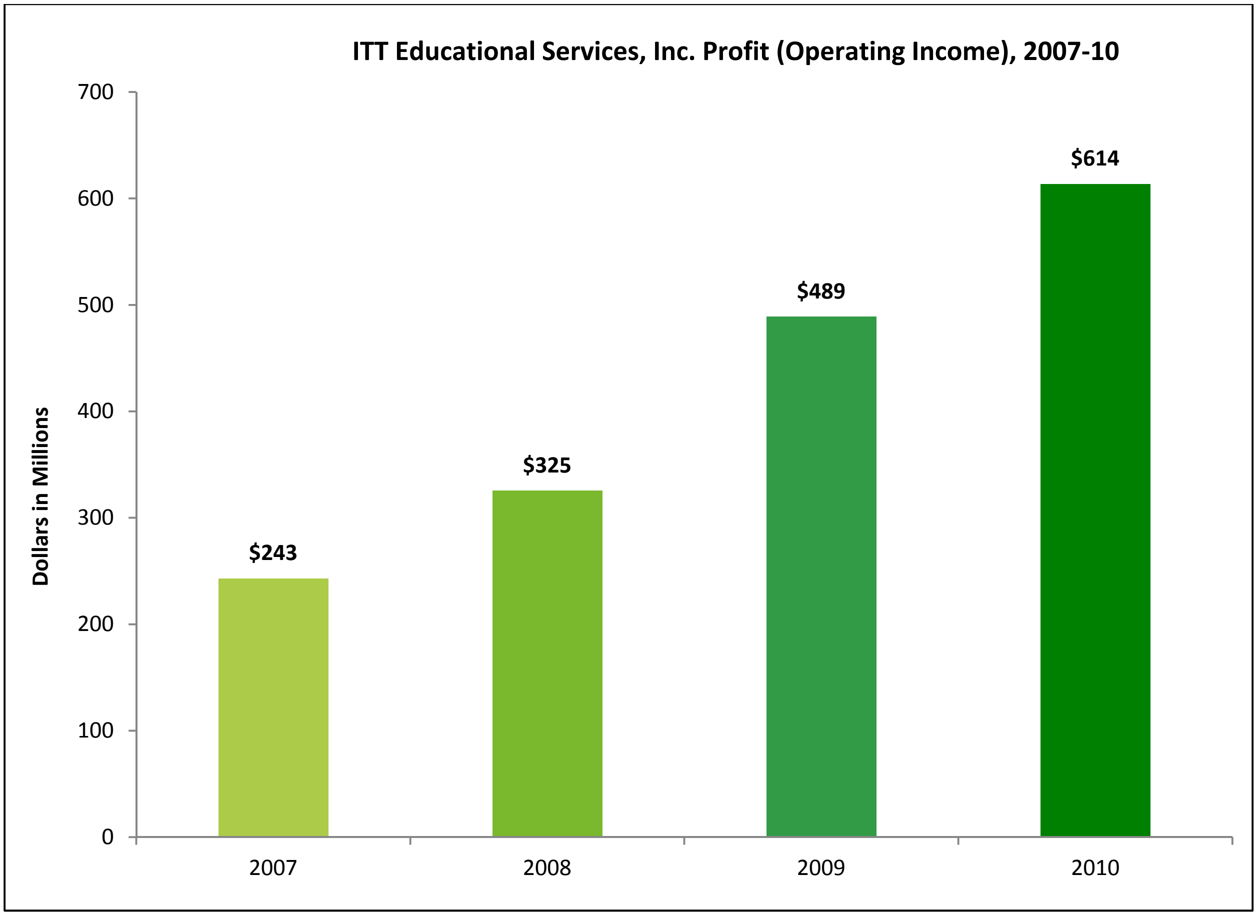
ITT devoted a total of $741 million to marketing, recruiting and profit in fiscal year 2009.[2089] The amount of profit ITT generated has increased rapidly, more than doubling from $243 million in 2007 to $614 million in 2010.[2090]

[2086] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

[2087] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings and information provided to the committee by the company pursuant to the committee document request of August 5, 2010. Profit is based operating income before tax and other non-operating expenses including depreciation reported in SEC filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.

[2088] Id. On average, the 30 for-profit schools examined spent 23 percent of revenue on marketing and 19.4 percent on profit. "Other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.

[2089] Id.



Executive Compensation

Executives at ITT, like most for-profit executives, are also more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[2091] In 2009, ITT CEO Kevin Modany received $7.6 million in compensation, more than 22 times as much as the president of Indiana University at Bloomington, who received $337,144 in total compensation for 2009-10.

[2090] Senate HELP Committee staff analysis. See Appendix 18. Matching the drop in enrollment, profit fell in 2011 to $507 million.
[2091] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.

Executive	Title	2009 Compensation	2010 Compensation
Kevin M. Modany	Chairman and CEO	$7,628,172	$6,745,967
Clark D. Elwood	Executive VP and CAO	$1,827,591	$1,425,939
Daniel M. Fitzpatrick	Executive VP and CFO	$1,794,617	$1,429,072
Eugene E. Feichtner	Executive VP and President, ITT Tech	$1,601,380	$1,327,513
June M. McCormack	Executive VP and President, Online Division	$1,512,783	$1,239,303
Total[2092]		$14,364,543	$12,167,794

The chief executive officers of the large publicly traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[2093] Modany's $7.6 million compensation package for 2009 is slightly above average for publicly traded higher education companies.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at ITT. Tuition for an Associate degree in business administration at ITT's Indianapolis, IN campus was $44,895.[2094] The same program at Ivy Tech Community College in Bloomington, IN costs $9,385.[2095] Tuition for a Bachelor's degree in Business Administration at ITT's Indianapolis, IN campus costs $93,624.[2096] The same program at Indiana University in Bloomington, IN, costs $43,528.[2097]

[2092] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.

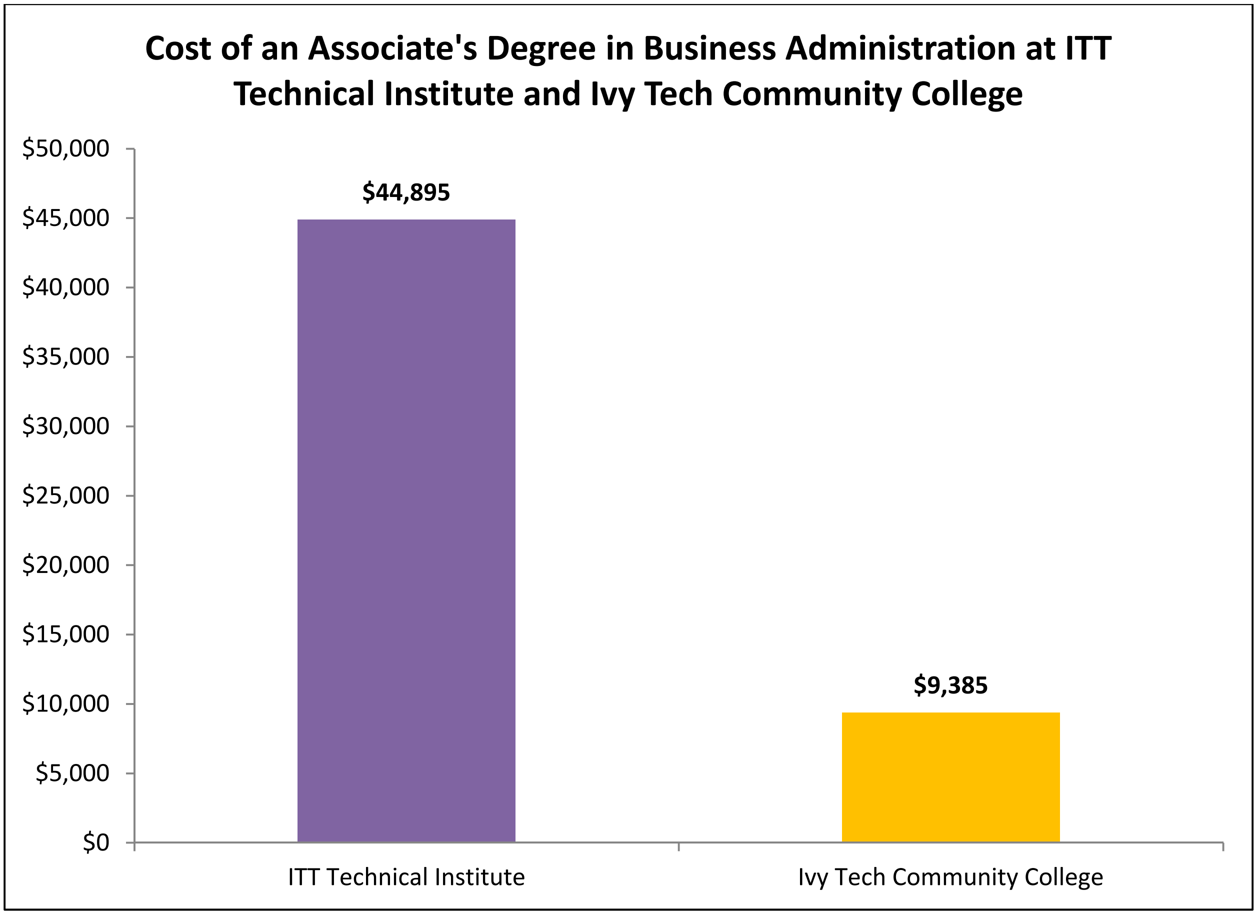
[2093] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

[2094] See Appendix 14; see also, ITT Technical Institute, *Program of Study Information*, http://www.itt-tech.edu/programinfo/psi-ind.pdf (accessed July 12, 2012).

[2095] See Appendix 14; see also, Ivey Tech Community College, *Ivy Tech*, http://www.ivytech.edu/ (accessed July 12, 2012).

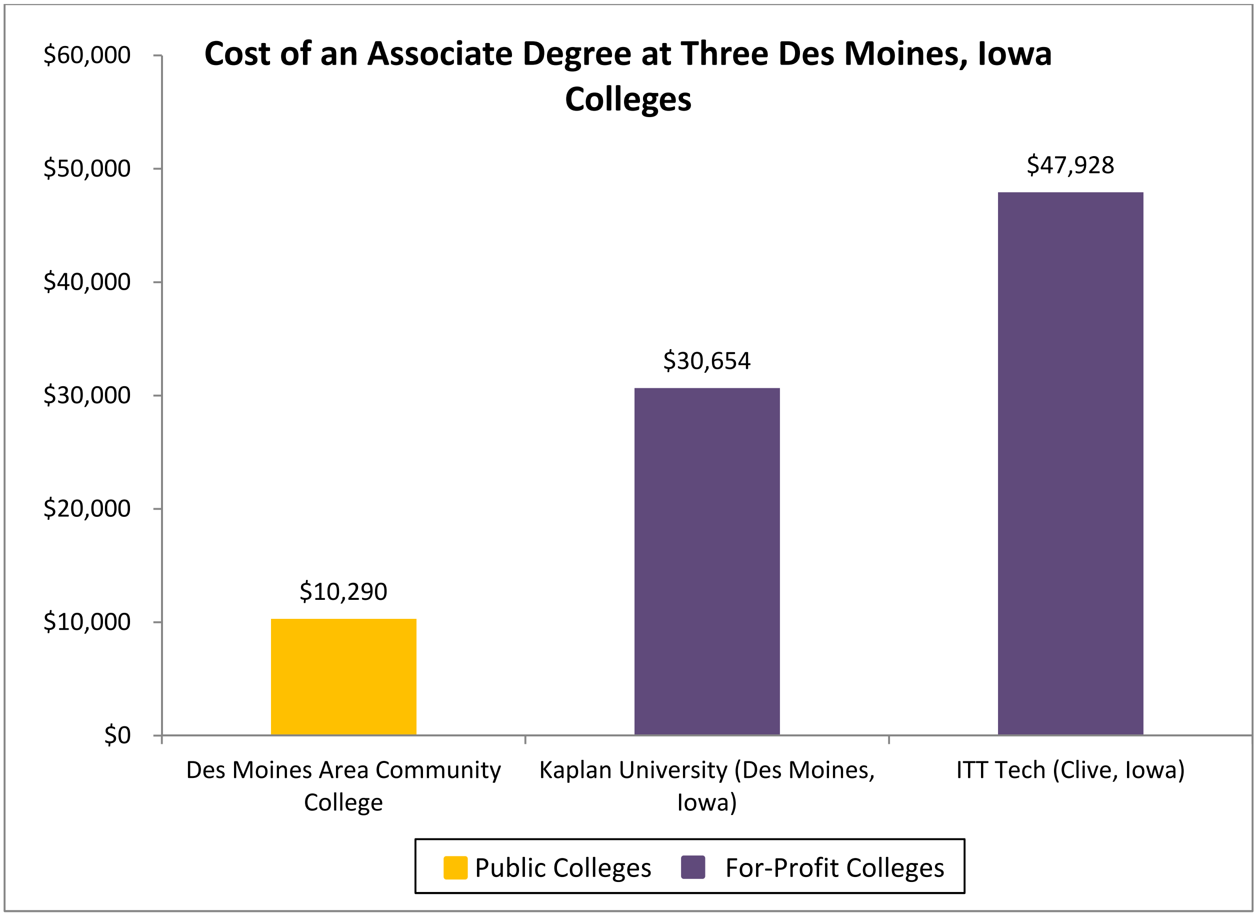
[2096] See Appendix 14; see also, ITT Technical Institute, *Program of Study Information*, http://www.itt-tech.edu/programinfo/psi-ind.pdf (accessed July 12, 2012).

[2097] See Appendix 14; see also, Indiana University, *Indiana University*, http://www.iub.edu/ (accessed July 12, 2012).



Not only does ITT cost more than their public school counterparts, it is also significantly more expensive than comparable for-profit colleges. For example, the cost of an Associate degree at ITT's Clive, IA campus is $47,928.[2098] The same degree at Kaplan University in Des Moines, IA is $30,654,[2099] and the degree costs $10,290 at the Des Moines Area Community College.[2100] ITT's Clive campus had a 54.7 percent withdrawal rate for students enrolling between 2008 and 2009.

[2098] ITT Technical Institute, *Program of Study Information*, http://www.itt-tech.edu/programinfo/psi-ind.pdf (accessed July 12, 2012).
[2099] see also, Kaplan University, *Tuition and Fees*, http://davenport.kaplanuniversity.edu/pages/tuition.aspx (accessed July 12, 2012).
[2100] Des Moines Area Community College, Des Moines Area Community College, http://www.dmacc.edu/ (accessed, July 12, 2012).



The higher tuition that ITT charges is reflected in the amount of money that ITT collects for each veteran that it enrolls. From 2009-11, ITT trained 11,856 veterans and received $178 million in post-9/11 GI bill benefits, averaging $15,042 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[2101]

Scholarships or Debt Reduction Strategy?

ITT asserts that its regular annual tuition increases, at least 5 percent for each of the 14 years between 1996 and 2010, reflect in part the return on investment students receive.[2102] However a confidential presentation to the company's board of directors presents a different take on the value of the student investment. Prepared in response to a draft rule defining the statutory term "gainful employment," that was subsequently revised and recently struck down by a district court decision, the presentation noted: "the overwhelming majority of our programs do NOT comply with the proposed 'GE bright line'[emphasis in original]" but that ITT "*could comply with the proposed rule by reducing tuition levels by an average of 11 percent.* [Emphasis in original]" [2103]

[2101] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.

[2102] ITT Internal Spreadsheets, Quarterly Financial Statements for 1996-2007 (ITT-00119308); See also; ITT Educational Services Internal Email, September 14, 2006, re: *ThinkEquality/ ESI: ThinkEquality Partners Growth Conference Highlights* (ITT-00139934).

[2103] ITT Educational Services, April 19, 2009, *Board of Directors Meeting* (ITT-00133682). On June 2, 2011, the administration released its final rule, which was significantly less impactful that the rule discussed by the board. Under the final rule, a school's degree program does not lose access to title IV funds unless it violates three separate thresholds (loan repayment rates below 35 percent, annual average loan payment less than 30 percent of students' discretionary income; *and*

Though an 11 percent cut would still keep ITT's program costs well above those at Kaplan, DeVry, Apollo, and other for-profit colleges, the presentation declared that the tuition reduction was the "least economically efficient scenario" because it would reduce debt levels for all students, not just graduates, while the proposed regulation only applied to the debt-to-income ratios of graduates.[2104] Essentially reducing tuition and thus debt for students who dropped out was deemed inefficient because they were, at that point, not captured in the regulation.

The board presentation went on to state that the "most economically efficient" solution would be to provide selective financial awards to students likely to graduate. By focusing on graduating students, these awards "effects only revenue from program completers," but would still "result in a reduction of the median loan debt balance of graduates in each program of study."

One of the scholarship programs created around the same time, the Presidential Scholarship, appears to mimic this strategy. The scholarship provides a 20 percent tuition reduction for Bachelor's degree students enrolled after September 2008 who first graduated from an ITT Associate program. It is *applied retroactively* after a student completes a given quarter. In this way, the company is able to reduce the debt loads of graduates, without "inefficiently" forgoing higher revenue from students who are not expected to graduate.

Cost Representations

Documents indicated that, at least during the period reviewed, ITT recruiters were trained to mislead prospective students about the cost of attending the school. When potential students inquire about the cost of tuition at ITT, recruiters are trained to answer with responses like:

> Do you want a discount education, or a valuable one that will give you a return in the future? [2105]
>
> Education is an investment in you and an investment in yourself is never a bad investment.[2106]
>
> Could you share with me your thoughts or ideas as to why you think it might be too expensive? [2107]

While prospective students are more likely to have difficulty obtaining a clear answer on the true cost of attending, current students can also encounter difficulty getting accurate information on price. When a panel member on an accreditation visit suggested that an ITT campus could post tuition increases in the student lounge, so that current students would be notified without first having to locate and read the updated course catalog, ITT's Regulatory Affairs Manager responded: "We comply with state requirements and ACICS criteria 3-1-342(a) by clearly posting the tuition and other charges in the

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the annual loan payments less than 12 percent of students total earnings) three separate times in 4 years. On June 30, 2012, the District Court for the District of Columbia struck down the gainful employment rule stating that the Department had failed to provide sufficient justification for the requirement that 35 percent of students are repaying loans. *Association of Private Colleges and Universities* v. *Duncan*, 2012 DC D 1:11-CV-01314-RC U, p. 29-31, available at http://big.assets.huffingtonpost.com/judgeordergainful.pdf (accessed July 6, 2012).

[2104] ITT Educational Services, April 19, 2009, *Board of Directors Meeting* (Id., ITT-00133682).

[2105] ITT Educational Services, January 16, 2009, *Phone Objections Training* (ITT-00011550 at ITT-00011552). The company asserts that this document reflects unapproved training material used at one campus of the school.

[2106] Id.

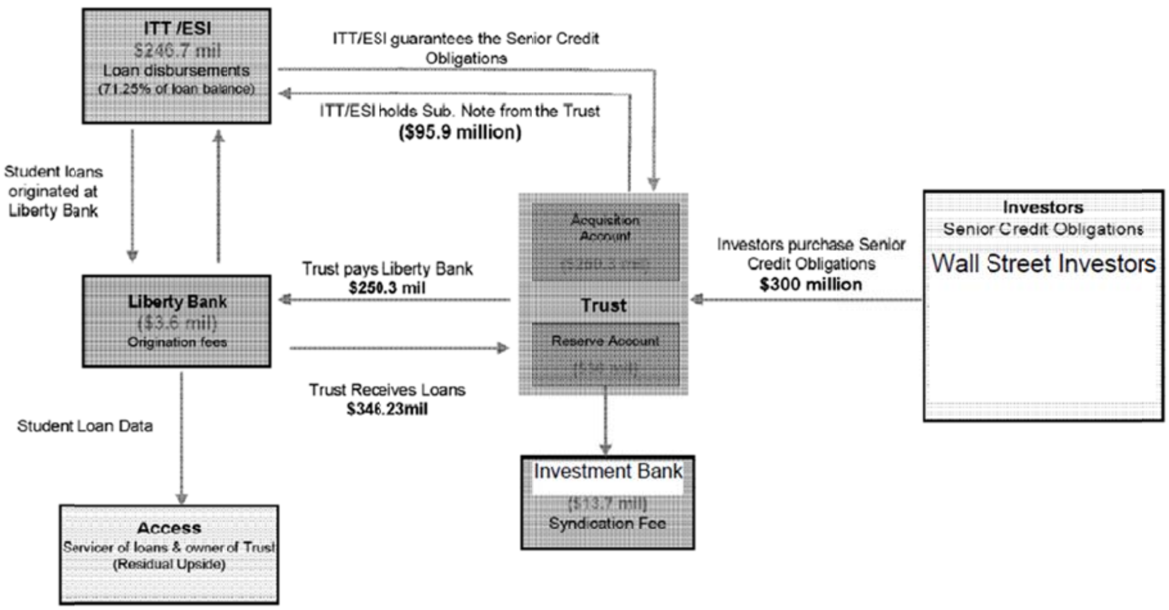
[2107] ITT Educational Services Internal Memorandum, re: *Sample Actions for Common Objections* (ITT-00016826); See also ITT Educational Services Internal Memorandum, re: *Handling Objections* (ITT-00020084), ITT Educational Services Internal Memorandum, re: *Overcoming Objections* (ITT-00025676).

catalog. Until the ACICS criteria require an additional posting all ITT Technical Institutes will list tuition and other charges as required in the catalog." [2108]

ITT's PEAKS Program

Because of the price of tuition to attend ITT, in addition to Federal loans and grants, many students must rely on alternative financing. In order to meet this need, ITT partnered with a Wall Street investment bank to devise a lending program that, through an impressively complex series of financial transactions, may meet the definition of a "private" loan that ITT may count towards the 10 side of the 90/10 calculation.[2109]

ITT PEAKS Transaction Flowchart:



The program began with Liberty Bank, who issued $346 million in loans to ITT students. ITT took a 28 percent discount on these loans and received $246.7 million in cash from Liberty Bank. The loans were then sold to a trust that then issued $300 million in senior debt to a group of Wall Street investors. In exchange for their discount on the loans, ITT received a subordinated note from the trust and additionally guaranteed the senior debt holders payment of principal, interest, certain call premiums and administrative fees and expenses, regardless of whether the loans are repaid.[2110] The PEAKs program has a variable interest rate ranging from 4.75 to 14.75 percent.[2111]

[2108] ITT Educational Services Internal Email, January 7, 2009: re: *Tuition increase- posting for students* (ITT-00080730).
[2109] The regulations require institutional loan programs meet four requirements: (A) Are bona fide as evidenced by standalone repayment agreements between the students and the institution that are enforceable promissory notes; (B) Are issued at intervals related to the institution's enrollment periods; (C) Are subject to regular loan repayments and collections by the institution; and (D) Are separate from the enrollment contracts signed by the students. § 668.28 (a)(i)(A)-(D).
[2110] According to ITT internal emails, it would require a 40 percent loss rate (two times the expected loss rate) before a payment on the guaranty would be required. ITT Educational Services Internal Email, November 18, 2009, re: *PEAKS* (ITT-00147688); See also, ITT Educational Services, *Default Graph* (ITT-00147689).
[2111] ITT Educational Services, *Private Education Loan Application and Solicitation Disclosure by Liberty Bank*, (ITT-00080791).

ITT's CEO describes the PEAKs program as:

> A third-party private student finance program where our students apply for private lending to fill the gap financing need that they have … if a student gets a loan, for example, for a thousand dollars, there's less than that amount that is transferred to the company. So some amount of that loan stays behind to provide excess collateralization for the performance of the portfolio. And then in addition to that, the company provides guarantees on the performance of the program, and to the extent that the excess of collateralization would not be sufficient to cover the return on the investment that the senior notes that the investors put into the trust to fund the program.[2112]

As of June 30, 2011, ITT has exhausted the lending capacity of the PEAKs program and is no longer originating additional PEAKs loans, although the company has indicated they are interested in reinstituting a similar program.[2113] Between January 2010 and June 2011, in addition to Federal loans and grants, approximately $345 million in loans were made to ITT students. In 2009, the year before PEAKS funding was available, ITT's 90/10 ratio was 70 percent. For 2010, this ratio fell to 60.8 percent. While it is unclear as to the extent PEAKS is responsible for this drop, the program is likely responsible for at least a portion of this decline.

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations, for-profit colleges must recruit as many students as possible to sign up for their programs.

Internal company documents make clear that recruiters employed by ITT are expected to pursue prospective students aggressively. During the period examined by the committee, recruiters are instructed that they are to make 140 calls a day if they have no appointments, and 100 if they have one.[2114]

One pervasive sales technique employed by ITT is to manipulate a prospective student's emotions as a strategy to sell an enrollment contract. One ITT recruiting manager explained that a recruiter must "dig[] in and get[] to the pain of each and every prospective student." He added, "By getting to the pain, the representatives will be able to solidify the appointments and have a better show rate for the actual conducts." [2115]

ITT's training materials lays out the sales steps: "Establishing Rapport," "Transition into digging for the motivation," "Transiting into feeling the pain [sic]," and "Transitioning into making the

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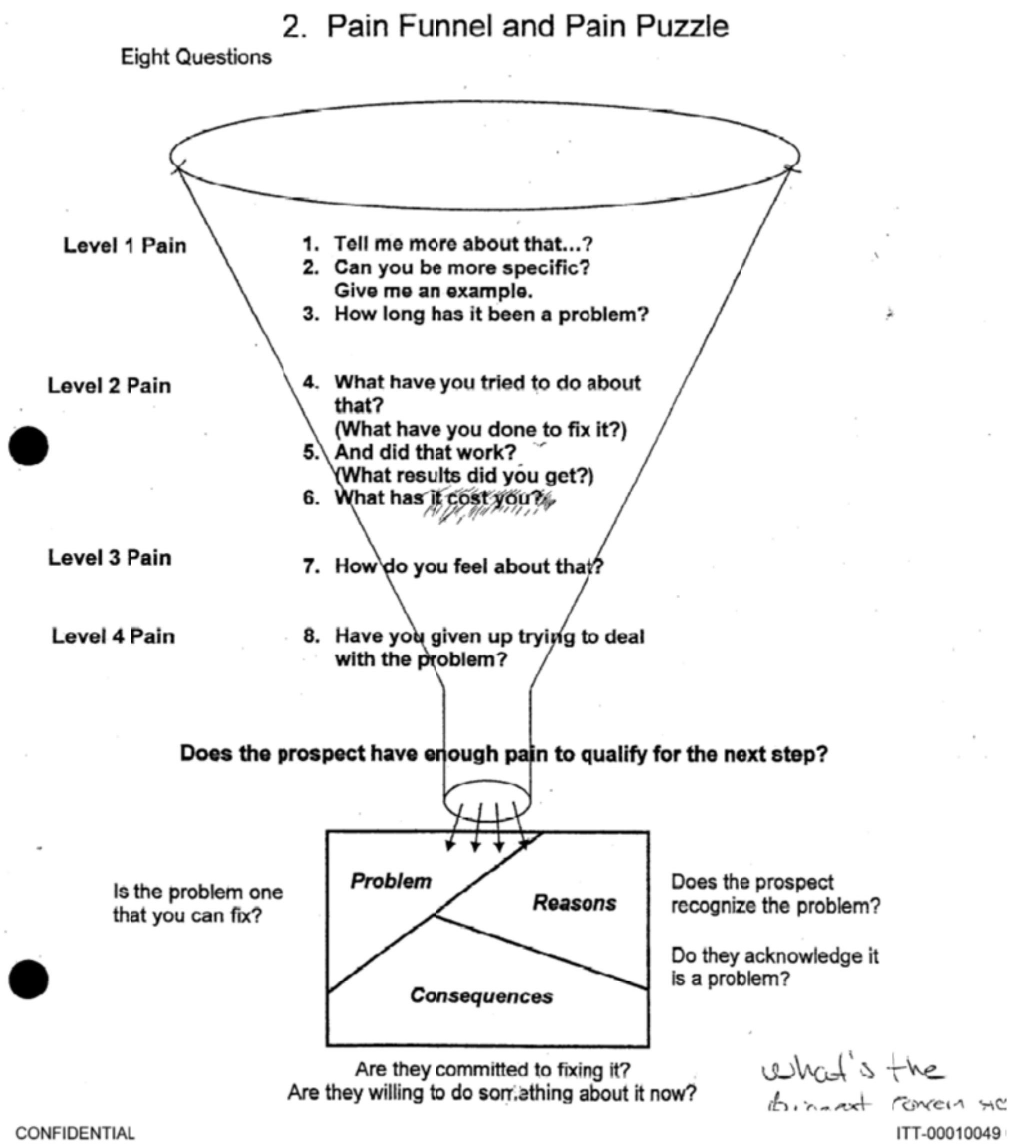
[2112] ITT Educational Services, "ITT at Credit Suisse Global Services Conference," *Lexis Nexis,* March 13, 2012.
[2113] ITT Educational Institution, July 2011, Q2 Earnings Conference Call with Investors; See also ITT Educational Institution, "ITT at Credit Suisse Global Services Conference," *Lexis Nexis,* March 13, 2012. ITT Educational Institution, March 13, 2012, Q1 Earnings Conference Call with Investors.
[2114] ITT Educational Institution Internal Training Document, *How Many Phone Calls is Good?* (ITT-00064242). The company asserts that this document was not created or approved by school management.
[2115] ITT Educational Institution Internal Memorandum, *June Analysis 2007* (ITT-00025689). The company asserts that this document is not representative of the school's policies and procedures and is an example of inappropriate actions by isolated individuals. The company asserts that this document was created and used by only a few campus-level employees and was never approved by the school.

connection between the motivation and getting a degree." [2116] To address students that sign an enrollment agreement but indicate they may not want to start school, recruiters are instructed to "poke the pain a bit" and "remind them what things will be like if they don't continue forward and earn their degrees." [2117]

ITT, however, goes a step further with their pain-based sales techniques. The company's "Pain Funnel" illustrates four levels of pain with questions corresponding to each level.[2118]



After a recruiter locates a prospective student's pain point, the "Pain Funnel" presents a number of questions that the recruiter can ask that are progressively more hurtful.[2119] In "Level 1" a recruiter asks

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[2116] ITT Educational Services, *Jan. 5th Friday Morning Training Session: Phoning Techniques* (ITT-00015566, at ITT-00015567-68)
[2117] ITT Educational Services Internal Document, *Ways to combat "drops" in marketing during the class building period* (ITT-00014590). The company asserts that this document was not authorized by ITT management or used widely at ITT's campuses.
[2118] ITT Educational Services Internal Training Document, *Sandler Sales Institute: Pain Funnel and Pain Puzzle* (ITT-00010049). See also ITT Educational Services Internal Training Document, *Questionairre Exhibit 3* (ITT-00010050), ITT Educational Services Internal Training Document, ITT Information and Definition Sheet (ITT-0023893). The company asserts that this document was never approved by the school.

prospective students, "tell me more about that" or "give me an example." In "Level 2" the recruiter asks "What have you tried to do about that?" The highest level asks a hurtful question to elicit pain: "Have you given up trying to deal with the problem?"

After Chairman Harkin released this documents during a statement on the Senate floor in February 2011, counsel for ITT wrote to the Chairman noting that "the conduct suggested by the documents referenced in your statement was not sanctioned by ITT." [2120] It goes on to note that ITT regrets that the conduct was suggested and has opened an investigation to determine the extent of the conduct and respond appropriately and decisively. However, also following the release of the document, HELP Committee staff were contacted by counsel for a former ITT recruiter who had created the ITT specific version of the "pain funnel." Committee staff subsequently interviewed the recruiter.[2121] As the recruiter details in her letter to the committee, she adapted documents from a sales training that ITT had paid for her to attend and brought them to her ITT campus.[2122] She states that she trained many other ITT staff using the pain funnel:

> In addition, at quarterly district meetings I did pain funnel training for nearly every top recruitment representative, financial aid coordinator, dean, instructor, department chairs, all functional managers, all college directors and the district manager for the entire Southern California District, the largest district in the country. The presentation material was also given out to over 100 ITT Tech employees throughout every department in the district.[2123]

She goes on to state that she submitted the document to executives at ITT headquarters for consideration for an award:

> In October 2009, I wrote up a BEST OF THE BEST (BOB) submission to HQ that included the same "Pain Funnel and Pain Puzzle" and how proper usage of this tool can bring a prospect to their inner child, an emotional place intended to have the prospect say yes I will enroll.[2124]

Thus, it is unclear how the documents and its contents could be classified as not sanctioned.

Compensation based on recruitment goals is not limited to enrollment staff. In 2008, and prior to the ban on incentive based compensation, ITT's management employee performance and compensation depended on meeting several "Corporate Objectives," which included: "Total Enrollment Growth" of 9 percent, "Earnings Per Share" of 20 percent, "Free Cash Flow" of 15 percent, and "Graduate Employment Rate" of 85 percent.[2125]

At the staff level, in addition to salary increases, managers use prizes and awards to drive sales. At ITT, "ANY TEAM WITH 6 APPOINTMENTS SET … <u>OR</u> 2 APPLIED CAN WORK AN EARLY

[2119] ITT, *Pain Funnel and Pain Puzzle* (ITT-00010049) (training materials prepared by Sandler Sales Institute). See also ITT, *ITT Technical Institute Questionnaire: Exhibit 3* (ITT-00010050). The company asserts that this document was never approved by ITT management.
[2120] Letter to Chairman Harkin, from ITT Counsel, Gibson Dunn & Crutcher, LLP, February 10, 2011.
[2121] Majority HELP Committee staff interview with Laura Brozek and Wayne Beaudoin, June 21, 2011.
[2122] Letter from Laura Brozek, June 24, 2012.
[2123] Id.
[2124] Id.
[2125] ITT Educational Services, *2008 Performance Planning and Evaluation (PP&E) Form for Management Employees* (ITT-00056795).

SHIFT ON WEDNESDAY…. [Emphasis in original]" [2126] Many of these practices have been limited by the ban on incentive compensation that took effect in July 2011, a ban that ITT's CEO called "absolutely egregious, [it's] just nonsensical, [it's] illogical." [2127]

Documents also demonstrate a focus on recruiting students eligible for military benefits. ITT is the second highest recipient of post-9/11 GI bill funds, taking in $178 million between 2009 and 2011. In 2009, ITT initiated a military marketing plan with the goal of increasing military enrollments by 20 percent at 42 selected campuses.[2128]

In addition, executives sought to increase the amount of Department of Defense Tuition Assistance funds the company received. CEO Kevin Modany wrote in an email "We didn't even make the top 40 providers to the military! What an opportunity that we have in front of us!" He went on, "We need to see how we can penetrate this world with ITT Tech AND DWC [Daniel Webster College]!! [Emphasis in original]" [2129]

Complaints demonstrate that pressure to recruit students resulted in the use of some misleading and deceptive tactics. One combat veteran with Post Traumatic Stress Disorder wrote to ITT saying:

> The ITT Representative I met with told me that the military would pay for my schooling. … Then a few months letter, I got bills from Sallie Mae saying I owe money for two loans [sic]! A federal and a private loan! What!? I was told I would never see a bill.[2130]

The mother of the same soldier wrote in about her son's experience with an ITT representative:

> The Rep. told him he needed a co-signor just so he could start school immediately, but not to worry about it, because the military was going to pay for everything, even give him money to live on and pay his expenses [sic]. He sounded so hopeful, something I hadn't heard from him since before the war. It was really hard for him to admit he couldn't continue going to school. He said, he just couldn't retain the material… He could hardly come around me when he found out Sallie Mae was calling me for payment of his loan. Veterans with PTSD commonly isolate themselves from family and friends. This made it even worse.[2131]

Non-military students complained that they felt misled or deceived by recruiters. An ITT student complained that:

> during the tour and meeting with the student representative for admissions, I was given an overview of the school's program, which explained that I would earn a BA in Criminal Justice, which would support the needs I was seeking, of which were to apply for law

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[2126] ITT Educational Services Internal Email, December 22, 2009, re: *CONTEST UPDATE! ! ! 30 APPOINTMENTS – YAHOO ! ! !* (ITT-00028551, at ITT-00028552).
[2127] ITT Educational Services, 2011, Q1 Earnings Conference Call with Investors.
[2128] ITT Educational Services Internal Email, December 8, 2009, re: *FW: 2010 Military Marketing Plan* (ITT-00123921, at ITT-00123921-22); See also ITT Educational Services Internal Document, *Military Marketing Plan* (ITT-00123927); ITT Educational Services, July 7, 2008, *ITT Educational Services Inc. Operations Department Proposal Draft: Military Recruitment Proposal* (ITT-00144035).
[2129] ITT Educational Services Internal Email, February 18, 2010, re: *FW: Stifel: Education-Summary from the CCME Conference Kickoff* (ITT-00140384).
[2130] ITT Educational Services Internal Email, January 29, 2009, re: *(redacted)* (ITT-00007708, at ITT-00007744).
[2131] Id., at ITT-00007716.

> school. I was also advised that should I decide to transfer to another college, that the credits were transferable.[2132]

Two years and tens of thousands of dollars later, the student discovered that he could not transfer credits, and that most law schools would not accept the degree.

One student complaining about the school misleading him regarding the transferability of credits stated, "We had discussed many things but I am feeling now that I was mislead [sic]. [The recruiter] had me initial a bunch of papers which I do not feel were explained to me very properly. I am just not finding out that my credits are not transferable to the University I was specifically discussing with him [sic]… He said my credits would transfer and could possibly be ahead of other students with the on hand training ITT teaches. I was trusting the representative of ITT believing he was telling me the truth." [2133] Another student complained, "We have been misinformed and mislead. [sic] Your recruiters do not reveal all the issues, use general statements and they do not clearly explain what the bachelor degree really is. We enrolled in good faith, thinking we were working towards a diploma improving our future, but instead we would have paid a lot of money for something insignificant." [2134]

While student complaints may not be representative of the experience of the majority of students, these complaints do provide an important perspective on ITT's academic quality.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[2135]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee and (2) student loan "cohort default rates." These metrics indicate that many students who enroll at ITT are not achieving their educational and career goals.

Retention Rates

Information ITT provided to the committee indicates that, of the 64,921 students who enrolled at ITT in 2008-9, 52 percent, or 33,733 students, withdrew by mid-2010. These withdrawn students were enrolled a median of 3 months.[2136] Overall, ITT's withdrawal rate closely tracks the sector-wide rate

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[2132] ITT Educational Services, February 2, 2007, *Student Comment/Complaint Report* (ITT-00006208).
[2133] ITT Educational Services, August 22, 2008, *Student Comment/Complaint Report* (ITT-00008037, at ITT-00008040).
[2134] ITT Educational Services, May 11, 2010, Student Complaint Letter to Christopher Carpenter re: Grievance Procedure step 2 (ITT-00009637, at ITT-00009686).
[2135] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief,* August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 14, 2012).
[2136] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010,

withdrawal rate of 54 percent. The majority of ITT's students are enrolled in 2-year associate degree programs. More than half these students, or 30,012 students withdrew by mid-2010.[2137] The costs of withdrawal can be substantial, as 95 percent of ITT defaulters were students who did not graduate.[2138]

Status of Students Enrolled in ITT Educational Services, Inc. in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	56,557	5.0%	42.0%	53.1%	30,012	96
Bachelor's Degree	8,364	6.0%	49.5%	44.5%	3,721	85
All Students[2139]	64,921	5.1%	42.9%	52.0%	33,733	95

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Student Loan Defaults

While the number of students leaving ITT with no degree is lower than some, the number of students defaulting on student loans is high. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[2140]

Slightly more than 1 in 5 students who attended a for-profit college, (22 percent) defaulted on a student loan, according to the most recent data.[2141] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2142] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2143] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[2144]

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students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

[2137] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

[2138] ITT Educational Services,2010, Q2 Earnings Conference Call with Investors.

[2139] The committee analyzed data for students who enrolled at each company between July 1, 2008 and June 30, 2009. This dataset did not include ITT students who enrolled prior to July 1, 2008. The inclusion of these students could potentially have resulted in a lower overall percentage of students withdrawing.

[2140] Direct Loan Default Rates, 34 CFR 668.183(c).

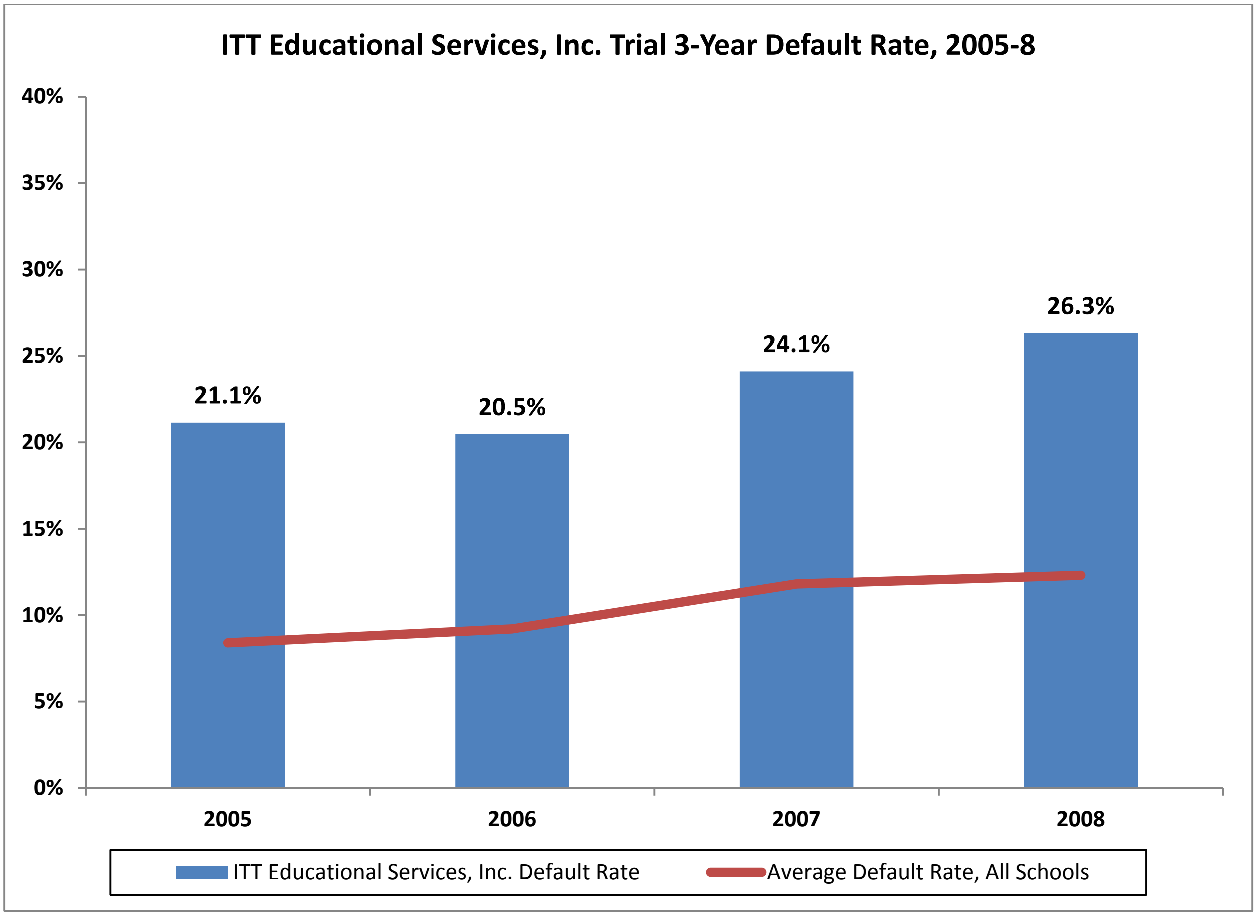
[2141] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html (accessed July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default by sector.

[2142] Id.

[2143] Id.

[2144] Id.

The 3-year default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[2145] This change represents a 32.6 percent increase over 4 years.[2146] ITT's default rate has similarly increased, growing from 21.1 percent for students entering repayment in 2005 to 26.3 percent for students entering repayment in 2008. ITT's most recent default rate is the sixth highest rate of loan default amongst the 30 schools examined by the committee. The company expects its 2009 draft 3-year cohort default rate to be approximately 34 percent.[2147]



Default Management

It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Helping get delinquent students into repayment, deferment, or forbearance prior to default is encouraged by the Department of Education. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

Default management is primarily accomplished by putting students who have not made payments on their student loans into temporary deferments or forbearances. Default management contractors are

[2145] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.htm (accessed July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[2146] Department of Education 3-year cohort default rate, for students entering repayment in fiscal years 2005, 2006, 2007 and 2008.
[2147] Note this figure is prior to any appeals that that company expects to make. ITT at Credit Suisse Global Services Conference March 13, 2012.

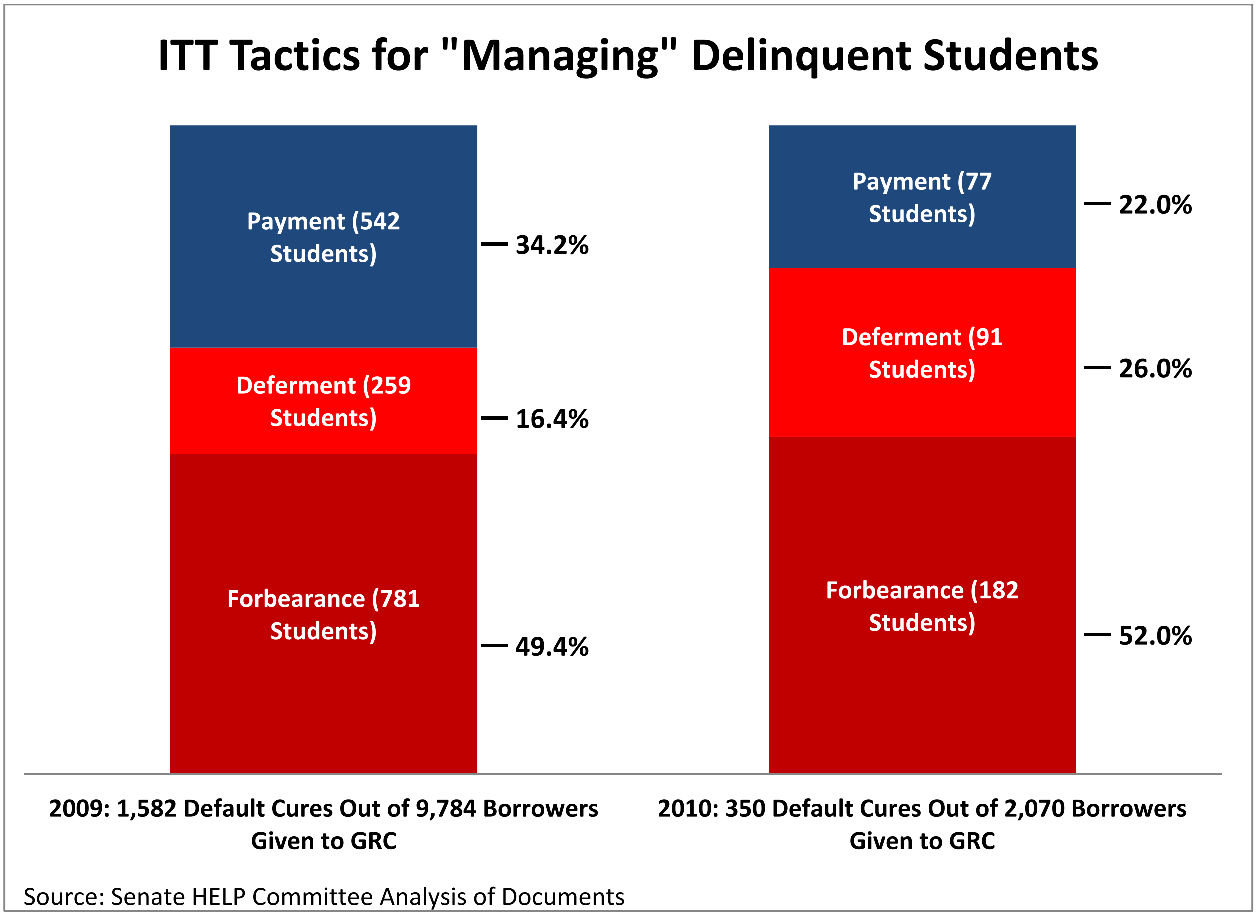
paid to counsel students into repayment options that ensure that students default outside the 2-year, soon to be 3-year, statutory window, in which the Department of Education monitors defaults.

ITT has only recently begun to focus these efforts on bringing down their 3-year default rate. When discussing as to why the 3-year default rate was higher than the 2-year, ITT CFO Daniel Fitzpatrick stated:

> I think that you do know that when we talk about adding that third year into the calculation, really that third year was not really worked at all, in the way the first two years are worked and so it is really hard to indicate what type of impact we can have there. We know that when we provide default management services there, we are able to mitigate losses.[2148]

ITT, like many other for-profit colleges, contracted with the General Revenue Corporation (GRC), a subsidiary of Sallie Mae, to "cure" students who are approaching default. Under the agreement, ITT pays GRC a fee of $30 for every student borrower who entered repayment between October 1, 2008 and September 30, 2009, and a performance bonus of $50 for each borrower cured by GRC.[2149] In practice, documents indicate that nearly all "cures" are accomplished by deferment or forbearance, not by students actually repaying their loans. And this is reflected in the GRC's reporting to ITT. In 2010, 78 percent of those cured by GRC were cured by being placed in deferment or forbearance.

[2148] ITT Educational Services, 2009, Q4 Earnings Conference Call with Investors.
[2149] ITT Educational Services, January 24, 2010, *Cohort Default Management Services Agreement* (ITT-0002284); See also ITT Educational Services, June 24, 2010, *First Amendment to Cohort Default Management Services Agreement* (ITT-00002281);ITT Educational Services, August 20, 2010, Letter from Erick Johnson, General Revenue Corporation, to Dan Fitzpatrick, re: Second Amendment to Cohort Default Management Services Agreement (ITT-00002277);ITT Educational Services, August 25, 2005, General Revenue Corporation Contract for Services (ITT-00002264).



This practice is troubling for taxpayers. The cohort default rate is designed not just as a sanction, but also as a key indicator of a school's ability to serve its students and help them secure jobs. If schools actively work to place students in forbearance and deferment, that means taxpayers and policymakers fail to get an accurate assessment of repayment and default rates. A school that has large numbers of its students defaulting on their loans indicates problems with program quality, retention, student services, career services, and reputation in the employer community. Aggressive default management undermines the validity of the default rate indicator by masking the true number of students who end up defaulting on their loans. Critically, schools that would otherwise face penalties—including loss of access to further taxpayer funds—continue to operate because they are able to manipulate their default statistics.

Moreover, forbearances may not always be in the best interest of the student. This is because during forbearance of Federal loans, as well as during deferment of unsubsidized loans, interest still accrues. The additional interest accrued during the period of forbearance is added to the principal loan balance at the end of the forbearance, with the result that interest then accrues on an even larger balance. Thus, some students will end up paying much more over the life of their loan after a forbearance or deferment.

Instruction and Academics

Students and employers expect to be able to trust that institutions of higher education, especially career-focused education, are teaching skills that are valued in the workplace with appropriate integrity and rigor. Undercover observation and student complaints reveal that many for-profit schools have curriculums that do not challenge students, academic integrity policies that are sparsely enforced, and teaching interactions that in some cases do not lead to successful student learning and outcomes.

In 2011, GAO undercover students enrolled in 12 different online colleges using fictitious identities and academic credentials. ITT was one of the schools visited by the GAO, with agents enrolling in three different courses at ITT.

In a "Learning Strategies and Techniques" course at ITT, students were instructed to write 1 to 2 pages describing the eight-steps to problem solving and apply them to a work, school, or personal problem. The undercover agent submitted a word document that listed four-steps of problem solving, along with five short sentences referencing a time management problem. The teacher awarded the submission a grade of 90 percent, along with the following feedback: "Paper met expectations; however, it was submitted two days late resulting in a 10% deduction." [2150] The student also received full credit for an assignment submitted for this class that had also been submitted for another class, and contained a clear notation that it was prepared for the other class.[2151] In another class, the student received 100 percent of the available points, despite submitting only two of three required components.[2152]

The GAO undercover student also had a number of issues at ITT independent of academic quality. After the student withdrew, ITT provided the student's information to the collection agency before providing a final bill.[2153] College personnel stated this is how they handle all student accounts.[2154] School staff also stated that exit counseling had been provided during the entrance interview.[2155] Regulations concerning exit counseling state that it must be conducted shortly before or after withdrawal.[2156]

The quality of any college's academics is difficult to quantify. However, the amount that a school spends on instruction per student compared to other spending, and what students say about their experience are two useful measures.

ITT spent $2,839 per student on instruction in 2009, compared to $3,156 per student on marketing and $6,127 per student on profit.[2157] The amount that publicly traded for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. In contrast, public and non-profit 4-year colleges and universities, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other Indiana-based colleges spent, on a per student basis, $11,856 at Indiana University-Bloomington, $4,193 at Indiana Wesleyan University, and $2,827 at Ivy Tech Community College.[2158]

[2150] ITT Educational Services, February 22, 2011, Assessment Writing Assignment, (HQ-4682883).
[2151] GAO II.
[2152] GAO II.
[2153] GAO II.
[2154] GAO II.
[2155] GAO II.
[2156] 1934 C.F.R. § 685.304.
[2157] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.
[2158] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes–which do not include construction, leasing and maintenance of physical buildings–are not passed on to students, who pay the same or higher tuition for online courses.

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee examined, 80 percent of the faculty is part-time, higher in some companies.[2159] In 2010, ITT employed 1,682 full-time and 4,473 part-time faculty.[2160]

Complaints from ITT's students reflect concerns with academic quality. One ITT student complained, "The complete and total lack of preparation, effort, and desire to perform on the part of the instructor has made this course without any doubt in my mind the largest waste of time, money, effort, and resources since I have begun attending this school." [2161] Another student said, "[I was] rather frustrated with the class I took, felt that I learned nothing and do not feel a bill for $2500 is a fair amount to be paying for a rather inadequate education." [2162]

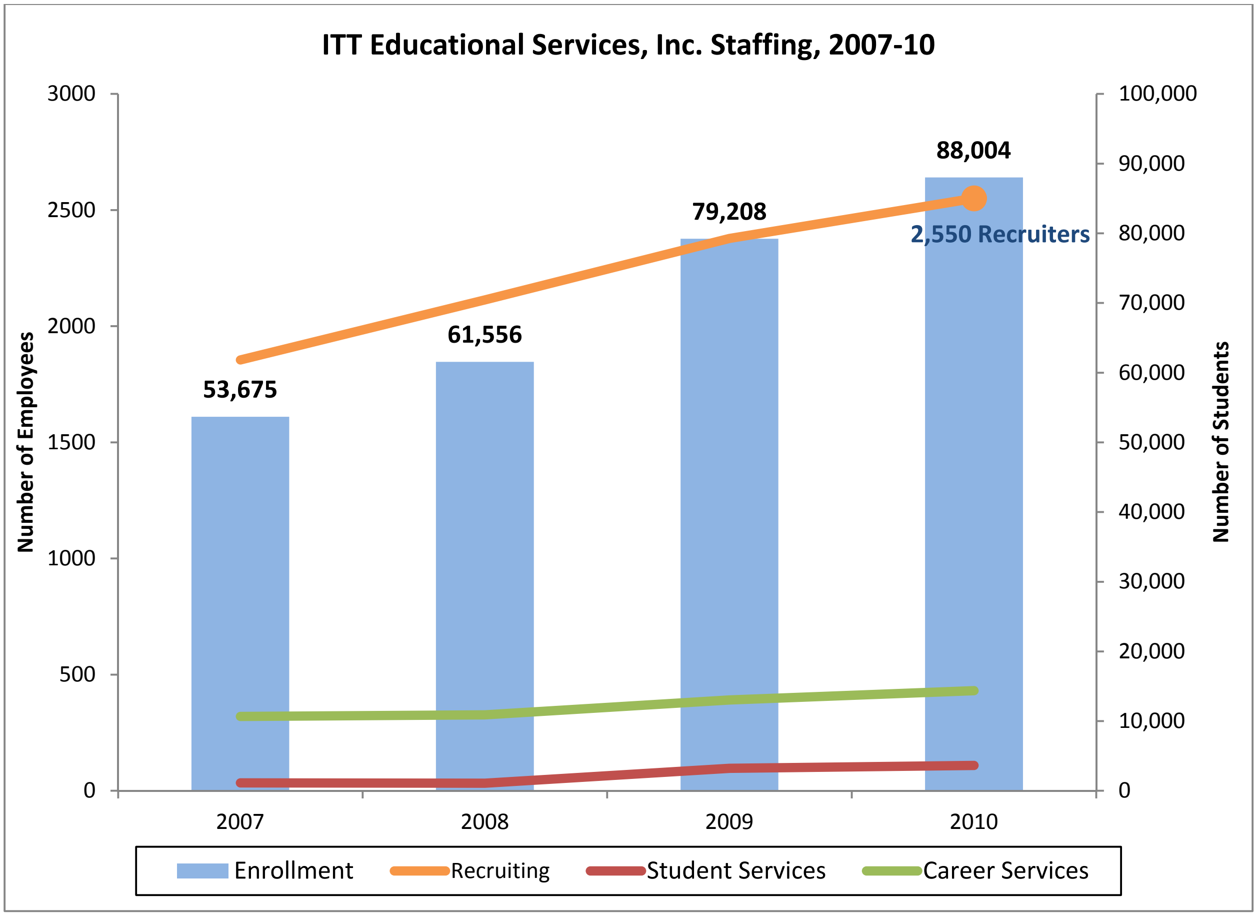
An ITT student taking courses in IT and Web site design complained, "Several of the classes were inadequate due to untrained or unqualified instructors, the lack of any instructor in certain class, the lack of book availability in other courses, and problems accessing equipment and software in others." The student's web design class "was inadequate due to instructor … not teaching any HTML coding language and instead encouraging students to find code from other Internet websites and copy and paste said code as the student's own work. Furthermore, [the instructor] spent the class period playing [a video] game instead of evaluating student projects." [2163] Another ITT student complained, "I have a huge problem. I have no teacher. It seems that ITT has yet again fired a teacher that plays a very important role up there with out a replacement [sic]. Therefore, there was a class full of students up there last night and not one person knew what was going on." [2164] A different student complained, "When I started I was shocked to find out that my first class was an intro to pc's class, when I though I would be challenge I was thinking that it would be hard classes not hard classes to stay awake in [sic]." [2165] Another student complained, "The online teachers do not know anything about the subject they teach, at least that has been my experience. The online teacher cannot answer simple questions, instead they insult you and tell you to refer to the book…This is a horrible school. The faculty hates their job. All of the students in my program are very unhappy with the school. No one I know will ever attend this school." [2166]

In 2006, the ethical practices of ITT Tech's Little Rock campus were called into question by its accreditor ACICS for instructing faculty "to inform their students that students are not to complain to the committee about any grievances they may have" and that "faculty are to remain in their class until the end of the assigned course period and not leave early while the accrediting committee are here." [2167]

[2159] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[2160] Id.
[2161] ITT Educational Services, August 17, 2006, *Student Comment/Complaint Report* (ITT-00003876).
[2162] ITT Educational Services, April 19, 2010, Letter from Lynn Ward, re: Student Complaint (ITT-00009785, at ITT-00009786).
[2163] ITT Educational Services, February 22, 2007, *Student Comment/Complaint Report* (ITT-00005085 at ITT-00005086).
[2164] ITT Educational Services, December 12, 2006, *Student Comment/Complaint Reprot* (ITT-00004629); See also ITT Educational Services, August 28, 2008, *Student Complaint Summary* (ITT-00006239).
[2165] ITT Educational Services, February 22, 2006, Email re: *FW: To whom it may concern* (ITT-00004186, at ITT-00004189) (SIC).
[2166] ITT Educational Services, May 6, 2006, *Student Comment/Complaint Report* (ITT-00004287).
[2167] ITT Educational Services, January 23-25, 2006, *New Grant, New Program, AND Credential Inclusion Evaluation Reports* (ITT-00124632, at ITT-00124638). *See Also* ITT-00124630 and ITT-00124829.

Staffing

While for-profit education companies employed large numbers of recruiters to enroll new students, the same companies employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 88,004 students, ITT employed 2,550 recruiters, 431 career services employees, and 109 student services employees.[2168] That means each career counselor was responsible for 204 students and each student services staffer was responsible for 807 students, but the company employed one recruiter for every 34 students.



For-profit schools enroll large numbers of non-traditional students who may be low-income and first generation college students, who require more extensive support and services in order to succeed in college.[2169] ITT employees, for example, indicated in an internal email that over 90 percent of their students at their Owings Mills campus cannot do basic math.[2170]

[2168] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.
[2169] According to the recently released GAO Report "Student Outcomes Vary at For-Profit, Nonprofit, and Public Schools," for-profit schools enroll a much higher percentage of African-American or Hispanic students compared to other sectors. Forty-seven percent of the students at for-profit colleges are African-American or Hispanic, compared to 28 percent at public schools, and 24 percent at private non-profits. The same report indicates that for-profit colleges enroll a higher proportion of low-income students. At for-profit colleges, 76 percent of students are financially independent and have an annual median family income of $22,932. These numbers were 34 percent and $61,827 for private non-profits, and 46 percent and $44,878 for public schools. For-profit colleges also enroll a larger number of first generation college students as only 34 percent of

One student, the first in her family to attend college, was told by ITT school administrators after she attempted to obtain tutoring that, “I needed to watch who I spoke to, and how the people I was talking to weren’t my friends, that they were coming back to him and saying I was agitating them.” [2171] The student concluded: “In so many ways I feel like my life’s dream has been ripped right out of my hands.” [2172] Another ITT student complained, “my biggest bone of contention with ITT is that oftentimes just when you need a little help with a course, no one is available to assist you.” [2173]

Career Services

For-profit schools promote themselves as career-oriented skill-focused places. Indeed, much of for-profit education advertising focuses on “getting the job” after graduating from school. Complaints help to illustrate student concerns with the career services offered by ITT. A former ITT student wrote to the Chairman expressing similar frustrations at his school. “After graduating with highest honors (3.85 GPA), ITT did not get me a single interview. . . . The job packet they would give you was full of fake jobs, after becoming unemployed a couple of years after graduating ITT, I went to the campus and grabbed a job packet and it had the same jobs as it did two years earlier.” [2174] Another ITT student filed a complaint stating that, “During a discussion with Career Services they wanted me to register a business so that they could have 100% placement for this class.” [2175]

A different student complained, “I also want to bring up your career services and recruiters! Your recruiters guarantee ITT will find you a job. Wrong! That is false advertisement,” and added that “your school robbed me blind and the fact that your name is now on my resume employers won’t even look at me!” [2176] The father of another student complained, “The whole experience is suppose to be exciting and filled with hopes for the future [sic]. Instead it has been turned in to an exhausting nightmare that he can’t wait to get out of. The career department is suppose to be guiding him through putting his resume on line and trying to help him find work in his field of interest [sic]. This has not been happening, due to him being told they are understaffed and overly busy” [2177]

A recent news report described a former ITT student with more than $30,000 in debt who has been unable to find a job he qualifies for in his field that offers more than the minimum wage.[2178] According to the student’s mother “I don’t [know] where he’d get a job with the education they gave him making enough to pay the loans to survive.” [2179] The student added, “I feel like I’ve been ripped off. I’m embarrassed to tell people I went to that school.” [2180]

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their students have parents with an associate degree or higher, compared to 46 percent at private non-profits, and 52 percent at public schools.

[2170] ITT Educational Services Internal Email, January 21, 2010, re: *Gross Drop Attrition-Response needed by this Friday 1/22* (ITT-0014496).

[2171] ITT Educational Services, Letter from Student to Mr. Clark (ITT-00004357 at ITT-00004358).

[2172] Id., at ITT-00004359

[2173] ITT Educational Services Student Email, May 14, 2008, re: *SPF-064-General Comment* (ITT-00007386).

[2174] Letter from Steven Gossman, April 9, 2011.

[2175] ITT Educational Services, Description for Complaint ID #5014171 and Settlement Explanation (ITT-00005144, at ITT-00005148).

[2176] ITT Educational Services Internal Email, May 16, 2006, re: *Complaint* (ITT-00005047 at 47,49).

[2177] ITT Educational Services Internal Email, January 10, 2007, re: *FW: Immediate Attention Required* (redaction) (ITT-00005216, at ITT-00005220).

[2178] Jeff Chirico, “Questions Raised about state’s oversight of for-profit colleges,” *CBS Atlanta*,. Jeff Chirico May 10, 2012, http://www.cbsatlanta.com/story/18254503/questions-raised-over-states-oversight-of-for-profit-colleges (accessed June 14, 2012).

[2179] Id.

[2180] Id.

Internal documents from ITT illustrate the flexible definition schools use to determine whether students are employed in their field. ITT's procedure manual defines work in a "related field" as requiring only "20-49% of time spent on the job using the skills taught in the core courses" of a student's program.[2181] ITT's "FAQs on Employment Classification" asks whether working at "a Blockbuster or an electronics department that sells video games" counts as a related field placement for their digital entertainment and game design program.[2182] The answer provided was "Blockbuster, GameStop, and other video/game store employments are not black and white and require a significant amount of analysis, thought, and documentation." [2183] This raises the question as to whether students would knowingly take on obligations of $50,000 to $100,000 in student debt to be employed in a retail job.

Regulatory Strategies

For profit education companies are subject to two key regulatory provisions: (1) that no more than 90 percent of revenues come from title IV Federal financial aid programs, and (2) that no more than 25 percent of students default within 2 years of entering loan repayment. As discussed above, some companies, including ITT, lower their reported default rates by placing students in forbearances and deferments to delay default. Moreover, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal financial aid programs.

In addition to the creation of the PEAKs program and pursuing military servicemembers and veterans, both of which are discussed above, other 90/10 tactics ITT employs include manipulation of campus identifiers (OPEIDs) and the creation of scholarship programs.

For-profit colleges must report their 90/10 ratio by assigned Office of Postsecondary Education ID numbers (OPEID), rather than by campus or corporate owner. Many education companies, including ITT, have many assigned OPEIDs. One OPEID may consist of a main campus and multiple branch campuses. Schools with multiple OPEID numbers can shift campuses to different OPEID numbers and classify them as branches even when they are many States apart. ITT recently merged their 29 separate OPEID numbers into three. According to the CEO of ITT:

> the reasons for doing that certainly relate to our compliance efforts and risk mitigation associated with all of the different regulatory controls … So, this impacts your CDR, your 90/10 and all those other metrics that exists, including any new metrics that may come our way as a result of regulatory change.[2184]

Department of Education regulations dictate that scholarships awarded to a student do not count as Federal financial aid, and instead count as other institutional charges on the "10" side of the 90/10 calculation. However, the regulations also require that the scholarships be awarded by an organization independent of the school. This independence requirement prevents schools from subverting the 90/10 rule by simply recycling Federal student aid money to award scholarships that count on the "10" side. However, several companies that operate for-profit colleges have designed scholarship programs that appear to be awarded by outside non-profit organizations, but where evidence suggests that control of the scholarship program comes from within the company. In these cases, the money used to fund the

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[2181] ITT Educational Services, April 29, 2010, *Career Services Graduate Employment Definitions: CS-2 Procedure Manual* (ITT-00065475).
[2182] ITT Educational Services, *FAQs on Employment Classification* (ITT-00065499, at 65501).
[2183] Id.
[2184] ITT Educational Services, "ITT at Barclays Capital Inc Global Services Conference," *Lexis Nexis*, May 12, 2011.

scholarship comes from sources connected to the school, and the awards are only given to students at that particular school.

ITT created the "Champagne Scholarship," a "new scholarship named for and funded by [the company's] previous Chief Executive Officer, Renee Champagne." [2185] A Champagne scholarship is an award of $3,000 available for students who are enrolled full-time with a $0 expected family contribution.[2186] A former employee who has spoken publicly about her experience stated that nearly every student who applied received the scholarship.[2187] Documents indicate that the company closely tracked the number of Champagne Scholarships awarded by campus.[2188] Over the course of a year, the company planned to award a total of $21 million in scholarships. That amount is enough to move ITT's overall 90/10 ratio by more than 1 percent, a significant amount if a school were to be in danger of exceeding 90 percent.

Enforcement Actions

In 2005, ITT paid $730,000 to settle a lawsuit with the State of California in which employees charged that the company had inflated students grade point averages so that they qualified for more financial aid from the State of California.[2189] California's Cal Grant program requires students to have a certain grade point average to be eligible for financial aid. ITT acknowledged that their actions resulted in 49 students receiving larger financial aid awards through the State Cal Grant program than they otherwise would have received.[2190]

On May 18, 2012, ITT received a Civil Investigative Demand from the U.S. Consumer Financial Protection Bureau.[2191] The purpose of the investigation is, in part, "to determine whether for-profit postsecondary companies, student loan origination and servicing providers, or other unnamed persons have engaged or are engaging in unlawful acts or practices relating to the advertising, marketing, or origination of private student loans." [2192]

Conclusion

ITT is one of the most expensive companies examined by the committee, and it is not clear that the value of the education justifies the cost. The cost of attending ITT is so high that the company has created its own loan program to enable students to borrow money in excess of Federal lending limits. While the retention rates for both the Associate and the Bachelor's program are slightly better than average, the company has a high rate of student loan default, with 26 percent of students defaulting within 3 years of entering repayment. This likely reflects the high cost of the programs offered, and an

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[2185] ITT Educational Services, *Champagne Scholarship Fund* (ITT-00060529); See also ITT Educational Services, July 24, 2009, *ITT Technical Institutes Scholarship Update* (ITT-00052388).
[2186] ITT Educational Services, *Champagne Scholarship Application* (ITT-00003045).
[2187] Rashidah Smallwood interview with HELP Committee staff.
[2188] ITT Educational Services, September 29, 2009, *Q3 Financial Aid Update* (ITT-00060728).
[2189] Doug Lederman, "ITT, Calif. Settle False Claims Lawsuit, *Inside Higher Ed.,* October 18, 2005, http://www.insidehighered.com/news/2005/10/18/itt (accessed June 14, 2012).
[2190] ITT Educational Services, ITT 8-K SEC Form, September 30, 2005, http://www.secinfo.com/ds4r4.z1z.htm (accessed June 14, 2012).
[2191] ITT Educational Services, ITT 8-K SEC Form, May 22, 2012, http://google.brand.edgar-online.com/default.aspx?companyid=4807 (accessed June 14, 2012).
[2192] Id.

inability on the part of some students to find jobs that allow them to repay the debt they incur. The company makes this work by utilizing some of the most disturbing recruiting tactics among the companies examined, and by taking very creative approaches to complying with the 90/10 limitation on revenue received from Federal financial aid programs. Meanwhile, the company devotes the largest share of revenue to profit of any company analyzed at 37 percent. Taken together, these issues cast serious doubt on the notion that ITT's students are receiving an education that affords them adequate value relative to the cost, and calls into question the $1.1 billion investment American taxpayers made in the company in 2010.

Kaplan Higher Education Corporation

Introduction

Kaplan Higher Education Corporation ("Kaplan") is one of the largest for-profit education companies in the country and offers programs at all degree levels. At the outset of the investigation, Kaplan was the source of a multitude of student and employee complaints, and was facing serious regulatory problems as a result of the high number of student defaults and an overdependence on Federal financial aid dollars. The company had poor student outcomes, with over 60 percent of 2- and 4-year degree students who enrolled in 2008-9 leaving by mid-2010. However, Kaplan has also implemented the most significant reforms of any company examined.

Company Profile

Kaplan, Inc. is a wholly-owned subsidiary of the Washington Post Company. Kaplan, Inc. has a test prep division in addition to its postsecondary education division; it conducts its postsecondary education operations through its Kaplan Higher Education Corporation subsidiary. The company entered the postsecondary education industry in 2000 by purchasing Quest Education Corp. Quest owned a network of 30 schools that focused on training students for entry-level employment in the health care and business industries. The Washington Post Company is a publicly traded education and media company with headquarters in Washington, DC. In addition to its Kaplan subsidiary, the Washington Post Company owns and operates cable television systems, newspapers (most prominently, the *Washington Post*), and broadcast television stations. In 2010, Kaplan accounted for $2.9 billion, or 61.7 percent, of the Washington Post Company's $4.7 billion in revenues.[2193]

Kaplan, Inc. is headquartered in New York. Kaplan Higher Education is based out of Chicago, IL. As of the end of 2011, approximately 35 percent of the company's students were enrolled in Bachelor's programs, 30 percent in Associate, 24 percent in Certificate, and 12 percent in Master's.[2194] Approximately 60 percent of Kaplan's total enrollment is online.[2195] Kaplan has more than 70 campuses in 21 States and a large online program, and offers Associate, Bachelor's, and Master's degrees in 10 fields.[2196] Kaplan further divides its higher education offerings into Kaplan University, which specializes primarily in online education (although it has physical locations in eight States) and offers primarily Bachelor's programs, and Kaplan Colleges and Institutes, which offer classroom-based instruction and awards Associate degrees and Certificates.

[2193] The Washington Post Company, 2010 Annual Report, http://www.washpostco.com/phoenix.zhtml?c=62487&p=irol-reportsAnnualArch (accessed June 19, 2012).
[2194] The Washington Post Company, March 2, 2011, 2011 10-K.
[2195] Id.
[2196] Kaplan, "Locations" at http://portal.kaplan.edu/Pages/Homepage.aspx (accessed June 19, 2012).

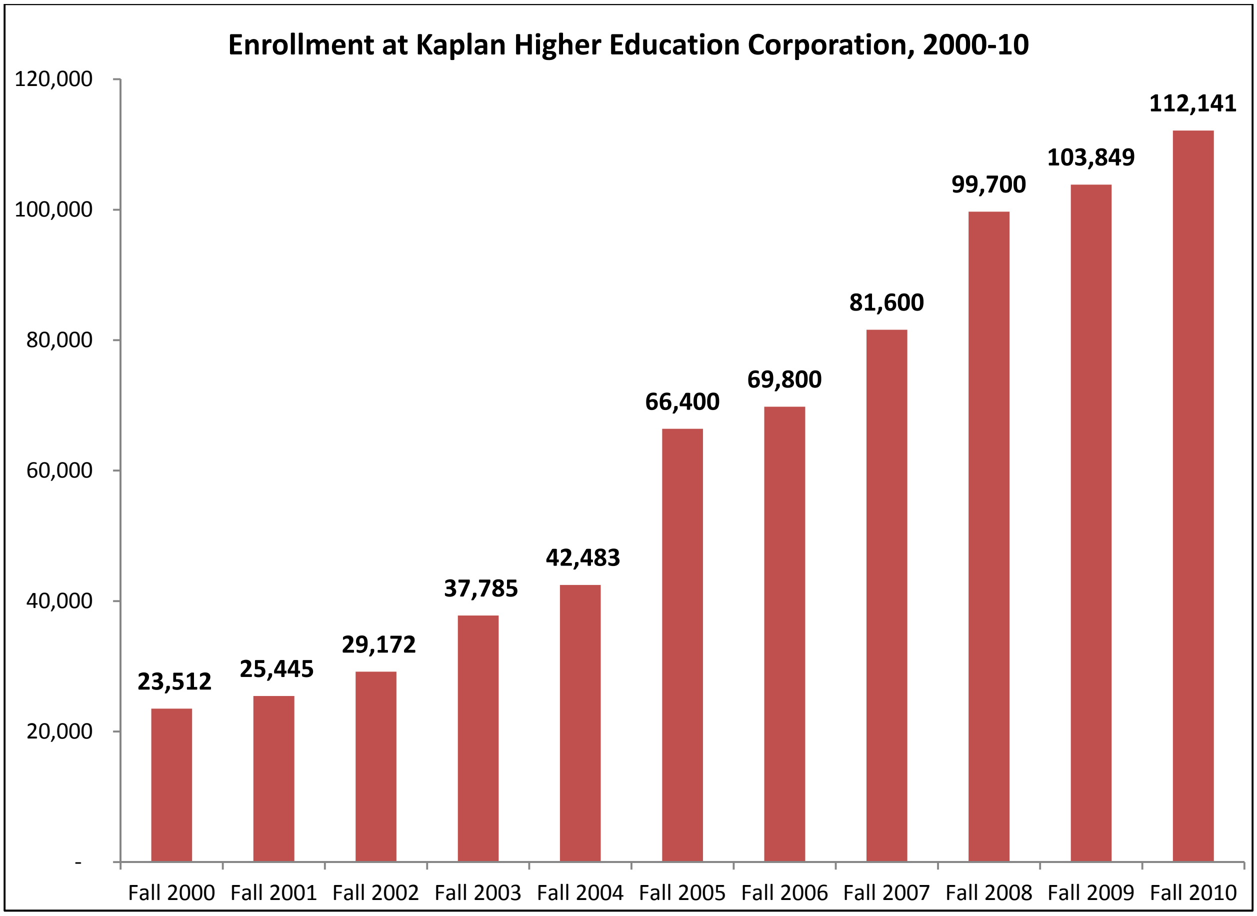
Brands
Bauder College
Concord Law School
Hesser College
Kaplan Career Institute
Kaplan College
Kaplan University
TESST College of Technology
Texas School of Business

Like more than half of the regionally accredited brands the committee examined, Kaplan University is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools. Kaplan College and Kaplan Career Institute are the largest Kaplan brands, with 51 locations across most regions of the country. Each Kaplan Career Institute and Kaplan College location is nationally accredited by either the Accrediting Council for Independent Colleges and Schools (ACICS), Accrediting Commission of Career Schools and Colleges (ACCSC), or the Commission of the Council on Occupational Education (CCOE).

