

112th Congress }  
2d Session }

COMMITTEE PRINT

{ S. PRT.  
112-37

**FOR PROFIT HIGHER EDUCATION:  
The Failure to Safeguard the Federal  
Investment and Ensure Student Success**

PREPARED BY THE  
**COMMITTEE ON HEALTH, EDUCATION,  
LABOR, AND PENSIONS  
UNITED STATES SENATE**



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**Volume 1 of 4—Parts I-III**

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JULY 30, 2012

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Printed for the use of the  
Committee on Health, Education, Labor, and Pensions

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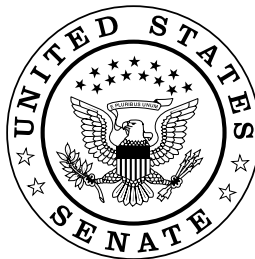
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ACCOMPANYING MINORITY COMMITTEE STAFF  
VIEWS**

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LABOR, AND PENSIONS**

**UNITED STATES SENATE**



**JULY 30, 2012**

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## VI

In accordance with Rule XXV of the Standing Rules of the Senate, the U.S. Senate Committee on Health, Education, Labor, and Pensions (the committee) holds legislative jurisdiction over all proposed legislation, messages, petitions, memorials, and other matters relating to education and student loans and grants. Proprietary schools and institutions of higher education, henceforth referred to as for-profit colleges, fall under this jurisdiction both as academic institutions and as eligible recipients of Federal loans and grants provided through Title IV of the Higher Education Act. Senate rules also provide that the committee shall study and review, on a comprehensive basis, matters relating to education. In April 2010, under the leadership of Chairman Tom Harkin, the committee initiated an oversight into the proprietary sector of higher education. The majority staff offers this report to the committee with accompanying minority staff views.

# **FOR-PROFIT HIGHER EDUCATION:**

## **The Failure to Safeguard the Federal Investment and Ensure Student Success**

Between June 2010 and July 2012, Senate HELP Committee Chairman Tom Harkin conducted an in-depth oversight investigation focusing exclusively on the for-profit sector of higher education. The investigation was undertaken to better understand the enormous growth in both the number of students attending for-profit colleges and the Federal student aid investment that taxpayers are making in the colleges. This growth has occurred as for-profit colleges have increasingly been acquired or created by publicly traded companies and private equity firms that are closely tracked by analysts and by investors seeking quick returns. Unlike traditional non-profit and public colleges, virtually all of the revenues of for-profit colleges come directly from taxpayers, and significant portions of their expenses are dedicated to marketing and recruiting and to profit. The key findings of the investigation are summarized below.

### **Executive Summary**

- A 2-year investigation by the Senate Committee on Health, Education, Labor, and Pensions demonstrated that Federal taxpayers are investing billions of dollars a year, \$32 billion in the most recent year, in companies that operate for-profit colleges. Yet, more than half of the students who enrolled in in those colleges in 2008-9 left without a degree or diploma within a median of 4 months.
- For-profit colleges are owned and operated by businesses. Like any business, they are ultimately accountable by law for the returns they produce for shareholders. While small independent for-profit colleges have a long history, by 2009, at least 76 percent of students attending for-profit colleges were enrolled in a college owned by either a company traded on a major stock exchange or a college owned by a private equity firm. The financial performance of these companies is closely tracked by analysts and by investors.
- Congress has failed to counterbalance investor demands for increased financial returns with requirements that hold companies accountable to taxpayers for providing quality education, support, and outcomes. Federal law and regulations currently do not align the incentives of for-

profit colleges so that the colleges succeed financially when students succeed.

- For-profit colleges have an important role to play in higher education. The existing capacity of non-profit and public higher education is insufficient to satisfy the growing demand for higher education, particularly in an era of drastic cutbacks in State funding for higher education. Meanwhile, there has been an enormous growth in non-traditional students—those who either delayed college, attend part-time or work full-time while enrolled, are independent of their parents, or have dependents other than a spouse. This trend has created a “new American majority” of non-traditional students.
- In theory, for-profit colleges should be well-equipped to meet the needs of non-traditional students. They offer the convenience of nearby campus and online locations, a structured approach to coursework and the flexibility to stop and start classes quickly and easily. These innovations have made attending college a viable option for many working adults, and have proven successful for hundreds of thousands of people who might not otherwise have obtained degrees.
- But for-profit colleges also ask students with modest financial resources to take a big risk by enrolling in high-tuition schools. As a result of high tuition, students must take on significant student loan debt to attend school. When students withdraw, as hundreds of thousands do each year, they are left with high monthly payments but without a commensurate increase in earning power from new training and skills.
- Many for-profit colleges fail to make the necessary investments in student support services that have been shown to help students succeed in school and afterwards, a deficiency that undoubtedly contributes to high withdrawal rates. In 2010, the for-profit colleges examined employed 35,202 recruiters compared with 3,512 career services staff and 12,452 support services staff, more than two and a half recruiters for each support services employee.
- This may help to explain why more than half a million students who enrolled in 2008-9 left without a degree or Certificate by mid-2010. Among 2-year Associate degree-seekers, 63 percent of students departed without a degree.
- The vast majority of the students left with student loan debt that may follow them throughout their lives, and can create a financial burden that is extremely difficult, and sometimes impossible, to escape.



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

*The Federal Investment and the Changing Sector*

- In the 1990s, two-thirds of for-profit colleges enrolled students in training programs lasting less than 1 year. The sector was primarily composed of small trade schools that awarded Certificates and diplomas in fields like air-conditioning repair, cosmetology, and truck driving. While Certificate and diploma offerings have continued to grow, growth in degree programs has been more significant. Between 2004 and 2010, the number of Associate degrees awarded by for-profit colleges increased 77 percent and the number of Bachelor's degrees awarded increased 136 percent.
- For profit colleges are rapidly increasing their reliance on taxpayer dollars. In 2009-10, the sector received \$32 billion, 25 percent of the total Department of Education student aid program funds.
- Pell grants flowing to for-profit colleges increased at twice the rate of the program as a whole, increasing from \$1.1 billion in the 2000-1 school year to \$7.5 billion in the 2009-10 school year.
- Among the companies examined by the committee, the share of revenues received from Department of Education Federal student aid programs increased more than 10 percent, from 68.7 in 2006 to 81.9 percent in 2010.
- Committee staff estimates that in 2009 when all sources of Federal taxpayer funds, including military and veterans' benefits, are included, the 15 publicly traded for-profit education companies received 86 percent of revenues from taxpayers.

- For-profit colleges also receive the largest share of military educational benefit programs: 37 percent of post-9/11 GI bill benefits and 50 percent of Department of Defense Tuition Assistance benefits flowed to for-profit colleges in the most recent period. Because of the cost of the programs however, they trained far fewer students than public colleges. Eight of the top 10 recipients of Department of Veterans Affairs post-9/11 GI bill funds are for-profit education companies.

*Why Are Companies that Own For-Profit Colleges Financially Successful*

*High Cost of Programs:*

- Most for-profit colleges charge higher tuition than comparable programs at community colleges and flagship State public universities.
  - Bachelor's degree programs averaged 20 percent more than the cost of analogous programs at flagship public universities.
  - Associate degree programs averaged four times the cost of degree programs at comparable community colleges.
  - Certificate programs similarly averaged four and a half times the cost of such programs at comparable community colleges.
- The for-profit education companies examined rarely set tuition below available Federal student aid.
- Internal company documents provide examples of tuition increases being implemented to satisfy company profit goals, that have little connection to increases in academic and instruction expenses, and demonstrate that for-profit education companies sometimes train employees to evade directly answering student questions about the cost of tuition and fees.

*Aggressive and Sometimes Misleading and Deceptive Recruiting Practices:*

- Documents indicate that the recruiting process at for-profit education companies is essentially a sales process. Investors' demand for revenue growth is satisfied by enrolling a steady stream of new student enrollees or "starts." During the period examined, at many companies the performance of each person in the admissions chain, from CEO to newly-hired junior recruiters, was rated at least in part based on the number of students enrolled.

- The committee found that the 30 for-profit education companies examined employed 35,202 recruiters, or about one recruiter for every 53 students attending a for-profit college in 2010.
- Documents demonstrate that in order to achieve company enrollment goals, recruiting managers at some companies created a boiler-room atmosphere, in which hitting an enrollment quota was the recruiters' highest priority. Recruiters who failed to bring in enough students were put through disciplinary processes and sometimes terminated. Before a ban on incentive compensation was re-instituted in mid-2011, recruiters' salaries at many for-profit colleges were tightly tied to enrolling a certain number of new students.
- Internal documents, interviews with former employees, and Government Accountability Office (GAO) undercover recordings demonstrate that many companies used tactics that misled prospective students with regard to the cost of the program, the availability and obligations of Federal aid, the time to complete the program, the completion rates of other students, the job placement rate of other students, the transferability of the credit, or the reputation and accreditation of the school.
- For-profit colleges seek to enroll a population of non-traditional prospective students who are often not familiar with traditional higher education and may be facing difficult circumstances in their lives. Recruiting materials indicate that at some for-profit colleges, admission representatives were trained to locate and push on the pain in students' lives. They were also trained to "overcome objections" of prospective students in order to secure enrollments. Additionally, companies trained recruiters to create a false sense of urgency to enroll and inflate the prestige of the college.
- For-profit colleges gather contact information of prospective students, or "leads," by paying third-party companies known as "lead generators" that specialize in gathering and selling the information. Among the 62 lead generators used by companies analyzed, the cost per lead ranged between \$10 and \$150. Lead generators advertise themselves as a free, safe, and reliable way to get information about college, but lead generator Web sites generally direct students only to schools and programs that pay them, and have a history of engaging in online marketing using aggressive and misleading methods.
- Servicemembers, veterans, spouses, and family members have become highly attractive prospects to for-profit colleges, and many schools

have put significant resources into recruiting and enrolling students eligible for these benefits.

- Lead generation Web sites, specifically designed to attract members of the military and veterans, use layouts and logos similar to official military websites, but do not inform users that the purpose of the site is to collect contact information on behalf of the site's for-profit college clients.
- Internal documents show that some schools' pursuit of military benefits led them to recruit from the most vulnerable military populations, sometimes recruiting at wounded warrior centers and veterans hospitals.
- In addition to aggressively seeking military personnel, the investigation showed that some recruiters misled or lied to service members as to whether their tuition would be fully covered by military benefits.

#### *How Are Students Performing*

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

- 596,556 students who enrolled in 2008-9, or 54 percent, left without a degree or Certificate by mid-2010.
- 298,476 students who enrolled in 2-year Associate degree programs in 2008-9, or 63 percent, departed without a degree. Nine companies had Associate degree programs with withdrawal rates over 60 percent.
- Online: Among companies that provided data that enabled committee staff to compare students attending online and on-campus, students attending online withdrew at much higher rates. Sixty-four percent of students attending online programs left without a degree compared to 46 percent of students attending campus-based programs offered by the same companies.
- Publicly Traded: Colleges owned by a company that is traded on a major stock exchange had 2008-9 student withdrawal rates 9 percent

higher than the privately held companies examined. Among the 15 publicly traded companies, 55 percent of students departed without a degree. Among the 15 privately held companies examined, 46 percent of students departed without a degree.

*Why Do Many Students Fail to Complete For-Profit Programs*

*Spending Choices of For-Profit Education Companies:*

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

*Academic Quality:*

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

part-time faculty and five companies had more than 90 percent part-time faculty.

*Student Services:*

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

*Career Placement Services:*

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

*Programmatic Accreditation and Licensure:*

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

framing the disclosure in terms that makes it difficult for students to recognize the gravity of this issue.

*What Are the Consequences for Students*

- Ninety-six percent of for-profit students take out student loans, according to the most recent U.S. Department of Education data. In comparison, 13 percent of students at community colleges, 48 percent at 4-year public, and 57 percent at 4-year private non-profit colleges borrow money to pay for school.
- For-profit schools enroll far more high-dollar borrowers. Fifty-seven percent of Bachelor's students who graduate from a for-profit college owe \$30,000 or more. In contrast, 25 percent of those who earned degrees in the private, non-profit sector and 12 percent from the public sector borrowed at this level.
- Because many students who attend for-profit colleges are unable to get financing through private lending companies, many participate in institutional loan programs operated by for-profit education companies. The committee staff found that institutional loans operated by for-profit education companies often carry high interest rates, and do not provide students with the same safeguards as Federal loans.
- In 2009 seven large for-profit education companies offered institutional loans with interest rates ranging from 11.2 to 18 percent. During this period the Stafford loan rate was 5.6 percent. These same companies listed expected default rates of 42 to 80 percent.
- Students who attended a for-profit college accounted for 47 percent of all Federal student loan defaults. More than 1 in 5 students enrolling in a for-profit college—22 percent—default within 3 years of entering repayment on their student loans.
- Default rates are driven by students who drop out, those who are left with debt but little means to repay it given the incomplete education and lack of a degree. Students' ability to repay their loans is tightly tied to whether the student stayed in school and achieved a degree.
- Students who attend for-profit schools are more likely to experience unemployment after leaving school. According to a National Center for Education Statistics study, 23 percent of students who attended for-profit schools in 2008-9 were unemployed and seeking work.

Why is This Happening

- Accreditation: The self-reporting and peer-review nature of the accreditation process exposes it to manipulation by companies that are more concerned with their bottom line than with academic quality and improvement. Accrediting agencies seek to help colleges improve. Because of this institutional focus on continuous improvement, they sometimes appear to have difficulty drawing and enforcing bright lines and minimum standards.
- State Oversight: State oversight of for-profit education companies has eroded over time due to a variety of factors, including State budget cuts and the influence of the for-profit college industry with State policymakers. The U.S. Department of Education had never defined minimum requirements for State authorization, and many States have taken a passive or minimal role in approving institutions, reviewing and addressing complaints from students and the public, and ensuring that colleges are in compliance with State consumer protection laws.
- Federal Law and Regulation: Federal regulations impose two key checks on for-profit colleges: the proportion of Federal money that the colleges collect, known as the 90/10 rule, and the percentage of students who may default on Federal student loans before the college loses eligibility for Federal financial aid. In addition, some accreditors also require colleges to meet standards regarding the percentage of graduates who obtain employment in their field of study. Some for-profit colleges employ questionable tactics to meet these requirements.
- The investigation documented the use of multiple strategies to comply with the letter of the 90/10 rule with policies that defy the goal and spirit of the regulation.
  - Since for-profit colleges report 90/10 figures by Office of Postsecondary Education ID (OPEID) numbers, instead of by campus, and one OPEID may contain multiple campuses, some companies consolidate and switch campuses between OPEIDs to lower their reported 90/10 number regardless of the proximity of the campus.
  - Some for-profit colleges have stopped the flow of student aid funds to certain OPEIDs at the end of the fiscal year. This tactic may hurt students because campuses that do not receive student aid funds may not disburse, in a timely manner, living-



expense checks to students who depend on those funds to pay for books, housing, food, transportation, and childcare.

- Some schools have raised their initial enrollment fee—which must be paid in cash—or insisted on cash payments from students in order to lower their reported 90/10 ratio. While asking students to make up-front payments on their education can be a good idea because it is interest-free and also helps them to understand what it will be like to make payments on their loans later, it seems that some for-profit schools are primarily seeking to drive down their 90/10 ratios with these cash payments.
- Department of Education regulations dictate that scholarships awarded to a student do not count as Federal financial aid and instead count on the “10” side of the 90/10 calculation, but only if the scholarships are awarded by an organization independent of the school. Several companies that operate for-profit colleges have designed scholarship programs that should be more closely scrutinized.
- Some schools increase tuition in order to create a gap between the total amount of Federal aid a student can receive and the cost of attending. This illustrates the fundamental problem with the cost of for-profit schools—that the tuition fees and other academic charges bear no relationship to the cost of providing the education. This gap means that students attending these schools must find even more financing by taking out private loans, taking on more debt through a private or institutional loan, or making monthly cash payments, often by credit card, directly to the school to pay for the artificially high cost of the school. The student is left with more debt, likely at a higher rate of interest, so the school can generate sufficient non-Federal income.
- Because neither Department of Defense (DOD) nor Veterans Affairs (VA) educational benefits originate in Title IV of the Higher Education Act, money received through these programs is not counted as Federal financial aid for the purposes of 90/10. This loophole creates an incentive to see servicemembers as nothing more than “dollar signs in uniform.”
- Many for-profit education companies also commit significant resources to default management efforts that keep students out of default for the

duration of the 2-year (soon 3-year) monitoring window. Default management may involve a multitude of strategies premised on sound goals, such as enrolling students who are likely to graduate and succeed, giving those students the support and tools they need to learn and secure a degree that is valued in the job marketplace, helping them secure a well-paying job, and offering financial literacy classes and quality debt counseling. However, internal documents show that at some schools the emphasis is on signing students up for forbearance and deferment with the sole goal of protecting the colleges so that they do not lose access to Federal taxpayer-funded student aid dollars.

- Evidence suggests that some for-profit colleges use forbearance and deferment as tools to move the school's default rate, without concern for a student's particular situation or whether it is in the best financial interest of the individual. Many students will end up paying more over the life of their loan after a forbearance or deferment.
- As default rates have increasingly become a problem for for-profit colleges, many have turned for help to third party vendors that operate call centers with hundreds of employees trained to "cure" student defaults. While the vendor used by at least 12 of the 30 companies examined counsels delinquent students on all repayment options, including income-based repayment options, internal documents demonstrate that the majority of students approached by the vendor end up in forbearance, leading to increased debt. Documents obtained from four large for-profit education companies demonstrate that, on average, over 75 percent of the students "cured" were forbearances or deferments, while only 24 percent were the result of a student making payments on their loans.
- For-profit colleges market themselves as career focused, and encourage students to enroll by offering the prospect of better jobs and better wages. Accordingly, for-profit colleges use job placement data to promote their programs, and to satisfy national accrediting agencies and State regulators that the students who complete the programs are finding jobs in their field. However, when job placement rates are audited by outside agencies, problems have repeatedly been found, and a number of law enforcement investigations over the past 5 years have revealed falsified information in the placement rates of some colleges.
- Rapid enrollment growth and lack of adequate policies and procedures have also led to situations in which for-profit colleges have improperly retained unearned title IV student aid funds that should have been

returned to the Department of Education, or are not returning the funds in a timely matter.

*What Needs to Be Done*

- Enhance transparency by collecting relevant and accurate information about student outcomes.
  - Require that the Department of Education collect comprehensive student outcome information and enable data retrieval by corporate ownership;
  - Establish a uniform and accurate methodology for calculating job placement rates;
  - Increase the regulation of private lending.
- Strengthen the oversight of Federal financial aid.
  - Tie access to Federal financial aid to meeting minimum student outcome thresholds;
  - Prohibit institutions from funding marketing, advertising and recruiting activities with Federal financial aid dollars;
  - Improve cohort default rate tracking by expanding the default reporting rate period beyond 3 years;
  - Require that for-profit colleges receive at least 15 percent of revenues from sources other than Federal funds;
  - Use criteria beyond accreditation and State authorization for determining institutions' access to Federal financial aid.
- Create meaningful protections for students.
  - Create an online student complaint clearinghouse, managed by the Department of Education, for the collection and referral of student complaints to appropriate overseeing agencies, organizations and divisions;
  - Prohibit institutions that accept Federal financial aid from including mandatory binding arbitration clauses in enrollment agreements;

- Enforce minimum standards for student services that include tutoring, remediation, financial aid, and career counseling and job placement;
- Extend the ban on incentive compensation to include all employees of institutions of higher education, and clarify that this ban extends to numeric threshold or quota-based termination policies.

## **Introduction**

American taxpayers invest billions of dollars each year in loans and grants to help people go to college. We do this because, over the past 50 years, achieving a college degree has been, and remains, the best way to ensure that an American student will have secure earning power that increases over time. Attaining skilled training or a college degree has become even more important as manufacturing jobs, which traditionally provided middle-class wages, have become more scarce. Helping Americans pay for college has been good for taxpayers as well, not simply because of the societal goods of an informed and educated citizenry, but also because the vast majority of Americans repay student loans in a timely way at reasonable interest rates, ensuring that the investment is sound.

However, over the past 10 years the United States has lost the place it once held as the world's preeminent provider of higher education. Once first in the world in percentage of people with a college degree, the United States now ranks 11th. At the same time, demand for higher education has outpaced the ability of the existing network of public and non-profit colleges to provide sufficient capacity. This is particularly true with regard to the community college system's ability to meet growing demand among non-traditional students, many of whom have entered the workforce only to discover the limits of their earning power in the absence of some higher education.

Over a decade ago, the Federal Government's National Center for Education Statistics reported that non-traditional students (those who had either delayed college, were attending part-time or working full-time while enrolled, were independent of their parents, or had dependents other than a spouse) made up 73 percent of the undergraduate college population. The enormous growth in the older adult student population over the last half century, which is projected to continue, have shifted the demographic profile of colleges and created a "new American majority" of non-traditional students on campuses across the country.

For many policymakers, for-profit colleges and the flexibility that they offer appeared to be an ideal solution to the problem of unmet demand for non-traditional students. The sector's rapid move to online education and the virtually unlimited capacity to add new students made the for-profit model appear even more promising. For-profit colleges work to cater to non-traditional students, offering flexibility by providing the convenient class locations and schedules, and the ability to stop and start coursework, that make attending college a viable option for working adults. At many schools, coursework is highly structured, meaning students progress from one class to the next without having to consider which elective to take or worrying about fulfilling credit requirements in various disciplines. This model, essentially pioneered by John

Sperling and the University of Phoenix, has proven successful for hundreds of thousands of people who might not otherwise have obtained degrees. The University of Phoenix recently graduated its 700,000th student since its founding in 1976. In 2010, the for-profit sector as a whole awarded approximately 450,000 certificates and 260,000 2- and 4-year degrees, many to students who might not otherwise have obtained any higher education.