Kaplan also operates a smaller network of separately-accredited brands. Bauder College in Georgia is regionally accredited by the Commission on Colleges of the Southern Association of Colleges and Schools (SACS) and Hesser College has five locations in New Hampshire and is regionally accredited by the New England Association of Schools and Colleges (NEASC). Concord Law School is a non-ABA accredited online law school. TESST College of Technology has three locations in Maryland and is accredited by ACCSC. The Texas School of Business has four locations in and around Houston, TX, and is accredited by ACICS.

Andrew S. Rosen is chief executive officer of Kaplan, Inc.[2197] Rosen previously served as CEO of Kaplan Higher Education. Matthew Seelye serves as chief financial officer of Kaplan, Inc. Seelye previously served as CFO of Kaplan Higher Education. Donald E. Graham is chairman of the board and chief executive officer of the Washington Post Company. In 2010, Donald Graham received $429,070 in compensation for his position as chairman. The salaries of Kaplan's officers are not publicly available. However, when Rosen's predecessor as CEO Jonathan Grayer left the company in 2008, he received a severance package of $76 million.[2198]

[2197] Kaplan, Campus Organization Chart, (KHE 00000032).
[2198] Washington Post, November 19, 2008, 8-K SEC Filing, http://www.washpostco.com/phoenix.zhtml?c=62487 &p=irol-sec&secCat01.1_rs=131&secCat01.1_rc=10&control_searchbox=&control_selectgroup=0 (accessed June 19, 2012).



Kaplan has posted significant growth in enrollment in recent years. In 2000, when the company purchased Qwest Education and entered the postsecondary education market, the company's campuses enrolled about 23,512 students. By 2005, the company had more than doubled its enrollment to 66,400. And by 2010, the company was five and a half times larger, at 112,141 students.[2199] This growth in enrollment led to growth in revenue. The company's revenue has almost doubled between 2006 and 2009, from $797 million to $1.57 billion.[2200]

In September 2010 the company initiated its Kaplan Commitment Program, which allows students to attend classes for 5 weeks without incurring any financial obligation to the company. This is an extremely significant reform by Kaplan and has had an impact on the number and type of students who enroll. It has also led to a fairly sharp drop in the company's enrollment, which stood at 75,984 as of March 2012, nearly 36,000 students less than the company's enrollment in fall 2010.[2201] The Washington Post Company has seen a corresponding drop in its revenue.[2202]

2199 Enrollment for 2000-4 is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education 's Integrated Postsecondary Data System (hereinafter IPEDS). Enrollment for 2005-10 is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.

2200 Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are from the company financial statements produced to the Committee. See Appendix 18.

2201 Washington Post Company, March 31, 2012, Def 14A SEC Filing, http://www.washpostco.com/phoenix.Zhtml?c=62487&p=irol-sec&secCat01.1_rs=1&secCat01.1_rc=10&control_searchbox=&control_selectgroup=0 (accessed June 19, 2012).

2202 Id.

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent, and from $5.4 to $32.2 billion.[2203] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[2204]

In 2010, Kaplan reported 85.9 percent of revenue from title IV Federal financial aid programs.[2205] However, this amount does not include the Departments of Defense and Veterans Affairs education benefits.[2206] Approximately 2 percent of Kaplan's total revenue, or $33.7 million, was collected from Department of Defense Tuition Assistance or post 9/11 GI bill funds.[2207] With these funds included, 87.9 percent of Kaplan's total revenue was comprised of Federal education funds.[2208]

[2203] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C §1070 et seq. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

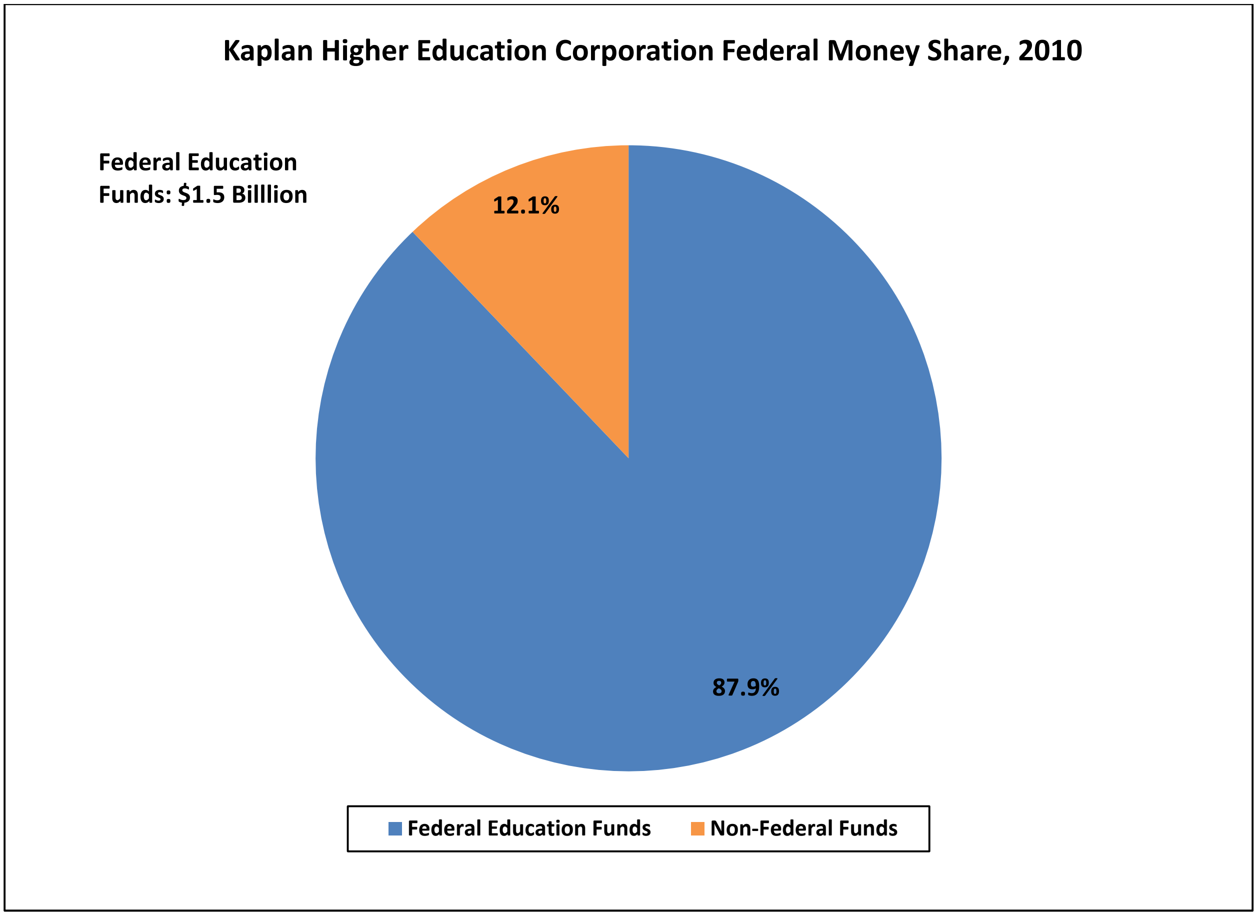
[2204] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[2205] Id.

[2206] The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for Kaplan could not be extrapolated from the data Kaplan provided to the committee.

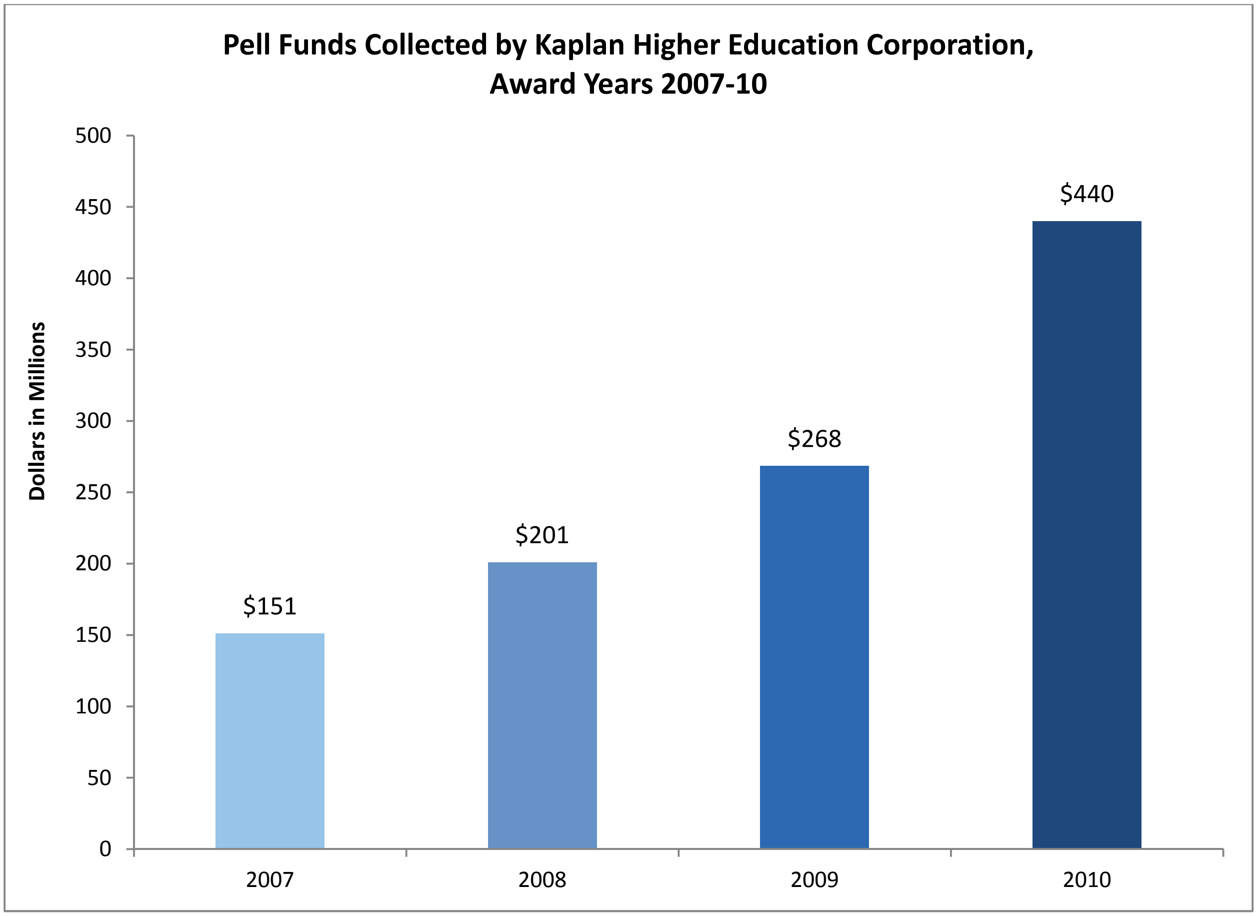
[2207] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[2208] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.



Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[2209] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[2209] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov /datacenter/programmatic.html (accessed July 12, 2012).



Kaplan nearly tripled the amount of Pell grants it collected, from $151 million in 2007 to $440 million in 2010.[2210]

Spending

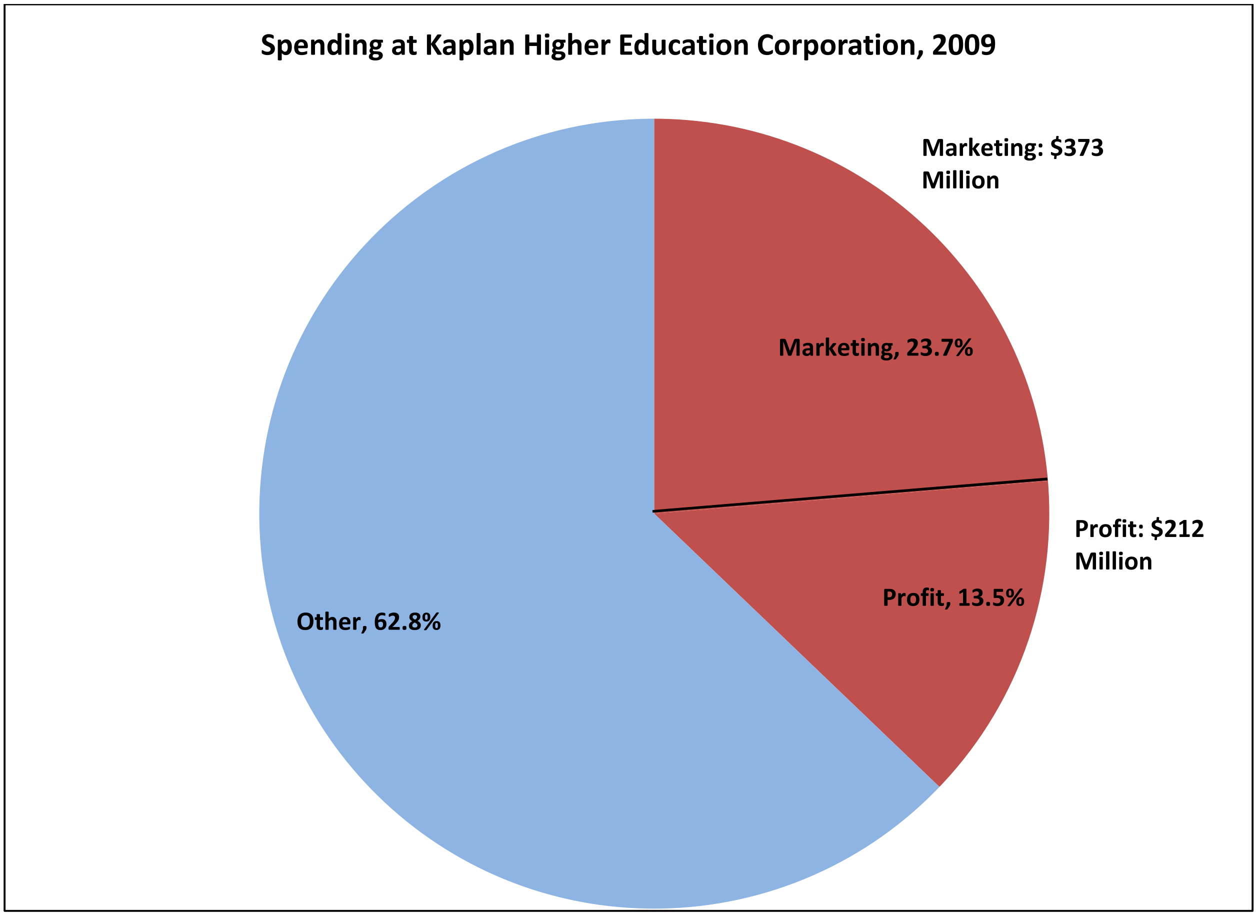
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[2211] During the same period the companies spent 23 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[2212] These 15 companies spent a total of $6.9 billion on marketing, recruiting, and profit in fiscal year 2009.

[2210] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 and 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012). See Appendix 13.

[2211] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

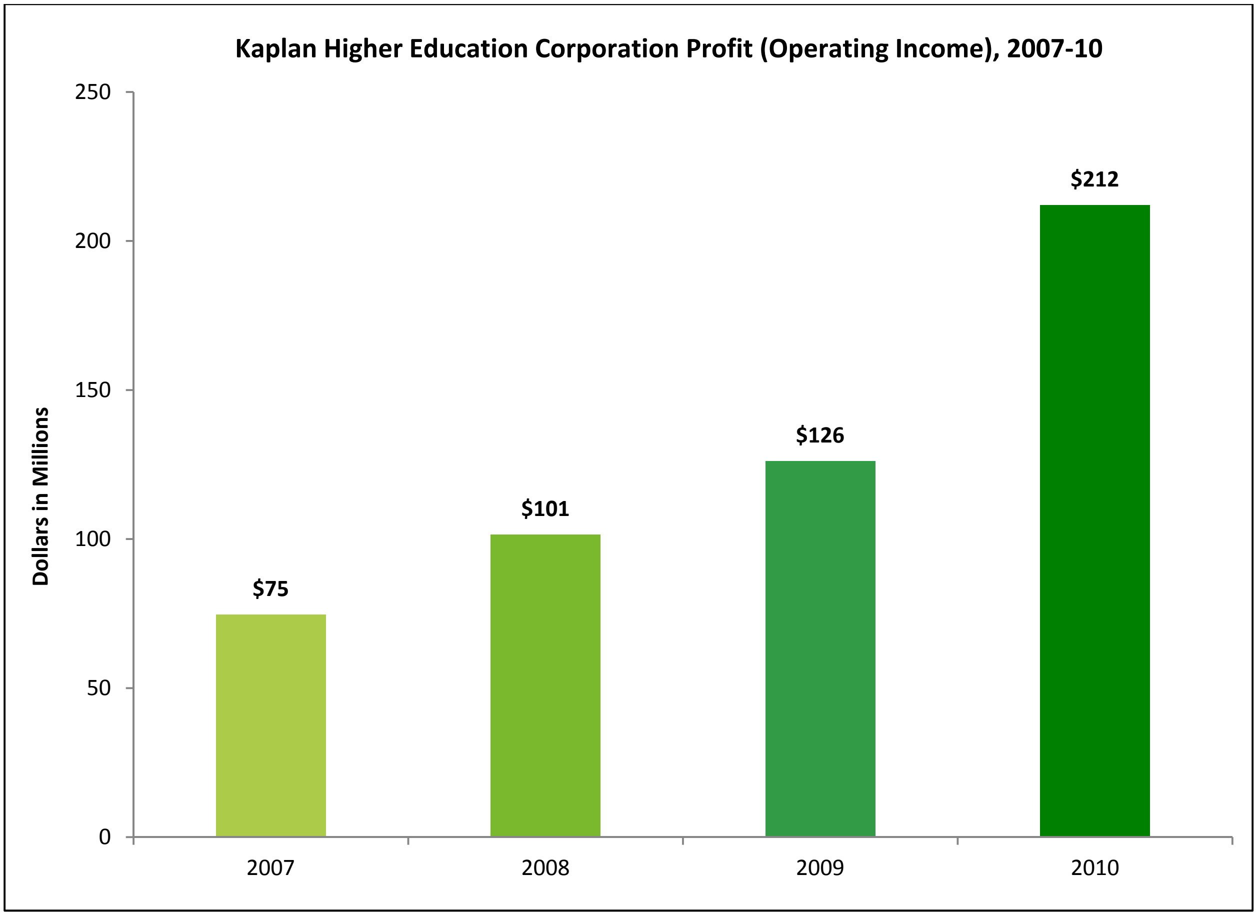
[2212] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.

In 2009, Kaplan allocated 13.5 percent of its revenue, or $212.1 million, to profit and 23.7 percent, or $372.7 million, to marketing and recruiting.[2213]



Kaplan devoted a total of $585 million to marketing, recruiting, and profit in fiscal year 2009.[2214] The amount of profit Kaplan generated also increased rapidly, nearly tripling from $74.7 million in 2006 to $212 million in 2010.[2215]

2213 Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.
2214 Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, and other expenditures.
2215 Senate HELP Committee staff analysis. See Appendix 18.



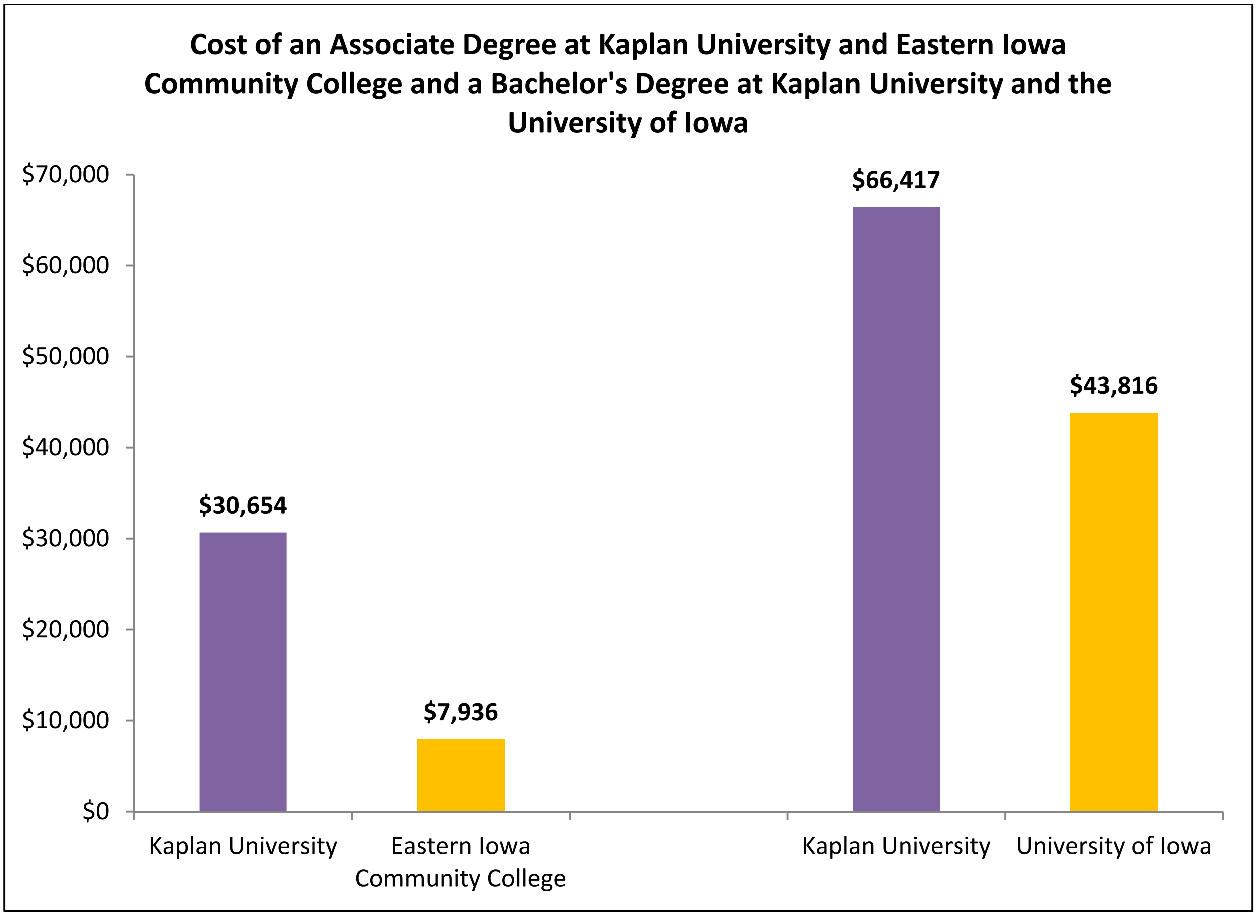
Executive Compensation

Kaplan does not disclose executive compensation for its executives.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Kaplan. An Associate of Applied Science in Business Administration at Kaplan University's Davenport, IA campus costs $30,654.[2216] The same degree at Eastern Iowa Community College costs $7,936.[2217] A Bachelor's of Science in Business Administration at Kaplan University's Davenport Campus costs $66,417,[2218] while a Bachelor's of Science in Business Administration at the University of Iowa costs $43,816.[2219] At Kaplan's Cedar Rapid's campus charges $23,410 for a Diploma in Practical Nursing.[2220] The same diploma is available at Eastern Iowa Community College for $7,376.[2221]

[2216] See Appendix 14; see also, Kaplan University, *Tuition and Fees*, http://davenport.kaplanuniversity.edu/pages/tuition.aspx (accessed July 12, 2012).
[2217] See Appendix 14; see also, Eastern Iowa Community College, *Eastern Iowa Community College*, http://www.eicc.edu/ (accessed July 12, 2012).
[2218] See Appendix 14; see also, Kaplan University, *Tuition and Fees*, http://davenport.kaplanuniversity.edu/pages/tuition.aspx (accessed July 12, 2012).
[2219] See Appendix 14; see also, University of Iowa, *University of Iowa*, http://www.uiowa.edu/ (accessed July 12, 2012).
[2220] Kaplan University, *Practical Nursing Diploma*, http://cedarrapids.kaplanuniversity.edu/nursing/Pages/Practical_Nursing_Diploma.aspx#tution_fee (accessed July 13, 2012).
[2221] Eastern Iowa Community College, *Eastern Iowa Community College*, http://www.eicc.edu/ (accessed July 12, 2012).



The higher tuition that Kaplan charges is reflected in the amount of money that Kaplan collects for each veteran that it enrolls. From 2009-11, Kaplan trained 4,840 veterans and received $43.9 million in post-9/11 GI bill benefits, averaging $9,081 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[2222]

Internal documents indicate that tuition decisions were driven by revenue and profit considerations, limited only by the market in which the individual campuses operate. When Kaplan raised the tuition for a nursing program at its Sacramento campus by 8 percent, the director of finance for the School of Nursing noted, "With the new pricing, we can lose 2 students and still make the same profit." [2223] In another situation, discussing locations in the southwest, Kaplan's Director of Strategy wrote, "since those public programs have long waiting lists, we have the ability to charge a premium in this market." [2224]

Kaplan increases tuition approximately 5 percent every year.[2225] In 2005, online tuition was $280 per credit hour.[2226] Today, online tuition costs $371 per credit hour. The most recent 5 percent increase in 2010 sparked internal debate among Kaplan executives, as it appears to have been done in response to

[2222] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[2223] Kaplan Internal Email, September 10, 2009, re: *Sacramento Price Increase* (KHE 173528).
[2224] Kaplan Internal Email, April 30, 2009, re: *Pricing Comparisons* (KHE 171956).
[2225] College Board, "Trends in College Pricing," http://trends.collegeboard.org/downloads/College_Pricing_2011.pdf (accessed June 19, 2012) (According to the College Board, "Over the decade from 2001-2 to 2011-12, published in-state tuition and fees at public 4-year colleges and universities increased at an average rate of 5.6% per year beyond the rate of general inflation.").
[2226] Kaplan, January 29, 2006, Board of Trustees Meeting Minutes (KHE 00003642, at KHE 00003651).

concerns that some campuses were getting close to the 90 percent Federal revenue line.[2227] The president of Kaplan's School of Nursing sent an email to Kaplan University's chief operating officer and senior vice presidents, with the subject: "Significant concerns about 5% tuition increase." He noted an across-the-board tuition increase would hurt the school's nursing Bachelor's degree "business" because their for-profit competitors University of Phoenix, Walden, and Grand Canyon University already charged far less per credit hour for the degree.[2228]

In an email exchange discussing a blanket tuition increase, a Kaplan executive listed a number of concerns with the increase, only to conclude, "obviously, I understand that 90/10 concerns supersede all of the above." [2229] In a separate email exchange, the regional vice president of admissions in Dallas wrote, "I also think we should base price on a fair return for our grads. What kind of starting salary can they expect for the investment." [2230] Others seemed to indicate that 90/10 concerns were paramount: A regional vice president in California responded, "Please remember that there are Title IV implication[s] here. … Hence, the price has to be able to provide a gap large enough so that the campus does not experience 90:10 issues." [2231]

Some students told the company that tuition was too high. One prospective student emailed an admissions adviser:

> I'm informing you that I'm not going to attend classes at Kaplan. … This is the MAJOR reason, the approx cost of my tuition at Kaplan would be around $16,000 to $17,000, with only $3,000 in grants, the remainder in loans [sic].[2232]

At one point, the company prepared talking points for recruiters if a prospective student raised the issue of high tuition. If prospective students said community college was cheaper, admissions advisers were instructed to respond that a recent survey on student satisfaction ranked Kaplan No. 1 in the "Benefits vs. Cost" category. The talking points continued: "So while community colleges may be cheaper, students say Kaplan is a better value." [2233] In reality, 2-year non-profit colleges scored only a tenth of a point behind Kaplan in the "Benefits vs. Cost" category, and they scored significantly higher in the "job placement" category.[2234]

The talking points provided to recruiters for handling objections to the cost of tuition specify the responses a recruiter was trained to use if the students says, "the tuition is too expensive." [2235] These talking points included discussing the "future financial dividends" of a degree, the fact that financial aid is available, and the fact that Kaplan was "one of the lowest priced private online accredited institutions." The talking points document told instructors to "regain control of the conversation by giving the student the cost per credit hour then move into the interview." The recruiter was not trained to talk about the full cost of the degree, leaving students with a partial answer.

The issue of whether to give a full refund came up at Kaplan's Texas School of Business. Executives there debated whether to provide a refund to a student who had enrolled 2 months earlier and

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[2227] Kaplan Internal Email, December 4, 2009, re: *Significant concerns about 5% tuition increase* (KHE 173785) ("My understanding is the explanation given is that we're doing this [raising tuition across the board] to help with 90/10.").
[2228] Id.
[2229] Kaplan Internal Email, December 6, 2009, re: *FW: To answer you email* (KHE 272465, at KHE 27267-68).
[2230] Kaplan Internal Email, October 28, 2009, re: *Price* (KHE 286119).
[2231] Id.
[2232] Kaplan Internal Email, June 29, 2009, re: *Lynne Smith* (KHE 297978) (emphasis in original).
[2233] Kaplan, Baird Talking Points It's Official: We're at the Top of Our Class (KHE 072778).
[2234] "Survey Results," Kaplan University, *available at* http://web.archive.org/web/20090307092139/http://www.kaplan.edu/ku/surveyresults/. (accessed July 12, 2012).
[2235] Kaplan, *Overcoming Objections: Formula for Overcoming Objections* (KHE 077340, at KHE 077342-43).

recently withdrew. The student had failed to provide proof of high school graduation to the school within 30 days after enrolling, as required by financial aid regulations and the company's own policy.[2236] Instead, the student had provided the proof after the 30 day period was over.

The Texas School of Business executive director told his staff to accept the student's late proof of graduation and charge her. Numerous employees were troubled by that decision. The school's director of finance wrote, "These students have stop attending school and we should have reverse them earlier so there charges will be wiped out but now they will owe huge balance to school and morally this is not right and we have failed student because now they [are] not going to pay school and their account [is] going to be sent to collection and ruin their credit as well." [2237]

The email received mixed responses. The school's executive director replied, "Is it morally right to utilize a service and not paying for it [sic]?" [2238] Another employee commented, "She met all the admissions requirements and was locked in during the start meeting. … The student failed themselves [sic]…!" [2239] The school's director of education, on the other hand, sided with the director of finance. In an email sent only to a separate director of retention, she wrote:

> Yes, I need help. [The executive director of the Texas School of Business] just emailed us and stated that he wants us to accept the POG [proof of graduation] and charge the student. I am not sure how to handle this situation. … I really don't want to fight, but I must protect the student and the policy. PLEASE HELP!!!! [Emphasis in original][2240]

In the end, the executive director instructed his employees to accept the proof of graduation and charged the student.[2241]

Institutional Loans

In addition to Federal debt, some students, because of the high price of tuition, must rely on alternative financing. This helps the company meet a regulatory requirement that no more than 90 percent of revenues come from Federal student aid dollars ("90/10").[2242] Kaplan operates an institutional loan program, under which the company itself lends money to students who cannot obtain alternative loans from private lenders.

Kaplan offers its students the opportunity to borrow from an institutional loan program, the Kaplan Choice Loan Program.[2243] The program allows students to borrow up to $15,000. For loans originated from September 2008 through June 2010, the loans carried a fixed interest rate of 15 percent. Loans originated after July 1, 2010, carry a fixed interest rate of 6.8 percent, and any existing loans

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[2236] The admissions policy states, "If the student has not submitted all required entrance requirements within 30 calendar days of the Official Start Date, the student must be placed in Reverse status." Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 290830).
[2237] Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 225776, at KHE 225779).
[2238] Kaplan Internal Email, January 29, 2012, re: *Revenue Review* (KHE 225803).
[2239] Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 225776 at KHE 225779).
[2240] Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 225776).
[2241] Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 225794).
[2242] For institutional loans made between July 1, 2008, and June 30, 2012, institutions may count as total revenue the net present value of loans. After July 1, 2012, institutions may only count as total revenue the amount of loan repayments they actually receive.
[2243] Students must apply for private loans before receiving Kaplan Choice loans, making the program a loan of last resort.

originally issued at 15 percent started accruing the reduced 6.8 percent interest on September 3, 2010.[2244] Students may defer the loans while in school and may take up to 10 years to repay them.[2245]

Kaplan Choice began in September 2008. In June 2009, Kaplan Choice had $5 million in disbursed loans, estimated to rise to $29 million by the end of the year.[2246]

For accounting purposes, Kaplan must reserve money to pay off future defaults on the loans. Kaplan determined this "reserve" rate by examining the defaults in private loans made to Kaplan students by a third-party lender in prior years. In 2009, the default rate for that private loan program was 69.5 percent for students entering repayment in 2006.[2247] Kaplan executives relied on this number to determine that Kaplan should reserve 80 percent of the amount lent to students for defaults.[2248] In July 2010, Kaplan executives considered raising the loan reserve from 80 percent to 85 percent but decided against the increase.[2249]

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations, for-profit colleges must recruit as many students as possible to sign up for their programs. In the words of one Kaplan campus Executive Director, "Sales drives the business." [2250]

Internal Kaplan documents indicate that Kaplan recruiters were expected to enroll as many students as possible, and that they were trained in high-pressure sales tactics to do so. Calls to prospective students were considered to be first and foremost "sales call[s]." [2251] Recruiters were also told to make fast and frequent contact with possible student "leads." An email from the president of Kaplan's Davenport campus instructed, "Every lead is to be called a minimum of 3 times per day! Every day until contact is made!" [2252] Kaplan especially encouraged contacting "impulse" leads because "they may lose interest and move on to something else." [2253] Similarly, admissions advisers were instructed to make quick contact with leads who had "shopped around" because they are "likely to move on to other competitors if immediate contact is not made." [2254] In fact, a Kaplan presentation noted that 50 percent of all Internet leads enroll with the first campus that contacts them, implying that Kaplan must strive to be the first to make contact.[2255]

[2244] Kaplan, *Fact Sheet: Kaplan Choice Loan Program* (KHE 0036753).
[2245] Kaplan Draft Memorandum to Kevin Corser from Carole Valentine, June 4, 2009, re: *Kaplan Higher Education Corporation Reserve Estimate for Kaplan Choice Loans* (KHE 0037010, at KHE 0037011).
[2246] Id. at KHE 0037011.
[2247] Kaplan Internal Email, April 21, 2009, re: *KC Loan Default Assumption/[Redacted – Third Party Lender] Loan Data* (KHE 137576).
[2248] Kaplan Internal Email, July 17, 2009, re: *Kaplan Choice Loan Reserve Rate* (KHE 325963).
[2249] Kaplan Internal Email, July 1, 2010, re: *[Redacted – Third-Party Lender] Loan Performance Reports: Default Update* (KHE 207125).
[2250] Kaplan Internal Email, September 18, 2009, re: *Ft. Worth Verification Past Due* (KHE 233387).
[2251] Kaplan Internal PowerPoint, *"Explore" Another Piece of My Heart: Turning Inquiries into Appointments* (KHE 052058, at KHE 052059, 61).
[2252] Kaplan Internal Email, January 29, 2010, re: *Internet Leads!* (KHE 268102).
[2253] Kaplan, *Who Are Our Leads?* (KHE 056399, at KHE 056415).
[2254] Id. at KHE 056416.
[2255] Id.

Documents show that during sales calls or interviews recruiters were told to find prospective students' "pain and fears" and to use those areas to convince them that a degree was the best way to alleviate them.[2256] A rubric given to recruiters told them to ask: "If you don't make this change, how do you think your future looks?," followed by: "ARTICHOKE – Getting to the PAIN.[emphasis in original]" [2257] The rubric provided the takeaway for recruiters in capitalized, bold letters:

> **IT IS ALL ABOUT UNCOVERING THEIR PAINS AND FEARS. ONCE THEY ARE REMINDED OF HOW BAD THINGS ARE, THIS WILL CREATE A SENSE OF URGENCY TO MAKE THIS CHANGE.** [Emphasis in original] [2258]

Another internal Kaplan presentation, titled "Creating Urgency," aimed to teach recruiters how to instill a sense of urgency in the prospective student so that they are more likely to enroll immediately instead of waiting to think it over. In a particularly telling slide, the presentation tells recruiters that addressing students' fears is much more important than addressing their needs. The presentation asks, "Which matters more???" above a scale with needs on one side and fears on the other. On the scale, the need, "Go to the school," is outweighed by fears that it is too expensive, will take up too much time, and will require support that isn't there.[2259] The presentation went on to conclude that recruiters must establish a sense of urgency because, "The longer the timeframe between your interview and the enrollment, the more the student will remember the fears of going to school!!!" [2260]

To overcome students' fears, admissions advisers were instructed to use "outcome based selling" instead of "process based selling." A presentation on "admissions coaching" noted that "the use of *process based words or phrases* is potentially dangerous and may decrease the number of propsects that will move forward with the entire interview [sic]. [Emphasis in original]" [2261] Process-based words included seemingly important topics of discussion, such as: "program," "degree, diploma," "right school," and "online classes." [2262] In contrast, outcome-based words include: "career," "congratulations," "first step in chan[g]ing your life," and "future." [2263] The presentation provided sample openings to "jump start the conversation and begin peeling the layers of the artichoke to expose the heart." [2264]

Kaplan recruiting training documents emphasized "overcoming objections" raised by prospective students. For example, a nursing admissions performance rubric showed that a recruiter received high marks only if he or she "makes 2 attempts to overcome the objection by using a response which was directly related to the objection." [2265] The document indicated that a recruiter must undergo coaching by a manager if he or she makes only one attempt to overcome an objection.

To further encourage admissions advisers to contact and enroll students at a fast pace, Kaplan created competitions to recruit the most students. In one instance, admissions advisers at four Texas schools each made teams to compete for the highest enrollment numbers. The competition was dubbed

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[2256] Kaplan, *Job Aid: Outbound with Rubric & OBS references: Based on the Undergraduate Programs Script published on July 9, 2009* (KHE 084935, at KHE 084936).
[2257] Id. at KHE 084935.
[2258] Id. at KHE 084936 .
[2259] Kaplan, March 2010, *Creating Urgency: Continuing Education* (KHE 096451).
[2260] Id.
[2261] Kaplan, November 5, 2008, *Illuminating Success Admissions Coaching: Six Components of a Conversatoin: Outcome Based Selling* (KHE 058787, at KHE 058789) .
[2262] Kaplan, updated December 4, 2008, *Nursing Admissions Quality Contact Call Rhubric* (KHE 058787, at KHE 058789).
[2263] Kaplan, November 5, 2008, *Admissions Coaching: Six Components of a Conversation: Outcome Based Selling* Training Manual (KHE 058787, at KHE 058790).
[2264] Id. at KHE 058797.
[2265] Kaplan, updated December 4, 2008, *Nursing Admissions: Quality Contact Call Rubric* Training Manual (KHE 0049214).

"the Texas Cup." [2266] The teams sent each other competitive emails such as, "BANDITS strike with their first for the day! Ponies are going DOWN!!!! [Emphasis in original]" [2267] In another contest, titled, "The Ultimate Juggler Phone-a-Thon," admissions advisers were asked, "Who can juggle their leads the best to make the most appointments that show?" [2268] Kaplan made a "Contest Guidelines" presentation that set out acceptable contest categories and rewards. The guidelines "strongly encouraged" contests to "avoid potential infringement of laws governing educational recruitment," and prohibited prizes exceeding $50 per person.[2269]

Students who felt deceived had little opportunity for recourse; Kaplan like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.[2270] This clause severely limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group.

Government Accountability Office Undercover Recordings

Undercover recordings made during GAO visits to two Kaplan College campuses, in Riverside, CA and Pembroke Pines, FL showed multiple instances of deceptive and misleading recruitment.

For example, at Kaplan's Pembroke Pines campus, the GAO documented a recruiter stating, "we will get you a job. I can't promise you that just because I can't say those words here, but I'm telling you right now, you will get a job." [2271] During the visit to the Pembroke Pines Campus, the undercover prospective student asked at least five times to speak to a financial aid employee so that he can find out how much he would qualify for in grants and how much he would have to pay back in loans. He was rebuffed each time, and made to feel that the question is stupid. The recruiter's replies were: "My question back to you is why this is right now a concern?" and "Let's assume that Uncle Sam will help you out" and "This [enrollment agreement] is not signed in blood." The company has since closed this campus. After the recruiter finally indicated he would go find someone in financial aid, he returned a few minutes later with another recruiter who insisted that the undercover agent could not speak to someone in financial aid before signing an enrollment agreement.[2272] Kaplan documents indicate that what the undercover student found was company policy. The company designed the admissions sales process so that the "preferred path (ideally used in most cases)" is that prospective students do not to speak with financial aid counselors before they sign enrollment contracts.[2273]

Military

Like other for-profit schools, Kaplan takes advantage of a major loophole in the 90/10 calculation: military funds. Military funding is particularly valuable because although the money comes from the Federal Government, it counts on the 10 percent side of the 90/10 calculation. In an email chain with the subject, "KU 90/10 Issue," a Kaplan executive listed ways to keep Kaplan within the

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[2266] Kaplan Internal Email, June 28, 2010, re: *Week 1 In The Books…………..* (KHE 236427, at KHE 236427-28).
[2267] Kaplan Internal Email, June 28, 2010, re: *Week 1 In The Books…………..* (KHE 236459, at KHE 236466).
[2268] Kaplan Internal Email, June 14, 2010, re: *FW: The Ultimate Juggler Phone-A-Thon June 16, 2010* (KHE 196925at KHE 196927).
[2269] Kaplan, *Contest Guidelines: Contest Templates* Training Document (KHE 0048302, at KHE 0048307).
[2270] Kaplan, *Davenport Campus Enrollment Agreement* (KHE 0051386, at KHE 0051387).
[2271] Audio Recording: Undercover Recording of Visits by GAO Agents to For-Profit Schools, School 8, Scenario 1 1:57-2:10, http://harkin.senate.gov/help/gao.cfm (accessed June 12, 2012).
[2272] Id, at Scenario 2 40:04, 41:45, 44:07-47:02.
[2273] Kaplan Internal Email, October 13, 2009, re: *FW: Process Flow* (KHE 279097).

90/10 requirement. At the top of the list: "Accelerate military billings / collection at KU. Go to D.C. and pick up the check if you have to." [2274]

Kaplan has engaged in serious efforts to increase military enrollees in recent years. A 2010 presentation, "Kaplan Military University," lists enrollment objectives and a larger objective to "improve 90/10 by 5%." [2275] Although Kaplan is not one of the top for-profit colleges in terms of military recruiting and enrollment, Kaplan enrolled 4,840 veterans between 2009 and 2011. In 2010, the company brought in about $33.7 million from the Departments of Defense and Veterans Affairs military education benefit programs combined.

The need to increase military enrollment led Kaplan to engage in aggressive recruiting tactics. A Kaplan admissions training manual for recruiting military students tells recruiters to use a "fear, uncertainty, doubt" technique to influence prospective military students' perceptions, especially if the prospects want to examine other online schools.[2276] The manual told recruiters to "instill FUD [fear, uncertainty, doubt] regarding the 'features' of competitors' programs" by telling prospective students: "Some schools are open enrollment. They accept anyone" and "Accelerated programs are great if you're in a hurry, but is that really the best way to learn?" and "Some schools require group projects where your grade depends on another's participation." [2277]

Kaplan also actively sought out military events where it could recruit soldiers and veterans. When Kaplan signed up for an event at a wounded warrior facility, where severely injured servicemembers recuperate, one employee expressed enthusiasm, noting that Kaplan could "hopefully get some good soldiers out of the deal." [2278]

The ability to recruit veterans and members of the military even factored into the school's decision to issue an official transcript for a student with an outstanding balance. Typically, Kaplan's policy prohibits a campus from providing students with official transcripts unless they are current on their loan repayments.[2279] For example, at the HELP Committee's September 2010 hearing, Danielle Johnson, a non-military student, testified that Kaplan would not provide her with her official transcript because she owed the company $877.[2280] However, in the instance of the servicemember, Kaplan made an exception because the former student had obtained a job on a local military base and the military would only accept an official transcript. One Kaplan executive noted: "I am concerned that the Military base will see us a[s] difficult to deal with in the future. We have just started establishing good relationship with them and we have about 30 students from the base that it is expanding!" [2281] The education director at the campus ultimately issued the official transcript.

It is also clear that Kaplan tried to maximize the amount of money it could receive from military benefit programs. In 2009, Kaplan set its tuition prices before the Department of Veterans Affairs determined its student-loan reimbursement rates. A Kaplan financial controller noted:

[2274] Kaplan Internal Email, November 11, 2009, re: *KU 90/10 Issue* (KHE 211344, at KHE 211345).
[2275] Kaplan, Military University PowerPoint (KHE 267362, at KHE 267364).
[2276] The company insists that this document was never approved by Kaplan's legal team, but it was in use for over a year at some locations.
[2277] Kaplan, *Military eLearning Modules 2009* Training Document (KHE 094981, at KHE 094987).
[2278] Kaplan Internal Email, March 29, 2010, re: *Wounded Warrior* (KHE 195614).
[2279] Having no balance can be a challenge for students, given that new classes begin every 5 weeks.
[2280] Danielle Johnson, Testimony before the U.S. Senate HELP Committee, "The Federal Investment in For-Profit Education: Are Students Succeeding?" September 30, 2010.
[2281] Kaplan, November 9, 1009, Student Complaint (KHE 0038790).

> KU online, as you know, has set their prices. But … in a perfect world they would have waited until this level of reimbursement [from the VA] became settled. They will probably be under priced compared to the reimbursement the soldiers can obtain. We don't want to go down that path.[2282]

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[2283]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll at Kaplan are not achieving their educational and career goals.

<u>Retention Rates</u>

Overall, of the 102,757 students who were enrolled at Kaplan in 2008-9, 55.3 percent, or 56,874 students, withdrew as of mid-2010.[2284] These withdrawn students were enrolled a median of 4 months. Overall, Kaplan's retention rate closely tracks the sector-wide withdrawal rate of 54.1 percent.[2285] Kaplan's Associate program has the third highest withdrawal rate of all Associate programs examined by the committee. Kaplan's Bachelor's degree candidates also fare worse than the industry average, with 68.2 percent withdrawing, compared to the industry average of 54.3 percent. Kaplan performed better than average in regards to Certificate-seeking students, those Kaplan programs had 32.7 percent of students withdraw, compared to 38 percent on average.

2282 Kaplan Internal Email, April 1, 2009, re: *FW: Military Pricing* (KHE 192296).

2283 Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief,* August 2009, <u>http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf</u> (accessed June 19, 2012).

2284 Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

2285 It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

Status of Students Enrolled in Kaplan Higher Education Corporation in 2008-9, as of 2010						
Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Associate Degree	33,324	12.5%	18.4%	69.1%	23,030	127
Bachelor's Degree	31,354	3.7%	28.1%	68.2%	21,390	126
Certificate	38,079	65.8%	1.5%	32.7%	12,454	98
All Students	102,757	29.5%	15.1%	55.3%	56,874	120

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdrew after mid-2010 when the data was produced.

Online vs. Brick and Mortar Outcomes

An analysis of withdrawal rates among the 11 companies that provided disaggregated data indicates that students enrolled in online programs had higher withdrawal rates than students enrolled in campus based programs. Kaplan online students are withdrawing at a rate of 71.9 percent, or 91 percent higher than their brick and mortar counterparts, who withdraw at a rate of 37.6 percent. This means students attending Kaplan online are nearly twice as likely to drop out as their brick and mortar counterparts. In every category of degree, online Kaplan students are far more likely to withdraw from their programs than they are to complete.

Online

Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Associate	22,447	1,407	6.3%	4,062	18.1%	16,978	75.6%
Bachelor's	30,152	1,005	3.3%	8,240	27.3%	20,907	69.3%
Certificate	483	168	34.8%	13	2.7%	302	62.5%
All	53,082	2,580	4.9%	12,315	23.2%	38,187	71.9%

Brick and Mortar

Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Associate	10,877	2,752	25.3%	2,073	19.1%	6,052	55.6%
Bachelor's	1,202	158	13.1%	561	46.7%	483	40.2%
Certificate	37,596	24,872	66.2%	572	1.5%	12,152	32.3%
All	49,675	27,782	55.9%	3,206	6.5%	18,687	37.6%

Student Loan Defaults

The number of students leaving Kaplan with no degree correlates with the high rates of student loan defaults by students who attended Kaplan. According to a Kaplan internal email chain, students who withdraw make up 97 percent of Kaplan defaults.[2286] The executive who noted this also noted that "dropped students are not successful" because "they did not accomplish their academic goals," "they are

[2286] Kaplan Internal Email, November 28, 2009, re: *KU CDR Original Loan Amount and Default Rate* (KHE 197327).

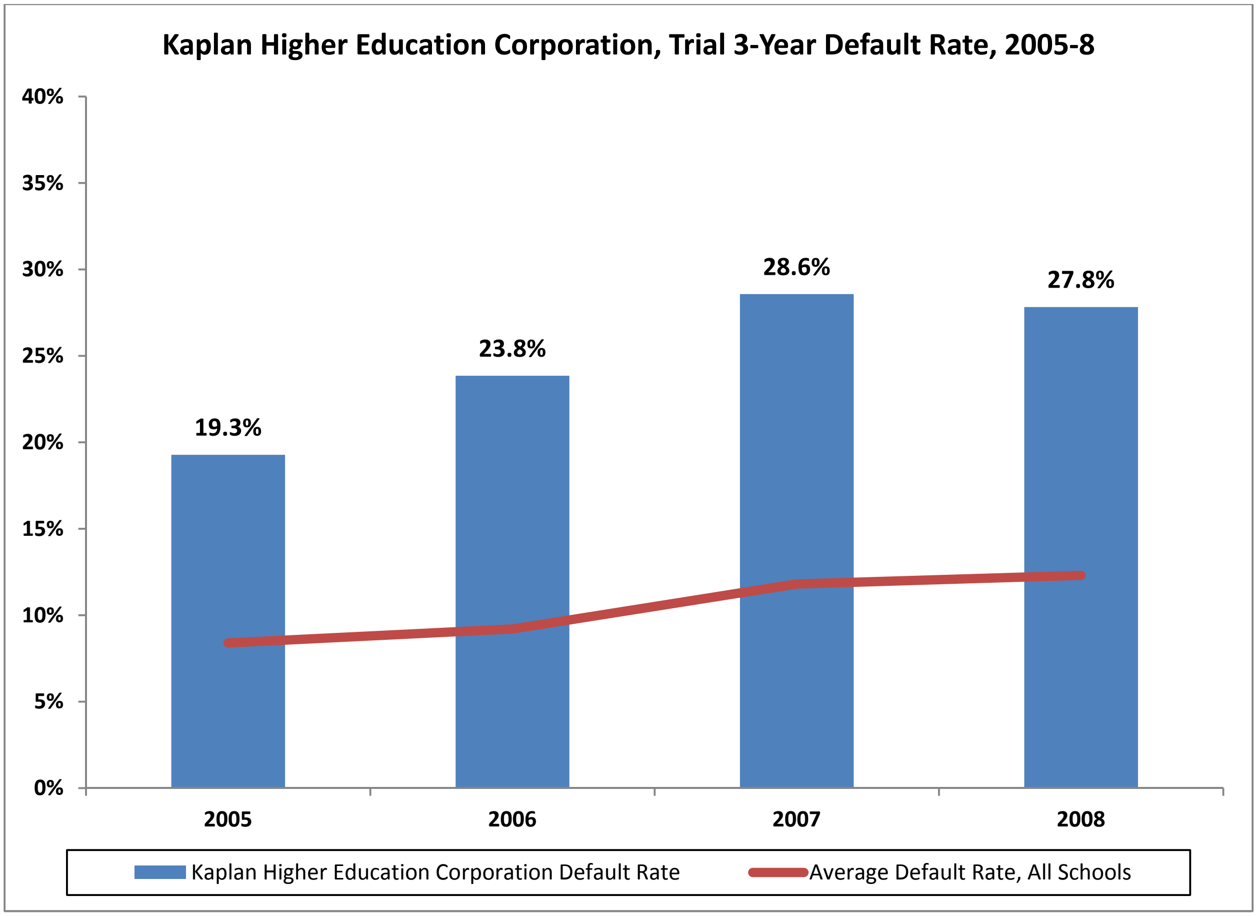
in debt to KU," "they almost always have debt resulting from financial aid," and "the value they gave (indebtedness to KU and financial aid lenders) is greater than the value received (an incomplete education)" so "they default." [2287]

The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[2288]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[2289] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2290] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2291] The consequence of this higher rate is that almost half of all student loan defaults nationwide are held by students who attended for-profit colleges.[2292]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[2293] This change represents a 32.6 percent increase over 4 years. Kaplan's default rate has similarly increased, growing from 19.3 percent for students entering repayment in 2005 to 27.8 percent for students entering repayment in 2008. Kaplan's most recent default rate is about 25 percent higher than the rate for all for-profit colleges and has the third highest rate of loan default among the 30 schools examined by the committee.

[2287] Id.
[2288] Direct Loan default rates, 34 CFR 668.183(c).
[2289] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[2290] Id.
[2291] Id.
[2292] Id.
[2293] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.



The default picture at some individual campuses is particularly dire. At Kaplan's TESST College of Technology in Baltimore, MD 32.9 percent of students entering repayment in 2008 defaulted within 3 years. Additional poor performing campuses include those in Corpus Christi, TX where 948 out of 3,047 students (31.1 percent) faced default within 3 years of entering repayment, and a campus in Brooklyn, OH where 207 of 557 (37.2 percent) of students faced default.

As one Kaplan vice president noted, students who attended only a week or two of classes defaulted on loans at a significant rate. The vice president recommended analyzing the impact that a policy change would have on attrition and default rates.[2294] Another vice president recommended a full refund for withdrawals in the first 3 to 30 days of class. He noted, "This is radical but so are the consequences of missing 90/10, default, and outcomes." [2295]

In line with this approach, in September 2010, Kaplan instituted the Kaplan Commitment. All students who enroll in Kaplan can take 5 weeks of classes without incurring any obligation to the school or to lenders. If a student leaves Kaplan within that time, or if the company determines that because of the student's performance or attendance he or she is unlikely to succeed, the student can withdraw having only paid a minimal application fee. This program works in the best interests of students and is a significant step away from burdening withdrawn students with student loan debt.

[2294] Kaplan Internal Email, February 1, 2010, re: *Default Reduction* (KHE 154379).
[2295] Id.

Default management

It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Helping get delinquent students into repayment, deferment, or forbearance prior to default is encouraged by the Department of Education. However, many for-profit colleges appear to be investing in aggressive tactics for the sole purpose of ensuring that borrowers do not default within the 3-year regulatory window so that the college does not lose access to Federal taxpayer-funded student aid dollars.

Significantly, Kaplan hired internal default management staff and contracted with third-parties to manage the default rates it reports to the Department of Education. Default management is primarily accomplished by putting students who have not made payments on their student loans into temporary deferments or forbearances. In an email titled "2008 CDR," Kaplan's vice president of financial aid asked Kaplan's Director of Default Management & Strategy how the Department of Education's decision to look at 3-year cohort default rates would affect Kaplan's numbers. He writes:

> Also, with the three year CDR, have they [Department of Education] increased the number of deferments or forbearances a student is eligible to receive? Under the two year plan, we could use deferments or forbearances to get out of danger. Can we do the same for the 3 year CDR? [2296]

Another executive pondered what Kaplan could "legally do to eliminate the low dollar defaulters before they make it into the stats……" [2297]

Default management contractors are paid to counsel students into repayment options that ensure that students default outside the 2-year, soon to be 3-year, statutory window, in which the Department of Education monitors defaults. Notably, Kaplan at one point hired private investigators for its default management efforts.[2298] These PIs were tasked with locating former students approaching default. Under the contract, if a PI located a student, he would ask the student to sign forbearance forms and advise the student to contact their lenders and negotiate terms to avoid default.[2299] In 2008, Kaplan paid the PI company $575 for each "successful resolution" (a student being put into forbearance) and $150 for each "non-successful resolution." [2300] Kaplan had already paid the company $500,000 for its services in the first half of 2009,[2301] when, in July 2009, with 12 weeks to get high delinquency rates under control, Kaplan temporarily increased these incentive payments to $1,000.[2302]

Kaplan also employs a full-time internal "default prevention team." In August 2009, a Kaplan executive proposed spending a significant sum on hiring 70 employees to make up this team.[2303] Documents show that these initiatives included paying default prevention staffers bonuses for each delinquency "cured" (preventing a student from impacting the default rate through deferment, forbearance, loan consolidation, or repayment). In 2009, default prevention staff could earn $75 for

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[2296] Kaplan Internal Email, December 4, 2009, re: *FY 2007 Final Chart numerator denominator challenges* (KHE 112966).
[2297] Kaplan Internal Email, October 12, 2009, re: *CDR Analysis for 2007* (KHE 140077).
[2298] Kaplan, July 29, 2009, *Default Management Status Update and Strategy: Current State* (KHE 270925 at KHE270956).
[2299] Kaplan, August 29, 2008, Letter re: *Terms of Engagement for Retention of Investigatory Services,* Letter agreement between Corporate Risk International and Kaplan Higher Education Corporation (KHE 0036513).
[2300] Id., at KHE 0036515.
[2301] Kaplan, July 29, 2009, *Default Management Status Update and Strategy: Current State* (KHE 270925 at KHE 270956).
[2302] Id. at KHE 270925.
[2303] Kaplan, August 21, 2009, *Default Management Proposed New Org Structure* (KHE 137725). Kaplan states that this default management structure was not implemented as proposed in this document.

"curing" a 270+-day delinquency, $50 for "curing" a 180-269 day delinquency, and $30 for "curing" a 179-day-or-less delinquency.[2304]

In addition to full-time default management staff, Kaplan encourages its financial aid managers and career services staff to help lower default rates. A presentation titled, "FA [Financial Aid] Managers['] Role in Reducing Bad Debt," gives financial aid managers the following advice when trying to lower Kaplan's high default rates: "How do you eat an elephant? One bite at a time!" [2305] An internal email reveals the relationship between various departments in pushing students into forbearance. A member of the default prevention team worked with Kaplan's Career Services to bring a student in and give her employment leads, then have her sign a loan forbearance and unemployment deferment. The employee wrote, "Woohoo! One more student off the delinquency Report….Now that's what u call TEAM WORK [sic]! [Emphasis in original]" [2306]

Kaplan, like many other for-profit colleges, contracted with the General Revenue Corporation (GRC), a subsidiary of Sallie Mae, to "cure" students who are approaching default.[2307] Under the agreement, Kaplan pays GRC from $16 to $36 per student borrower account to contact them and attempt to prevent them from defaulting. If GRC successfully "cures" a student by putting them into deferment or forbearance, or having the student bring their loans current by making payments, then, for the most recent tracked group of students entering repayment, Kaplan pays a bonus of $38. In practice, documents indicate that nearly all "cures" are accomplished by deferment or forbearance, not by students actually repaying their loans.

This practice is troubling for taxpayers. The cohort default rate is designed not just as a sanction but also as a key indicator of a school's ability to serve its students and help them secure jobs. If schools actively work to place students in forbearance and deferment during the 2- (now 3-) year tracking window, that means taxpayers and policymakers fail to get an accurate assessment of repayment and default rates. A school that has large numbers of its students defaulting on their loans indicates problems with program quality, retention, student services, career services, and reputation in the employer community. Aggressive default management undermines the validity of the default rate indicator by masking the true number of students who end up defaulting on their loans. Critically, schools that would otherwise face penalties—including loss of access to further taxpayer funds—continue to operate because they are able to manipulate their default statistics.

Moreover, forbearances may not always be in the best interest of the student. This is because during forbearance of Federal loans, as well as during deferment of unsubsidized loans, interest still accrues. The additional interest accrued during the period of forbearance is added to the principal loan balance at the end of the forbearance, with the result that interest then accrues on an even larger balance. Thus, some students will end up paying much more over the life of their loan after a forbearance or deferment.

[2304] Kaplan, July 29, 2009, *Default Management Status Update and Strategy: Bonus Plan* (KHE 270925 at KHE 270953).
[2305] Kaplan, *FA Managers Role in Reducing Bad Debt: How do you eat an elephant? One bite at a time!* (KHE 063733).
[2306] Kaplan Internal Email, June 15, 2010, re: (subject redacted) (KHE 369139) (emphasis in original).
[2307] Kaplan, February 14, 2010, *Second Amendment to Cohort Default Management Services Agreement* (KHE 0036566);Kaplan, *Cohort Default Management Services Agreement* (KHE 0036546).

Instruction and Academics

The quality of any college's academics is difficult to quantify. However the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.

Kaplan spent $1,550 per student on instruction in 2009, compared to $2,144 per student on marketing and $1,220 per student on profit.[2308] The amount that publicly traded for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. In contrast, public and non-profit 4-year colleges and universities, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other Iowa-based colleges spent, on a per student basis, $14,882 at the University of Iowa, $3,734 at Upper Iowa University, and $3,866 at Eastern Iowa Community College, on instruction.[2309]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Sector-wide, among the 30 schools the committee examined, fully 80 percent of the faculty is part-time, higher in some companies.[2310] Kaplan employed 1,705 full-time and 6,472 part-time faculty in 2010.[2311]

Students raised concerns with academic quality by filing complaints with the school, State, and Federal agencies. In one instance, a student in California spoke with her school's president and director of education about the poor performance of her math instructor, who had never taught math before. The school switched instructors halfway through the course after determining the teacher "was not well suited" for the course.[2312] Another student complained that her teacher "spent most of his time recruiting students to go to another school at which he was teaching." [2313] Kaplan fired the teacher for that precise conduct but refused to refund students' tuition, claiming subsequent modules with a new teacher provided the students with adequate course content.[2314]

In some cases, at brick-and-mortar campuses, instructors failed to show up to classes. One student complained that her class had no teacher during the first 2 weeks of the term. Students in the class received a refund.[2315] Another student complained that a class had no instructor for the last block

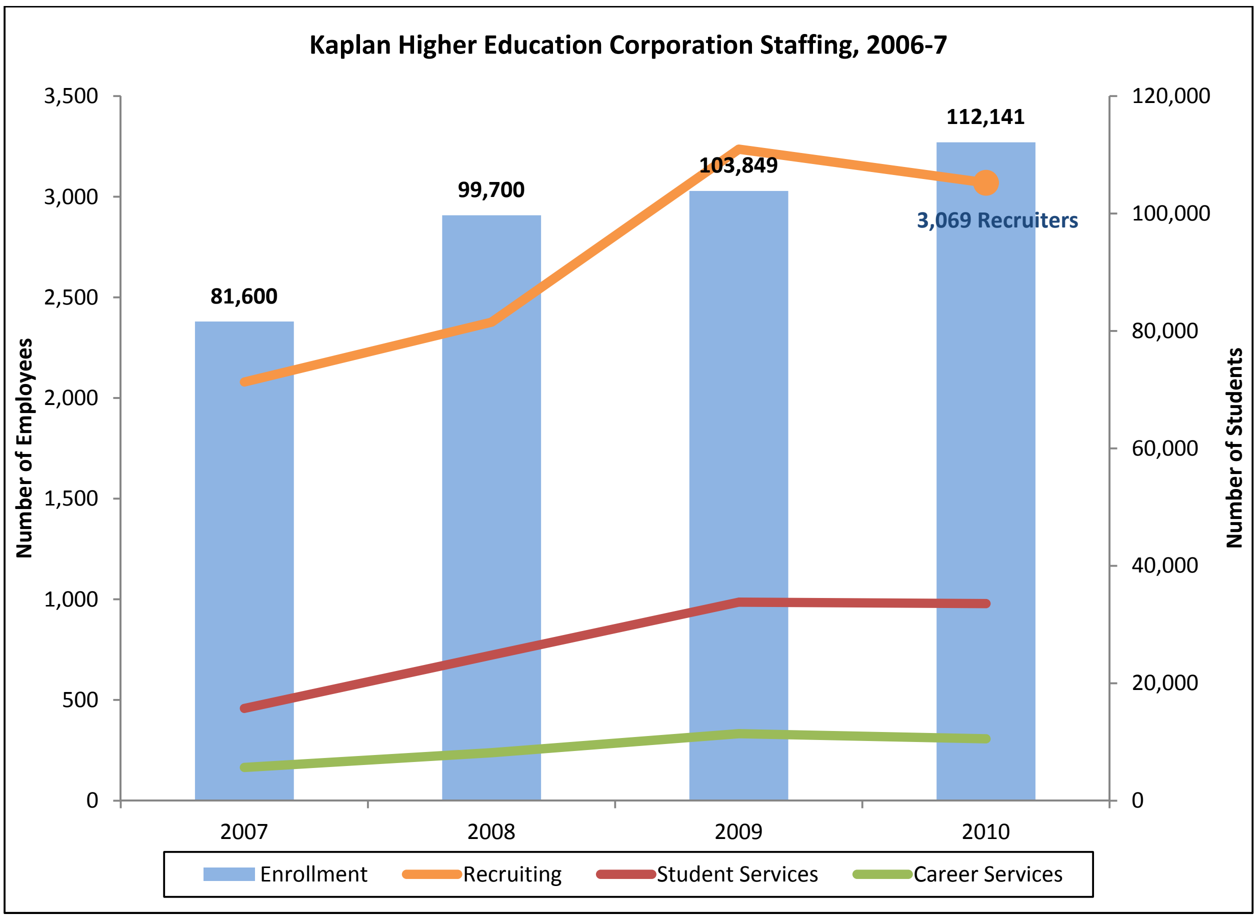
[2308] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.
[2309] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.
[2310] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[2311] Id.
[2312] Kaplan, February 27, 2008, Student Complaint (KHE 0039927).
[2313] Kaplan, August 7, 2007, Student Complaint (KHE 0038448).
[2314] Id.
[2315] Kaplan, September 26, 2006, Student Complaint re: *no teacher in class* (KHE 0038360).

of material and that an administrative employee would sit in the class for an hour or 2, then give students credit for a 5-hour day.[2316]

Other students raised concerns about the poor logistics of their classes. One student complained that her class was told CPR training would be included in the course but, due to lack of teachers, Kaplan asked students to pay for CPR training separately and take the class at night.[2317] Another student complained about lack of supplies and organization, writing:

> The school did not have the supplies needed for the class, the dates assigned for the class were not accurate. The classrooms were changed several times. Teachers changed during the lessons. … I do not think it is fair for me to pay a 10 thousand dollar financial aid if the school did not comply with what I signed up for.[2318]

Staffing



While for-profit education companies employ large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services, or career counseling and placement. Kaplan however, does provide better tutoring services than many others in the sector. In 2010, with 112,141 students enrolled, Kaplan employed 3,069 recruiters, 979 student

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[2316] Kaplan, September 26, 2006, Student Complaint re: *lack of instruction* (KHE 0038425).
[2317] Kaplan, June 6, 2006, Student Complaint (KHE 0038443).
[2318] Kaplan, October 25, 2006, Student Complaint re: *false advertisement* (KHE 0038291).

services staff, and 307 career services and placement staff.[2319] That means each career counselor was responsible for 365 students, and each student services staffer was responsible for 115 students, but the company employed one recruiter for every 37 students.

Career Services

For-profit schools promote themselves as career-oriented skill-focused places. Indeed, most for-profit education advertising focuses on "getting the job" after graduating from school. Kaplan has a relatively robust number of career services employees compared to other education companies examined by the committee and provides placement services though many of its campuses are regionally accredited and not required to do so. However, in 2009, several student complaints note the lack of service they received when trying to find jobs. Others report that those services are not helpful. An alumna of TESST College, a Kaplan school in Maryland, said she felt that career services "just want us to get out of there hair [sic]" and told her to take an $8-an-hour job that would not provide sufficient income to pay her bills.[2320]

Another student who graduated from Kaplan's Hesser College in Pennsylvania filed a complaint in July 2010, stating:

> The job assistance program really is NO help what so ever! I graduated in Feb with my Diploma in Medical Assistance……hmmm still no job and I have not seen any leads from Hesser since probably May….and when I do get leads, they are from Craigslist, hello don't you think the students are already looking there too????? How about some real leads?? [emphasis in original][2321]

One student who had graduated at the top of the class still could not find a job and complained about lack of support from career services. The student wrote:

> Your Career Placement Service is horrible. I graduated Summa Cum Laude. I have been into the Cedar Rapids office several times. They have not helped me at all. I cannot pay back my loans at the present time because my wage is so small, I don't have the funds available to me. If you all would work harder at placing graduates, you would be a much better institution.[2322]

This sentiment was echoed by Eric Schmitt, a witness who attended the Cedar Falls campus and testified at the committee's June 2011 hearing. He stated:

> The school's Career Services didn't seem prepared or able to help me. I stopped in the office on campus a few times but always seemed to get contradictory or confusing resume tips from them. Career Services would frequently send out emails notifying graduates of jobs being offered that I had seen on Iowa Workforce Development or in the

[2319] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.
Fall 2010 Enrollment reported to Department of Education Integrated Postsecondary Education Data System (IPEDS). SEC filings indicate that Kaplan's total enrollment dropped significantly the following year, but enrollment figures are not yet available through IPEDS.
[2320] Kaplan, June 29, 2009, Student Complaint re: *Career Services: insufficient survice* (KHE 0038688) [sic].
[2321] Kaplan, June 16, 2010, Student Complaint re: *Career Service: insufficient* (KHE 0039604) .
[2322] Kaplan, August 4, 2010, Student Complaint re: *Career Services* (KHE 0039225).

> Waterloo Courier. These were job postings that I could apply to on my own, instead of driving to the school.[2323]

Instances such as these perhaps explain why Kaplan does not collect information on its graduates' salary. As Kaplan's vice president of financial aid noted:

> Career Services does not collect salary information because they would have to report the information. For our programs to be viable long term, we need to ensure our salaries are increasing year over year. Also, we need to ensure that starting salaries of our graduates are, on average, greater than their entry salaries when they start school. Without this knowledge on salaries, we cannot judge the quality of the programs or placements. More over, we cannot ensure students are able to repay their loan payments [sic].[2324]

Regulatory Compliance

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenues come from title IV Federal financial aid programs, and that no more than 25 percent of students default within 2 years of entering loan repayment. As discussed in the main body of this report, some companies, including Kaplan, lower their reported default rates by placing students in forbearances and deferments to delay default. Moreover, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal aid programs.

In addition to military funding, Kaplan addresses its 90/10 concerns by trying to get students to make cash tuition payments during their time in school. Kaplan's program for encouraging cash payments is known as "EXCITE: Encourage X-tra Cash Investment Toward Education." [2325] Kaplan executives pushed the program, noting, "cash is King." [2326] Under the program, Kaplan recruiters are instructed to ask students how much they can pay per month towards tuition. A guidance presentation states, "This is their reality not yours. You might be surprised by the amount they can commit to – let them commit." [2327]

A Kaplan presentation advises employees to use a "feel, felt, found method" to overcome "customer" objections to paying more cash tuition.[2328] In a role-play example in which the "customer" is receiving unemployment insurance and unsure whether he can afford to make cash payments, the presentation tells recruiters to say the following:

- Bill, I understand how you <u>feel</u> about not being able to afford the required monthly payment.
- Other students initially <u>felt</u> that very same way.
- However, they <u>found</u> that they only had to sacrifice things like watching cable TV, going out to movies, eating fast foods, and buying CDs or DVDs for a few months to be able to achieve the career they always wanted.

[2323] Eric Schmitt (Kaplan University alumnus), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Drowning in Debt: Financial Outcomes of Students at For-Profit Colleges,* June 7, 2011.
[2324] Kaplan Internal Email, July 13, 2009, re: *Defaulter Analysis* (KHE 265925).
[2325] Kaplan, *EXCITE: Encourage X-tra Cash Investment Toward Education* Training Manuel (KHE 063195).
[2326] Kaplan Internal Email, July 17, 2009, re: *Kaplan Choice Loan Reserve Rate* (KHE 325963).
[2327] Kaplan, *EXCITE: Encourage X-tra Cash Investment Toward Education: Asking for Monthly Tuitoin Payments, Admissions & Financial Aid Continued* Training Manuel (KHE 063195, at 63200).
[2328] Kaplan, *Overcoming Objections Tuition Payment Commitment* (KHE 272320, at KHE 272325).

- Bill, what can you sacrifice for a few months to have job security, improved income, and the benefits you've always wanted? [2329]

Conclusion

At the time the committee investigation was initiated, Kaplan had undergone a period of rapid acquisition and expansion and the company exhibited some of the most serious problems of any company examined by the committee. As a result of a heavy brick-and-mortar presence in Iowa, student complaints were flooding the Chairman's office. Recruiting tactics captured on recordings made by undercover GAO agents were among the worst. With 68 and 69 percent of students enrolling in Associate and Bachelor's programs in 2008-9 withdrawing by mid-2010, Kaplan's retention was among the lowest. Moreover the company was facing serious regulatory challenges both in complying with 90/10 and in rising default rates. Internal documents revealed additional questionable recruiting practices, particularly with regard to recruiting military servicemembers and veterans. Other documents revealed the company had paid private investigators to collect signed forbearance agreements from students delinquent on loan payments. Witnesses who appeared before the committee testified regarding deceptive recruiting practices, heavy-handed efforts to prevent access to transcripts, and students with high debt accompanied by an inability to find a job.

However, during the course of the investigation Kaplan initiated significant reforms that showed a commitment to becoming a company far more focused on student success than it was in 2010. The Kaplan Commitment
5-week trial program initiated in September 2010 has resulted in many students who might otherwise have left a Kaplan school with debt but no diploma being allowed the opportunity to try the programs risk-free. The program underscores the fundamental commitment of Kaplan's parent company, the Washington Post company, to increasing student success rates and has come at a financial cost to Kaplan and the Post company. While Kaplan still faces some regulatory challenges particularly with 90/10, the committee expects that both the debt and default rates of students will decline and the success rates will rise significantly in the near future.

[2329] Id. at KHE 272331.

The Keiser School, Inc.

Introduction

The Keiser School, Incorporated ("Keiser") offers 2-year and 4-year degrees primarily in Florida. Like many others in the sector, in recent years, Keiser has experienced significant growth in student enrollment, Federal funds collected, and profit realized. The company recently converted to non-profit status as the result of a largely undisclosed transaction, whereby the for-profit entity lent an affiliated non-profit the funds for the purchase.