For-profit colleges are more nimble than most traditional colleges, including community colleges, in developing and implementing programs. When those programs respond to workforce needs and result in jobs in high demand fields that pay good salaries, the outcome for students can be excellent.

Thus, for many policy experts, the for-profit college sector was potentially not only the solution to unmet demand for higher education, it also appeared to be succeeding in breaking down many of the barriers to college for low-income and minority students who did not always find a structure that met their needs at traditional institutions of higher education. For the past decade, swayed in part by good marketing by the sector, opinion leaders have held out hope that large scale for-profit colleges were transforming higher education for historically underserved students.

A 2-year investigation of the for-profit sector by the Senate Committee on Health, Education, Labor, and Pensions has demonstrated that, while the for-profit college sector still offers the potential to be a transformative force in higher education, the sector as it stands today often fails to deliver the returns that higher education has traditionally provided to both students and taxpayers. The investigation, which took an in-depth look at 30 for-profit education companies between 2006 and 2010, found that far too many Americans who enroll in for-profit colleges are not realizing the benefits that higher education has traditionally offered. Over a span of 2 years, the committee has held six hearings to explore the growth, problems, and potential solutions in for-profit higher education. Committee staff interviewed dozens of current and former employees of for-profit colleges, more than 50 current and former students, and a variety of experts in higher education. As part of the investigation, the committee asked 30 companies that operated colleges to provide extensive data and documents regarding their operations between 2006 and 2010. The committee also analyzed data provided by the Department of Education, Department of Defense, and Department of Veterans Affairs as well as investor reports and information filed with the Securities and Exchange Commission.

This was not the first time that Congress had undertaken such an oversight effort. Between 1989 and 1992, the Senate Permanent Subcommittee on Investigations (PSI), under the leadership of then-Chairman Sam Nunn and then-Ranking Member William Roth, Jr., conducted a similar investigation. The PSI investigation found that many students attending the proprietary schools of

that time received little or no training, leaving them with “no job and a large bill to repay.” In 1983, students attending for-profit schools made up 22 percent of students who borrowed Federal loans, but 44 percent of defaulters. PSI’s oversight led to major legislative reforms of the Federal student loan program in the Higher Education Act Authorization of 1992. However, many of those same reforms have been eroded or repealed over the past two decades. While defaults in the sector dropped following enactment of the 1992 reforms, by 2011 once again, for-profit college students comprised 13 percent of student borrowers but 47 percent of defaulters. Moreover, the combination of investments made by investors seeking quick returns, exponential enrollment increases, new distance-education models, and weakening of regulations has rendered the sector almost unrecognizable in scope and impact when compared to the late 1980s.

For-profit colleges are those owned and operated by businesses. As with other businesses, they are ultimately accountable by law for the returns they produce for shareholders. For many years, the number of shareholders was small because for-profit colleges were, for the most part, privately held companies with a single location or program. But starting about 15 years ago, Wall Street investors recognized the potential for high profits and low risk and moved aggressively to purchase and invest in for-profit colleges. By 2009, at least 76 percent of students attending for-profit colleges were enrolled in a college owned by either a company that is traded on a major stock exchange or a college that is owned by a private equity firm. The investigation found that while certainly not all for-profit colleges are run by investors looking to make a quick return on investment, too many of them are. It also found that even those for-profit colleges that are committed to the educational mission, that invest in their students and in robust support services, and that offer programs in high demand fields, still engage in troubling practices in order to achieve the levels of profitability and growth that keep them competitive with less scrupulous players.

Though there is wide variation among the companies’ student outcomes, many of the most serious problems were found across the sector. The committee staff analysis found that most programs at for-profit colleges cost far more than similar programs at near-by public schools, and that almost all students who enroll in for-profit colleges borrow a significant amount of money to pay tuition. To enroll students, all companies rely on relentless marketing and advertising, and many also use tactics that an average person would find misleading and deceptive. The overall result is poor student outcomes. The investigation found that most students do not graduate. Of the almost 1.1 million Americans who enrolled in schools owned by the 30 companies examined between 2008 and 2009, over half (596,556) had withdrawn by mid-2010. They are left with student loan debt but without the benefits of a college degree or certificate.

Hundreds of thousands of students, particularly those with some prior experience with higher education, are completing degrees at for-profit colleges each year and some are securing better jobs and improving lifetime earnings potential. But the investigation has demonstrated extremely high drop-out rates among the large for-profit colleges that call into question whether the current regulatory structure is doing enough to ensure that the investment of taxpayer dollars, \$32 billion in 2009-10, is being safeguarded.

While quality at for-profit colleges varies among institutions, some students encounter poor quality education. Across the board, comparatively little money is spent on instruction, but those cost savings are not passed on to students in the form of lower tuition. Often, only scant student services such as tutoring, counseling, and job placement are available, or those services that are available are not helpful for students. This is true even though the colleges tout the fact that they enroll higher-risk students who, research demonstrates, are most in need of these services in order to succeed. Meanwhile, some companies engage in efforts to manipulate or evade the few regulatory requirements that govern the sector.

While some for-profit colleges have dramatically higher retention, particularly in non-degree Certificate programs, the volume of students who enroll but soon withdraw calls into question the investment that American taxpayers are making in the colleges. Low retention and sparse student services are problems found at community colleges across the country as well. However, the investments in the for-profit sector from both Federal taxpayer funds and students' resources is far greater compared with the community college.<sup>1</sup>

The investigation yielded plenty of examples of good practices including for-profit colleges offering low tuition, offering degrees in fields with high job demand and good wages, offering robust student services, implementing risk-free trial programs, offering remedial classes, as well as making a fair profit for shareholders. Some of these colleges are also committed to crafting and following a regulatory regime that works better for students, taxpayers, and colleges. However, in the absence of a strong sector-wide regulatory regime, even for-profit colleges with good practices must compete with lower quality operators who sacrifice student outcomes in the pursuit of large enrollment growth and large profit margins.

American taxpayers are the single biggest investor in for-profit colleges, yet the government that holds their trust has little ability to ensure that

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<sup>1</sup> For-profit executives frequently point to the fact that community colleges and other public universities receive large subsidies from State and local governments without necessarily producing better student outcomes. While this is true, were community colleges or other public universities to find themselves with 15 to 38 percent annual surpluses (the profit range of publicly traded for-profit companies) they would likely reinvest in better services and student success. Additionally, community colleges in particular have a broader educational mandate that accompanies the subsidies that does not allow them to focus solely on career and workforce based programs.



they get the return on investment they deserve: educational and career success for the students who enroll. If for-profit colleges are going to deliver on the promise of a path to the middle class and to job security for students who might not have otherwise succeeded in higher education, Congress must put in place a much more rigorous regulatory structure that incentivizes the sector to make the financial investments necessary to result in higher student success.

The for-profit sector has been transformed over the past 10 years. Where once for-profit schools mostly offered short-term job-specific Certificate programs, they have moved aggressively into Associate and Bachelor's degree programs. In conjunction with the ascension of for-profit colleges as stars of Wall Street came the move towards exclusively online programs. Statutory changes in 2006 allowed colleges to offer exclusively online programs and at least six for-profit colleges, including four publicly traded companies, now operate almost exclusively online.

These shifts set the stage for tremendous enrollment and revenue growth in the sector. Between 1998 and 2008, enrollment at for-profit colleges increased 225 percent, compared to 31 percent growth in higher education generally. Depending on the measurement used, between 10 and 13 percent of all college students, approximately 2.4 million students, attend a for-profit college. Along with this growth in enrollment, the amount of Federal student aid dollars that taxpayers provide to these companies each year has increased dramatically. In the 2009–10 academic year, \$32 billion in Education Department grants and loans was paid to for-profit colleges. Ten years ago, that figure was about \$5 billion. For-profit colleges now collect almost 25 percent of total Federal student aid money (up from 12.2 percent in 2001), over a third of GI bill education benefits to veterans, and half of all active duty servicemember tuition assistance dollars.

By 2009 and early 2010, more and more students were coming forward to report being pressured or duped into enrolling in a for-profit college and taking out loans to pay for a degree that would not help them find a job. Stories appeared in the media telling of colleges' profiting while their students left school without degrees and/or with high debt and little chance of getting the job they were promised due to deficiencies in their education. Moreover, statistics indicated that many companies were engaging in widespread efforts to manipulate or evade the few regulatory requirements that govern the sector. It was against this backdrop that the HELP Committee initiated an oversight investigation into how Federal money is being spent by for-profit education companies.

The investigation found a wide range of problems that run deep within the for-profit sector:

*High tuition.* The high tuition that for-profit colleges charge is not aligned with the cost of the services they provide; rather, tuition is set to maximize revenue. Students attending for-profit colleges are charged, on average, far higher tuition than they would pay at public colleges for the same program of study. A student attending a for-profit college seeking an Associate degree faces an average tuition of almost \$35,000, over four times higher than the same program at a public college in the same geographical area. A 4-year Bachelor's degree costs, on average just under, \$63,000, 20 percent more than the price of the same program at nearby public colleges. Moreover, it is often difficult for prospective students researching for-profit schools to determine the actual price of tuition. Despite recent regulations requiring tuition disclosures, promotional materials and admissions recruiters often obscure the overall cost, making it difficult for prospective students to determine how much they will pay.

*Aggressive and misleading recruiting.* Because continual enrollment growth is so critical to their business success, most for-profit colleges' first priority is to enroll as many students as possible. Unlike traditional colleges, for-profit colleges employ a huge number of recruiters, paid salespeople who spend much of their time on the phone calling potential students. For-profit colleges often purchase contact information for potential new students, known as "leads," from other online marketers who attract students to their Web sites with advertisements offering quick and easy education. Recruiters' job security depends on meeting a quota of new enrollments. And, before new regulations went into effect in 2011 prohibiting the practice, recruiters' salaries depended on meeting them too. The boiler-room atmosphere leads to a lax ethical environment, with little room for considering whether a particular student is a good fit for the college or whether attending the college is in that person's best interest.

Internal documents, interviews and undercover Government Accountability Office recordings reveal repeated instances of recruiters misleading prospective students with regard to the cost of the program, the availability and repayment obligations of Federal student loans, the time to complete the program, the completion rates of other students, the job placement rate of other students, the transferability of credits, and the reputation and accreditation of the college. Recruiters are encouraged to search for and exploit potential students' emotional vulnerabilities by finding a "pain point"—unhappiness with a dead-end job, inability to support one's children, fear of disappointing parents or relatives—and pushing on that point to convince prospects that easy, fast, affordable college is the way to finally address previous failings. Students who express concerns about enrolling or taking out loans face sales pitches known as "overcoming objections." Students and faculty interviewed by committee staff, as well as complaints arising from companies' abuses, show that students enrolled using these tactics are likely to be less

prepared to meet the challenges of college, and are more likely to withdraw with debt but no diploma when the promised benefits fail to materialize or prove far more challenging than presented.

*Low retention rates.* Most students who attend a for-profit college leave before attaining a degree or certificate according to committee analysis of data provided by the colleges. Overall, 54 percent of students who enrolled in a for-profit college in 2008–9 left without a degree by the middle of 2010, among the 30 companies examined by the committee. There is significant variation in retention performance across the for-profit sector, ranging from 27 percent to 84 percent withdrawal rates for individual undergraduate programs. Rates are generally better for graduate degree programs and for shorter duration certificate or diploma programs: 39 percent of students withdrew from those shorter programs. However, 54 percent of students enrolled in Bachelor’s degree programs at for-profit colleges withdrew, and nearly two-thirds of Associate degree students withdrew. Because so many students drop out, for-profit colleges must enroll an enormous number of new students each year—sometimes the equivalent of their entire student body—in order to satisfy investor expectations of continued growth in enrollment and revenue.

*Low spending on instruction and services; high spending on marketing and profit.* Many for-profit education companies spend less on instruction than public or non-profit institutions, and in some cases even less than the same company spends on marketing and profit. For-profit colleges are businesses that have an imperative to maximize financial returns to shareholders and investors. To achieve those returns, it is critical that companies maintain or grow the size of the student body. However, there is no parallel Federal obligation that the companies achieve high rates of student success, such as completion or job placement. Some States and accrediting agencies have measurements in place, but these are sparsely applied and often unevenly enforced. As a result, per student spending on instruction is often very low. Many for-profit colleges enroll a significant proportion of students online, but the resulting savings on bricks-and-mortar facilities are often not passed on to students in the form of lower tuition.

*Questionable academic rigor.* Undercover observation and student complaints reveal that many for-profit colleges have questionable academic rigor and educational value. Government Accountability Office employees posing as online students encountered numerous situations at for-profit colleges where instructors awarded credit for obviously plagiarized assignments and objectively substandard work, for example, submitting photos of celebrities for an assignment that called for an essay response. Moreover, GAO found that students were charged thousands of dollars to enroll in 3- to 6-week basic courses such as “keyboarding” and “learning strategies and techniques.” Complaints received by the committee, including from former students who

contacted committee staff, told of classes that did not prepare students for the job market, highly variable instructor quality, and old equipment and facilities. A student who leaves college without learning the skills required for a job in his or her field of study does not offer the same benefit to the economy—and the tax base—as a skilled graduate.

*Lack of student services.* Many for-profit colleges enroll a student population that requires a robust array of support services such as tutoring, academic advising, and career counseling and job placement services in order to succeed. These services enable students to move confidently through their academic programs and overcome hurdles that may limit their academic engagement. However, many for-profit colleges are not making significant investments in student support services that would help students succeed in school and afterwards. The very limited number of support-services staff available to help students severely restricts the quantity and quality of services a school provides.

*Poor job placement services.* The for-profit sector promotes its programs based on their value in helping students secure jobs in a given field. However, the claims of solid paths to a career have been undermined by recent scandals involving the reporting of false job-placement data. For example, under scrutiny by New York's attorney general, Career Education Corporation, one of the largest for-profit education companies, disclosed that job-placement numbers at many of its campuses were falsified. Another chain of for-profit colleges, ATI Career colleges, had its license to operate 22 programs in Texas suspended after a local news station found evidence that the college created fake documentation to show that unemployed students were working in their fields of study. Investigative reporting and State attorney general investigations have determined that other major for-profit education companies, falsified data that they gave to regulators or used to convince students to enroll in their career-oriented programs.

*High debt loads.* Due to the high cost of tuition at for-profit colleges, and because these companies often target their marketing to low-income independent students, virtually every student who enrolls in a for-profit college borrows Federal student loan dollars to do so. While the number of students borrowing and the amount of borrowing is increasing rapidly across all colleges, 96 percent of students attending for-profit colleges took out student loans, compared to 13 percent at community colleges, 48 percent at 4-year public, and 57 percent at 4-year private non-profit colleges. Not only do more students at for-profit colleges borrow, the amount they borrow is higher: The average independent student, who represent most of the for-profit student body, graduated with a median debt of \$32,700, compared to a median debt of \$20,000 for independent students at public colleges, and \$24,600 at private non-profit colleges.

*High rates of student loan default.* The disproportionately large debt of students at for-profit colleges helps explain why more than 1 in 5 default on student loan debt within 3 years, according to the most recent data. For public and non-profit colleges, the default number was 1 student in 11. A number of for-profit colleges had default rates above 20 percent. While these default numbers track only the first 3 years of students' repayment, the Department of Education estimates that the "lifetime" default rate on student loan balances for students who attend for-profit colleges is 46 percent. Behind each student loan default is a person who is struggling financially and who may be foreclosed from any further opportunity to obtain some college education. Many of these students find themselves sharply worse off than if they had never enrolled in college. Students who attend for-profit colleges are more likely to be unemployed and less likely to be able to pay off the principal on their student loans compared to students in other sectors.

*Failure of regulation.* Higher education is governed by three regulators: accrediting agencies, State education agencies, and the Federal Department of Education, together known as "the triad." Yet due to the nature of the for-profit education business model and the extreme growth in the sector, the ability of regulators to protect students, ensure academic quality, and safeguard State and Federal taxpayer dollars has been strained. Accrediting agencies operate under the assumption that colleges' primary focus is academic improvement. But this assumption is questionable in the for-profit education context because, in the absence of counter-balancing regulation, financial considerations may predominate. State education agencies are mostly passive as regulators of for-profit colleges; with several notable exceptions, they rubber-stamp for-profit colleges' standing to operate in a State and receive State grant money. Because of resource limitations and other responsibilities in administering the student aid program, the Federal Department of Education has difficulty effectively enforcing the few meaningful regulations currently in place intended to safeguard the taxpayer investment and protect students, including controls on program integrity and incentive compensation for recruiters.

For-profit colleges employ strategies that enable them to stay within the letter of regulatory requirements while violating the spirit of those requirements. For example, to comply with a Higher Education Act mandate that no for-profit college receive more than 90 percent of its revenues from Federal student aid funds, the colleges aggressively pursue military servicemembers and veterans who receive taxpayer-funded education benefits that count as non-Federal revenues; for-profit colleges also use a variety of other tactics that may conflict with students' interests. Also under current law, colleges lose access to Federal money if a certain percentage of their students default on their Federal student loans. Since this default rate tracks students for only 2 years (soon to be 3) after they leave, some colleges have committed vast resources to soliciting students to sign up for temporary deferments and forbearances so that the colleges' reported

default rates appear artificially low. Many times these payment delays are detrimental to students because interest will continue to accrue while loans are in forbearance or deferment, and the interest is added to the loan principal when the student starts repaying again.

*What needs to be done.* Significant policy changes are required to align the current incentives of for-profit colleges with student success. The first step is collection of meaningful and accurate data on student outcomes and institutional performance. This data should be retrievable by corporate ownership, not just by campus or school brand. A uniform methodology for calculating and reporting job placement rates should be established and the accuracy of the rates should be verified through routine audits. The Department of Education should report cohort default rates by institution a number of years beyond the current 3-year window, and the threshold for determining continued title IV eligibility should be expanded from 3 to 4 years.

With the taxpayer investment rapidly growing and an increasing number of student borrowers struggling to repay their loans, Congress needs to examine placing more rigorous performance-based limitations on access to Federal financial aid. These limitations should incentivize higher standards of student success. All institutions of higher education should be prohibited from spending Federal financial aid dollars on marketing and recruiting. The Department of Education should implement an effective enforcement plan to ensure that colleges are not misleading students or misrepresenting their programs.

Currently, no centralized complaint structure exists that allows for an effective analysis of student or employee complaints. An online complaint clearinghouse that steers complaints to the appropriate entity—for fielding quality complaints to accreditors, financial aid complaints to the Department of Education or the Inspector General, and misleading and deceptive tactics complaints to the Federal Trade Commission—should be created and all institutions of higher education should provide a link on their Web sites. For-profit colleges should be required to provide a minimum standard of student services, including tutoring, remediation, financial aid, and career counseling and job placement. Employees in these departments should not be financially incentivized to simply meet quotas, whether its students placed in forbearance, or “placed” in a job.

The recommendations in this report represent some of the elements of a comprehensive legislative framework that should be developed to adequately counterbalance the financial pressures that publicly traded and private equity-owned for-profit colleges bring to the sector. Much work remains to be done to ensure that legislation is crafted to ensure that for-profit colleges properly

prioritize student success and deliver on the sector's potential not just for access and added capacity but for affordable quality programs as well.

In the absence of such reforms, the promise of for-profit higher education will not be fully realized. Instead, while remaining financially successful entities, for-profit colleges will continue to fall far short in retaining students and helping them secure valuable degrees and good jobs, and also will fall short in justifying taxpayers' large investment in this sector.

## **Institutions Examined**

### **Publicly Traded Companies**

**American Public Education, Inc.**, headquartered in Charlestown, WV; enrolled approximately 77,700 students as of fall 2010; operates two online-only institutions, American Military University and American Public University; offers Associate and Bachelor's degree programs.

**Apollo Group, Inc.**, headquartered in Phoenix, AZ; enrolled approximately 470,800 students as of fall 2010; operates University of Phoenix, the Nation's largest for-profit college, and Western International University; offers Bachelor's, Master's and Doctoral programs, as well as an exclusively online Associate program, in over 100 different fields. Founded in 1978, it pioneered the modern for-profit education company.

**Bridgepoint Education, Inc.**, headquartered in San Diego, CA; enrolled approximately 77,200 students as of fall 2010; operates Ashford University and University of the Rockies with 2 campuses and 99 percent of students enrolled exclusively online; offers Bachelor's and Associate degrees through Ashford University and Master's and Doctoral degrees through University of the Rockies. The private equity firm Warburg Pincus owns 67.4 percent of the company.

**Capella Education Company**, headquartered in Minneapolis, MN; enrolled approximately 38,634 students as of fall 2010; operates Capella University, a university that operates exclusively online; offers Bachelor's degrees but the majority of students are enrolled in graduate degree programs.

**Career Education Corporation**, headquartered in Schaumburg, IL; enrolled approximately 118,200 students as of fall 2010; operates colleges under 11 brands, American InterContinental University, Briarcliff College, Brooke Institute, Brown College, Collins College, Colorado Technical University,

Harrington College of Design, International Academy of Design & Technology, Le Cordon Bleu, Missouri College and Sanford-Brown, with 83 campuses and 4 online divisions; offers Certificates as well as Associate, Bachelor's, Master's and Doctoral degree programs, with nearly 40 percent of students enrolled online.

**Corinthian Colleges, Inc.**, headquartered in Santa Ana, CA; enrolled approximately 113,800 students as of fall 2010; operates Everest, Heald College and WyoTech, with over 105 campuses in 25 States and online; offers diploma and degree programs, with approximately 34 percent of students enrolled online and 64 percent enrolled in a non-degree program.

**DeVry, Inc.**, headquartered in Downers Grove, IL; enrolled approximately 130,375 students as of fall 2010; operates DeVry University, Carrington College, Chamberlain College of Nursing and Keller Graduate School of Management, with 96 campuses and an online division; offers Certificate, Associate, Bachelor's and graduate level programs, with approximately 50 percent of students enrolled in Bachelor's programs.

**Education Management Corporation**, headquartered in Pittsburgh, PA; enrolled approximately 158,000 students as of fall 2010; operates Argosy University, the Art Institutes, Brown Mackie College, South University and Western State University College of Law, with 107 campuses in 32 States and an online division; offers Certificate, Associate, Bachelor's, Master's and Doctoral programs, with approximately 25 percent of students enrolled exclusively online and nearly 50 percent of students enrolled in Bachelor's programs. Goldman Sachs owns 41.8 percent of EDMC.

**Grand Canyon Education, Inc.**, headquartered in Phoenix, AZ; enrolled approximately 42,300 students as of fall 2010; operates Grand Canyon University, with one campus in Phoenix and approximately 89 percent of students enrolled online; offers Bachelor's and graduate degree programs.

**ITT Educational Services, Inc.**, headquartered in Carmel, IN; enrolled approximately 88,000 students as of fall 2010; operates ITT Technical Institute and Daniel Webster, with 145 campuses in 35 States and an online division; offers primarily Associate degree programs and small Bachelor's and Master's degree programs, with approximately 85 percent of ITT students enrolled in Associate programs.

**Kaplan, Inc.**, headquartered in New York City, NY; enrolled approximately 112,100 students as of fall 2010; operates Kaplan Career Institute, College and University, Bauder College, CHI Institute, Concord Law School, Hesser College, Texas School of Business and TESST College of Technology; with over 70 campuses in 21 States and an online division; offers



Certificate, Associate, Bachelor's and Master's degree programs, with approximately 60 percent of Kaplan students enrolled online. Kaplan is owned by the Washington Post Company.

**Lincoln Education Services Corporation**, headquartered in West Orange, NJ; enrolled approximately 33,200 students as of fall 2010; operates Euphoria Institute, Lincoln College of Technology, Lincoln College of New England, Lincoln Culinary Institute, Lincoln Technical Institute, Nashville Auto-Diesel College and Southwestern College, with 46 campuses in 17 States and an online division; offers Certificate and Associate degree programs, with the majority of students enrolled in Certificate programs.

**National American University Holdings, Inc.**, headquartered in Rapid City, SD; enrolled approximately 8,255 students as of fall 2010; operates National American University with 30 campuses in nine States; offers Diploma, Associate, Bachelor's and Master's degree programs, with approximately 53 percent of students enrolled exclusively online and nearly 50 percent of students enrolled in Associate programs.

**Strayer Education, Inc.**, headquartered in Herndon, VA; enrolled approximately 60,700 students as of fall 2010; operates Strayer University with 92 campuses in 24 States and online; offers Certificate, Associate, Bachelor's, and graduate degree programs, with between 50 and 60 percent of students enrolled online and more than 50 percent enrolled in Bachelor's programs.

**Universal Technical Institute, Inc.**, headquartered in Scottsdale, AZ; enrolled approximately 21,000 students as of fall 2010; operates Universal Technical Institute, Motorcycle Mechanics Institute, Marine Mechanics Institute and NASCAR Technical Institute, with no online division; offers Diploma and Associate degree programs in mechanical and automotive fields.

#### **Private Equity Owned Companies**

**Alta Colleges, Inc.** headquartered in Denver, CO; enrolled 19,200 students as of fall 2010; operates 18 campuses under the Westwood Colleges brand, including an online campus, and one campus under the Redstone College brand; offers primarily Associate and Bachelor's degrees across a range of disciplines, with approximately 26 percent of students enrolled online; owned by private equity firm Housatonic Partners.

**Anthem Education Group**, headquartered in Phoenix, AZ; enrolled approximately 12,800 students as of fall 2010; operates Anthem Institute, College and University, Morrison University and the Bryman School of

Arizona; with 22 campuses in 15 States; offers primarily diploma and Associate degree programs; owned by private equity firm Great Hill Equity Partners.

**Chancellor University LLC**, headquartered in Seven Hills, OH; enrolled 739 students as of fall 2010; operates one campus in Ohio and an online division; offers all its Certificate, Associate, Bachelor's and Master's degree programs on campus and online; launched by private equity firm Significant Federation LLC.

**Concorde Career Colleges, Inc.**, headquartered in Kansas City, MO; enrolled approximately 8,000 students as of fall 2010; operates 15 campuses in 7 States; offers Diploma and Associate degrees in healthcare programs; owned by private equity firm Liberty partners.

**Henley Putnam University**, headquartered in San Jose, CA; enrolled 515 students as of summer 2010; enrolls primarily veterans and active duty servicemembers; operates exclusively online; offers Diploma, Bachelor's degree and graduate programs in homeland security and counter-intelligence fields; owned by private equity firm Liberty partners. The company does not currently participate in title IV Federal Department of Education student aid programs.

**Rasmussen Colleges, Inc.**, headquartered in Minnetonka, MN; enrolled approximately 17,000 students as of fall 2010; operates 22 campuses and online; offers Diploma, Associate degree and Bachelor's degree programs, with approximately 55 percent of students enrolled online. In 2003, Rasmussen was acquired by a company named Collegis after Collegis sold off its higher education IT business. A private equity firm, the Frontenac Company, made the initial investment to acquire Collegis from its founder and was invested in Rasmussen until 2008. Current CEO Michael Locke previously served as Senior Vice President for Collegis.

**TUI Learning LLC**, headquartered in Cypress, CA; enrolled approximately 7,300 students as of fall 2010; enrolls primarily veterans and active duty servicemembers; operates exclusively online; offers Bachelor's, Master's and Doctoral degrees; owned by private equity firm Summit Partners.

**Vatterott Education Holdings, Inc.**, headquartered in St. Louis, MO; enrolled approximately 11,200 students as of fall 2010; operates Vatterott Colleges, L'Ecole Culinaire, and the Court Reporting Institute, with 19 campuses and an online division; offers technical Diplomas and Associate degrees; owned by private equity firm TA associates.

**Walden University**, headquartered in Minneapolis, MN; enrolled approximately 47,500 students as of fall 2010; operates exclusively online; offers Bachelor's, Master's and Doctoral degree programs, with the vast

majority of students enrolled in graduate programs; owned by Laureate Education, Inc., a company partially owned by private equity firm Kohlberg Kravis Roberts & Co. Laureate has announced its intention to become publicly traded.

### **Closely Held Corporations**

**American Career College, Inc.**, headquartered in Irvine, CA; enrolled approximately 4,800 students as of fall 2010; operates three campuses with no online division; offers certificates and Associate degrees in healthcare programs.

**ECPI Colleges, Inc.**, headquartered in Virginia Beach, VA; enrolled approximately 13,000 students as of fall 2010; enrolls a significant number of veterans; operates 14 campuses in North Carolina, South Carolina and Virginia, along with a small online division; offers Certificate, Associate, Bachelor's and Master's degree programs, with approximately 14 percent of students enrolled online and 58 percent enrolled in an Associate program.

**Education America, Inc.**, headquartered in Heathrow, FL; enrolled approximately 10,000 students as of fall 2010; operates Remington College with 19 campuses in 10 States and a small online division; offers primarily Certificate and Associate degree programs in a variety of fields, with only degree programs offered online. The company converted to non-profit tax status in early 2011.

**Herzing, Inc.**, headquartered in Milwaukee, WI; enrolled approximately 8,200 students as of fall 2010; operates 11 campuses in eight States and online; offers Associate, Bachelor's and online Master's degree programs in business management, electronics, healthcare, graphic design and public safety.

**The Keiser School, Inc.**, headquartered in Fort Lauderdale, FL; enrolled approximately 19,000 students as of fall 2010; operates Keiser University and Keiser Career College with 14 campuses and an online division; offers Associate, Bachelor's, Master's and Doctoral degree programs in a wide variety of fields. In January 2011, Keiser converted to non-profit status. Keiser also operates Southeastern Institute, a for-profit college with four campuses, but did not provide the committee with information regarding this brand.

**Med-Com Career Training, Inc.**, headquartered in Elizabeth, NJ; enrolled approximately 2,700 students as of fall 2010; operates Drake College of Business with two campuses in New Jersey; offers Certificate programs in medical office technology, dental assisting and Microsoft Office certification.

## The Federal Investment and the Changing Sector

### Increasing Federal Investment

For-profit colleges collect a large and expanding share of Federal student aid dollars. During the 2009–10 academic year, the for-profit sector collected \$32 billion, out of the total \$130 billion in loans and grants disbursed under Title IV of the Higher Education Act.<sup>2</sup> This sum is 5 times greater than the amount the sector collected 10 years earlier. While the total amount of Federal student aid funds disbursed to all sectors has grown, the share collected by for-profit colleges has grown much faster. Consequently, the share of funds collected by the for-profit sector jumped from 12.2 percent in 2000–1 to 25 percent in 2009–10.<sup>3</sup> Because for-profit colleges charge comparatively high tuition and enroll students who are more dependent on Federal student aid, they enroll only about 13 percent of all students but take in 25 percent of total aid.<sup>4</sup>

### Increasing Reliance on Federal Dollars

Not only is the amount of Federal aid going to for-profit education companies increasing, for-profit colleges are increasingly reliant on Federal financial aid for the vast share of their revenue. In total, the 30 companies examined derived 68.7 percent of revenue from Federal student aid programs in fiscal year 2006.<sup>5</sup> In fiscal year 2010, just 4 years later, that figure rose to 79.2 percent.<sup>6</sup> And when all Federal educational benefits are counted, including money disbursed from the military Tuition Assistance program and the veterans post-9/11 GI bill program, the proportion is even higher: In fiscal year 2009, the 15 publicly traded for-profit education companies received 86 percent of their revenues from Federal sources.<sup>7</sup> This allocation means for-profit education

<sup>2</sup> 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>.

<sup>3</sup> Id.

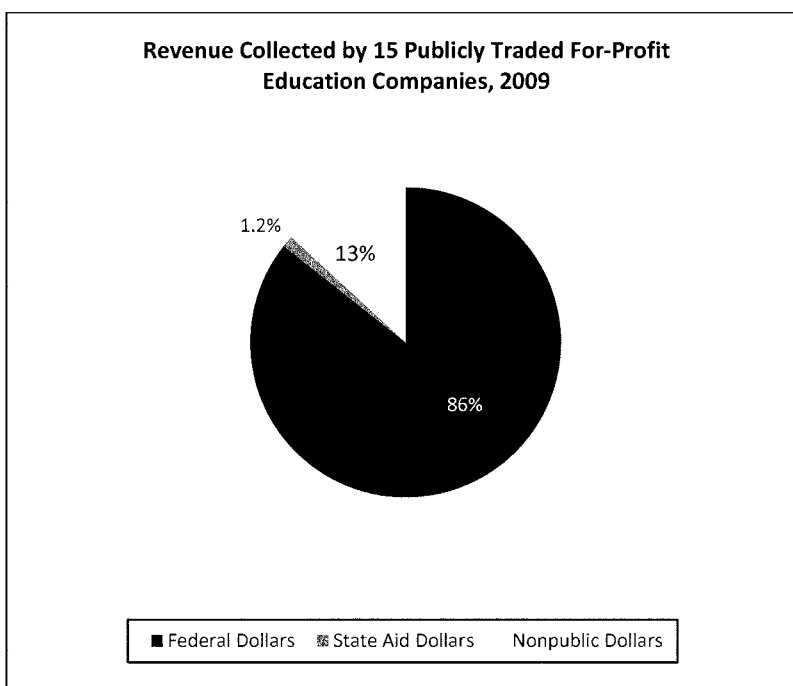
<sup>4</sup> Using the Department of Education's Integrated Postsecondary Education Data System (hereinafter "IPEDS") unduplicated 12-month headcount figure, for-profit colleges account for 13.2 percent of higher education students. Using the fall 2010 enrollment figure, for-profit colleges account for 11.4 percent of higher education students.

<sup>5</sup> For-profit education companies are required to report the proportion of revenue they derive from Federal student aid programs. The Department of Education publishes these figures annually.

<sup>6</sup> 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> (analysis of data from period 2006-10).

<sup>7</sup> Senate HELP Committee staff analysis based on information provided by the 15 publicly traded companies pursuant to the committee document request of August 5, 2010. Federal dollars include all revenues 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 as well as funds received from other Federal sources including the Department of Labor, the Department of Defense and the Department of Veterans Affairs as reported by the companies. In some instances, Federal dollars also include Stafford loan increases permissibly excluded from the companies' reported title IV revenue for each student during fiscal years 2009 and 2010 pursuant to the Ensuring Continued Access to Student Loans Act of 2008, Pub. L. No. 110-227 (2008). Because not every company furnished information on the amount of exclusion they recorded, these figures likely understate the amount of Federal student aid revenue received.

institutions collect a higher proportion of their revenues from Federal student aid funds than most public and non-profit colleges.



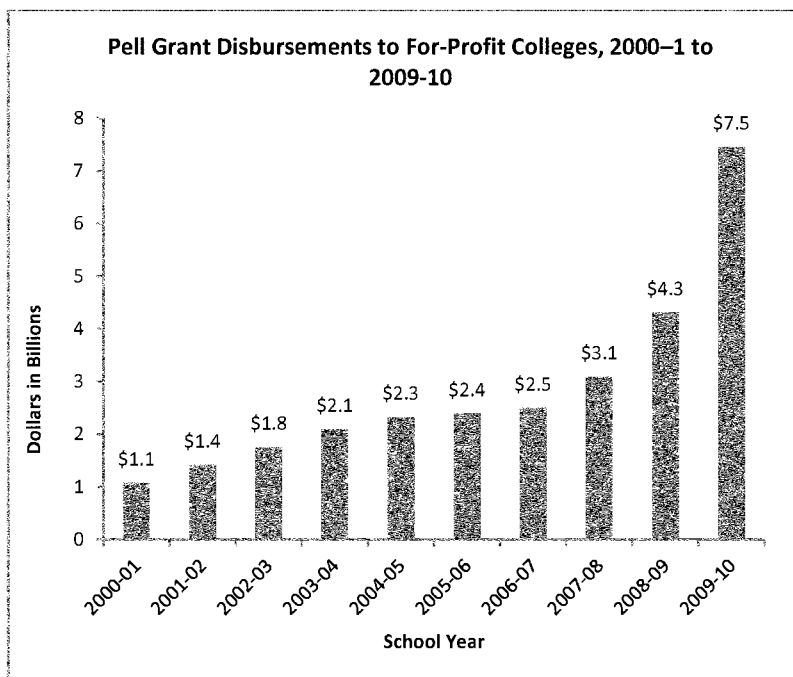
### Pell Grant Funds

The Pell grant program, the largest Federal grant program created to assist needy students with college costs, totaled \$8 billion in the 2000–1 school year, growing to \$30 billion in the 2009–10 school year as lawmakers made repeated new investments in Pell grant limits in an effort to keep college affordable.<sup>8</sup> During that same period, the amount of Pell grant funds collected by for-profit colleges increased from \$1.1 billion to \$7.5 billion.<sup>9</sup> The size of

<sup>8</sup> 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. Congress has taken steps to make college more accessible and affordable by committing \$36 billion in mandatory Pell grant funding over the next 10 years included in the Health Care and Education Reconciliation Act of 2010 and through \$17 billion in discretionary funding through the American Recovery and Reinvestment Act of 2009 and annual discretionary funding, which in fiscal year 2010 was \$17.6 billion. For the 2009-10 and 2010-11 academic years students attending year-round were also eligible to receive 2 Pell awards in 1 year, leading to a large increase in the total volume of Pell at many institutions in those years. Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111–152, 124 Stat 1029 (2010); American Recovery and Reinvestment Act of 2009, Pub. L. 111–5 (2009).

<sup>9</sup> 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

the Pell program grew four and a half times, but the overall Pell dollars flowing to for-profit colleges increased sixfold.<sup>10</sup> Consequently, the share of Pell grant funds that for-profit colleges collected increased from 14 to 25 percent.<sup>11</sup> While part of this increase is attributable to the overall economy and the surge of enrollments by Pell eligible students, the disproportionate increase in Pell dollars flowing to the sector has played a significant role in creating annual shortfalls in the Pell grant program.



Much of this increase is explained by the rapid expansion of large national education companies. The Apollo Group, parent company of the University of Phoenix and the largest for-profit operator, received \$24 million in Pell grants during the 2000–1 school year, but by the 2010–11 school year received \$1.2 billion in Pell dollars.<sup>12</sup> Similarly, colleges owned by the Career Education Corporation in 2001–2 received \$38.3 million in Pell grant funds,

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.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School* (2009), <http://federalstudentaid.ed.gov/datacenter/programmatic.html>. University of Phoenix (“Phoenix”) is a brand of colleges operated by Apollo Group, Inc. (“Apollo”), a publicly traded for-profit higher education company that enrolled 470,800 students as of fall 2010 and is based in Phoenix, AZ.

growing to \$408 million in Pell funds in 2009–10,<sup>13</sup> the same year that an investigation by New York’s attorney general led to an admission by the company that false job placement data had been submitted at a number of campuses.<sup>14</sup>

Pell grants are an investment in students. This investment is intended to pay returns to taxpayers and society by giving low- and middle-income families access to higher education and employment opportunities, thereby expanding the tax base. As explored in more detail below, the student outcomes documented in the investigation raise serious questions regarding the value and the sustainability of the Pell grant investment currently being made in the for-profit sector.

### Military Education Benefits

#### *GI Bill Benefits*

The Federal investment in educational benefits for veterans following World War II paid phenomenal dividends. That investment expanded the middle class, boosted the economy, and helped usher in a new era of shared prosperity in the United States. It has also led to an ongoing commitment to providing educational opportunities to subsequent generations of veterans, including veterans of the conflicts in Iraq and Afghanistan. Pursuant to this commitment, Congress enacted the post-9/11 GI bill. Beginning in August 2009, qualifying veterans and family members became eligible for 36 months of benefits, paying up to \$17,500 a year.<sup>15</sup> As Ms. Hollister Petraeus, Assistant Director of the Office of Servicemember Affairs for the Consumer Financial Protection Bureau, testified before a Senate Homeland Security Subcommittee hearing on September 22, 2011, “These are valuable benefits and I think we would all like to see them replicate the success story that happened after World War II, when a generation of veterans came home, went to college on the GI bill, and became the engine that drove our economy to tremendous success.”<sup>16</sup>

During the first 2 years of availability of post-9/11 GI bill benefits, for-profit companies collected \$1.6 billion, or 37 percent, of the program’s total

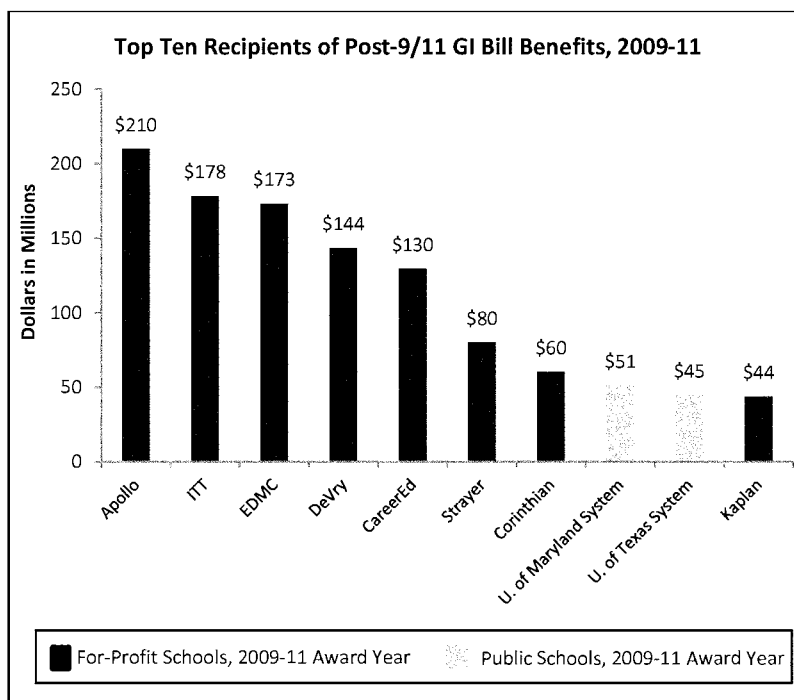
<sup>13</sup> *Id.*

<sup>14</sup> “Career Education Admits to Overstating Job-Placement Data,” *The Chronicle of Higher Education*, August 10, 2011, <http://chronicle.com/blogs/ticker/career-education-admits-to-overstating-job-placement-data/35225> (accessed May 23, 2012).

<sup>15</sup> Under the original post-9/11 GI bill, the maximum benefit was capped at the highest in-State tuition at a public college in the veteran’s state. Post-9/11 Veterans Assistance Act of 2008, Title V of the Supplemental Appropriations Act of 2008, Pub. L. No. 110-252 (2008).

<sup>16</sup> Hollister K. Petraeus (Assistant Director, Office of Servicemember Affairs, Consumer Financial Protection Bureau), Written Statement for the Record, Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, Senate Committee on Homeland Security and Governmental Affairs, *Improving Educational Outcomes for Our Military and Veterans*, 112th Congress (2011).

\$4.3 billion in benefits dispersed.<sup>17</sup> Eight of the top 10 recipients of post-9/11 GI bill funds are for-profit education companies.<sup>18</sup>



Because tuition at for-profit colleges is much higher, on average, than at public colleges, taxpayers are spending more money per veteran to support their education. For-profit colleges trained 25 percent of veterans during the first 2 years of the program, but received 37 percent of post-9/11 GI bill funds.<sup>19</sup> In contrast, public schools trained 59 percent of veterans, but collected only 39 percent of the programs' funds.<sup>20</sup>

The share of VA benefits flowing to for-profit colleges also far exceeds the share of Federal Department of Education financial aid flowing to the schools.