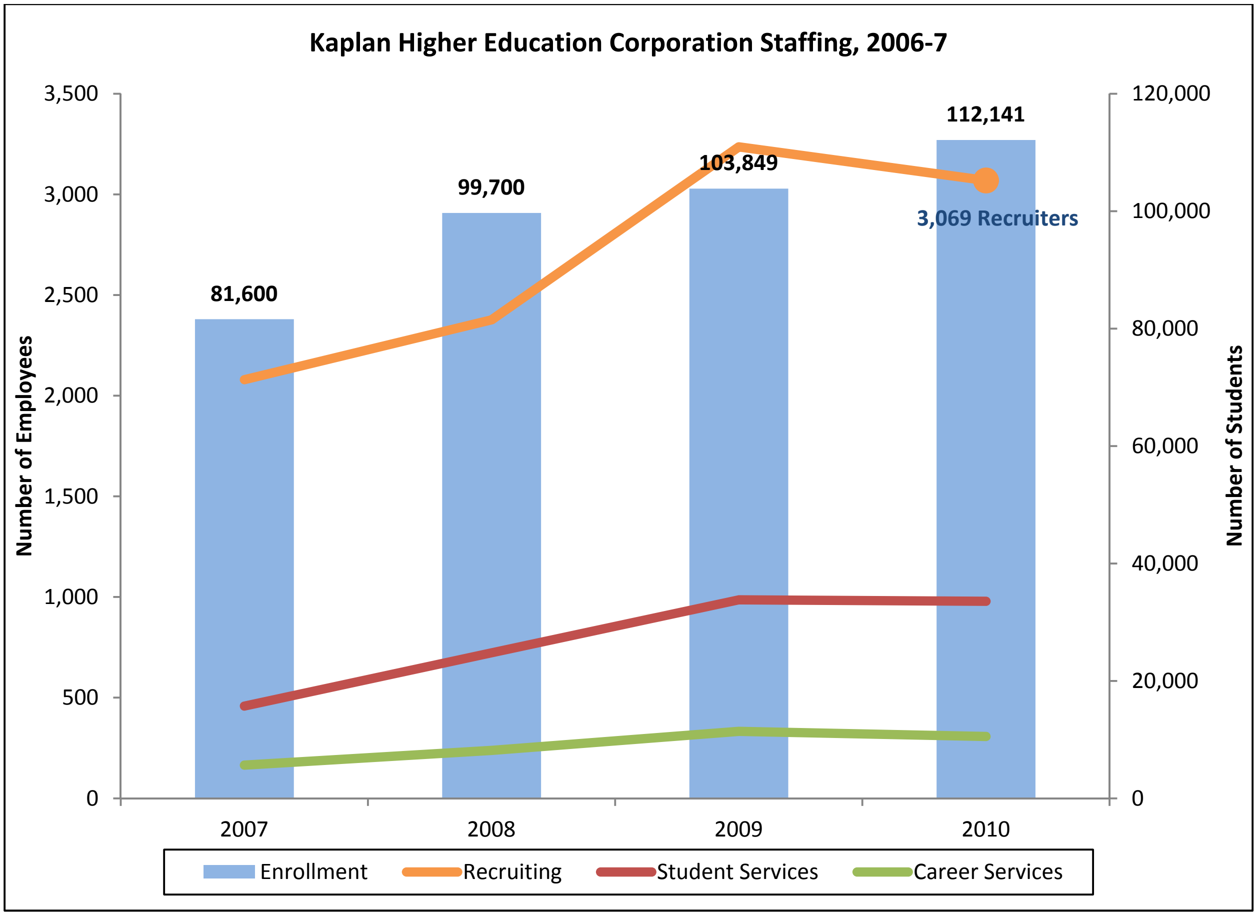
Company Overview

Keiser was a privately held for-profit education company headquartered in Fort Lauderdale, FL. It was started in 1977 by Arthur Keiser and his mother Evelyn with the idea of preparing students for jobs in Florida's business and healthcare communities. In January 2011, Keiser converted to non-profit status. Keiser has 14 campuses, along with an online division, and offers programs in a wide variety of fields.[2330] Keiser is regionally accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award Certificates and degrees at the Associate, Bachelor's, Master's, and Doctoral levels.

Keiser also operates the Southeastern Institute, a for-profit college with four campuses that offer programs in medical assisting, medical billing and coding, paramedic training, human resource administration, and pharmacy technology. The Southeastern Institute is accredited by the Accrediting Commission of Career Schools and Colleges. Keiser did not provide any information regarding the Southeastern Institute to the HELP Committee.

The current Chancellor of Keiser University is Arthur Keiser. Despite the universities conversion to non-profit status, Dr. Keiser continued to serve as the chairman of the Association of Private Sector College and Universities, the main trade association that represents for-profit colleges, until July 2012, and has been at the forefront of the industry's lobbying efforts.

[2330] A list of campuses can be found at Keiser, Campuses, http://www.keiseruniversity.edu/campuses.php (accessed May 7, 2012).



The company has grown significantly as enrollment has increased more than fivefold since 2001, growing from 3,692 students to 18,956 students in 2010.[2331] This growth in enrollment has led to a growth in revenue. Revenue at Keiser nearly doubled from $141.8 million in 2006 to $260.7 million in 2009.[2332]

Conversion to Non-Profit Status

In January 2011, Keiser University announced that it had been sold to Everglades College Inc., a non-profit created by the Keiser family in 2000.[2333] In describing the change, Arthur Keiser specifically noted that the change was not expected to affect tuition and fees or program offerings. According to Dr. Keiser, "it's operating in the same way, with the same people; the only difference is that it's owned by a nonprofit." [2334]

[2331] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a drop in revenue and profit at some companies.
[2332] Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.
[2333] Kelly Field, "Keiser U. Goes Nonprofit," *The Chronicle of Higher Education* January 13, 2011, http://chronicle.com/article/Keiser-U-Goes-Nonprofit/125947/ (accessed June 19, 2012).
[2334] Id.

Everglades is receiving part of the company as a donation, and is acquiring the rest through a purchase financed from a loan from Keiser University.[2335] The entire transaction is being financed by a loan from the for-profit entity to the non-profit entity.[2336] Surpluses generated by the new non-profit entity will go towards paying off this debt.[2337] Arthur Keiser continues to serve as chancellor of Keiser.

Keiser did not publicly disclose the terms of their transaction, and it is unclear as to how the value of the school was determined. No publicly available information reveals whether appraisers were brought in, whether they received second opinions, and what process was used to determine the value of intangibles, such as reputation.

Further by "selling" themselves to a non-profit institution of higher education, Keiser is free from not only the obligation to pay taxes, but from regulatory requirements that pertain only to for-profit colleges, including that no more than 90 percent of revenues be received from Federal financial aid programs. The Department of Education has accepted this change and will not require Keiser to track compliance with the 90/10 rule after 2013.

The 90/10 rule requires for-profit institutions to derive at least 10 percent of revenues from non-title IV funds. Institutions that violate 90/10 for 2 consecutive years lose their Federal aid eligibility for at least 2 years. Keiser had a 2009 90/10 ratio of 77.4 percent. However, under the Ensuring Continued Access to Student Loans Act (ECASLA), for-profit colleges were permitted to exclude up to $2,000 in loans per student from the 90/10 calculation during fiscal year 2009 and 2010. When these funds are taken into account, based on information provided to the committee, it is possible that Keiser's 2009 ratio could have been as high as 87 percent. The expiration of the ECASLA exemption was likely to make 90/10 compliance more challenging for the company. This concern likely played a role in Keiser's conversion to non-profit status. Conversion to non-profit status to avoid a regulation would seem to defeat the purpose of the non-profit tax status, which is to provide an educational and charitable public purpose that justifies exemption from Federal taxes.

As a non-profit, Keiser is also eligible for much higher levels of State-based grant aid. Florida, for example, makes up to $2,425 per student available to students attending non-profit schools compared to $945 per student at for-profit schools.[2338]

Federal Revenue

Nearly all for-profit education companies derive the majority of their revenue from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2339]

[2335] Scott Travis, "Keiser Becomes a Nonprofit: Move Could Mean More State Aid," *Sun Sentinel*, January 18, 2011, http://articles.sun-sentinel.com/2011-01-18/news/fl-keiser-non-profit-20110118_1_keiser-university-keiser-officials-state-aid (accessed June 19, 2012).

[2336] Goldie Blumenstyk, "For Some Colleges, the Road to Growth is to Go Hybrid," *The Chronicle of Higher Education*, January 19, 2011, http://chronicle.com/article/For-Some-Colleges-the-Road-to/126001/ (accessed June 19, 2012).

[2337] Id.

[2338] Florida Department of Education, 2010-11 General Appropriations Act, HB 5001, Conference Committee Report, July 1, 2010, http://www.fldoe.org/GR/Bill_Summary/2010/HB5001.pdf (accessed June 19, 2012); See also Florida House of Representatives, HB-5001 Appropriations, July 1, 2010, http://www.myfloridahouse.gov/sections/Bills/billsdetail.aspx?BillId=44560 (accessed June 19, 2012).

[2339] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. § 1070 et seq.

Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 68 percent in 2006.[2340]

In 2009, Keiser reported 77.4 percent company revenue came from title IV Federal financial aid programs; this amount does not include other Federal dollars including those from the Departments of Defense and Veterans Affairs education programs.[2341] The additional Federal dollars accounted for 1.2 percent of Keiser's revenue, or $2.9 million.[2342] Including these funds, Keiser derived approximately 78.6 percent of its revenue from Federal programs.[2343] This figure does not include revenue the company was allowed to temporarily discount pursuant to the ECASLA.[2344] Based on information the company provided to the committee, Keiser may have excluded as much as $20.7 million, or 8.4 percent of revenue, in 2009.[2345]

Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012), 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

2340 Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

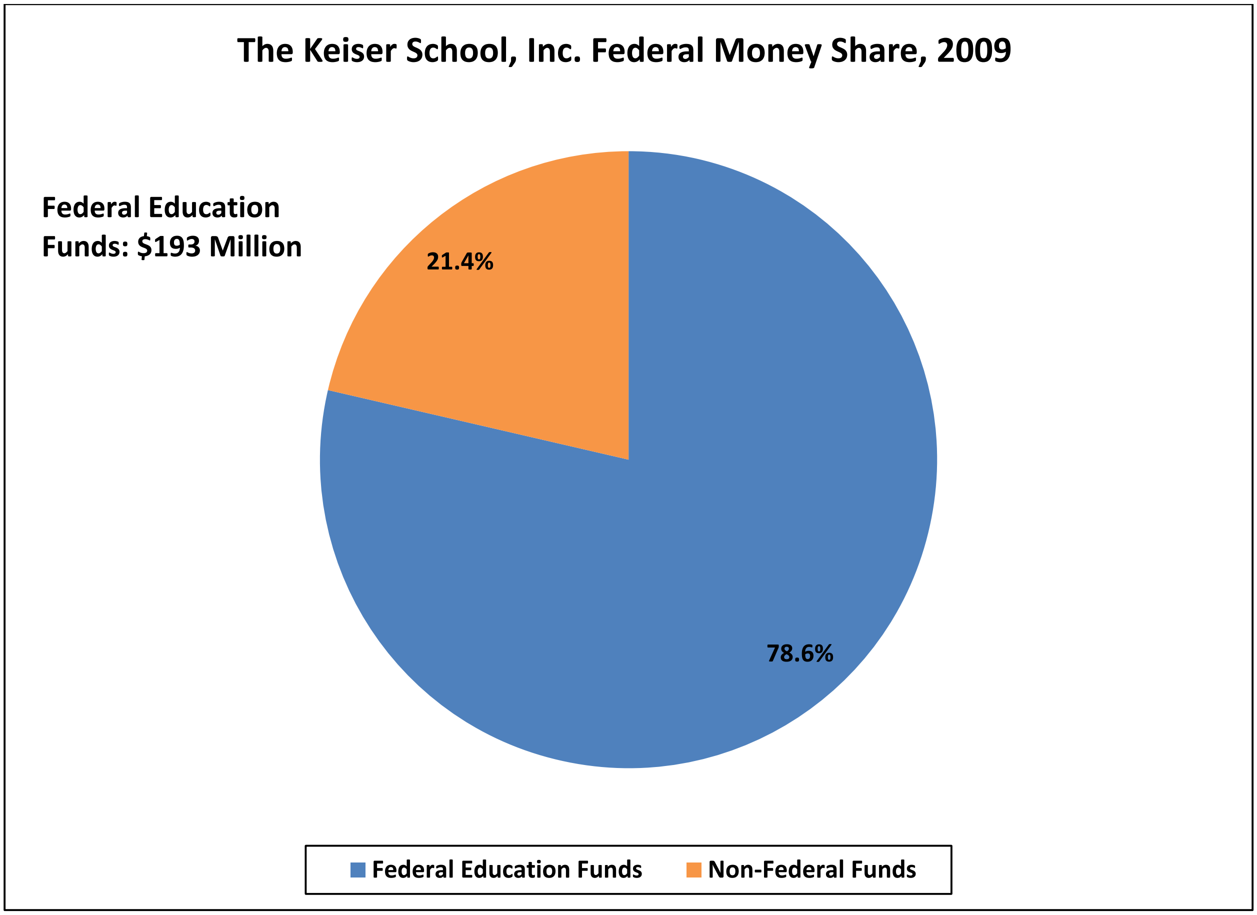
2341 Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011.

2342 Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

2343 "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.

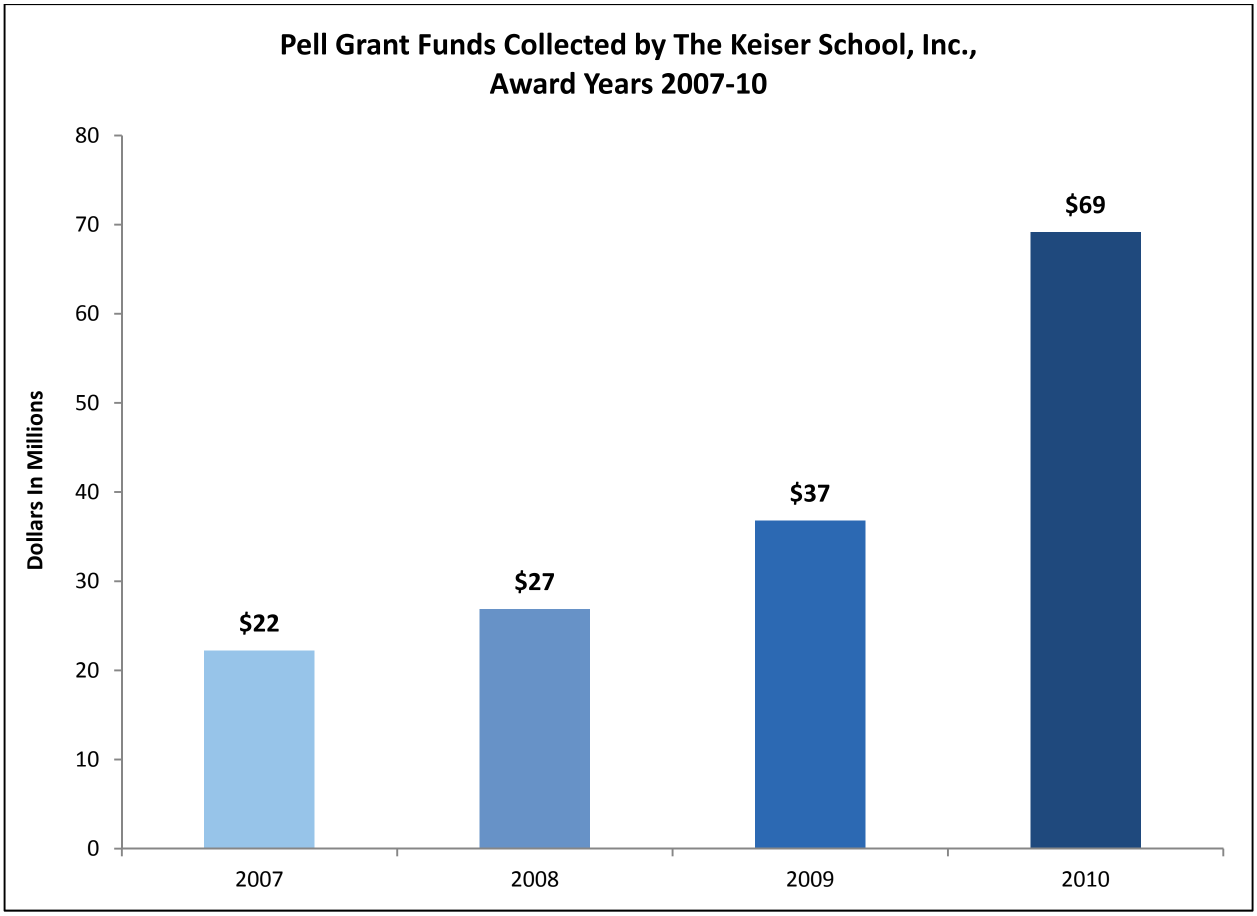
2344 Pursuant to the Ensuring Continued Access to Student Loan Act (ECASLA), for-profit education companies were allowed to exclude $2,000 in increased Stafford loan eligibility for each student during fiscal years 2009 and 2010. See Appendix 10.

2345 Id.



Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[2346] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[2346] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012).



Keiser tripled the amount of Pell grants it collects just in the past 3 years, from $22 million in 2007 to $69 million in 2010.[2347]

Spending

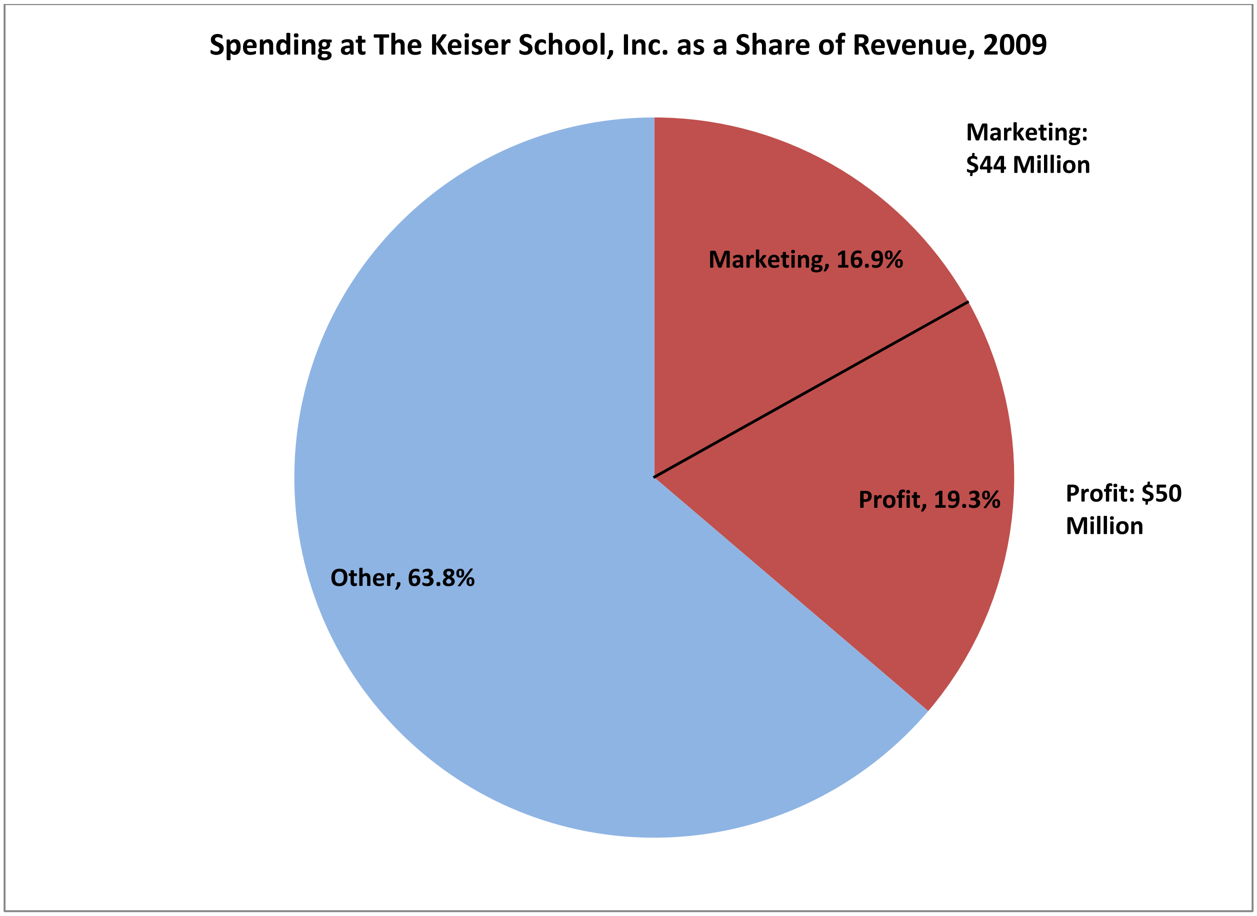
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[2348] During the same period the companies spent 22.6 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[2349] These 15 companies spent a total of $6.9 billion on marketing, recruiting, and profit in fiscal year 2009.

[2347] Pell disbursements are reported according to the Department of Education's student aid "award year," other revenue figures are reported according to the company's fiscal year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 and 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012). See Appendix 13.

[2348] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

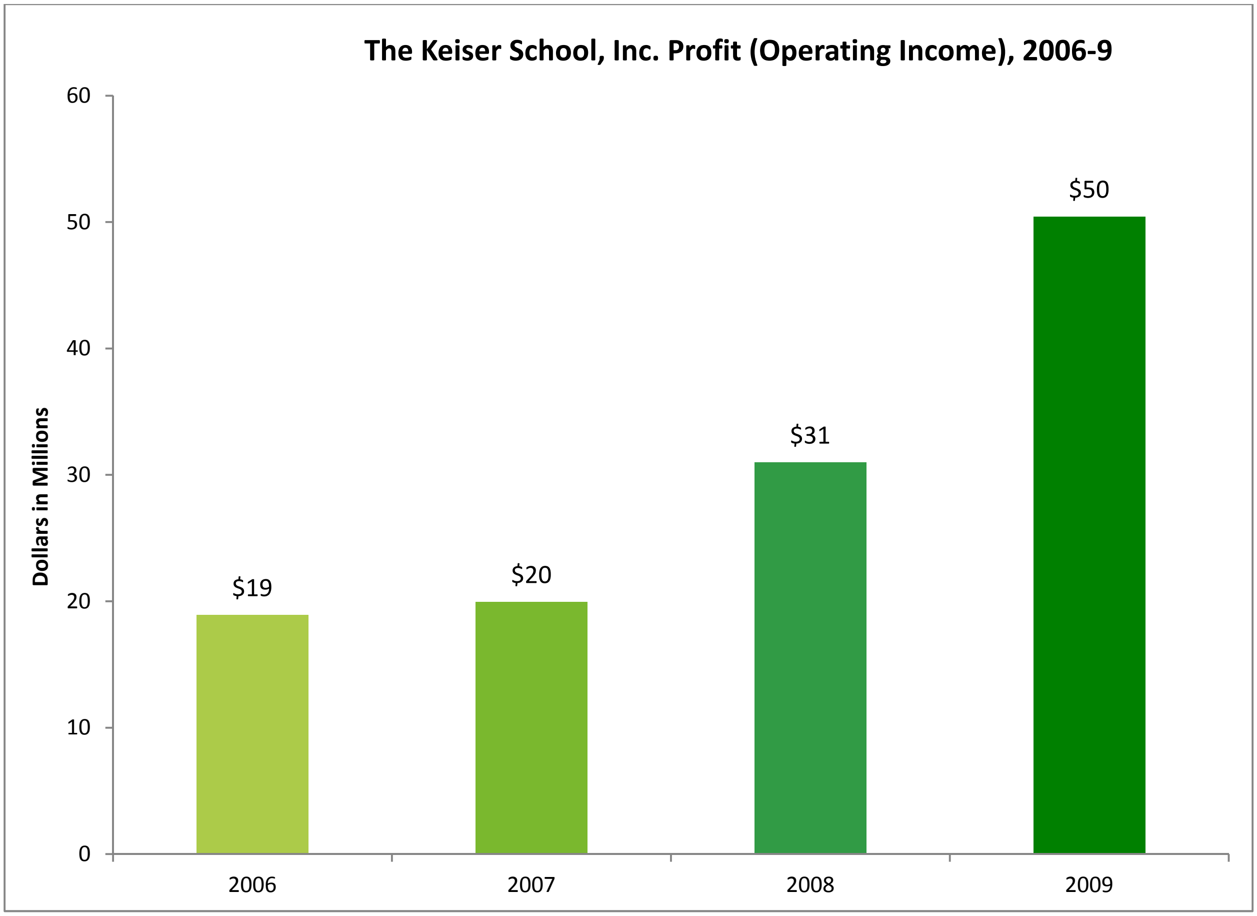
[2349] Senate HELP Committee staff analysis of fiscal year 2009 financial statements and information provided to the committee by each company pursuant to the committee document request of August 5, 2010. Marketing and recruiting

In 2009, Keiser allocated 19.3 percent of its revenue, or $50 million, to profit, and 16.9 percent, or $44 million, to marketing and recruiting.[2350] Due to significant brick and mortar costs, Keiser spent 63.8 percent (or $166 million) on other expenses, including education.



Keiser devoted a total of $94 million to marketing, recruiting, and profit in fiscal year 2009. The amount of profit Keiser generated also increased rapidly, more than doubling from $19 million in to 2006 to $50 million in 2009.[2351]

includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.
[2350] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, and other expenditures.
[2351] Senate HELP Committee staff analysis. See Appendix 18.



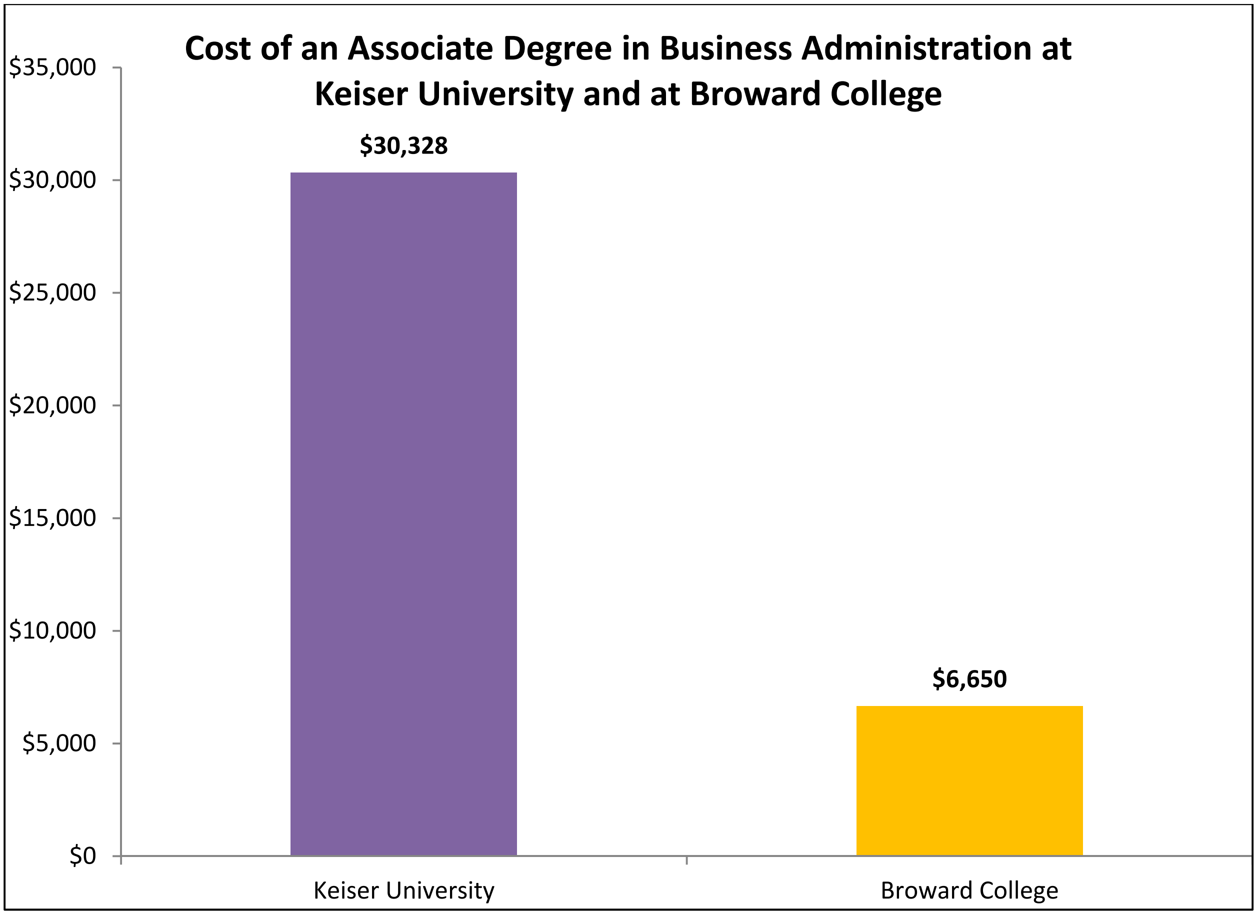
Executive Compensation

As a privately held company, Keiser is not obligated to release executive compensation figures.

Tuition and Other Academic Charges

Compared to its public non-profit counterparts, it is more expensive to obtain a degree at Keiser University. A Bachelor's degree in Business Administration at Keiser University costs $60,456.[2352] A Bachelor's degree in Business Administration at the University of Florida costs $29,000.[2353] An Associate degree in Business Administration costs $30,328 at Keiser.[2354] The same degree costs $6,650 at Broward College.[2355]

[2352] See Appendix 14; see also, Keiser University, *Tuition and Fee Disclosure*, http://www.keiseruniversity.edu/campus-admissions/add_enroll_agree6ofa.php (accessed July 12, 2012).
[2353] See Appendix 14; see also, University of Florida, University of Florida, http://www.ufl.edu/ (accessed July 12, 2012).
[2354] See Appendix 14; see also, Keiser University, http://www.keiseruniversity.edu/campus-admissions/add_enroll_agree6ofa.php (accessed July 12, 2012).
[2355] See Appendix 14; see also, Broward College, *Broward College*, http://www.broward.edu/Pages/Home.aspx (accessed July 12, 2012).



The higher tuition that Keiser charges is reflected in the amount of money that Keiser collects for each veteran that it enrolls. In 2010-11, Keiser trained 1,489 veterans at a cost of $13.3 million ($8,919 per veteran). In contrast, on average it costs a public institution $4,874 per veteran trained.[2356]

Due to the high price of tuition, some students must rely on alternative financing in addition to Federal financial aid. Institutional loan programs can also help the company meet a regulatory requirement that no more than 90 percent of its revenue come from Federal financial aid dollars ("90/10"). Keiser operates an institutional loan program, under which the company itself lends money to students who cannot obtain alternative loans from private lenders. The program is relatively small, with just $8 million in principal outstanding as of June 30, 2010.[2357] The company charges students an interest rate of 11.99 percent.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program,

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[2356] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[2357] Keiser, *Keiser University Loan Info From 01/0102010 To 06/30/2010* (KU 000025812).

take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[2358]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee and (2) student loan "cohort default rates." These metrics indicate that many students who enroll at Keiser are not achieving their educational and career goals.

Retention Rates

Students attending Keiser have high rates of withdrawal. Information Keiser provided to the committee indicates that of the 10,897 students who enrolled at Keiser in 2008-9, 63.7 percent, or 6,938 students, withdrew by mid-2010.[2359] These withdrawn students were enrolled a median of 7 months.[2360] Looking at degree programs, Keiser's Associate (65 percent) and Bachelor's (57.2 percent) withdrawal rates both rank amongst the 10 worst in the sector.[2361]

Status of Students Enrolled in The Keiser School, Inc. in 2008-9, as of 2010					
Degree Level	Enrollment	Percent Completed or Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Associate Degree	9,041	35.0%	65.0%	5,877	212
Bachelor's Degree	1,856	42.8%	57.2%	1,061	195
All Students	10,897	36.3%	63.7%	6,938	209

Keiser asserts that its withdrawal rates are actually significantly lower as 1,019 students temporarily classified as not-enrolled while awaiting entry into the core nursing curriculum are included in the withdrawal rates. The company also states that, despite clear instructions from the committee, an additional 625 students captured as withdrawals were double counted by the company in the production, and that they were actually continuing students who changed programs or campuses. The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. Keiser notes that 888 of the withdrawn students later re-enrolled, a number slightly less than 10 percent of their total enrollment. The analysis also does not account for students who withdrew after mid-2010 when the data was produced.

[2358] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 19, 2012).

[2359] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

[2360] Id.

[2361] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

Online vs. Brick and Mortar Outcomes[2362]

Status of Online Students Enrolled in The Keiser School, Inc. in 2008-9, as of 2010					
Degree Type	Enrollment	Students Completed or Still Enrolled	Completed or Still Enrolled	Students Withdrawn	Withdrawn
Associate	1,262	418	33.1%	844	66.9%
Bachelor's	587	271	46.2%	316	53.8%
All	1,849	689	37.3%	1,160	62.7%

Status of Brick and Mortar Students Enrolled in The Keiser School, Inc. in 2008-9, as of 2010					
Degree Type	Enrollment	Students Completed or Still Enrolled	Completed or Still Enrolled	Students Withdrawn	Withdrawn
Associate	7,779	2,746	35.3%	5,033	64.7%
Bachelor's	1,269	524	41.3%	745	58.7%
All	9,048	3,270	36.1%	5,778	63.9%

An analysis of withdrawal rates among the 11 companies that provided disaggregated data indicates that overall, students enrolled in online programs had higher withdrawal rates than students enrolled in campus based programs. This however, is not the case at Keiser as there are only minimal differences in withdrawal rates between Keiser's online students and students enrolled in campus based programs.

Student Loan Defaults

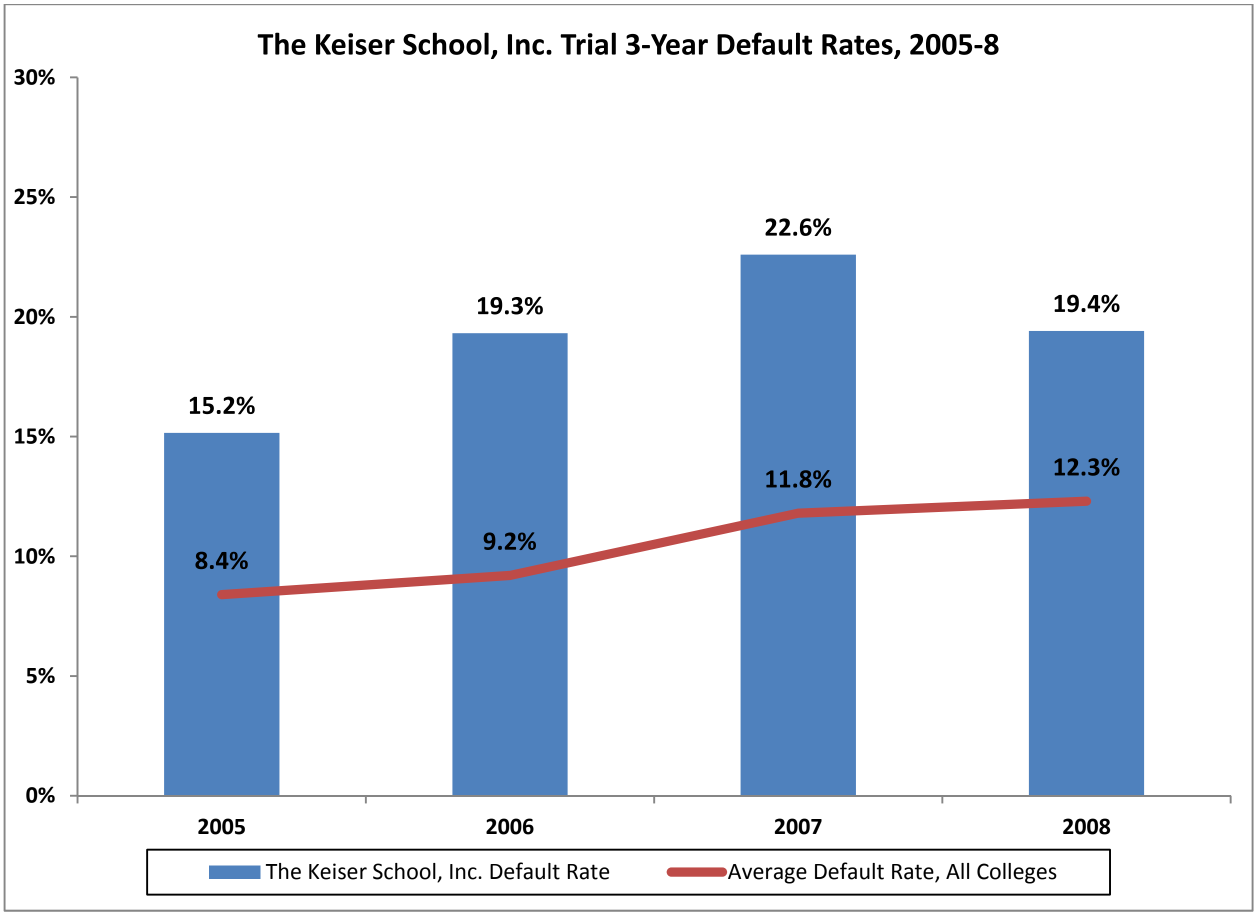
The number of students leaving Keiser with no degree correlates with the high rates of student loan defaults by students who attended Keiser. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[2363] Arthur Keiser was not supportive of the move to a 3 year cohort default rate measurement and in his opinion, "if I haven't seen students for three years and they default, why should I be responsible?" [2364]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[2365] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2366] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2367] The

[2362] As stated above, Keiser asserts that the withdrawal numbers do not include students temporarily classified as not-enrolled while awaiting entry into the core nursing curriculum or who withdrew and later re-enrolled. This also holds for the online and brick and mortar withdrawal rates.
[2363] Direct Loan Default Rates, 34 CFR § 668.183(c).
[2364] Kris Hundley, "For-Profit Colleges Teach Less in Cost vs. Value, *Tampa Bay Times*, April 11, 2010 (http://www.tampabay.com/news/health/for-profit-colleges-teach-lesson-in-cost-vs-value/1086268) (accessed June 19, 2012).
[2365] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[2366] Id.
[2367] Id.

consequence of this higher rate is that almost half of all student loan defaults nationwide are held by students who attended for-profit colleges.[2368]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent. This change represents a 32.6 percent increase over 4 years.[2369] Keiser's default rate has similarly increased, growing from 15.2 percent for students entering repayment in 2005 to 19.4 percent for students entering repayment in 2008.[2370]



It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Keiser's default management is handled by the i3 group.[2371] Keiser has engaged in default management with the goal of maintaining a cohort default level of less than 13 percent.[2372] This effort appears to have had at least some traction, considering the drop in Keiser's default rate from 2007 to 2008. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

2368 Id.

2369 Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.

2370 The company states that their published 2009 3-Year Draft Cohort Default Rate (CDR) is 20.3% and that the university's 2009 3-Year Revised CDR based on accepted challenges is 19.9% (1,123 defaults/5,617 students). Further the university's 2010 3-Year Projected CDR is 17.45%.

2371 Keiser, *Keiser University-Student Relationship Management Program* (KU 0000011683, at KU 0000011685).

2372 Keiser, *Default version, Default Management-Phase 1, 2008 Cohort, Training Manuel* (KU 0000011687 at KU0000011689).

This practice is troubling for taxpayers. The cohort default rate is designed not just as a sanction but also as a key indicator of a school's ability to serve its students and help them secure jobs. If schools actively work to place students in forbearance and deferment, that means taxpayers and policymakers fail to get an accurate assessment of repayment and default rates. A school that has large numbers of its students defaulting on their loans indicates problems with program quality, retention, student services, career services, and reputation in the employer community. Aggressive default management undermines the validity of the default rate indicator by masking the true number of students who end up defaulting on their loans. Critically, schools that would otherwise face penalties—including loss of access to further taxpayer funds—continue to operate because they are able to manipulate their default statistics.

Moreover, forbearances may not always be in the best interest of the student. This is because during forbearance of Federal loans, as well as during deferment of unsubsidized loans, interest still accrues. The additional interest accrued during the period of forbearance is added to the principal loan balance at the end of the forbearance, with the result that interest then accrues on an even larger balance. Thus, some students will end up paying much more over the life of their loan after a forbearance or deferment.

Instruction and Academics

The quality of any college's academics is difficult to quantify. However the amount that a school spends on instruction per student compared to other spending is a useful measure.[2373]

Keiser spent $3,201 per student on instruction in 2009, compared to $2,305 on marketing and $2,640 on profit.[2374] The amount that privately held companies examined by the committee spend on instruction ranges from $1,118 to $6,389 per student per year. In contrast, public and non-profit schools, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other Florida-based colleges spent, on a per student basis, $14,537 at the University of Florida, $3,217 at Broward College, and $11,064 at Nova Southeastern University.[2375]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools investigated by the

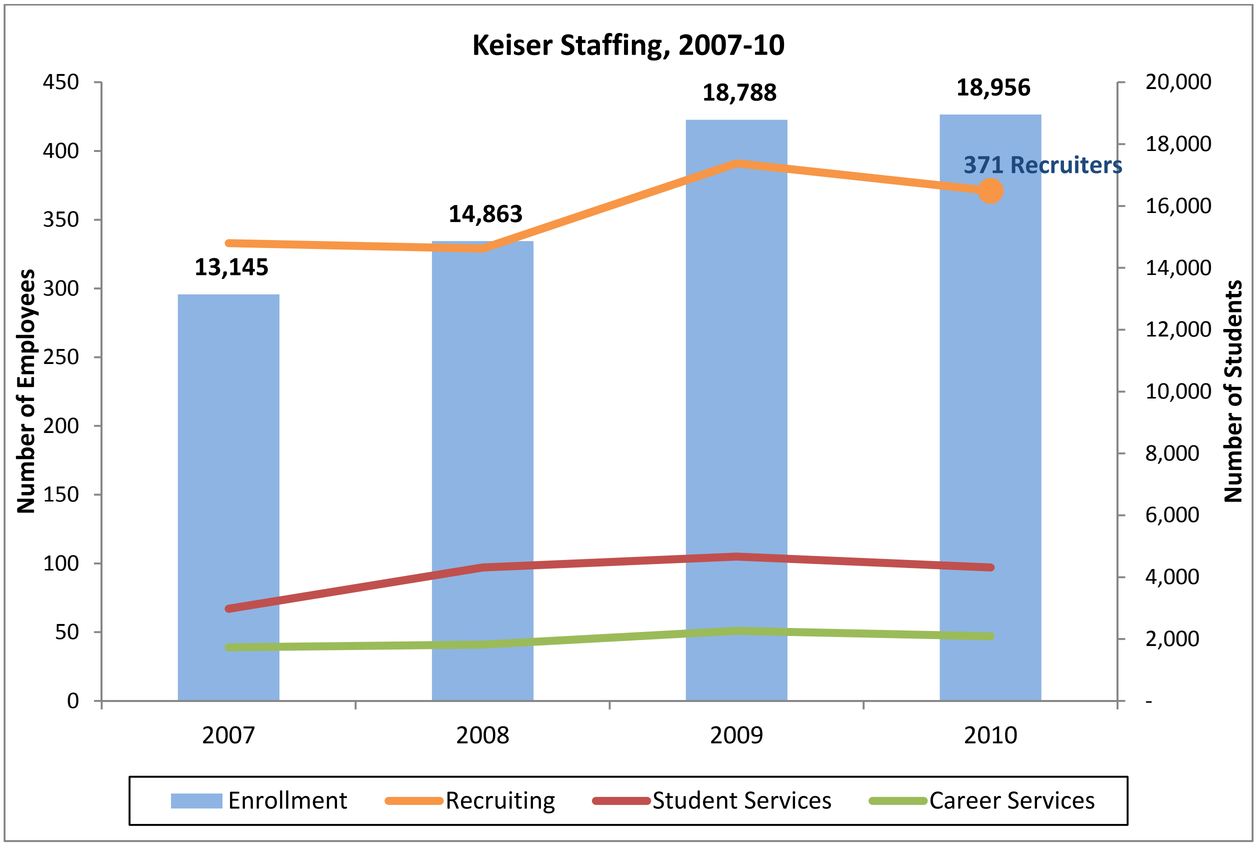
[2373] Keiser like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement. This clause severely limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group. See, e.g., KU 000027205.

[2374] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.

[2375] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

committee, 80 percent of the faculty is part-time, higher in some companies.[2376] Likely reflecting its heavy emphasis on brick and mortar classes, Keiser has a more even division between full-time and part-time faculty. In 2010, the company employed 476 full-time and 861 part-time faculty.[2377]

Staffing



While for-profit education companies employ large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 18,956 students, Keiser employed 371 recruiters, 47 career services employees, and 97 student services employees.[2378] That means each career counselor was responsible for 403 students and each student services staffer was responsible for 195 students, but the company employed one recruiter for every 51 students. This disparity is not as extreme as others within the sector.

Enforcement Actions

In November 2010, the Florida Attorney General's office announced that it was investigating recruiting practices at Keiser. Specifically the company faced allegations of "misrepresentations

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[2376] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[2377] Id.
[2378] Id. See Appendix 7 and Appendix 24.

regarding financial aid" and "unfair or deceptive practices regarding recruiting, enrollment, placement, etc." [2379] This investigation is ongoing.

Conclusion

Like many other companies examined, Keiser's enrollment increased rapidly over the past decade. With this growth in enrollment, Keiser received increasing amounts of Federal financial aid dollars and realized significant increases in profit prior to its sale to the non-profit entity. Given the high cost of tuition at Keiser and that the majority of students leave the company's schools with no degree or diploma, the company's high rate of student loan default is particularly troubling. It is unclear whether taxpayers or students are obtaining value from their investments in the company. Moreover, Keiser's decision to convert to non-profit status should be more closely scrutinized.

[2379] Office of the Florida Attorney General, "Active Public Consumer-Related Investigation, re: *The Keiser School, Inc. d/b/a Keiser University*, http://myfloridalegal.com/__85256309005085AB.nsf/0/B5C89F6D251F5CF9852577C300731BFC?Open&Highlight=0,l10 (accessed June 19, 2012).

Lincoln Educational Services

Introduction

Lincoln Educational Services Corporation ("Lincoln") provides traditional vocational programs, primarily certificates, to a student population that may have higher than average risk factors at on-ground campus locations. The programs are costly and Lincoln struggles with high withdrawal and student loan default rates. While Lincoln offers programs that have the potential to provide needed careers for its students, it is unclear that a sufficient number of students are realizing value from the programs to justify the increasing Federal investment in the company.

Company Overview

Lincoln is a publicly traded, for-profit educational company headquartered in West Orange, NJ. Lincoln operates a total of 46 campuses in 17 States, along with an online division and offers Diploma and Certificate programs in allied health, automotive, beauty, culinary, legal support, and traditional vocational fields.[2380] Most students are enrolled in the company's Certificate programs.

Brands
Euphoria Institute
Lincoln College of Technology
Lincoln College of New England
Lincoln Culinary Institute
Lincoln Technical Institute
Lincoln College Online
Nashville Auto-Diesel College
Southwestern College

Lincoln campuses are primarily accredited through two national accreditors: the Accrediting Commission of Career Schools and Colleges (ACCSC) and the Accrediting Council for Independent Colleges and Schools (ACICS). Mr. Francis Giglio, Lincoln's Director of Compliance and Regulatory Services, plays a dual role as he also serves on the board of directors for ACICS, the board is the final arbiter of all disciplinary actions taken against campuses accredited by ACICS.

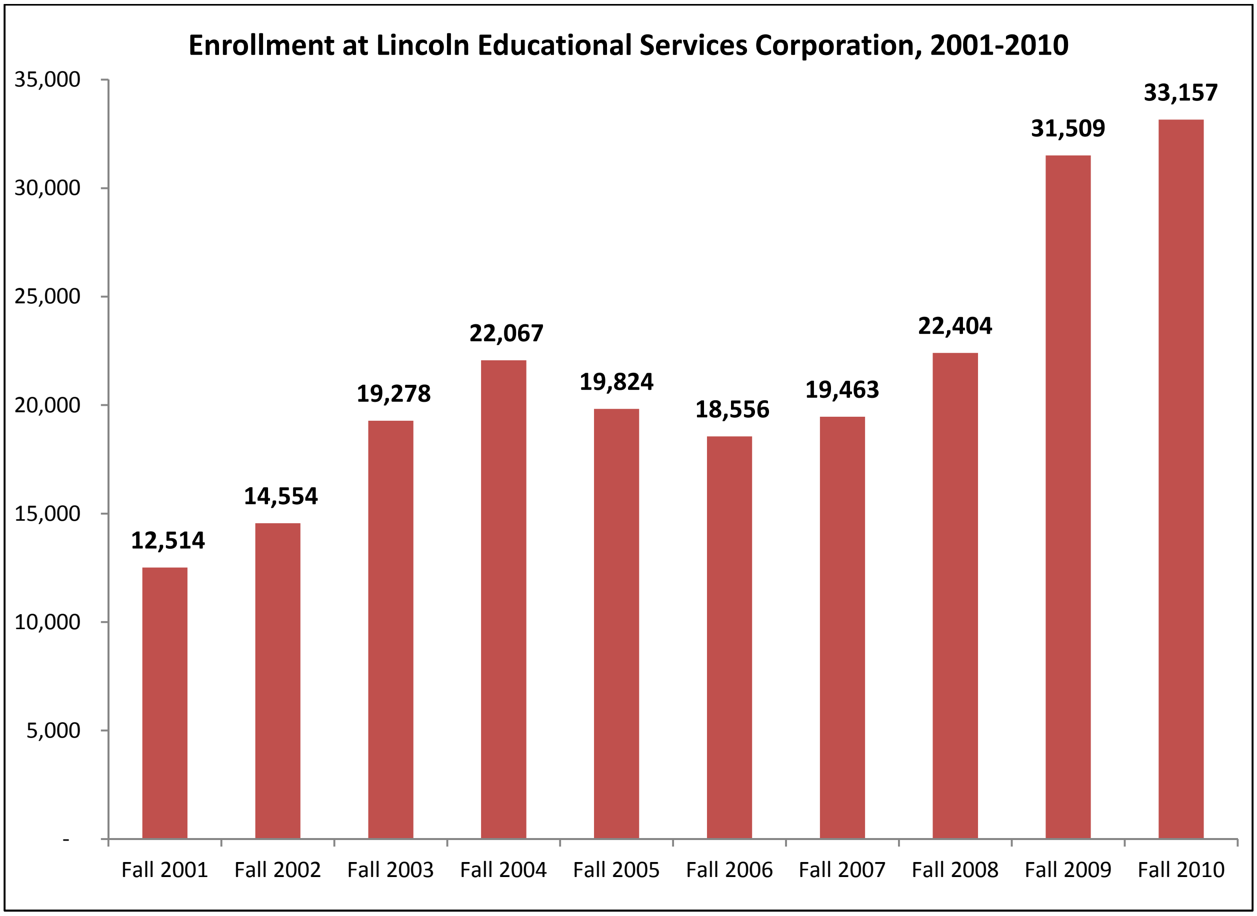
Other Lincoln campuses are accredited through the Accrediting Bureau of Health Education Schools (ABHES) or the American Culinary Federation Education Foundation Accrediting Commission (ACFEFAC). Finally, the Lincoln College of New England, enrolling 877 of Lincoln's students, is regionally accredited by the New England Association of Schools and Colleges, Inc. (NEASC).

While Lincoln has been in existence since 1946, the company was purchased in 2000 by two private equity firms, Stonington Partners and Hart Capital. These firms controlled the company until the June 2005 initial public offering which took the company public.[2381] Although the two firms have since

[2380] A list of campuses can be found at: http://www.lincolnedu.com/campus-program-locator (accessed April 30, 2012).
[2381] Steve Gelski, "Lincoln Educational Services IPO Debuts," *MarketWatch*, June 23, 2005 http://articles.marketwatch.com/2005-06-23/news/30750491_1_ipo-price-shares-turbulence (accessed June 25, 2012).

sold off their financial stake in Lincoln, Alex Michas and James Burke of Stonington Partners continue to serve on Lincoln's board of directors.

The current chief executive officer of Lincoln, Shaun McAlmont, has been with the company since 2005. Mr. McAlmont plays a dual role serving as a director of the Association of Private Sector Colleges and Universities, the for-profit college trade association. Mr. McAlmont previously served as president of Westwood College Online. The Colorado attorney general recently reached a settlement with Westwood and its owners after detailing how Westwood misled prospective students, engaged in deceptive advertising, and violated Colorado's consumer lending laws by enrolling students in a private loan program operated by the college without their knowledge.



In the fall of 2010, Lincoln enrolled 33,157 students.[2382] Enrollment almost tripled since the company was purchased by the private equity firms and grew by 67 percent since its subsequent initial public stock offering in 2005.

Lincoln's growth has been the result of both purchasing new campuses, including 10 acquisitions representing "about 40 percent of [the] company," opening new campuses, and increasing enrollment in

[2382] For companies that began filing with the Securities and Exchange Commission subsequent to an initial public offering between 2001 and 2010, enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education's Integrated Postsecondary Data System (hereinafter IPEDS) until Securities and Exchange Commission filings become available at which time SEC filings for the August-October period each year are used. See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This also led to a drop in revenue and profit at some companies.

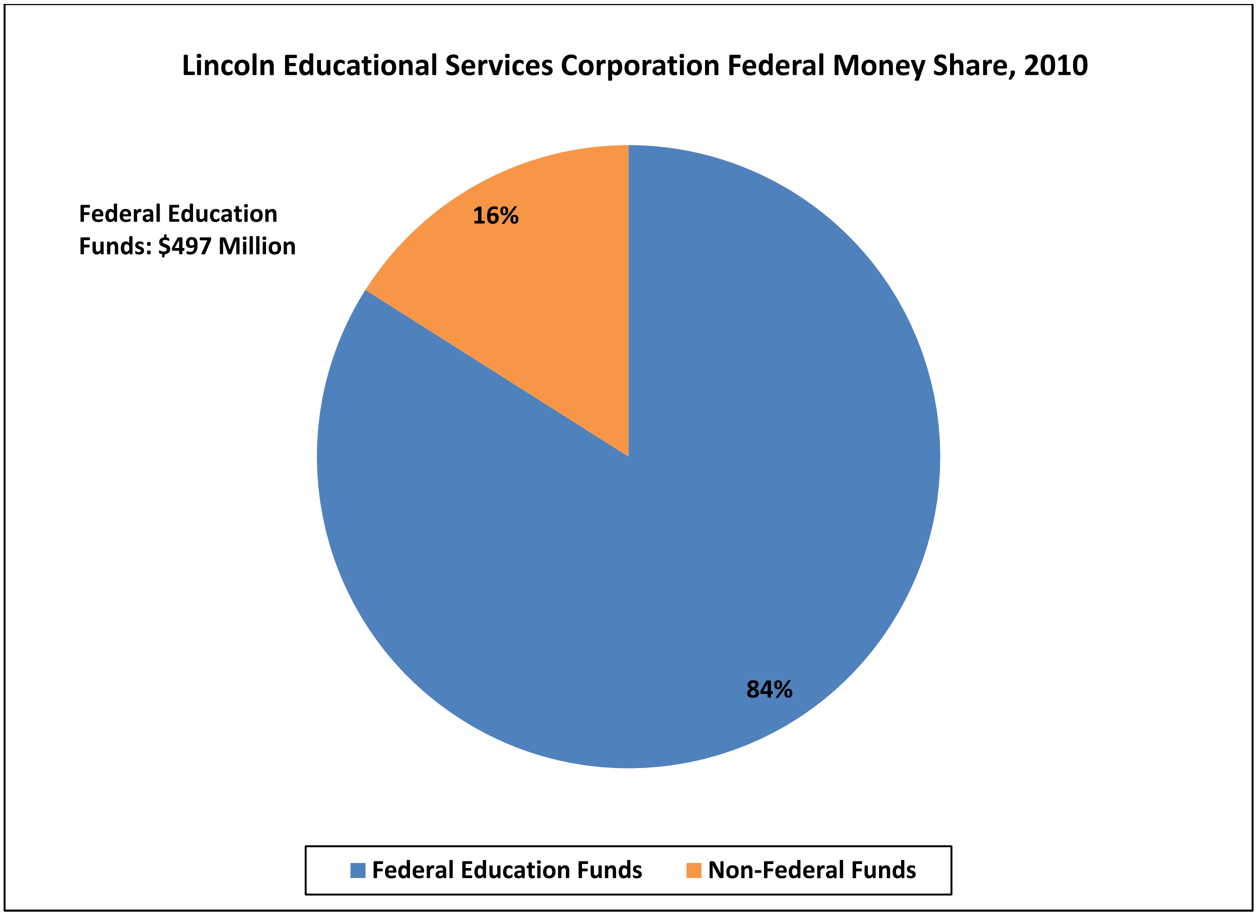
online and degree programs.[2383] Lincoln also appears to be looking to acquisitions as a means of ensuring regulatory compliance with the requirement that no more than 90 percent of its revenue come from title IV Federal financial aid. According to the CEO, "we're looking at shorter programs that are not title IV-eligible…The goal is to acquire platforms so that we can grow these programs that will take us away from a reliance on title IV dollars that are cash businesses." [2384] Lincoln's growth in enrollment led to growth in revenue, nearly doubling from $328 million in 2007 to $639 million in 2010.[2385]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2386] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[2387]

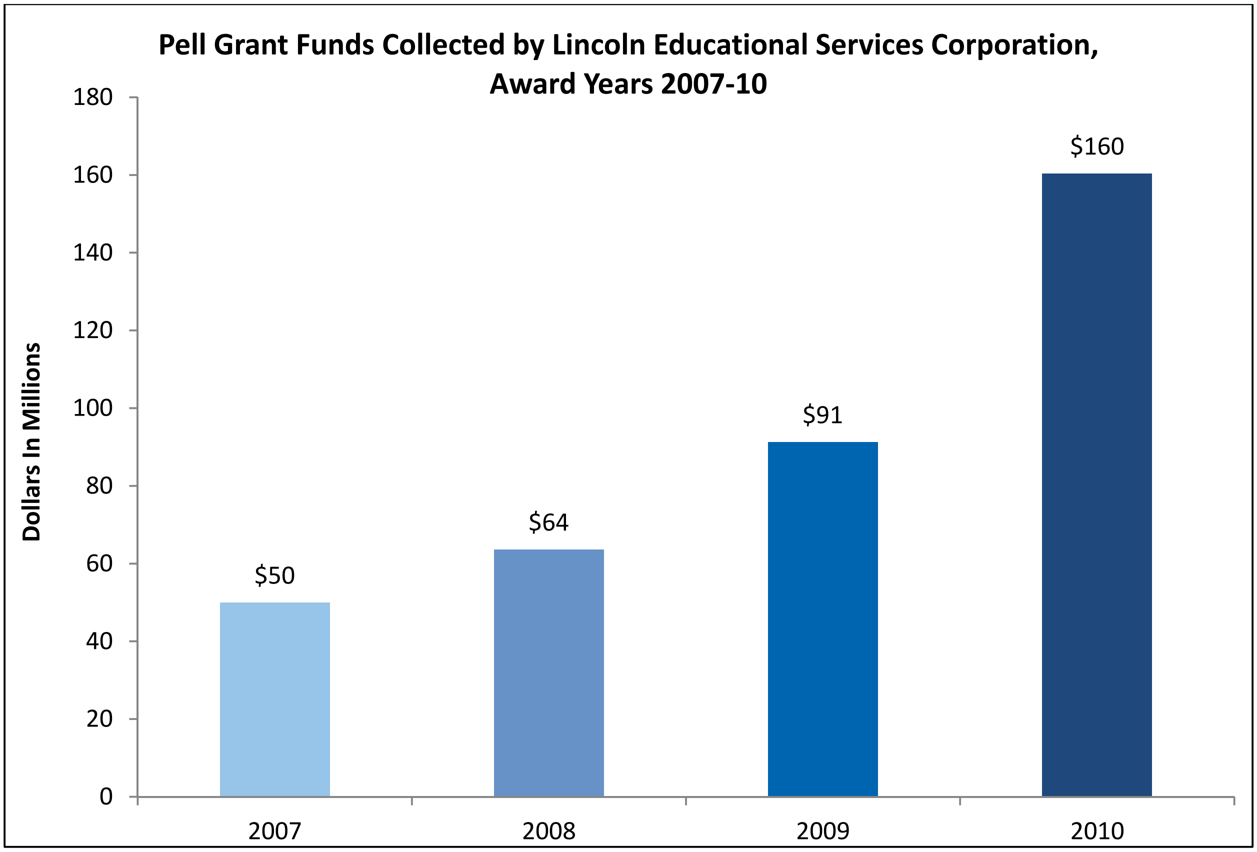
In 2010, Lincoln reported 82.7 percent of revenue from title IV Federal financial aid programs.[2388] However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education programs.[2389] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 1.3 percent of Lincoln's revenue, or $7.4 million.[2390] With these funds included, 84 percent of Lincoln's total revenue was comprised of Federal education funds.[2391]

[2383] Lincoln Educational Services at Signal Hill Corp Education Conference. November, 17 2011; See also, Lincoln, 2010, Q1 Investor Call, Lincoln, 2011, Q1 Investor Call.
[2384] Lincoln, March 7, 2012, Q4 Investor Call.
[2385] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.
[2386] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 USC §1070 et seq. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.
[2387] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.
[2388] Id.
[2389] The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for Lincoln could not be extrapolated from the data the company provided to the committee.
[2390] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-2011 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.
[2391] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.



Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[2392] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[2392] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.



Lincoln tripled the amount of Pell grant funds it collected, from $49.9 million in 2007 to $160.3 million in 2010.[2393]

Spending

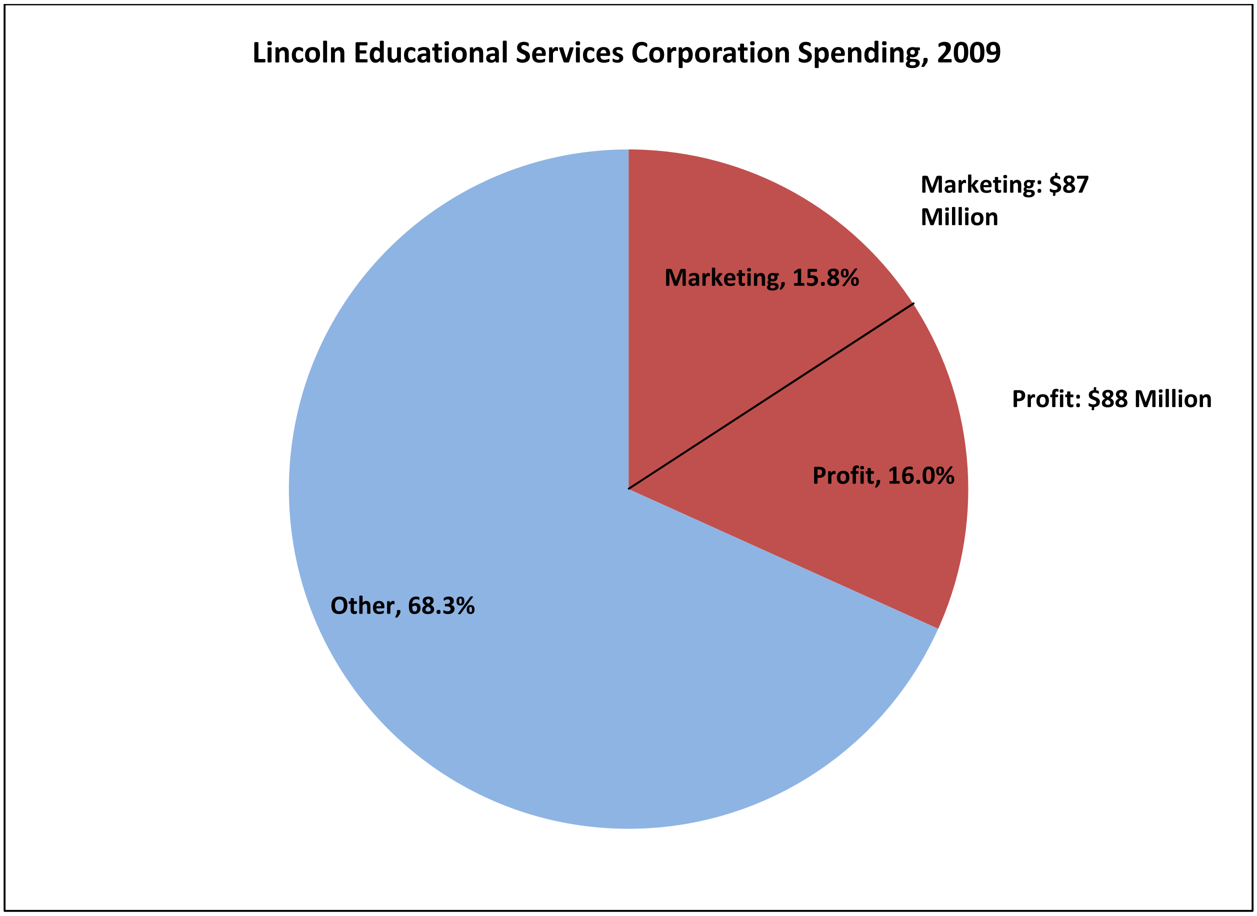
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[2394] During the same period, the companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion) and 19.7 percent on profit ($3.2 billion).[2395] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

[2393] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

[2394] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

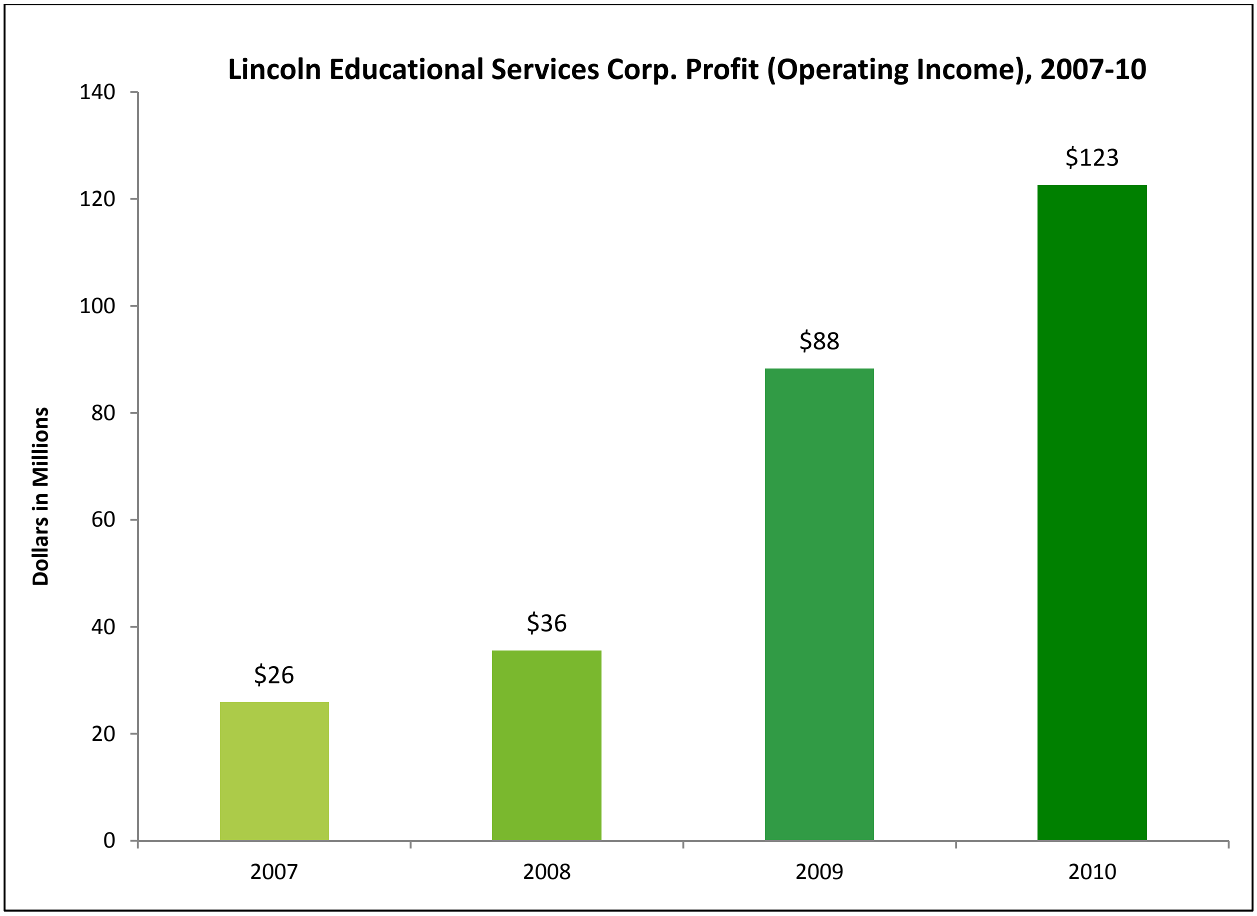
[2395] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings and information provided to the committee by the company pursuant to the committee document request of August 5, 2010. Profit is based on operating income reported in SEC filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.

In 2009, Lincoln allocated 15.8 percent of its revenue, or $87.1 million, to marketing and recruiting and 16 percent, or $88.3 million, to profit.[2396]



Lincoln devoted a total of $175 million to marketing, recruiting and profit in fiscal year 2009.[2397] The amount of profit Lincoln has generated has risen rapidly since the company's IPO, more than quadrupling from $25.9 million in 2007 to $122.6 million in 2010.[2398]

[2396] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.
[2397] Id. The "other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.
[2398] Profit figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. See Appendix 18.



Executive Compensation

Executives at Lincoln, like most for-profit executives, are more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[2399] In 2009, Lincoln CEO Shaun McAlmont received $2.1 million in compensation, close to four times as much as the president of the Rutgers University System who received $593,800 in total compensation for 2009-10.[2400]

The chief executive officers of the large publicly traded, for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[2401] McAlmont's $2.1 million compensation package for 2009 is one-fifth the average for publicly traded companies. However, it is still noteworthy given that more than half of the company's students who enrolled that year left by mid-2010, and more than a quarter of students defaulted on their student loans within 3 years.

[2399] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.

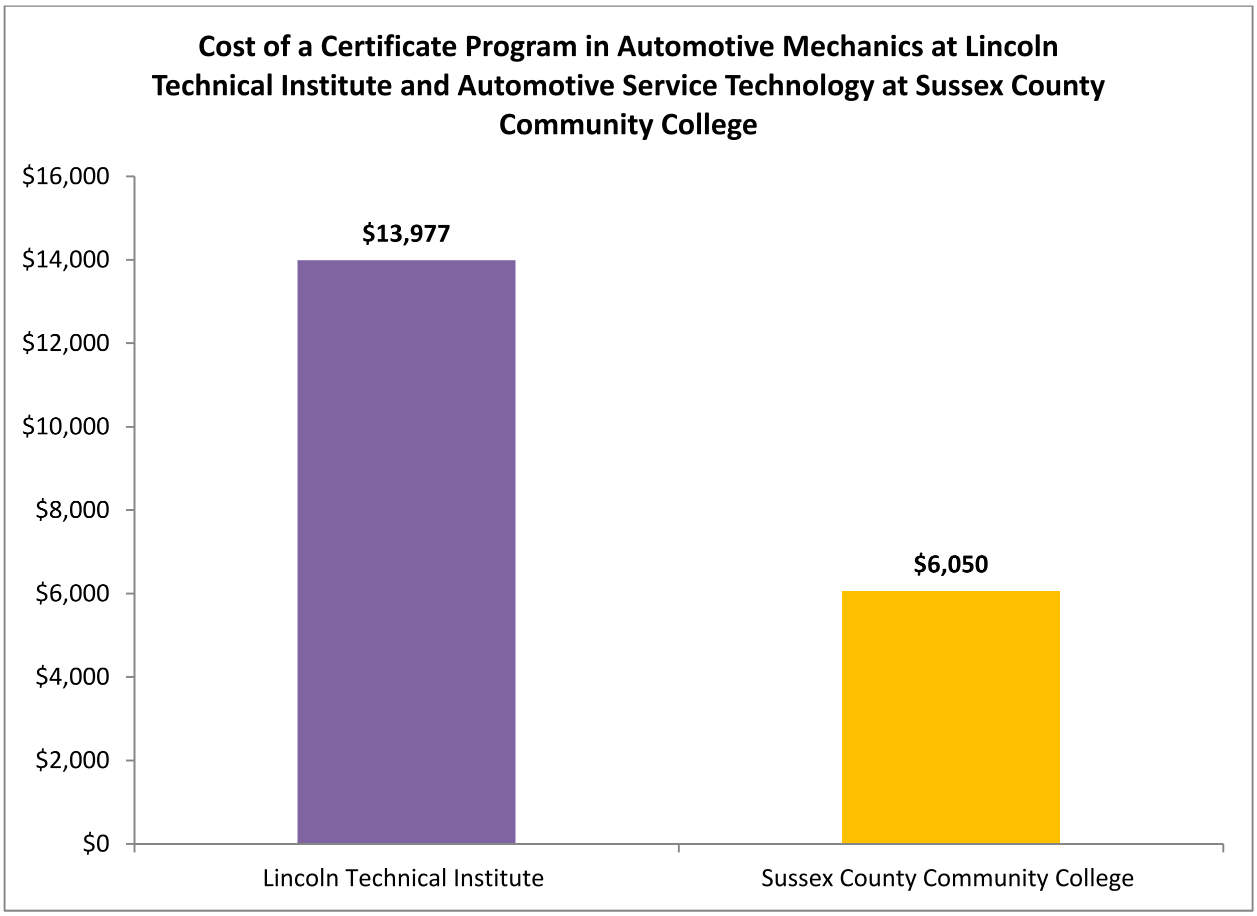
[2400] Id.

[2401] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

Executive	Title	2009 Compensation	2010 Compensation
Shaun E. McAlmont	President and CEO	$2,130,465.00	$1,014,295.00
Scott M. Shaw	Executive VP and CAO	$1,359,145.00	$742,644.00
David F. Carney	Former Executive Chairman	$1,333,693.00	$1,088,218.00
Cesar Ribeiro	Senior VP, CFO, & Treasurer	$1,123,906.00	$735,923.00
Total[2402]		$5,947,209.00	$3,581,080.00

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Lincoln. Tuition for the Automotive Mechanics Certificate program at Lincoln Technical Institute in Union, NJ campus costs $13,977.[2403] The same program at Sussex County Community College in Sussex, NJ costs $6,050.[2404]



2402 Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities and Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.
2403 See Appendix 14; see also, Lincoln Education, *Student Outcomes Disclosures*, http://www.lincolnedu.com/download/consumer/Union_Student-Disclosure.pdf (accessed June 25, 2012).
2404 See Appendix 14; see also, Sussex County Community College, *Sussex County Community College*, http://sussex.edu/ (accessed June 25, 2012).

The higher tuition that Lincoln charges is reflected in the amount of money that Lincoln collects for each veteran that it enrolls. From 2009 to 2011, Lincoln trained 921 veterans and received $15 million in post-9/11 GI bill benefits, averaging $16,317 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[2405]

The company gives each campus a tuition target increase between 3 and 4 percent every year.[2406] Further, Lincoln recently restructured course schedules so that it became more difficult for students to finance the cost of tuition with Federal student aid funds.[2407] Programs that were previously delivered over 2 academic years are now delivered over 1 academic year, meaning that in some cases the annual cost exceeds Federal student aid limits thereby creating a gap between cost and available student aid.[2408] Students must then find a way to pay for this gap, often using alternative loans if they cannot pay cash. This helps the company meet a regulatory requirement that no more than 90 percent of revenue come from Federal student aid dollars ("90/10").