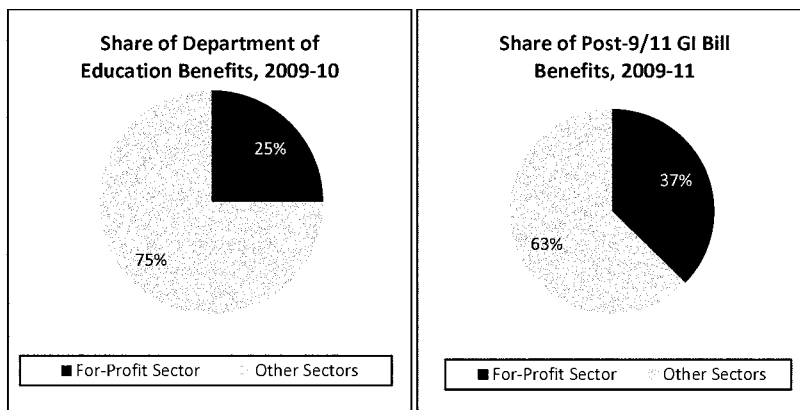
<sup>17</sup> The VA paid out an additional \$56 million in benefits under the post-9/11 GI bill that was distributed in the early weeks of the program, and has not been tracked by sector. These funds are not included in the \$1.75 billion figure.

<sup>18</sup> Senate HELP Committee staff analysis of data provided by the U.S. Department of Veterans Affairs. This information was originally released at a press conference on September 22, 2011. Subsequent to the release, committee staff noticed an error in dates and prepared and issued a correction on November 3, 2011. The finding, that 8 of the top 10 recipients of post-9/11 GI bill funds were large for-profit companies, was unchanged but two sets of companies did change positions within the top 10, and the amount of post-9/11 GI bill funds received by the companies was lower than originally reported.

<sup>19</sup> See Appendix 11.

<sup>20</sup> *Id.*





Yet, data provided to the committee by for-profit education companies make clear that the general student population is not performing well at these schools. These findings regarding student outcomes, discussed in more detail below, raise serious questions about whether schools run by these companies represent a good investment for taxpayers or veterans.

Withdrawal Rates for the 10 Highest Recipients of Post-9/11 GI Bill Funds			
Company	Amount Received [in millions]	AA Percent Withdrawn <sup>21</sup>	BA Percent Withdrawn <sup>22</sup>
Apollo Group, Inc.	\$210	66.4	50.3
ITT Educational Services, Inc.	\$178	53.1	44.5
Education Management Corporation	\$173	63.7	61.9
DeVry, Inc.	\$144	54.3	56.4
Career Education Corporation	\$130	61.7	51.4
Strayer Education, Inc.	\$80	48.8	34.1
Corinthian Colleges, Inc.	\$60	66.5	59.2
University of Maryland System	\$51	N/A	13.1 <sup>23</sup>
University of Texas System	\$45	N/A	26.4 <sup>24</sup>
Kaplan Higher Education Corporation	\$44	69.1	68.2

<sup>21</sup> See Appendix 11 and Appendix 15. Based on Senate HELP Committee staff analysis of a listing of all students who enrolled in an Apollo, ITT, EDMC, DeVry, Career Education Corporation, Strayer, Corinthian, or Kaplan program between July 1, 2008 and June 30, 2009, provided to the committee by each company.

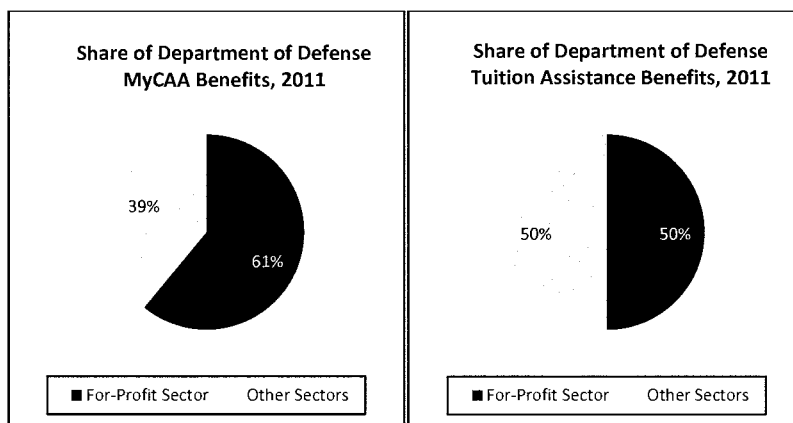
<sup>22</sup> *Id.*

<sup>23</sup> U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Data System [hereinafter IPEDS], *First-Time, Full-Time Retention Rate* (weighted average).

<sup>24</sup> *Id.*

*Department of Defense Education Programs*

The Department of Defense also seeks to support servicemembers' education through the long-standing Tuition Assistance (TA) program, which allows servicemembers to begin taking postsecondary education classes while on duty. The TA program provides a benefit of \$250 per academic credit, capped at \$4,500 per year, to increase servicemembers' opportunities for promotion and to help advance their personal, professional and intellectual development.<sup>25</sup> In fiscal year 2011, for-profit colleges collected one of every two Tuition Assistance dollars, totaling \$280 million of the \$563 million disbursed during the year.<sup>26</sup> Just 2 years prior, during fiscal year 2009, for-profit colleges collected \$218 million of \$515 million in benefits, 42 percent of the total.<sup>27</sup>



The U.S. Armed Forces operate another education benefit program to help spouses of servicemembers develop portable career opportunities. These Military Spouse Career Advancement Accounts (MyCAA), provide \$2,000 per year with an overall cap of \$4,000 over 3 years.<sup>28</sup> During fiscal year 2011, for-profit colleges received \$40 million (61 percent) of the \$65 million MyCAA program funds disbursed.<sup>29</sup>

<sup>25</sup> U.S. Department of Defense Instruction, Voluntary Education Programs, Number 1322.25, March 15, 2011, available at <http://www.dtic.mil/whs/directives/corres/pdf/132225p.pdf> (accessed May 24, 2012). Provides \$250 per semester credit hour, or \$166 per quarter credit hour, depending on institution's academic calendar.

<sup>26</sup> See Appendix 12. Senate HELP Committee staff analysis of data provided by the Department of Defense.

<sup>27</sup> Id.

<sup>28</sup> Department of Defense, MyCAA Fact Sheet, <http://www.militaryhomefront.dod.mil/mycaa/FactSheet> (accessed July 1, 2012).

<sup>29</sup> See Appendix 12. Senate HELP Committee staff analysis of data provided by the Department of Defense.

### Growth and Change in the For-Profit Sector

The for-profit higher education sector today looks dramatically different from 20 years ago. Up until the 1990s, the sector was primarily composed of small trade schools that awarded certificates and diplomas in fields like air-conditioning repair, cosmetology, and truck driving. Two-thirds of for-profit colleges enrolled students in training programs lasting less than 1 year.<sup>30</sup> While certificate and diploma offerings have continued to grow, the sector has dramatically increased its degree programs. Between 2004 and 2010, the amount of AA degrees awarded by for-profit colleges increased 77 percent and the amount of BA degrees awarded increased 136 percent.<sup>31</sup>

Two additional shifts have re-shaped the for-profit education landscape: the rise of large national for-profit higher education companies, many of them publicly traded on major stock exchanges, and the proliferation of online programs. In 1990, there were no publicly traded higher education companies. In 1991 DeVry University became the first for-profit education company listed on a major stock exchange.<sup>32</sup> This initial public offering (IPO) married Wall Street capital to the for-profit education sector. The Apollo Group-owned University of Phoenix followed suit with its IPO in 1994. At that time, these two companies enrolled 80,000 students and accounted for 30 percent of all students who attended for-profit colleges.<sup>33</sup> Thirteen more companies have followed. Today there are 15 publicly traded for-profit higher education companies that together enroll more than 1.4 million students, or 63 percent of all students who attend for-profit colleges.<sup>34</sup> These developments led to significant enrollment growth in the for-profit college sector, increasing from approximately 766,000 students in 2001 to 2.4 million students in 2010.<sup>35</sup>

<sup>30</sup> Thomas Bailey, Norena Badway and Patricia J. Gumpert, For-Profit Higher Education and Community Colleges, National Center for Postsecondary Improvement, <http://www.stanford.edu/group/ncpi/documents/pdfs/forprofitandcc.pdf> (accessed Apr. 27, 2012).

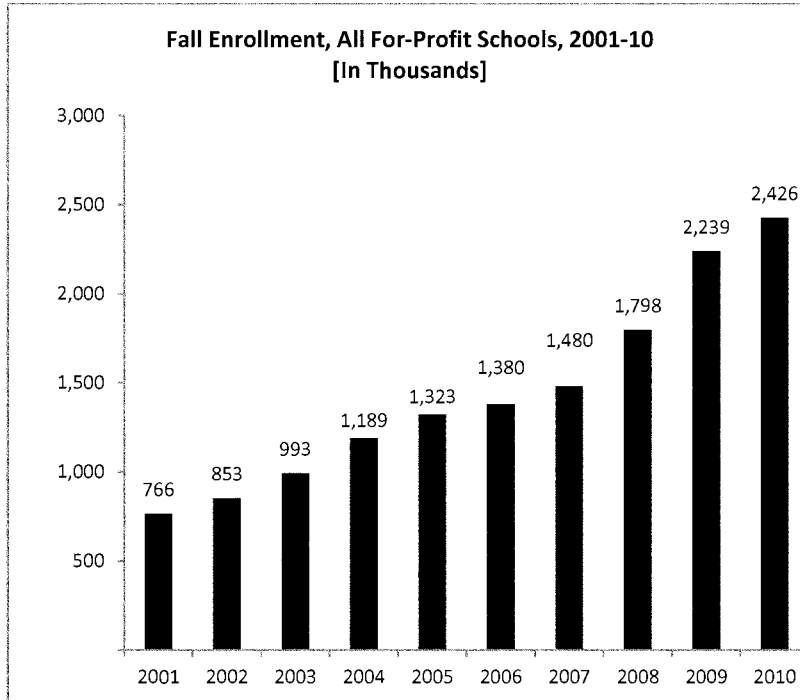
<sup>31</sup> Senate HELP Committee staff analysis of IPEDS data.

<sup>32</sup> DeVry Inc. was the first stand-alone higher education institution to become a publicly traded company on a major exchange that has maintained operations as a public company. Concorde Career Colleges, Inc., which is today a private company, appeared on the NASDAQ exchange twice in its history.

<sup>33</sup> Apollo Group, Form 10-K for period ending 8/31/96; DeVry, Inc, Form. 10-K for period ending 6/30/97. For total for profit sector enrollment, see U.S. Department of Education, National Center for Education Statistics, *Fall Enrollment in Postsecondary Institutions, 1996* (1998), <http://nces.ed.gov/pubs99/1999239.pdf> (accessed April 27, 2012).

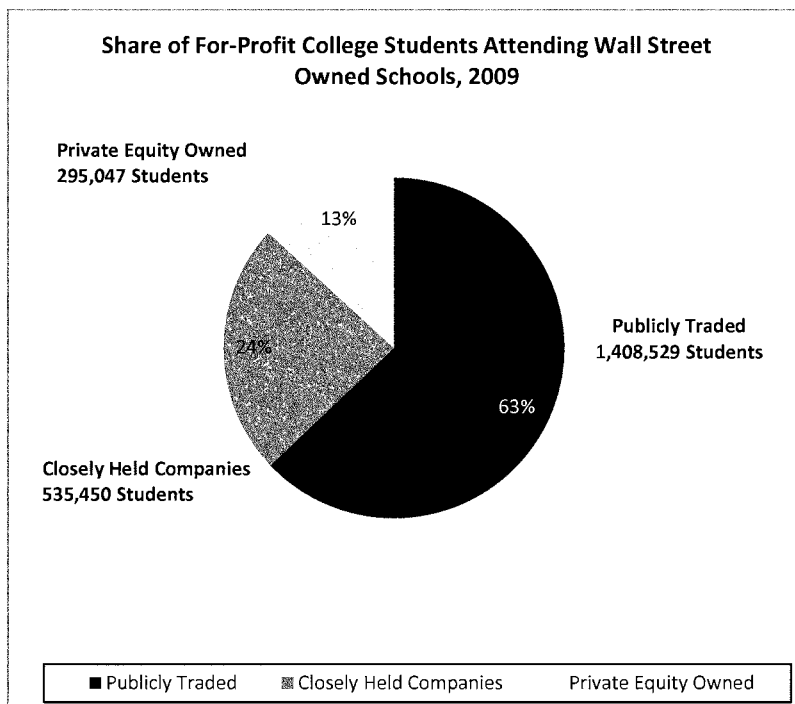
<sup>34</sup> IPEDS, Fall Enrollment, Fall 2009 for unit identification numbers controlled by for-profit education companies.

<sup>35</sup> HELP Committee staff analysis of data from IPEDS and other data from the Department of Education.



More recently, private equity firms have entered the for-profit higher education sector in a significant way. Today, at least 10 private equity firms own schools that enroll just under 300,000 students, another 13 percent of the total enrollment of the for-profit sector.<sup>36</sup>

<sup>36</sup> Senate HELP Committee staff analysis of private equity firm portfolios as of October 2010 and IPEDS, Fall Enrollment, Fall 2009 for unit identification numbers controlled by private equity owned for-profit education companies. The chart below refers to the following private equity firms: Housatonic Partners; JLL Partners; Great Hill Partners; Gryphon Investors; BC Partners; Kohlberg, Kravis, Robert s& Co.; Leeds Equity Partners; Liberty Partners; Quad Partners; and Willis Stein and Partners. The chart below refers to the following publicly traded companies: Apollo Group; Education Management Corp.; Washington Post Co.; Career Education Corp.; Corinthian Colleges; Bridgepoint Education; ITT Educational Services, Inc.; DeVry Inc.; American Public Education, Inc.; Strayer Education, Inc.; Grand Canyon Education, Inc.; Capella Education Co.; Lincoln Educational Services; Universal Technical Institute, Inc.; and National American University Holdings, Inc.



Fully online courses have been another driver in the for-profit education sector. Much of the growth in student enrollment, as much as 90 percent by one measure, in the past decade is attributable to students attending primarily online courses.<sup>37</sup> The average number of students taking at least one course online at a for-profit institution grew by more than four times between 2002 and 2006.<sup>38</sup> Four publicly traded companies enroll more than 90 percent of students online.<sup>39</sup> At least three additional companies currently have more than 50 percent of students in online programs.<sup>40</sup> Among education companies

<sup>37</sup> David J. Deming, Claudia Goldin, and Lawrence F. Katz, "The For-Profit Postsecondary School Sector: Nimble Critters or Agile Predators?," *Journal of Economic Perspectives*, vol. 26(1), Winter 2012, pp. 139–164, [http://www.frbatlanta.org/documents/news/conferences/11employment\\_education\\_demming.pdf](http://www.frbatlanta.org/documents/news/conferences/11employment_education_demming.pdf) (accessed Apr. 27, 2012).

<sup>38</sup> I. Elaine Allen and Jeff Seaman, *Online Nation: Five Years of Growth in Online Learning*, The Sloan Consortium (2007), [http://sloanconsortium.org/sites/default/files/online\\_nation.pdf](http://sloanconsortium.org/sites/default/files/online_nation.pdf) (accessed Apr. 27, 2012).

<sup>39</sup> See American Public Education, Inc., About APEI, <http://www.americanpubliceducation.com/phoenix.zhtml?c=214618&p=irol-aboutapei> (accessed May 24, 2012) (APEI offers courses exclusively online); Capella Education Company, Company Overview, [http://www.capellaeducation.com/company\\_information/capella\\_overview.aspx](http://www.capellaeducation.com/company_information/capella_overview.aspx) (accessed May 24, 2012) (Capella offers courses exclusively online); Grand Canyon University Investor Relations, *Grand Canyon Education, Inc. Reports First Quarter 2012 Results*, News Release, May 7, 2012, <http://investors.gcu.edu/phoenix.zhtml?c=221997&p=irolnewsArticle&ID=1692589&highlight=> (accessed May 24, 2012); Bridgepoint Presentation, *Credit Suisse 14<sup>th</sup> Annual Global Services Conference*, pg. 13, March 13, 2012, available at <http://phx.corporate-ir.net/phoenix.zhtml?c=228996&p=irol-presentations> (accessed May 24, 2012) (Bridgepoint's student body is "99% Online").

<sup>40</sup> Strayer Education, *Strayer Education, Inc. Reports First Quarter 2012 Revenues and Earnings; and Soaring Term 2012 Enrollments*, Press Release, April 26, 2012, <http://www.strayereducation.com/releasedetail>.

surveyed by the committee, at least 435,000 students were enrolled in online programs at 11 companies between 2008 and 2009.<sup>41</sup> However, as discussed in more detail later, retention and student loan default rates are worse for students attending an exclusively online program and, with some exceptions, for students attending a college owned by a publicly traded company.

## **Why Are Companies that Own For-Profit Colleges Financially Successful?**

### **High Cost of Attendance**

For-profit colleges generally charge much higher tuition than public colleges and universities. Many companies that operate for-profit colleges appear to set tuition using sophisticated market strategies designed to maximize revenue without regard to the poor academic and employment outcomes faced by students.

### **Higher Tuition at For-Profit Colleges**

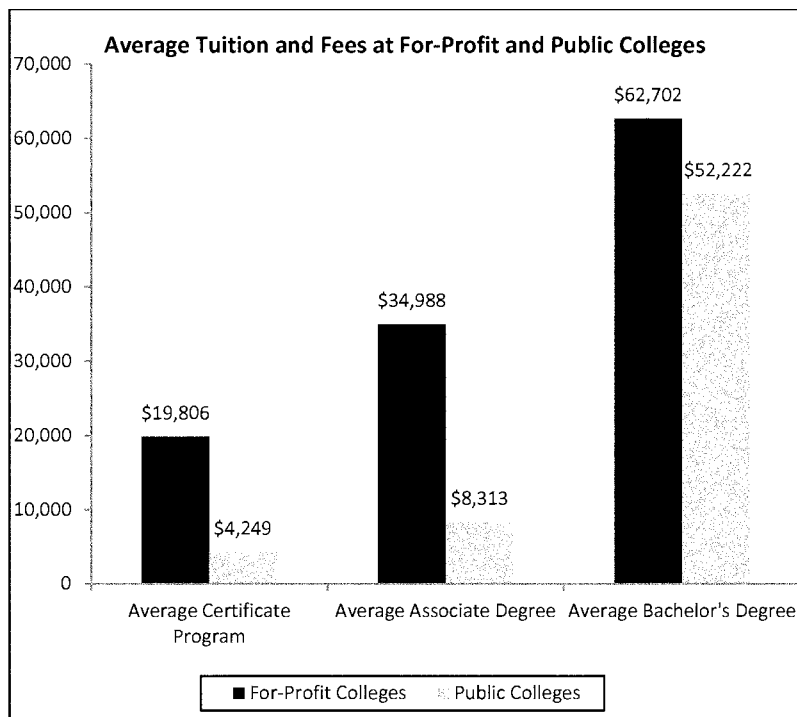
On average, for all degree types and institutions analyzed by committee staff, for-profit colleges charge more than three and a half times as much for the same degree at public institutions in the same State. Since there is significant variation in the length of time to achieve different levels of degrees, it is instructive to examine them separately.<sup>42</sup>

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*2011 and Fourth Quarter Earnings*, Press Release, February 24, 2012, <http://www.washpost.com/phoenix.zhtml?c=62487&p=irol-newsArticle&ID=1665015&highlight=> (accessed May 24, 2012); National American University Holdings, Inc., National American University Holdings, Inc. Reports Fiscal 2012 Third Quarter and Nine Months Results, Press Release, April 5, 2012, <http://www.national.edu/sites/default/files/National%20American%20University%20Holdings.%20Inc.%20Reports%20Fiscal%202012%20Third%20Quarter%20and%20Nine%20Months%20Results.pdf> (accessed May 24, 2012). Before Congress repealed the “50 percent rule” in 2005 colleges were not allowed to furnish more than half their courses online and could not have more than half their students enrolled in distance-learning courses. See Margot A. Schenet, *Higher Education: Reauthorization of the Higher Education Act*, Congressional Research Service, December 3, 1992.

<sup>41</sup> IPEDS, Fall Enrollment, Fall 2009 for unit identification numbers controlled by for-profit education companies.

<sup>42</sup> The committee asked for information on tuition and fees charged by each of the 30 schools examined by the committee over the previous 4 years. However, tuition and fees are increased so frequently that much of the documentation received was quickly out of date. Thus, most information was gathered from schools’ Web sites. Not all 30 schools offered all types of degrees: the dataset presented is drawn from 9 Certificate programs, 15 Associate programs, and 19 Bachelor’s programs that provide a cross section of the industry. The “Public College” used as a point of comparison is a public community college near the for-profit company headquarters offering the same Certificate or Associate degree or, in the case of Bachelor’s degrees, it is the flagship public university located in the same State as the headquarters of the for-profit school. Meaning.



For-profit certificate programs cost, on average, four and a half times as much as a comparable program at a community college in the same area.<sup>43</sup> Bachelor's programs averaged 20 percent more than analogous programs at flagship public universities. Associate degree programs also averaged four times the cost at traditional public college counterparts.<sup>44</sup>

Moreover, for-profit colleges are almost always more expensive than nearby public institutions offering similar programs.<sup>45</sup> In every case examined, Certificate and Associate degree programs at the nearest public colleges were less expensive than comparable for-profit programs.

<sup>43</sup> For the purposes of this analysis, "Certificate" refers to pre-baccalaureate Certificate programs and diplomas.

<sup>44</sup> See Appendix 14 for a complete list of programs and tuition.

<sup>45</sup> 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.

Comparison of For-Profit and Public College Associate Degree Programs, 2012 (Lowest Cost, Highest Cost and Closest to Average Cost For-Profit College)				
For-Profit College	For-Profit Program Cost	Public College	Public Program Cost	For-Profit Percent Higher
American Public University (West Virginia) <sup>46</sup>	\$15,250	Blue Ridge Community and Technical College	\$8,900	71%
Westwood College (Colorado) <sup>47</sup>	\$48,194	Community College of Denver	\$8,823	446%
Strayer University <sup>48</sup>	\$36,500	Northern Virginia Community College	\$9,587	281%

When compared to similar Bachelor's degree programs at State flagship universities, 18 out of 22 for-profit Bachelor's degree programs are more expensive.<sup>49</sup> While for-profit colleges are more expensive across the board, the cost of tuition varies within the for-profit sector. For example, for comparable diplomas, tuition at for-profit colleges ranges from 2 to 20 times the tuition at local community colleges.<sup>50</sup>

#### Tuition Decisions Made To Maximize Revenue

The obligation to satisfy shareholders means that many for-profit colleges set and raise tuition based on the internal financial projections of the company, rather than the cost of educating students. While tuition at public schools has increased sharply, this has largely been due to cuts in State budgets that strain the institutions' educational expenditures.<sup>51</sup> In contrast, tuition increases at for-profit colleges are not driven solely by external economic pressures, nor are they tempered by internal cost-saving measures, but rather, are often the result of strategies designed to maximize revenue.

<sup>46</sup> American Public University System ("APUS") is a brand operated by American Public Education, Inc. ("APEI"), a publicly traded for-profit higher education company that enrolled 77,000 students as of fall 2010 and is based in Charlestown, WV.

<sup>47</sup> Westwood is a brand of colleges operated by Alta Colleges, Inc. ("Alta"), a for-profit higher education company that enrolled 19,190 students as of 2010 and is based in Denver, CO.

<sup>48</sup> Strayer Education, Inc. ("Strayer") is a publicly traded for-profit higher education company that enrolled 60,711 students as of fall 2010 and is based in Arlington, VA.

<sup>49</sup> An additional company offers a BA programs that is less than \$1,000 more than the comparable program offered by the flagship public college. Senate HELP Committee staff analysis. See Appendix 14.

<sup>50</sup> Senate HELP Committee staff analysis. See Appendix 14.

<sup>51</sup> Delta Cost Project, *Trends in College Spending 1999-2009: Where Does the Money Come From? Where Does It Go? What Does It Buy?*, Delta Project on Postsecondary Education Costs, Productivity, and Accountability (2011), [http://www.deltacostproject.org/resources/pdf/Trends2011\\_Final\\_090711.pdf](http://www.deltacostproject.org/resources/pdf/Trends2011_Final_090711.pdf) (accessed April 30, 2012). The tuition at private non-profit colleges and universities has not grown as sharply as public colleges and universities. The average annual price increase between 2001 and 2011 was 2.6 percent at 4-year private non-profit colleges versus 5.6 at public colleges. CollegeBoard Advocacy & Policy Center, *Trends in College Pricing 2011*, College Board, pg. 13 (2011), [http://trends.collegeboard.org/downloads/College\\_Pricing\\_2011.pdf](http://trends.collegeboard.org/downloads/College_Pricing_2011.pdf) (accessed May 3, 2012). In addition, the College Board's analysis shows that because private non-profit colleges award significantly more institutional aid to students, the average net price of attending an open enrollment 4-year non-profit college is slightly less than attending a for-profit college, most of which are open enrollment.



Maximizing Revenue

Internal company documents indicate that financial projections, rather than the cost of providing instruction and other student services, determine tuition pricing. For example, in an email discussing a tuition increase for a nursing program at a Kaplan campus in Sacramento,<sup>52</sup> the program’s finance director recommended an 8 percent increase, and justified it partly by saying: “With the new pricing, we can lose two students and still make the same profit.”<sup>53</sup> The chief financial officer of National American University emailed senior executives and campus presidents that “the university (as a system) was not successful in achieving its summer quarter profit expectations and ”as a result” a “mid-year tuition increase” and change in how the company bills students was necessary to hit these expectations.<sup>54</sup>

In 2008, Westwood conducted pricing experiments to see if reducing tuition could increase revenue by attracting more students. An internal presentation showed that the company reduced the tuition for a small group of its programs, but determined that the reduction had “no discernible impact” on recruitment. As a result, the presentation recommended a tuition increase of between 3.5 percent and 4 percent for the following year.<sup>55</sup>

Similarly, part of an internal presentation from DeVry’s Chamberlain College of Nursing on whether to raise tuition proposed that “Chamberlain could take an aggressive price leadership position” by raising tuition above competitors [emphasis in original].<sup>56</sup> While the suggestions presented were ultimately not pursued by DeVry, managers reasoned that “so long as out-of-pocket expenses can remain minimal, significant price increases will likely create minimal changes in demand.” Another idea proposed but not implemented was that in order to keep students’ out-of-pocket costs minimal, the company should arrange for additional private student loans.

Some companies’ financial models are even more complex, setting different price points for each geographic region and academic program separately. The investigation found that one company set at least 59 different credit-hour tuition prices, based on program type and location. As an example,

<sup>52</sup> Kaplan Higher Education Corporation (“Kaplan”) is a for-profit higher education company that enrolled 112,141 students as of 2010 and is based in New York City, NY. Kaplan is owned by the publicly traded Washington Post Corporation.

<sup>53</sup> Kaplan Internal Email, September 2009, re: *Sacramento Price Increase* (KHE 173528).

<sup>54</sup> National American University Internal Email, October 2007, re: *Mid Year Adjustments* (NAU0013678). National American University is a publicly traded for-profit higher education company that enrolled 9,700 students as of fall 2010 and is based in Rapid City, SD.

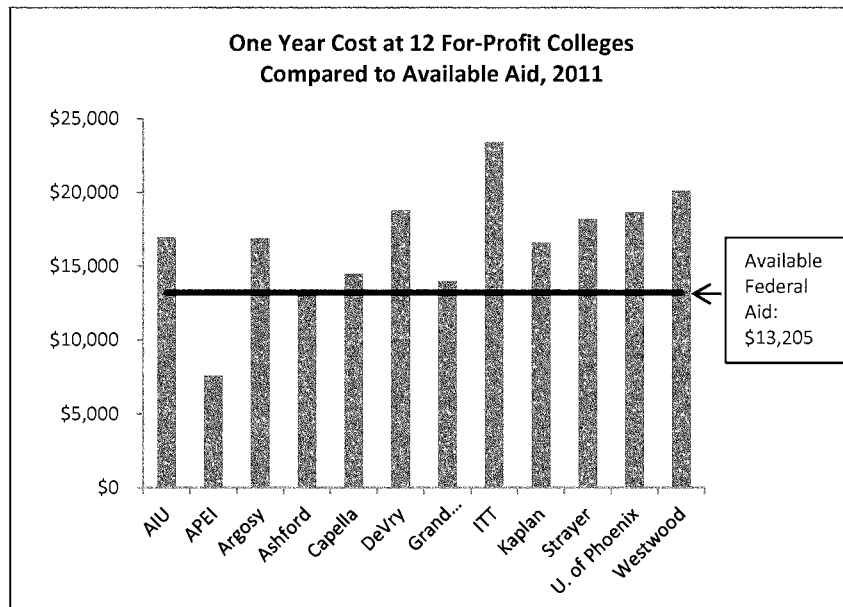
<sup>55</sup> Westwood Internal Presentation, 2009, Marketing Presentation on Tuition Pricing (WP000004111, at WP000004116 and WP000004118).

<sup>56</sup> DeVry Internal Presentation, February 2009, *Net Promoter Score (NSP)\*, Strategic Pricing, Brand Building: A Presentation to the Chamberlain Leadership Team* (DEVRY0036668, at DEVRY0036696). Chamberlain College of Nursing is a brand of DeVry, Inc. (“DeVry”), a publicly traded for-profit higher education company that enrolled 128,676 students as of fall 2010 and is based in Downers Grove, IL.

this resulted in the company individually setting 17 different tuition rates for its interior design program alone. An analysis of 2010 tuition prices showed that Apollo-owned University of Phoenix charged 13 different prices, between \$47,500 and \$67,000, for a Bachelor’s degree in business, depending on the campus, and Corinthian-owned colleges charged at least 5 different prices, between \$58,000 and \$77,000.<sup>57</sup>

Maximizing Revenue By Matching Tuition to Federal Student Aid

Companies appear to use available Federal aid as a general benchmark for tuition levels. First-year independent students (those considered to be financially independent from their parents) can access \$9,500 from Federal Stafford loans, and the average Pell grant recipient receives \$3,705 towards tuition and fees for a total of approximately \$13,205 in available aid.<sup>58</sup> As the chart below illustrates, a number of publicly traded for-profit colleges appear to set 4-year degree tuition close to that figure.<sup>59</sup>



<sup>57</sup> Senate HELP Committee staff analysis of tuition information provided to the committee by Apollo and Corinthian.

<sup>58</sup> Higher Education Amendments of 1972, Pub. L. No. 92-318, 86 Stat. 235 (1972); College Board Advocacy & Policy Center, *Trends in College Pricing 2011*, College Board, pg. 13 (2011), [http://trends.collegeboard.org/downloads/College\\_Pricing\\_2011.pdf](http://trends.collegeboard.org/downloads/College_Pricing_2011.pdf) (accessed May 3, 2012).

<sup>59</sup> The chart below is based on the Bachelor’s degree program tuition at the 12 for-profit education companies which received a document request from the committee and enrolled at least 5,000 students between July 1, 2008, and June 30, 2009.

Further, a 2012 study sponsored by the National Bureau of Economic Research found that for-profit colleges receiving Federal student aid funds charged far more for tuition than those that were not eligible to receive Federal aid.<sup>60</sup> For-profit colleges receiving Federal student aid dollars, the authors found, raised their tuition by approximately the amount of grant aid for which students were eligible. The authors of the study also note that the amount of the tuition premium charged by for-profit colleges that receive title IV program funds is about equal to the average amount that for-profit colleges spend to recruit each new student.<sup>61</sup>

Because available Federal aid limits vary by student, these limits are not the only factor companies use to determine tuition. However, at least one company, Bridgepoint Education, Inc., based its charges almost entirely on the most broadly available Federal student aid limits from the Federal Stafford Loan program.<sup>62</sup> In 2008, Congress raised the annual Stafford Loan limit to \$9,500 for first-year students, and somewhat higher for subsequent years.<sup>63</sup> By 2010, Bridgepoint's Ashford University had raised its tuition and "technology fee" to a combined \$9,486 per year, just \$14 below the newly available student loan funds for first-year students.

Internal Bridgepoint documents demonstrate the company's deliberate approach to matching charges to the broadly available title IV student aid. Bridgepoint created a new fee for most courses, called the "Course Digital Materials" fee, unexpectedly pushing the total cost of attendance approximately \$400 above the \$9,500 Stafford 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 chief financial officer, , 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.<sup>64</sup>

<sup>60</sup> David J. Deming, Claudia Goldin, and Lawrence F. Katz, "The For-Profit Postsecondary School Sector: Nimble Critters or Agile Predators?," *Journal of Economic Perspectives*, vol. 26(1), Winter 2012, pp. 139-164, [http://www.frbatlanta.org/documents/news/conferences/11employment\\_education\\_demming.pdf](http://www.frbatlanta.org/documents/news/conferences/11employment_education_demming.pdf) (accessed Apr. 27, 2012).

<sup>61</sup> Id.

<sup>62</sup> Bridgepoint Education, Inc. ("Bridgepoint") is a publicly traded for-profit higher education company that enrolled 77,179 students as of fall 2010, and is based in San Diego, CA.

<sup>63</sup> The loan limits are lower for students who are still claimed as dependents by a guardian who could borrow a Parent PLUS loan.

<sup>64</sup> Bridgepoint Internal Email, February 2010, re: *Re: MAJOR ISSUE* (BPI-HELP\_00048618, at BPI-HELP\_00048619).

The CFO's reply, explaining that the shortfall was a result of the new fees, illustrates the company's marketing practice of using fees to increase revenue while keeping published "tuition" figures artificially low:

With this increase and one additional increase we can still say that our 'tuition' is below title 4 limits at every grade level.<sup>65</sup>

An in-depth review of Bridgepoint's internal communications regarding tuition revealed little, if any, discussion of the short- or long-term financial impact to students, nor of the cost to educate those students. Instead, Bridgepoint's internal discussions focused on maintaining the strategic marketing message that students can pay for school entirely with Federal funds. That strategy brought the company impressive growth over recent years.

Internal Alta, Inc. 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)." <sup>66</sup> Similarly, a 2007 presentation suggested that the company design "shorter program i.e. fewer number of credits or longer time spent i.e. quarter time so that we can grab more of the students' Stafford" loans.<sup>67</sup>

*Pricing Unrestrained by Federal Benefits, Value, or Competitors'*

*Prices*

Remarkably, some companies within the for-profit industry charge higher tuition than their peers, have poorer outcomes, and enroll large numbers of students. The committee staff review of tuition prices revealed that program costs at ITT and Corinthian colleges are among the highest in the industry.<sup>68</sup> ITT reports that a Bachelor's of Business Administration costs an estimated \$93,624.<sup>69</sup> This is 30 percent higher than comparable degrees from the University of Phoenix or DeVry University, and it is three times the cost of a comparable degree from American Public University, which charges \$30,350.<sup>70</sup>

<sup>65</sup> Bridgepoint Internal Email, February 2010, re: *Re: MAJOR ISSUE* (BPI-HELP\_00048618).

<sup>66</sup> Alta, February 2009, *Pricing Manager Business Case*, (HELP-ALTA-000153, at HELP-ALTA-000159).

<sup>67</sup> Alta, September 2007, *Pricing Strategy Discussion Document* (WP000004122, at WP000004154).

<sup>68</sup> See Appendix 14.

<sup>69</sup> ITT Technical Institute, *Program of Study Information*, Program Disclosures, <http://www.itt-tech.edu/programinfo/psi-ind.pdf> (accessed December 14, 2011).

<sup>70</sup> University of Phoenix, *School of Business: Bachelor of Science in Business with a Concentration in Management*, Program Disclosures, [http://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/BSB-M-025B.pdf?cm\\_sp=Program+Page\\_-SealSheet+PDF\\_-BSB-M](http://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/BSB-M-025B.pdf?cm_sp=Program+Page_-SealSheet+PDF_-BSB-M) (accessed December 14, 2011)(see program disclosures); DeVry University, *Gainful Employment Disclosures*, <http://www.devry.edu/degree-programs/college-business-management/business-administration-consumer-info.jsp> (accessed December 14, 2011); American Public University, Program Disclosures, available at: <http://www.apu.apus.edu/academic/programs/degree/15/bachelor-of-business-administration> (Accessed 12/14/2011).

At the Associate level, ITT charges \$48,228 for an Associate in Business Administration degree, and Everest College, owned by Corinthian, charges \$43,344 for an Associate in Business.<sup>71</sup> In contrast, Kaplan University charges \$30,065 for an Associate in Business Administration, while the University of Phoenix charges \$24,000.<sup>72</sup> All of these colleges charge significantly more than comparable public institutions: community colleges had an average published tuition price of \$5,926 for a 2-year degree.<sup>73</sup> To put this in perspective: an independent college student who qualifies for the maximum amount of Pell grants and Federal Stafford loans would not be able to completely pay for an ITT Bachelor's degree.

ITT and Corinthian charge these higher prices even though their students fare worse after school than many of their peers in the for-profit sector. Only 31 percent of ITT's recent students are making payments on the principal of their Federal student loans, and only 24 percent of Corinthian's recent students are able to do so.<sup>74</sup> The other 13 publicly traded institutions' average repayment rate is 40 percent.<sup>75</sup> In spite of this poor record of student success, ITT still asserts that its regular annual tuition increases—at least 5 percent for each of the 14 years between 1996 and 2010—reflect the return on investment students receive.<sup>76</sup>

However, when discussing a proposed gainful employment regulation in 2010, the ITT CEO and board made clear that they were aware that many former students did not earn enough to pay their tuition debt. Congress requires that for-profit colleges provide educational programs that lead to “gainful employment” in order to obtain access to title IV funds.<sup>77</sup> Accordingly, the

<sup>71</sup> ITT Technical Institute, *Program of Study Information, Program Disclosures*, <http://www.itt-tech.edu/programinfo/psi-ind.pdf> (accessed December 14, 2011); Everest College, *Program Disclosures*, <http://disclosures.everest.edu/disclosures/everest-college-ontario-metro.pdf> (accessed December 14, 2011). Everest Colleges and Everest University (“Everest”) are brands operated by Corinthian Colleges, Inc. (“Corinthian”), a publicly traded for-profit higher education company that enrolled 113,818 students in 2010 and is based in Santa Ana, CA.

<sup>72</sup> Kaplan, Des Moines Campus Tuition and Fees, <http://desmoines.kaplanuniversity.edu/Pages/tuition.aspx> (accessed December 14, 2012); University of Phoenix, *School of Business: Bachelor of Science in Business with a Concentration in Management, Program Disclosures*, [http://cdnstatic.phoenix.edu/content/dam/altcloud/programs/Sealsheets/BSB-M-025B.pdf?cm\\_sp=Program+Page-SealSheet+PDF-\\_-BSB-M](http://cdnstatic.phoenix.edu/content/dam/altcloud/programs/Sealsheets/BSB-M-025B.pdf?cm_sp=Program+Page-SealSheet+PDF-_-BSB-M) (accessed December 14, 2011)(see program disclosures).

<sup>73</sup> CollegeBoard Advocacy & Policy Center, *Trends in College Pricing 2011*, College Board, pg. 10 (2011), [http://trends.collegeboard.org/downloads/College\\_Pricing\\_2011.pdf](http://trends.collegeboard.org/downloads/College_Pricing_2011.pdf) (accessed May 3, 2012).

<sup>74</sup> Senate HELP Committee staff analysis of data from Department of Education, Cumulative Four-Year Repayment Rate by Institution. <http://www2.ed.gov/policy/highered/heardemaking/2009/ge-cumulative-rates.xls>. 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). While the decision questioned the basis for the repayment rate threshold as a part of Department's rulemaking, it did not question the accuracy of the repayment rate data.

<sup>75</sup>Id. The average repayment rate for all 15 publicly traded companies, including ITT and Corinthian, is 38 percent.

<sup>76</sup> ITT Internal Spreadsheets, Quarterly Financial Statements for 1996-2007 (ITT-00119308)

<sup>77</sup> Higher Education Amendments of 1972, Pub. L. No. 92-318, 86 Stat. 235 (1972). 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*

administration issued a proposed regulation to clarify what qualified as “gainful employment.” The rule, as proposed at the time, would have set restrictions on colleges’ access to Federal student aid based on whether graduates earned enough to pay down their loans. A board presentation discussing the proposed rule declared: “the overwhelming majority of our programs do NOT comply with the proposed ‘GE [gainful employment] bright line,’[emphasis in original]” but went on to declare that ITT could comply with the proposed rule by reducing tuition levels by an average of 11 percent.<sup>78</sup>

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.<sup>79</sup> While ITT executives discuss how much debt they can impose on their students, HELP Committee analysis indicates that a high proportion of ITT’s students withdraw within 1 year without a degree, a fact conspicuously absent from those discussions.<sup>80</sup>

The board presentation then asserted 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 could affect “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.”<sup>81</sup> ITT continued to increase tuition charges and told investors that the company funneled much of that additional revenue into institutional “scholarships,” leaving per-student revenue flat.<sup>82</sup>

One of the scholarship programs created around the same time, the Presidential Scholarship, appears to match the school’s strategy articulated in the board presentation. It gives a 20 percent tuition reduction for well-performing students, *applied retroactively* after a student completes a given quarter. Further, only Bachelor’s degree students who first enrolled in a

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*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).

<sup>78</sup> ITT Internal Presentation, April 2010, Board of Directors Meeting (ITT-00133682, at ITT-00133684 and ITT-00133692). On June 2, 2011, the administration released its final rule, which was significantly less impactful than the rule discussed by the board. Under the final rule, a school’s 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 above 30 percent of students’ discretionary income; and the annual loan payments above 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).

<sup>79</sup> ITT Internal Presentation, April 2010, Board of Directors Meeting (ITT-00133682, at ITT-00133692).

<sup>80</sup> Senate HELP Committee staff analysis of data provided by for-profit education companies. See Appendix 15.

<sup>81</sup> ITT Educational Services, 2010, Q1 Earnings Conference Call with Investors.

<sup>82</sup> *Id.*

Bachelor’s program after September 2008 are eligible, and only if they first graduated from an ITT Associate program.<sup>83</sup> While the scholarship does incentivize retention and graduation—a positive for students—it seems that company is able to reduce the debt loads of graduates, without “inefficiently” forgoing higher revenue from students who are not expected to graduate.

#### Executives’ Recognition That Higher Tuition Leads to More Withdrawals

In some cases, tuition prices continue to increase despite for-profit executives’ awareness of the burden that these increases represent, and the increased risk that this burden will force students to leave school without a degree. A director of admissions for Herzing’s Madison campus wrote in an email:

We would prefer to see no increases as there is already a struggle for many students . . . 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.<sup>84</sup>

The company ignored this advice and subsequently increased tuition by more than 5 percent.<sup>85</sup> A Director of Financial Services at Herzing added,

In my experience, and especially lately, the majority of our students cannot afford higher payments. We have people coming in weekly asking to reduce their contributions or take out the maximum loans to increase their credit balances . . . I’m concerned that we will have increased drops and fewer starts.<sup>86</sup>

Similarly, a Kaplan executive wrote,

Increases above 3% especially in Iowa. . . would cause a disruption in student packaging expectations that would lead students to reduce their class loads, or as worst case scenario, drop from our programs to attend a cheaper program where they could reduce out-of-pocket tuition expenses.<sup>87</sup>

<sup>83</sup> See for example, ITT Technical Institute, 2011, Albuquerque, NM, 2011 Course Catalog, <http://www.itt-tech.edu/campus/download/060.pdf> (accessed May 3, 2012).