Lincoln also operates an institutional loan program, under which the company itself lends money to students who cannot obtain alternative loans from private lenders. This source of revenue, too, can help the company to lower its 90/10 figure. The program is relatively small, with just $15 million lent out by 2011.[2409]

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations, for-profit colleges recruit as many students as possible to sign up for their programs.

Internal company documents make clear that recruiters employed by Lincoln are expected to pursue prospective students. When the school gets a "lead," the term for the contact information for a prospective student, Lincoln's recruiters are expected to contact the lead "by phone within 12 minutes." [2410] The company's manual admonishes, "All web leads must be contacted 5 times within the first 2 days." [2411] A separate training document titled "Guerilla Marketing Plan" includes "recommendations of places to set-up information tables and/or give presentations" and lists hospitals, nursing homes, health unions, support agencies, military schools, and boys and girls clubs as recommended recruiting locations.[2412]

Documents also demonstrate a focus on recruiting students eligible for military benefits. An internal "Lincoln Military Road Map" recommends a number of best practices for increasing total military enrollments.[2413] They included: free application and registration, credit for military experience,

[2405] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[2406] Lincoln Educational Services, *Response to an Inquiry Regarding Tuition Increases* (LESC0000145).
[2407] Lincoln, 2011, Q2 Investor Call.
[2408] Id.
[2409] Lincoln, 2011, Q2 Investor Call.
[2410] Lincoln, *Website Lead Proce*dures (LINC0109028).
[2411] Id.
[2412] Lincoln Internal Presentation, *How to Keep Reps Productive in Q4-2006* (LINC0121064, at LINC0121065).
[2413] Lincoln Internal Presentation, *Military Road Map: Results of Assessment Process* (LINC0001436, at LINC0001438).

special refund policies, 10 percent-plus tuition reduction program, no out-of-pocket expense program and a military spouse program.[2414]

During the period examined and prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, documents also indicate that Lincoln had a robust reward system in place for recruiters who successfully met or exceeded a quota of students. This included "Pride-in-Performance" trips to luxurious locations each year, including the Moon Palace in Punta Cana in 2010 and the Aventura Spa Palace in Cancun, Mexico, in 2009.[2415]

Some students complained that they felt misled or deceived by recruiters. For instance, one student stated: "When I applied, I was told there would be field trips and lots of hands on classes. There were only a few hands-on classes, and not one single field trip during the entire program." [2416] Another student stated:

> I was told I was guaranteed a job after graduation. I was told I would be a certified insurance specialist while in school. I later found out the certification test is extremely expensive, and it requires that you have at least six months experience . . . I … graduated with a 4.0 grade point average. I am unable to find a job though because I have no experience.[2417]

Yet students have little opportunity for recourse; Lincoln like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.[2418] This clause severely limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group. While student complaints may not be representative of the experience of the majority of students, these complaints do provide an important perspective.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students leave for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students leave for-profit colleges with debt but no diploma or degree each year.[2419]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee and (2) student loan "cohort default rates." These metrics indicate that many students who enroll at Lincoln are not achieving their educational and career goals.

2414 Id., at LINC0001483

2415 Lincoln, *PIP Trip Locations* (LINC0130351).

2416 Email from Better Business Bureau, January 19, 2008 (LINC0000130, at LINC0000135).

2417 Lincoln External Email, January 2007, re: BBB Complaint Case#42006975(Ref#58-6023-42006975-4-12200) (LINC0000001, at LINC0000002-3). The Better Business Bureau did not pursue an investigation of this complaint. Id., at LINC0000001.

2418 Lincoln, Enrollment, LESC0002053, at LESC0002054.

2419 Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 25, 2012).

Retention Rates

Information Lincoln provided to the committee indicates that of the 31,626 Associate and Certificate students who enrolled at Lincoln in 2008-9, 51.3 percent, or 16,233 students, withdrew by mid-2010. These withdrawn students were enrolled a median of 4 months.[2420] Overall, Lincoln's retention rate closely tracks the sector-wide withdrawal rate of 54.1 percent. However, more than two thirds of Lincoln's students are enrolled in Certificate and Diploma programs, which show a withdrawal rate of 46.8 percent, significantly higher than the sector-wide Certificate withdrawal rate of 38 percent. Most of the remainder of Lincoln's students enroll in 2-year Associate degree programs. The withdrawal rate for Lincoln's Associate program is 69.9 percent, meaning that more than two-thirds of the Associate program students who enrolled in 2008-9, or 4,306 students, withdrew by mid-2010. This is the second highest withdrawal rate of any company examined by the committee.[2421]

Status of Students Enrolled in Lincoln Educational Services Corp. in 2008-09, as of 2010

Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Associate Degree	6,160	15.5%	14.6%	69.9%	4,306	129
Certificate	25,466	47.4%	5.7%	46.8%	11,927	119
All Students	31,626	41.2%	7.5%	51.3%	16,233	122

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Student Loan Defaults

The number of students leaving Lincoln with no degree correlates with the high rates of student loan defaults by students who attended Lincoln. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[2422]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[2423] In contrast, 1 student in 11 at public and non-profit

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[2420] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

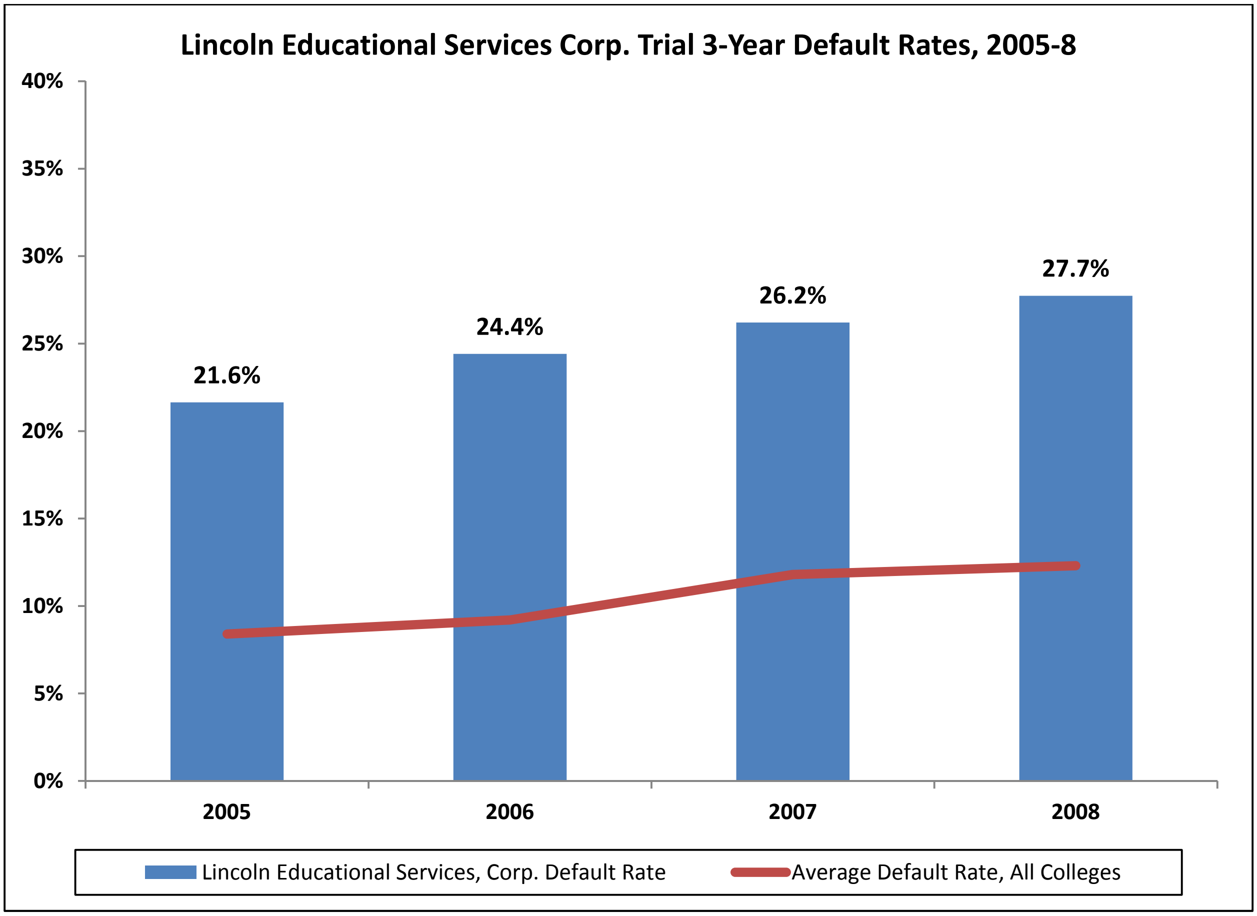
[2421] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

[2422] Direct Loan default rates, 34 CFR 668.183(c).

[2423] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-2008, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.

schools defaulted within the same period.[2424] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2425] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[2426]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent. This change represents a 32.6 percent increase over 4 years.[2427] Lincoln's 3-year default rate similarly increased, growing from 21.6 percent for students entering repayment in 2005 to 27.7 percent for students entering repayment in 2008. Lincoln's most recent default rate is about 25 percent higher than the rate for all for-profit colleges and is the fourth highest default rate amongst the 30 schools the committee examined.



The default picture at some individual campuses is particularly dire. At Lincoln's Southwestern College in Dayton, OH, 19.7 percent of students entering repayment in 2005 defaulted within 3 years. That campus's default rate jumped to 35.3 percent for students entering repayment in 2008. Additional poor performing campuses include those in Philadelphia, PA (42.8 percent default rate), Grand Prairie, TX (41.5 percent), NJ (Edison, Moorestown, and Parmus) (31.6 percent), and Melrose Park, IL (30.9 percent).

[2424] Id.
[2425] Id.
[2426] Id.
[2427] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.

It is likely that the reported default rates significantly undercount the number of students who ultimately face default because of companies' efforts to place students in deferments and forbearances. Lincoln hired the General Revenue Corporation ("GRC"), a subsidiary of Sallie Mae, to contact students and sign them up for temporary forbearances and deferments. GRC operates call centers with hundreds of employees trained to "cure" student defaults. Under the agreement, Lincoln pays GRC a fee of $38.50 per student borrower.[2428] When a student is in forbearance their loan balances continue to grow as the result of accumulating interest but default is averted both for the student and the company. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

Instruction and Academics

The quality of any college's academics is difficult to quantify. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.

Lincoln spent $3,288 per student on instruction in 2009, compared to $2,029 per student on marketing and $2,058 per student on profit.[2429] The amount that publicly traded, for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. In contrast, public and non-profit 4-year colleges and universities generally spend a higher amount per student on instruction, while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other New Jersey-based colleges spent, on a per student basis, $16,654 at Rutgers and $3,878 at Essex County Community College.[2430]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee examined, 80 percent of the faculty is part-time, higher in some companies.[2431] Lincoln has a more even division of full-time and part-time faculty than many publicly traded, for-profit education companies. In 2010, Lincoln employed 1088 full-time and 855 part-time faculty.[2432]

Complaints from Lincoln's faculty reflect concerns with the academic quality. One Lincoln instructor stated:

[2428] Lincoln Technical Institute, *Cohort Default Management Services Agreement*, February 25, 2009 (LESC0001959, at LESC0001968).

[2429] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.

[2430] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

[2431] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the Committee document request of August 5, 2010. See Appendix 24.

[2432] Id.

I was hired to teach Anatomy & Physiology. There was no syllabus, no order to the course, and I was given no direction as to how teach using the "Oklahoma Model." Test questions were outdated. I was told … to leave the students alone *for hours* to do case studies … and other instructors left them alone for up to 3 hours at a time on most days. Students even asked me if I was going to 'teach' them anything because they were left alone to teach themselves so often. I was unaware that PN students were able to teach themselves nursing![2433]

Another teacher complained that one of the company's new nursing programs was severely lacking in quality and should not have been approved by the New Jersey Board of Nursing. The problems cited included: lack of leadership with the nursing program, inadequate curriculum, insufficient clinical time, and students being "tested on material … never taught." [2434]

Students also raised quality concerns.[2435] One student wrote:

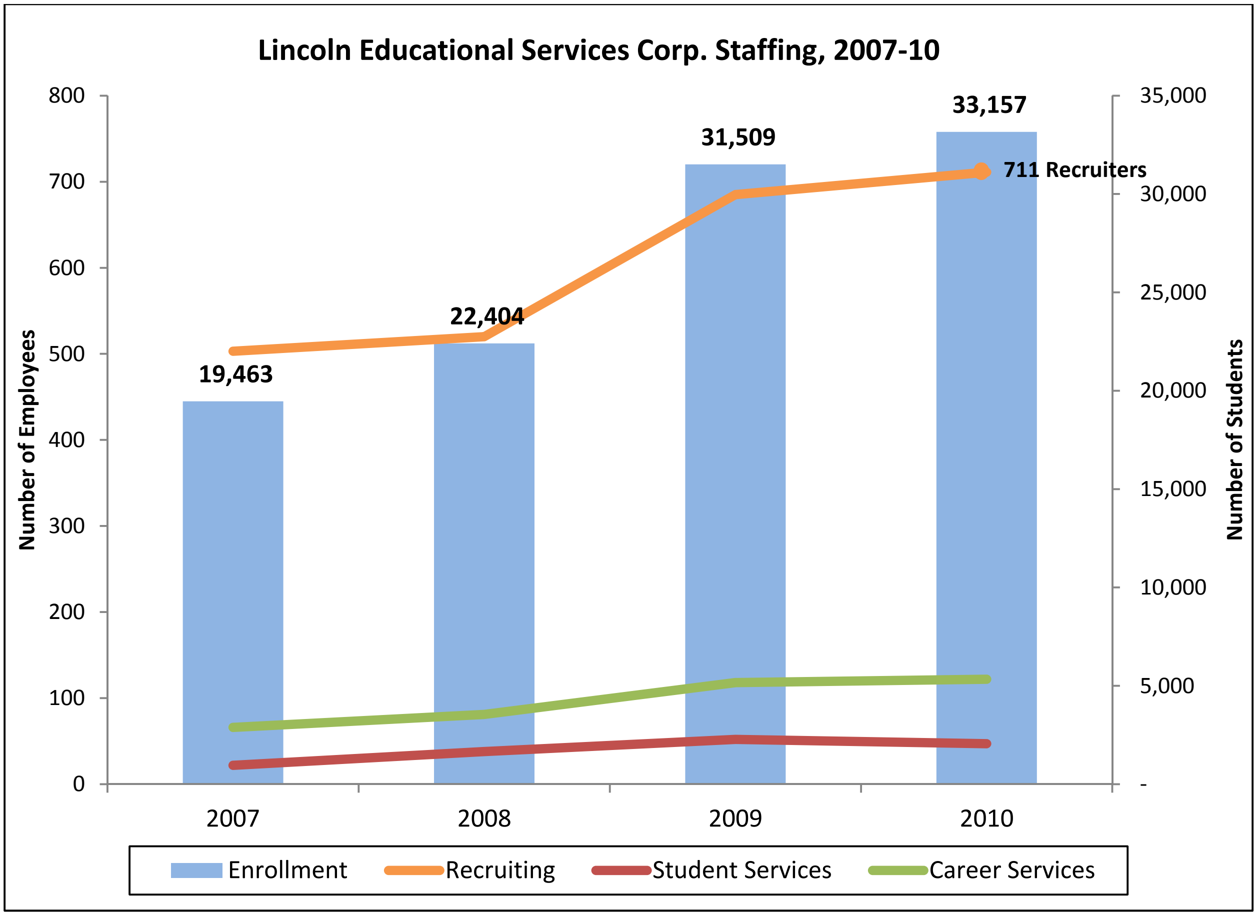
During my first "module" the instructor was not teaching the class . . . Throughout the seven month duration of the program, there were times when no instructor was present and we were told to leave early and keep quiet due to the potential loss of federal funding… My federal aid was wasted on something that I cannot even consider an education.[2436]

Another student reported:

We spent most of our class time either listening to the teacher talk about her personal problems, or watching movies. One teacher had us watch The Rock and Gladiator, and told us that it was so we could view muscle tone. . . . This school should not be accredited. I paid for a massage therapy education, but what I received was not a genuine education.[2437]

[2433] Letter to George Hebert, May 31, 2007 (LINC0000044, at LINC0000045-46). The New Jersey Office of the Attorney General closed the investigation into this complaint without finding violations of law or issuing sanctions.
[2434] Id.
[2435] See also, Letter from Accrediting Council for Independent Colleges and Schools, December 12, 2007 (LINC0000087, at LINC0000088) ("I came to this school to get an education and instead I have wasted 7 months of my life.") (The New Jersey Office of the Attorney General closed its investigation of this complaint without finding violations of law or issuing sanctions); Email from Better Business Bureau, January 5, 2007 (LINC0000001, at LINC0000003) ("I went to school to better my life, and when my loans become due, I will actually be in worse financial shape then [sic] I was before I attended school. I wish I would have never attended school at all, and had I known the reputation of the campus here, I would have never signed up.") (The Better Business Bureau did not pursue an investigation of this complaint).
[2436] Letter from State of Connecticut Commission on Human Rights and Opportunities, December 24, 2008 (LINC0000264, at LINC0000266). The agencies to which the complaint was submitted closed the investigations into this complaint without finding violations of law or issuing sanctions.
[2437] Email from Better Business Bureau, January 19, 2008 (LINC0000130, at LINC0000135).

Staffing



While for-profit education companies employed large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 33,157 students, Lincoln employed 711 recruiters, 122 career services employees and 47 student services employees.[2438] That means each career counselor was responsible for 272 students, and each student services staffer was responsible for 705 students. Meanwhile, the company employed one recruiter for every 47 students.

Career Services

For-profit schools promote themselves as career-oriented skill-focused places. Indeed, most for-profit education advertising focuses on "getting the job" after graduating from school. With 272 students for every career services employee, Lincoln has a relatively robust career services program compared to other education companies the committee examined. However, some students report that those services are not helpful. One Lincoln student said:

> After graduation I went to the school to look for job placement and the two women who worked in that department had quit their jobs. I was told that no one would be able to help me find employment. I left my email address with an admissions representative and

[2438] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.

> she never emailed me any job leads. My federal aid was wasted on something that I cannot even consider an education.[2439]

Internal documents also call into question the accuracy of job placement information Lincoln reports to its national accreditors. Documents reviewed by the committee reveal that three career services employees, including the director of Career Services at Lincoln Educational Services Corporation's Grand Prairie campus, made arrangements with an employer to falsely state that Lincoln graduates had worked for that employer. The Director gave the employer gas cards and cash in return for his false statements.[2440] Lincoln's internal investigator, who was charged with figuring out the extent of the fraud, called 10 "placed" students, and found that all of the students' records had been plainly falsified. As the investigator reported:

> The Career Services Representatives in question had knowledge that these placements were not true and legitimate placements. They chose to enter this information rather than perform due diligence and confirm these placements.[2441]

Presented with the findings, the senior group vice president of operations expressed frustration with the internal investigation that revealed the wrongdoing. His reply stated: "I'm concerned. If this is our method of conducting an investigation, we have a big liability." It is unclear if Lincoln's accreditors were informed of the career services staff's conduct, or whether other job placements recorded by other Lincoln career services staff were reviewed.[2442]

Regulatory Strategies

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenue come from title IV Federal financial aid programs and that no more than 25 percent of students default within 2 years of entering loan repayment. As discussed in the main body of this report, some companies including Lincoln lower their reported default rates by placing students in forbearances and deferments to delay default. Moreover, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal financial aid programs.

In addition to creating a tuition "gap" and pursuing military servicemembers and veterans, both of which are discussed above, other 90/10 tactics Lincoln employs include manipulation of campus identifiers (OPEIDs) and maximizing cash payments from students.

For-profit colleges must report their 90/10 ratio by assigned Office of Postsecondary Education ID numbers (OPEID), rather than by campus or corporate owner. Many education companies, such as Lincoln, have many assigned OPEIDs. One OPEID may consist of a main campus and multiple branch campuses. Schools with multiple OPEID numbers can shift campuses to different OPEID numbers and classify them as branches even when they are many States apart. In 2009, Lincoln proposed merging nine campuses in different combinations to "manage 90/10 exposure." [2443] The company could avoid the

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[2439] Letter from State of Connecticut Commission on Human Rights and Opportunities, December 24, 2008 (LINC0000264, at LINC0000266). The agencies to which the complaint was submitted closed the investigations into this complaint without finding violations of law or issuing sanctions.
[2440] Lincoln Internal Memorandum, no date (LINC0088022, at LINC0088023).
[2441] Id., at LINC0088024.
[2442] Email from Stephen Buchenot, *FW: Grand Prairie Investigation,* June 4, 2010 (LINC0088022).
[2443] *Consolidations of OPE-ID#* (LINC0001399, at LINC0001400). Note: Internal memorandum with no title or date.

repercussions of violating the 90/10 rule at certain high-90/10 campuses by combining them with lower-90/10 campuses into a single OPEID.[2444]

Another tactic that Lincoln uses is maximizing cash collected from students by requiring regular payments from students. According to Lincoln CFO Cesar Ribeiro, "We get cash contributions from [students] because we don't give them a choice. If they want to come to school, they have to make monthly payments. If they miss two payments they are kicked out of school." [2445] While asking students to make up-front payments on their education can be a good idea because it is interest-free and also helps prepare them for making payments on their loans in the future, Lincoln's requirement appears to be aimed at collecting as much cash as possible for 90/10 purposes.

Enforcement Actions

Lincoln is one of five companies currently under investigation by the New York attorney general as to whether the schools and their recruiters misrepresent their ability to find students jobs, the quality of instruction, the cost of attending, and their programs accreditation.

Conclusion

Lincoln offers programs with the potential to provide careers and increased earning power to students underserved in higher education. Yet the programs are costly, more than twice as much as at local community colleges, and Lincoln makes virtually no investment in student services despite enrolling the students most in need of these services. As a result, Lincoln's student retention and default rates are among the worst of those the committee examined. The company has some of the highest numbers of students failing to complete Certificate and Associate degree programs of any company examined by the committee. Although the majority of students are leave the company's schools with no degree or diploma, the company also receives increasing amounts of Federal taxpayer dollars and profit. It is unclear whether taxpayers or students are obtaining value from their investments in Lincoln.

[2444] This requires the blessing of the Department of Education, the college's accrediting agency, and the State regulator, which usually grant these shifts.
[2445] Lincoln, *SignalHill Corp Education Conference*, November 17, 2011.

Med-Com Career Training / Drake College of Business

Introduction

Med-Com Career Training / Drake College of Business ("Drake") is a closely held, for-profit education company that offers Certificate and 2-year degrees in allied health and information technology fields. While private distributions to shareholders totaled $4.35 million in 2009, the company's student loan default rate was 40 percent for students entering repayment in 2008, the highest of all companies the committee examined. It is unclear whether the company delivers an educational product worth the rapidly growing Federal investment taxpayers are making in the company.

Company Overview

Drake is a privately held, for-profit education company headquartered in Elizabeth, NJ. Founded in 1883 by William E. Drake as the Jersey City Business School, Drake originally provided professional training for secretaries, accountants, and typists. Today, Drake has two campuses in New Jersey and offers Certificate programs in medical office technology, dental assisting and Microsoft Office certification.[2446]

Drake is nationally accredited by the Accrediting Council for Independent Colleges and Schools (ACICS) and is licensed by the New Jersey Departments of Education and Labor and Workforce Development. In 2010, ACICS launched an inquiry after reports emerged that Drake had been sending recruiters to local homeless shelters.[2447]

In 2001, Drake was acquired by Med-Com Career Training, a privately held corporation. That same year the current president of Drake, Ziad Fadel, assumed leadership of the company.[2448]

Drake experienced modest enrollment growth between the fall of 2001 and the fall of 2009, growing from 280 students to 543 students. Since 2009, however, enrollment at Drake more than quadrupled, with 2,592 students enrolled in fall 2010.[2449] That represents a 1-year enrollment growth of 400 percent, one of the largest posted single year enrollment increases of any company the committee examined.[2450] This growth was largely due to opening a second campus in Newark, NJ.

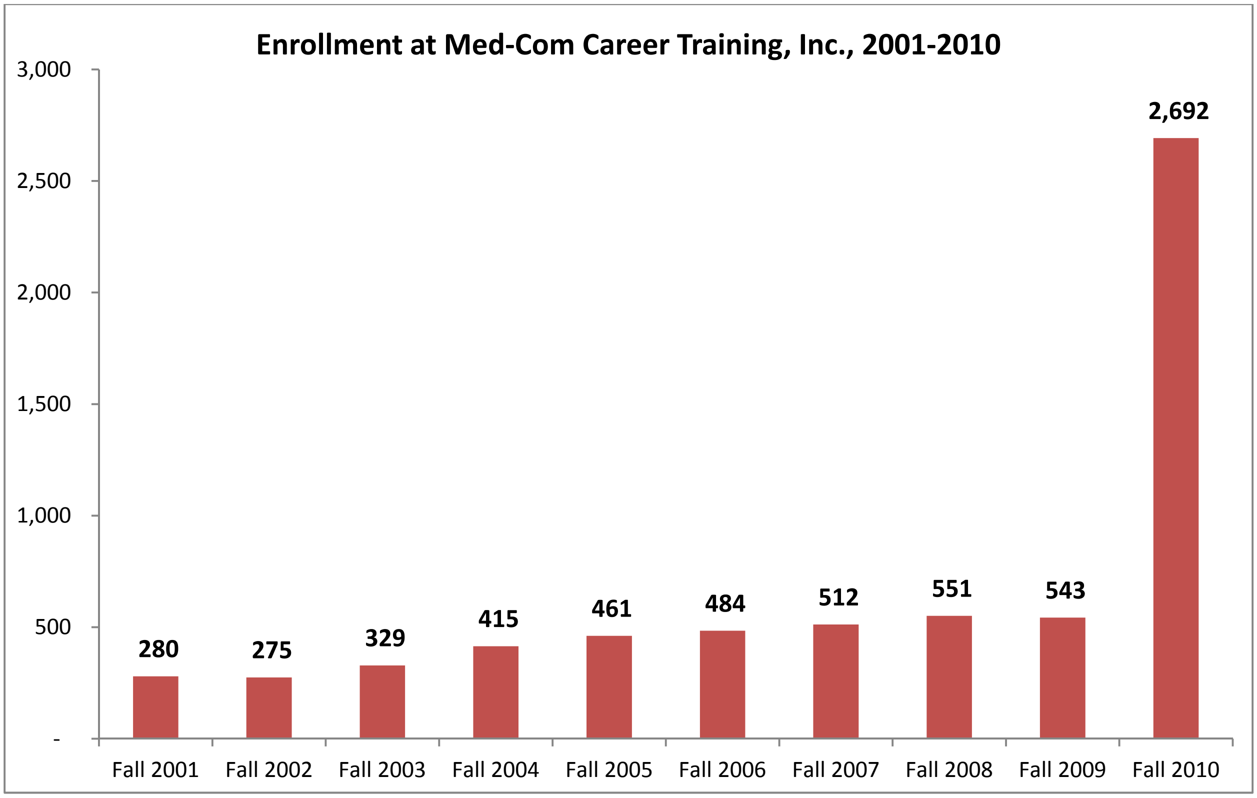
[2446] Elizabeth, NJ and Newark, NJ. Drake College of Business, Programs of Study, http://www.drakecollege.edu/academic/programs-of-study (accessed July 8, 2012).

[2447] See Kelly Heyboer and Bob Considine, "U.S. agency probes N.J.'s Drake College of Business for paying homeless students," *New Jersey Star-Ledger*, May 5, 2010. http://www.nj.com/news/index.ssf/2010/05/drake_college_to_stop_recruiti.html (accessed June 21, 2012); see also, ACICS Correspondence, August 11, 2010 (DCB-US-SEN-00004161).

[2448] See Drake College of Business, Organizational Charts and Structure, (HELP-DCB-000004 and HELP-DCB-000005).

[2449] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7.

[2450] The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.



Although Drake did not experience substantial enrollment growth between 2006 and 2009, Drake's revenue increased more than 1,200 percent over that period, from $3.7 million in 2006 to $49.7 million in 2009.[2451] Revenue figures for 2010 are unavailable.

Federal Revenue

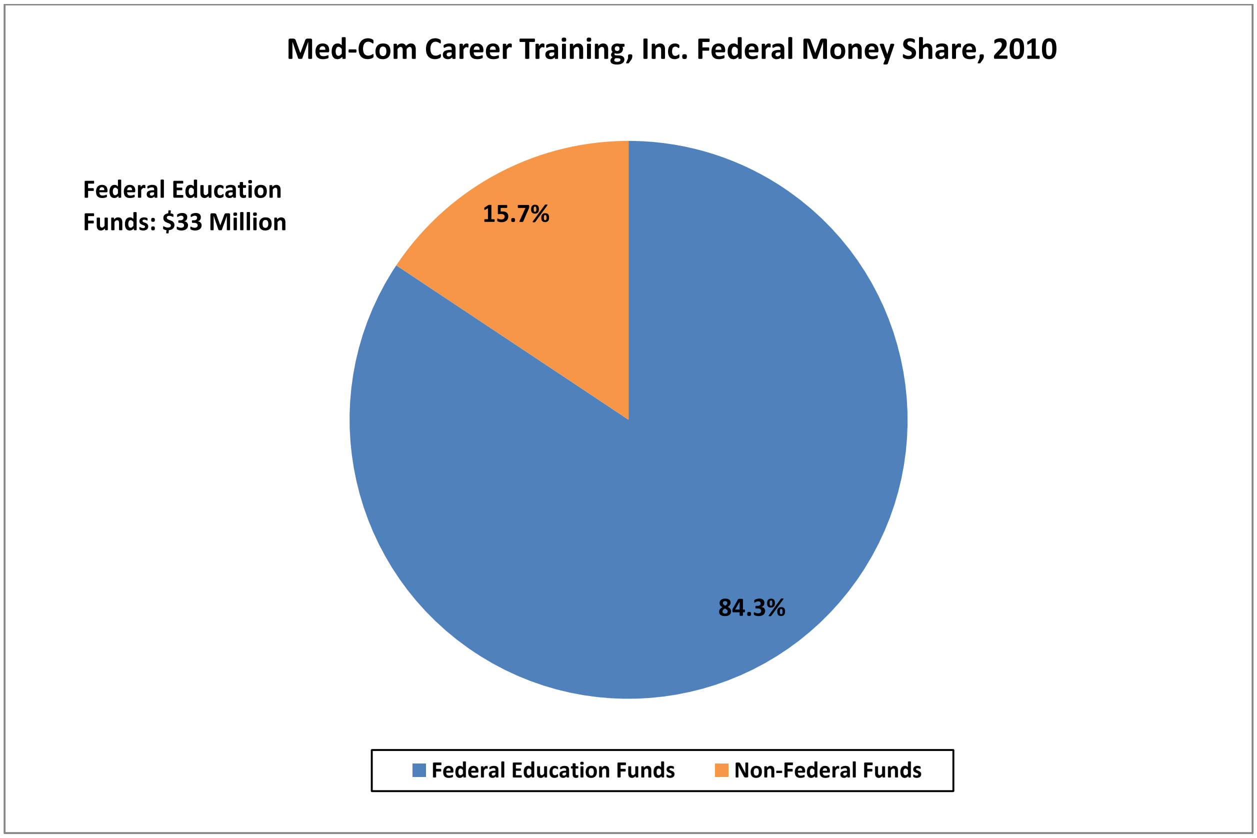
Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2452] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[2453]

[2451] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are from the company financial statements produced to the committee. See Appendix 18.

[2452] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 USC §1070 et seq. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://Federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012), 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

[2453] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

In 2010, Drake reported 84.3 percent of revenue from title IV Federal financial aid programs.[2454] Of the 30 companies examined, Drake is the only company that does not collect additional Federal dollars from Departments of Defense and Veterans Affairs military education benefit programs.[2455]

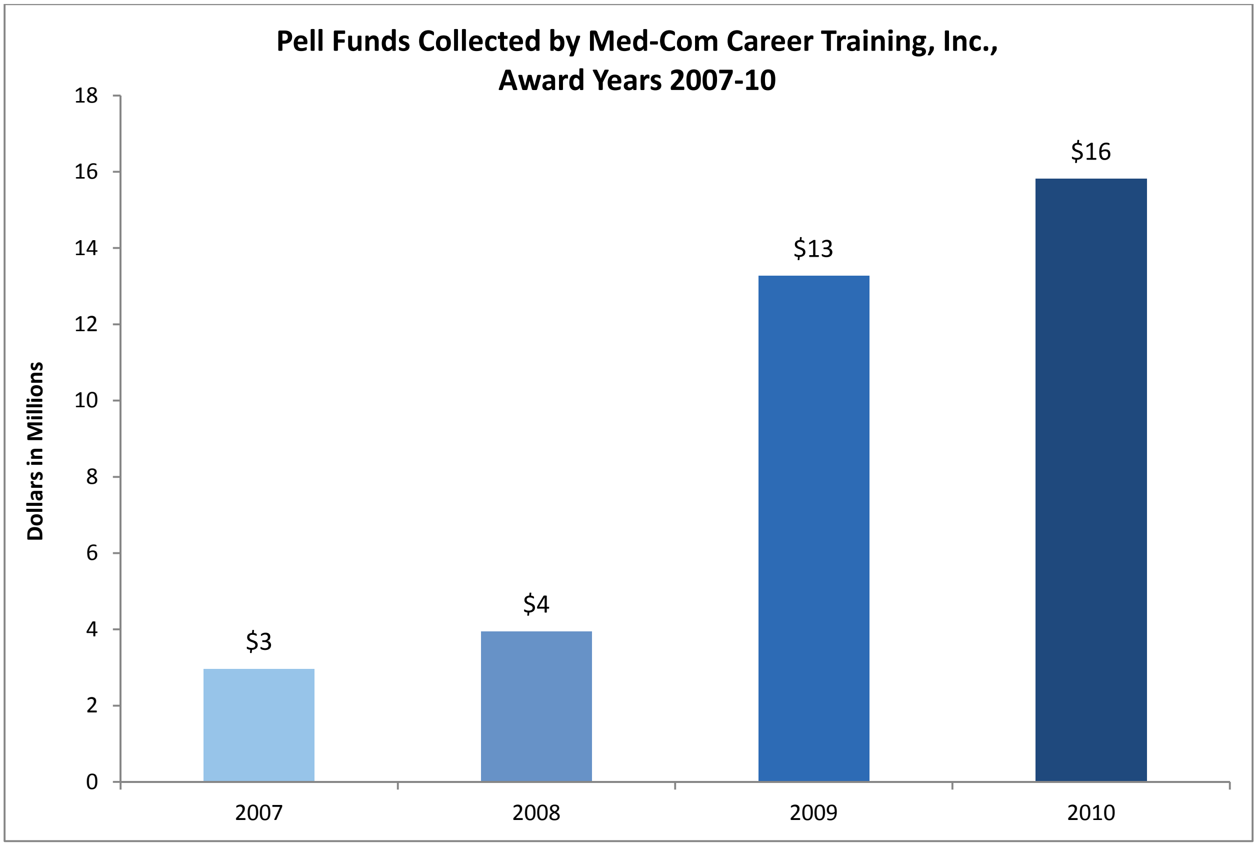


The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[2456] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[2454] Id.

[2455] Id. The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for Med-Com could not be extrapolated from the data the company provided to the committee. "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. However, Drake did not collect any funds from these programs. See Appendix 10.

[2456] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://Federalstudentaid.ed.gov/datacenter/programmatic.html.



Drake tripled the amount of Pell grants it collects just in the past 3 years, from $2.96 million in 2007 to $15.8 million in 2010.[2457] Department of Education data indicate that 100 percent of students at the company's Newark, NJ campus and 90 percent of students at the Elizabeth, NJ campus received Pell grants in 2009-10.[2458]

Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of revenues to marketing and recruiting new students and to profits. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[2459] During the same period the companies spent 23 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[2460]

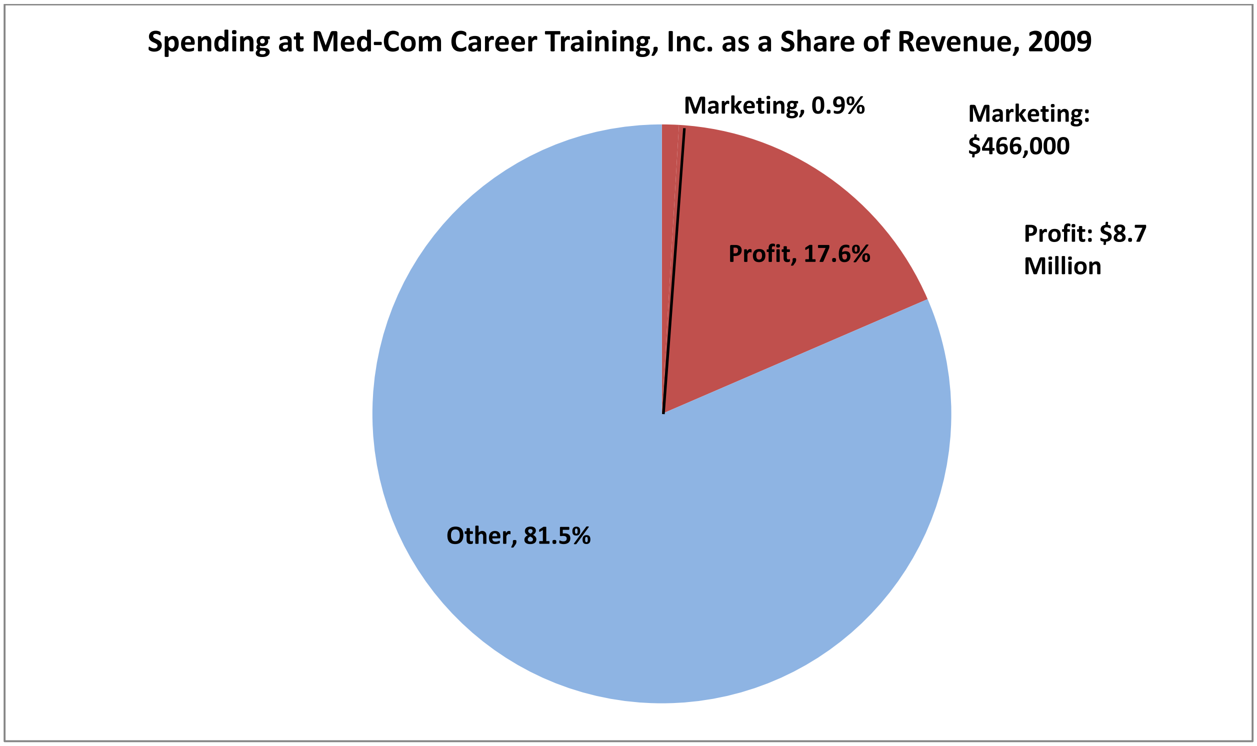
[2457] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

[2458] IPEDS, *Data Feedback Report*, 2011.

[2459] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

[2460] Senate HELP Committee staff analysis of fiscal year 2009 financial statements and information provided to the committee by each company pursuant to the committee document request of August 5, 2010. Profit is based on operating income. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as

In 2009, Drake allocated 0.9 percent, or $465,816, to marketing and recruiting and 17.6 percent, or about $9 million, to profit.[2461] Out of its profit, Drake distributed $4.3 million to its small group of shareholders.[2462] In addition, Drake devoted $9.8 million to unclassified "consulting fees," an additional 20 percent of revenue.[2463]



Driven by a surge in enrollment, Drake also generated increasing profits. In 2009, Drake reported a profit of $8.7 million, 11 times more than its profit in 2006.[2464] Private distributions of profits to the company's shareholders grew more than six times, from $604,622 in 2006 to $4.3 million in 2009.[2465]

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reported to the committee. See Appendix 19. "Other" category includes administration, instruction, executive compensation, faculty salaries, student services, facilities, maintenance and bad debt expenses.

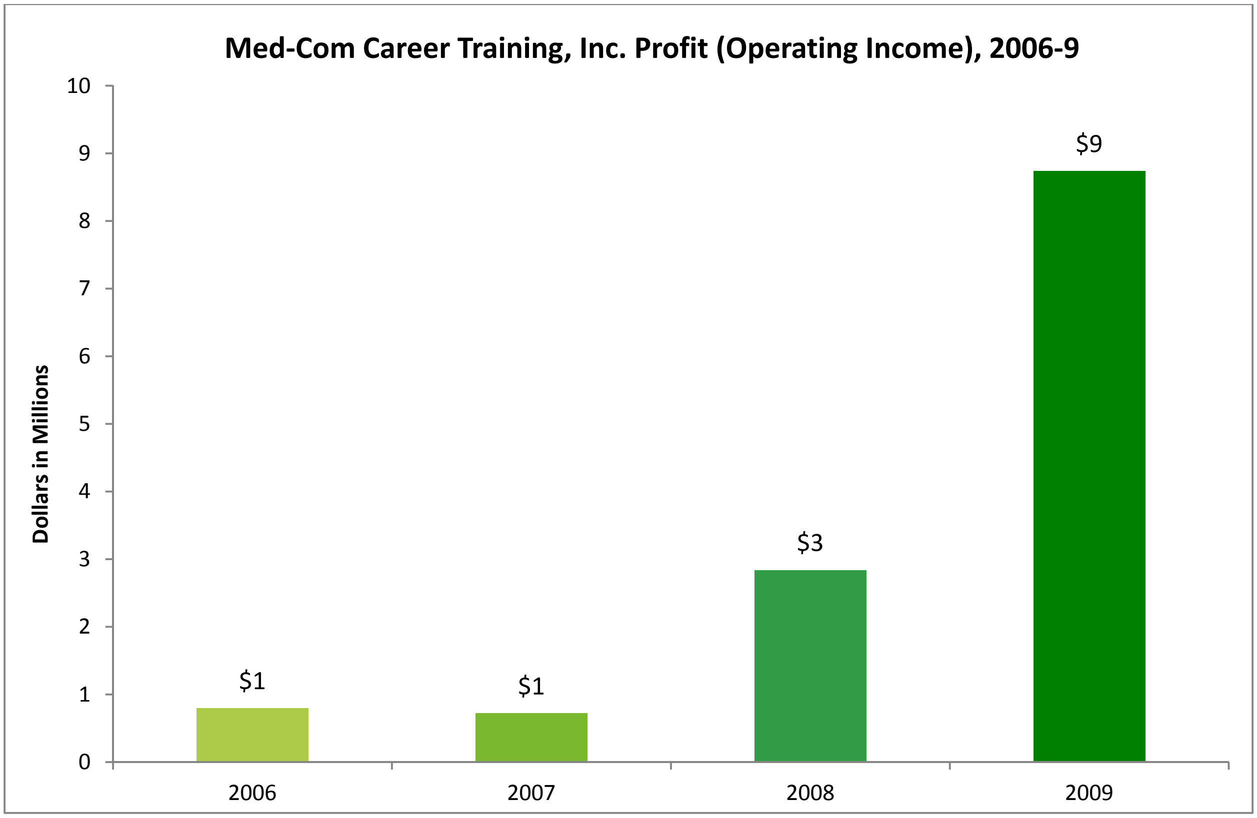
[2461] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

[2462] Id.

[2463] Harvey Glick, CPA, *Med-Com Career Training, Inc. Audited Financial Statements,* December 31, 2009 (HELP-DCB_000006) [unredacted version on file with committee].

[2464] *Med-Com Career Training, Inc. Audited Financial Statements,* 2006-9 [on file with committee]. See Appendix 18.

[2465] Id.



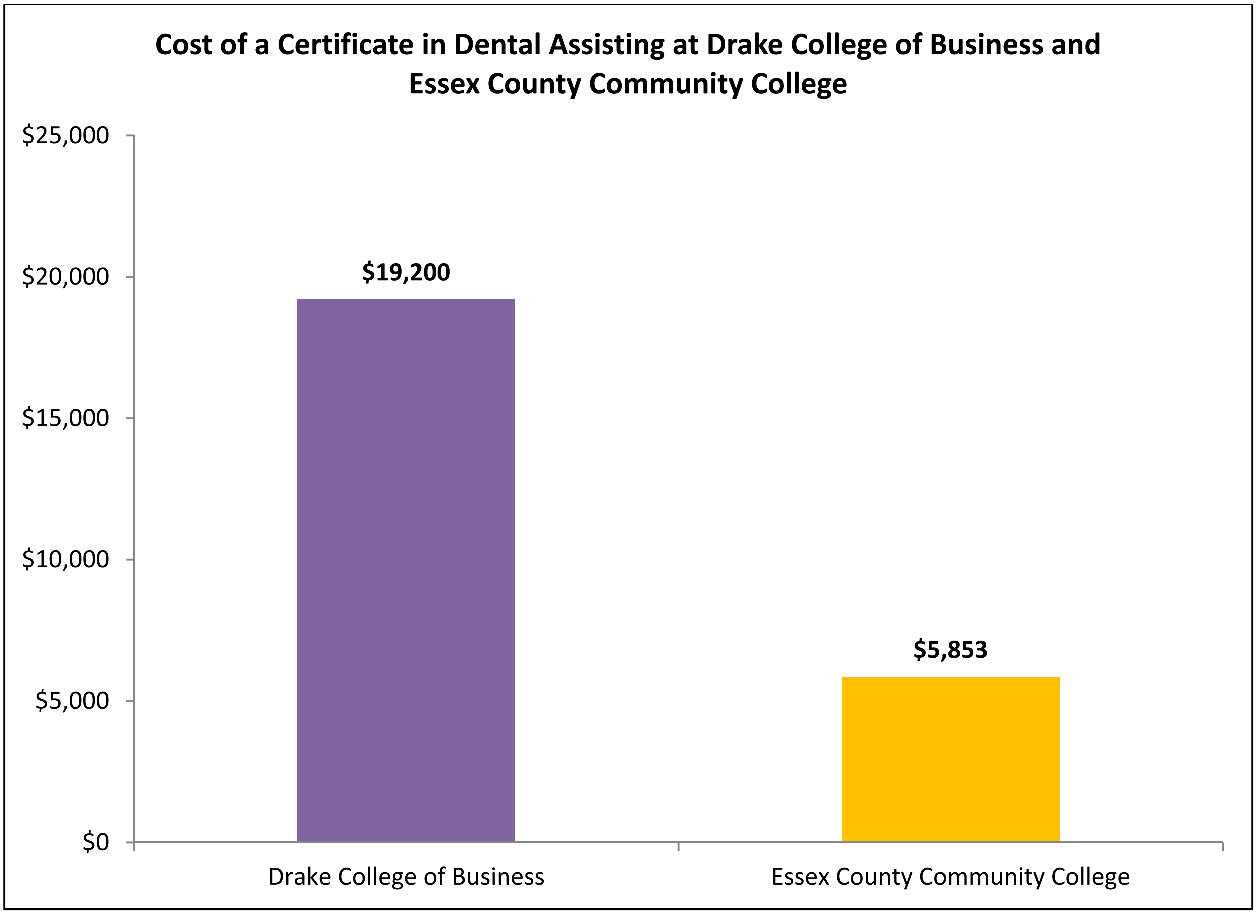
Executive Compensation

As a privately held company, Drake is not obligated to release executive compensation figures.

Tuition and Other Academic Charges

Compared to its public colleges offering the same programs, the price of tuition is more expensive at Drake. A Certificate in Dental Assisting at Drake costs $19,200,[2466] whereas the same Certificate at Newark's Essex County College costs $5,853.[2467]

[2466] See Appendix 14; see also, Drake College of Business, *Tuition*, http://www.drakecollege.com/financial-aid/tuition (accessed April 2, 2012). Drake identifies this as the total cost of the program, including tuition, fees, books and supplies.
[2467] See Appendix 14; see also, Essex County College, *Essex County College*, http://www.essex.edu/ (accessed June 21, 2012).



Tuition at Drake has risen dramatically in recent years.[2468] In 2006, the full cost for a Certificate in Dental Assisting was $4,375. Since that time, the company has increased tuition an average of twice each year to the current price of $19,200. In September 2008, Drake nearly doubled the cost of all of its programs.

Through its raises in the price of tuition and enrollment growth, Drake has increased its revenues more than 1,200 percent since 2006. Additionally, a growing amount of this increase has been kept by the company's owners as profit.

Recruiting

Enrollment growth is critical to the business success of for-profit education companies. In order to meet revenue and profit expectations, for-profit colleges must recruit as many students as possible to sign up for their programs.

In 2010, *Bloomberg BusinessWeek* reported that Drake and other for-profit colleges were targeting the homeless with high pressure recruiting tactics.[2469] Beginning in 2008, Drake offered potential students a biweekly stipend of $350 for enrolling, attending class and maintaining their grades above a "C" average. At the time of the *BusinessWeek* article's publication in early 2010, one source

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[2468] Drake College of Business, *Program Costs for Each Program*, January 1, 2010 (DCB-US-SEN-00000579, at DCB-US-SEN-00000580-82).

[2469] Daniel Golden, "The Homeless at College," *Business Week*, April 30, 2010 http://www.businessweek.com/magazine/content/10_19/b4177064219731.htm (Accessed June 21, 2012).

estimated that 3/4ths of the students enrolled at Drake were receiving the stipend.[2470] Another source opined that many students would not have enrolled and would not continue to attend school without the incentive of the stipend. The company's 2009 financial statement indicates that the company spent $11.8 million, 23.7 percent of its revenue, on "Student reimbursement expenses." [2471]

Drake suspended its homeless recruiting efforts after questions were raised in 2010 after the publication of the BusinessWeek article.[2472] The company states that while the company no longer sends employees to shelters, it will still accept potential students who apply for admission who reside at shelters. Drake also changed the form of its stipend program.[2473] Drake has continued to provide students with $350 a week as a Line of Credit that will be forgiven if the student graduates on time with a GPA of 3.0 or higher.[2474] If the student does not graduate on time with a GPA of 3.0 or higher, the college states that a student must pay back the Line of Credit at 0 percent interest over 20 years.[2475]

Following the revelation of recruiting at homeless shelters and the payments to students, the college's accreditor, ACICS, initiated an inquiry into its recruiting practices.[2476] An ACICS team that visited Drake raised a number of "fundamental issues about the alignment of DCB [Drake] business practices and its Institutional Effectiveness Plan." [2477] Among other things, the visiting team was concerned with whether and how the company was measuring the effectiveness of the Line of Credit payments. The company states that all issues were fully resolved with the accrediting agency and that the agency determined that Drake demonstrated full compliance with accrediting standards.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[2478]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll in at Drake are not achieving their educational and career goals.

[2470] Id.
[2471] Harvey Glick, CPA, *Med-Com Career Training, Inc. Audited Financial Statements,* December 31, 2009 (HELP-DCB_000006) [unredacted version on file with committee].
[2472] Kelly Heyboer and Bob Considine, "U.S. agency probes N.J.'s Drake College of Business for paying homeless students," *New Jersey Star-Ledger*, May 5, 2010. http://www.nj.com/news/index.ssf/2010/05/ drake_college_to_stop_recruiti.html (accessed June 21, 2012).
[2473] Id.; ACICS Correspondence, August 11, 2010 (DCB-US-SEN-00004161).
[2474] Drake College of Business, *Promissory Installment Note*, (DCB-US-SEN-00000626, at DCB-US-SEN-00000638).
[2475] Id., at DCB-US-SEN-00000642.
[2476] ACICS Correspondence, August 11, 2010 (DCB-US-SEN-00004161).
[2477] Id.
[2478] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009 http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 22, 2012).

Retention Rates

Retention data Drake provided information to the committee appears to be incorrect. A spreadsheet provided by the company indicates that 6,261 students enrolled at Drake in 2008-9.[2479] According to information the company provided to the Department of Education, the company's total enrollment in fall 2009 was 543 students, a dramatic difference between the data the company provided to the committee.

Department of Education data shows that the graduation rate of first-time full-time students at the company's Elizabeth, NJ campus is 30 percent, and the rate at the Newark, NJ campus is unavailable because the campus is new.[2480]

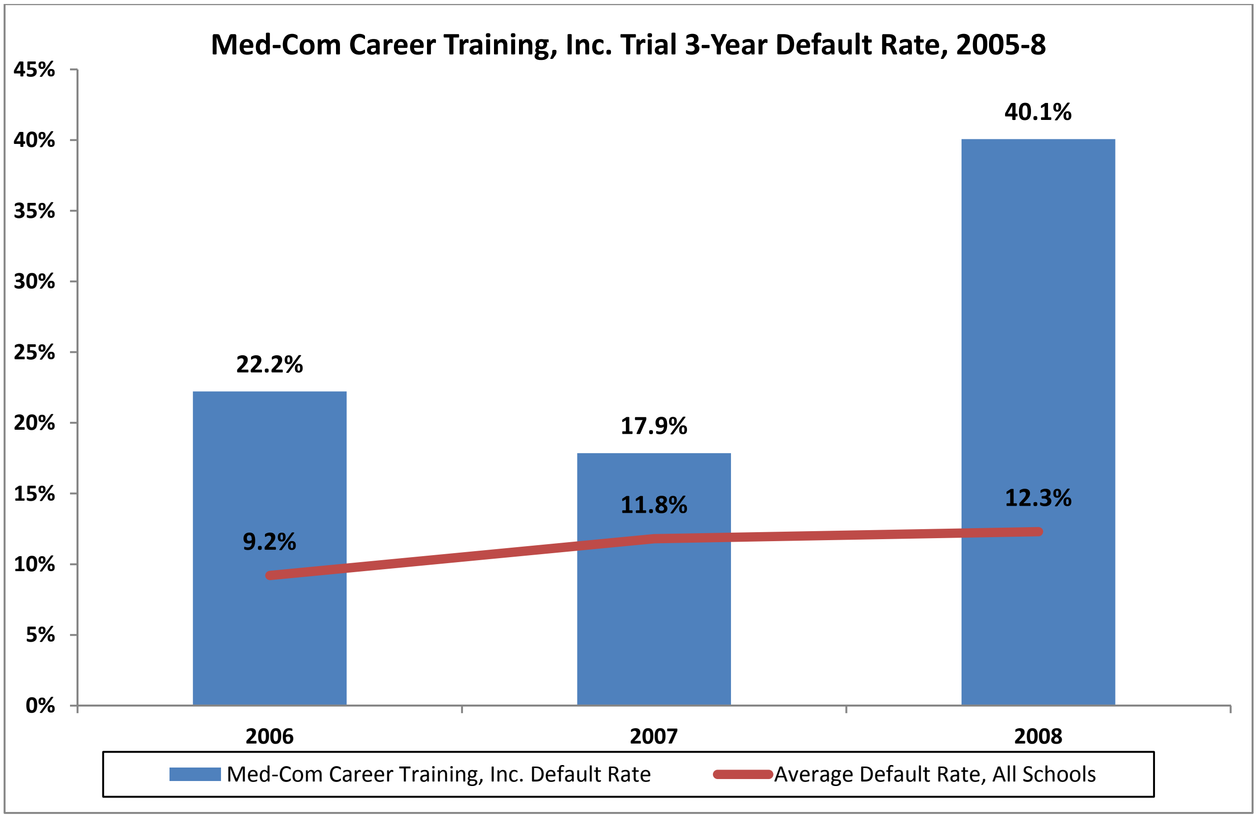
Student Loan Defaults

The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[2481]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[2482] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2483] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2484] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[2485]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[2486] This change represents a 32.6 percent increase over 4 years.[2487] While Drake's default rate fell between students entering repayment in 2006 and 2007, its 2008 default rate skyrocketed, more than doubling from 17.9 percent for students entering repayment in 2007 to 40.1 percent for students entering repayment in 2008.[2488] Drake's 2008 default rate is almost double the rate for all for-profit colleges and more than triple the rate for colleges in all sectors and has the highest rate of loan default among the 30 schools the committee examined.

[2479] Senate HELP Committee staff analysis. See Appendix 15.
[2480] IPEDS, *2010 Graduation Rate.*
[2481] Direct Loan Default Rates, 34 CFR 668.183(c).
[2482] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[2483] Id.
[2484] Id.
[2485] Id.
[2486] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[2487] Id.
[2488] Id.



Instruction and Academics

The quality of any college's academics is difficult to measure, however the amount that a school spends on instruction per student compared to other spending is a useful indicator. By looking at the instructional cost that all sectors of higher education report to the Department of Education, it is possible to compare spending on actual instruction.

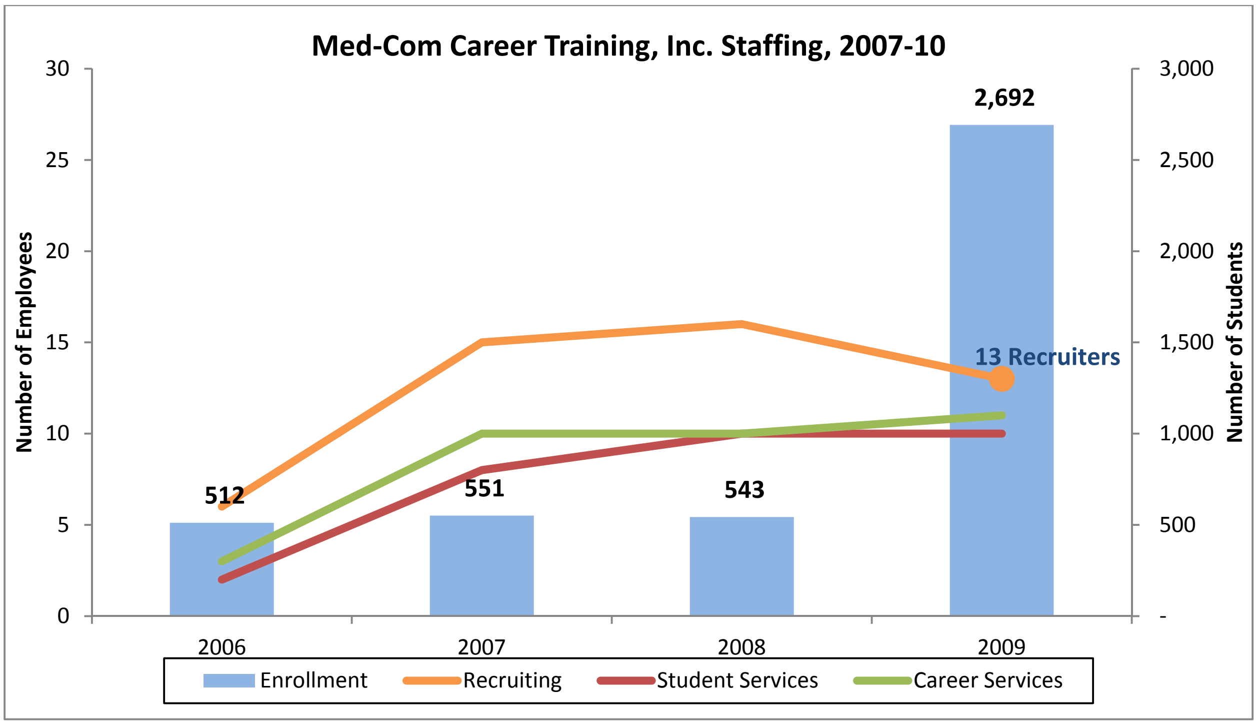
It is difficult to obtain a clear picture of the amount that Drake spends on instruction because the company misreported its instructional spending number to the Department of Education for 2009: The company listed that it spent an amount equal to its entire operating expenditures on instruction, when in fact the company's financial statements show that a significant portion of their expenses were dedicated to non-educational line items. For 2008, when it appears Drake reported a correct number, the company spent $889 per student on instruction.[2489] In contrast, public and non-profit schools, generally spend a higher amount per student on instruction. Other New Jersey-based colleges spent, on a per student basis, $16,654 at Rutgers and $3,878 at Essex County Community College.[2490]

[2489] Senate HELP Committee staff analysis. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students."
[2490] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

Drake spent $186 on marketing and $3,488 on profit per student in 2009.[2491] The company also spent $3,920 per student on unclassified "Consulting fees."

Staffing

The committee found that while for-profit education companies employed large numbers of recruiters to enroll new students, the companies had far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 2,692 students, Drake employed 13 recruiters, 11 career services employees, and 10 student services employees.[2492] That means each career counselor was responsible for 245 students and each student services staffer was responsible for 269 students. Meanwhile, the company employed one recruiter for every 207 students.



While overall there is not a large disparity in the number of recruiting and student and career service staff Drake employs, the number of student and career services staff remained constant as enrollment surged at Drake. Information provided by the company indicates that Drake hired no additional student services staff and only one additional career services employee between 2009 and 2010, even though the college's enrollment increased nearly 400 percent over that period.

Conclusion

Drake is a small but highly profitable education company. Nearly all of Drake's revenue is derived from Federal taxpayer funds, and most of the company's profit is funneled to the company's

[2491] For this calculation, the committee relied on the instruction amount Drake reported in its financial statement rather than the number the company reported to IPEDS. The amount reported to IPEDS is incorrect. See Appendix 20 and Appendix 22.
[2492] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.

small group of shareholders. Moreover, Drake increased its tuition tremendously over the past few years; its Certificate program tuition is approximately three times higher than tuition at nearby community colleges.

The company's enrollment growth nearly quadrupled in a single year between 2009 and 2010. With this growth in enrollment, the amount of Federal financial aid dollars flowing to the school also increased. And yet, a staggering share Drake students, more that 40 percent of those who entered repayment in 2008, were unable to make payments on their student loans and fell into default within 3 years of leaving the school. These alarming outcomes are particularly troubling because they indicate that students, some of whom Drake admitted recruiting from homeless shelters, are left with high amounts of debt and without the earning capacity necessary to pay for the cost of their education. Taken together, these issues cast serious doubt on the notion that Drake's students are receiving an education that affords them adequate value relative to the cost, and call into question the $33 million investment American taxpayers made in the company in 2010.

National American University

Introduction

National American University Holdings, Inc. is the most recent company to become publicly traded on a Wall Street exchange, and is the smallest publicly traded, for-profit education company. Like many for-profit education companies, NAU has experienced growth in student enrollment, particularly in online programs, and has increased the amount of Federal funds it collects and its annual profit. However, the company's performance, measured by student withdrawal and default rates, is one of the best of any company examined. It appears that many students are faring well at this degree-based for-profit college.

Company Profile

National American University ("NAU") is a publicly traded, for-profit education company headquartered in Rapid City, SD. Founded in 1948 as the National School of Business, NAU originally provided business, secretarial and accounting programs. The NAU campus grew rapidly in the 1960s with many World War II and Korean War veterans attending the school.[2493] Over the next 3 decades, NAU renamed itself, expanded its degree programs, and established nearly 30 additional campuses in the Midwest and Southwest. In 1998, the company began offering online degree programs and in 2009, the company went public.[2494]

Today, NAU enrolls approximately 10,000 students and offers nearly 60 Diploma, Associate, Bachelor's and Master's degree programs in business-related disciplines, such as accounting, applied management, business administration, information technology and healthcare-related disciplines, such as nursing and healthcare management. Associate degrees represent nearly half of the company's enrollment, with Bachelor's students making up another 40 percent.[2495] Fifty-three percent of NAU students attend completely online, up from 47 percent in 2011, and another 17 percent take some classes online.[2496]

Like more than half of the regionally accredited brands the committee examined, National American University is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC).[2497] It was originally accredited by HLC in 1985.

Dr. Ronald L. Shape is chief executive officer of National American University Holdings, Inc.[2498] Dr. Jerry L. Gallentine, who previously served as president of several Midwestern colleges, serves as

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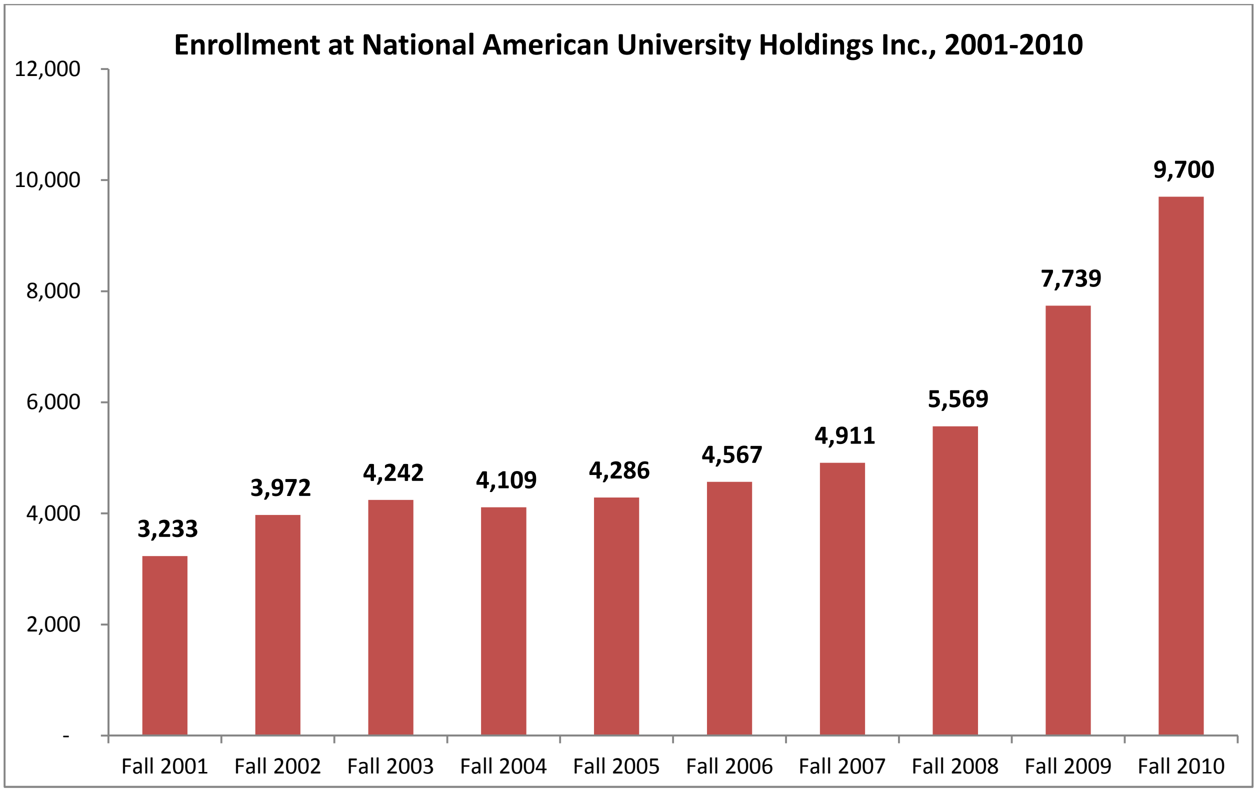
[2493] National American University, 2008, *New Admissions Representative Training Manual* (NAU0014515, at NAU0014516).
[2494] National American University Holdings, Inc. Form 10-K for period ending 5/31/2011.
[2495] National American University Public Presentation, April 2012, Conference Call Presentation , available at http://www.national.edu/sites/default/files/files/NAUH_Q3%20FY2012.pdf. (accessed June 18, 2012).
[2496] National American University Holdings, Inc. Third Quarter and Nine Months Results, http://www.national.edu/sites/default/files/National%20American%20University%20Holdings,%20Inc.%20Reports%20Fiscal%202012%20Third%20Quarter%20and%20Nine%20Months%20Results.pdf (accessed July 12, 2012).
[2497] See National American University "Accreditations, Approvals & Affiliations," http://www.national.edu/ accreditations-approvals-affiliations (accessed July 12, 2012).
[2498] See National American University, "Management," http://www.national.edu/management (accessed July 12, 2012).

president of the company.[2499] National American University underwent a merger with Camden Learning Corporation in 2009, a "special purpose acquisition company" company that investors formed in 2007 with the intent to purchase an education business. The merger led to a corporate reorganization that resulted in the formation of National American University Holdings, Inc., a Delaware corporation listed on the NASDAQ stock exchange.[2500] NAU generates nearly all of National American University Holdings, Inc.'s revenue, totaling 98.7 percent in 2011.[2501] The rest of the holding company's revenue is derived from selling multi-family residential real estate in South Dakota.[2502]

The company has been expanding its physical campus locations rapidly since 2011. As of early 2012, the company operates 35 campuses, including 18 new campuses opened since 2009.[2503] Five new campuses are pending regulatory approval from the Higher Learning Commission, and the company has announced two more campus openings in 2013.



In the fall of 2010, 9,700 students were enrolled at NAU, 25 percent more students than were enrolled at the time the company went public in the fall of 2009.[2504] This growth in enrollment was

2499 See National American University, "Management," http://www.national.edu/management (accessed July 12, 2012).
2500 "National American University and Camden Learning Corporation to Merge," *Bloomberg News*, August 10, 2009, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aCWGeLUTZpwo (accessed May 12, 2012).
2501 National American University Holdings, Inc. Form 10-K for period ending 5/31/11.
2502 "National American University (NAUH:NASDAQ GM)," *Bloomberg BusinessWeek Snapshot*, http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=NAUH:US (accessed May 12, 2012)
2503 Campus locations: Colorado (4); Indiana (1); Kansas (3); Minnesota (6); Missouri (4); Nebraska (1) New Jersey (1); New Mexico (2); Oklahoma (1); South Dakota (4); Texas (8): http://www.national.edu/locations (accessed June 12, 2012).
2504 For companies that began filing with the Securities and Exchange Commission subsequent to an initial public offering between 2001 and 2010, enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education's Integrated Postsecondary Data System (hereinafter IPEDS) until Securities and Exchange Commission filings become available at which time SEC filings for the August-October period each year are used. See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall

driven by students enrolling online and also led to growth in revenue.[2505] Since its initial public offering in November 2009, revenue at NAU has grown by more than 70 percent.[2506]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2507] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[2508]

In 2010, NAU reported 76.1 percent of revenue from title IV Federal financial aid programs.[2509] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs or revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA).[2510] The committee estimates that NAU discounted approximately 5.7 percent of revenue, or $4.4 million, pursuant to ECASLA. Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 3.9 percent of NAU's revenue, or $3 million.[2511] With these funds from the Departments of Defense and Veterans Affairs included, 80 percent of NAU's total revenue was comprised of Federal education funds.[2512]

2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a drop in revenue and profit at some companies.

[2505] Online enrollment grew at the rate of 26 percent in the same period.

[2506] In fiscal year 2009, NAU reported $62,584,000 in revenue and the company reported $106,808,000 in revenue in 2011. Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

[2507] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

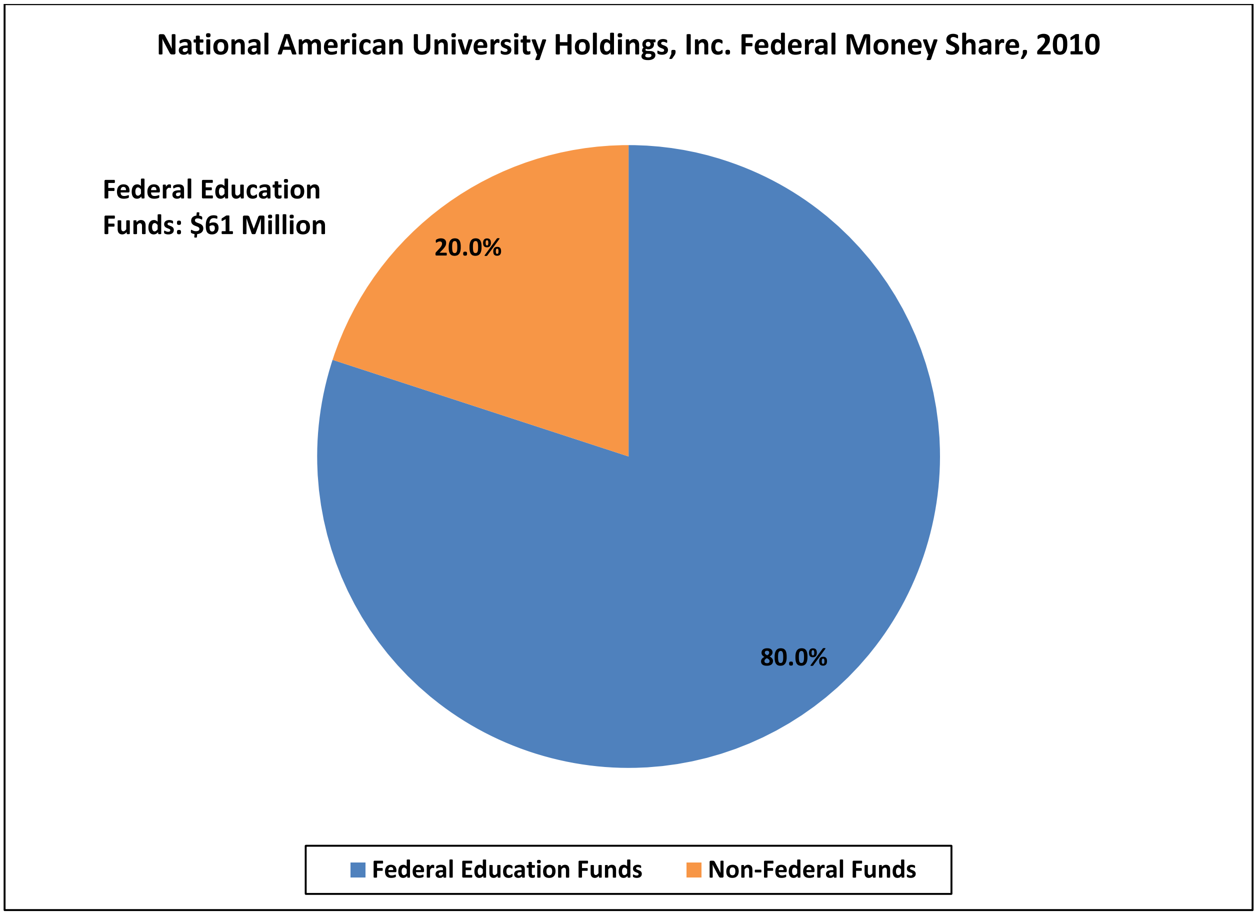
[2508] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[2509] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

[2510] Pursuant to the Ensuring Continued Access to Student Loan Act (ECASLA), for-profit education companies were allowed to exclude $2,000 in increased Stafford loan eligibility for each student during fiscal years 2009 and 2010.