<sup>84</sup> Herzing Internal Email, November 2009, re: *Tuition Increase Recommendations* (HP000006785). Herzing, Inc. (“Herzing”) is a for-profit higher education company that enrolled 8,253 students as of 2010 and is based in Milwaukee, WI.

<sup>85</sup> See, for example, Herzing, *Tuition Price Increases Between 2009–10* (HP000005259).

<sup>86</sup> Herzing Internal Email, November 2009, re: *Tuition* (HP000005730, at HP000005730).

<sup>87</sup> Kaplan Internal Email, December 2009, re: *RE: Tuition Discussion with Campus Presidents* (KHE 178035, at KHE 178035).

And according to one Apollo executive, “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.”<sup>88</sup> An EDMC executive wrote in an email,

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 [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.<sup>89</sup>

This awareness has led some for-profit executives to question the prudence of continued tuition increases. One EDMC executive 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?<sup>90</sup>

This followed an earlier email from the same executive in which he wrote, “a decision to subsequently increase their rate might be viewed very negatively. [Employee] is concerned they will see it as, ‘bait and switch.’”<sup>91</sup>

However, documents reviewed by the committee indicate that internal discussions among for-profit executives regarding tuition often revolve around how best to sell these continued tuition increases. In response to an email question as to whether they could remove the 90-day notice for raising tuition from the enrollment agreement, an EDMC executive wrote, “The problem is when we change the tuition on existing students if we do not provide with [sic] 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.”<sup>92</sup> The company states that the 90-day notice was not ultimately removed. A different EDMC executive wrote, “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.”<sup>93</sup>

<sup>88</sup> Apollo Internal Email, October 2008, re: *RE: GP* (AG10045758) (University of Phoenix).

<sup>89</sup> EDMC Internal Email, May 2007, re: *New Tuition Increase* (EDMC-916-000212577) (The Illinois Institute of Art-Chicago).

<sup>90</sup> EDMC Internal Email, May 2007, re: *FW: October Tuition* (EDMC-916-000220747).

<sup>91</sup> *Id.*

<sup>92</sup> EDMC Internal Email, May 2008, re: *Re: Tuition Increase* (EDMC-916-000212943).

<sup>93</sup> EDMC Internal Email, June 2008, re: *Bonuses* (EDMC-916-000211780).



### Concealing the Cost of Tuition

Why does the high cost of tuition not lead to a decrease in student demand? In other words, if for-profit colleges are more expensive, why do students choose to attend them? The answer lies in the asymmetry of access to information. While for-profit college executives have access to full pricing information, in many cases, students do not. Intensive advertising and marketing means that for-profit colleges contact hundreds of thousands, or for some companies millions, of potential students to try to persuade them to enroll. If a potential student asks about the price of tuition, recruiters, as explained below, often are encouraged to evade directly answering questions about cost. And, as illustrated further below, many for-profit colleges emphasize to prospective students that they will have to pay little or no out-of-pocket expenses through the use of student loans and grants.<sup>94</sup>

Moreover, for many for-profit colleges, it is difficult to find a current and accessible source for the price of tuition. Despite regulations requiring colleges to clearly post the price of tuition and fees, some for-profit education companies continue to employ tactics to make this information difficult to find.<sup>95</sup>

For example, Rasmussen's Web site features a prominent link to the "Tuition" page.<sup>96</sup> But even after clicking this link and entering a zip code and the degree sought, prospective students only learn the cost *per credit hour*.<sup>97</sup> There is no statement of how many dollars or credits are required for a degree, for a year of classes, or even for a term. Moreover, links produced by a search of "tuition" that returned results including "Frequently Asked Questions" and "Financial Aid" do not provide any further information.<sup>98</sup> Only the eleventh link, "Rasmussen College Student Investment Disclosure Information," the mandated disclosure, actually explains the cost.<sup>99</sup> Similarly, clicking "cost and financial aid" on the Capella Web site eventually leads to a page telling potential students that a Bachelor's degree requires 180 credits, which cost \$290 per credit hour for lower level courses and \$350 per credit hour for upper level courses.<sup>100</sup> But the page does not tell the student that the program requires, at a minimum, that a student take 96 upper-level credits (a potential cost differential

<sup>94</sup> See also Corinthian Colleges Internal Document, Admissions Representative Training Manual Section on Overcoming Common Objections and Responses (CCI-00046774, at CCI-00046777).

<sup>95</sup> U.S. Department of Education, "Program Integrity Issues," Final Rule, 75 Fed. Reg. 66833, October 29, 2010. See also David P. Smole, Department of Education Final Rules for Postsecondary Education Programs That Prepare Students for Gainful Employment in a Recognized Occupation, Congressional Research Service, September 20, 2011.

<sup>96</sup> Rasmussen Colleges, Inc. ("Rasmussen") is a for-profit higher education company that enrolled 17,090 students as of fall 2010 and is based in Minnetonka, MN.

<sup>97</sup> Rasmussen, *Tuition at Rasmussen College*, [www.rasmussen.edu/tuition](http://www.rasmussen.edu/tuition) (accessed May 2, 2012).

<sup>98</sup> Rasmussen, Search Results for Tuition, [www.rasmussen.edu/search?s=tuition&x=0&y=0](http://www.rasmussen.edu/search?s=tuition&x=0&y=0) (accessed May 22, 2012).

<sup>99</sup> *Id.*

<sup>100</sup> Capella Education Company ("Capella") is a publicly traded for-profit higher education company that enrolled 38,634 students as of fall 2010 and is based in Minneapolis, MN.

minimum, that a student take 96 upper-level credits (a potential cost differential of up to \$5,760).<sup>101</sup> The page instead twice mentions that an “enrollment counselor,” the company term for recruiters, can help the student determine the price. Upon contacting the company via an online chat, a committee staff member received three separate cost estimates.<sup>102</sup>

Even in the case of companies that charge the same price for each credit and reveal the number of credits required for a degree, students can still find it difficult to determine total program cost. For instance, at Career Education Corporation-owned Colorado Technical University, the officially disclosed program cost for a “Bachelor’s Degree in Business Administration and Management, General” is \$31,453.<sup>103</sup> A notation then explains, “Tuition, Fees & Books information above represents the average total charges incurred by students who completed the program in normal time between 07/1/2009 and 6/30/2010.” However, this information is out-of-date, and the Web site does not disclose that a student enrolling today could pay nearly \$22,000 more.<sup>104</sup>

Some companies also mask program costs by adding expensive fees that are not included in cited tuition figures. For instance, Bridgepoint Inc.’s Ashford University charges a “technology fee” of \$1,290 to every new student’s account during the 6th week of enrollment.<sup>105</sup> Westwood charges all online students a \$40 per-credit-hour fee, which adds up to over \$6,000 over the course of a Bachelor’s degree.<sup>106</sup> Nonetheless, by labeling the fee separately from tuition, Westwood can list a lower tuition, while still increasing the per-credit-hour cost to its students.

While prospective students face the most sophisticated evasion tactics, some companies also hide the cost of attendance from *current* students. For instance, an accreditor’s review panel member 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.

<sup>101</sup> Capella, *2012-2012 University Catalog*, vol. 12-13, no. 1, p. 102, July 2012, [http://www.capella.edu/inc/pdf/catalogs/catalog.pdf?linkID=22991&WT.mc\\_id=22991&Ref=http://search2.capella.edu/?submit=Search&sp\\_cs=UTF-8&q=course%20catalog](http://www.capella.edu/inc/pdf/catalogs/catalog.pdf?linkID=22991&WT.mc_id=22991&Ref=http://search2.capella.edu/?submit=Search&sp_cs=UTF-8&q=course%20catalog) (accessed May 3, 2012).

<sup>102</sup> Senate HELP Committee staff online chat with Capella admissions representative, Capella.org, April 20, 2012.

<sup>103</sup> Colorado Technical University, *Tuition, Fees, and Median Loan Debt Disclosure*, <http://www.coloradotech.edu/Dislosures/-/media/Dislosures/CTU/Colorado-Springs/Colorado-Technical-University-Colorado-Springs-010148-00-Tuition-Debt-Disclosure.ashx> (accessed May 3, 2012). Colorado Technical University is a brand operated by Career Education Corporation (“CEC”) a publicly traded for-profit higher education company that enrolled 118,205 students as of fall 2010 and is based in Schaumburg, IL.

<sup>104</sup> While the disclosure appears to be in compliance with the regulation, if the required credit hours are multiplied by the current cost per credit hour the cost is significantly higher than the disclosure suggests.

<sup>105</sup> Ashford University, *Tuition and Fees*, [http://www.ashford.edu/admissions/online\\_tuition\\_fees.htm](http://www.ashford.edu/admissions/online_tuition_fees.htm) (accessed May 3, 2012).

<sup>106</sup> See Westwood, *Course Catalog Addendum Effective 08/01/12*, [http://www.westwood.edu/-/media/Files/files/pdf/catalogs/wco\\_addendum.ashx](http://www.westwood.edu/-/media/Files/files/pdf/catalogs/wco_addendum.ashx) (accessed July 1, 2012). See also Westwood Internal Document, 2008, *Draft Tuition Pricing Table* (WP000003947); Westwood Internal Document, 2008, *Draft Tuition Pricing* (WP000003948); Westwood Internal Presentation, 2009, *Marketing Presentation on Tuition Pricing* (WP000004111); Westwood Internal Presentation, 2009, *Marketing Presentation on Tuition Pricing* (WP000004381).

ITT's Regulatory Affairs Manager denied the request, stating: "We comply with State requirements and ACICS criteria 3-1-342(a) by clearly posting the tuition and other charges in the catalog. Until the ACICS criteria require an additional posting all ITT Technical Institutes will list tuition and other charges as required in the catalog."<sup>107</sup>

### Aggressive and Deceptive Recruiting

*In order to make a profit, the product [an education] must first be sold to as many appropriate people as possible. This can happen only when a good sales team is performing well.*

—Kaplan Director of Admissions training manual<sup>108</sup>

Demonstrating enrollment growth is critical to the business success of for-profit colleges. Accordingly, college employees are incentivized to enroll as many students as they can, sometimes using misleading and deceptive tactics. Prior to the committee's investigation, media reports and lawsuits exposed some of the incentive structures and unscrupulous recruiting tactics used by for-profit colleges.

For example, Apollo, parent company of the University of Phoenix, paid \$78 million to settle a 2002 lawsuit claiming that it illegally paid its recruiters based on the number of students each recruiter enrolled.<sup>109</sup> In 2005, following a "60 Minutes" report on CEC's recruiting practices, the company's schools were investigated by State agencies in New Jersey and Pennsylvania, the U.S. Department of Justice, the U.S. Department of Education, and the U.S. Securities and Exchange Commission.<sup>110</sup> Alta-owned Westwood recently

<sup>107</sup> ITT Educational Services, January 2009, re: *RE: Tuition Increase—posting for students* (ITT-00080730).

<sup>108</sup> Kaplan, *Kaplan Higher Education Western Region Director of Admissions Tool Kit* (KHE 056793, at KHE 056796). Kaplan states that training materials for admissions representatives are approved through a formal review process at Kaplan's home office, and that this document was not authorized through that process and was used by a single manager and admissions team in California, and was removed from use by early 2008.

<sup>109</sup> Carly O'Reilly and Daniel Golden, "Apollo Settles University of Phoenix Recruiting Suit (Update 3)," *Bloomberg*, December 14, 2009, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a7cFhPKPB1mA> (accessed May 19, 2012). For a description of complaint against University of Phoenix see Appellant's Opening Brief, *United States ex rel. Hendow v. University of Phoenix*, 461 F.3d 1166 (2006) (No. 04-16247). For personal accounts from former University of Phoenix counselors that confirm allegations made in the claim, see: Julie Albertson Beh, Exhibit F to Appellant's Opening Brief, *United States ex rel. Hendow v. University of Phoenix*, 461 F.3d 1166 (2006) (No. 04-16247). Both documents available at [http://www.citronresearch.com/wp-content/uploads/2009/03/nice\\_case\\_summary.pdf](http://www.citronresearch.com/wp-content/uploads/2009/03/nice_case_summary.pdf) (accessed May 3, 2012).

<sup>110</sup> 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 May 3, 2012); Rebecca Leung, "For Profit College: Costly Lesson," *CBS News*, February 11, 2009, [http://www.cbsnews.com/2100-18560\\_162-772913.html?pageNum=2&tag=contentMain:contentBody](http://www.cbsnews.com/2100-18560_162-772913.html?pageNum=2&tag=contentMain:contentBody) (accessed May 3, 2012); Stephen Burd, "Promises and Profits," *The Chronicle of Higher Education*, January 13, 2006, <http://chronicle.com/article/PromisesProfits/12779/> (accessed May 3, 2012). The SEC took no action against the company, but the U.S. Department of Education prohibited CEC from expanding until it had resolved issues with financial statements and program reviews connected with Collins College and Brooks College. Career Education

settled with the Colorado attorney general for allegedly misleading students and falsely advertising job placement rates, salary, transfer of credits and other important information.<sup>111</sup> Many other schools, including Corinthian Colleges, Inc. and ITT, have faced shareholder and whistleblower lawsuits stemming from their recruiting practices.<sup>112</sup>

The companies, as well as their lobbyists and trade associations, blame these practices on a few “bad apples” among an otherwise well-trained and ethical enrollment staff. The investigation, however, found that the tactics associated with recruiting students to enroll in for-profit colleges are widespread. Internal company documents, undercover recordings by the Government Accountability Office, HELP Committee staff interviews with employees and students, and testimony and statements from former recruiters all demonstrate that recruiters at many schools are trained to aggressively pursue and enroll as many students as possible, often with little regard for ethical standards or the best interests of the prospective students. At many schools, at least during the period examined, misleading students to secure enrollment contracts appeared to be a common practice rather than an exception.

Faced with evidence of recruiting abuses, many companies operating for-profit colleges point to their official policies setting out high ethical standards for their recruiters. Any violations of these standards, they say, are the work of rogue employees. But evidence indicates that at some schools, those standards are, in fact, routinely disregarded. Internal coaching and disciplinary memoranda show that recruiting managers focus on one thing: meeting quotas of new enrollments set from above.

These quotas, as discussed below, are enforced through incentives and punishments meted out to recruiters. Since 1992, the Higher Education Act has banned “any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any persons or entities engaged in any student recruiting or admission activities or in making decisions regarding the award of student financial assistance.” This ban applies to all institutions of higher education. In 2002, the Department of Education through its rulemaking process created 12 “safe harbors” that essentially allowed incentive-based payments to recruiters. These safe harbors were eliminated effective July 2011. At the same time the Department of Education revised the

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Corporation (“CEC”) is a publicly traded for-profit higher education company that enrolled 118,205 students as of fall 2010 and is based in Schaumburg, IL.

<sup>111</sup> Alta Colleges, Inc. (“Alta”) is a for-profit higher education company that enrolled 19,190 students as of fall 2010 and is based in Denver, CO. 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](http://www.coloradoattorneygeneral.gov/press/news/2012/03/14/attorney_general_announces_45_million_settlement_westwood_college_address_dece) (accessed March 14, 2012).

<sup>112</sup> See, for example, Stuart Pfeifer, “Whistle-blower lawsuit against Corinthian Colleges restored,” *Los Angeles Times*, August 20, 2011, <http://articles.latimes.com/2011/aug/20/business/la-fi-corinthian-20110820> (accessed May 19, 2012); Goldie Blumenstyk, “ITT Wins a Round in Ex-Recruiters’ Suit,” *The Chronicle of Higher Education*, November 5, 2004, <http://chronicle.com/article/ITT-Wins-a-Round-in/26180> (accessed May 19, 2012).

definitions and provisions that describe the activities that constitute “substantial misrepresentation” by an institution regarding the nature of its educational program, its financial charges, or the employability of its graduates. Since the documents discussed below were obtained pursuant to a document request in 2010 and reflect recruiting practices and policies in place before these strengthened regulations were put in place. It is important to note that though the elimination of the safe harbors means companies may no longer pay their recruiters based on enrollments, there is no law or regulation preventing them from firing recruiters who do not meet enrollment quotas.

Kaplan recruiter training presentation slide:<sup>113</sup>



#### Recruiters Operate in a Boiler-Room Sales Atmosphere

In order to understand the prevalence of the misleading and deceptive tactics documented by the committee, it is important to understand how a typical for-profit college recruiting apparatus works. Unlike traditional colleges, for-profit colleges employ a huge number of recruiters. Although the for-profit industry prefers to call these sales employees enrollment “advisors” or “counselors,” their job is to follow a script and, in most cases, to attempt to

<sup>113</sup> Kaplan Internal Presentation, “Explore” Another Piece of My Heart: Turning Inquiries into Appointments (KHE 052058 at KHE 52061). Kaplan instituted a new program, the Kaplan Commitment, in late 2010 (after the date of the training materials) that allows all students to withdraw within 5 weeks of starting 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 paying only a minimal application fee. See Kaplan University, *The Kaplan Commitment Statement*, <http://getinfo.kaplan.edu/kaplancommitment.aspx> (accessed July 1, 2012).

enroll every prospective student. Recruiters are often divided into teams that work under a manager who closely supervises the number of contacts they make. In many cases, whether recruiters keep their jobs depends on whether they meet their enrollment quotas.

Documents provided by 30 for-profit education companies show that in 2010 the sector employed more than 35,202 recruiters, or about one recruiter for every 49 students attending a for-profit college.<sup>114</sup> Kaplan employed 3,069 recruiters, ITT employed 2,550, Career Education Corporation had 2,668, and Corinthian had 2,811.<sup>115</sup>

Comparison of Number of Students Enrolled to Number of Recruiters, 2009-10 <sup>116</sup>			
Company	Fall 2010 Enrollment <sup>117</sup>	Number of Recruiters	Ratio Students to Recruiters
Apollo Group, Inc.	470,800	8,137	57
Education Management Corporation	158,300	5,669	27
Kaplan Higher Education Corporation	112,141	3,069	36
Corinthian Colleges, Inc.	113,818	2,811	40
Career Education Corporation	118,205	2,668	44
ITT Educational Services, Inc.	88,004	2,550	34
DeVry, Inc.	130,375	2,350	55
Bridgepoint Education, Inc.	77,179	1,703	45
Grand Canyon Education, Inc.	42,300	1,065	39
Lincoln Educational Services Company	33,157	711	46
<b>All 30 Companies Examined</b>	<b>1,732,067</b>	<b>35,202</b>	<b>49</b>

The pressure to recruit as many students as possible starts at the top of the for-profit education business model. Investors, whether public or private, demand revenue growth. Revenue growth requires enrolling a steady stream of students. Thus, executives, unless there are balancing priorities, are accountable for bringing in as many students as possible. For instance, the compensation of ITT's management employees depends on meeting several "corporate objectives" related to enrollment and revenue: "Total Enrollment Growth" of 9 percent, "Earnings Per Share" of 20 percent and "Free Cash Flow" of 15 percent.<sup>118</sup> The way to increase enrollments is to hire a large team of recruiters.

<sup>114</sup> Senate HELP Committee staff analysis of data provided by for-profit education companies. Appendix 24.

<sup>115</sup> *Id.*

<sup>116</sup> Information is for the 10 companies that employ the largest number of recruiters, organized by number of recruiters.

<sup>117</sup> Senate HELP Committee staff analysis of fall 2010 Enrollment Data, from IPEDS or for-profit education company SEC Filings (where available).

<sup>118</sup> ITT, Completed 2008 Performance Planning and Evaluation (PP&E) Form (ITT-00041048). ITT states that this document is a draft. Below the corporate management level, Directors of Recruitment are judged based on the performance of the recruiters below them. An internal document from Vatterott Educational Centers, Inc., for example, shows that the recruiting director at a Vatterott campus was demoted for her department's failure to

As one Wall Street analyst noted, “More admissions counselors has historically correlated amazingly highly with more students, and thus more revenues.”<sup>119</sup>

Corporate executives, in turn, put pressure on recruiting managers at each campus or call center to hit their budgeted sales numbers. Line-level recruiters are responsible to these managers for the number of students they bring in, termed “starts.” The performance of each person in the admissions chain, from CEO to newly-hired junior recruiters, is rated at least in part based on the number of students he or she brings in the door. While the re-instituted ban on incentive compensation may have relieved some of this enrollment pressure, information detailed below shows that at least some companies enrollment quotas are still enforced through disciplinary actions and terminations of recruiters.

### Hiring and Firing

For-profit colleges prefer to hire recruiters with past sales experience. Some colleges make this clear in their hiring and training documents. A Corinthian Colleges training manual, for example, instructed Directors of Admissions to look for “sales experience” and “phone, telemarketing experience” among potential hires.<sup>120</sup> Anthem Career College’s training manual stated that a recruiter “is a sales position.”<sup>121</sup> Similarly, the official job description of a recruiter in one Kaplan manual made it clear that selling was the dominant focus of the position.<sup>122</sup> A recent job advertisement by ATI, a Texas-based chain of schools, stated its recruiter positions offer a “lucrative” opportunity for applicants with a “proven track record of sales performance.”<sup>123</sup> A recent EDMC posting for an Assistant Director of Admissions position told

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enroll enough students. Vatterott Internal Memorandum, October 2009, re: *Transfer to Admissions Representative Position* (VAT-02-15-00350).

<sup>119</sup> Bill Wolf, “Why Shorts and the Street Have it Wrong About Bridgepoint,” Seeking Alpha, December 14, 2011, <http://seekingalpha.com/article/313976-why-shorts-and-the-street-have-it-wrong-about-bridgepoint> (accessed May 3, 2012).

<sup>120</sup> Corinthian College, CCI Director of Admissions Operations Manual (CCi-00045638).

<sup>121</sup> Anthem College, April 2010, *Assistant Director of Admissions & Senior Admissions Representative Training Program Workshop 1* (2AEG-HELP-14-00000811). Anthem Career College is a brand operated by Anthem Education Group (“Anthem”), a for-profit higher education company that enrolled 12,792 students as of fall 2010 and is based in Phoenix, AZ.

<sup>122</sup> Kaplan, *Kaplan Higher Education Western Region Director of Admissions Tool Kit* (KHE 056793) (“Your successful recruiters will make money for themselves and for you”). Kaplan states that training materials for admissions representatives are approved through a formal review process at Kaplan’s home office, and that this document was not authorized through that process and was used by a single manager and admissions team in California, and was removed from use by early 2008. See also Corinthian College, CCI Director of Admissions Operations Manual (CCi-00045638); Anthem College, April 2010, *Assistant Director of Admissions & Senior Admissions Representative Training Program Workshop 1* (2AEG-HELP-14-00000811) (“This is a sales position”); Vatterott, March 2007, *DIC Training* (VAT-02-14-03904).

<sup>123</sup> WorkinTexas.com, *Admissions Representatives*, April 16, 2012, [https://wit.twc.state.tx.us/WORKINTEXAS/wtx?pageid=EM\\_JOB\\_DETAILS&id=2578066](https://wit.twc.state.tx.us/WORKINTEXAS/wtx?pageid=EM_JOB_DETAILS&id=2578066) (accessed May 23, 2012). ATI is a for-profit higher education company that was not one of the 30 companies to receive a document request by the committee in the course of its investigation.

applicants “the position is heavily sales focused and is not a traditional counseling position.”<sup>124</sup>

Recruiting managers at some companies created an atmosphere that prioritized hitting an enrollment quota. For example, a Kaplan manual instructed recruiting managers to clearly “establish expectations” with new recruiters that the enrollment numbers mean everything.<sup>125</sup> This was often accomplished through rigorous and constant monitoring of recruiters’ activities. In some cases, managers sent out multiple emails each day to the whole recruiting department listing the “production” of each recruiter. At Corinthian, managers continuously monitored a number of performance metrics for each recruiter including appointments being set, interviews conducted, applications taken and daily enrollment.<sup>126</sup> An EDMC manager’s email, from January 2008, illustrates further: “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.”<sup>127</sup> Another email from an EDMC manager instructed recruiters “PLEASE EVERYONE HIT THE PHONES!!!,” because “WE ARE FAR BEHIND WHERE WE NEED TO BE!!!” [emphasis in original].<sup>128</sup>

Recruiters at some companies were evaluated not only based on overall enrollment numbers, but also the number of calls made, appointments set, the ratio of leads-called-to-appointments-set, ratio of appointments-to-applications, and ratio of applications-to-starts. At Bridgepoint, recruiters were expected to bring in three new student applications a week.<sup>129</sup> Newly hired Kaplan recruiters were expected to hit “Minimum Standards” of 10 interviews, 3 applications and one enrollment per week.<sup>130</sup> Vatterott’s “expectations” for recruiters included: “Outbound Calls—50 MINIMUM. Appointments Set—5. Appointments Held—3. [And] 3 Packaged per week” [emphasis in original].<sup>131</sup>

Recruiters who continued to fail to bring in enough students were put through a disciplinary process, regularly ending in termination. “If your performance does not show immediate and sustained improvement, further corrective action may be taken, up to and including termination of employment”

<sup>124</sup> Craigslist San Francisco Bay Area, listing under “sales jobs” accessed March 26, 2012. EDMC is a publicly traded for-profit higher education company that enrolled 158,300 students as of fall 2010 and is based in Pittsburgh, PA.

<sup>125</sup> Kaplan Internal Presentation, Training and Development Professional Development Series: Conversion Coaching (KHE 061037).

<sup>126</sup> Corinthian College, CCI Director of Admissions Operations Manual (CCi-00045638, at CCi-00045678-79).

<sup>127</sup> EDMC Internal Email, February 2008, re: *NO NSR Tomorrow!!!* (EDMC-916-000232415) (Art Institute of Charlotte).

<sup>128</sup> EDMC Internal Email, January 2008, re: *FW: Conversion* (EDMC-916-000234003) (Art Institute of Charlotte).

<sup>129</sup> Bridgepoint, Admissions Advisor Goals Form (BPI-HELP\_00032028).

<sup>130</sup> Kaplan Internal Presentation, Training and Development Professional Development Series: Conversion Coaching (KHE 061037, at KHE 061942).

<sup>131</sup> Vatterott, March 2007, *DDC Training* (VAT-02-14-03904). See also Bridgepoint, Enrollment Representative Matrix 1 (BPI-HELP\_00062002)(Ashford University). Vatterott Education Holding (“Vatterott”) is a for-profit higher education company that enrolled 11,163 students as of fall 2010 and is based in St. Louis, MO.



is a common admonition in training materials and performance improvement plans at multiple companies examined by the committee.<sup>132</sup>

At Bridgepoint, every recruiter who does not hit his or her numbers faced intensive coaching and discipline. An internal document shows that a Bridgepoint recruiting manager met at least 18 different times over 3 months with one recruiter who had a “lack of production.”<sup>133</sup> These meetings included: “Individual trainings on overcoming objections,” sitting in on the manager’s recruiting calls, and discussing “minimum call volumes, scheduling activities, block schedules, daily plan.”<sup>134</sup> Another low-producing recruiter faced 14 meetings before being fired after only 6 months on the job.<sup>135</sup>

Managers were also trained to play recruiters against each other by withholding the “leads” (the industry term for contact information of potential students) that are essential for a recruiter to hit their sales numbers. For example, a Corinthian training manual recommended that managers not “distribute an equal amount of [leads] to a new Ad Rep nor an Ad Rep that is underperforming versus a top producing Ad Rep.”<sup>136</sup> Whistleblowers confirmed that giving “top producing” reps—who often used deception and high-pressure sales tactics—the most leads is a commonplace tactic, which can create acute competition and an ethical race to the bottom among recruiting staff.<sup>137</sup>

In addition to attrition due to firing under-performing recruiters, the high-pressure atmosphere of for-profit education sales results in high rates of recruiter turnover. For example, one Rasmussen campus saw half of its

<sup>132</sup> ITT, November 2009, Completed Employee Counseling Form (ITT-00023885); see also Bridgepoint, January 2009, *Conversion Tracker* (BPI\_HELP\_00062021); ITT Internal Email, April 2007, re: *Letter of Concern* (ITT-00023887); ITT Educational Services, *Plan for Hitting Start Goals* (ITT-00022941); Vatterott College Internal Memorandum, June 2009, re: *MEMO OF UNDERSTANDING PERFORMANCE IMPROVEMENT PLAN* (VAT-02-30-07962); Anthem College, April 2010, *Assistant Director of Admissions & Senior Admissions Representative Training Program Workshop 1* (2AEG-HELP-14-00000811); National American University Internal Memorandum, January 2009, re: *Performance Improvement Plan* (NAU0025042); National American University Internal Memorandum, June 2005, re: *Performance Improvement Plan* (NAU0025482); National American University Internal Memorandum, June 2009, re: *Performance Improvement Plan* (NAU0025534); ITT, January 2008, Completed Employee Counseling Form (ITT-00023885); Concorde Career Colleges, December 2009, Presentation from Board of Directors Meeting (CCC000000545); Kaplan, *Kaplan Admissions Advisor Compensation Plan* (KHE 0048796); Kaplan Internal Email, June 2010, re: *[redacted employee name] termination request* (KHE 267972); Kaplan Internal Email, June 2010, re: *PICK IT UP* (KHE 282794).

<sup>133</sup> Bridgepoint, September 2008, Log of Activity Coaching and Disciplining Recruiter for Lack of Production (BPI-HELP\_00063036); see also Bridgepoint, October 2008, Log of Activity Coaching and Disciplining Recruiter for Lack of Production (BPI-HELP\_00063243); Bridgepoint, August 2008, Log of Activity Coaching and Disciplining Recruiter for Lack of Production (BPI-HELP\_00063503); Bridgepoint, October 2008, Log of Activity Coaching and Disciplining Recruiter for Lack of Production (BPI-HELP\_00063587); Bridgepoint, March 2009, Log of Activity Coaching and Disciplining Recruiter for Lack of Production (BPI-HELP\_00063642).

<sup>134</sup> Bridgepoint, August 2008, Log of Activity Coaching and Disciplining Recruiter for Lack of Production (BPI-HELP\_00063503).

<sup>135</sup> Id.

<sup>136</sup> Corinthian College, CCI Director of Admissions Operations Manual (CCI-00045638).

<sup>137</sup> See Comment submitted to Department of Education by Brent Park, Ashford recruiter; 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).

recruiters leave within a year.<sup>138</sup> Company documents indicated that many employees who quit simply walk out without any notice.<sup>139</sup>

### Compensation

Before the ban on incentive compensation was re-instituted in mid-2011, recruiters' salaries at many for-profit colleges were tightly tied to enrolling a certain number of new students, known in the industry as "starts." For instance, Heald College's 2007 compensation plan for online recruiters included "minimum Starts" quotas based on the recruiter's seniority.<sup>140</sup> Junior level recruiters had to achieve at least 45 starts every 6 months. To be eligible for a promotion or raise, though, recruiters had to enroll even more students. Sixty new recruits are necessary for a 10 percent salary increase.<sup>141</sup> Seventy new recruits warranted a 20 percent increase.<sup>142</sup>

In addition to salary increases, managers sometimes used prizes and awards to drive sales. EDMC managers used carrots such as "GET OUT OF WORK AT 3p.m." cards to push recruiters to enroll more students.<sup>143</sup> At ITT, a recruiter manager emailed his team in December 2009 that "ANY TEAM WITH 6 APPOINTMENTS SET OR 2 APPLIED CAN WORK AN EARLY SHIFT ON WEDNESDAY" [emphasis in original].<sup>144</sup> Other schools use much larger prizes, like company-paid trips. "Looks like [recruiter's name] might be going to Hawaii!!!" a recruitment manager emailed her recruiting staff after looking at the daily enrollment report.<sup>145</sup> The company asserts that it never sponsored a trip to Hawaii for its recruiters. The top recruiters at Westwood were rewarded with all-expenses paid trips to Cancun.<sup>146</sup>

<sup>138</sup> Rasmussen College Internal Presentation, May 2006, Report of CEO Michael Locke to the Board of Directors (RAS00001285, at RAS00001296).

<sup>139</sup> Rasmussen College Internal Presentation, September 2010, *Admission Turnover & Career Path* (RAS00007757).

<sup>140</sup> Heald College, December 2007, *Adult Admissions Advisors Compensation Plan* (CCi-00041544). Heald College was purchased by Corinthian College in late 2009, and was independent of Corinthian at the time this document was created.

<sup>141</sup> *Id.*

<sup>142</sup> *Id.*

<sup>143</sup> EDMC Internal Email, May 2008, re: *FW: conversion* (EDMC-916-000234047) (Art Institute of Charlotte).

<sup>144</sup> ITT Internal Email, December 2009, re: *CONTEST UPDATE !!! 30 APPOINTMENTS YAHOO !!!* (ITT-00028551).

<sup>145</sup> EDMC Internal Email, December 2008, re: *FW: CARS Report Attached* (EDMC-916-000232456) (Art Institute of Charlotte).

<sup>146</sup> Joshua Pruyne (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. Pruyne 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 four months after his testimony, in December 2010, lawyers for Westwood contacted the committee and asserted that Mr. Pruyne'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. Pruyne's recollection is not correct regarding this point, other parts of his testimony on other points 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.

### Misleading and Deceptive Tactics

The priority placed on “sales” numbers, and the incentive and termination structure that for-profit colleges used to meet those numbers, led recruiters to use tactics most people would find misleading and deceptive in order to secure enrollments. These tactics vary somewhat from company to company. However, internal documents, interviews and Government Accountability Office (GAO) undercover recordings demonstrate that virtually every company reviewed misled some prospective students or omitted information with regard to the cost of the program, the availability and obligations of Federal aid, the time to complete the program, the completion rates of other students, the job placement rate of other students, the transferability of the credit, and the reputation and accreditation of the school.

This is particularly troubling because recruiters present themselves to prospective students as “counselors” who provide unbiased information about college programs. They often lead students into believing their intent is to advise the student on what is best for him or her. As one Bridgepoint recruiter wrote, “During the 2 week new employee training, we are told to always consider the best interests of the student. . . All the employee literature and documentation also states the same things based on high morals. But once you get to the sales floor the way they actually conduct business is opposite.”<sup>147</sup> Joshua Pruyn, a former recruiter at Westwood College, testified that management often rewarded high-performing recruiters who had a reputation for using high-pressure sales tactics and deception, and singled them out as exemplary to other employees.<sup>148</sup>

#### *Misleading and Deceptive Tactics: Cost, Financial Aid, and Time to Complete*

Recruiters at some schools misstate or mislead prospective students about the cost of attending a school. According to multiple whistleblowers interviewed by committee staff and corroborated by undercover recordings made by the GAO, recruiters commonly emphasize to students that they can quickly complete a program, and recruiters cite a time-to-completion based on year-round full-time attendance. By contrast, when telling the student how much the program will cost, they cite the yearly cost as if the student were only paying tuition for attending part of the year.

Undercover recordings made by GAO agents show that they repeatedly encountered this tactic at the schools it visited. For example, at a University of

<sup>147</sup> Comment submitted to Department of Education by Brent Park, Ashford recruiter.

<sup>148</sup> 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).

Phoenix campus in Hohokam, the undercover student was interested in a Bachelor's program in elementary education that required 120 credits.<sup>149</sup> The recruiter said, "This is a Bachelor's so it's 4 years, you would finish in exactly 4 years, that's the worst scenario. . . . There are ways to speed it up." When the undercover prospective student asked about cost, the recruiter replied, "With books and everything it's right about \$9,500 a year." In reality, if the prospective student were to take full-time classes, year-round, to finish in less than 4 years, it would cost about \$12,000 a year. Josh Pruyn, a former recruiter at Westwood College, explained that his new employee training instructed recruiters to state the cost in a misleading way: "We would say the cost per term is approximately \$4,800 per term. The problem with that is that often times the student will automatically assume there are only two or three terms like a traditional school, and there is in reality, five per year. And so it can mislead the student on the total cost."<sup>150</sup>

The committee staff reviewed many complaints from students who were misled regarding how long it would take to complete a degree. As one student, a military servicemember, said in his complaint,

University of Phoenix is using deceptive practices to lure students into the schools, 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's enrollment counselors.<sup>151</sup>

Internal training manuals demonstrate tactics recruiters can use to avoid giving a prospective student an accurate answer about the cost of attending. For example, South Dakota-based National American University training materials instructed recruiters to deflect questions about the cost of tuition and "do not bring up the subject again unless they do."<sup>152</sup> If the prospect brought cost up again, the recruiter was instructed to give another non-answer. If the prospect asked a third time, the recruiter was instructed to state the cost per credit hour, but not the number of credits required to graduate in the program. Lest there is

<sup>149</sup> See for example, Audio Recording: Undercover Recordings of Visits by GAO Agents to For-Profit Schools, School 1, Scenario 2 at minute 00:11:10 and 00:13:58, available at <http://harkin.senate.gov/help/gao.cfm> (accessed May 3, 2012) (hereinafter GAO Audio Recording). See also GAO Audio Recording, School 2, Scenario 2; School 5, Scenario 1; and School 10, Scenario 1, available at <http://harkin.senate.gov/help/gao.cfm> (accessed May 3, 2012).

<sup>150</sup> 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).

<sup>151</sup> Apollo, May 2009, Letter from Office of the Attorney General Department of Consumer Information, re: Online Consumer Complaint (1-AG10051856).

<sup>152</sup> National American University, 2008, *New Admissions Representative Training Manual 2008* (NAU0014515).

any doubt, the next page instructed, “Do not give out the complete program cost.”<sup>153</sup>

As discussed below, some for-profit colleges enforced a policy of preventing or discouraging prospective students from speaking to a financial aid employee, who can answer questions about cost and aid eligibility, before the prospect signed an enrollment agreement. At the Dallas campus of ATI Career Center, an undercover GAO prospective student expressed concern about being able to afford school and asked to speak to a financial aid representative. A recruiter replied, “They won’t even let you back there.”<sup>154</sup> When the prospective student asked again, a recruiter aggressively replied, “Let me ask you something, are you serious about this program?”<sup>155</sup>

Beyond just hiding financial aid information, recruiters routinely claimed that financial aid would fully cover the cost of going to school. For example, a veteran who attended Bridgepoint-owned Ashford University 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 Ashford approximately \$11,000 that his benefits did not cover. “I was extremely disappointed, confused and angry,” he wrote, “I felt that I have been misled, deceived or even outright lied to in an effort to gain my contractual agreement.”<sup>156</sup>

*Misleading and Deceptive Tactics: Graduation, Job Placement, and Salary*

Recruiters at some colleges misrepresented the college’s ability to help the prospective student achieve his or her career goals, employing deceptive statements regarding graduation, job placement, and salary.

For example, at Potomac College in Washington, DC, an undercover GAO applicant asked about graduation and job placement rates. The school’s representative replied, “Our graduation rate is good, but exactly what it is I don’t know because there is, something online about it, but I don’t think it is completely accurate.”<sup>157</sup> In reality, far from being “good,” according to the

<sup>153</sup> Id. 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. See National American University, August 2010, *Admissions Code of Conduct*, (NAU0021252).

<sup>154</sup> GAO Audio Recording, School 15 (ATI Career Training Center), Scenario 2 at minute 00:21:58. See also, GAO Audio Recording, School 7 (MedVance Institute), Scenario 2; GAO Audio Recording, School 15 (ATI Career Training Center), Scenario 2 at minute 00:24:30.

<sup>155</sup> GAO Audio Recording, School 15 (ATI Career Training Center), Scenario 2 at minute 00:21:58.

<sup>156</sup> Bridgepoint Internal Memorandum, August 2010, re: “*This Constitutes My Formal Complaint*” (BPI-HELP\_00026639).

<sup>157</sup> GAO Audio Recording, School 5 (Potomac College), Scenario 1 at minute 00:07:34. See also GAO Audio Recording, School 3 (Westech College), Scenario 1. Potomac College is a small education company with

Department of Education, only 25 percent of students graduate with a Bachelor's degree from the school in 6 years or less.<sup>158</sup> Likewise, at a Kaplan College campus in California, in response to a question from the GAO undercover student about how many people graduate, the recruiter said, "I want to say 90 percent."<sup>159</sup> Analysis of data gathered by the HELP Committee shows that, in fact, for students enrolling in 2008-9, at least 45.7 percent of students withdrew from that campus before completing their certificate.<sup>160</sup>

At Bennett Career Institute in Washington, DC, which awards certificates in barber styling, the recruiter told the GAO undercover student that barbers can earn \$150,000 to \$250,000 a year.<sup>161</sup> The reality is very different—the mean wage for barbers in Washington, DC is less than \$30,000 a year.<sup>162</sup> At another school, the recruiter said, "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."<sup>163</sup>

*Misleading and Deceptive Tactics: Accreditation and Credit Transfer*

Many for-profit colleges hold *national* accreditation, meaning that they are accredited by an agency that traditionally handles vocational or distance learning schools. Holding this type of accreditation, however, generally means that the credits earned are rarely accepted at *regionally* accredited schools, which include all major non-profit and public universities and some for-profit colleges.<sup>164</sup> And even credits awarded at regionally accredited for-profit colleges may not transfer to other regionally accredited non-profit and public colleges.

Recruiters sometimes play on prospective students' ignorance about accreditation in order to use their schools' accreditation as a selling point.<sup>165</sup> For example, at Kaplan College in Florida, GAO recordings documented a recruiter falsely stating that the college was accredited by "the top accrediting agency" and that "Harvard and University of Florida, they all use that accrediting agency."<sup>166</sup> While Kaplan University based in Iowa *is* regionally accredited, the

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campuses in Washington, DC and Vienna, VA, offering business and IT degrees. It is not part of the 30 companies that received a document request from the committee in the course of its investigation.

<sup>158</sup> U.S. Department of Education, IPEDS, Data for OPEID 03218300. Data cover only first-time full-time students.

<sup>159</sup> GAO Audio Recording, School 4 (Kaplan College Riverside), Scenario 2 at minute 00:19:55.

<sup>160</sup> U.S. Senate HELP Committee staff analysis of data provided by Kaplan Higher Education.

<sup>161</sup> GAO Audio Recording, School 6 (Bennett Career Institute), Scenario 1. Bennett Career Institute is not part of the 30 companies that received a document request from the committee in the course of its investigation.

<sup>162</sup> Bureau of Labor Statistics, Occupational Employment Statistics, 39-5011 Barbers.

<http://www.bls.gov/oes/current/oes395011.htm>.

<sup>163</sup> GAO Audio Recording, School 8 (Kaplan College Pembroke Pines), Scenario 2 at minute 01:57-02:10.

<sup>164</sup> See, for example, Council for Higher Education Accreditation, *The Fundamentals of Accreditation: What Do You Need to Know*, Council for Higher Education Accreditation, p. 7, September 2002,

[http://www.chea.org/pdf/fund\\_accred\\_20ques\\_02.pdf](http://www.chea.org/pdf/fund_accred_20ques_02.pdf) (accessed May 24, 2012).