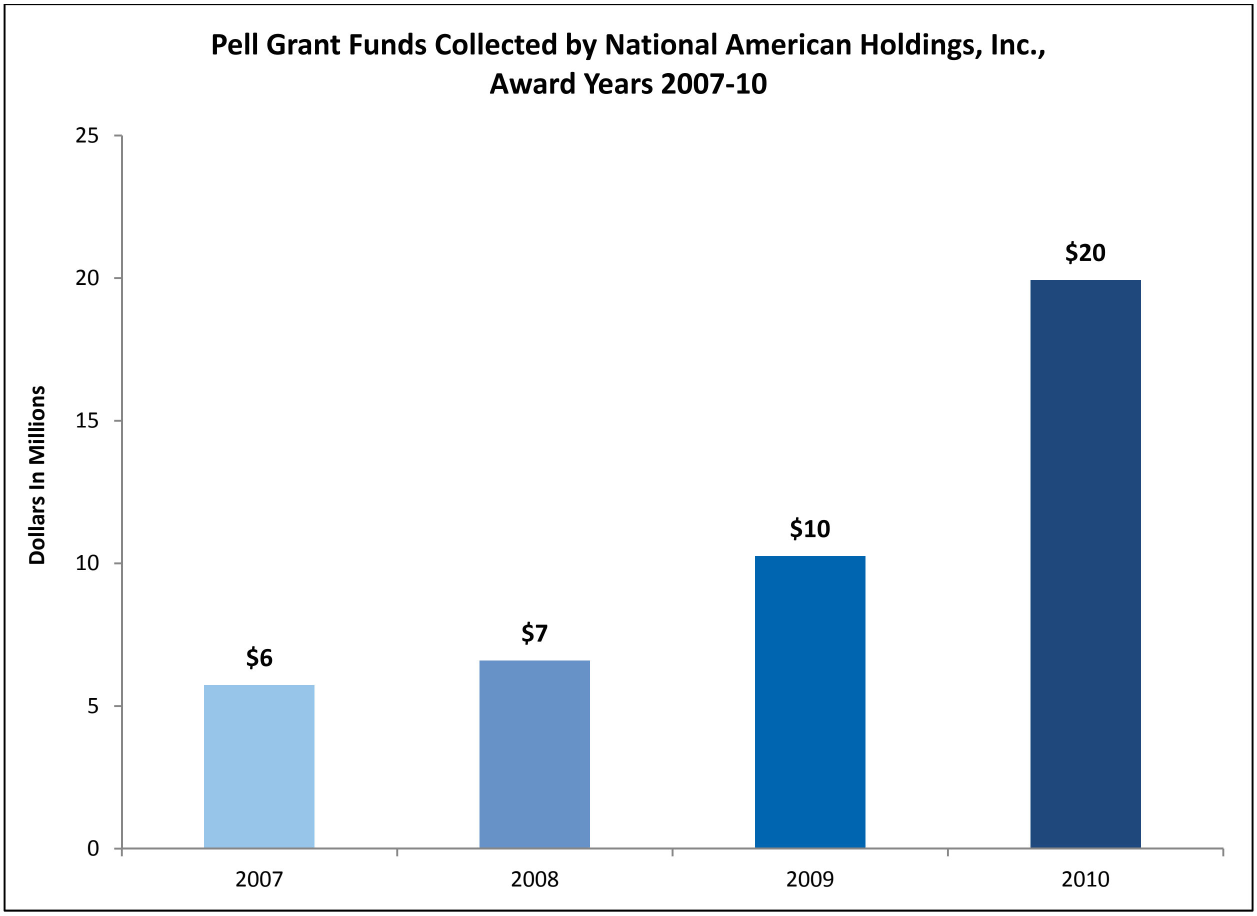
[2511] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[2512] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.



Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[2513] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[2513] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov /datacenter/programmatic.html (accessed July 12, 2012).



While the dollar amount remains comparatively small, the amount of Pell grant funds NAU collected grew by almost 600 percent in just 3 years, from $5.7 million in 2007 to $19.9 million in 2010.[2514]

Spending

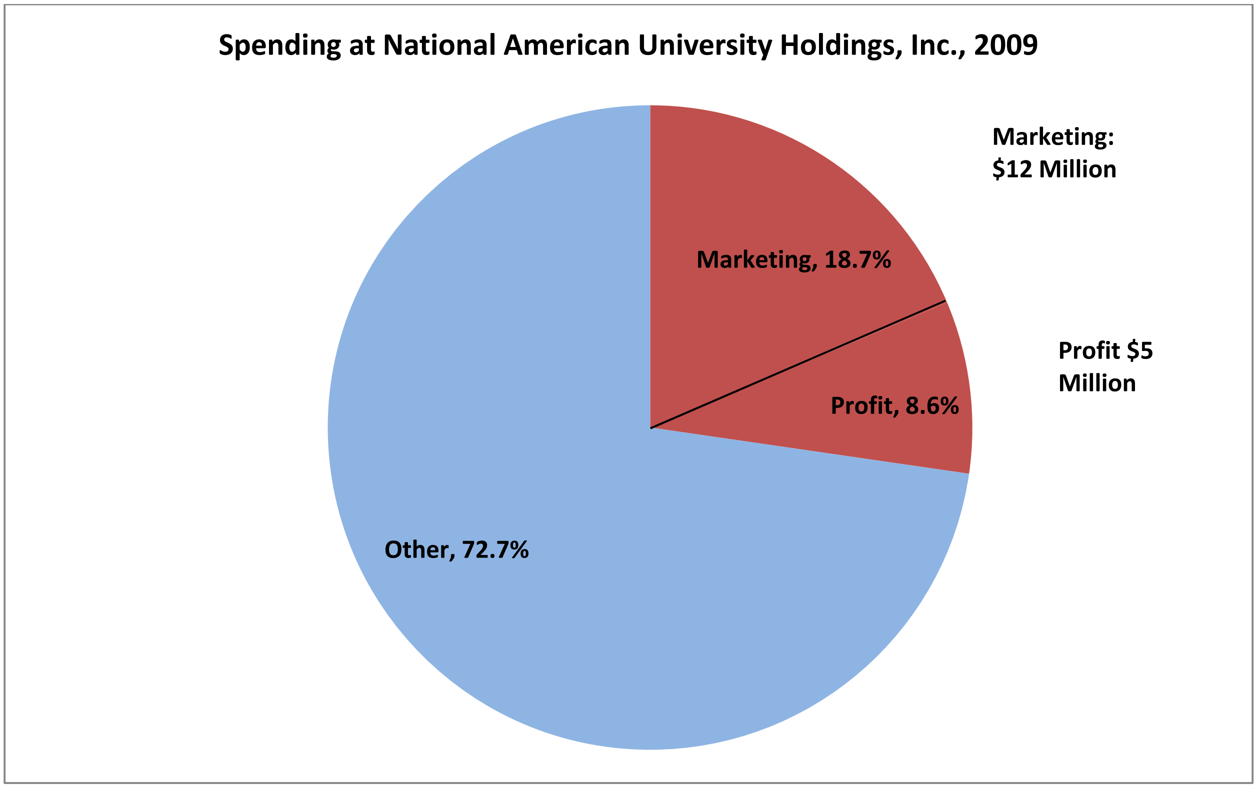
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[2515] During the same period the companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion) and 19.7 percent on profit ($3.2 billion).[2516] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.[2517]

[2514] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://Federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012). See Appendix 13

[2515] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

[2516] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings and information provided to the committee by the company pursuant to the committee document request of August 5, 2010.

In 2009, NAU devoted 18.7 percent of its revenue, or $11.7 million, to marketing and recruiting and 8.6 percent of its revenue, or $5.4 million, to profit.[2518]



NAU devoted a total of $17.1 million to marketing, recruiting and profit in fiscal year 2009.[2519] The amount of profit NAU generated increased rapidly following the company's public stock listing. In 2009, NAU reported a profit of $5.4 million, and by 2011 its profit more than tripled to $16.4 million.[2520]

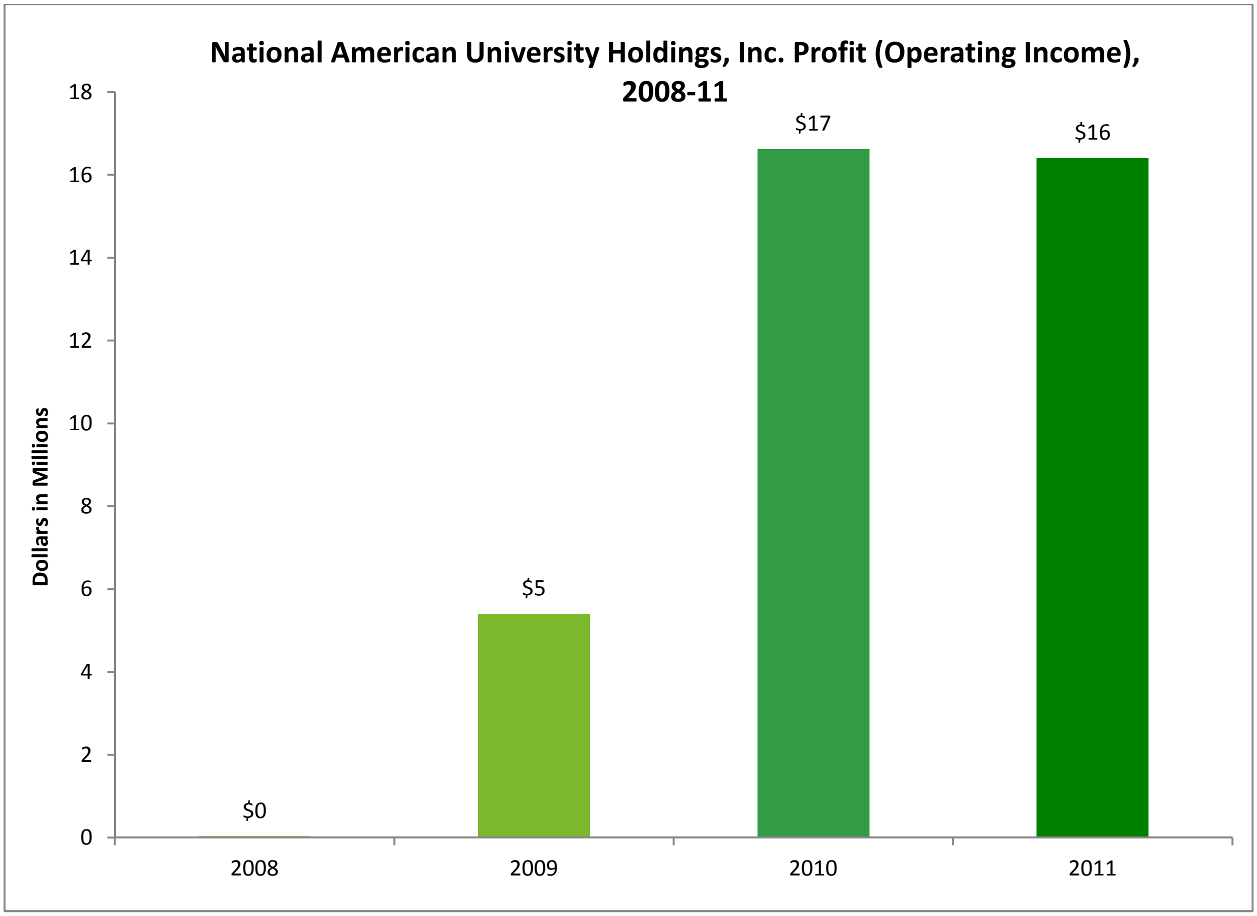
Profit is based on operating income reported in SEC filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.

[2517] Id.

[2518] Id.

[2519] "Other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.

[2520] Senate HELP Committee staff analysis. See Appendix 18.



Executive Compensation

Executives at NAU, like most for-profit executives, are more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[2521] In 2010, NAU President Jerry L. Gallentine received $1.1 million in compensation, close to 3 times as much as the President of the South Dakota State University who received $340,642 in total compensation for 2009-10.[2522] CEO Ronald L. Shape earned $990,361.[2523]

[2521] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.

[2522] "President and provost salary data: 2009-10 Executives' compensation at public institutions," UC Berkeley News Center, http://newscenter.berkeley.edu/president-and-provost-salary-data/ (accessed June 27, 2012).

[2523] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.

Executive	Title	2010 Compensation
Ronald L. Shape	Chief Executive Officer and Chief Financial Officer	$990,361
Jerry L. Gallentine	President	$1,154,422
Michaelle Holland	Regional President for the South and Southeast Regions	$692,807
Robert D. Buckingham	Executive Chairman of the Board	$3,127,120
Total		$5,964,710[2524]

NAU compensation packages are well below the average for publicly traded, for-profit education companies.[2525]

Tuition and Other Academic Charges

While tuition at NAU's brick and mortar and online schools varies, overall, compared to South Dakota public colleges offering the same programs, the price of tuition is higher at NAU. A Bachelor's degree in Business Administration from the main NAU campus in Rapid City costs $62,813 and the same degree online costs $60,389,[2526] whereas the same degree at the University of South Dakota costs $35,216.[2527]

An Associate's degree in Business Administration at NAU costs $28,769 on campus and $30,257 online.[2528] A similar degree at Western Dakota Technical Institute, also located in Rapid City, costs $11,516, less than half the cost of a NAU Associate's degree.[2529]

[2524] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities and Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.

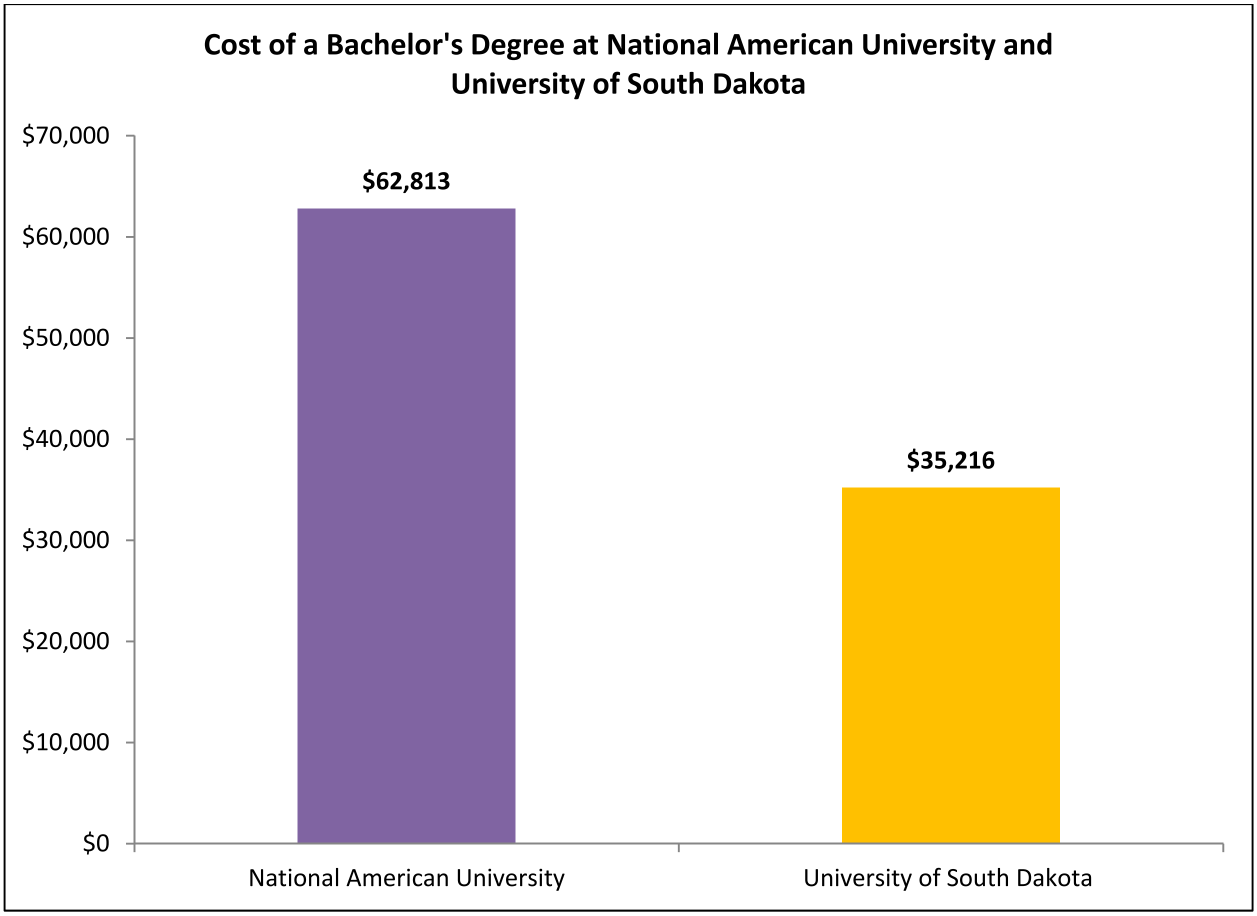
[2525] The chief executive officers of the large publicly traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009.

[2526] See Appendix 14; see also, National American University, *Disclosures*, http://www.national.edu/disclosures (accessed July 12, 2012). Tuition alone was calculated by multiplying the cost per credit hour by total credit hours required.

[2527] See Appendix 14; see also, University of South Dakota, *University of South Dakota*, http://www.usd.edu/ (accessed July 12, 2012).

[2528] See Appendix 14; see also, National American University, *Disclosures*, http://www.national.edu/disclosures (accessed July 12, 2012). Tuition alone was calculated by multiplying the cost per credit hour by total credit hours required.

[2529] See Appendix 14; see also, Western Dakota Tech, *Western Dakota Tech*, http://www.wdt.edu/ (accessed July 12, 2012).



Over the past 5 years, undergraduate tuition at NAU's Rapid City campus has increased an average of 4.6 percent per year, while online tuition has increased an average of 6.1 percent per year.[2530]

Internal documents make clear that tuition is driven at least in part by profit expectations. In fall 2007 after NAU failed to achieve its quarterly profit expectations, the chief financial officer wrote to campus directors, "the university (as a system) was not successful in achieving its summer quarter profit expectations" and "as a result" the company proposed a mid-year tuition increase, as well as a technical change in how the company bills students.[2531] Campus directors expressed reservations about the increase. The campus director of NAU's Denver campus raised concerns about having two tuition increases in the same academic year, especially because of existing student dissatisfaction with the campus:

> Since we just had a tuition increase for the fall 2007 quarter, I expect students will not be very happy with a second increase within the same academic year. The second increase may cause us to lose some students as we are already experiencing some drops by students who perceive a lack of quality teaching faculty. I think because there has been so much change in personnel at this campus since May there is an undercurrent of concern and frustration with the changes and students might see this as just another

[2530] National American University; Historical Tuition Raises, FY2006 to FY2010 (HELP-NAU_000001) National American University, September 2010, *Tuition and Fees Per Quarter* (NAU0019621); National American University, 2010-11, *Tuition, Fees & Refund Policy 2010-2011: Distance Learning Campus* (NAU0019536). The percentage increase in online tuition was calculated using the difference between the 2007-8 and 2008-9 tuition rates, which was 5.31 percent, and leaving out the 2007-8 mid-year tuition increase.

[2531] National American University Internal Email, October 2007, *re: Mid Year Adjustments* (NAU0013678).

> opportunity to vent. I believe that with a majority of new staff members and a lack of staff in certain departments, some of the students are questioning the Denver campus[.] In reality, I think we still would be competitive with other private, proprietary institutions in Denver but we are getting close to a pricing line that might take us out of the market.[2532]

The campus director of NAU's Rapid City campus thanked the CFO for not suggesting a tuition increase at that campus, writing, "a satisfied customer is one who perceives he/she receives value for dollars spent and our market has some issues with our rates…. A mid-year increase for [Rapid City] would have cost us more than it would have gained." [2533] Yet another campus director raised concerns about students not being able to repay their debt if tuition levels were too high:

> My biggest concern is getting the students funding to cover the costs – if that can be done at $290 per credit – I'm game… Increasing my revenue by 40,000 a quarter would be nice as long as I don't have to turn around and write it off as bad debt later…[2534]

NAU executives were also concerned about competition with other schools. The Denver campus director who, in 2007, feared a mid-year tuition increase would bring NAU close to crossing a competitive pricing line continued to oppose further tuition increases in 2008, noting, "we will be out pricing our program with our competitors." [2535] Likewise, the Rapid City campus director who agreed with holding firm on mid-year tuition rates also sought to keep graduate tuition rates the same for the 2008-9 academic year. He wrote:

> Given the fact that this campus' competition is strictly state institutions with significantly lower tuition rates at both the undergrad and grad levels, a more greedy approach would backfire and many prospects/students would simply choose a less expensive educational alternative.[2536]

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations, for-profit colleges recruit as many students as possible to sign up for their programs.

During the period examined and prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, internal NAU documents clearly reflect the pressure on recruiters to meet enrollment targets. NAU notes that in 2009 it revised the code of conduct for all recruiters and specifies that all recruiters are required to sign the code of conduct and are held strictly accountable to the code.[2537]

[2532] National American University Internal Email, October 2007, *re*: *RE: Mid Year Adjustments* (NAU0013825).
[2533] National American University Internal Email, October 2007, *re*: *RE: Mid Year Adjustments* (NAU0013834).
[2534] National American University Internal Email, December 2008, *re*: *RE:* (NAU0013713, at NAU0013716).
[2535] National American University Internal Email, January 2008, *re*: *FW: Tuition Increase Recommendations* (NAU0013551, at NAU0013556).
[2536] National American University Internal Email, October 2007, *re*: *Mid Year Adjustments* (NAU0014003, at NAU0014004).
[2537] National American University, August 2010, *Admissions Code of Conduct,* (NAU0021252). See also Appendix 6.

One of NAU's recruiting handbooks produced to the committee instructed recruiters check for leads "**at a minimum** every 15 minutes [emphasis in original]." [2538] Once a recruiter took responsibility for a lead, he or she had to call the lead three times the day the lead was discovered, another time the next day, and another time the same week until the lead answered or called back.[2539] Recruiters were instructed to send an introductory email on the first day, probe for information via email on the second day, and establish office hours via email sometime during the first week.[2540] A training manual for new admissions representatives stated that representatives were "expected to devote a <u>minimum</u> of four hours per day to telephone contact work (setting appointments, follow-up, etc.)." [2541]

Once NAU recruiters made a phone call, they were instructed to "create a sense of urgency and initiate the follow-up." [2542] Recruiters can create a sense of urgency if they ask questions such as, "Tell me what your life would be like if you let another 5 years go by without getting your degree." [2543] Recruiters were also instructed to "counter at least 5 objections." [2544] If cost was the objection, recruiters should respond with, "We are talking about an investment in your future, not a cost." [2545] Recruiters were also instructed not to give out complete program costs and instead give only a credit hour rate.[2546] If lack of interest was the objection, recruiters should respond with, "What is it your not interested in [sic]? Is it increasing your income, financial investments, increasing your knowledge, etc.? Let's spend some time having you visit the school and determine where your interests may lie." [2547]

Recruiters were instructed that when countering these objections and providing information about NAU they should "give buyers enough information, and no more, about your solution and how it will benefit them, to convince them that they are justified in buying." [2548] The training manual stated:

> We must remember that if giving out the information over the phone worked, we would all just do that! Here is what we also need to be reminded of: "*Information does not sell, people do AND people do not buy features, they buy benefits*."
>
> So, the first step to telephone success is to convince ourselves our prospects are calling for help and guidance NOT information. So, let's respond to their "*cry for help*" by enticing them to come in and see the benefits of an education! [emphasis in original].[2549]

The training manual continued, "The best information piece is one that gives NO detailed information and answers NO questions" [emphasis in original]. Instead, the goal of a phone conversation is to "set up a face-to-face interview." [2550]

[2538] National American University, National American University Online Admissions Coordinator Manual (NAU0014290, at NAU0014450).
[2539] Id. at NAU0014353-54).
[2540] Id.
[2541] National American University, 2008, New Admissions Representative Training Manual (NAU0014515, at NAU 0014520) (emphasis in original).
[2542] National American University, National American University Online Admissions Coordinator Manual (NAU0014290, at NAU0014341).
[2543] Id. at NAU0014345).
[2544] Id.
[2545] National American University, 2008, New Admissions Representative Training Manual (NAU0014515, at NAU 0014520).
[2546] Id., at NAU0014539.
[2547] Id., at NAU0014535.
[2548] National American University, National American University Online Admissions Coordinator Manual (NAU0014290, at NAU0014336).
[2549] National American University, 2008, New Admissions Representative Training Manual (NAU0014515, at NAU 0014528).

Recruiters were pushed hard to have a positive first phone call with a prospective student because "it usually costs a university approximately $150 to generate each lead." [2551] "If we let the receptionist take a message and tell the prospect someone will get back to them, the likelihood of them going on and calling another school increases greatly." [2552] The training manual for new admissions representatives noted, "It is important to remember that every business must include good customer service!" [2553] The university suggested finding additional leads at places such as "Hair Salons," "Ethnic Celebrations or Centers," and "Wal-Mart, Target, Kmart, etc.—any stores that may have people that need to get an education." [2554]

The business focus in for-profit colleges' recruiting practices may lead to pressure on recruiters to admit students who should not be attending the school. For example, the Associate Director of NAU's Wichita campus noted that she would be watching several students carefully before issuing refunds because she was concerned they enrolled "to get money & what usually happens is once they receive their FA refund they stop attending classes." [2555]

That pressure may also have led recruiters to lie about the school's degree offerings. In one instance, a recruiter told a prospective student the school had an excellent medical assisting program and got the student to enroll.[2556] After being confused about getting placed in accounting, the student discovered the campus did not yet have approval for the medical assisting program and that the student was instead placed in the school's healthcare management program. In a letter to the school, the student wrote that the admissions representative "lied to me in order to get my business" and that many students had the same thing happen.[2557] In its response to the student complaint, NAU said the student was informed the campus did not yet have a medical assisting program before enrolling and "could have declined" the academic dean's suggestion to take accounting. NAU did not refund the student's money.[2558]

While student complaints may not be representative of the experience of the majority of NAU students, these complaints provide an important perspective on NAU's recruiting practices.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program,

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[2550] Id. at NAU0014538).
[2551] Id.
[2552] Id. at NAU0014538.
[2553] Id.
[2554] Id. at NAU0014590.
[2555] National American University Internal Email, December 2008, re: *WI FA Refund approvals* (NAU0039976, at NAU0039979).
[2556] National American University, May 2009, Student Letter of Complaint (NAU0020222).
[2557] Id. NAU states that the student never contacted the University again, BBB closed the file and the student's account was paid in full.
[2558] National American University External Correspondence, June 2009, *re:* [redacted] (NAU0020229).

take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[2559]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that while some people who enroll in at NAU are not achieving their educational and career goals, overall, the company is doing a much better job of serving students than many of the companies examined.

Retention Rates

Analysis of data provided by NAU indicates that of the 4,445 students who enrolled at NAU in 2008-9, 40.5 percent, or 1,799 students, withdrew by mid-2010.[2560] These withdrawn students were enrolled a median of two and a half months.[2561] Although 4 out of every 10 students withdrew from the school during the period examined, NAU has some of the best student retention rates compared with other for-profit colleges.[2562] Just 39.8 percent of Bachelor's student withdrew, one of the three lowest withdrawal rates for BA programs, and much lower than the 54.3 percent withdrawal rate across all companies. Forty-one percent of Associate degree students withdrew, the lowest 2-year degree withdrawal rate for a regionally accredited school and far below the average of 62.8 withdrawn.

Status of Students Enrolled in National American University in 2008-09, as of 2010					
Degree Level	**Enrollment**	**Percent Completed or Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	2,214	58.9%	41.1%	910	74
Bachelor's Degree	2,231	60.2%	39.8%	889	70
All Students	4,445	59.5%	40.5%	1,799	72

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

2559 Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief,* August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 12, 2012).

2560 Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

2561 Id.

2562 It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

Supplemental data provided by the company indicates that about 29 percent of the NAU's Associate and Bachelor's graduate within 5 years, and about 46 percent graduate within 7 years. These percentages translate to a long-term withdrawal rate of approximately 54 percent.

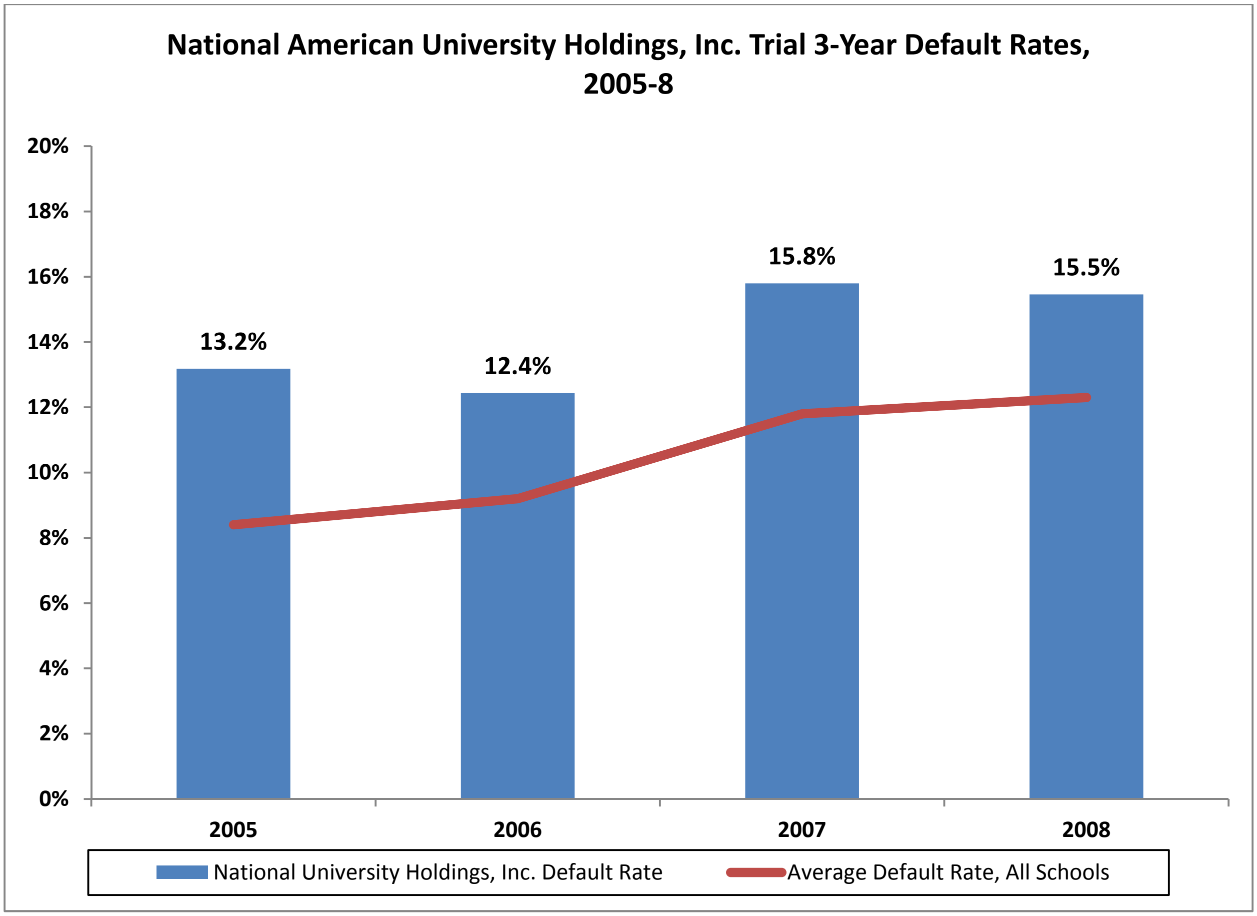
Student Loan Defaults

The number of students leaving NAU with no degree correlates with the rates of student loan defaults by students who previously attended NAU. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[2563]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[2564] In contrast, 1 in 11 students at public and non-profit schools defaulted within the same period.[2565] Students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions and 47 percent.[2566] Almost half of all student loans currently in default are held by students who attended for-profit colleges.[2567]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[2568] This change represents a 32.6 percent increase over 4 years.[2569] NAU's 3-year default rate has similarly increased, growing from 13.2 percent for students entering repayment in 2005 to 15.5 percent for students entering repayment in 2008.[2570] NAU's most recent default rate is below the average 22.6 percent rate of the 30 schools studied by the committee.

[2563] Direct Loan Default Rates, 34 CFR § 668.183(c).
[2564] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html (accessed on July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default by sector.
[2565] Id.
[2566] Id.
[2567] Id.
[2568] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html (accessed July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[2569] Id.
[2570] Id.



Although NAU's default rate is well below the Department of Education's threshold for penalties, the Department's switch to a 3-year cohort default rate raised some eyebrows at the company. When the Association of Private Sector Colleges and Universities, the trade association of for-profit colleges, sent an email alert to its members, then-CFO Ronald Shape asked the school's system director of financial aid to "check to see what impact this will have on NAU's rates." [2571] The director estimated a 14.9 percent 3-year cohort default rate, noting one major problem with this would be that "once the default rate goes above the 10% lenders are hesitant to work with us, [and] if we go over 15% we would lose our alternative loan options with those lenders." [2572]

Instruction and Academics

The quality of any college's academics is difficult to quantify. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.

NAU spent $1,811 per student per year on instruction in 2009, compared to $2,384 on marketing and $1,104 on profit.[2573] The amount that publicly traded, for-profit companies spend on instruction

[2571] National American University Internal Email, January 2008, re: *RE: Alert* (NAU0014695, at NAU0014696).
[2572] National American University Internal Email, January 2008, re: *RE: Alert* (NAU0014695).
[2573] Senate HELP Committee staff analysis. See Appendix 21. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education,

ranges from $892 to $3,969 per student per year. In contrast, public and non-profit schools, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other South Dakota-based colleges spent, on a per student basis, $7,431 at University of South Dakota, $4,530 at the private non-profit Sinte Gleska University, and $3,671 at Western Dakota Tech.[2574]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools investigated by the committee, 80 percent of the faculty is part-time, this percentage is higher in some companies.[2575] NAU is one such company; over 96 percent of its faculty is part-time.[2576] In 2009, NAU employed 730 part-time faculty and 26 full-time faculty.[2577]

Several students complained about the quality of their instructors. In one instance, a student stated that a teacher "lasted about ten minutes and stated that she wouldn't even teach the material in this class to her high school students, and walked out." [2578] The school replaced the teacher with a "bookstore lady" who did not know which books the students would be using and did not have a syllabus. NAU allowed the student to drop the class after the school's normal add/drop period.[2579] In another instance, a student complained about the lack of personal attention from one of her professors, writing:

> I have to admit he is the worst instructor I have had with NAU. I understand he has close to one hundred students in his on line class and I really think this is too much for one instructor and the class should be smaller. I do not feel he knows or understand each of his students enough to know what they need or want out of the class [sic].[2580]

Students also noted problems with the quality of NAU's instructional materials. One student complained about electronic instructional materials that had confusing instructions and broken Web site links.[2581] Another student did not receive books for a class until the week of final exams.[2582] NAU still made the student pay for the class.[2583]

While student complaints may not be representative of the experience of the majority of NAU students, these complaints do provide an important perspective on NAU's academic quality.

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preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.

2574 Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

2575 Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

2576 Id.

2577 Id.

2578 National American University External Correspondence, January 2009, *Letter of Complaint From a Student* (NAU0020215).

2579 Id.

2580 National American University Internal Email, February 2009, *re: RE:* [redacted] (NAU0019375, at NAU0019382).

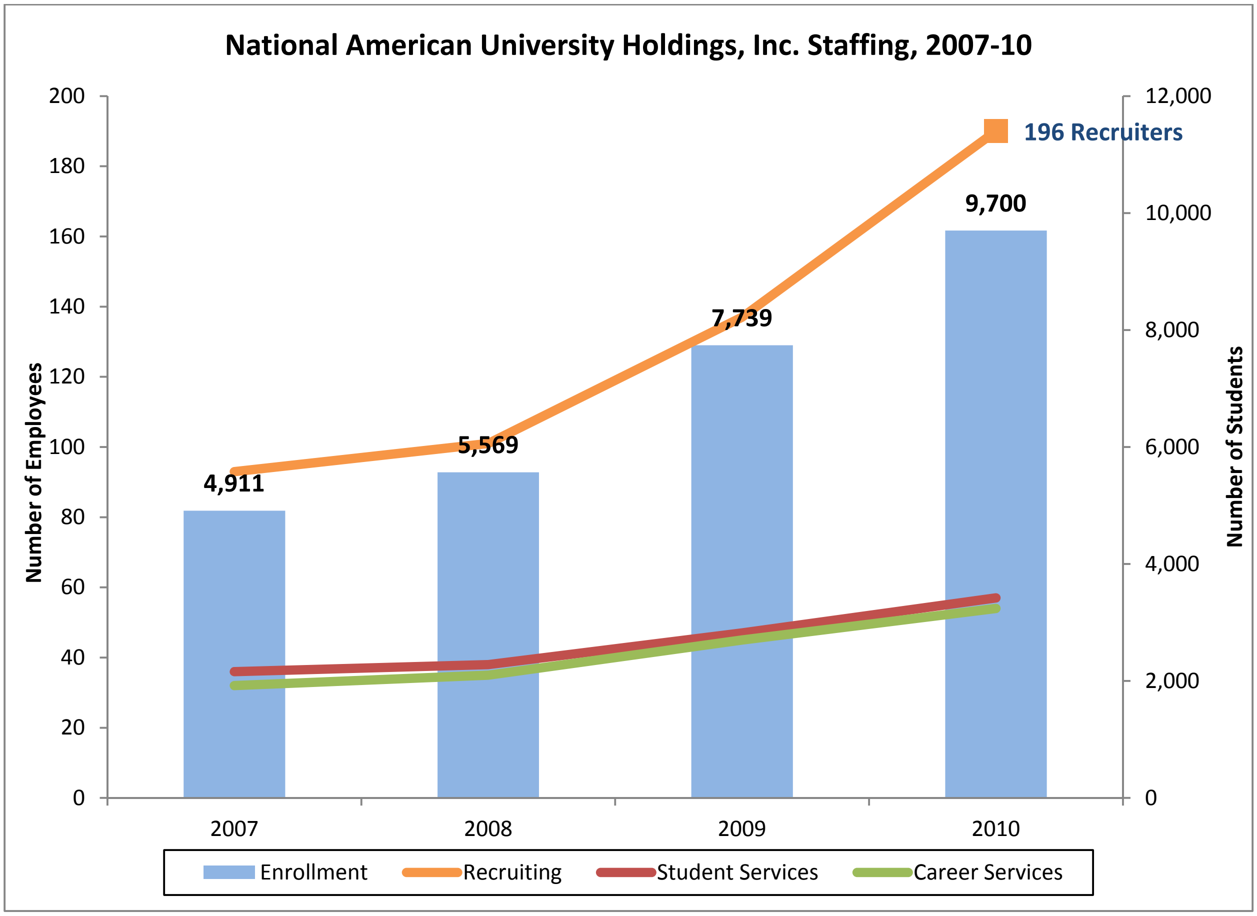
2581 National American University Correspondence, December 2007, *Letter of Complaint from a Student* (NAU0020161).

2582 National American University Correspondence, April 2007, re: *Alleged Delinquent Balance* (NAU0020153). NAU states that the student never responded again and the balance is still due on the account and the University has not collected the amount due.

2583 National American University, April 2007, *Letter from Collections Manager to Former Student* (NAU0020155).

Staffing

While most of the for-profit education companies examined by the committee employed large numbers of recruiters to enroll new students, the companies had far less staff to provide tutoring, remedial services or career counseling and placement. Like others in the sector, NAU's recruiting and admissions employees far outnumber employees in student or career services. In 2010, with 9,700 students, NAU employed 196 recruiting and marketing staff, 57 student services staff and 54 career services and placement staff.[2584] That means each career counselor was responsible for 180 students and each student services staffer was responsible for 170 students. Meanwhile, the company employed one recruiter for every 49 students. NAU states that its recruiters continue to play a student support roll after the initial enrollment.



The low number of student services staff took a toll on students trying to find tutors. One student who struggled in Elementary Algebra was told to set up a time with one of the school's tutors, but none was available.[2585] That same student requested a tutor for another Algebra class but did not receive one until three other students also requested tutoring. However, the assigned tutor was another student who had not attended the first class and could provide little help. When the student complained, the response she received was that "NAU has never committed to or was responsible for supplying any

[2584] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.
[2585] National American University Correspondence, January 2009, *Letter of Complaint from a Student* (NAU0020215). NAU states that the student never responded to the University, did not take the course, and account is paid in full.

type of tutelage or any extra help by the teachers." [2586] NAU's brochure distributed to prospective students claims that "all tutors are professionals with master's degrees or higher" and free "24/7 one-on-one online tutoring" is available for many courses.[2587]

While student complaints may not be representative of the experience of the majority of NAU students, these complaints do provide an important perspective on the quality of NAU's student services.

Regulatory Strategies

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenues come from title IV Federal financial aid programs and that no more than 25 percent of students default within 2 years of entering loan repayment. As discussed in the main body of this report, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal financial aid programs.

Internal documents from a 2010 company "cabinet meeting" explain that, "in regards to the 90/10 ratio, our goal is 75/25. This will mean ramping up our military enrollments and company tuition assistance enrollments." [2588] In fiscal year 2010, the company collected $1.4 million in post-9/11 GI bill funds and $1.6 million in military Tuition Assistance funds. In addition to pursuing military servicemembers and veterans and corporate partnerships.

In 2008, after credit markets froze up and third-party student-loan financing was no longer available, for-profit colleges responded by creating institutional loan programs under which they would lend money to students directly. These programs are sometimes troublesome because they tend to have both high interest rates and a high likelihood of default. For institutional loans made between July 1, 2008 and June 30, 2012, institutions may count about half the value of the loan as revenue on the "10 side" of the 90/10 calculation at the time the money is loaned. After July 1, 2012, institutions may only count the amount of loan repayments they actually receive over the term of the loans. NAU has a small institutional loan program, with only $223,497.69 of institutional loans outstanding as of mid-2010 and only 106 loans originated over the past 5 years.[2589] NAU's institutional loans have a fixed interest rate of 8 percent or lower, significantly less than many other for-profit colleges, with $50 minimum monthly payments and repayment periods not to exceed 10 years.[2590] NAU also helps students find private loans through the FASTChoice program but does not receive any fees in connection with these loans.[2591]

Conclusion

Students attending National American University have significantly better rates of retention than other companies of comparable size. As the most recent company to become publicly traded and to embrace an online model, NAU has not grown at the rate of some publicly traded companies, but enrollment has doubled since the company became publicly traded and the amount spent per student on

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[2586] Id.
[2587] National American University, *Student Manual* (NAU0019525, at NAU0019530).
[2588] National American University, June 2010, *President's Cabinet Meeting Minutes* (NAU0013189).
[2589] National American University, *Response to Document Request No. 27: Description and Explanation* (NAU0014713_0001).
[2590] National American University, *Institutional Loan Rate & Fees* (NAU0018527).
[2591] National American University, *Response to Document Request No. 27: Description and Explanation* (NAU0014713_0001).

instruction is quite low. The company faces challenges in diversifying its sources of revenue for purposes of regulatory compliance and it will be interesting to see if the company can continue to deliver student success as it expands.

Rasmussen College, Inc.

Introduction

Rasmussen Colleges, Incorporated ("Rasmussen") has experienced significant enrollment growth yet has little to show for it, as the company has some of the worst student retention rates of any company examined by the committee. At the same time that 63 percent of students are leaving without completing a degree, taxpayers are investing approximately $185 million a year in the company.

Company Overview

Rasmussen is a privately held, for-profit college that was founded by Walter Rasmussen in 1900. Originally named the Rasmussen Practical School of Business, the first campus was located in Stillwater, MN. Rasmussen is now headquartered in Minnetonka, MN.

Rasmussen has 22 campuses, along with an online division, and offers degree and Certificate programs in health sciences, business, education, justice studies, nursing, and technology and design. [2592] Rasmussen internal documents estimate that approximately 55 percent of students are enrolled online.[2593] Thirty-four percent of Rasmussen students are enrolled in allied health programs, 30 percent in business, 17 percent in justice studies, 11 percent in technology and design, 5 percent in education, and 3 percent in nursing.[2594]

Like more than half of the regionally accredited brands the committee examined, Rasmussen is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC).

The current president of Rasmussen College is Kristi A. Waite, the granddaughter of founder Walter Rasmussen, who was appointed in 1997. However, while retaining a smaller ownership interest, her family no longer controls the company.[2595] Rasmussen is an example of how private equity involvement has influenced a formerly family-owned school.

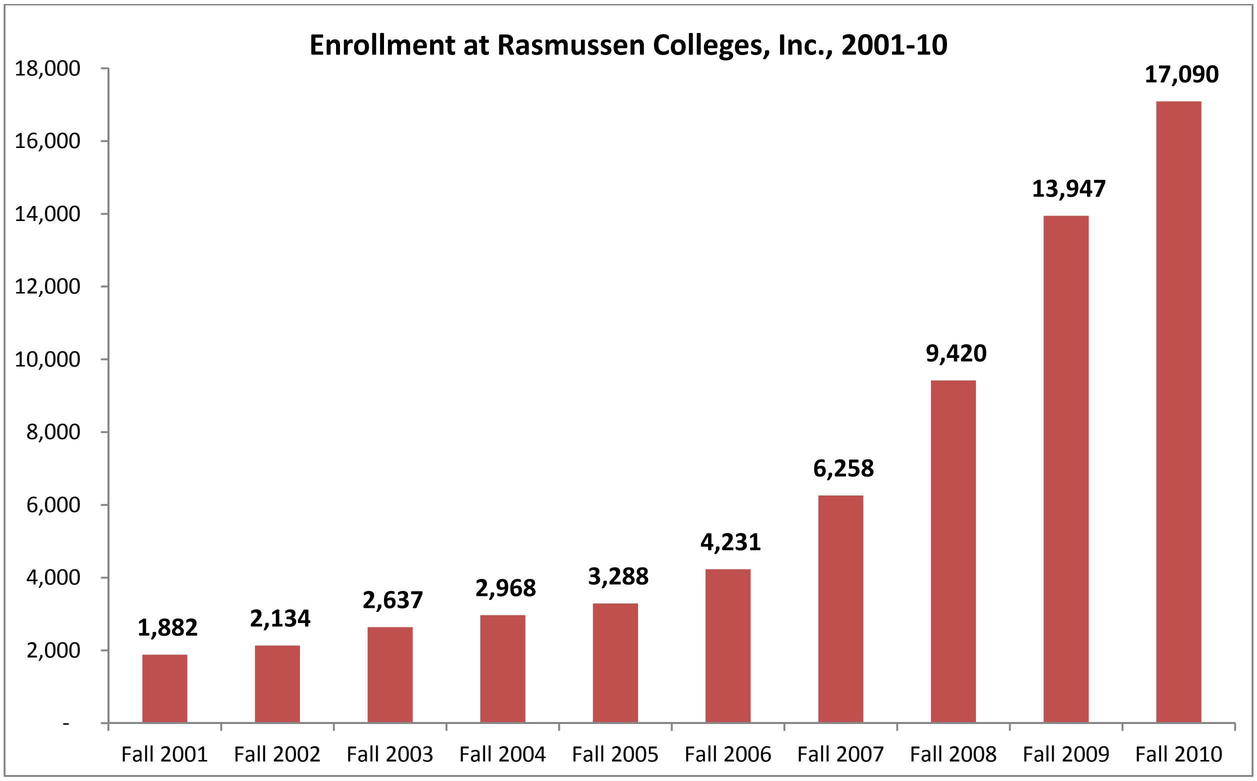
In 2003, Rasmussen was acquired by a company named Collegis after Collegis sold off their higher education IT business.[2596] A private equity firm, the Frontenac Company, made the initial investment to acquire Collegis from its founder and was invested in Rasmussen until 2008.[2597] Current CEO Michael Locke previously served as senior vice president for Collegis.

While Frontenac has sold off its remaining interest, it continues to have a large influence on the company. Robert E. King serves as the chairman of Rasmussen and is the former CEO of The Newtrend Group and Deltak, both prior Frontenac investments, and has partnered with Frontenac in five investments over the last 35 years.[2598] Robert King "entities" own more than a quarter of Rasmussen.[2599]

[2592] For list of campuses see http://www.rasmussen.edu/locations/ (accessed May 12, 2012).
[2593] Rasmussen Internal Presentation, *Rasmussen Overview* (RAS000016400, at RAS000016417).
[2594] Rasmussen Internal Presentation, 2012, *Rasmussen College Vision 2012* (RAS00021447, at RAS000021454).
[2595] Rasmussen Internal Presentation, *Rasmussen Overview* (RAS00016400). Note that all ownership information are based on internal Rasmussen documents and have potentially changed since documents were produced.
[2596] Rasmussen Internal Presentation, *Rasmussen Overview* (RAS00016400, at RAS00016403).
[2597] http://www.frontenac.com/previousinvestments.aspx?cid=9&selectionId=1
[2598] http://www.frontenac.com/previousinvestments.aspx?cid=9&selectionId=1

King also served as a member of the DeVry University board for 16 years. James E. Cowie of Frontenac continues to serve on Rasmussen's board of directors.[2600]

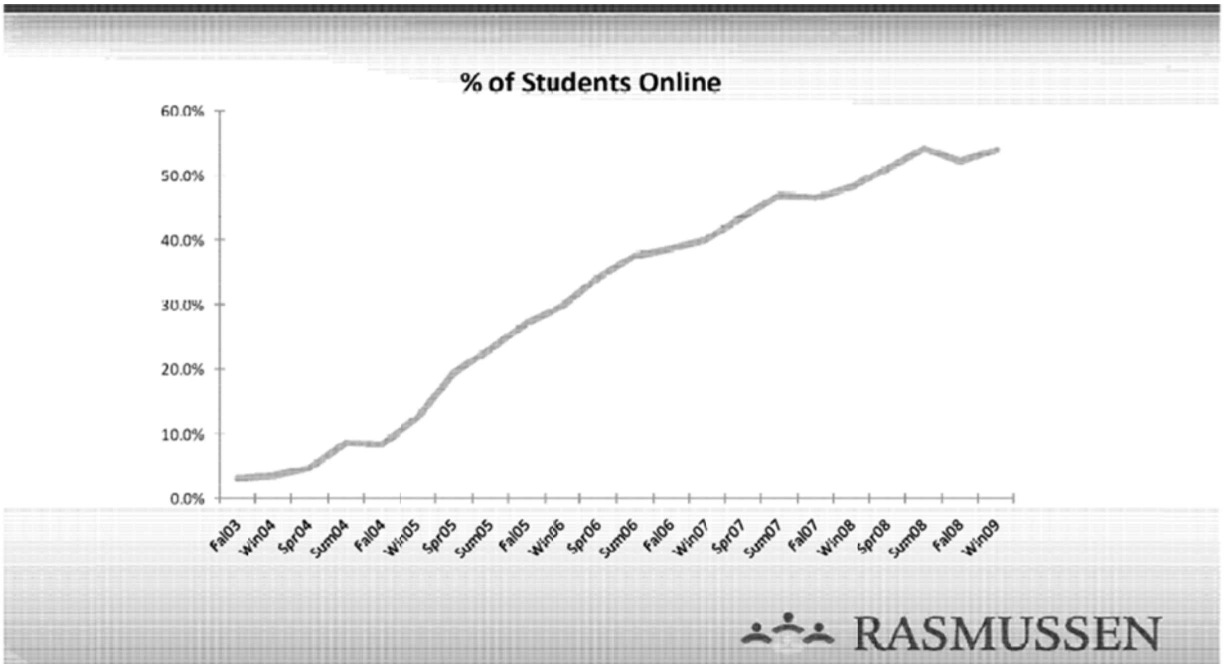
Frontenac is not the only private equity influence on Rasmussen. Former board member and chairman of the private equity firm Madison Dearborn Partners, John Canning Jr., and related "entities" own a substantial portion of Rasmussen.[2601]



The company has grown significantly over the last decade with enrollment increasing more than 500 percent since the company's 2003 purchase, growing from 2,637 students to 17,090 students in 2010.[2602] The percentage of students attending online has also increased fairly rapidly since 2003.

[2599] Rasmussen Internal Presentation, *Rasmussen Overview* (RAS000016400, at RAS00016445). (On file with committee.)
[2600] http://www.frontenac.com/previousinvestments.aspx?cid=9&selectionId=1.
[2601] Rasmussen Internal Presentation, *Rasmussen Overview* (RAS000016400, at RAS00016445). (On file with committee.)

[2602] The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a drop in revenue and profit at some companies. See Appendix 7.



The growth in enrollment has led to growth in revenue. In just 3 years, revenue at Rasmussen grew rapidly, more than tripling from $46.4 million in 2006 to $147.3 million in 2009.[2603]

An internal company presentation states the company's goal as "to be the premier provider of online educational experiences delivering Associate, Bachelor's, and Graduate degree programs through its network of online and local community campuses with $500 [million] in revenue in 2014." [2604]

The company's strategy for achieving this goal includes the following:[2605]

• Grow mature campuses 20 percent+ with new student markets (HS) and new programs.

• Open 2-3 new campuses per year.

• Expand Rasmussen online 75 percent+ per year.

• Manage Expense Growth to be less than revenue growth by a minimum of 5 percent.

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs.[2606] Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to

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[2603] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.
[2604] Rasmussen Internal Presentation, *Rasmussen Overview* (RAS000016400, at RAS00016402).
[2605] Id. at RAS00016407
[2606] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2607] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[2608]

In 2010, Rasmussen reported 78.8 percent of revenue from title IV Federal financial aid programs.[2609] However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education programs.[2610] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 1.8 percent of Rasmussen's revenue, or $4.1 million.[2611] With these funds included, 80.6 percent of Rasmussen's total revenue was comprised of Federal education funds.[2612]

[2607] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

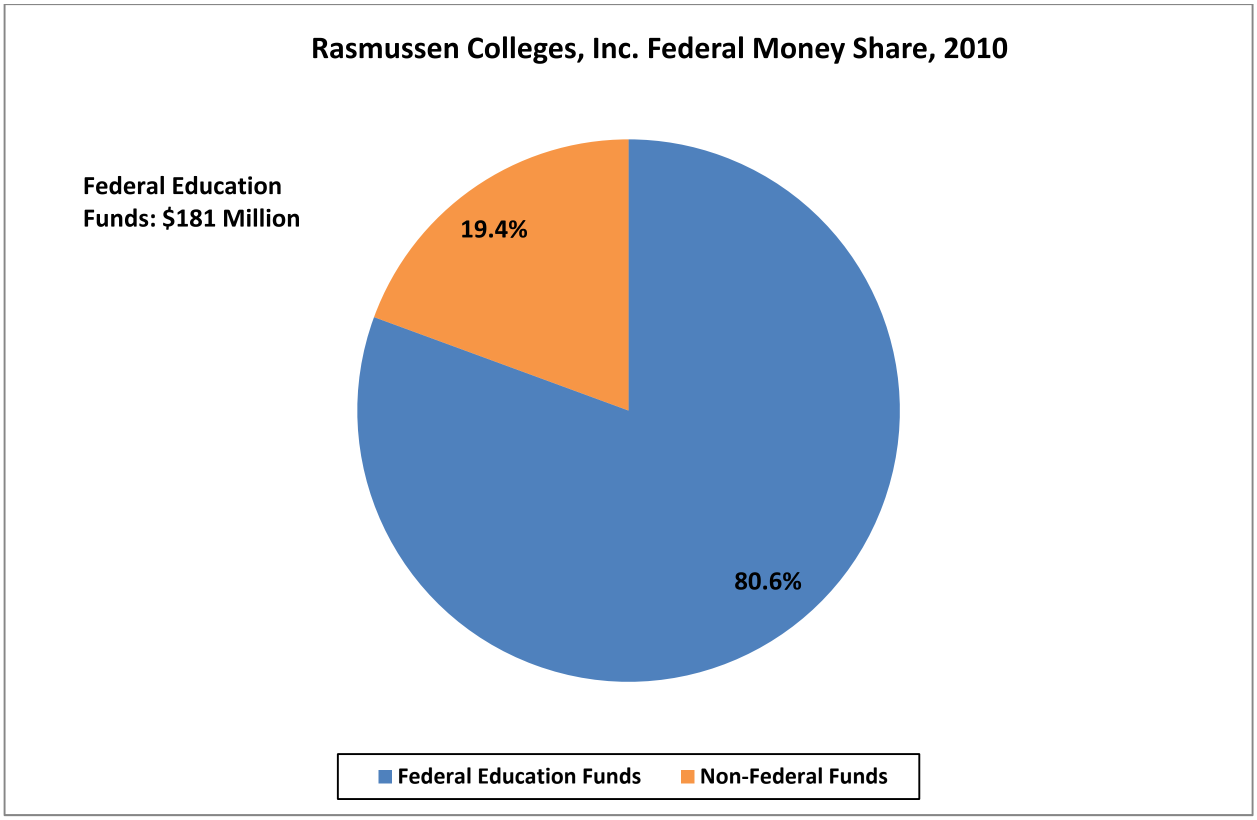
[2608] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[2609] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

[2610] The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for Rasmussen could not be extrapolated from the data the company provided to the committee.

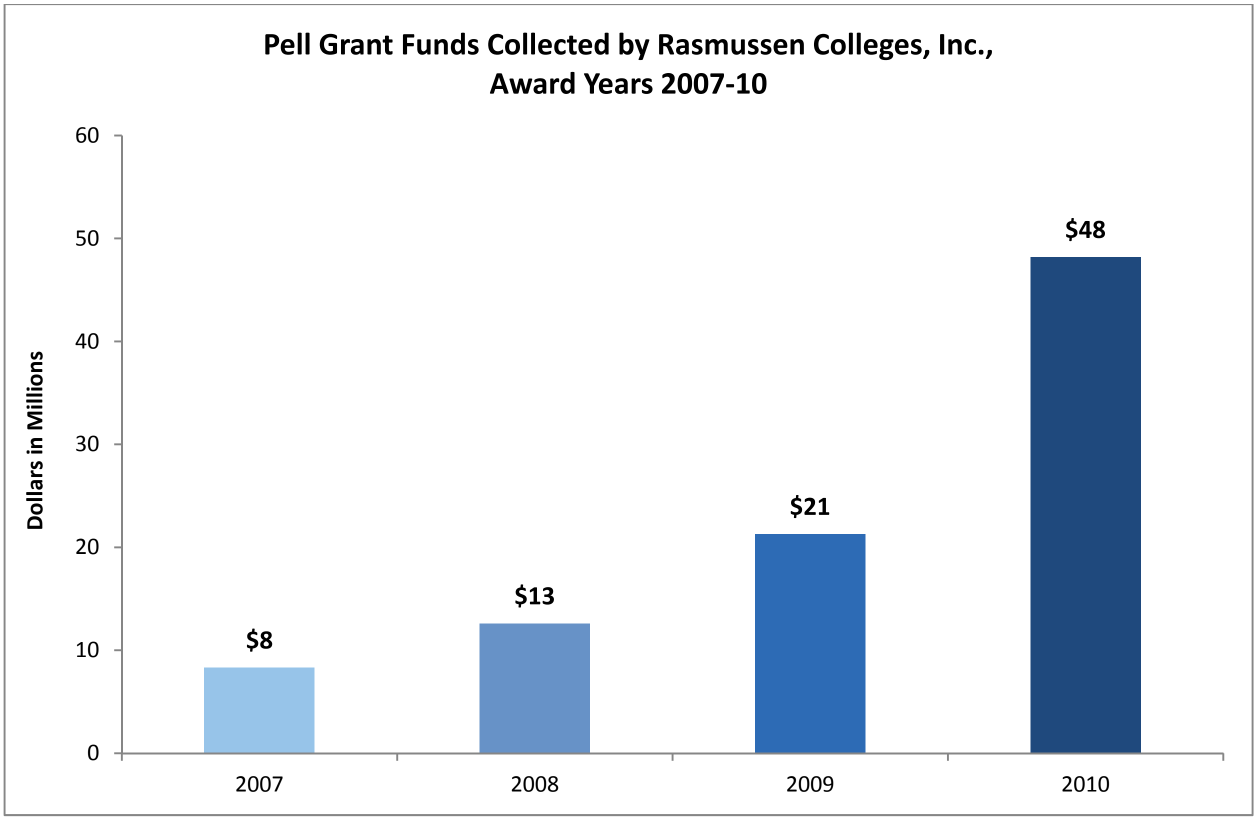
[2611] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[2612] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[2613] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[2613] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.



Rasmussen increased the amount of Pell grant funds it collected by 480 percent in just 3 years, from $8.3 million in 2007 to $48 million in 2010.[2614]

Spending

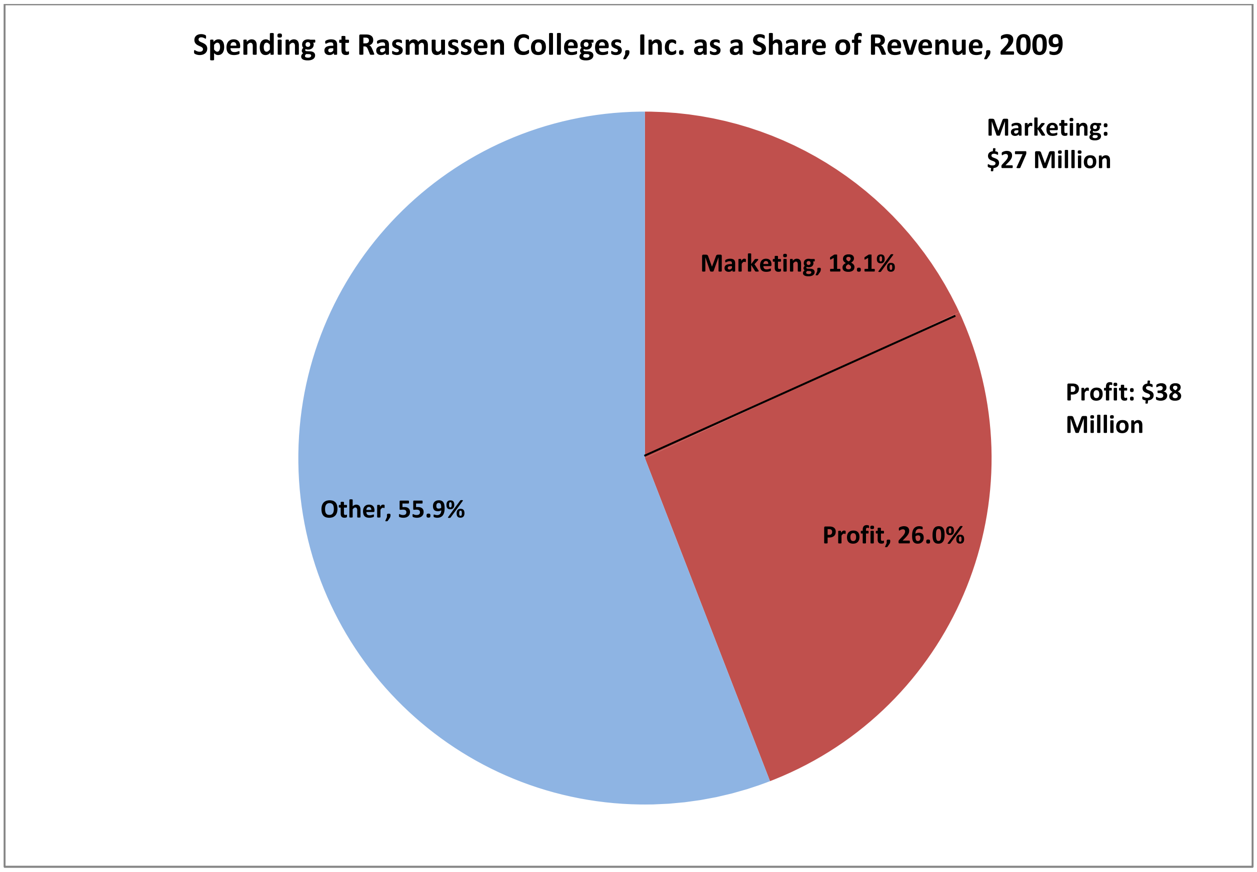
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[2615] During the same period the companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[2616] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

[2614] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

[2615] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

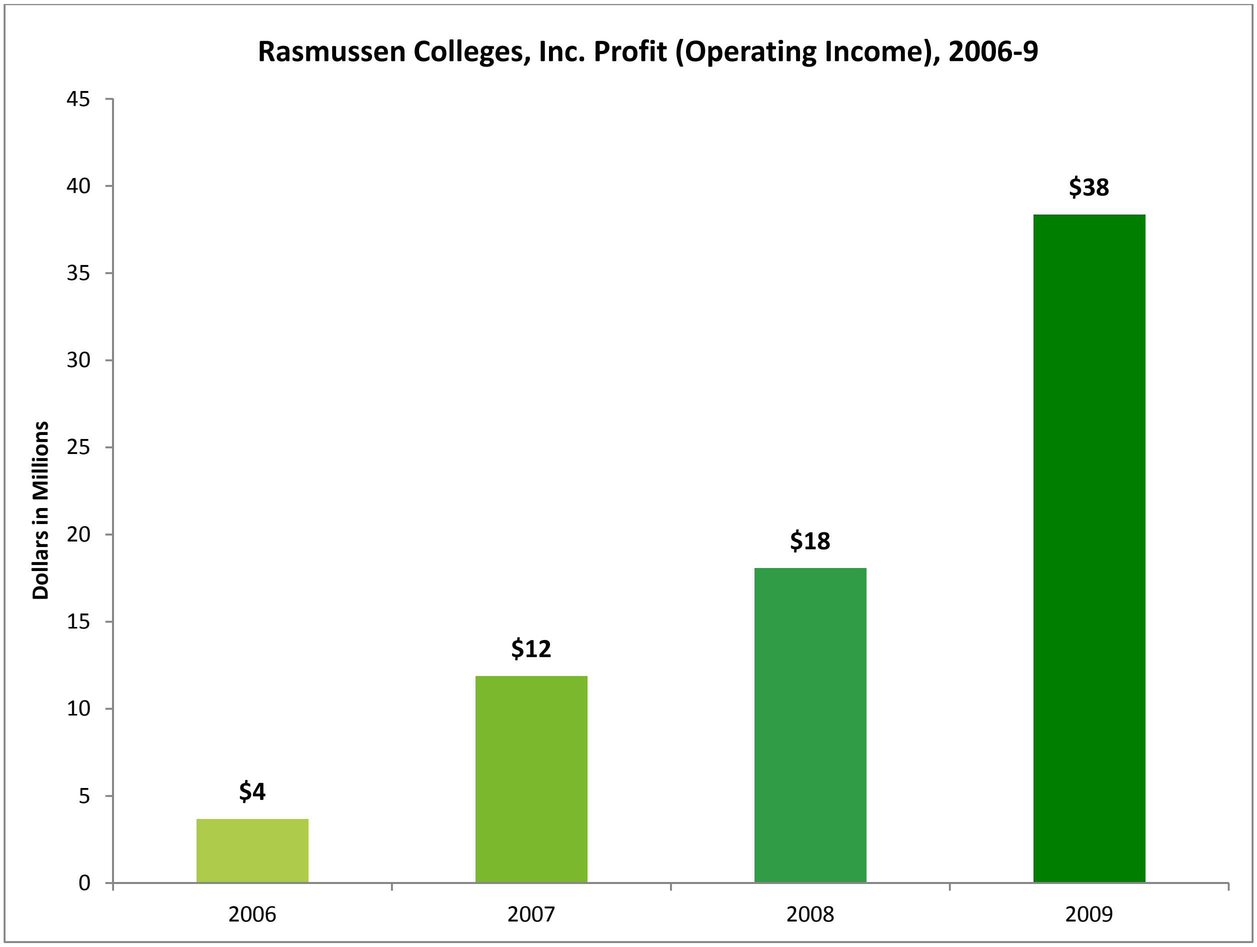
[2616] Senate HELP Committee staff analysis of fiscal year 2009 financial statements and information provided to the committee by each company pursuant to the committee document request of August 5, 2010. Profit is based on operating income. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19. "Other" includes: instruction, faculty salaries, executive compensation, student services, maintenance, administration, facilities and other expenditures.

In 2009, Rasmussen allocated 18.1 percent of its revenue, or $26.6 million, to marketing and recruiting and 26 percent, or $38.3 million, to profit.[2617]



Rasmussen's profit has grown rapidly, from $4 million in 2006 to $38 million in 2009.[2618]

[2617] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.
[2618] Senate HELP Committee staff analysis. See Appendix 18.



Executive Compensation

As a private-held company, Rasmussen is not obligated to release executive compensation figures.

Tuition and Other Academic Charges

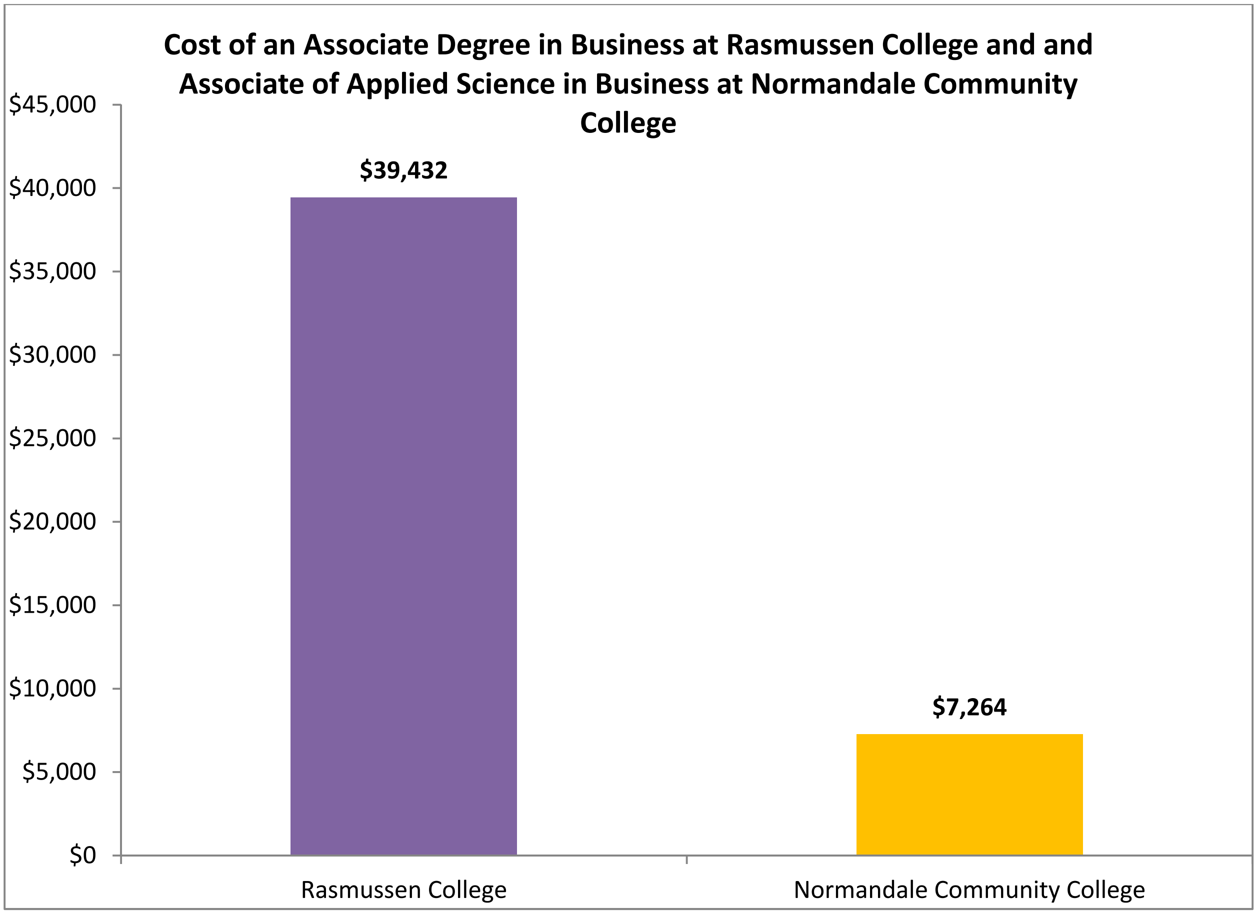
Compared to public colleges offering the same programs, the price of tuition is higher at Rasmussen. An Associate degree in Business Management with Administration at Rasmussen's Minnesota campus costs $39,432.[2619] The same degree from Normandale Community College costs $7,264.[2620] A Bachelor's degree in Business Management from Rasmussen College costs $68,668.[2621] The University of Minnesota costs $56,240 for a Bachelor's in Business.[2622]

2619 See Appendix 14; see also, Rasmussen College, School of Business, http://www.rasmussen.edu/student-investment-disclosure/minnesota/ (accessed July 12, 2012).

2620 See Appendix 14; see also, Normandale Community College, *Normandale Community College*, http://www.normandale.edu/ (accessed July 12, 2012).

2621 See Appendix 14; see also, Rasmussen College, School of Business, http://www.rasmussen.edu/student-investment-disclosure/minnesota/ (accessed July 12, 2012).

2622 See Appendix 14; see also, University of Minnesota, University of Minnesota, http://www1.umn.edu/twincities/index.html (accessed July 12, 2012).



The higher tuition that Rasmussen charges is reflected in the amount of money that Rasmussen collects for each veteran that it enrolls. From 2009-11, Rasmussen trained 681 veterans and received $8.6 million in post-9/11 GI bill benefits, averaging $12,628 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[2623]

From 2008 to 2009, Rasmussen transitioned all campuses from a per-course to a per-credit pricing structure, except Minnesota, which was already operating with a per credit structure.[2624] The new pricing structure led to average tuition increases of between 7 percent and 23 percent.[2625]

Recruiting

Enrollment growth is critical to the business success of for-profit education companies. In order to meet revenue and profit expectations, for-profit colleges recruit as many students as possible to sign up for their programs.

Internal company documents make clear that Rasmussen hires outside firms for lead generation. In these lead generation agreements, Rasmussen contracts with a group to provide some or all of the following information about a potential student: first and last name, mailing address, home, cell and work telephone number, email address, highest degree of education achieved, year achieved the highest

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[2623] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[2624] Rasmussen Internal Pricing, April 2009, *2010 Pricing* (RAS00003172, at RAS00003173).
[2625] Id.

degree of education, the best time to call, desired area of study, degree of interest, and planned start date.[2626] These contracts range in number of lead and cost paid per lead. For example, one 2006 contract noted a price structure of 100 leads per month at a rate of $18 per Qualified Lead for Ground schools and $15.00 per Qualified Lead for Online schools.[2627] These prices appear to have risen in recent years. A 2008 insertion order was for 700 leads at $45/lead ($31,500) for Rasmussen Online.[2628] One 2010 order was for a contract price of 100 leads per month at $40/lead for Rasmussen Online.[2629] An April through December 2009 Insertion Order from one company noted that production of 50 leads would be billed at $37/lead for use at two of Rasmussen's campus ($1,850), a total of 275 leads at $39/lead for another 11 campuses ($10,725), 50 leads at $46/lead for one Florida campus ($2,300), 25 leads at $46/lead for another Florida campus ($1,150), and an additional 500 leads at $46/lead ($23,000) for a sum total of $39,025.[2630] Lead prices in insertion orders submitted to the HELP Committee indicate Rasmussen pays up to $75/lead.[2631]

Rasmussen like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.[2632] This clause severely limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[2633]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll at Rasmussen are not achieving their educational and career goals.

Retention Rates

Information Rasmussen provided to the committee indicates that of the 9,623 students who enrolled at Rasmussen in 2008-9, 63.2 percent, or 6,085 students, withdrew by mid-2010.[2634] These

[2626] Rasmussen, July 2007, Signed Internet Media, Inc. Lead Sales Agreement (RAS00003249, at RAS00003255); Rasmussen, Terms Addendum to Agreement between Deltak edu, Inc. And Affiliate Crew, Inc. (RAS00003266, atRAS00003267); Rasmussen, Lead Generation Insertion Order (RAS00003309, at RAS00003309-10).
[2627] Rasmussen, Terms Addendum to Agreement between Deltak edu, Inc. And Affiliate Crew, Inc. (RAS00003266, at RAS00003272).
[2628] Rasmussen, January 2008, Completed ClassesUSA: Client Insertion Order (RAS00003344).
[2629] Rasmussen, Completed Lead Generation Insertion Order (RAS00003309).
[2630] Rasmussen, March 2009, Completed All Star Directories Insertion Order (RAS00003280).
[2631] Rasmussen, May 2010, Education Dynamics Prospecting Services Advertising Agreement (RAS00003443).
[2632] Rasmussen, *Rasmussen College Enrollment Agreement* (RAS00004438).
[2633] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009 http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_ WEB_090730.pdf
[2634] Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies

withdrawn students were enrolled a median of 5 months.[2635] Rasmussen's retention rates are among the lowest of the companies examined. Associate degree students at Rasmussen, who make up more than three-quarters of its student population, withdrew at a rate of 63 percent, meaning nearly half of students who enrolled in 2008-9, 4,887 students, were gone by mid-2010.[2636] The withdrawal rate for Rasmussen's Bachelor's program, 64.2 percent, is also significantly higher than the average sector-wide Bachelor's withdrawal rate of 54.3 percent. Rasmussen's Associate and Bachelor's program withdrawal rates both rank amongst the 10 worst in the sector.[2637]

Status of Students Enrolled in Rasmussen in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	7,758	7.8%	29.2%	63.0%	4,887	164
Bachelor's Degree	1,865	2.9%	32.9%	64.2%	1,198	164
All Students	9,623	6.8%	29.9%	63.2%	6,085	164

Student Loan Defaults

The large number of students leaving Rasmussen without a degree does not correlate with the relatively low rate of student loan defaults by students who attended Rasmussen. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[2638]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[2639] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2640] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2641] The consequence of this higher rate is that almost half of all student loan defaults nationwide are held by students who attended for-profit colleges.[2642]

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from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

[2635] Additionally, an internal Rasmussen document estimates that 59 percent of starts persist to the third quarter. Rasmussen Internal Presentation, *Maximizing Our Return on Admissions* (RAS0006445, at RAS0006447).

[2636] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7.

[2637] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges. See Appendix 15.

[2638] Direct Loan default rates, 34 CFR 668.183(c).

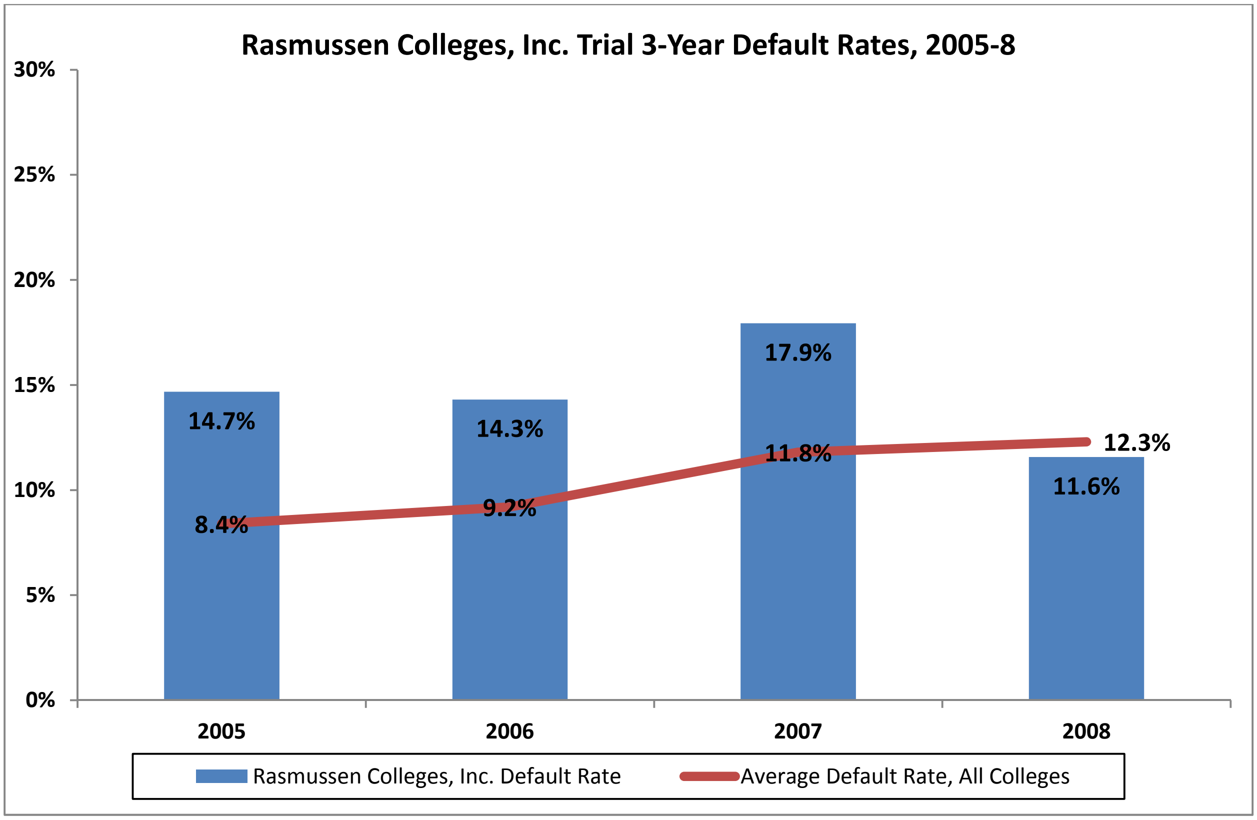
[2639] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.

[2640] Id.

[2641] Id.

[2642] Id.

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[2643] This change represents a 32.6 percent increase over 4 years.[2644] Rasmussen was one of only four schools whose 3-year default rate dropped from 2005 to 2008. Rasmussen's default rate was 14.7 percent for students entering repayment in 2005 and 11.6 percent for students entering repayment in 2008.



The default rate for some Rasmussen programs is markedly higher. These include: Network Support (45 percent), Child Care Specialists (26 percent default rate), Pharmacy Technician (26 percent), and Criminal Justice (22 percent).[2645]

It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. From 2005 to March 2008, Rasmussen contracted with General Revenue Corporation (GRC), a subsidiary of Sallie Mae, to operate its default management.[2646] GRC operates call centers with hundreds of employees trained to "cure" student defaults. When a student is in forbearance their loan balances continue to grow as the result of accumulating interest but default is averted both for the student and the company. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

[2643] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[2644] Id.
[2645] Rasmussen, January 2010, *Default Rates, A three year look* (RAS00004360).
[2646] Rasmussen, January 2010, *Default Rates, A three year look* (RAS00004360).

According to internal company emails GRC did a poor job when they were first hired by Rassmussen and cut its fees in half for its service.[2647]

After March 2008 Rasmussen decided to centralize default management.[2648] This centralization of default management included engaging with private investigators for skip tracing and signature gathering.[2649] Skip tracing is the process of locating a borrower's whereabouts whose contact information is not known. The private investigators performed skip tracing on every borrower at a rate of $25 per student, and were tasked with attaining two signatures per student at a rate of $50 per student within Minnesota and $75 per student in other States.[2650] The company asserts that it no longer utilizes private investigators.

Instruction and Academics

The quality of any college's academics is difficult to quantify. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures. By looking at the instructional cost that all sectors of higher education report to the Department of Education, it is possible to compare spending on actual instruction.

Rasmussen spent $4,801 per student on instruction in 2009, compared to $6,261 on marketing and $9,017 on profit.[2651] The amount that privately held companies the committee examined spend on instruction ranges from $1,118 to $6,389 per student per year.[2652] In contrast, public and non-profit schools generally spend a higher amount per student on instruction, while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other Minnesota-based colleges spent, on a per student basis, $13,247 at the University of Minnesota, $4,208 at Normandale Community College, and $11,361 at the University of St Thomas.[2653]

In a June 2010 presentation informing Rasmussen management of the upcoming HELP Committee's hearings on for-profit schools, Department of Education rulemaking, and increased media attention on for-profit schools, the presenter highlighted the need for increasing spending on its public relations message. The presentation states:

> Rapid expansion of institutional research office, government relations and public advocacy efforts. We will redeploy resources from other key areas. Nothing more

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[2647] Rasmussen Internal Email, February 2008, re: *RE: CCA Cohort Default Rate* (RAS00024382).
[2648] Rasmussen Internal Email, January 2010, *Default Rates, A three year look* (RAS00004360).
[2649] Id.
[2650] Rasmussen Internal Presentation, Default Management Department (RAS00004301, at RAS00004314).
[2651] Marketing figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment. See Appendix 21.
[2652] Id. Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.
[2653] See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

important … Funding institutional research and government relations means other things will not be funded.[2654]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee investigated, 80 percent of the faculty is part-time.[2655] In 2010, Rasmussen employed 265 full-time and 1,214 part-time faculty.[2656] Thus, more than 80 percent of Rasmussen's faculty was employed on a part-time basis.[2657] Such disparity between part-time and full-time faculty is more commonly seen at larger publicly-traded, for-profit education companies.

A school that dedicates relatively little of its revenue to teaching students, on its face, raises serious questions about the quality of the education it provides. Students and employers expect to be able to trust that institutions of higher education, especially career-focused education, are teaching skills that are valued in the workplace with appropriate integrity and rigor. Undercover observation and student complaints reveal that many for-profit schools have curriculums that do not challenge students, academic integrity policies that are sparsely enforced, and teaching interactions that in some cases do not lead to successful student learning and outcomes.

In a 2011 investigation, undercover investigators from the U.S. Government Accountability Office ("GAO") enrolled in 12 different online colleges using fictitious identities and academic credentials. Rasmussen was one of the schools visited by the GAO. Agents enrolled in two different courses at Rasmussen University. These agents repeatedly submitted plagiarized work for each of those courses.

Several assignments submitted by GAO agents were given full or partial credit even when the professors noted that the assignment was plagiarized. For instance, in an Introduction to Business course at Rasmussen, the GAO agent submitted answers to an assignment copied directly from the Bureau of Labor Statistics' Web site.[2658] The teacher gave 24.5 out of 30 points for the assignment. Even after acknowledging that the answers were not written by the student, the teacher seemed less concerned with cheating and lack of original thought than with the fact that the student plagiarized not relevant information (ostensibly plagiarizing the *right* information would have been ok). The teacher said:

> It appears that you copied and pasted from the website. By doing so you put a lot of extra information that I didn't need. Next time I would prefer if you would read the information and only include what is needed. I know that this was a hard assignment though. Everyone struggled with it.[2659]

[2654] Rasmussen Internal Presentation, June 2010, Operating in the New World (RAS00038658, at RAS00038684, RAS00038688).
[2655] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[2656] Id.
[2657] Id.
[2658] GAO Investigation Documentation, *The Gross Domestic Product* (HQ-4600695).
[2659] GAO Investigation Documentation, January 2011, *Record of Analysis: Rasmussen –IB—Email 3* (HQ-4610903).

Rasmussen's policy required that no credit be granted for the first dishonest assignment and removal from the course after the second. Rasmussen did not follow its own academic honesty policies in response to the plagiarized work of the GAO agents.[2660]

A student complaint reflected concern regarding academic quality. "I wish to express to you my disgust and disdain for how this institution comports itself. It has been my experience that the few instructors who go above and beyond to assist their students are an anomaly … This will be my last term, as I can no longer justify the onerous expense to teach myself from tutorials posted on YouTube."[2661]

While student complaints may not be representative of the experience of the majority of Rasmussen students, these complaints do provide an important perspective on Rasmussen's academic quality.

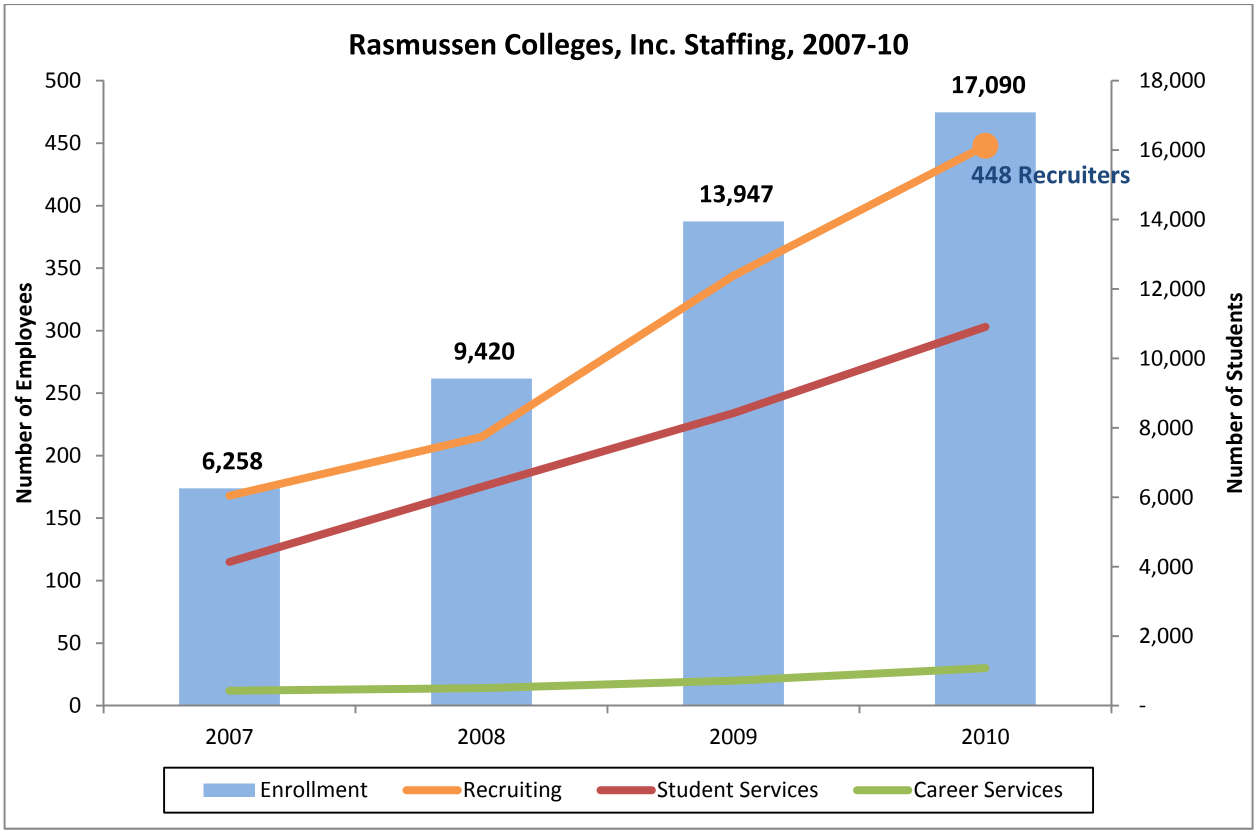
Staffing

While for-profit education companies employ large numbers of recruiters to enroll new students, these companies frequently employ far less staff to provide tutoring, remedial services, or career counseling and placement. In 2010, with 17,090 students, Rasmussen employed 448 recruiters, 30 career services employees, and 303 student services employees.[2662] That means each career counselor was responsible for 570 students and each student services staffer was responsible for 56 students. Meanwhile, the company employed one recruiter for every 38 students.

[2660] U.S. Government Accountability Office, *For Profit Schools: Experiences of Undercover Students Enrolled in Online Classes at Selected Colleges*, Report to the Chairman, Committee on Health, Education, Labor, and Pensions, October 2011, http://www.gao.gov/assets/590/586456.pdf.

[2661] Rasmussen Internal Email, August 2010, re: *FW: My Opinion* (RAS00046545).

[2662] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.



Regulatory Strategies

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenue come from title IV Federal financial aid programs and that no more than 25 percent of students default within 2 years of entering loan repayment.

As discussed in the main body of this report, some companies, including Rasmussen, lower their reported default rates by placing students in forbearances and deferments to delay default. Moreover, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal financial aid programs.[2663]

90/10

An internal Rasmussen memo details the company's 90/10 concerns with its Florida campuses and states that for fiscal year 2009 "with no changes in price and the increase in Pell and loans, our 90/10 would increase to 101.2%." [2664] The memo discussed five potential options for fiscal year 2008: [2665]

[2663] Institutional loan programs are among the tactics used by companies to mitigate the impact of 90/10. Rasmussen did put into place an institutional loan program but it was small and did not last long. In total they disbursed $51,792 for 10 students. Rasmussen, Letter to Chairman Harkin, September 16, 2010.
[2664] Rasmussen Internal Correspondence, May 2008, re: *Student Financial Services* (RAS00011756).
[2665] For-profit colleges must report their 90/10 ratio by assigned Office of Postsecondary Education ID numbers (OPEID), rather than by campus or corporate owner. Many education companies, including Rassmussen, have many assigned OPEIDs. One OPEID may consist of a main campus and multiple branch campuses. Schools with multiple OPEID numbers can shift campuses to different OPEID numbers and classify them as branches even when they are many States apart.

1. Plan to push Title IV funds to FY 2009 to manage to 87.4% for FY 2008
2. Merge the Ocala OPEID with the St. Cloud OPEID. While this would accomplish our goal of reducing 90/10 dramatically for Florida, we would also lose an OPEID, which is not desirable
3. Move a Minnesota branch campus to be a branch off of Ocala…The state grant received by Lake Elmo is sufficient to offset the 90/10 issues in Florida but it might not be able to sustain the protection on 90/10 over the long term
4. Increase price to off-set the increase in loans and Pell that will happen on July 1, 2008. If this was done alone in Florida, it would require a 20 percent increase in price to create enough of a gap to allow us to have a 90/10 of 86.6 percent
5. Pull in the Florida State Grant early to offset Title IV dollars.[2666]

A later July 2008 memo placed all title IV loans at Florida schools on "hold" to ensure that the school complied with the 90/10 requirement.[2667] The ECASLA exception allowed Rasmussen to drop their 90/10 for their Florida campuses from an estimated 86 percent to an estimated 75 percent.[2668]

Gainful Employment [2669]

According to an email from George Fogel, Rasmussen's vice president of Compliance and Financial Services, to CEO Michael Locke, concern over the proposed gainful employment regulation led to consideration of a range of actions in order to come into compliance with the proposed regulation, including requiring students to carry more credits or make cash payments:

> **On buying debt:** "In terms of how we address the gainful employment issue, we have several options. First, is offering a scholarship to our graduates to "buy" down their debt. This will be costly, however, as we discussed it is on the back of our drops. My guess is this will only be a short term fix if we can do it at all as the department or Congress will "fix" this and not led this kind of discounting (much in the same way as you can't pay off defaulting loans)."
>
> **On lowering tuition:** "Obviously we can lower our tuition across the board, if we did that, it would be disastrous to revenue. We would have to drop our tuition by almost in half."
>
> **On course/credit? minimums:** "Alternatively, we can require students to take three or more classes and essentially kill the two course taker. This will drive up Pell since they will be taking more credit, it will also get rid of a lot of excess funds that part time students can receive, plus students would get out in the work force faster."
>
> **On cash payments:** "Also, we could require students to make a large cash payment while in school, whether cash or credit card. If we required students to pay $1000 in cash ever [sic] quarter, we would fix 90/10 and would take the debt gap down by almost 50%."

2666 Id. See also Rasmussen Internal Email, January 2009, re: *our 3 Fla. campuses?* (RAS00011144).
2667 Rasmussen Internal Email, June 2008, re: *90/10 Funds Hold for Summer Term* (RAS00010515) See also Rasmussen Internal Email, August 2008, re: *RE: BACH STUDENTS* (RAS00008219).
2668 Rasmussen Internal Email, August 2008, re: *RE: HEA Reauthorized*! (RAS00010941).
2669 On June 30, 2012, the District Court for the District of Columbia struck down the gainful employment rule stating that the Department had failed to provide sufficient justification for the requirement that 35 percent of students are repaying loans. Association of Private Colleges and Universities v. Duncan, 2012 DC D 1:11-CV-01314-RC U, p. 29-31, available at http://big.assets.huffingtonpost.com/judgeordergainful.pdf (accessed July 6, 2012).

On loan repayment: "Finally, probably the best way to avoid this regulation is to continue to have our grads pay their loans. Excluding the Florida schools, at 4.9%, it would indicate that the vast majority of our grads are able to pay their loans. Obviously, there are may [sic] different levers we can manipulate to manage this. Some are less painful than others." [2670]

Conclusion

Like many others in the sector, Rasmussen's enrollment increased rapidly over the past decade. Much of this growth came after the company's 2003 acquisition by the private equity company Frontenac. Additionally, Rasmussen has received increasing amounts of Federal financial aid dollars, at least $185 million in 2010, and realized significant increases in profit. However, the company's programs are costly and students attending Rasmussen have some of the worst retention rates of any company examined by the committee, with more than 63 percent of students leaving with no degree. While Rasmussen has made some minor improvements, including an orientation program, and makes a greater investment in spending on instruction and student services than many for-profit colleges examined, it is unclear whether taxpayers or students are obtaining value from their investment in the company.

[2670] Rasmussen Internal Email, February 2010, re: *RE: Requested Docs* (RAS00021237).

Strayer University

Introduction

Like many for-profit education companies, Strayer Education, Inc. has experienced steady growth in student enrollment, Federal funds collected, and profit realized in recent years. However, the company's performance, measured by student withdrawal and default rates, is one of the best of any company examined, and it appears that students are faring well at this degree based for-profit college.

Company Profile

Strayer Education, Inc. ("Strayer") is a publicly traded, for-profit education company headquartered in Herndon, VA. Strayer owns and operates Strayer University with 92 campuses in 24 States, and an online division. Strayer offers degree and certificate programs in accounting, business, criminal justice, economics, information systems, management, public administration, health services administration, and education. Between 50 and 60 percent of Strayer's students are enrolled online.[2671]

Founded as a business training school by Irving Strayer in Baltimore in 1892, Strayer began offering Bachelor's degrees in 1969. The company became publicly traded in 1996. From 2001 to 2005 the company was primarily owned by New Mountain Capital and DB Capital Partners, the private equity arm of Deutsche bank.[2672] Robert S. Silberman became chief executive officer of Strayer in 2000 as part of the New Mountain investment and continues in that role.[2673]

Strayer is regionally accredited by the Middle States Commission on Higher Education (MSC). When Strayer was initially accredited by MSC in 1981 it enrolled 1,800 students.

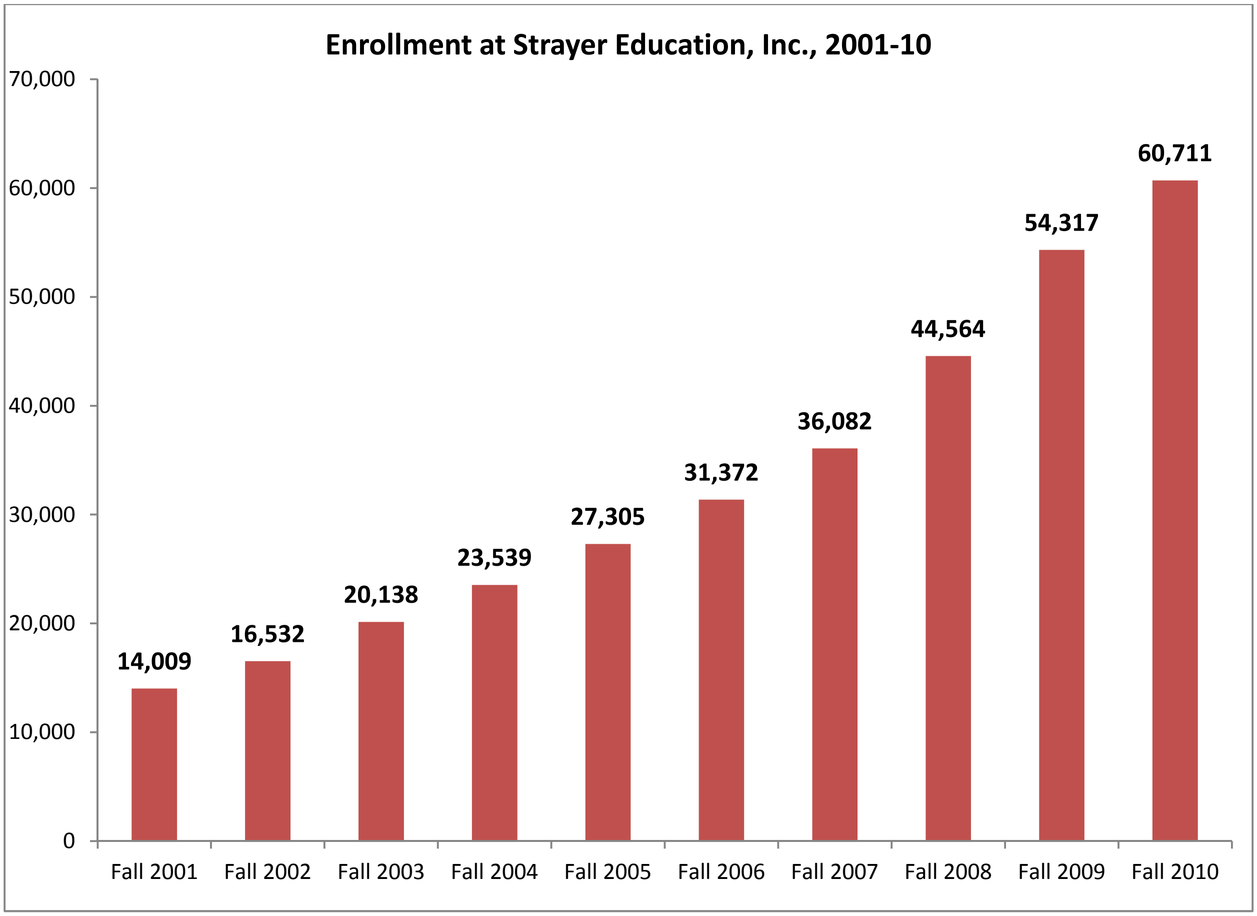
Strayer grew significantly over the last decade, with enrollment increasing by more than 300 percent since 2001. In the fall of 2001, Strayer enrolled 14,009 students and by fall 2010 Strayer enrolled 60,711 students.[2674]

[2671] Strayer Education, Inc., *Strayer Education, Inc. Reports First Quarter 2012 Revenues and Earnings; and Spring 2012 Enrollments*, March 31, 2012 http://www.strayereducation.com/releasedetail.cfm?ReleaseID=667552 (accessed June 25, 2012).

[2672] New Mountain Capital, *New Mountain Partners, L.P., with DB Capital Partners, Makes Significant Investment in Strayer Education, Inc.*, November 29, 2000 http://www.newmountaincapital.com/press/20001129.html (accessed June 25, 2012); New Mountain Capital, *Our Portfolio Companies: Strayer Education, Inc.*,2012 http://www.newmountaincapital.com/portfolio_companies.php?lv=strayer_desc (accessed June 25, 2012).

[2673] The board of directors of Strayer includes William Brock (former Senator from Tennessee and former Secretary of Labor), Robert Johnson (founder, Black Entertainment Television), Charlotte Beason (Executive Director, Kentucky Board of Nursing), John Casteen (President Emeritus of the University of Virginia), David Coulter (Managing Director and Senior Advisor, Warburg Pincus, LLC), Robert Grusky (Founder and Managing Member Hope Capital Management, LLC), Todd Milano (President and CEO, Central Pennsylvania College), G. Thomas Waite (Treasurer and CFO, Humane Society of the United States), and J. David Wargo (President, Wargo & Company, Inc.). The company's board of directors also includes: Mark N. Green (CEO, Fair Isaac Corporation), Michael Linton (Executive VP, FMN Technologies), Michael Lomax (CEO and President, United Negro College Fund), Jody G. Miller (CEO and President, Business Talent Group), Stephen G. Shank (Founder, former Chairman and CEO, Capella Education Company), Andrew M. Slavitt (CEO, Ingenix), David. W. Smith (Retired CEO, NCS Pearson Inc.), Jeffery W. Taylor (Senior VP, U.S. Government Policy and Investor Relations, Pearson plc), and Darrell R. Tukua (Retired Partner, KPMG LLP).

[2674] The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student



The growth in enrollment led to growth in revenue. Revenue at Strayer more than doubled in 3 years, from $318 million in 2007 to $636.7 million in 2010.[2675]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2676] Together, the 30

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enrollment. This has also led to a drop in revenue and profit at some companies. According to filings with the SEC, as of the fall 2011, Strayer enrolled 54,233.

Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.

[2675] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

[2676] "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[2677]

In 2010, Strayer reported 77.7 percent of revenue from title IV Federal financial aid programs.[2678] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.[2679] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 7.1 percent of Strayer's revenue, or $43.2 million.[2680] With these funds included, 84.9 percent of Strayer's total revenue was comprised of Federal education funds.[2681]

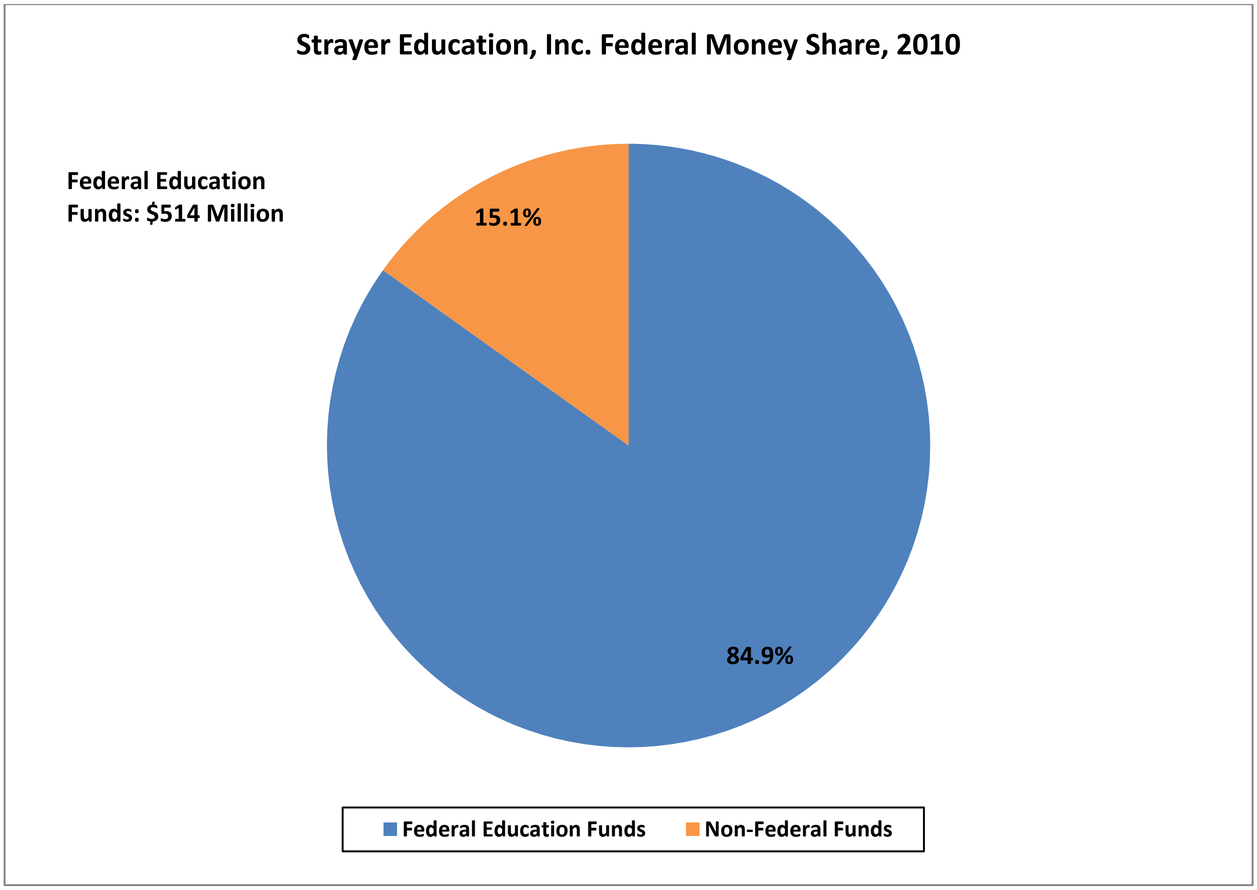
[2677] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[2678] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

[2679] The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for Strayer could not be extrapolated from the data the company provided to the committee.

[2680] As explained in Appendix 11 and 12, data provided by the Department of Defense and the Department of Veterans Affairs was provided on an award year basis for both 2009-10 and 2010-11. Committee staff calculated the average monthly amount of benefits collected from DOD and VA for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-2011 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year.

[2681] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.

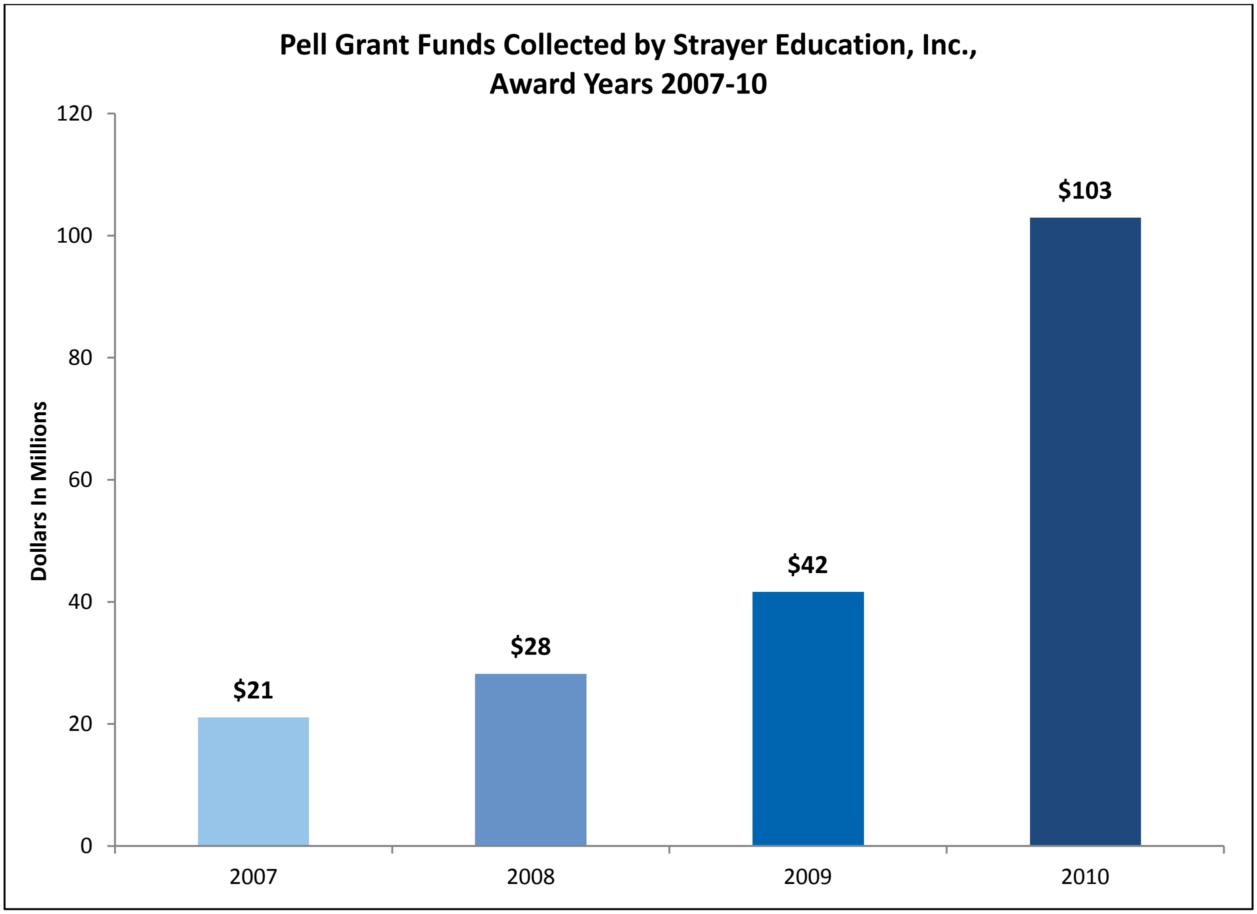


As one of the top 10 recipients of post-9/11 GI bill funds, Strayer has been able to maintain a lower ratio of revenue from non-title IV Federal sources than many other companies examined.

The 25 percent of Strayer students who receive tuition help from their employers or associations are also a critical source of non-Federal financial aid revenue.[2682] Corporate partners include Verizon Wireless, Lowe's, Carquest, the FBI National Academy of Training, Nestle USA, ADP, USAA, CISCO Corporation, and the BIC Corporation.[2683] These partnerships and employee financed tuition programs demonstrate that Strayer and its students currently have a reasonable reputation amongst employers.

Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[2684] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[2682] Q2 2011 Earnings Call
[2683] *See* Q3 2009 Earnings Call, Q4 2009 Earnings Call, Q1 2010 Earnings Call, and Q2 2011 Earnings Call
[2684] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.



Strayer more than quadrupled the amount of Pell grant funds it collected in just 3 years, from $21 million in 2007 to $102.9 million in 2010.[2685]

Spending

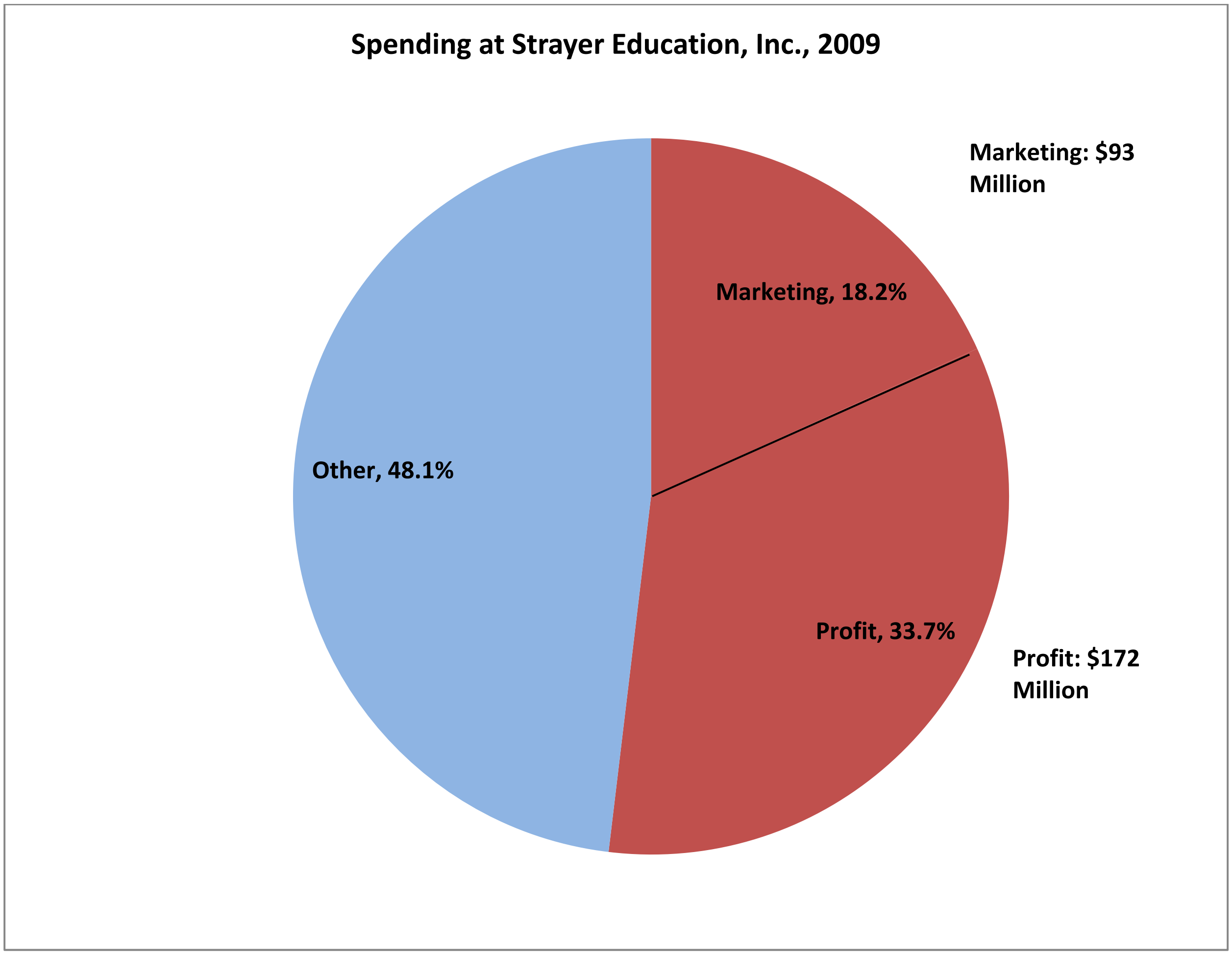
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[2686] During the same period, the companies allocated 23 percent of revenue to marketing and recruiting ($3.7 billion) and 19.7 percent to profit ($3.2 billion).[2687]

[2685] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html See Appendix 13.

[2686] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

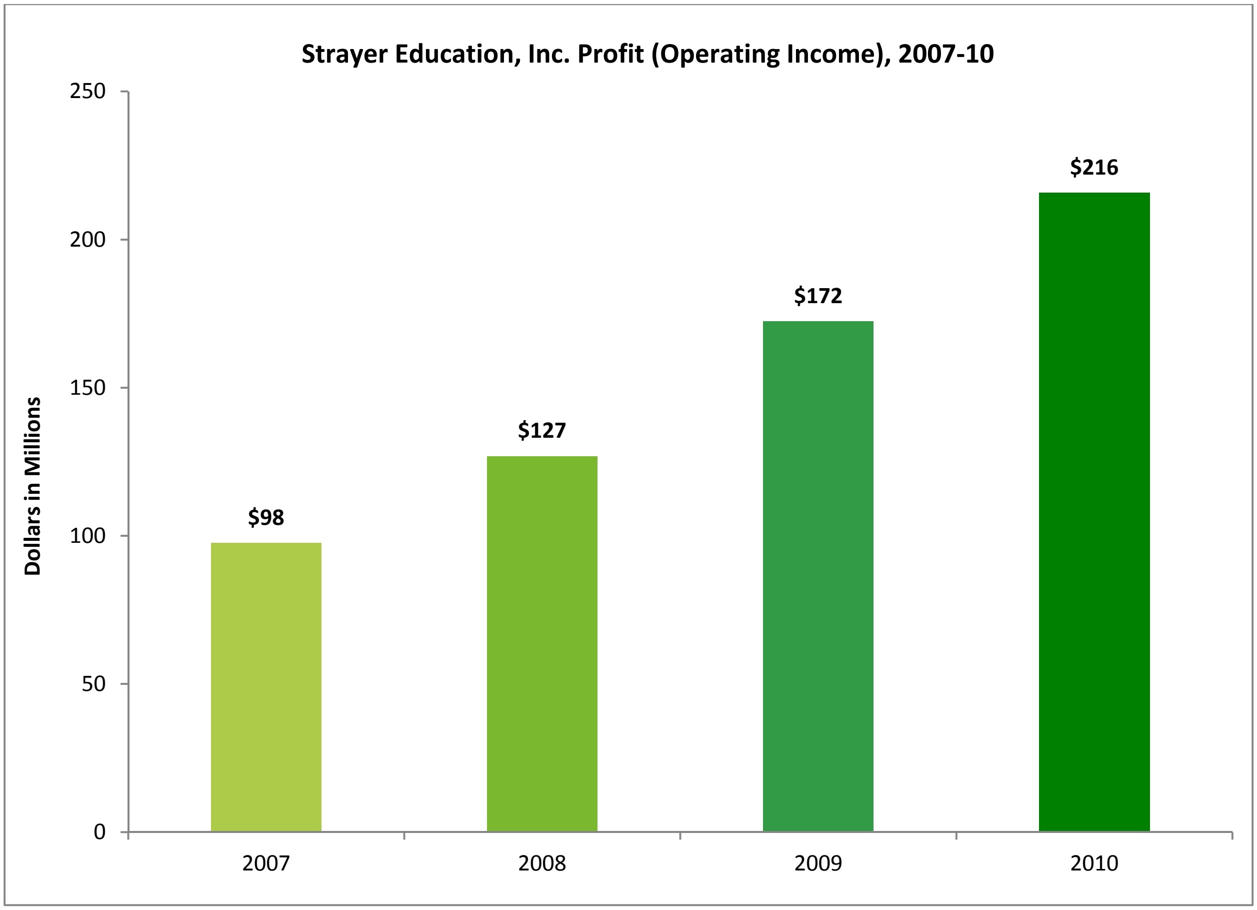
[2687] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit is based on operating income.

The percentage of revenue Strayer allocates to profit exceeds the for-profit sector average by a considerable margin. In fiscal year 2009, Strayer devoted 33.7 percent of revenues to profit, whereas on average the 30 for-profit schools examined allocated 19.4 percent to profit. Strayer also devoted 18.2 percent of revenue, or $93.3 million, to marketing and recruiting.



In 2009, Strayer devoted a total of $265.6 million to marketing, recruiting and profit. The amount of profit Strayer generated also rose rapidly, more than doubling from $98 million in 2006 to $216 million in 2010.[2688]

[2688] Senate HELP Committee staff analysis. See Appendix 18.



Executive Compensation

Executives at Strayer, like most for-profit executives, are more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[2689] The chief executive officers of the large publicly traded, for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[2690]

Executive	Title	2009 Compensation	2010 Compensation
Robert S. Silberman	Chairman & CEO	$41,489,800	$1,549,800
Karl McDonnell	President & COO	$10,839,800	$1,029,800
Mark C. Brown	Executive VP & CFO	$857,800	$959,800
Dr. Sondra F. Stallard	President, Strayer University	$734,800	$799,800
Sonya G. Udler	SVP, Corporate Communications	$601,711	$1,663,785
Total		$54,523,911	$6,002,985[2691]

[2689] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.
[2690] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.
[2691] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.

In 2009, Strayer CEO Robert S. Silberman received $41.5 million in compensation, the highest compensation received by any industry executive that year.[2692] While the package is payable over a 10 year period and is notably higher than the $1.5 million he received in 2010, it is over 58 times as much as the compensation of the President of the University of Virginia, who received $703,648 in total compensation for 2009-10.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is more expensive at Strayer. A Bachelor's degree in Business Administration costs $72,800 at Strayer University,[2693] while a Bachelor's degree in Business Administration costs $51,912 at the University of Virginia.[2694] Similarly, an Associate's degree in Business Management cost $36,500 at Strayer,[2695] but $9,587 at Northern Virginia Community College.[2696]

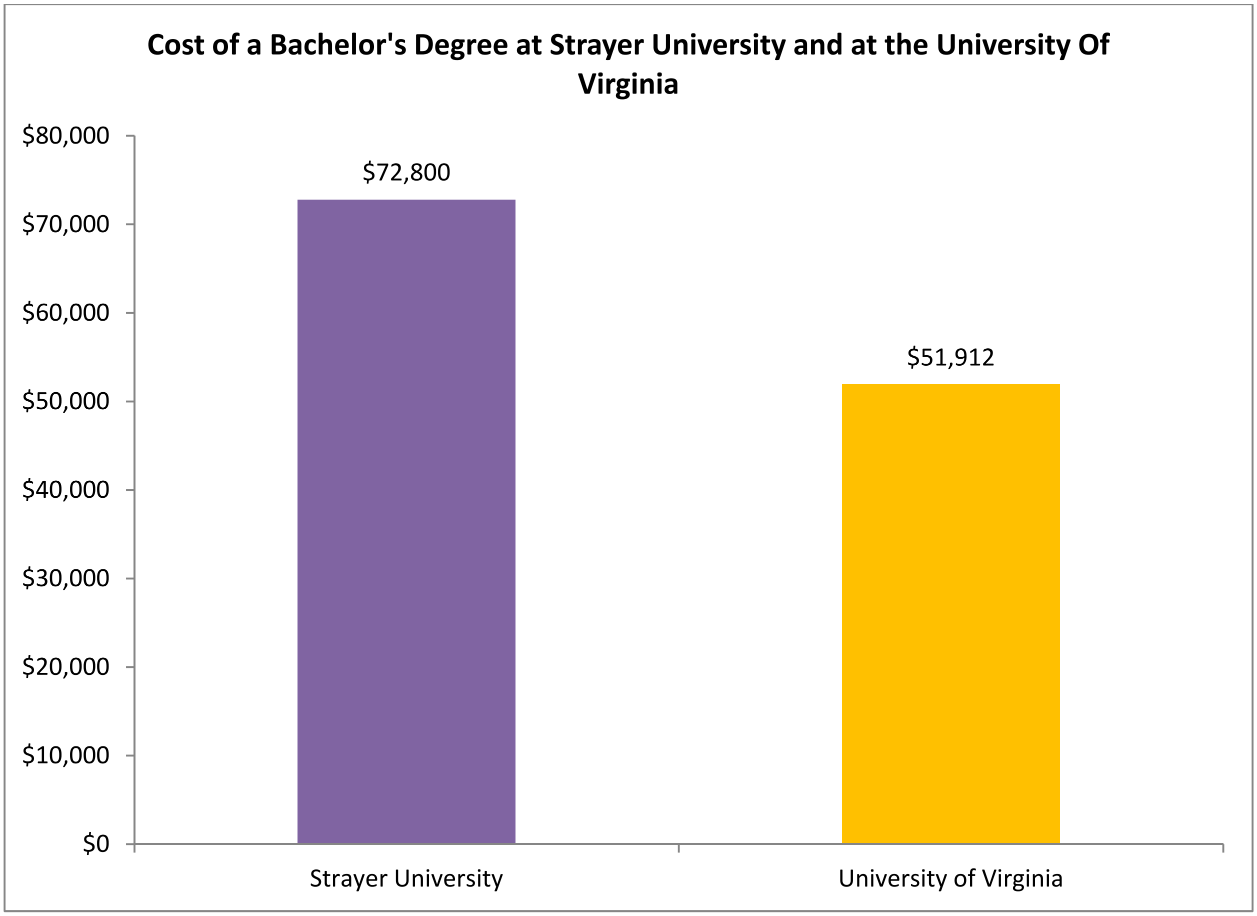
[2692] Id.

[2693] See Appendix 14; see also, Strayer University, *Bachelor of Business Administration*, http://www.strayer.edu/academic-programs-list#node-162 (accessed July 12, 2012).

[2694] See Appendix 14; see also, University of Virginia, University of Virginia, http://www.virginia.edu/ (accessed July 12, 2012).

[2695] See Appendix 14; see also, Strayer University, *Degree Program List*, http://www.strayer.edu/academic-programs-list (accessed July 12, 2012).

[2696] See Appendix 14; see also, Northern Virginia Community College, *Northern Virginia Community College*, http://www.nvcc.edu/index.html (accessed July 12, 2012).



The higher tuition that Strayer charges is reflected in the amount of money that Strayer collects for each veteran that it enrolls. From 2009-11, Strayer trained 9,453 veterans and received $80.2 million in post-9/11 GI bill benefits, averaging $8,485 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[2697]

Over the last 11 years it has been standard practice for Strayer to increase tuition 5 percent each year.[2698]

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[2699]

[2697] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.

[2698] 2009 Q3 Earnings Call; 2011 Q2 Earnings Call.

[2699] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 25, 2012).

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll at Strayer are not achieving their educational and career goals.

Retention Rates

Information Strayer provided to the committee indicates that of the 41,230 students who enrolled at Strayer in 2008-9, 32.2 percent, or 13,258 students, withdrew by mid-2010. These students withdrew in a median of 6 months.[2700] An analysis of these metrics indicates that while some people who enroll at Strayer are not achieving their educational and career goals, overall, the company is doing a much better job of serving students than most of the companies examined.

Strayer's withdrawal rate is significantly lower than the overall withdrawal rate of 54.4 percent, and is significantly lower when compared to other large publicly traded, for-profit education companies. With just 34 percent of Bachelor's degree students withdrawing in the period analyzed, Strayer has the lowest withdrawal rate of any 4-year program examined. However, like other companies examined by the committee, Strayer has a much higher withdrawal rate in the Associate program, fully 14 percent higher than in the Bachelor's degree program.

Status of Students Enrolled in Strayer Education, Inc. in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	6,683	13.5%	37.8%	48.8%	3,258	119
Bachelor's Degree	23,540	8.9%	57.0%	34.1%	8,035	189
Master's Degree	11,007	25.1%	57.0%	17.9%	1,965	210
All Students[2701]	41,230	13.9%	53.9%	32.2%	13,258	175

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdrew after mid-2010 when the data was produced.

[2700] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

[2701] The committee analyzed data for students who enrolled at each company between July 1, 2008 and June 30, 2009. Students enrolled in Strayer prior to July 1, 2008 (including students who enrolled for the term starting June 30, 2008) were not included. If those students had been included, the number of students withdrawn by June 30, 2008 would be just 27.8 percent while more students would also have completed the program.

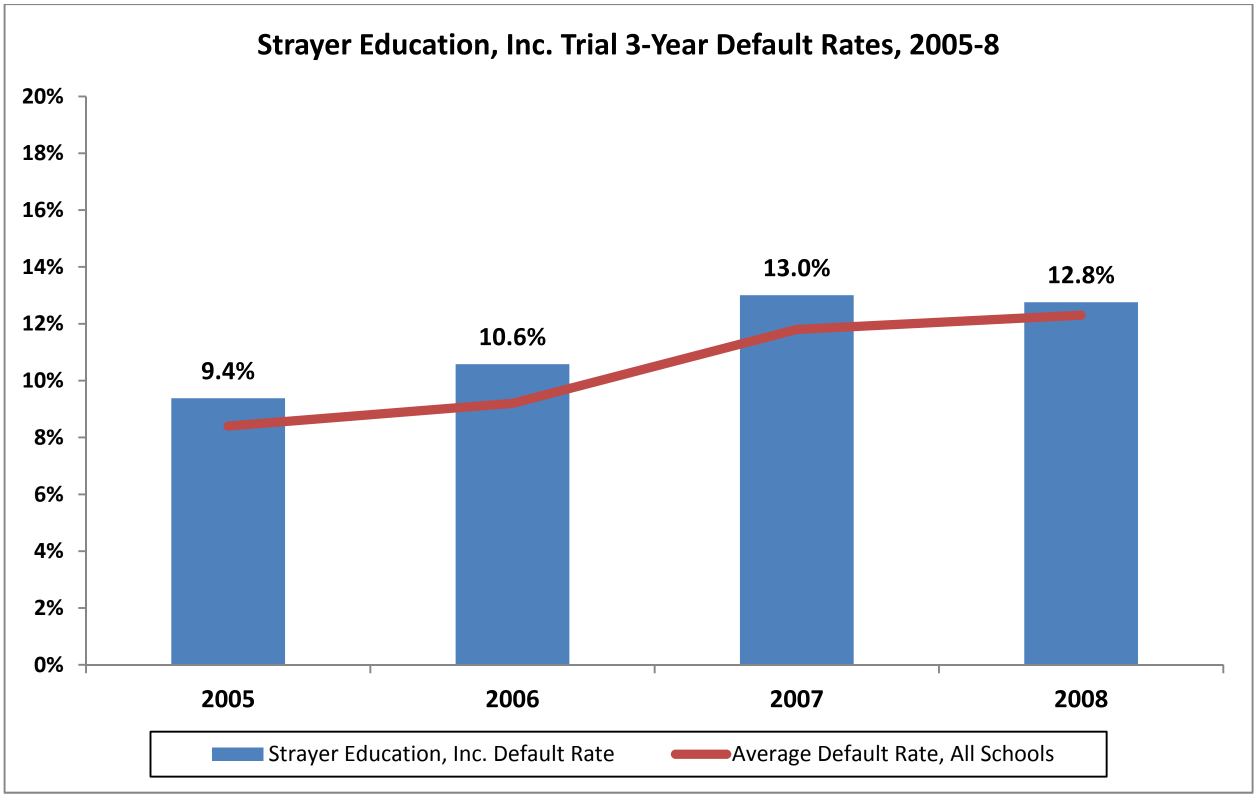
Student Loan Defaults

The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[2702]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[2703] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2704] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2705] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[2706]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[2707] This change represents a 32.6 percent increase over 4 years.[2708] Although Strayer's 3-year default rate has gradually increased over the last 4 years, growing from 9.4 percent for students entering repayment in 2005 to 12.8 percent for students entering repayment in 2008, overall, Strayer's default rate is far below the 22.3 percent average 3-year default rate for the for-profit education sector and closely tracks the default rate for all schools.

[2702] Direct Loan default rates, 34 CFR § 668.183(c).
[2703] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[2704] Id.
[2705] Id.
[2706] Id.
[2707] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[2708]Department of Education 3-year cohort default rate, for students entering repayment in fiscal years 2005, 2006, 2007 and 2008.



It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Strayer has invested large amounts into default management, primarily through the General Revenue Corporation ("GRC"), a subsidiary of Sallie Mae. According to internal Strayer documents, the goal is to have a 2-year default rate of 5 percent and a 3-year default rate of 10 percent.[2709] These documents present three main options for preventing student default: deferment, forbearance and income-based repayment.[2710] However, they also note that income based repayment is "very cumbersome to qualify, so GRC never recommends in alone [sic]. [Students] will apply in conjunction with deferment or forbearance." [2711]

Strayer students "cured" by GRC are primarily pushed into forbearance or deferment. In 2010, of the 687 students cured by GRC, 30.8 percent were put into deferment and 53.7 percent were put into forbearance.[2712] When a student is in forbearance their loan balances continue to grow as the result of accumulating interest, but default is averted both for the student and the company. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

Instruction and Academics

The quality of any college's academics is difficult to quantify. However the amount that a school spends on instruction per student compared to other spending is a useful measure.

[2709] Email from Strayer University Director of Student Financial Services, January 13, 2010 (SC-HELP-015284, at SC-HELP-015273).
[2710] Id. at SC-HELP- 015284
[2711] Id.
[2712] In 2009, 24.6 percent were put into deferment and 56.3 percent were put into forbearance.

Strayer spent $1,329 per student on instruction in 2009, compared to $2,448 per student on marketing and $4,520 per student on profit.[2713] The amount that publicly traded, for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. In contrast, public and non-profit 4-year colleges and universities generally spend a higher amount per student on instruction. By comparison, on a per student basis, the University of Virginia spent $14,567 per student, Northern Virginia Community College spent $3,850 per student and Liberty University spent $1,957 per student.[2714]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools examined by the committee, 80 percent of the faculty is part-time.[2715] Strayer is one such company with 83 percent of its faculty employed part-time.[2716] In 2010, the company employed 423 full-time and 2,048 part-time faculty.[2717]

[2713] Senate HELP Committee staff analysis. See Appendix 21. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students."

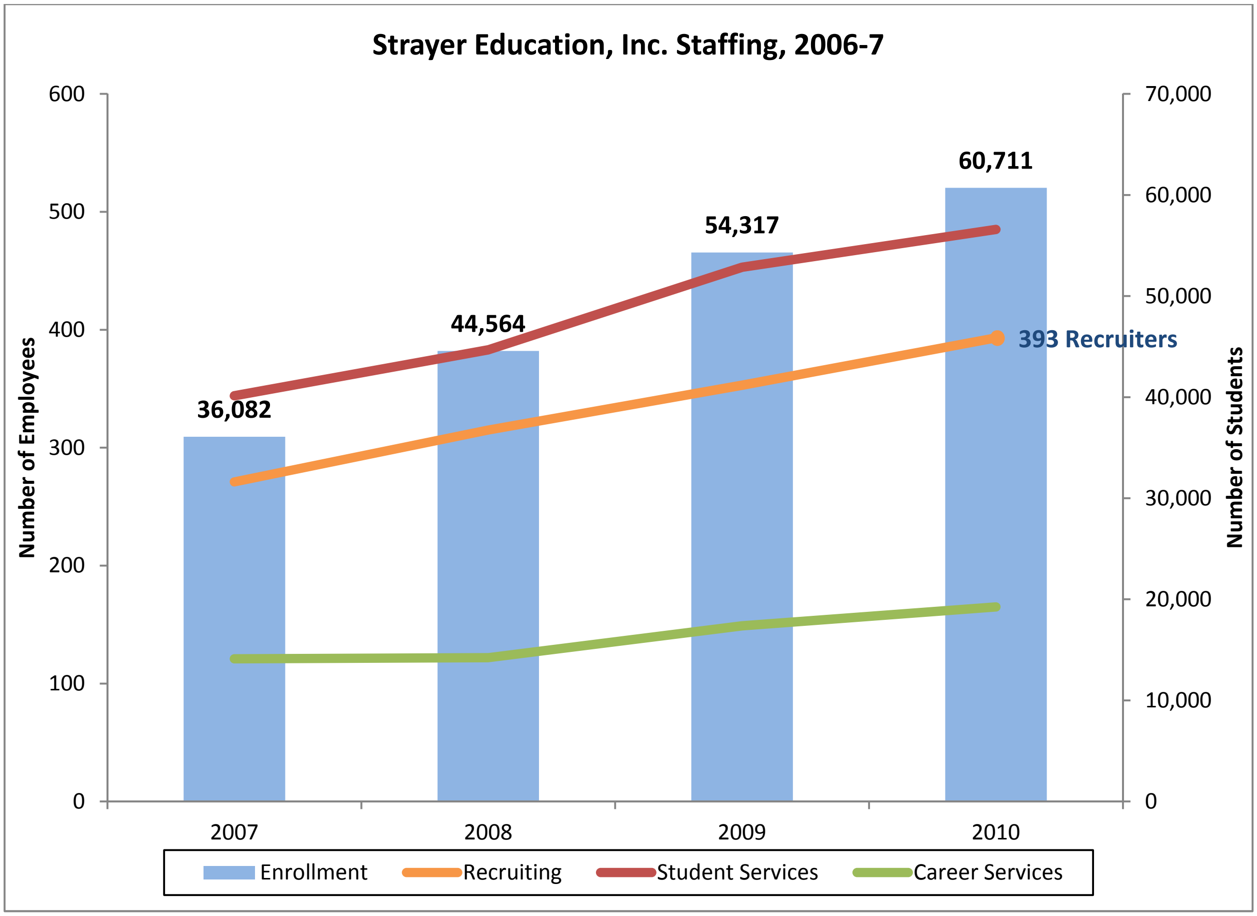
[2714] Senate HELP Committee staff analysis. See Appendix 23.

[2715] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

[2716] Id.

[2717] Id. At Strayer a full-time faculty member teaches 12 courses per year, Q3 2009 Earnings Call.

Staffing



While for-profit education companies employed large numbers of recruiters to enroll new students, the companies had far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 60,711 students, Strayer employed 393 recruiters, 165 career services employees, and 485 student services employees.[2718] Strayer employs far fewer recruiters than some similarly sized companies, and has more student services representatives than recruiters and more career counselors per student than most other companies examined which may play a significant role in the success of its students. Each career counselor was responsible for 368 students and each student services staffer was responsible for 125 students. Meanwhile, the company employed one recruiter for every 154 students.

Conclusion

Students attending Strayer have significantly better rates of retention than other companies of comparable size. While Strayer allocates an extremely high portion of revenue to profit, and a relatively small amount to per student instruction, the students that it enrolls appear to be faring much better than at many companies the committee examined. Strayer has grown rapidly in recent years, crossing the $100 million mark for Pell grant dollars received in 2010, but has done so in a steady and even manner that appears to be representative of the general operational approach of the company. Strayer appears to

[2718] Id. See Appendix 7 and Appendix 24.

have better controls on recruiting practices and a more robust set of student services than many other companies, particularly publicly traded companies, the committee examined. The company has also earned the confidence of a number of employers that provide tuition assistance for their employees to attend the school. This in turn helps the company to be better positioned with regard to regulatory compliance than many other publicly traded companies. As a result, students attending Strayer-owned colleges appear to be faring much better than at many companies examined and the company had the lowest withdrawal rate for Bachelor's students of any company examined. In view of these above average outcomes, the company's overall lack of cooperation with the committee was surprising.

Trident University, Inc. (TUI)

Introduction

Trident University, Inc. ("TUI") is a relatively new for-profit education company that offers primarily online 4-year degrees. Like many for-profit education companies, TUI has experienced steady growth in student enrollment, Federal funds collected and profit realized in recent years. The company has faced challenges in addressing concerns raised by its accreditor, but at this time appears to have relatively low rates of student withdrawals.

Company Overview

TUI is a privately held for-profit education company based in Cypress, CA.[2719] TUI operates exclusively online and has no campus.[2720] The company offers Bachelor's, Master's and Doctoral degrees in the fields of business administration, education, health sciences, and information systems.[2721] TUI is regionally accredited by the Western Association of Schools and Colleges (WASC).[2722]

TUI was created in 2007 when the online division of Tuoro College, a non-profit college based in New York was purchased by the private equity fund Summit Partners and converted to for-profit status.[2723] Dr. Yoram Neumann was the founder of the online branch of Tuoro College that was purchased.[2724] He became the president of TUI during its first 2 years, leaving to become the executive chairman on July 15, 2009, and later resigning from TUI in February 2010.[2725] The current president and chief executive officer (CEO) of the company is Nolan A. Miura.[2726]

Unlike many of the companies examined by the committee, TUI's enrollment has decreased in recent years, dropping from 8,004 in the fall of 2008 to 7,307 in the fall of 2010.[2727] According to the company, 80 percent of its enrollment consists of military personnel and veterans.[2728]

[2719] Trident University Web site, *History of Trident University*, 2011 http://www.trident.edu/why-tui/history-of-tui/ (accessed September 28, 2011).

[2720] Trident University Web site, *The Trident Difference*, 2011 http://www.trident.edu/why-tui/the-trident-difference/ (accessed September 28,2011).

[2721] Trident University Web site, *Academic Colleges*, 2011 http://www.trident.edu/academics/colleges/ (accessed September 28,2011).

[2722] Trident University Web site, *Accreditation*, 2011 http://www.trident.edu/university-information/academic-affairs/accreditation-2/ (accessed September 28,2011).

[2723] Trident University Web site, *History of Trident University*, 2011 http://www.trident.edu/why-tui/history-of-tui/, (accessed September 28,2011).

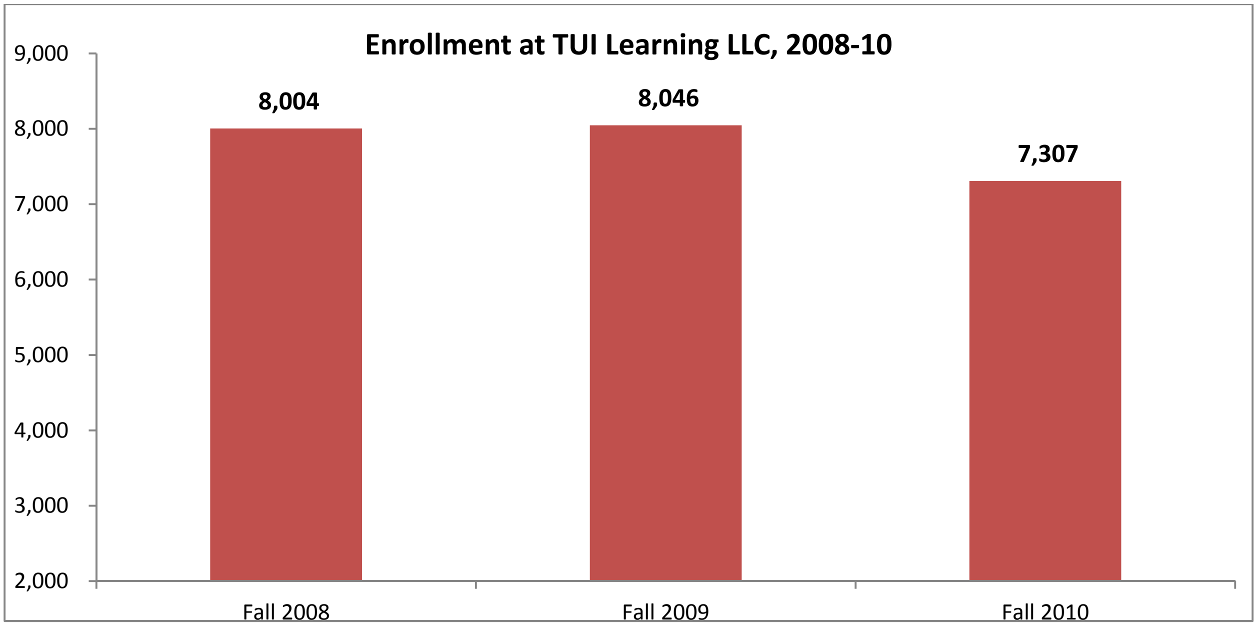
[2724] Touro College Website, *Touro College Sells Online Institution to Summit Partners*, November 5, 2007 http://www.touro.edu/media/pr/releases/PR-ONLINEINSTITUTION.ASP (accessed September 28,2011).

[2725] TUI University, *TUI UNIVERSITY AND ITS HISTORY*, 2010 (TUI-SEN 00384).

[2726] Trident University, *August 2011 University Catalog*, August 2011 http://www.trident.edu/files/TUI-Catalog-August-2011.pdf (accessed September 28, 2011).

[2727] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.

[2728] Trident University, *History of Trident University*, 2011 http://www.trident.edu/why-tui/history-of-tui/ (accessed September 28, 2011).



However, revenue at TUI grew sharply between 2008 and 2009, from just $25,000 in 2008 to $48.6 million in 2009.[2729]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2730] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[2731]

In 2010, TUI reported 12.2 percent of revenue from title IV Federal financial aid programs.[2732] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs. Department of Defense Tuition Assistance and post-9/11 GI

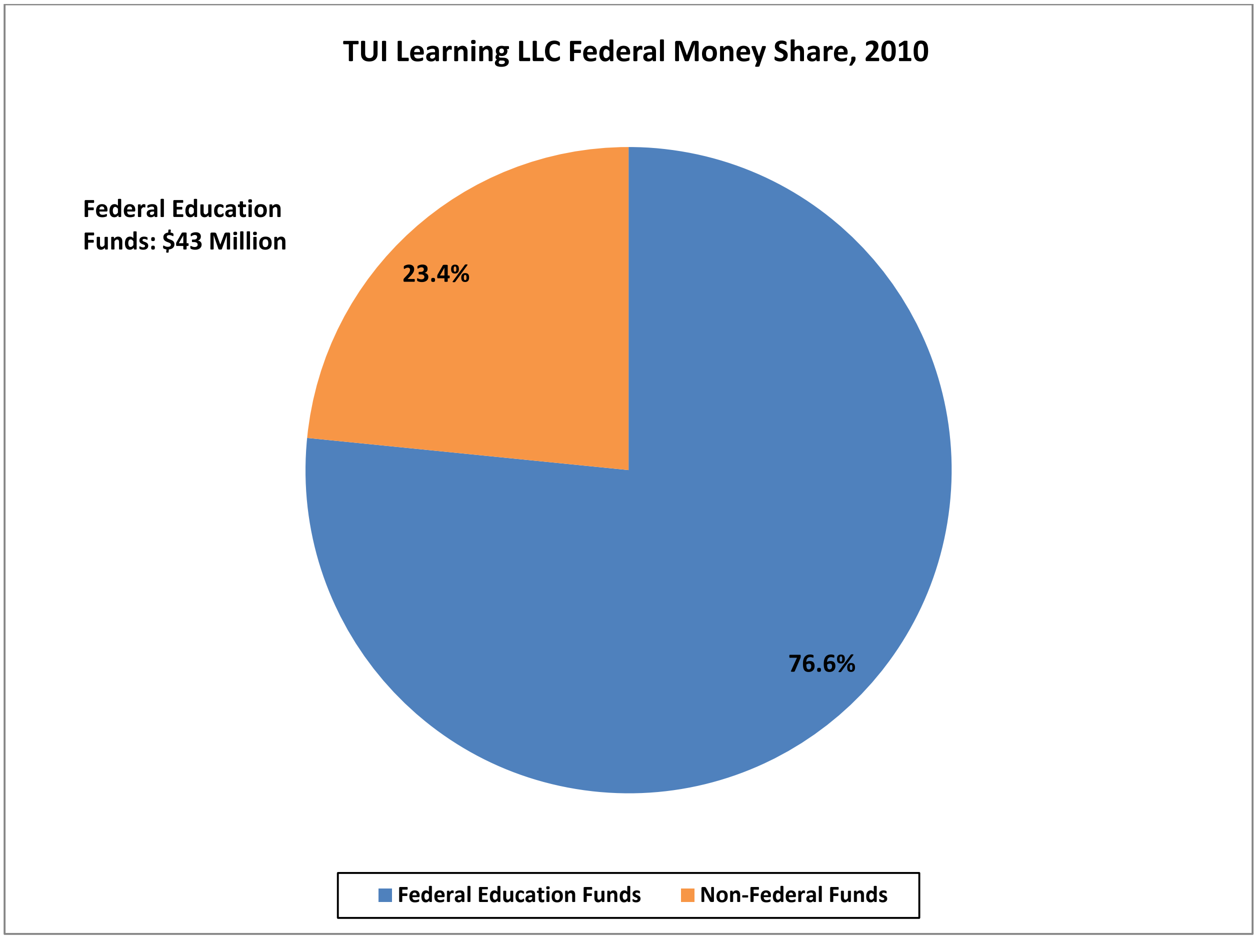
[2729] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

[2730] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education. "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. § 1070 et seq.

[2731] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[2732] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

bill funds accounted for approximately 64.3 percent of TUI's revenue, or $36.3 million.[2733] With these funds included, 76.6 percent of TUI's total revenue was comprised of Federal education funds.[2734]



Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[2735] During the same period the companies spent 23 percent of revenues on marketing and recruiting ($3.7

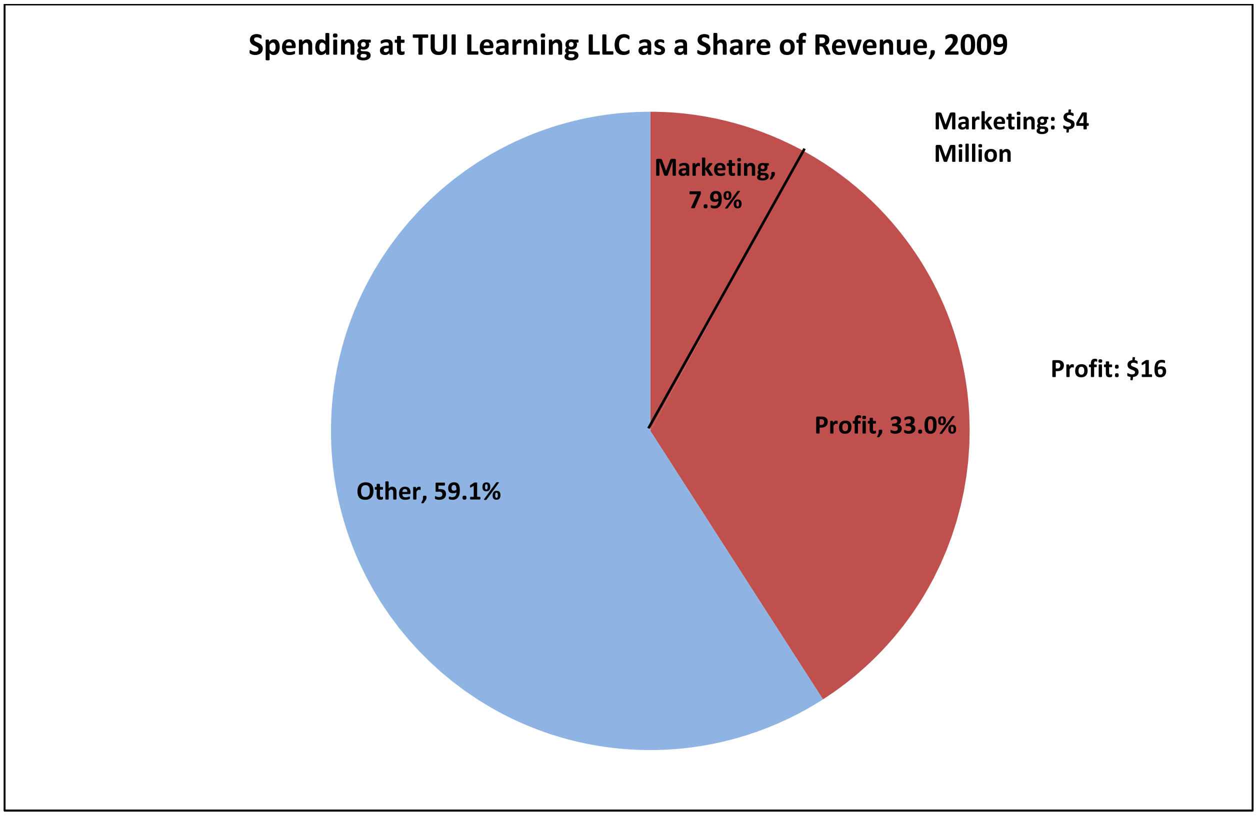
[2733] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and Appendix 12.

[2734] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.

[2735] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

billion), and 19.7 percent on profit ($3.2 billion).[2736] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

In 2009, TUI allocated 7.9 percent of its revenue, or $3.9 million, to marketing and recruiting and 33 percent, or $16 million, to profit.[2737] The percentage of revenue that TUI devotes to profit is the third highest of all 30 companies examined.



TUI devoted a total of $20 million to marketing, recruiting, and profit in fiscal year 2009.[2738] The amount of profit generated by TUI also increased rapidly. In 2008, TUI reported a profit of $5,658, and then reported a profit of $16 million the following year.

<u>Executive Compensation</u>

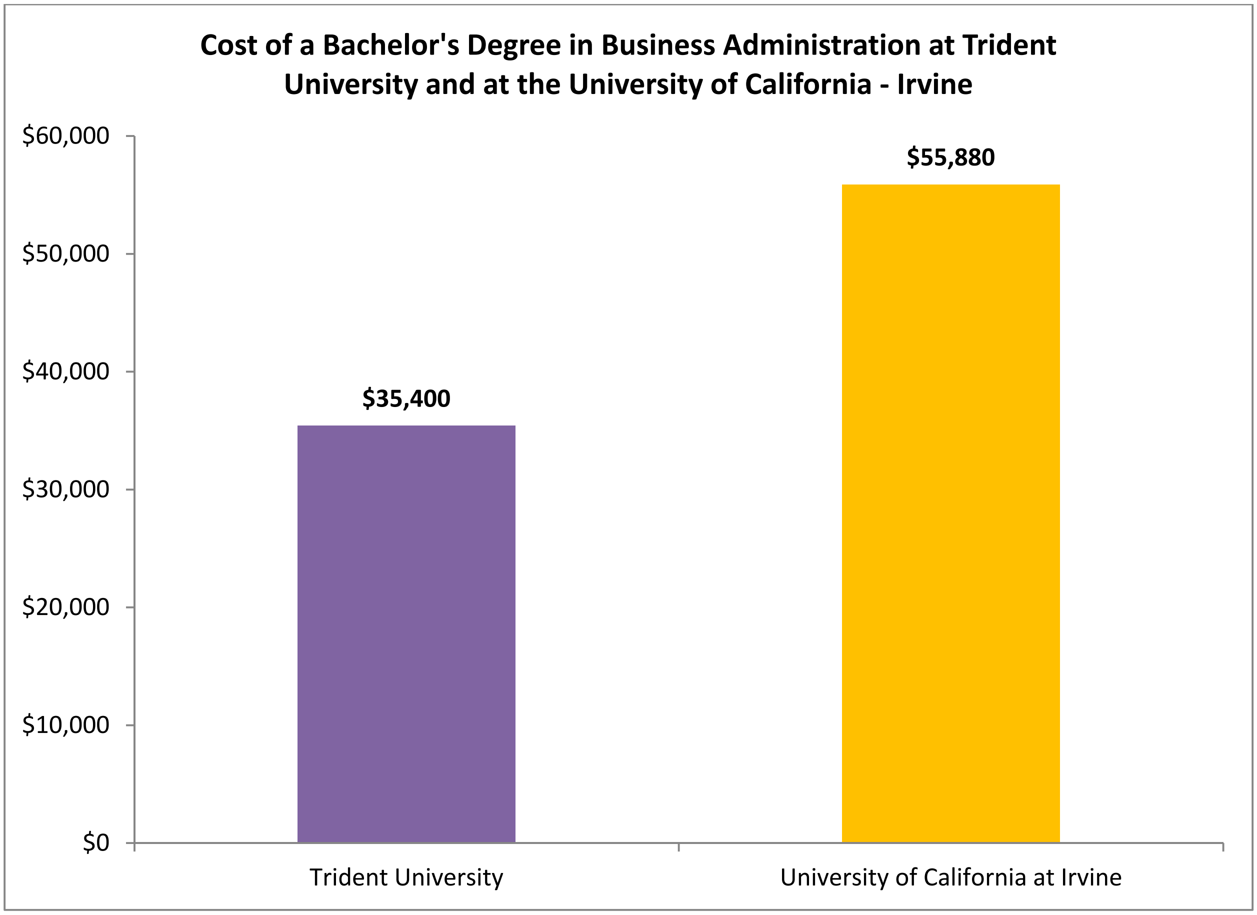
As a privately held company, TUI is not obligated to release executive compensation figures.

Tuition and Other Academic Charges

Unlike most of TUI's competitors in the for-profit education sector, the price of tuition at TUI is comparable to public colleges offering the same Bachelor's programs. A Bachelor's of Science in

[2736] Senate HELP Committee staff analysis of fiscal year 2009 financial statements. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.
[2737] Id. On average, the 30 for-profit schools examined spent 22.4 percent of revenue on marketing and 19.4 percent on profit.
[2738] "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, and other expenditures.

Business Administration at TUI costs $35,400.[2739] The same degree at University of California-Irvine costs $55,880.[2740]



From 2009-11, TUI trained 2,228 veterans and received $7.6 million in post-9/11 GI bill benefits, averaging $3,397 per veteran. This figure is lower than public colleges, which collected an average of $4,642 per veteran trained in the same period. This lower cost is partly because TUI's tuition for military personnel is matched to military tuition assistance rates, so that students can pay for up to seven courses per year using typical active-duty military benefits.[2741]

Outcomes

Committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[2742]

[2739] See Appendix 14. Trident University, *Bachelor of Science in Business Administration: Gainful Employment Program Disclosure*, http://www.trident.edu/academics/gainful-employment-disclosures/disclosure_bsba/ (accessed June 25, 2012).
[2740] See Appendix 14. San Diego State University, *San Diego State University*, http://www.sa.sdsu.edu (accessed June 25, 2012).
[2741] Trident University Web site, *Military Discount Program*, 2010 http://www.trident.edu/tuition-fees/military-discount-program/ (accessed October 7, 2010).
[2742] Patricia Steele & Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 25, 2012).

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll at TUI are not achieving their educational and career goals. However, the Department of Education only measures student loan default rates for title IV loan programs. Thus, given the small portion of TUI students receiving title IV funding, 12.2 percent of its revenue in 2010, cohort default rates provide little information on actual TUI student outcomes. Further, Trident's heavy military enrollment provides a very different context for these outcomes.

Retention Rates

Information TUI provided to the committee indicates that, of the 3,483 Bachelor's degree students who were enrolled at TUI in 2008-9, 51.3 percent, or 1,786 students, withdrew by mid-2010.[2743] TUI's withdrawal rate is slightly lower than the Bachelor's program sector-wide rate of 54.3 percent for the 30 schools examined.[2744] Nonetheless, the majority of TUI's student population, most of whom are veterans or service members, left without degrees.

Status of Students Enrolled in TUI Learning LLC in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Bachelor's Degree	3,483	21.9%	26.8%	51.3%	1,768	N/A

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model, and is particularly relevant to TUI given its large portion of military students. The analysis also does not account for students who withdrew after mid-2010 when the data was produced.

Student Loan Defaults

As mentioned above, because the majority of students attending TUI receive funding from the Departments of Defense and Veterans Affairs military education benefit programs and not title IV loan programs, the number of students leaving TUI with no degree does not lead to high rates of student loan defaults or low loan repayment rates. TUI's default rate for title IV students entering repayment in 2008 was 1.9 percent.

[2743] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

[2744] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

Instruction and Academics

The quality of any college's academics is difficult to measure. However, the amount that a school spends on instruction per student compared to other spending is a useful measure.

TUI spent $1,118 per student on instruction in 2009, compared to $494 per student on marketing and $2,056 per student on profit.[2745] The amount that privately held companies examined by the committee spend on instruction ranges from $1,118 (TUI) to $6,389 per student per year.[2746] In contrast, public and non-profit schools generally spend a higher amount per student on instruction. Other California-based colleges spent, on a per student basis, $15,039 at the University of California-Irvine, and $35,920 at the University of Southern California.[2747]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee examined, 80 percent of the faculty is part-time, higher in some companies.[2748] In 2010, 74 percent of TUI's faculty was employed part-time, with 69 full-time and 200 part-time faculty.[2749]

Staffing

While for-profit education companies employed large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. While TUI employed only 17 recruiters, compared to 16 student services staff, in 2010, the number of student services employees was still sparse for its 7,307 students that year.[2750]

[2745] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.
[2746] Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.
[2747] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.
[2748] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[2749] Id.
[2750] Id. See Appendix 7 and Appendix 24. TUI did not provide data on the number of career services and placement staff it employed.

Accreditation Difficulties

In 2011, WASC called on TUI to show cause why its accreditation should not be terminated on March 30, 2012.[2751] WASC's Show Cause Order resulted from its finding that TUI failed to meet standards regarding defining and achieving educational objectives. On February 24, 2012, the order to show cause was lifted, but TUI was placed on probation by the accreditor for making progress towards, but still not meeting, the accreditor's standards.[2752]

The Order followed a March 2010 warning letter, expressing concern about TUI's Capacity and Preparatory Review (CPR) report,[2753] a key report in WASC's accreditation review process.[2754] WASC acknowledged that "considerable effort had been undertaken by a large number of people in support of the University's CPR report." Even with that effort, however, WASC also noted that its review team "found the report difficult to follow and lacking in reflection and supportive evidence beyond assertions." [2755]

WASC accepted TUI's report, but noted several standards that the school needed to address before the next stage of accreditation review, the Educational Effectiveness Review (EER). WASC also rescheduled the EER to allow more time to address the lacking standards. WASC cautioned that Trident should address those standards "with analysis of evidence rather than the conclusionary approach present in the CPR report [sic]." [2756]

The EER was rescheduled for the spring of 2011.[2757] On February 24, 2012, WASC lifted the order to show cause and placed the school on probation.[2758]

Conclusion

TUI is one of the smaller for-profit higher education companies examined by the committee, enrolling 7,307 students. In 2010, the company received at least $37 million of its revenue from the Federal Government. TUI's tuition costs are lower than most of the for-profit companies examined by the committee, largely because the company sets its tuition to closely match Tuition Assistance benefits from the Department of Defense. While both withdrawal rates and default rates are low, the company also spends relatively little on instruction. On a per student basis, TUI only spends $1,118 on instruction, the lowest of the privately held companies that provided reliable data on spending to the committee. The company also spent 33 percent of its revenue on profit, the third highest percentage among the 30 companies examined. Moreover, the company's accrediting agency recently placed TUI on probation, following a show cause order, as a result of quality concerns. Given these issues, it is unclear whether taxpayers or students are obtaining value from their investments in TUI.

[2751] Western Association of Schools and Colleges, Trident University International, http://www.wascsenior.org/node/409 (accessed May12, 2012).
[2752] Id.
[2753] Id.
[2754] Letter from Western Association of Schools and Colleges, March 9, 2010 (TUI-SEN 00481); Western Association of Schools and Colleges, *2008 Handbook of Accreditation* (pages 30-34), http://www.wascsenior.org/findit/files/forms/Handbook_of_Accreditation.pdf (accessed September 29, 2011).
[2755] Letter from Western Association of Schools and Colleges, March 9, 2010 (TUI-SEN 00481).
[2756] Id. at (TUI-SEN 00482
[2757] Id.
[2758] Trident University Web site, *Accreditation*, http://www.trident.edu/university-information/academic-affairs/accreditation-2/ (accessed May 12,2012).

Universal Technical Institute, Inc.

Introduction

Universal Technical Institute, Inc. offers vocational programs in mechanical fields and has experienced steady growth in recent years. It offers few degree programs and has no online offerings. While the cost of its programs is very high, the company's relatively low student withdrawal and default rates suggest that students are completing programs and finding jobs.

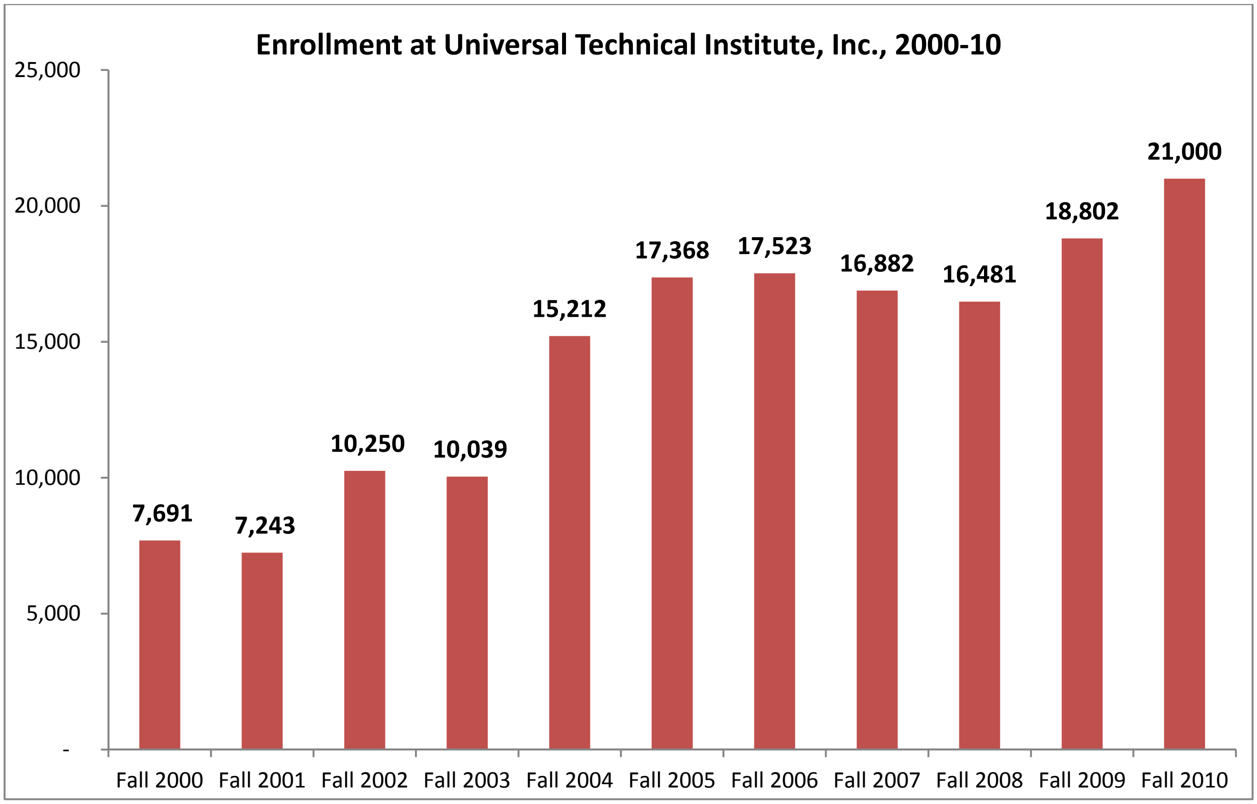
Company Profile

Universal Technical Institute, Inc. ("UTI") is a publicly traded, for-profit educational institution headquartered in Scottsdale, AZ. UTI is traded on the New York Stock Exchange and operates 10 campuses under the banner of several brands, including Universal Technical Institute, Motorcycle Mechanics Institute, Marine Mechanics Institute, and NASCAR Technical Institute. The company offers vocational Certificate and Diploma programs for technicians in the automotive, diesel, collision repair, motorcycle and marine fields, as well as manufacturer specific training programs; one campus in Avondale, AZ, also offers Associate's degrees in these fields. UTI does not offer courses online and is accredited by the Accrediting Commission of Career Schools and Colleges (ACCSC).

Founded in 1965, UTI went public in December 2003. The current chief executive officer of UTI is Kimberly J. McWaters, who also serves as a director of Penske Automotive Group, Inc.[2759]

UTI has experienced steady growth since going public. In fall 2004, UTI enrolled 15,212 students and as of fall 2010 enrolled 21,000 students.[2760]

[2759] The board of directors of UTI includes John C. White, Alan E. Cabito, A. Richard Caputo, Conrad A. Conrad, Dr. Roderick R. Paige, Roger S. Penske, Linda J. Srere, Kenneth R. Trammell, and David Blaszkiewicz.
[2760] For companies that began filing with the Securities and Exchange Commission subsequent to an initial public offering between 2001 and 2010, enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education 's Integrated Postsecondary Data System (hereinafter IPEDS) until Securities and Exchange Commission filings become available at which time SEC filings for the August-October period each year are used. See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.



The growth in enrollment has led to growth in revenue. Over the past 5 years, revenue has grown steadily from $353.4 million in 2007 to $436 million in 2010.[2761]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs.[2762] Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2763] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[2764]

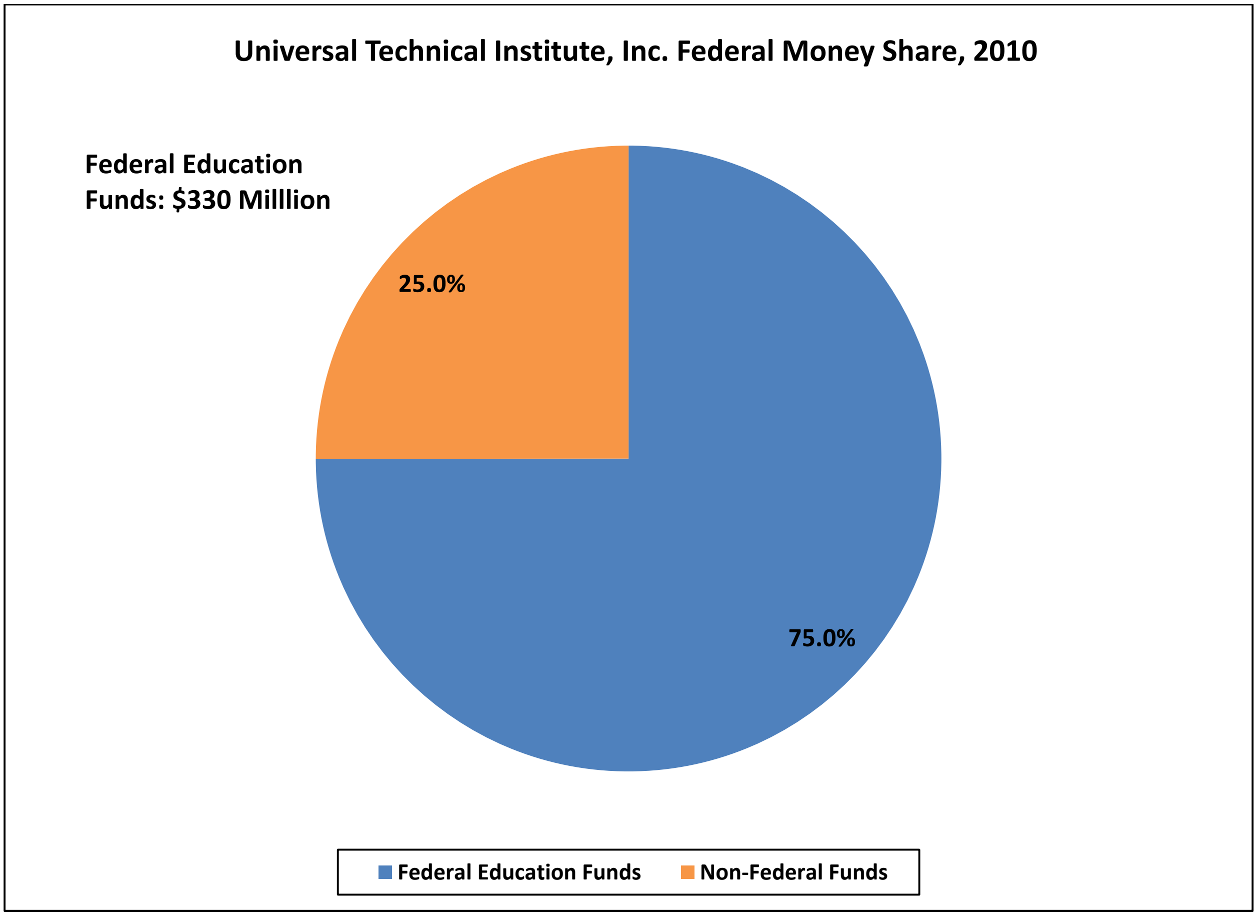
2761 Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

2762 "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

2763 Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education. "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

2764 Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 15, 2011. See Appendix 9.

In 2010, UTI reported 72.5 percent of revenue from title IV Federal financial aid programs.[2765] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs or revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA).[2766] The committee estimates that UTI discounted approximately 3.7 percent of revenue, or $16.3 million, pursuant to ECASLA. Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 2.5 percent of UTI's revenue, or $10.9 million.[2767] With these funds from the Departments of Defense and Veterans Affairs included, 75 percent of UTI's total revenue was comprised of Federal education funds.[2768]



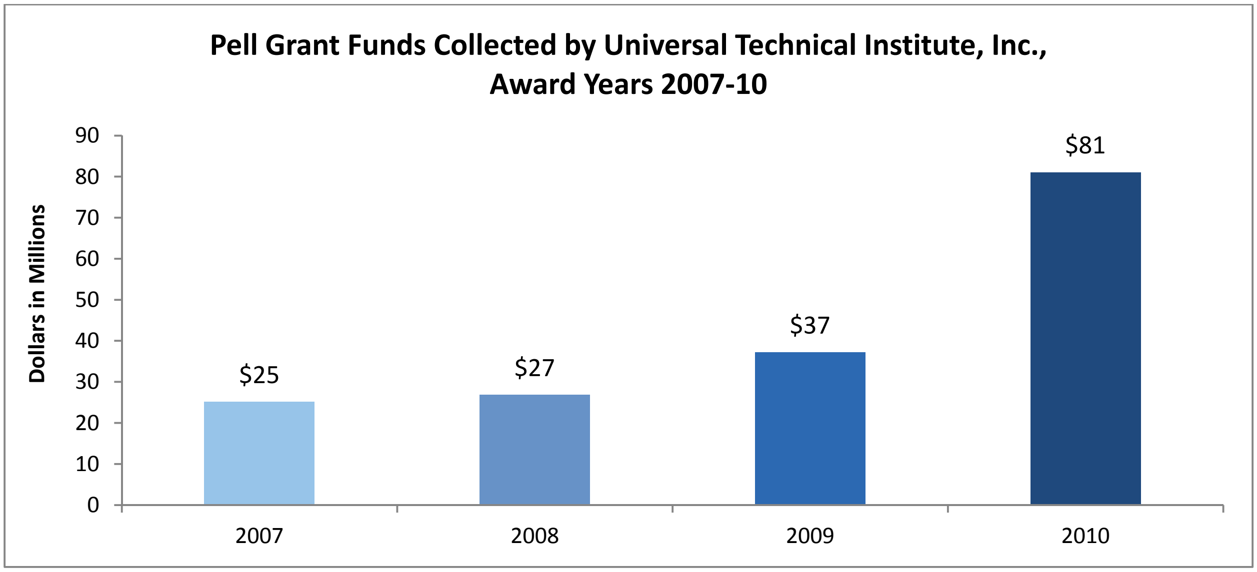
[2765] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 15, 2011. See Appendix 9.

[2766] Pursuant to the Ensuring Continued Access to Student Loan Act (ECASLA), for-profit education companies were allowed to exclude $2,000 in increased Stafford loan eligibility for each student during fiscal years 2009 and 2010.

[2767] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[2768] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.

The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[2769] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.



UTI more than tripled the amount of Pell grant funds received from $25.1 million in 2007 to $81 million in 2010.[2770]

Spending

While Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[2771] During the same period those companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion),

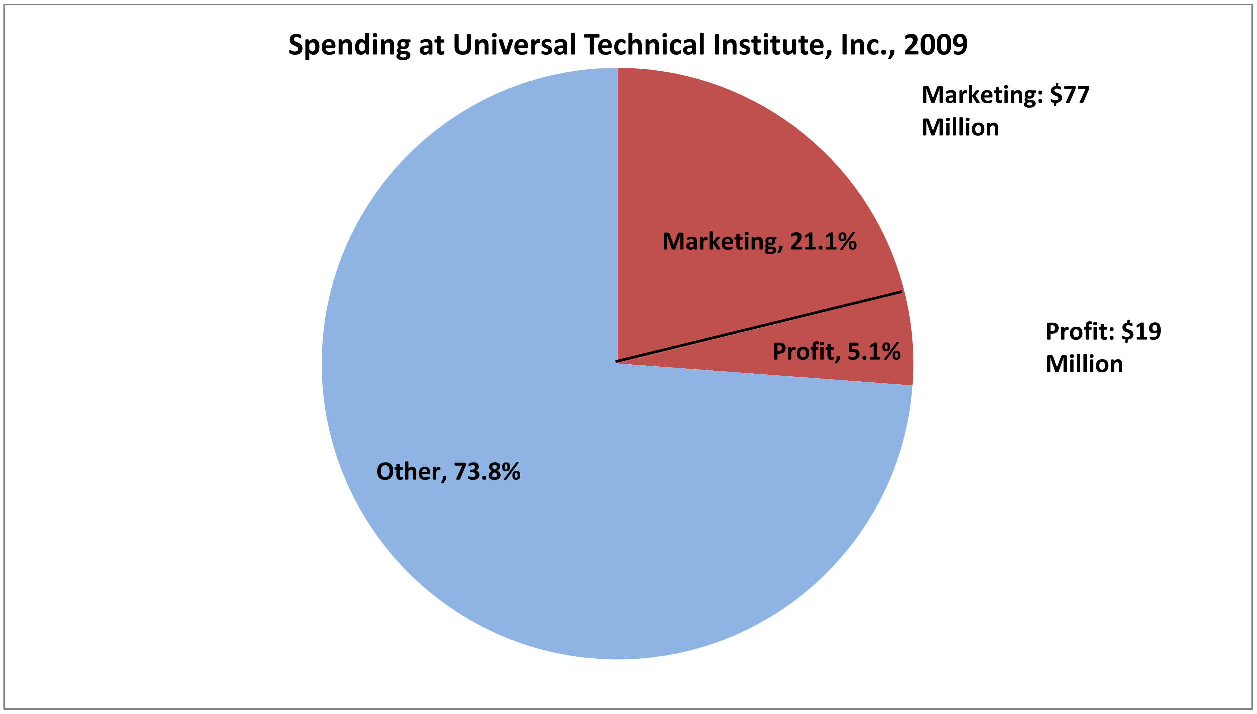
[2769] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.

[2770] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

[2771] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

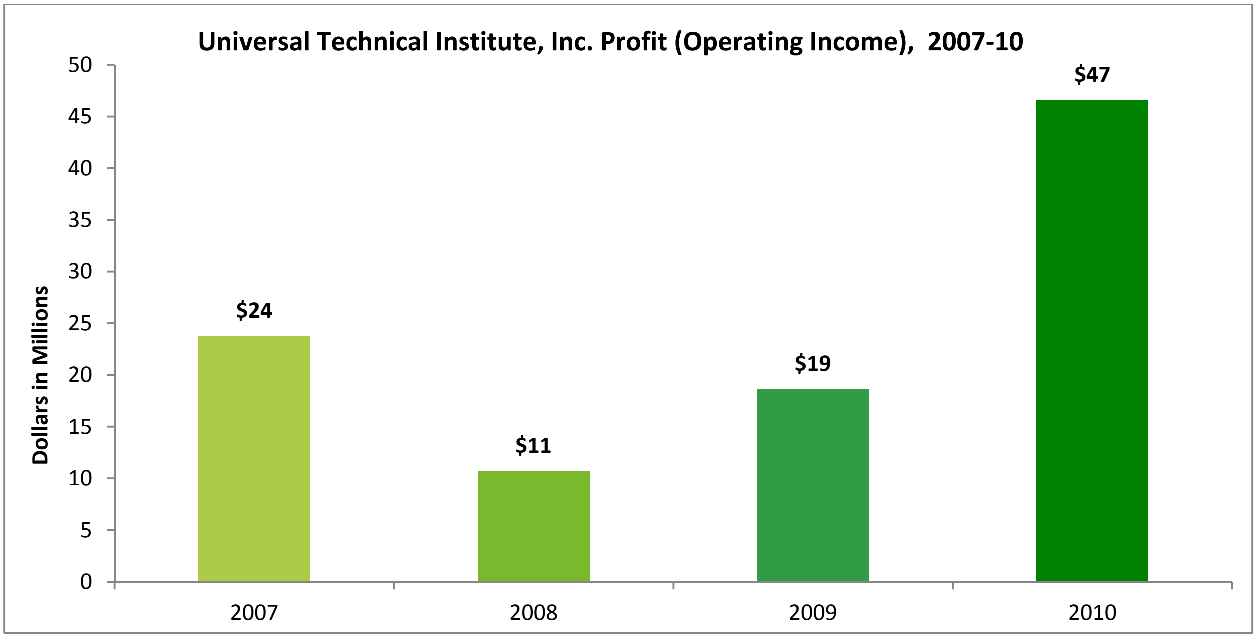
and 19.7 percent on profit ($3.2 billion).[2772] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.[2773]

The percentage of revenue UTI allocates to marketing and profit is well below the publicly traded, for-profit average. In 2009, UTI devoted 21.1 percent, or $77.3 million, of its revenue to marketing and recruiting, and 5.1 percent, or $18.6 million, to profit.[2774]



UTI devoted a total of $95.9 million to marketing, recruiting and profit in fiscal year 2009.[2775] The amount of profit UTI generated has increased rapidly, growing from $23.7 million in 2007 to $46.6 million in 2010.[2776]

[2772] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings and information provided to the committee by the company pursuant to the committee document request of August 5, 2010. Profit is based on operating income reported in SEC filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.
[2773] Id.
[2774] Senate HELP Committee staff analysis. See Appendix 19. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.
[2775] Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.
[2776] Senate HELP Committee staff analysis. See Appendix 18.



Executive Compensation

Executives at UTI, like most for-profit executives are also more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[2777] In 2009, UTI CEO Kimberly McWaters received $1.9 million in compensation, more than three times as much as president of University of Arizona who received $633,206 in total compensation for 2009-10.[2778]

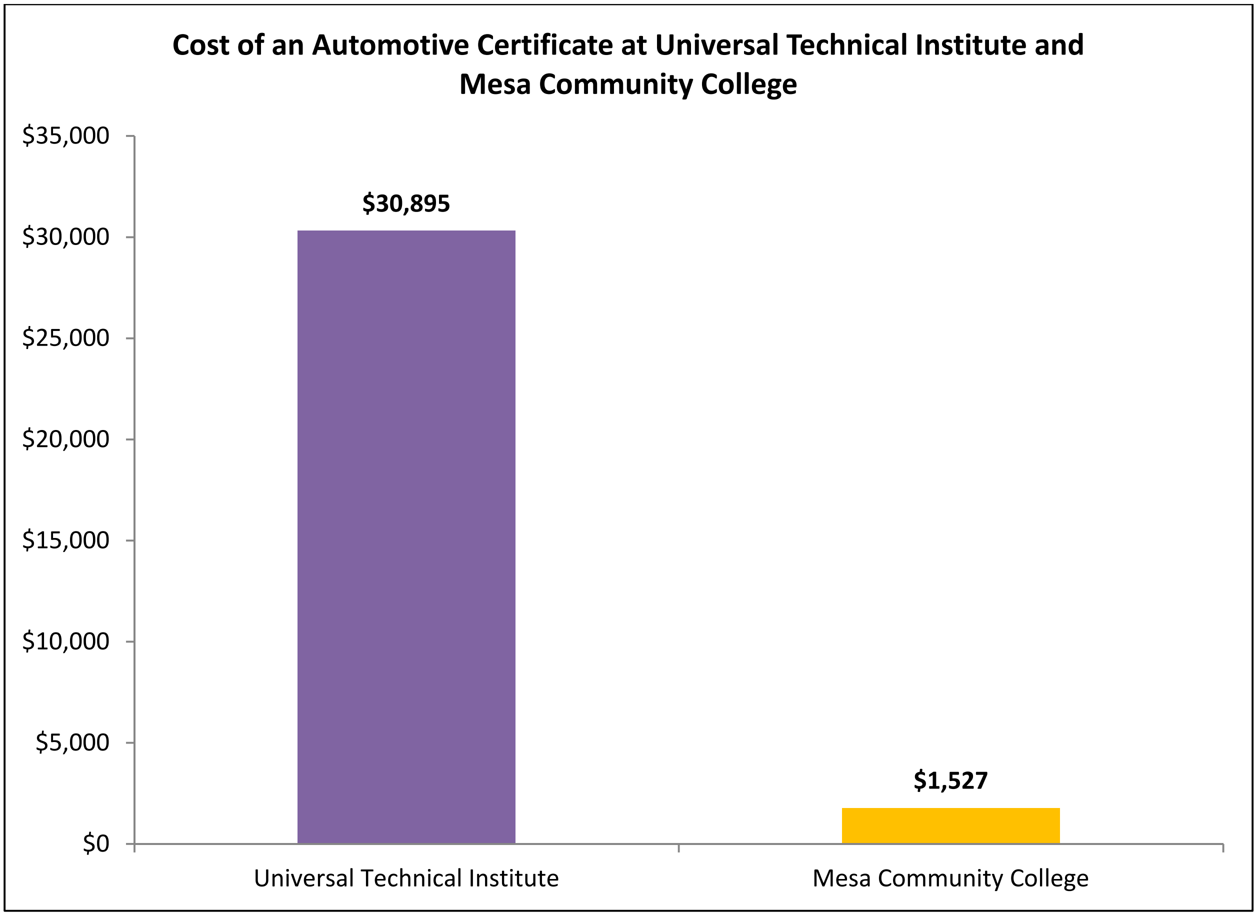
Executive	Title	2009 Compensation	2010 Compensation
Kimberley J. McWaters	CEO, President and Director	$1,948,901	$2,248,720
John C. White	Chairman of the Board	$1,345,147	$1,165,634
Eugene S. Putnam, Jr.	Executive VP and CFO	$1,089,315	$1,004,052
Richard P. Crain	Senior VP, Marketing and Strategy	$752,329	$697,483
Thomas E. Riggs	Senior VP, Campus Operations	$706,845	
Total[2779]		$5,842,537	$5,115,889

The chief executive officers of the large publicly traded, for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[2780] McWaters' $1.9 million compensation package is not among the highest of the sector. However, it is still noteworthy given that 1 in 3, or 6,555, of the company's students who enrolled that year withdrew by mid-2010, and 12.2 percent of students who entered repayment in 2008 defaulted on their student loan within 3 years.

[2777] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.
[2778] Id.
[2779] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities and Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.
[2780] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is significantly higher at UTI. For example, a Certificate in Automotive Technology at UTI's Arizona campus costs on average $30,895,[2781] while a Certificate in Automotive Performance at Mesa Community College in Phoenix, AZ, costs $1,527.[2782] The same Certificate costs almost 20 times more at UTI than it does at the public college.



The higher tuition that UTI charges is also reflected in the amount of money that UTI collects for each veteran that it enrolls. From 2009-11, UTI trained 1,092 veterans and received $24.9 million in post-9/11 GI bill benefits, averaging $22,767 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[2783]

[2781] See Appendix 14; see also Universal Technical Institute, *UTI Program Disclosures*, http://cdn.uti.edu/disclosure/Program_Disclosure.pdf (accessed July 12, 2012).
[2782] See Appendix 14; see also Mesa Community College, *Mesa Community College*, http://www.mesacc.edu/ (accessed July 12, 2012).
[2783] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations for-profit colleges recruit as many students as possible to sign up for their programs.

UTI student and parent complaints help to document some of these concerns asserting that recruiters mislead and outright lied in order to induce enrollment. While student complaints may not be representative of the experience of the majority of UTI students, these complaints provide an important perspective on UTI's recruiting practices. One such complaint from a parent of a prospective UTI student reads:

> I feel your school representative was very misleading and misrepresented Universal Technical Institute. [Your school representative] told my son, quote "with your grade point average, you'll be our top student and Porsche will hire you just like that." We feel like [this representative] would say whatever it takes to get you to sign papers and pay the $100.00 fee. He was very misleading in telling my son everything was going to be very promising with a $180,000 a year job [that] was sure to be his before graduation!... I truly feel like we have been scammed by sales people...[2784]

Other complaints allege that a recruiter furnished prospective students with misleading information on the cost of attendance and tuition policies:

> One recommendation that I have for your recruiters is to be extremely explicit about your charging policies. Another falsehood was that we were told most UTI graduates start at approximately $90K a year at dealerships; however, an instructor told a class that mechanics are the lowest paid trade and not to listen to the recruiters![2785]

Numerous other complaints assert that UTI's recruiters and enrollment agreement are misleading due to their non-disclosure of UTI's retroactive tuition increase. For example, a parent of a graduating student explained:

> My son and his father signed a contract for enrollment upon [my son's] graduation [from high school]. The prices were stated for each phase. He wanted to attend their master mechanic program. There was also an additional course he could take specializing in Fords. My son wasn't sure he wanted to enroll in the Ford program but the representative told him that if he did he could drop the course at any time without it affecting anything as long as he dropped the course prior to starting the class. My son will soon complete the master mechanic program by does not wish to take the Ford class. We are now being told that dropping this course changes the whole program now and he is being charged a higher rate … It does not state in the contract that prices will not be effective if he drops the Ford course … Now it is being pointed out to us that it states in the catalog that [UTI]

[2784] Universal Technical Institute Internal Correspondence, April 2009, Letter of Complaint from Student's Parent (UTI-C-000432). See also Universal Technical Institute Internal Email, May 2010, re: Emailing: Complaint Details–Adeptis Systems Group (UTI-C-000845, at UTI-C-000846) ("it [is] nothing but a scam.").

[2785] Universal Technical Institute External Correspondence, September 2006, Letter of Complaint from Parent of a Student (UTI-C-000204). See also Universal Technical Institute External Correspondence, September 2009, Letter from Better Business Bureau to Universal Technical Institute Regarding Student Complaint (UTI-C-000407, at UTI-C-000409,) ("there was an orientation stating that after completing this course with UTI we would be making up to 90,000").

can change the prices if you make changes to your courses. I feel this is very misleading.[2786]

Outcomes

While aggressive recruiting and high-cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4 year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[2787]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that while some people who enroll in UTI are not achieving their educational and career goals, overall, a much higher rate of students are completing programs than many of the companies examined.

Retention Rates

Information UTI provided to the committee indicates that of the 18,119 students who enrolled at UTI in 2008-9, 36.2 percent, or 6,555 students, withdrew by mid-2010. These students were enrolled a median of 4 months.[2788] While UTI's Certificate withdrawal rate of 36.6 percent is slightly better than the sector-wide rate of 38.5 percent, its 32.1 percent Associate degree withdrawal rate is significantly lower than the sector-wide rate of 62.9 percent.[2789]

Overall, UTI students withdraw at a much lower rate than the 54.1 percent average among the 30 companies examined.

[2786] Universal Technical Institute External Correspondence, February 2006, Letter from Better Business Bureau to Universal Technical Institute Regarding a Student Complaint (UTI-C-000435, at UTI-C-000436). See also Universal Technical Institute External Correspondence, January 2007, re: *Grievance over Downgrade Policy* (UTI-C-000240).

[2787] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief,* August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf

[2788] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

[2789] Id. It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

Status of Students Enrolled in Universal Technical Institute, Inc. in 2008-9, as of 2010						
Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Associate Degree	1,776	53.5%	14.4%	32.1%	570	134
Certificate	16,343	48.5%	14.9%	36.6%	5,985	123
All Students	18,119	49.0%	14.8%	36.2%	6,555	124

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdrew after mid-2010 when the data was produced.

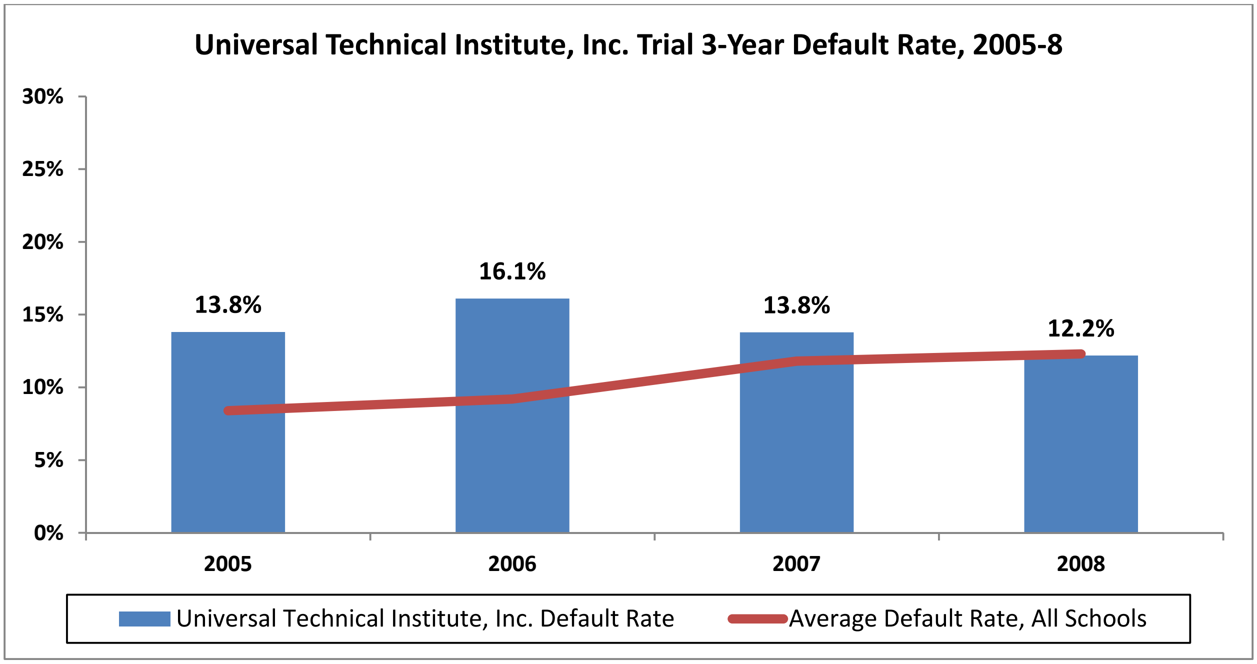
Student Loan Defaults

The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[2790]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[2791] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2792] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2793] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[2794]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[2795] This change represents a 32.6 percent increase over 4 years.[2796] UTI's default rate has fluctuated over time, from as high as 16.1 percent for students entering repayment in 2006 to as low as 12.2 percent for students entering repayment in 2008.

[2790] Direct Loan Default Rates, 34 CFR § 668.183(c).
[2791] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[2792] Id.
[2793] Id.
[2794] Id.
[2795] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[2796] Id.



It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Internal UTI default prevention training documents obtained by the committee emphasize that "maintaining the lowest possible Federal Cohort Default Rate (CDR) is very important to the health of the company." [2797] These training documents go on to outline "Items to cover with every borrower"; deferment eligibility and forbearance are covered most prominently as "options to explore with every borrower with repayment difficulty." [2798] When a student is in forbearance their loan balances continue to grow as the result of accumulating interest but default is averted both for the student and the company. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults. Overall, UTI's default rates closely track the rates for all schools and suggest that many of its students are finding jobs that allow the students to repay loans.

Instruction and Academics

The quality of any college's academics is difficult to measure. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful indicators.

UTI spent $2,778 per student on instruction in 2009, compared to $2,244 per student on marketing and $541 per student on profit.[2799] The amount that publicly traded, for-profit companies

[2797] Universal Technical Institute, *Default Prevention New Employee Training Plan* (UTI-C-016309, at UTI-C-016311).
[2798] Id.
[2799] Senate HELP Committee staff analysis. See Appendix 21. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.

spend on instruction ranges from $892 to $3,969 per student per year.[2800] In contrast, public and non-profit 4-year colleges and universities generally spend a higher amount per student on instruction, while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. By comparison, Mesa Community College spent, on a per student basis, $4,091.[2801]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools investigated by the committee, 80 percent of the faculty is part-time.[2802] In contrast, UTI employs an almost exclusively full-time faculty, with1,046 full-time and 3 part-time faculty in 2010.[2803] However, complaints from UTI's faculty reflect concerns with the academic quality. One such letter from a faculty member at the NASCAR Technical Institute campus to Kimberly McWaters, the CEO of UTI, explicitly states that faculty is instructed to pass students who otherwise would not:

> Every day that I come to work, I hear student tell me that they have encountered employers that point blank tell them that they do not hire NTI students because of consistent poor performance …[W]e at NTI are being told to pass students who should fail because we are 'training entry level technicians who paid for their certificates like everybody else'… I have been told to give student points to pass my courses when they should fail. … [T]he attention is directed at completion rates so much that even the students have started to notice the fact that their NTI degree is losing its value every day!!!![2804]

In another letter, a faculty member at the UTI Illinois campus expresses his concern regarding the solely profit-driven policies adopted by the new campus president, Pat Kellen:

> Keeping in mind that UTI is a "for profit" educational institution, it in no way excuses the manner in which Mr. Kellen has changed our mission to "profit, profit, profit"… What Mr. Kellen is currently doing is cooking the books! He has devalued the UTI education, reputation and brand in order to pump up student count numbers and profit. It is unfortunate that he has chosen to do so by compromising the educational experience of the student as well as the work environment of the employee in return for short term profit. It seems at the Glendale Heights campus we no longer graduate students with a quality education and the tools needed to make them successful in the automotive field. We have been reduced to merely "selling" diplomas for $30,000.[2805]

As part of the document request, UTI also produced hundreds of student and parent complaints. The subject matter of these complaints varies, however many conveyed student disappointment with the

[2800] Id.
[2801] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes–which do not include construction, leasing and maintenance of physical buildings–are not passed on to students, who pay the same or higher tuition for online courses.
[2802] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[2803] Id.
[2804] Universal Technical Institute Internal Email, August 2008, re: *FW:* (UTI-C-000491, at UTI-C-000492).
[2805] Universal Technical Institute External Correspondence, September 2009, *Letter of Complaint From Universal Technical Institute Employees* (UTI-C-000494, at -000495).

instructional and educational quality of their respective programs at UTI.[2806] While student complaints may not be representative of the experience of the majority of students, these complaints do provide an important perspective on UTI's academic quality. One such complaint reads:

> It would be wise, dollar for dollar, to regain the respect of employers in the area who cringe when they hear "UTI student." That's not an image you want or should have, especially for a privately run company. I for one won't be advertising UTI once I'm finished here and I don't know too many who will for the fear of being laughed at and dismissed from an interview.[2807]

Another UTI student who withdrew explained:

> I withdrew because I was not receiving the education [I was promised]…Why are schools like this even allowed to receive money for education when they are clearly not educating anyone. These schools are cash machines…[2808]

Staffing

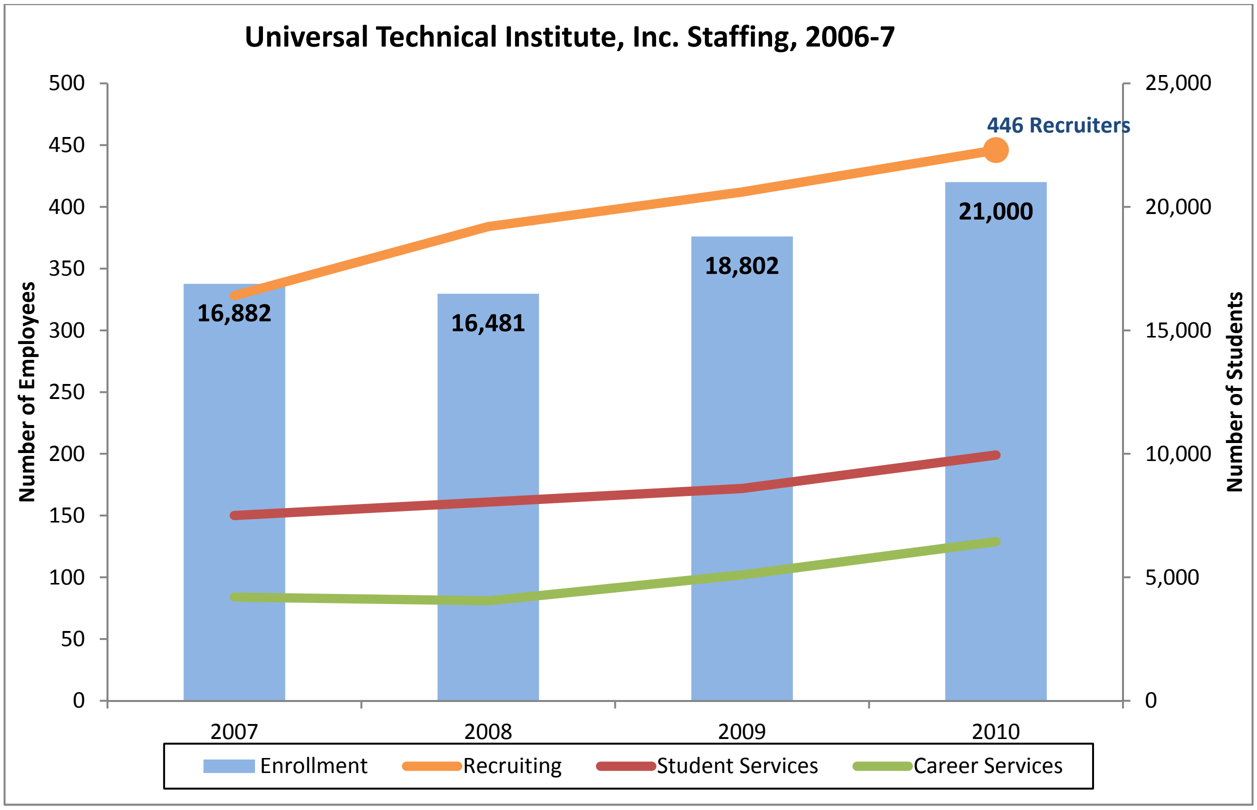
While for-profit education companies employ large numbers of recruiters to enroll new students, the companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2009, with 21,000 students, UTI employed 446 recruiters, 129 career services and placement employees and 199 student services employees.[2809] That means each career counselor was responsible for 163 students and each student services staffer was responsible for 106 students. Meanwhile, the company employed one recruiter for every 47 students.

[2806] Universal Technical Institute, March 2005, Completed Complaint/Incident Resolution Form (UTI-C-000860, at UTI-C-000862) ("a student paying 20 thousand dollars to learn should not have to be subjected to this type of environment"); Universal Technical Institute, June 2008, Completed Complaint/Incident Resolution Form (UTI-C-000969, at UTI-C-000970) ("Hoping that UTI Orlando is more interested in improving their quality of instruction rather than just collecting the financial aid monies."). See also Universal Technical Institute, October 2007, Completed Complaint/Incident Resolution Form (UTI-C-001040).

[2807] Universal Technical Institute Internal Email, December 2009, re: *RE: Complaint Letter – Norwood* (UTI-C-000567, at UTI-C-000577).

[2808] Universal Technical Institute Internal Email, June 2010, re: *Student Complaint* (UTI-C-000847, at UTI-C-000850).

[2809] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.



Many student complaints addressed the inadequacy of UTI's student support services, namely financial aid and career services.[2810] One student wrote:

> Another problem I had was with Student services, Financial aid, Accounting, and Employment services. All of these departments are very unorganized and unprofessional. Nearly every time I went into one of these departments, I only went away unhelped, mad and frustrated [sic] . . . With employment services, I had issues with my call list getting done. I turned mine in on my first week of Ford FACT. Yet with only 3 weeks left in my school, it still had not been started yet. I stopped in and was asked to come back in one week and that it would be done. So when I cam back it still wasn't done [sic]. After 3 days of stopping in to babysit and asking them to do their job, it finally got done. This isn't acceptable! I paid an awful lot of money to get not only a good education, but all these services as well. This is supposed to be what sets UTI apart from the rest. But in my experience here, I didn't see that.[2811]

Career Services

For-profit schools promote themselves as career-oriented skill-focused places. Indeed, most for-profit education advertising focuses on "getting the job" after graduating from school.

[2810] Universal Technical Institute External Correspondence, February 2009, *Letter of Concern from Parent of a Student* (UTI-C-000091); Universal Technical Institute External Correspondence, April 2009, *Letter from Better Business Bureau to Universal Technical Institute Regarding Student Complaint* (UTI-C-000189, at UTI-C-000194); Universal Technical Institute, June 2010, *Letter of Complaint from Student to Better Business Bureau* (UTI-C-000372); Universal Technical Institute Correspondence, *Letter of Complaint from a Student* (UTI-C-000924); Universal Technical Institute, *Completed Student Complaint Form* (UTI-C-000974).
[2811] Universal Technical Institute, October 2009, *Completed Customer Call Sheet Operations Form* (UTI-C-000604, at UTI-C-000608).

With 165 students for every career services employee, UTI has a relatively robust career services program compared to other education companies examined by the committee. However, some students report that those services are not helpful. For example, the parent of one student complained that when her son went to career services, "he was given a list of names and told to 'contact them' on his own. And, when they did give him a contact to see and he went to the place they said the job was filled three weeks ago." [2812]

Conclusion

Students attending the publicly traded UTI's brick and mortar automotive training programs appear to complete the programs at higher rates than many companies the committee reviewed. For students who enrolled between 2008–9, approximately 35 percent withdrew from UTI, a much lower rate than most other companies reviewed. While the company offers skill-based programs in high demand fields, UTI's programs are expensive and student complaints suggest some issues with the quality of the programs. However, the company also has a relatively robust job placement program and below average rates of student default, suggesting, at a minimum, that students are able to repay the debt they take on.

[2812] Universal Technical Institute, March 2009, *Completed Customer Call Sheet Operations Form* (UTI-C-000677, at UTI-C-000684).

Vatterott Education Holdings, Inc.

Introduction

Vatterott Education Holdings, Inc. ("Vatterott") provides career-based Certificate and Associate degree programs primarily at its on-ground campus locations. Like many for-profit education companies, in recent years, Vatterott has experienced steady growth in student enrollment, Federal funds collected and profit realized. While Vatterott's relatively low student withdrawal rates suggest students are persisting in the company's programs, the company's high rates of student loan default call into question whether Vatterott students are receiving an education that affords them the ability to repay the debt incurred.

Company Profile

Vatterott Education Holdings, Inc. is a privately held, for-profit education company headquartered in St. Louis, MO. The company is owned by the private equity fund TA Associates. The school, originally known as Urban Technical Centers, opened its first campus in 1969 in St. Louis. In 1989, Urban Technical Centers changed its name to Vatterott and began to offer accredited Associate degrees.[2813]

TA Associates, the private equity firm that owns Vatterott, also invests in three other for-profit education colleges, Full Sail University, the Los Angeles Film School, and the Rocky Mountain School of Design.[2814] TA Associates purchased Vatterott from Wellspring Capital Management, another private equity firm, in 2009.[2815] Wellspring had owned Vatterott since 2003.[2816]

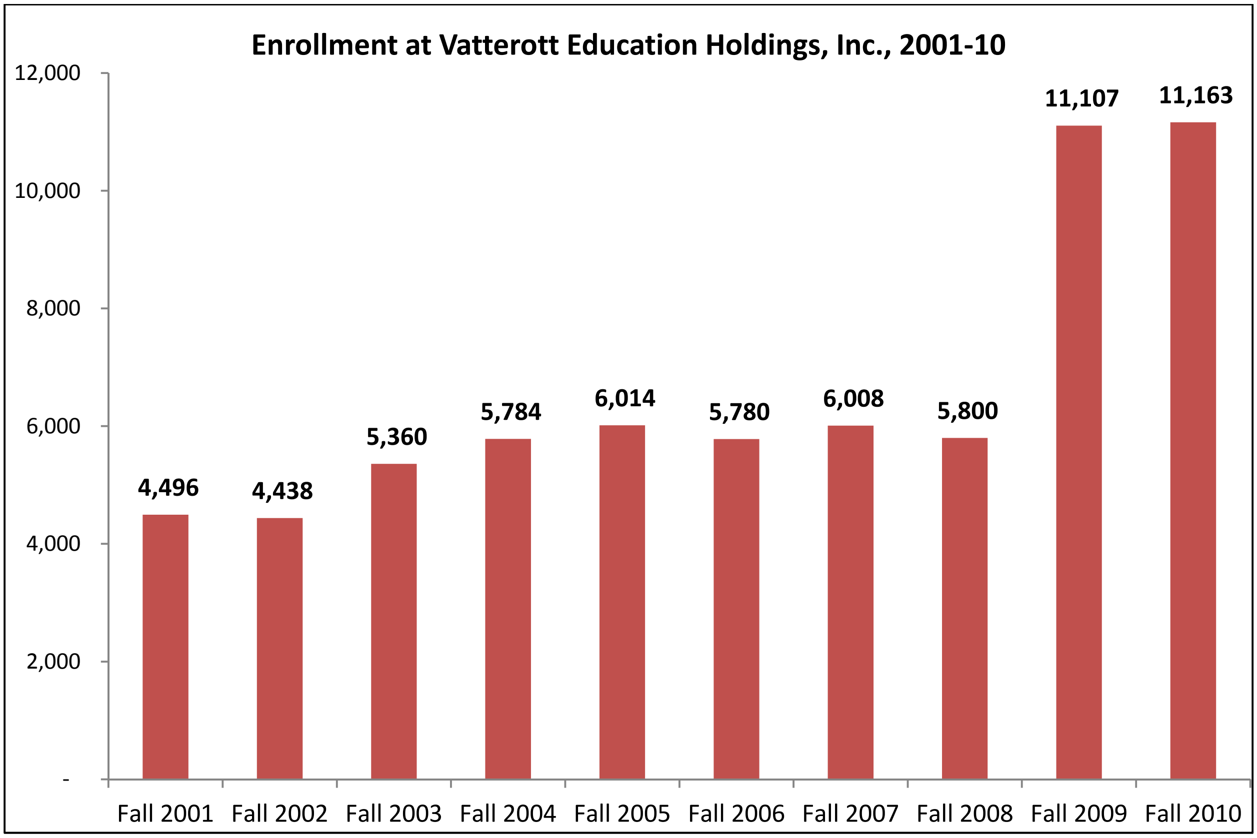
Vatterott now operates 19 campuses and an online program which offer technical Diplomas and Associate degrees in areas such as HVAC (heating, ventilation, air conditioning, & refrigeration), computer aided drafting (CAD), and cosmetology.[2817] It offers these programs through three main brands: Vatterott Colleges, L'Ecole Culinaire, and the Court Reporting Institute.[2818] Vatterott is nationally accredited by the Accrediting Commission of Career Schools and Colleges.[2819]

Pamela S. Bell has served as president and chief executive officer of Vatterott Educational Centers, Inc. since 2007. Previously, she served as senior vice president and provost of Strayer

[2813] Vatterott College, *Course Catalog Memphis Campus* (VAT-02-05-00070 at VAT-02-05-00080).
[2814] TA Associates, *Investments Current Portfolio Companies*, 2012 www.ta.com/investments/port_active.asp (accessed June 25, 2012).
[2815] Business Wire Press Release, "TA Associates to Acquire Vatterott Educational Centers from Wellspring Capital Management," *Reuters*, September 18, 2009, http://www.reuters.com/article/2009/09/18/idUS109623+18-Sep-2009+BW20090918 (accessed June 24, 2012).
[2816] Vatterott College, *Course Catalog Memphis Campus* (VAT-02-05-00070 at VAT-02-05-00080).
[2817] Vatterott Education Centers, Inc., *Programs*, 2012 http://www.vatterott.edu/programs.asp (accessed June 12, 2012). (Vatterott also offers a limited number of bachelor's degree programs.)
[2818] Vatterott campuses are located in: Illinois, Iowa, Kansas, Missouri, Nebraska, Ohio, Oklahoma, Tennessee, Texas and Virginia.
[2819] Vatterott Education Centers, Inc., *Frequently Asked Questions*, 2012 http://www.vatterott.edu/engage/FAQ%20-%20Engage%20output/Frequently%20Asked%20Questions%20-%20Engage%20output/engage.html (accessed June 25, 2012).

University.[2820] C. Kevin Landry is chairman of TA Associates. He also serves on the boards of eSecLending, a securities finance trust company, and MetroPCS Communications, Inc., a cell phone company.[2821]

In the fall of 2010, Vatterott enrolled 11,163 students.[2822] Enrollment nearly doubled since the company's acquisition by private equity firm TA, growing from 5,800 students in the fall of 2008.[2823]



The growth in enrollment has led to growth in revenue. Over the past 4 years, Vatterott's revenue has increased, growing from $94.8 million in 2006 to $141.1 million in 2009.[2824]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-

[2820] "Executive Profile: Pam Bell," *Bloomberg Businessweek*, http://investing.businessweek.com/research/stocks/private/person.asp?personId=9778146 (accessed June 25, 2012).
[2821] TAAssociates, *Our Team: C. Kevin Landry*, http://www.ta.com/team/team_boston.asp?ID=42 (accessed June 25, 2012).
[2822] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education 's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7.
[2823] The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.
[2824] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the Committee. See Appendix 18.

profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2825] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[2826]

In 2010, Vatterott reported 86.9 percent of revenue from title IV Federal financial aid programs.[2827] However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education programs.[2828] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 1.2 percent of Vatterott's revenue, or $2.3 million.[2829] With these funds included, 88.1 percent of Vatterott's total revenue was comprised of Federal education funds.[2830]

[2825] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq. Senate HELP committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

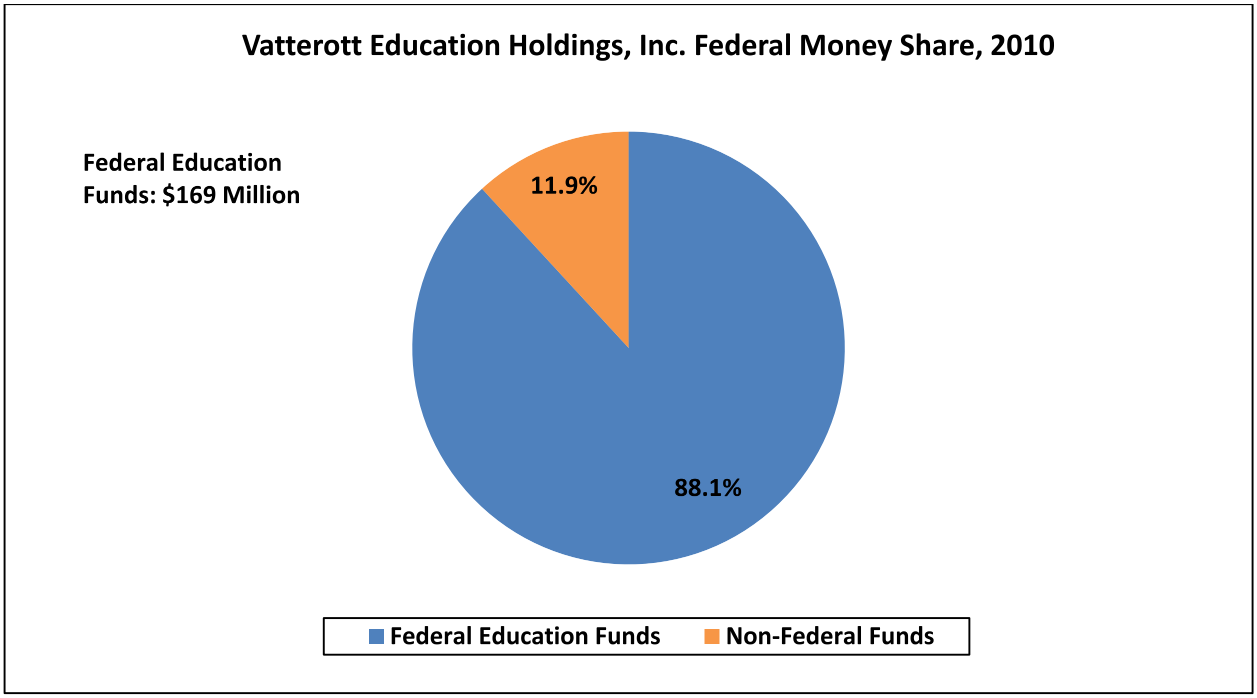
[2826] Senate HELP committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[2827] Id.

[2828] The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for Vatterott could not be extrapolated from the data the company provided to the committee.

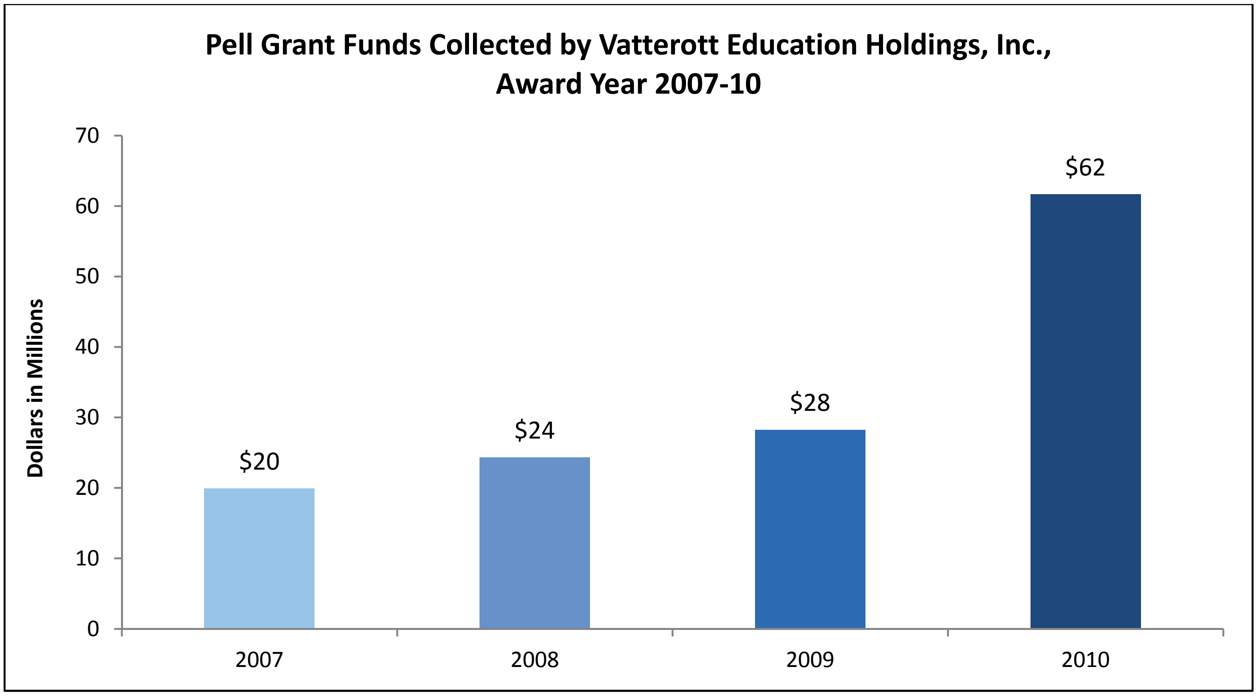
[2829] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; Post-9/11 GI Bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and Appendix 12.

[2830] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[2831] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[2831] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012).



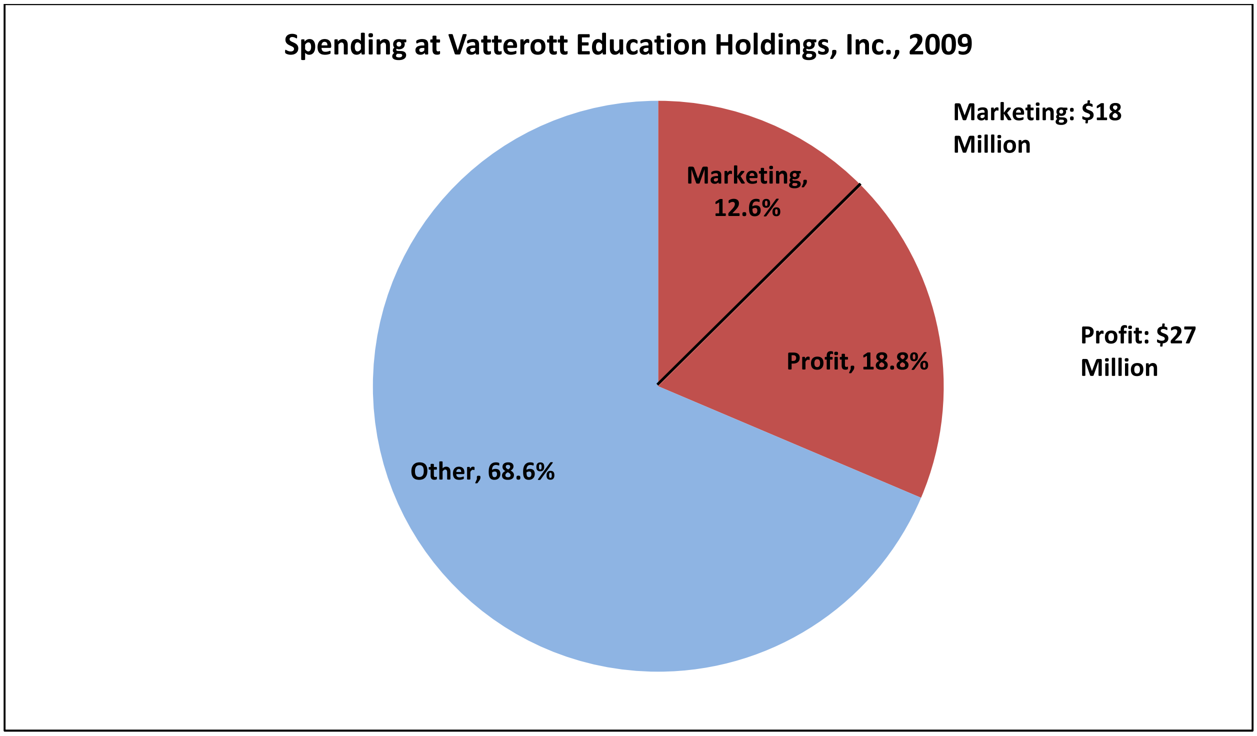
Vatterott more than tripled the amount of Pell grant funds it collected in just 3 years, from $19.9 million in 2007 to $61.6 million in 2010.[2832]

Spending

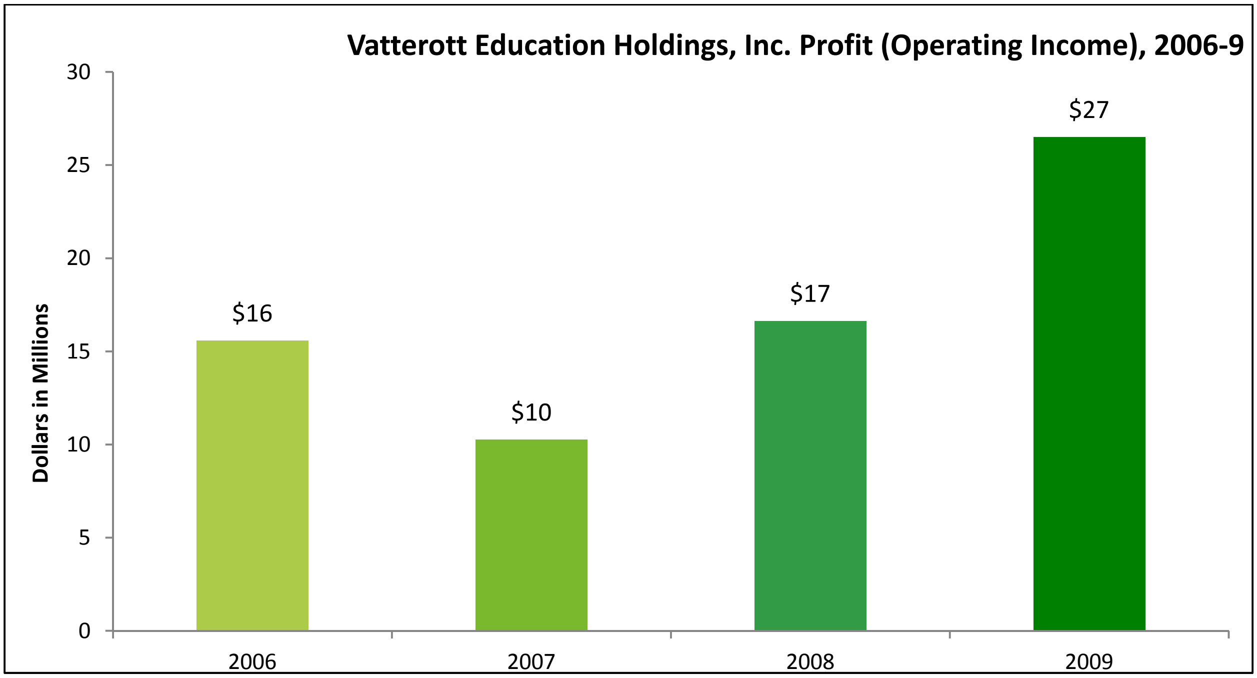
While Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[2833] During the same period the companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion) and 19.7 percent on profit ($3.2 billion).[2834] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

In 2009, Vatterott allocated 12.6 percent of its revenue, or $17.8 million, to marketing and recruiting and 18.8 percent, or $26.5 million, to profit.[2835]

[2832] Pell disbursements are reported according to the Department of Education's student aid "award year," other revenue figures are reported according to the company's fiscal year. Senate HELP committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 and 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012). See Appendix 13.
[2833] Senate HELP committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.
[2834] Senate HELP committee staff analysis of fiscal year 2009 financial statements. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.
[2835] Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.



Profit has increased rapidly at Vatterott since being acquired by TA Associates, growing from $16.6 million in 2008 to $26.5 million in 2009.[2836]



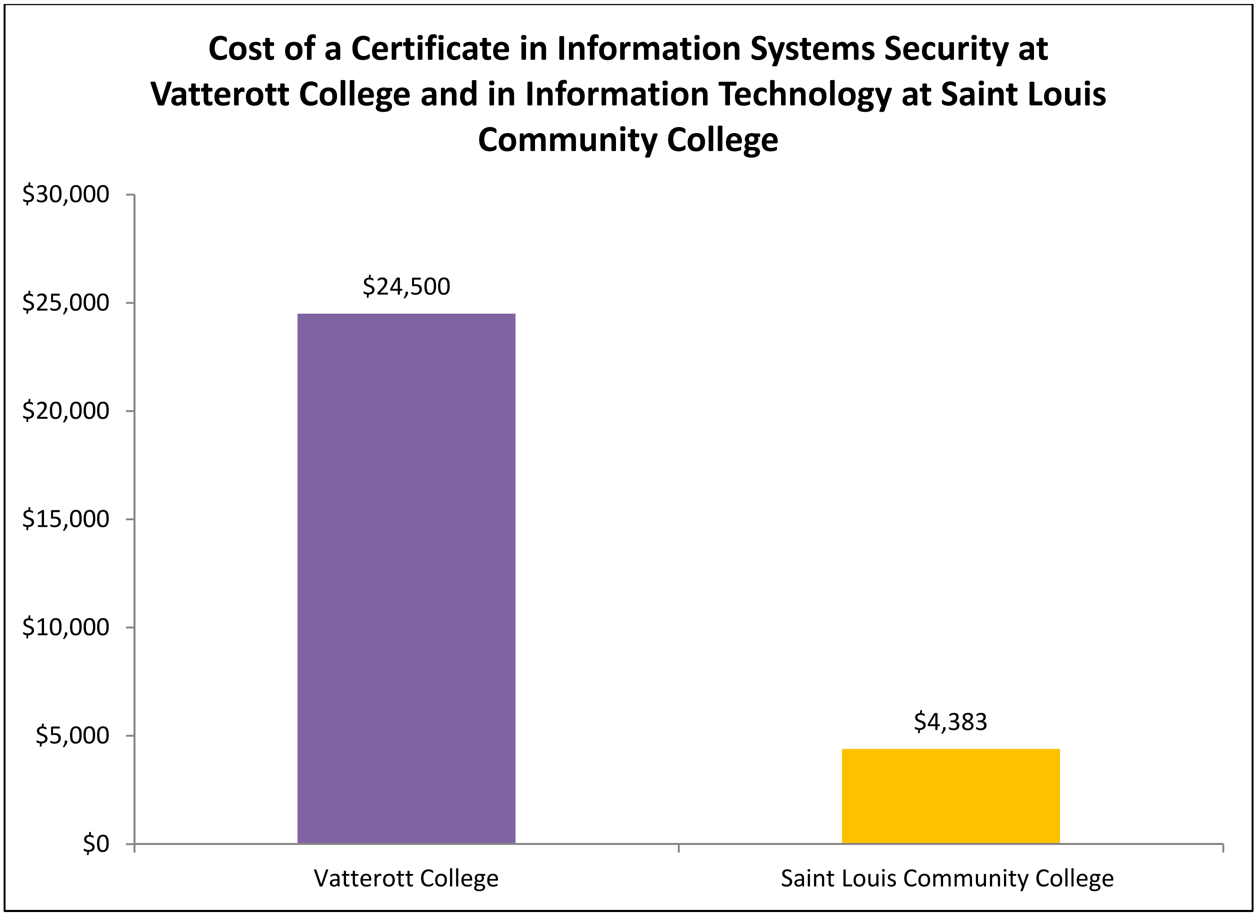
Executive Compensation

As a privately held company, Vatterott is not obligated to release executive compensation figures.

[2836] Senate HELP Committee staff analysis. See Appendix 18.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Vatterott. A Diploma in Information Systems Security costs $24,500.[2837] A similar degree at Saint Louis Community College costs $4,383.[2838]



The higher tuition that Vatterott charges is reflected in the amount of money that Vatterott collects for each veteran that it enrolls. From 2009–11, Vatterott trained 309 veterans and received $4.7 million in post-9/11 GI bill benefits, averaging $15,312 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[2839]

Internal Vatterott documents show a focus on deflecting students' concerns about community college cost comparisons. An "admissions techniques" guide to overcoming objections lists one possible objection as, "The community college is much cheaper, why are you so expensive?" Recruiters

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[2837] See Appendix 14; see also, Vatterott Education Centers, Inc. *Business Management: Courses in St. Louis, South County Campus – Sunset Hills: Instructional Costs*, http://www.vatterott.edu/sunset_hills/aos/business-management-courses.asp (accessed July 7, 2012).

[2838] See Appendix 14; see also, Saint Louis Community College, Saint Louis Community College, http://www.stlcc.edu/ (accessed July 7, 2012).

[2839] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.

are instructed to respond, "Our tuition is relative to other career colleges in the area," sidestepping the question.[2840]

Over the past 5 years, Vatterott has, for the most part, adhered to semi-annual tuition increases. But it seems management often had problems communicating tuition increases with individual campuses. In one email chain, Vatterott's corporate controller wrote, "I don't believe any of the campuses were aware that they received approval [to increase tuition], as all of the tuition proposals have the old pricing..." [2841] Such miscommunications often meant that some campuses did not increase tuition during the same terms as others and struggled with telling prospective students what tuition rates would be.

One email noted that the school would not increase tuition on an already enrolled student, leading one employee to write, "Whew…that's the right thing to do." [2842] But other employees tried to avoid enrolling students until tuition increases went into effect. Vatterott's vice president of operations wrote that schools could not start charging high rates until June 1, 2010, noting, "if anyone were to enroll in the start after 6/21 in May, they would still get to the old rate. Obviously try to avoid that." [2843] In another email chain, the same vice president pushed for quickly getting new rate information to individual campuses because, "I don't want to have a bunch of enrollments with the old rates. . ." [2844]

Vatterott's tuition increases were also partly driven by prices charged by competitors.[2845] A regional director wrote to campus directors of the Court Reporting Institute:

> We need to consider a much higher increase than the one pending approval. We need to consider implementation of the increase ASAP, as soon as we can get it approved. In the attached 2005 Annual Institutional Report you can find average tuition rates for other ACICS court reporting schools. CRI [Court Reporting Institute] appears to be on the low end of the scale *when we should be one of the price leaders*. [emphasis added] [2846]

In contrast, in response to an email asking whether individual campuses had raised tuition, one campus director wrote, "We may not increase medical as the competition is very tight and that is a new program for us here." [2847]

Vatterott's regular tuition increases directly impacted revenues. In responding to a request from a junior partner at a private equity firm regarding Vatterott's 2006 performance, Vatterott's CFO Dennis Beavers wrote, "Vatterott generated an increase in revenue of 4% as a result of tuition increases and a slight increase in enrollment." [2848]

[2840] Vatterott Educational Holdings, Inc., *Vatterott Admissions Techniques: Overcoming Objections*, (VAT-02-30-02862).
[2841] Vatterott Internal Email, *FW: TUITION UPDATES 2010-DIV 1*, August 9, 2010 (VAT-02-11-00221).
[2842] Vatterott Internal Email, *Concerning re: Catalog and new prices*, December 4, 2009 (VAT-02-11-00312).
[2843] Vatterott Internal Email, *RE: State Tuition Increase Acceptance*, May 14, 2010 (VAT-02-11-00411).
[2844] Vatterott Internal Email, *FW: Tuition Release*, January 8, 2009 (VAT-02-11-00644).
[2845] See, e.g., Email from Vatterott College Controller, *Tuition Increases, July 6, 2006* (VAT-02-11-00438). ("Can you pull together a list of competitors (other career schools) and what their tuition is?").
[2846] Vatterott Internal Email, *Various Policy & Procedures*, August 26, 2006 (VAT-02-11-00571).
[2847] Vatterott Internal Email, RE: *Tuition Increases*, July 06, 2006 (VAT-02-11-00475).
[2848] Vatterott Internal Email, RE: *2006 Performance*, April 23, 2007 (VAT-02-11-00039).

Recruiting

Enrollment growth is critical to the business success of for-profit education companies. In order to meet revenue and profit expectations for-profit colleges must recruit as many students as possible to sign up for their programs.

During the period examined and prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, documents clearly reflect the pressure on recruiters to meet enrollment targets. If a lead comes to Vatterott from the Internet, recruiters are advised to call the lead "everyday for a[t] least a month [sic]" and email the lead on the "first day and every week for a month." [2849] One the first day, recruiters must use a "blitz technique," in which they call until they get a live person.[2850] In general, recruiters must make 50 calls per day.[2851] An admissions coordinator performance review lists the first 3 criteria as "Phone Calls," "Enrollment Quotas," and "Starts." [2852] Written warnings and performance improvement plans require unsatisfactory employees to meet quotas for phone calls, appointments, and enrollments.[2853]

Vatterott also encourages competition among its recruiters. Executives send out weekly emails rewarding admissions "superstars" for the most enrollments that week.[2854] The recruiter with the most enrollments for the week at the Quincy, IL campus gets a special parking space.[2855] In 2008, the "Vatterott Derby" pitted campuses against each other based on the number of weekly calls, contacts, and interviews.[2856] The Quincy, IL, campus director told her recruiters that if they could get 70 enrollments in 1 week, "there maybe something in it for you….. hehehehehhehe (other than changing people's lives of course…) :) [sic]." [2857]

Perhaps as a result of the competition for enrollments, student complaints reflect that students regularly were given false expectations about the programs. For instance, one student wrote:

> The curriculum, as I was promised, was to be eighty percent hands-on instruction. Now I am told that the school is not equipped for this kind of instruction. Now I spend the majority of my class time reading the text book. I have attended classes on numerous occasions with no teacher for weeks at a time which led to me teaching myself and reading the text with no instruction.[2858]

Another student wrote, "while I had a general idea of what [Vatterott's] program would cost, the full tuition costs were not disclosed to me until after I had already committed to the program." [2859]

While student complaints may not be representative of the experience of the majority of students, they do provide an important window into practices that appear to be occurring.

[2849] Vatterott College, *Internet Leads: How to increase internet lead conversations,* (VAT-02-30-02504, at 02507).
[2850] Vatterott College, *How to Effectively Work Internet Leads,* July 1, 2005 (VAT-02-30-00217, at VAT-02-30-00221).
[2851] Vatterott Educational Centers, Inc., *Admissions Training: Back to the Basics,* (VAT-02-14-03304, VAT-02-14-03316).
[2852] Vatterott College, *Admissions Coordinator Performance Review,* September 28, 2004 (VAT-02-15-00151).
[2853] Vatterott Internal Memorandum, *Written Warning Memorandum and Performance Improvement Plan,* February 1, 2008 (VAT-02-15-00033); Note that performance documents were dated before the incentive compensation regulations took effect, and may have been revised somewhat since that date.
[2854] Vatterott Internal Email, *Weekly Rankings May 30.xls,* June 02, 2008 (VAT-02-30-07746).
[2855] Vatterott Internal Email, *Admissions Parking Spot,* September 23, 2009 (VAT-02-30-00086).
[2856] Vatterott Internal Email,., *Copy of Vatterott Derby score card Week 7 April 14-18.xls,* April 21, 2008 (VAT-02-30-00160, at VAT-02-30-00161).
[2857] Vatterott Internal Email,, *FW: admissions-report (2).xls,* July 8, 2008 (VAT-02-30-02789).
[2858] Student Complaint, October 8, 2007 (VAT-02-05-01317).
[2859] Texas Workforce Commission, *Student Complaint Record,* July 11, 2008 (VAT-02-05-00456, at VAT-02-05-00457).

Vatterott's recruiting techniques targets potential recruits because of those students' vulnerabilities. A presentation titled "DDC [Desire, Dedication, and Commitment] Training" provided recruiters with tips on how to recruit students who would actually enroll.[2860] The presentation asks, "Who are our students?" The response includes the following: "Welfare Mom w/ Kids," "Pregnant Ladies," "Recent Incarceration," and "Drug Rehabilitation." [2861] According to the presentation, these people "live in the moment and for the moment," "their decision to start, stay in school or quit school is based more on emotion than logic," and "pain is the greater motivator in the short term." [2862] Also according to the presentation, some people at the school questioned the admission of these people, saying, "This last batch of students you guys dumped in here are about the worst I've seen in years," "I just walked by orientation—WOW-SCARRRRY!," and "Do your ads say, LOSERS! ENROLL HERE!" [2863] The presentation continues, "These Students Are The Reason We're in Business!" [2864]

Vatterott has taken some action to prevent deceptive or illegal actions by staff. In one case, the school conducted an internal investigation into the use of deceptive recruiting tactics and voluntarily reported the issue to the Department of Education's Office of Inspector General. Three employees in the admissions and financial aid departments eventually pled guilty.[2865] Vatterott has also given at least one presentation aimed at preventing similar practices.[2866]

Yet students have little opportunity for recourse; Vatterott like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.[2867] This clause limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that a large number of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program, and 96 percent who enroll in a 4-year degree program, at a for-profit college take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[2868]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll atVatterott are not achieving their educational and career goals.

[2860] Vatterott Educational Centers, Inc., *DDC Training; Vatterott-Nation*, March 6, 2007 (VAT-02-14-03904).
[2861] Id. at VAT-02-14- 03913.
[2862] Id. at VAT-02-14-03914.
[2863] Id. at VAT-02-14-03915.
[2864] Id. at VAT-02-14-03916.
[2865] Vatterott Colleges, "Admissions Coordinator Training" (VAT-02-14-02021 at VAT-02-14-02028).
[2866] Id. at 02-14-02024.
[2867] See, e.g., Vatterott Colleges, Wheeler Institute of Texas, Court Reporting Institute of Huston, *Enrollment Contract for Court Reporting Program*, (VAT-02-05-00365, VAT-02-05-00366).
[2868] Patricia Steele & Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 14, 2012).

Retention Rates

Information provided to the committee by Vatterott indicates that out of the 9,407 students who were enrolled at Vatterott in 2008–9, 43.4 percent, or 4,080 students, had withdrawn by mid-2010.[2869] These withdrawn students were enrolled a median of 4 months. Of the more than two-thirds of Vatterott's students enrolled in Certificate programs 45.1 percent withdrew, significantly higher than the sector-wide Certificate withdrawal rate of 38 percent.[2870] Most of the remainder of Vatterott's students enroll in 2-year Associate degree programs. The withdrawal rate for Vatterott's Associate degree program is 39.7 percent, whereas the average withdrawal rate for Associate degree programs sector-wide was 62.8 percent.[2871]

Status of Students Enrolled in Vatterott Education Holdings, Inc. in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	3,041	39.3%	21.0%	39.7%	1,207	143
Certificate	6,366	42.1%	12.8%	45.1%	2,873	127
All Students	9,407	41.2%	15.5%	43.4%	4,080	127

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Student Loan Defaults

While the number of students leaving Vatterott without a degree is relatively low, the loan default rate is high. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[2872]

Slightly more than 1 in 5 students, who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[2873] In contrast, 1 student in 11 at public and non-profit

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[2869] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

[2870] Id. It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

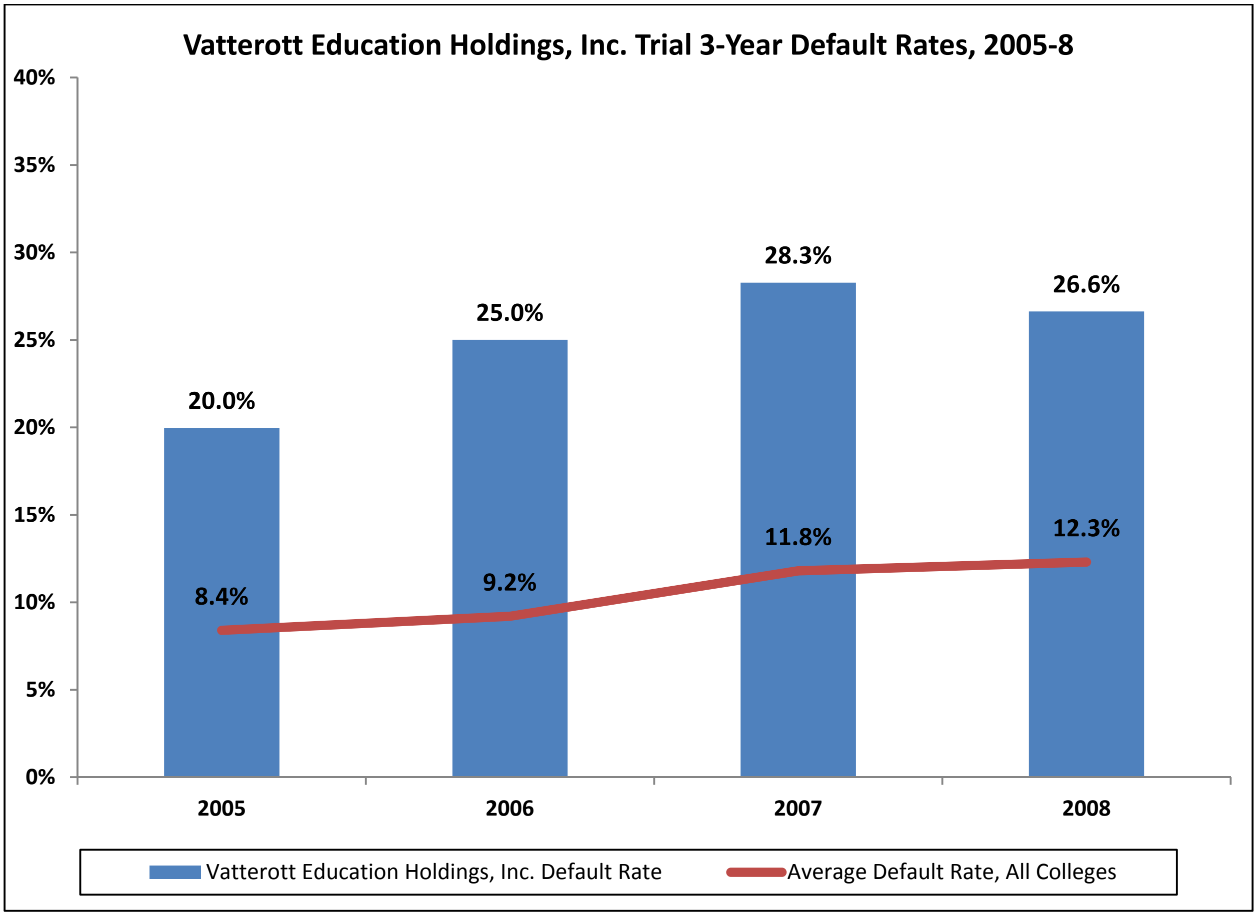
[2871] Id. The Bachelor's degree program rate included too few students to provide a meaningful comparison.

[2872] Direct Loan Default Rates, 34 C.F.R. § 668.183(c).

[2873] Senate HELP committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html (accessed July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default by sector.

schools defaulted within the same period.[2874] On the whole, students who attended for-profit schools default at nearly 3 times the rate of students who attended other types of institutions.[2875] The consequence of this higher rate is that almost half of all student loan defaults nationwide are held by students who attended for-profit colleges.[2876]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent. This change represents a 32.6 percent increase over 4 years.[2877] Vatterott's default rate has similarly increased, growing from 20 percent for students entering repayment in 2005 to 26.6 percent for students entering repayment in 2008. Vatterott's most recent default rate is nearly 20 percent higher than the rate for all for-profit colleges and more than double the rate for all schools.



It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Vatterott hired Horizon Educational Resources, Inc., a specialist in default prevention services, to counsel students into forbearance or deferment. In 2010, Horizon received a "delinquency counseling

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[2874] Id.
[2875] Id.
[2876] Id.
[2877] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html (accessed July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.

fee" of $10 per month per delinquent borrower.[2878] Vatterott also contracts with WISS Student Assistance Service, paying $5 for each student account tracked by WISS and $80 for each student assisted by WISS.[2879] Between January 2006 and September 2010, Vatterott paid Horizon and WISS a combined $637,523.[2880]

When a student is in forbearance their loan balances continue to grow as the result of accumulating interest but default is averted both for the student and the company.[2881] However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

Instruction and Academics

The quality of any college's academics is difficult to measure, however the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures. By looking at the instructional cost that all sectors of higher education report to the Department of Education, it is possible to compare spending on actual instruction.

Vatterott spent $2,404 per student on instruction in 2009, compared to $1,343 on marketing, $2,001 on profit.[2882] The amount that publicly traded for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. In contrast, public and non-profit schools, generally spend a higher amount per student on instruction. By comparison, St. Louis Community College spent, on a per student basis, $5,034.[2883]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools investigated by the committee, 80 percent of the faculty is part-time, higher in some companies.[2884] Vatterott has a more even division between full-time and part-time faculty. In 2010, the company employed 367 part-time and adjunct faculty members and 356 full-time members.[2885]

[2878] Horizon Educational Resources, *Contract with Vatterott Education Centers for Provision of Student Loan Default Prevention Services*, December 23, 2009 (VAT-02-21-00002, at VAT-02-21-00014).
[2879] Vatterott Educational Centers, Inc., *Participation Agreement*, December 21, 2000 (VAT-02-21-00030).
[2880] Vatterott Educational Centers, Inc., *Internal Document*, (VAT-02-21-00001); See also, Email from Mark Fowler, *SFA Compliance Audit*, February 26, 2007 (VAT-02-36-00521).
[2881] Id.
[2882] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.
[2883] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes–which do not include construction, leasing and maintenance of physical buildings–are not passed on to students, who pay the same or higher tuition for online courses.
[2884] Senate HELP committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[2885] Id.

However, it does seem that Vatterott has difficulties with faculty and instructional materials. One student stated, "I believe I could receive a better education sitting at home reading the books and it would cost a lot less money…." [2886] Another student wrote, "during the two months that I have been enrolled at the North Park campus, I have had no instruction on anything." [2887] Still another said, "We had unqualified instructors, a poorly organized & weak curriculum, [and] labs that were poorly equipped." [2888]

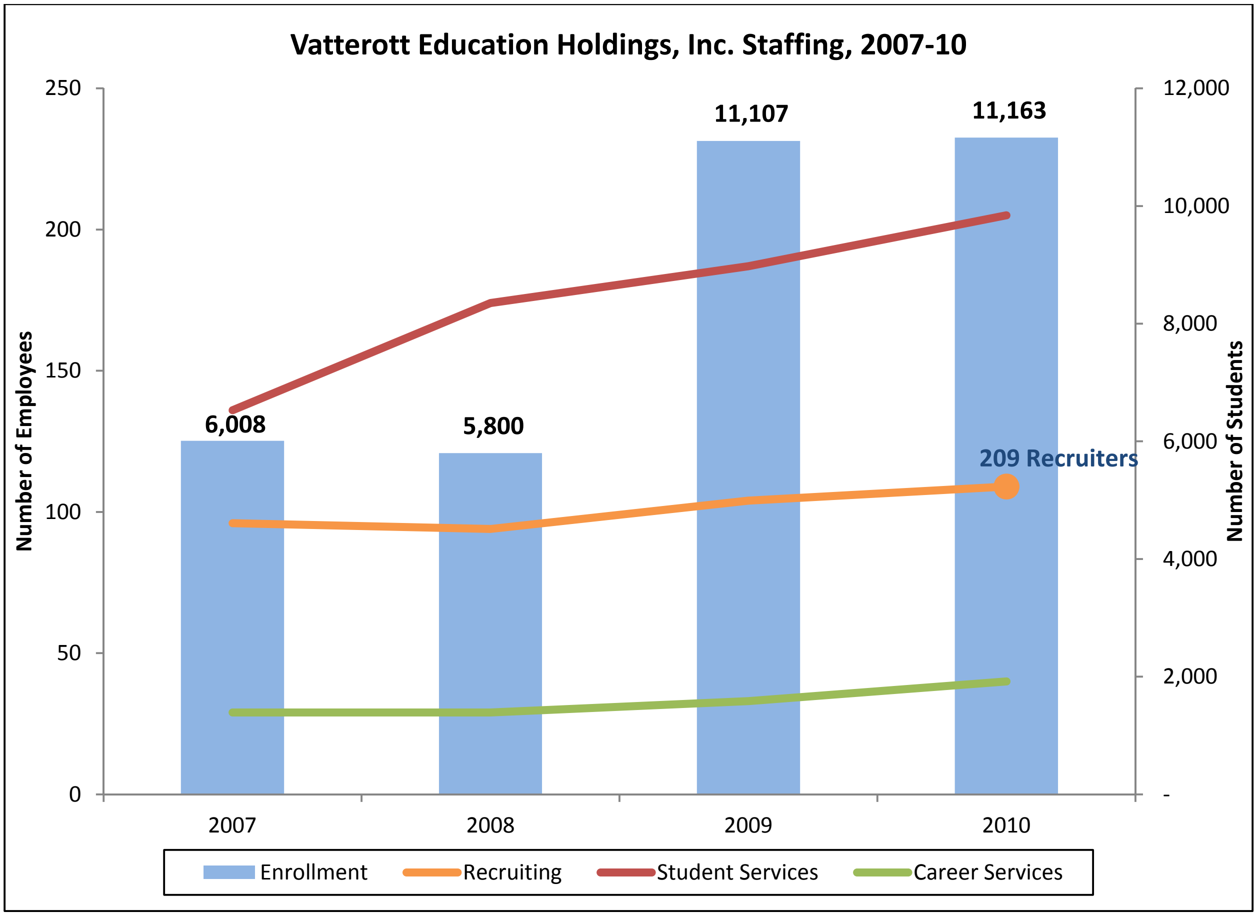
Further, several students complained to the Better Business Bureau about their HVAC program at a Missouri campus. The students wrote that their first instructor was "fired a week into the [first] phase after verbally attacking and threatening a student." [2889] The substitute replacement did not provide quality education, nor did a recent Vatterott graduate who "had poor classroom management and lack of experience in the field…" [2890] The students did note that one of their professors with actual experience was very good. The students also complained about the poor quality of the lab space, noting that the labs were moved and rebuilt several times during the students' program. The students also had to share equipment, which was often old and not in working condition.[2891] To Vatterott's credit, the school took some remedial action, but also attempted to discredit the underlying concerns by arguing that the reconfigurations of labs did not "affect the training." [2892]

While student complaints may not be representative of the experience of the majority of students, these complaints do provide an important perspective on Vatterott's academic quality.

Staffing

Overall, while for-profit education companies employ large numbers of recruiters to enroll new students, these same companies have far less staff to provide tutoring, remedial services or career counseling and placement. Vatterott's recruiting and admissions employees, however, do not outnumber employees in student or career services. In 2010, with 11,163 students, Vatterott employed 116 recruiters, 40 career services employees, and 205 student services employees.[2893]

[2886] Letter, November 17, 2009 (VAT-02-05-01888).
[2887] Letter to Pamela Bell, May 5, 2008 (VAT-02-05-00675, at VAT-02-05-00677).
[2888] Letter to Better Business Bureau, March 3, 2006 (VAT-02-05-00215,atVAT-02-05-00225).
[2889] Id. at VAT-02-05-00221.
[2890] Id.
[2891] Id. VAT-02-05-00225.
[2892] Id. at VAT-02-05-00216.
[2893] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.



Vatterott's large number of student services staff stems, in part, from the Vatterott Student Tutoring, Advising, and Retention (V–STAR) program, which offers new students weekly seminars, guest speakers, and brown bag luncheons during their first term to help them meet other students and learn about the school's support services.[2894]

Regulatory Strategies

For-profit education companies are subject to 2 key regulatory provisions: that no more than 90 percent of revenues come from title IV Federal financial aid programs and that no more than 25 percent of students default within 2 years of entering loan repayment. Some companies, including Vatterott, lower their reported default rates by placing students in forbearances and deferments to delay default. Moreover, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal financial aid programs.

The 90/10 rule is a serious regulatory concern for Vatterott.[2895] Document after document reviewed by the committee shows Vatterott employees working to lower the school's rate before January 1 of any given year. For example, in a November 2008 email, a Vatterott financial aid analyst asked another employee to review individual student accounts to verify whether their financial aid

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[2894] Vatterott Educational Centers, Inc., *Summary of current Debt Management Plan* (VAT-02-20-00005, at VAT-02-20-00006-9).
[2895] See, generally, Email from Leean Edwards, *90/10 to Campus Directors*, April 28, 2010 (VAT-02-09-00023).

would come in. The analyst added, “The goal is obviously to get as much of these ‘ten’ sources in by the end of December as possible due to how close the 90/10 calculation is probably going to be.” [2896]

Vatterott’s 90/10 ratio in 2008 was so bad that executives completely shut off title IV disbursements to 3 campuses in October.[2897] Internal emails show Vatterott intentionally did not share this information with its students. Vatterott’s corporate director of financial aid wrote to other employees, “Remember – we are not sharing with the students that we are not disbursing…it’s a software issue and it’s temporary.” [2898]

Vatterott’s 90/10 ratio continued to be a problem in 2009. As late as December 23, 10 of Vatterott’s campuses had 90/10 ratios well into the 90s. Oklahoma City, for example, had a 90/10 ratio of 97.39 percent.[2899] However, Vatterott only had to report 90/10 ratios for regions as a whole, meaning those schools were counteracted by schools within the required ratio. Because Oklahoma City was so far over the required ratio, Vatterott worked vigorously to get it switched to a region with a lower average 90/10 ratio.

The 90/10 regulation leads some education companies to increase tuition. Like many companies examined, Vatterott prices its tuition so that it is difficult for students to finance the cost of tuition with Federal student aid funds alone. Students must then find a way to pay for this gap, often using alternative loans if they cannot pay cash. In May 2007, Vatterott CFO Dennis Beavers sent an email explaining an upcoming tuition increase:

> The reason the increase needs to happen as soon as possible is that all students starting after July 1 will be eligible for the increased loan limits for the entire duration of their schooling. Thus we are likely to run into 90/10 problems if we don’t increase tuition.[2900]

Similarly, in an email discussing pending policy issues for the school, a regional director wrote, “your 90:10 ratio mandates a more aggressive approach to pricing.” [2901] Companies like Vatterott appear to fail to consider, or consider and dismiss, the possibility of reducing tuition and attracting some students who are willing and able to make cash payments towards their education, thus meeting the policy goal of the regulation: to ensure that colleges and the programs they offer are of sufficient quality to draw some cash-paying students. At least for some schools, such a policy is unacceptable because of the potential reductions in revenue and profit.

Additionally, Vatterott uses the revenues from its student-run salons and restaurants in the “10” side of its revenues. As Vatterott’s CFO Dennis Beavers noted, funds from campus salons and restaurants is “a key component to meeting our 90/10 ratio and requires everyone’s focus.” [2902] Everyone included students. In an email titled, “90/10 and Cosmo,” the campus director of Vatterott’s Joplin, MO, campus wrote, “Our students need to know the value of selling retail and our syllabi should drive them to not only sell retail products, but develop a client book of business – they should be ‘re-booking’ the client for the next service.” [2903]

[2896] Email from Vatterott College Corporate Office, *RE: Students to review*, November 21, 2008 (VAT-02-33-00017).
[2897] Email from Lois Madsen, *90 10 at 020693*, October 10, 2008 (VAT-02-09-00039).
[2898] Email from Vatterott Educational Centers, Inc., *Latoya Hawkins account card.pdf*, October 06, 2009 (VAT-02-09-00907).
[2899] Email from Lois Madsen, *FW: 90/10 Calculations*, December 23, 2009 (VAT-02-09-00596).
[2900] Email from Dennis Beavers, *RE: TUITION INCREASE*, May 10, 2007 (VAT-02-11-00071).
[2901] Email from Vatterott Educational Centers, Inc., *Various Policy & Procedures*, August 26, 2006 (VAT-02-11-00571).
[2902] Email from Dennis Beavers, *Important Information! – Salon/Restaurant Budget to Actual Report – Feb 2010 and April Budget*, March 18, 2010 (VAT-02-09-00883).
[2903] Email from Vatterott College Campus Director, *90/10 and Cosmo*, September 27, 2008 (VAT-02-09-02537).

Vatterott also takes advantage of military funds to manage its 90/10 ratio.[2904] Indeed, when counting all Federal money including military education benefits, Vatterott received 93.1 percent of total revenues from the Federal Government in 2009.

In addition to title IV and military funding, Vatterott sought State money, employer reimbursements, and a variety of other non-Federal funds.[2905] Corporate officials especially pushed for Workforce Investment Act and Trade Adjustment Assistance funds, with one employee calling it a possible "90/10 bonanza for us." [2906] Vatterott was so successful in its efforts that, in April 2010, it held 30 percent of all the Trade Adjustment Assistance funding in the entire State of Missouri.[2907]

Vatterott also attempted to address its 90/10 concerns by selling uncollected student debt to consumer debt purchasers.[2908] As part of the company's end-of-year 90/10 procedures, they sold existing student debt to Global Acceptance Credit Corporation, allowing the company to list the proceeds from the sale favorably in its 90/10 reporting for the year.[2909]

Multiple students complained about aggressive debt collection. One student filed a complaint with the Better Business Bureau claiming Vatterott never notified her of an outstanding balance and that she only received notice of her default from an attorney's office. When she went to the school an accounting department employee "apologized deeply and then told me that I was one of 'thousands' of people that this happened to." The employee could not help the student because "the corporate office took all accounts from every campus and sold them to collections." [2910]

Conclusion

Like many others in the sector, Vatterott's enrollment increased rapidly over the past decade, particularly in the 2 years following the company's acquisition by private equity firm TA Associates. With this growth in enrollment, Vatterott has received increasing amounts of Federal financial aid dollars and realized significant increases in profit. However, the company offers a relatively robust student service support structure through its V–STAR program. And while the withdrawal rate for students who left Vatterott before attaining a Certificate or degree is far below average, the company's relatively high student loan default rates suggest that students completing its programs may not be able to obtain employment or salaries that enable them to repay the debt they incur. Taken together, these outcomes cast serious doubt on whether Vatterott students are receiving an education that affords them adequate value relative to the cost, and call into question the $169 million investment American taxpayers made in the company in 2010.

[2904] See, generally, Email from Vatterott Educational Centers, Inc., *RE: GI Bill ENROLLMENT*, August 17, 2010 (VAT-02-09-00033).
[2905] See, e.g., Email from Vatterott Educational Centers, Inc., *FW: Agency Fund Sources*, July 7, 2010 (VAT-02-09-00027).
[2906] Internal Email, *RE: Trade Adjustment Assistance,* January 26, 2010 (VAT-02-09-00918).
[2907] Email from Vatterott Educational Centers, Inc., *90/10 to Campus Directors*, April 28, 2010 (VAT-02-09-00023).
[2908] Email from Mark Fowler, *90/10 Procedures for Year End*, December 5, 2007 (VAT-02-09-00623); see also Vatterott Educational Centers, Inc., *Better Business Bureau Complaint Activity Record,* March 2, 2005 (VAT-02-05-00001).
[2909] Id.
[2910] Vatterott Educational Centers, Inc., *Better Business Bureau Complaint Activity Record*, March 2, 2005 (VAT-02-05-00001).

Walden University

Introduction

Like many for-profit education companies, Walden LLC has experienced steady growth in student enrollment, Federal funds collected, and profit realized in recent years. However, the company's performance, measured by student withdrawal and default rates, is perhaps the best of any company examined, and it appears that students are faring well at this predominantly graduate degree-based for-profit college.

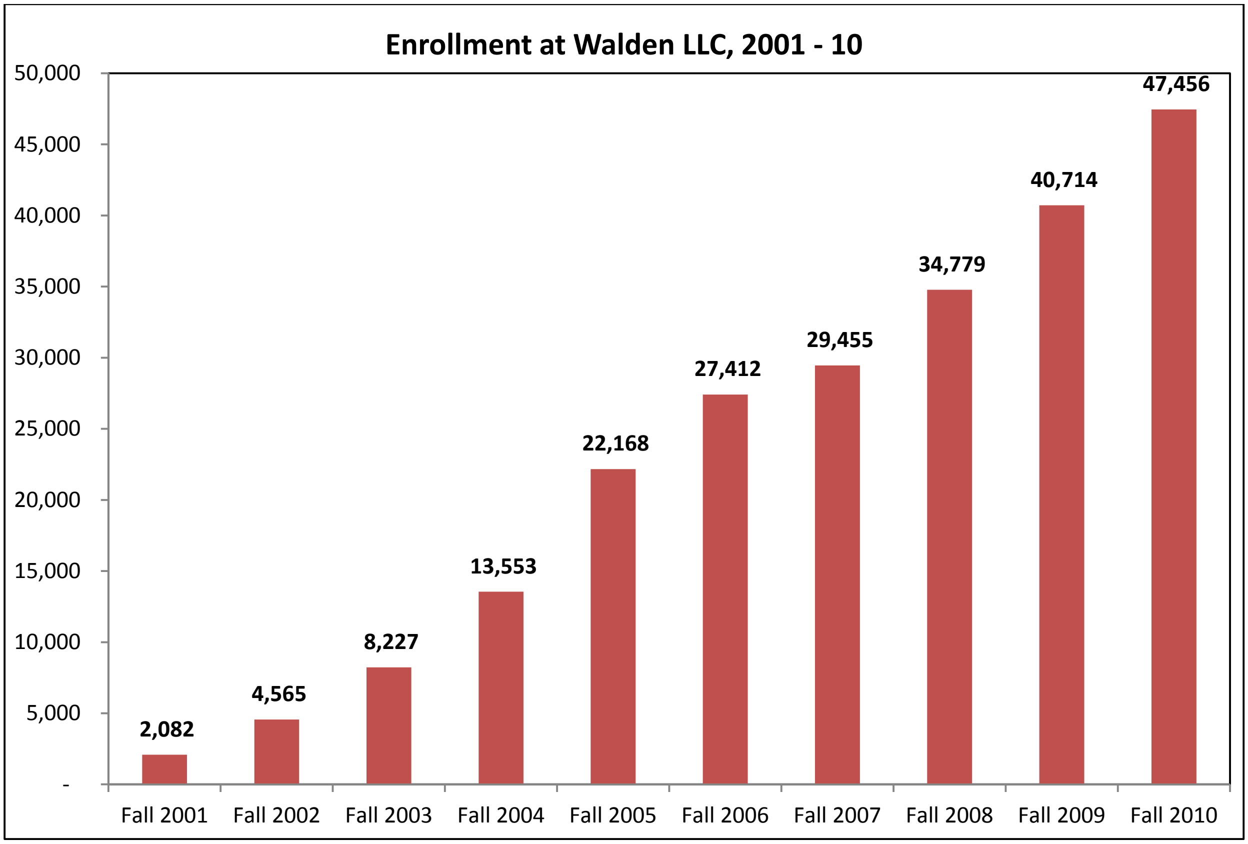
Company Overview

Walden LLC ("Walden") is a privately held, for-profit education company headquartered in Minneapolis, MN. Founded in Florida in 1970 by Bernie and Rita Turner, Walden originally awarded Doctoral degrees in school administration. After being licensed by Minnesota in 1979, Walden moved its headquarters to Minneapolis, and in 1995 began offering an online Master's program in education. In 2002, Baltimore, MD based Sylvan Learning Systems, Inc. gained a controlling interest in Walden, and in 2004, Sylvan Learning Systems became Laureate Education, Inc. In 2007, Laureate Education, Inc. was purchased by a consortium led by private equity firm KKR & Co. LP, which is currently the majority interest holder in the privately held company. Recent reports suggest that Laureate may be preparing an initial public offering.[2911] Jonathan Kaplan is the chief executive officer of Walden University after serving as president since 2007, and Douglas Becker is the chief executive officer of Laureate Education, Inc.

The majority of Laureate's for-profit college holdings are international. Walden is the primary domestic for-profit college owned by the company. Today, Walden University operates exclusively online and offers Bachelor's degrees, as well as a variety of Master's programs in education, health and business, post-baccalaureate Certificates, and Doctoral degree programs. The vast majority of Walden University students, more than 85 percent, enroll in graduate degree programs, and the majority of those graduate students enroll in Walden's education program.

Like more than half of the regionally accredited brands the committee examined, Walden University is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC). At the time HLC first accredited Walden in 1990, it enrolled 422 students.

[2911] Olivia Oran and Soyoung Kim, "Laureate eyes IPO up to $750 million, hires banks: sources," *Reuters*, April 9, 2012 http://www.reuters.com/article/2012/04/09/us-laureate-ipo-idUSBRE8380VW20120409 (accessed June 22, 2012).



Walden has grown significantly over the last decade, with enrollment increasing by more than 2,000 percent since 2001.[2912] Enrollment grew by more than 60 percent in the 4 years following the purchase by KKR and its private equity partners. The growth in enrollment led to growth in revenue. Revenue at Walden grew steadily, from $190.7 million in 2006 to $377 million in 2009.[2913]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2914] Together, the 30

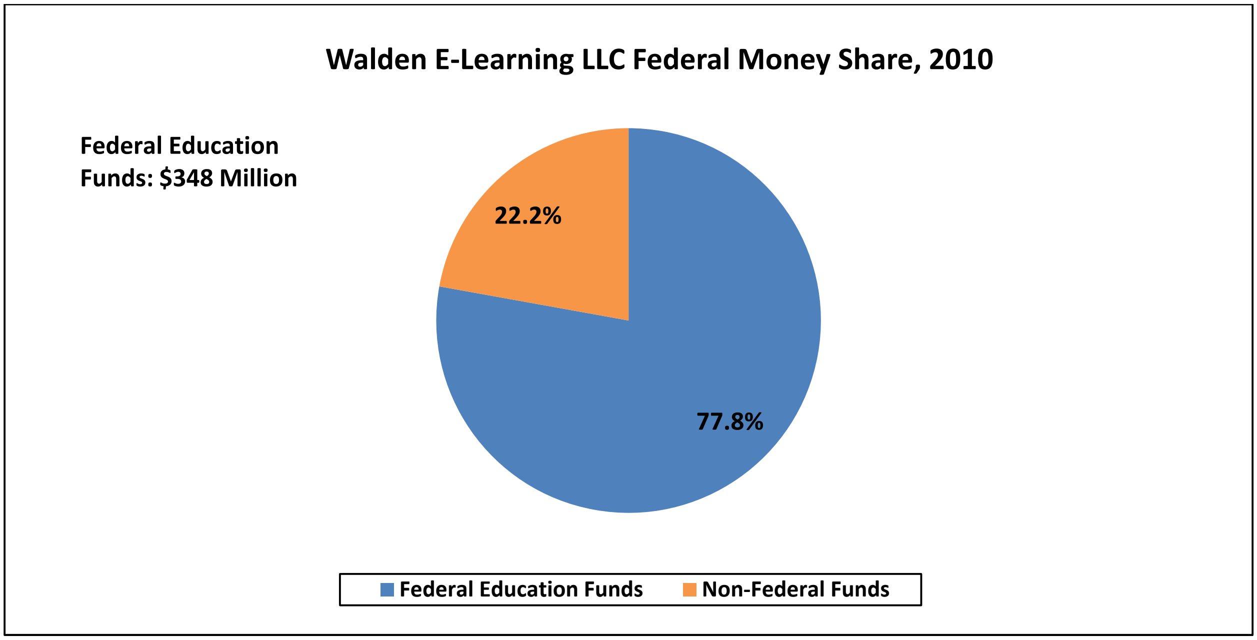
[2912] Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This also led to a decrease in revenue and profit at some companies.

[2913] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are from the company financial statements produced to the committee. See Appendix 18.

[2914] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education. "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[2915]

In 2010, Walden reported 76.4 percent of revenue from Federal financial aid programs.[2916] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.[2917] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 1.4 percent of Walden's revenue, or $6.2 million.[2918] With these funds included, an estimated 77.8 percent of Walden's total revenue was comprised of Federal education funds.[2919]



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of the total Pell program that for-profit colleges

2915 Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

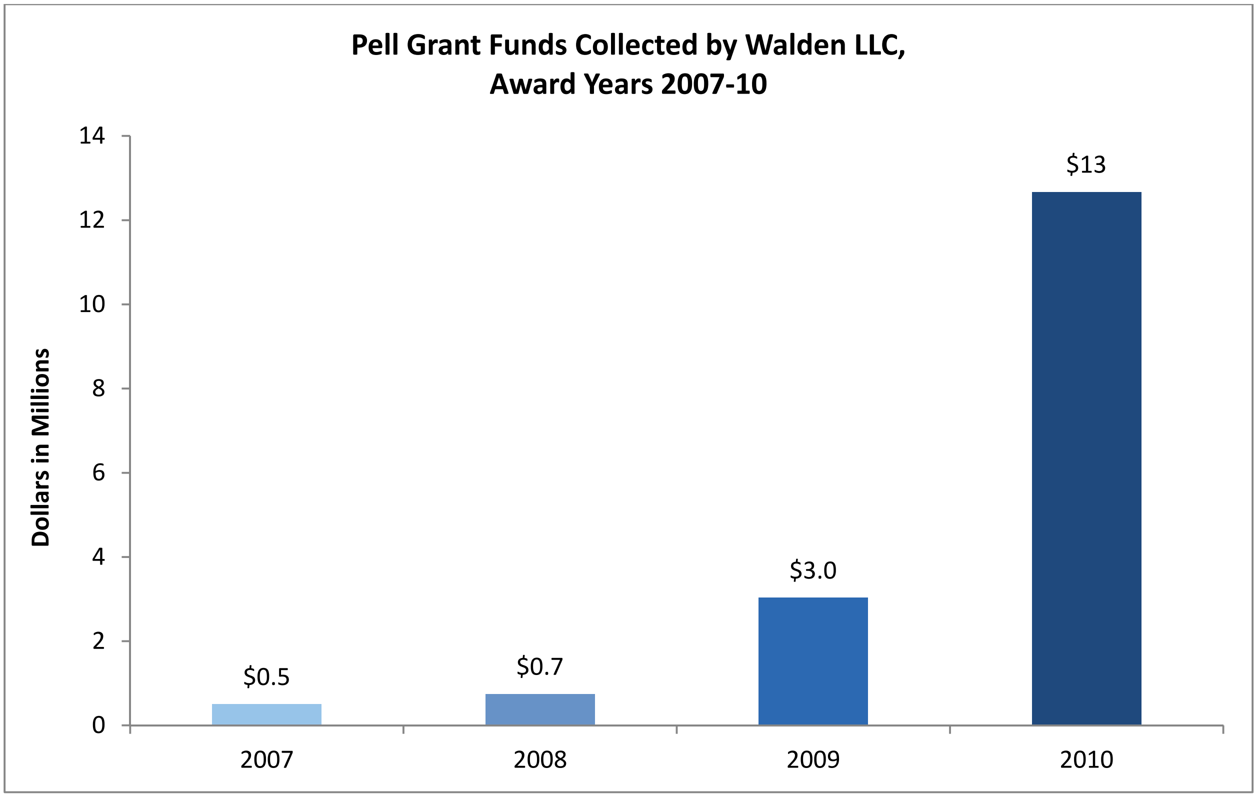
2916 Id.

2917 The Ensuring Continued Access to Student Loans Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, Walden officials informed committee staff that the company opted not to take advantage of the provision and did not exclude any Federal financial aid from the calculation of Federal revenues during this period.

2918 Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the Committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. As explained in Appendix 11 and 12, data provided by the Department of Defense and the Department of Veterans Affairs was provided on an award year basis for both 2009-10 and 2010-11. Committee staff calculated the average monthly amount of benefits collected from DOD and VA for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

2919 "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.

collected increased from 14 to 25 percent.[2920] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.



Walden collected $505,712 in Pell grant funds in 2007. Just 3 years later, in 2010, the company collected $12.7 million; while the dollar amount remains small, this is an increase of more than 2,000 percent.[2921]

Spending

While Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[2922] During

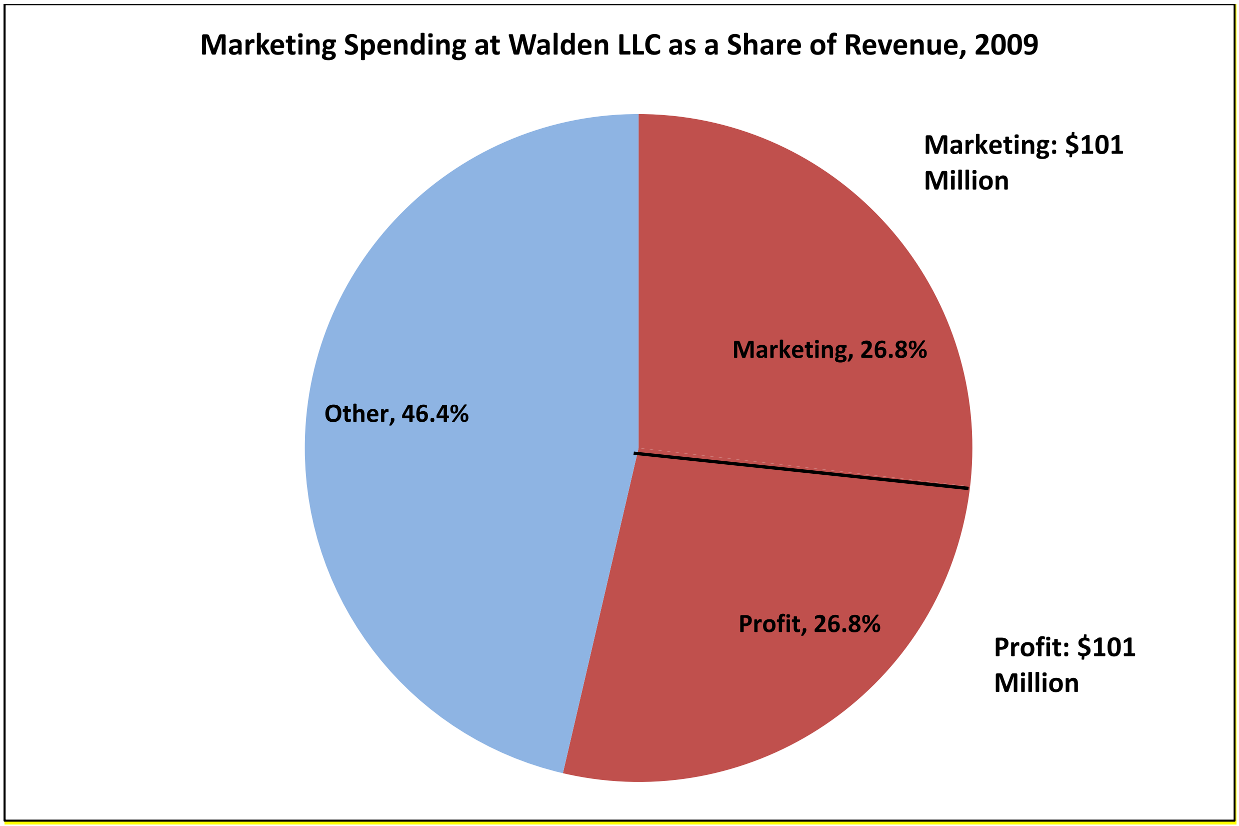
[2920] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html

[2921] Pell disbursements are reported according to the Department of Education's student aid "award year," other revenue figures are reported according to the company's fiscal year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

[2922] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

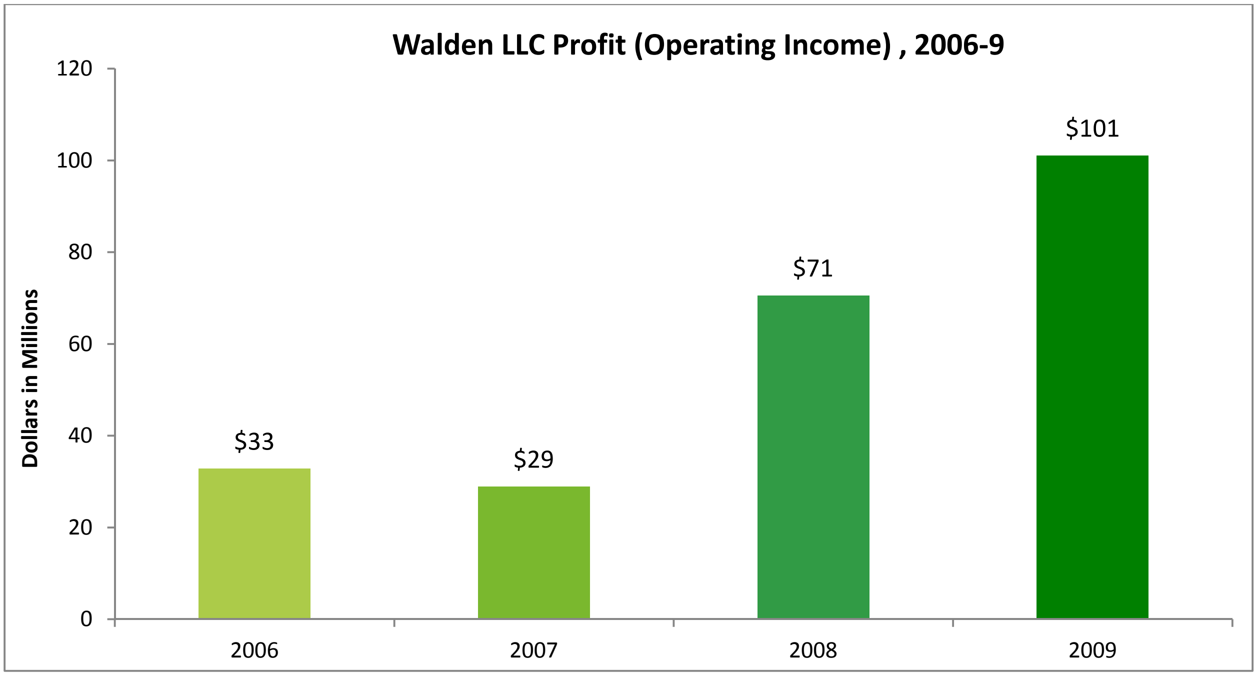
the same period, the companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion) and 19.7 percent on profit ($3.2 billion).[2923]

In 2009, Walden devoted 26.8 percent of its revenue, or $101 million, to marketing and recruiting, and 26.8 percent, or $101 million, to profit.[2924] The percentage of revenue Walden allocates to both marketing and profit exceeds the for-profit sector average.[2925] On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.[2926]



In 2009, Walden devoted 58 percent of its total revenue, or $202 million, to marketing, recruiting and profit.[2927] Moreover, the amount of profit Walden generated increased rapidly, growing from $33 million in 2006 to $101 million in 2009, a 200 percent increase in just 3 years.[2928]

[2923] Senate HELP Committee staff analysis of fiscal year 2009 financial statements and information provided to the committee by each company pursuant to the committee document request of August 5, 2010. Profit figures represent operating income before tax and other non-operating expenses including depreciation. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.
[2924] Id.
[2925] The higher percentage Walden spent on marketing may reflect a company decision to pursue higher quality student "leads." Walden executives specifically note that they believe it is "more expensive to market well than not." Letter from Walden University chief executive officer Jonathan Kaplan to committee staff, June 19, 2012.
[2926] Senate HELP Committee staff analysis. See Appendix 19.
[2927] Id. The "other" category includes administration, instruction, faculty salaries, executive compensation, student services, facilities, maintenance and other expenditures.
[2928] Senate HELP Committee staff analysis. See Appendix 18. In its original response to the committee Walden noted that "It is noteworthy for the Committee that a significant reinvestment of Walden's profits each year are made back into the university's program development, information technology systems, infrastructure, student services and other areas that support our students and institution."



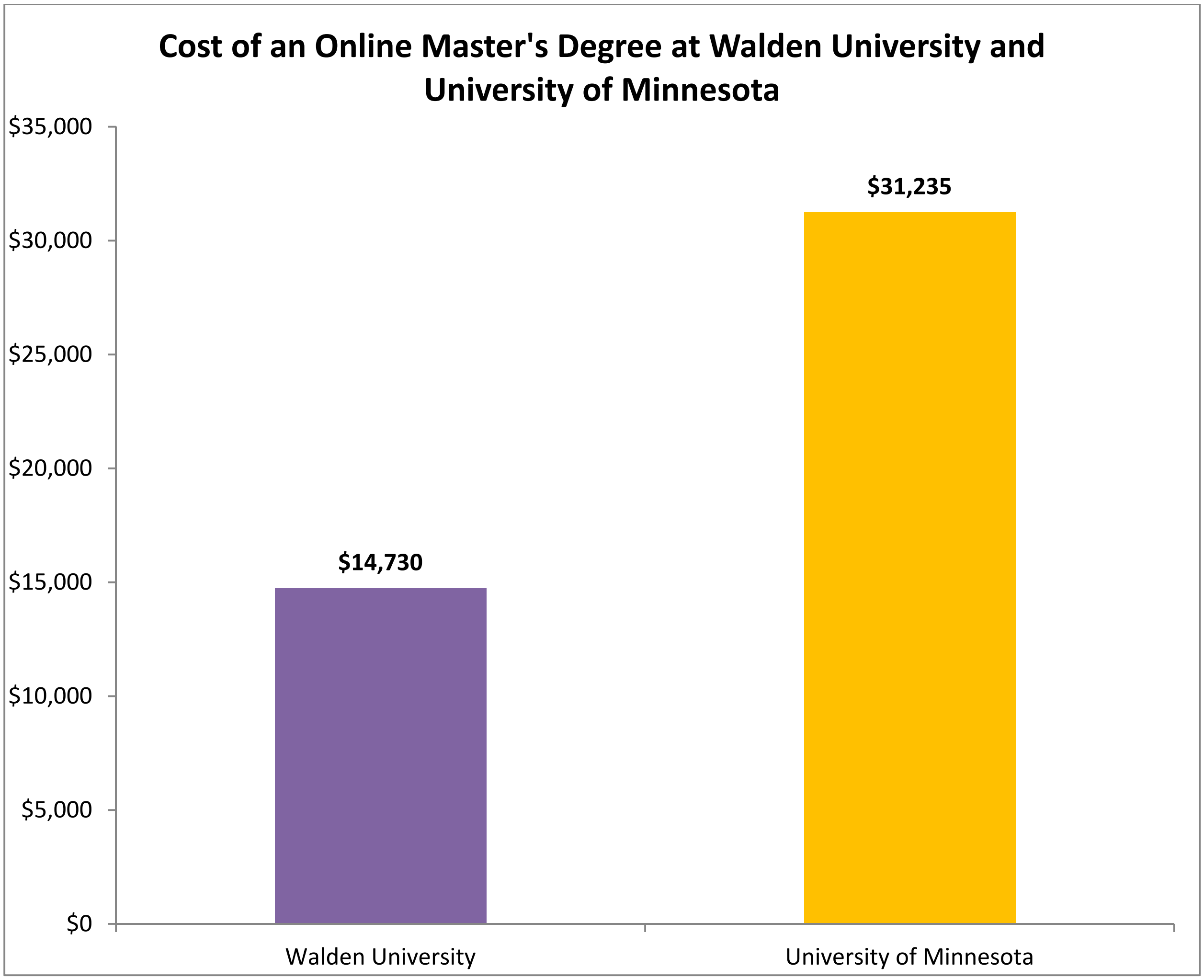
Executive Compensation

As a privately held company, Walden is not obligated to release executive compensation figures.

Tuition and Other Academic Charges

Unlike many of the for-profit colleges the committee examined, when compared to its online public and non-profit counterparts, Walden is competitively priced. A Master's in Education at Walden University costs $14,730.[2929] The same online degree at University of Minnesota costs $31,235.[2930] An online Bachelor of Science in Business Administration degree at Walden University costs $56,800.[2931] The same degree at the University of Minnesota costs $56,240.[2932]

[2929] See Appendix 14; See also, Walden University, *Program Data*, http://www.waldenu.edu/Degree-Programs/Masters/41574.htm (accessed June 22, 2012). Walden offers a range of Master's degrees in the education field. In addition to an M.S. in Education, they offer an M.S. in higher education, adult learning, early childhood studies, and instructional design. The cost of these other degrees is greater than the M.S. in Education, making the $14,730 30-credit M.S. in education the most conservative estimate of degree cost.
[2930] See Appendix 14; See also, University of Minnesota, *University of Minnesota*, http://onestop.umn.edu/ (accessed June 22, 2012).
[2931] See Appendix 14; See also, University of Minnesota, *University of Minnesota*, http://onestop.umn.edu/ (accessed June 22, 2012).
[2932] Id.



From 2009–11, Walden spent an average of $9,824to train veterans eligible for post-9/11 GI bill benefits, compared to an average of $4,642 per veteran spent by public colleges.[2933] While Walden collects more than average for each veteran it enrolls, the public college average includes students attending less expensive 2-year degree programs which are not offered by Walden.

Recruiting

Enrollment growth is critical to the business success of for-profit education companies. In order to meet revenue and profit expectations, for-profit colleges recruit as many students as possible to sign up for their programs.

During the period examined, and prior to the July 2011 ban on paying recruiters based on the number of students enrolled, documents produced by the company reveal an enrollment-driven culture that may have influenced the recruiting tactics employed by the enrollment staff. For example, Walden's sales staff employed "overcoming objections" scripts that anticipate and rebut the types of

[2933] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans Affairs via the Department of Veterans Affairs on July 18, 2011.

objections prospective students have.[2934] The objections covered include cost, time to completion, time commitment, third party concerns, credibility, school support services, lack of face-to-face instruction, and other school shopping.[2935]

The company also closely monitors "talk time," the amount of time recruiters spend on the phone with prospective students and hold weekly "talk time challenges." [2936] In mid-2008, a mid-level enrollment manager also developed an initiative to increase the amount of talk time expected of each enrollment advisor with the objective of "defining and strengthening our sales culture." [2937] While company officials state that the initiative was never implemented, it was envisioned as a two-stage process to increase the time enrollment advisors were expected to spend on the phone by 3 to 4 hours each day.[2938] Other internal emails announce and discuss additional employee contests and recognition events.[2939]

While the majority of student responses to Walden's 2007 enrollment advisor scorecard survey indicate that students were satisfied with the recruiting process, some students complained that recruiters misled them in order to induce their enrollment.[2940] While student complaints are not representative of the experience of the majority of students, they do provide an important window into practices that appear to be occurring. One such complaint included in the survey reads:

> [My enrollment advisor] told me that I would be allowed to double my classes after I had completed the first course. I then petitioned to do this. I was told that this is not true. The ability to double up was one of the main reasons I chose Walden. I am VERY UPSET that I was LIED to … Unfortunately, I have already invested a great deal of money and time into this program. If this were not the case, I would reevaluate my choice.[2941]

The most frequent complaint lodged by Walden students was that enrollment advisors misrepresented the time commitment required. One student writes:

> I think the advisor need to be more honest about the online time and requirements … I think advisors should be honest about the required dedication and time it will take to pursue an online degree.[2942]

Indeed, the results of the 2010 student satisfaction survey published on Walden's Web site indicate that approximately 50 percent of students responded that the amount of time required for their program was above what they expected when they first started.[2943]

[2934] See Walden E-Learning LLC, *Overcoming Objections* (WALDEN-HELP-0006443) [NOTE: Internal training document with title, no date]; Walden University, *Overcoming Objections* (WALDEN-HELP-0006290) [NOTE: Internal training document with title, no date].
[2935] Id. at WALDEN-HELP-0006443.
[2936] Walden University, *Spirit Day Winners!!*, June 13, 2008 (WALDEN-HELP-0039862). While Walden continues to use and monitor talk time, it plays no role in setting compensation. A focus on the time spent speaking to prospective students is in many ways a more appropriate policy than tracking the number of calls recruiters are required to make as is the practice at many other for-profit colleges.
[2937] Walden University, *Re: Talk Time Initiative*, July 1, 2008 (WALDEN-HELP-0039869 at WALDEN-HELP-0039871).
[2938] Id. See also Walden E-Learning LLC, *Talk Time Initiative,* (WALDEN-HELP-0037558). [NOTE: Internal training document, no date].
[2939] Walden University, *Spirit Day Tomorrow!,* June 26, 2008 (WALDEN-HELP-0039868); Walden University, *Talk Time contest tomorrow…*, December 11, 2008 (WALDEN-HELP-0035955); Walden University, *Spirit Day Winners!!*, June 13, 2008 (WALDEN-HELP-0039862); Walden E-Learning LLC, *Types of Recommended Recognition Events* (WALDEN-HELP-0037384) [Note: document is a draft not implemented].
[2940] Walden E-Learning LLC, *Enrollment Advisor Scorecard*, Q3 2007 (WALDEN-HELP-0037400).
[2941] Id., at WALDEN-HELP-0037432.
[2942] Id., at WALDEN-HELP-0037428.

Outcomes

Committee staff analysis shows that tremendous numbers of students leave for-profit colleges without a degree. At for-profit colleges, 98 percent of students who enroll in a 2-year degree program and 96 percent who enroll in a 4-year degree program take out loans, and as a result, hundreds of thousands of students leave for-profit colleges with debt but without a diploma or degree each year.[2944]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that while some people who enroll in Walden are not achieving their educational and career goals, overall, the company is doing a much better job of serving students than many of the companies examined.

Retention Rates

Information Walden provided to the committee indicates that relatively few students who enrolled in the company's Master's degree program in 2008–9 withdrew by mid-2010: 3,309 of 11,770 students, or 28.1 percent.[2945] Students who enrolled in Walden's Bachelor's degree programs, however, had a significantly higher rate of withdrawal, with 51.4 percent, or 1,659 students, withdrawing by mid-2010.[2946] These students also withdrew within a median of 3 months.[2947] Compared to the sector-wide Bachelor's withdrawal rate of 54.3, fewer students withdrew from Walden.[2948]

Status of Students Enrolled in Walden E-Learning LLC in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Bachelor's Degree	3,230	1.4%	47.3%	51.4%	1,659	91
Masters	11,770	14.4%	57.5%	28.1%	3,309	173
Doctoral	5,325	.6%	59.8%	39.6%	2,108	174
All Students	20,325	8.7%	56.5%	34.8%	7,076	154

The dataset does not capture some students who withdraw and subsequently return, which is one of the flexibility advantages of the for-profit education model. The analysis also does not account for students who withdrew after mid-2010 when the data was produced.

2943 Walden University. *Demonstrating Accountability, Transparency, and Assessment (DATA) project, Time Commitment Expectations*, http://www.waldenu.edu/About-Us/33560.htm (accessed July 9, 2012).
2944 Patricia Steele & Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 22, 2012).
2945 Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.
2946 Id.
2947 Id.
2948 It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

Moreover, according to the company, while the Bachelor's degree program was initiated in the winter of 2007–8, 1 year prior to the period requested and analyzed by the committee, by the time of the committee's request, Walden executives had themselves noted the disparities in student persistence rates between the graduate and undergraduate programs.[2949] A July 2010 email exchange between Walden's then-president and the national director of financial aid illustrates this internal concern regarding Walden's undergraduate program. The president asks: "Can we project what CDR will look like for 2009, for example, which will account for a larger population of undergrad than we had ever had before?," and later responds, "We can't be flying blind particularly with the issues we are seeing with undergrad." [2950] To address these concerns, in December 2010 Walden instituted a conditional admission policy for undergraduate students, the Adequate Academic Progress policy.[2951] The AAP requires that students adequately complete assignments for the first 3 weeks of class, or the student is automatically withdrawn without any tuition obligation.[2952]

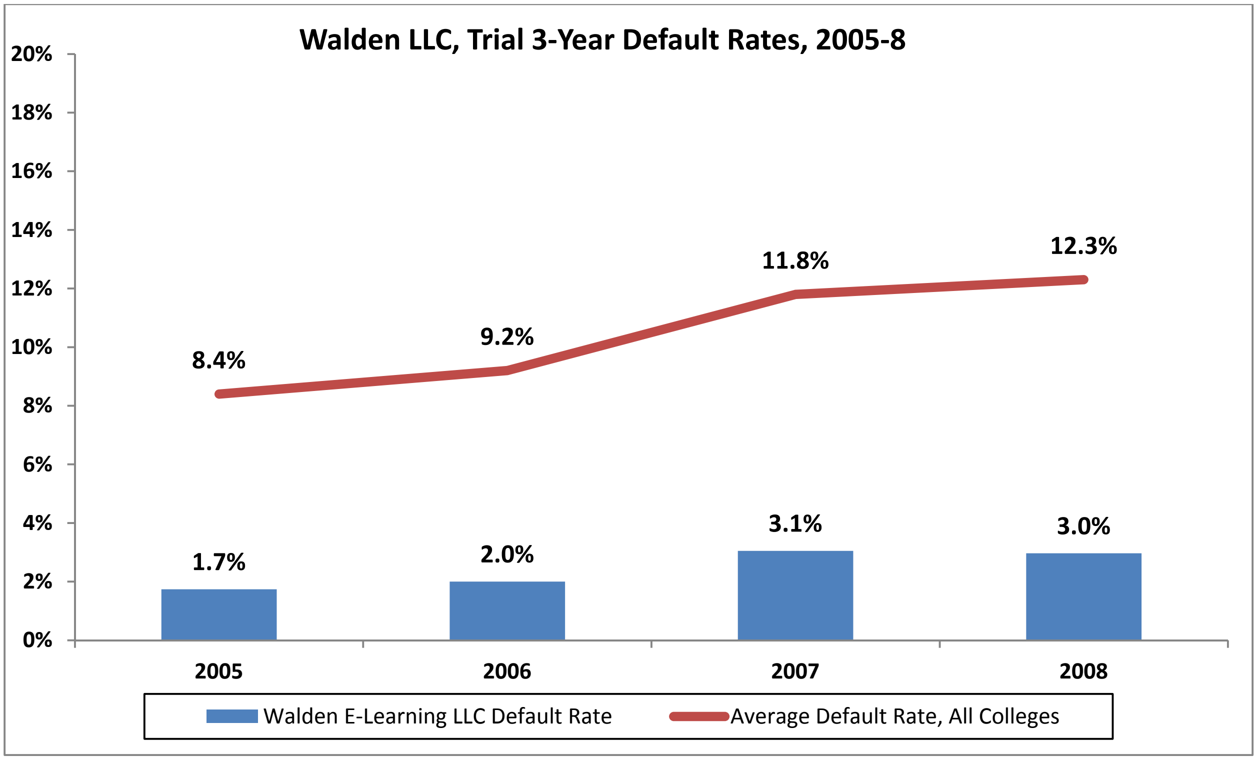
Student Loan Defaults

The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[2953]

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[2954] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2955] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2956] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[2957] This change represents a 32.6 percent increase over 4 years.[2958] Although Walden's default rate has gradually increased, growing from 1.7 percent for students entering repayment in 2005 to 3.0 percent for students entering repayment in 2008, the default rate is significantly lower than the average, not just for for-profit colleges but for all colleges.[2959]

[2949] Letter from Walden University chief executive officer Jonathan Kaplan to committee staff, June 19, 2012.
[2950] Walden University, *Re: CDR*, July 17, 2010 (WALDEN-HELP-0040024 at WALDEN-HELP-0040025).
[2951] Letter from Walden University chief executive officer Jonathan Kaplan to committee staff, June 19, 2012.
[2952] Id.
[2953] 34 CFR § 668.183(c).
[2954] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[2955] Id.
[2956] Id.
[2957] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[2958] Id.
[2959] Id.



While Walden produced a September 2009 email that indicates the company had not yet initiated a comprehensive default management plan, executives raise the possibility that they would do so in the future.[2960]

Instruction and Academics

The quality of any college's academics is difficult to quantify. However, the amount that a school spends on instruction per student compared to other spending is a useful indicator.

Walden spent $1,574 per student on instruction in 2009, compared to $2,230 per student on marketing and $1,915 per student on profit.[2961] The amount Walden spent on instruction per student is the second lowest of the privately held companies the committee examined; the amount that the privately held companies spent ranges from $1,118 to $6,389 per student per year.[2962] By comparison, public and non-profit schools, generally spend a higher amount per student on instruction. On a per

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[2960] Walden University, *Fw: FY 2007 Official Cohort Default Rate*, September 15, 2009 (WALDEN-HELP-0040057).

[2961] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment. Walden notes that IPEDS instructional spending figures reflect that responsibility for course development and revision is included in instructor salaries for traditional colleges, while it is generally reported by for-profit colleges as a capital expenditure. Capital expenditures totaled $23.3 million for Walden in 2009, and included both technology investments and program and course development.

[2962] Id. Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

student basis, the University of Minnesota spent $13,247 per student on instruction and University of Saint Thomas spent $11,361 per student.[2963]

While per student instruction expenses should be expected to be lower in an exclusively or majority online program, the savings generated by these models do not appear to be passed on to students in lower tuition costs. Similarly, the higher per student instruction costs in public and non-profit colleges may reflect a failure to embrace online models or embrace more efficient spending. However, taken as a whole, these numbers demonstrate that for-profit colleges spend significantly less on instruction than similar programs in other sectors.

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee examined, 80 percent of the faculty is part-time.[2964] Walden, however, has more than 90 percent of its faculty employed part-time.[2965] In 2009, Walden employed 153 full-time and 1,848 part-time faculty.[2966]

Staffing

While for-profit education companies employ large numbers of recruiters to enroll new students, the companies often have far less staff available to provide tutoring, remedial services, or career counseling and placement. Walden, however, employs a relatively large student services staff. In 2009, with 40,714 students, Walden employed 579 recruiters and marketing staff, 3 career services and placement employees, and 471 student services employees. The number of student services representatives is well above the industry average.[2967] That means each career counselor was responsible for 13,572 students and each student services staffer was responsible for 87 students. Meanwhile, the company employed one recruiter for every 71 students.

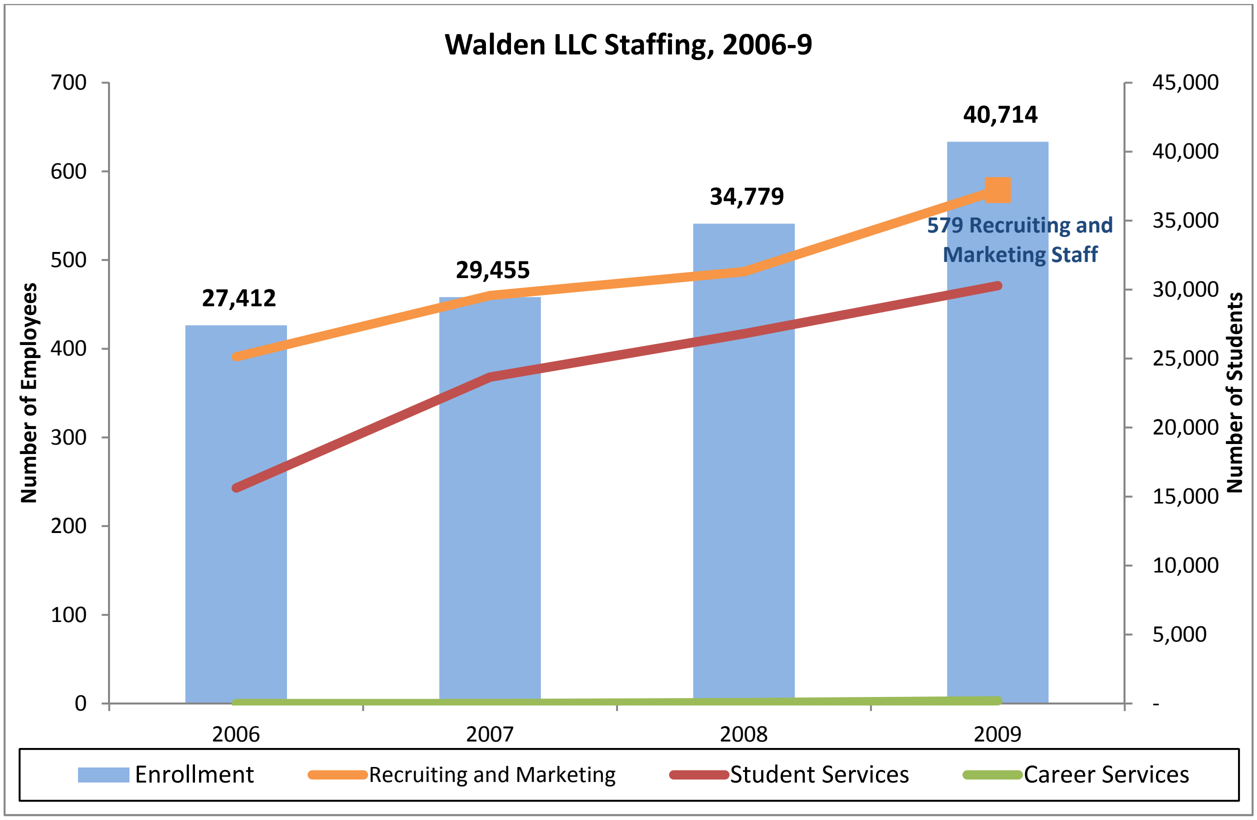
[2963] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes — which do not include construction, leasing and maintenance of physical buildings — are not passed on to students, who pay the same or higher tuition for online courses.

[2964] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

[2965] Id.

[2966] Id.

[2967] Id. See Appendix 7 and Appendix 24.



Conclusion

Students attending Walden have significantly better rates of retention than other companies of comparable size. While Walden spends a high portion of revenue on marketing and on profit, and a relatively small amount on per student instruction, the students that it enrolls appear to be faring much better than at many companies the committee examined. Like other companies analyzed, Walden maintains aggressive enrollment goals and employs more than 500 recruiters, however, Walden invests more in student services than many companies reviewed. The instructional spending on its exclusively online programs is low, and with most of the faculty serving in part-time positions there may be concerns regarding the academic independence of the faculty.

Walden's 51.6 percent withdrawal rate for its 4-year Bachelor's degree program is considerably worse than for its graduate programs, however, the company appears to have acted quickly to address this issue by instituting a free orientation program. Walden's basic model of offering graduate level degrees to teachers and nurses already employed in the field suggests that neither the job placement rates of its students nor their enhanced earning power is a particular concern in the graduate degree programs. As the company increases the size of the undergraduate enrollment and prepares for the possibility of a public stock offering, these issues could become a more serious concern.