<sup>165</sup> See, for example, GAO Recording (University of Phoenix Wayne), Scenario 1 at minute 00:06:56.

<sup>166</sup> GAO Audio Recording, School 8 (Kaplan College Pembroke Pines), Scenario 1 at minute 03:07:50.

Kaplan College division *does not* hold regional accreditation and not from the same agency as Harvard or the University of Florida.<sup>167</sup>

Too often, students do not learn that their credits will not transfer until after they leave school. One Remington student explained,

The Recruiter told me that their credits would transfer to any college and that it was accredited and I wouldn't have any trouble applying it to a military commission. Since then I have tried to apply it to the Community College of the Air Force—they do not accept the credits. I have tried to transfer it to the University of Memphis and Southwest Community College in Memphis—they do not take their credits. I have tried to start over and obtain a new degree, but I can't get state scholarships (even veteran ones) because I have this Bachelor's degree from them. . . . I was misled and made a terrible mistake.<sup>168</sup>

One student, an Army veteran, interviewed by committee staff chose a for-profit college partly because recruiters said he could finish the VA program in 20 months and then transfer to pursue his Bachelor's degree.<sup>169</sup> He was later told by a community college that none of his credits would transfer because the for-profit college was not regionally accredited.<sup>170</sup> Another veteran interviewed decided to earn a Bachelors of Science in construction management from a for-profit college because it was a 3-year program.<sup>171</sup> He wanted a program he could finish quickly and start working again. However, he also wanted to transfer his credits later to a school where he could earn his Master's degree, and the college's recruiter assured him the credits would transfer. About halfway through the program, he became frustrated with the poor quality of the program,

<sup>167</sup> See, for example, Kaplan College Pembroke Pines Campus, *Accreditation Information*, <http://pembroke-pines.kaplancollege.com/Pages/Accreditation.aspx> (informing prospective students that Kaplan College in Pembroke Pines is accredited by the Accrediting Council for Independent Colleges and Schools). Compare The Office of the Provost of Harvard College, *Accreditation*, [http://www.provost.harvard.edu/institutional\\_research/accreditation.php](http://www.provost.harvard.edu/institutional_research/accreditation.php) (accessed May 24, 2012) (informing prospective students that Harvard is accredited by the New England Association of Schools and Colleges); University of Florida, *Southern Association of Colleges and Schools*, <http://www.ir.ufl.edu/factbook/SACS.htm> (accessed May 23, 2012) (linking to detailed documentation relating to University of Florida's accreditation status with Southern Association of Colleges and Schools).

<sup>168</sup> Remington External Correspondence, June 2010, Notice of Student Complaint from Tennessee Higher Education Commission (5-000042). Remington is a brand operated by Education America, a for-profit higher education company that enrolled 10,018 students as of fall 2010 and is based in Heathrow, FL.

<sup>169</sup> U.S. Senate HELP Committee staff telephone interview with Marvin Arandia, November 12, 2010 (on file with committee). See also Eric Gorski, "For-Profit Colleges Cashing In On Veterans" *Huffington Post*, December 9, 2010, [http://www.huffingtonpost.com/2010/12/09/forprofit-colleges-cashin\\_n\\_794398.html](http://www.huffingtonpost.com/2010/12/09/forprofit-colleges-cashin_n_794398.html) (accessed June 12, 2012).

<sup>170</sup> *Id.*

<sup>171</sup> U.S. Senate HELP Committee staff telephone interview with Jason Longmore, November 12, 2010 (on file with committee). See also Eric Lipton, "Profits and Scrutiny for Colleges Courting Veterans," *New York Times*, December 8, 2010, <http://www.nytimes.com/2010/12/09/education/09colleges.html?pagewanted=all> (accessed June 12, 2012).

and tried to transfer his credits. Only then did he learn that his credits would not transfer.<sup>172</sup>

Similarly, college recruiters sometimes misled students about whether the school's programs will qualify students for licensing credentials or a higher degree program. For instance, one student was told he would be able to receive his teaching license from Ashford. 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 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."<sup>173</sup>

One ITT student stated that,

During the tour and meeting with the student representative for admissions, I was given an overview of the school's programs, 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 school. I was advised that should I decide to transfer to another college, that the credits were transferable.<sup>174</sup>

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.<sup>175</sup>

#### Targeting Sales to Most Vulnerable Populations

For-profit colleges target a population of non-traditional prospective students who are often less familiar with higher education than other prospective college students and may be facing difficult circumstances in their lives. For instance, Vatterott's internal "Student Profiles," part of a manual to train recruiters, detailed the demographic subgroups that the company targets for enrollment: "Welfare Mom w/Kids. Pregnant Ladies. Recent Divorce. Low Self-Esteem. Low Income Jobs. Experienced a Recent Death. Physically/Mentally Abused. Recent Incarceration. Drug Rehabilitation. Dead-End Jobs-No Future."<sup>176</sup>

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<sup>172</sup> Id.

<sup>173</sup> Bridgepoint, August 2010, Completed Formal Grievance Submission Form (BPI-HELP\_00026807) (Ashford University).

<sup>174</sup> ITT, February 2007, Student Comment/Complaint Report (ITT-00006208).

<sup>175</sup> Id.

<sup>176</sup> Vatterott, March 2007, *DDC Training* (VAT-02-14-03904).



Recruiting materials indicate that some for-profit colleges viewed these populations as widely open to influence. “We deal with people that live in the moment and for the moment,” Vatterott’s training materials explained.<sup>177</sup> “Their decision to start, stay in school or quit school is based more on emotion than logic. Pain is the greater motivator in the short term.”<sup>178</sup> The next page contained a number of quotes ostensibly from administrators and teachers: “Lately it seems admissions has been putting in some really troubled people . . . could this be a trend?,” “the last batch of students you guys dumped here are about the worst I’ve seen in years,” “Do your ads say, LOSERS ENROLL HERE!”<sup>179</sup> The next page answered these quotes with, “These Students Are The Reason We’re in Business!”<sup>180</sup>

A number of schools have tried to generate business by visiting social service agencies and providers. An internal Kaplan email indicates that a recruiter dropped business cards off at “an office for section 8 [public] housing.”<sup>181</sup> An internal Concorde email indicates that company employees had visited “welfare offices” and “unemployment offices,” although recruiters were later told to stop visiting these offices because it may be a violation of accreditation standards.<sup>182</sup>

### Aggressive Sales Tactics

In addition to misleading and deceptive information, recruiters sometimes used hard-sell tactics to enroll prospective students. Internal documents at some colleges admonished recruiters not to think of the call as anything other than a sales pitch. One school’s training document, titled “Turning Inquiries into Appointments,” made this stance clear in the first bullet point: “Understand this is a sales call.”<sup>183</sup> Similarly, a former Bridgepoint recruiter commented,

Its a boiler room . . . selling education to people who don’t really want it [sic]. 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

<sup>177</sup> Id.

<sup>178</sup> Id.

<sup>179</sup> Id.

<sup>180</sup> Id.

<sup>181</sup> Kaplan Internal Email, February 2010, re: *Homeless Shelter clarification* (KHE 207174).

<sup>182</sup> 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. Concorde Career Colleges, Inc. (“Concorde”) is a for-profit higher education company that enrolled 7,952 students as of fall 2010 and is based in Kansas City, MO.

<sup>183</sup> Kaplan Internal Presentation, “*Explore*” *Another Piece of My Heart: Turning Inquiries into Appointments* (KHE 052058).

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.<sup>184</sup>

Some bricks-and-mortar schools make clear that the point of the call is actually to give the prospect as little information as possible so that they are more likely to come to the campus. For instance, Career Education Corporation admonishes its recruiters, "DO NOT GIVE TOO MUCH INFORMATION" over the phone so that the prospective student must come in for a sales interview [emphasis in original].<sup>185</sup>

For both sales pitches conducted over the phone or in person, many for-profit colleges used specific scripts that tell the recruiter what to say to prospective students. These scripts are designed with tested selling techniques and psychology in mind.<sup>186</sup> They allow the recruiter to control the enrollment conversation so that prospective students have little chance to ask questions.<sup>187</sup>

#### Techniques to Close a Sale

Recruiters at some colleges were specifically trained to exploit the emotional vulnerabilities of prospective students by using an array of ethically questionable tactics. These techniques included pushing on "pain points," "overcoming objections" to signing an enrollment agreement, and "creating urgency" to press prospective students to sign up right away.

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<sup>184</sup> Comment submitted to Department of Education by Brent Park, Ashford recruiter.

<sup>185</sup> Career Education Corporation, *Telephone Techniques* (CEC000014470).

<sup>186</sup> See, for example Westwood College, *Admissions New Hire Classroom Training*, January 2010 (WP000036036 at WP000036052).

<sup>187</sup> National American University, 2008, *New Admissions Representative Training Manual 2008* (NAU0014515).

"Poking the Pain" of Prospective StudentsITT recruiter training presentation slide:<sup>188</sup>

**FIND OUT WHERE  
THEIR PAIN IS.**



One pervasive sales technique found in the documents of multiple companies is to manipulate a prospective student's emotions.<sup>189</sup> One recruiting manager explained that recruiters "need to focus on . . . digging in and getting to the pain of each and every prospective student."<sup>190</sup>

According to this technique, a recruiter asks probing questions to find a prospective student's "pain"—about a dead-end job, inability to support their children, failing parents or relatives.<sup>191</sup> They then use that "pain" to make the student feel vulnerable.<sup>192</sup> Then, when the prospective student feels vulnerable, the recruiter will offer the prospective student the possibility of a college degree as the opportunity to make that pain go away.<sup>193</sup>

<sup>188</sup> ITT, *Increasing Your Scheduled to Conduct Ratio* (ITT-00028362 at ITT-00028377).

<sup>189</sup> See, for example, Bridgepoint, *Psychology of a Student* (BPI-HELP\_00004019) (internal training documents); ITT, *ITT Technical Institute Questionnaire: Exhibit 3* (ITT-00010050) [The company asserts that the document was created and used only for a short period of time by a few individuals at a single campus and was never approved by ITT management]; Vatterott, March 2007, *DDC Training* (VAT-02-14-03904). Vatterott, March 2007, *DDC Training* (VAT-02-14-03904); Vatterott, March 2007, *DDC Training* (VAT-02-14-03904).

<sup>190</sup> ITT Internal Memorandum, June 2007, re: *June Analysis 2007* (ITT-00025689). The company asserts that this document is not representative of the school's policies or procedures. See also Vatterott, March 2007, *DDC Training* (VAT-02-14-03904).

<sup>191</sup> See, for example, 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).

<sup>192</sup> Id.

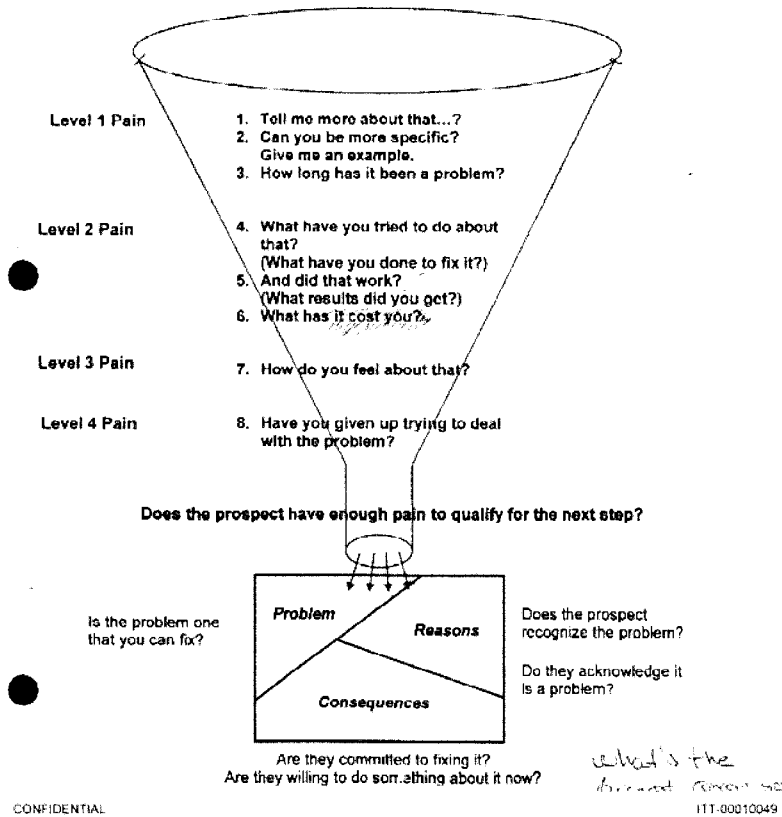
<sup>193</sup> Id.

ITT's training materials detailed the steps of this tactic: "Establishing Rapport," "transition into digging for the motivation," "transition into feeling the pain," and "transitioning into making the connection between the motivation and getting a degree."<sup>194</sup> To address students who sign an enrollment agreement but indicate they may not want to start school, recruiters were 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."<sup>195</sup>

ITT, however, went a step further than most other companies in their pain-based sales techniques with a "Pain Funnel."

2. Pain Funnel and Pain Puzzle

Eight Questions



<sup>194</sup> ITT, Completed Phoning Techniques Training Worksheet (ITT-00015566). The company asserts that this document was created and used by only a few campus-level employees and never approved by the corporate office.

<sup>195</sup> ITT Internal Memorandum, re: *Ways to combat "drops" in Marketing during the class building period* (ITT-00014590). The company asserts that this document represents an unauthorized set of training materials utilized by a single campus.

After a recruiter located a prospective student's pain point, the "pain funnel" presented a number of questions that the recruiter can ask that are progressively more hurtful.<sup>196</sup> In "Level 1" a recruiter asks 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 these 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."<sup>197</sup> 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.<sup>198</sup> 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.<sup>199</sup> 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.<sup>200</sup> 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.<sup>201</sup>

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.<sup>202</sup>

<sup>196</sup> 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); Bridgepoint, *Psychology of a Student* (BPI-HELP\_00004019).

<sup>197</sup> Letter to Chairman Harkin, from ITT Counsel, Gibson Dunn & Crutcher, LLP, February 10, 2011.

<sup>198</sup> *Id.*

<sup>199</sup> Majority HELP Committee staff interview with Laura Brozek and Wayne Beaudoin June 21, 2011.

<sup>200</sup> Letter from Laura Brozek, June 24, 2012.

<sup>201</sup> *Id.*

<sup>202</sup> *Id.*

At Kaplan, the company’s training materials described its “pain” technique as asking “a series of probing questions to determine the prospective students buying profile.”<sup>203</sup> Kaplan labels these tactics “ARTICHOKE,” a method of “peeling back the layers” and “Getting to the PAIN ” [emphasis in original].<sup>204</sup> Recruiters were instructed to:

KEEP DIGGING UNTIL YOU UNCOVER THEIR PAIN,  
FEARS, AND DREAMS. . . . IF YOU GET THE  
PROSPECT TO THINK ABOUT HOW TOUGH THEIR  
SITUATION IS RIGHT NOW AND IF THEY DISCUSS  
THE LIFE THEY CAN’T GIVE THEIR FAMILY  
BECAUSE THEY DON’T HAVE A DEGREE, YOU WILL  
DRAMATICALLY INCREASE YOUR CHANCES OF  
GAINING A COMMITMENT FROM THE STUDENT! IF  
YOU CAN STIR UP THEIR EMOTIONS, YOU WILL  
CREATE URGENCY! [emphasis in original].<sup>205</sup>

True to these training materials, undercover recordings show that at many schools visited by GAO agents posing as prospective students, recruiters would “interview” the agents at the beginning of the session, asking them questions about their motivation for returning to school and their financial situation. Then, as the GAO recordings show, the recruiter repeatedly returned to the prospective students’ answers and reminded them that their lack of a degree is responsible for their problems.<sup>206</sup> For example, at Kaplan’s Riverside, CA campus, when an undercover student expressed his insecurity about signing an enrollment agreement and paying for school, the recruiter replied, “I thought you really wanted to do this?”<sup>207</sup>

### Overcoming Objections

In addition to specific “pain” tactics, another sales technique that for-profit recruiters are commonly trained to use is “overcoming objections” that the student raises to signing an enrollment agreement. Many schools’ training

<sup>203</sup> Kaplan, *Kaplan Higher Education Western Region Director of Admissions Tool Kit* (KHE 056793). Kaplan states that training materials for admissions representatives are approved through a formal review process at Kaplan’s home office, and that this document was not authorized through that process and was used by a single manager and admissions team in California, and was removed from use by early 2008.

<sup>204</sup> Kaplan, April 2010, *Custom OBS & Quality Hybrid Job Aid Based on the Latest Undergraduate Outbound Script Published on April 2010* (KHE 096357); Kaplan, July 2009, *Job Aid: Outbound With Rubric & OBS References Based on Undergraduate Script Published on July 08, 2009* (KHE 084935).

<sup>205</sup> Kaplan, July 2009, *Job Aid: Outbound With Rubric & OBS References Based on Undergraduate Script Published on July 08, 2009* (KHE 085294). Documents obtained by the committee contain multiple versions of the “artichoke” training. See for example, Kaplan, July 2009, *Job Aid: Outbound With Rubric & OBS References*; Kaplan, April 2010, *Custom OBS & Quality Hybrid Job Aid Based on the Latest Undergraduate Outbound Script Published on April 2010* (KHE 096357).

<sup>206</sup> See, for example, GAO Audio Recording, School 5 (Potomac College), Scenario 1; GAO Audio Recording, School 12 (Anthem College), Scenario 1 at minute 00:52:02.

<sup>207</sup> GAO Audio Recording, School 8 (Kaplan College Penbroke Pines), Scenario 2 at minute 00:41:45.

materials posed hypothetical objections that a prospective student might raise, and instructed the recruiter how to answer them.<sup>208</sup> An Apollo Group manual instructed recruiters to answer objections with questions back to the prospective student. If the prospect said “you’re too expensive,” the recruiter was instructed to 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 “Why would you not want to invest in yourself?”<sup>209</sup> If a student complained that the University of Phoenix is expensive compared to other schools, the recruiter was instructed to say, “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?”<sup>210</sup>

Recruiters were driven to close a sale on the spot, instead of waiting for a student to return after they have had time to consider their decision or to speak with a financial aid employee. Kaplan’s training materials told recruiters that “we ideally want to close on commitment and enroll the student before they go to FA [financial aid].”<sup>211</sup> This is clearly demonstrated in the recordings of an undercover visit to a Kaplan campus in Florida.<sup>212</sup> During the visit, 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 is this right now a concern?” and “let’s assume that Uncle Sam will help you out” and “this [enrollment agreement] is not signed in blood.”<sup>213</sup>

#### False Urgency and Inflated Prestige

Recruiters sometimes created a false sense of urgency in order to get a student to immediately sign an enrollment agreement. To do so, recruiters would tell students they must enroll immediately to reserve a seat. In reality, there are many (or in the case of online programs, virtually unlimited) spots available and most schools have scheduled class start dates every few weeks.

For example, Apollo documents instructed recruiters, “Do not tell the student we have classes running every week unless you can agree on a start date,

<sup>208</sup> See, for example, Bridgepoint, *Overcoming Objections* (BPI-HELP\_00005921); ITT, *Overcoming Objections* (ITT-00025676).

<sup>209</sup> Apollo, 2007, *Enrollment Counselor Guide: School of Advanced Studies* (AGI0015231, at AGI0015339) (University of Phoenix). The company states that this document is no longer used.

<sup>210</sup> Apollo, 2007, *Enrollment Counselor Guide: Online Campus* (AGI0014312, at AGI0014465) (University of Phoenix). The company states that this document is no longer used.

<sup>211</sup> Kaplan Internal Email, October 2009, re: *Admissions Process Flow* (KHE 279097).

<sup>212</sup> GAO Audio Recording, School 8, Scenario 2.

<sup>213</sup> Id. at minutes 00:38:33; 00:39:36 and 00:40:13. This Kaplan campus was subsequently shut down .

or rolling start dates is a selling point.”<sup>214</sup> Recruiters were supposed to tell every prospective student, “It looks like I might be able to squeeze you into” the next start date.<sup>215</sup> Two Apollo manuals specifically instructed recruiters not to say “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.”<sup>216</sup> The company states that these manuals are no longer used.

Bridgepoint’s “Creating Urgency” job aid similarly instructed recruiters how to “use pressure to PREVENT them from procrastinating” [emphasis in original].<sup>217</sup> A Career Education Corporation “Telephone Techniques” manual instructed 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.”<sup>218</sup>

Once a student signs up, the schools make it very difficult to back out or start classes at a later date. At Kaplan, for instance, documents indicate that students who sign an enrollment agreement are put in a “12 step lock-in process” to prevent them from backing out.<sup>219</sup> Kaplan recruiting documents admonish:

The director of admissions or executive director must approve all rescheduled enrollments. No exceptions. Local students must reschedule, in person . . . not by mail or telephone. . . . No one should be rescheduled until they have paid all applicable fees, tested, packaged in financial aid and completed all necessary enrollment paperwork.<sup>220</sup>

Kaplan, however, instituted a new program in late 2010 (after the date of the training materials) that allows all students to withdraw within 5 weeks of starting classes without incurring any obligation to the school or to lenders.<sup>221</sup> 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 paying only a minimal application fee.

<sup>214</sup> Apollo, 2007, *Enrollment Counselor Guide: School of Advanced Studies* (AGI0015231, at AGI0015333) (University of Phoenix). The company states that this document is no longer used.

<sup>215</sup> Id at AGI0015334.

<sup>216</sup> Apollo, 2007, *Enrollment Counselor Guide: Online Campus* (AGI0014312, at AGI0014504) (University of Phoenix). The company states that this document is no longer used.

<sup>217</sup> Bridgepoint, *Creating Urgency* (BPI-HELP\_00005972).

<sup>218</sup> Career Education Corporation, *Telephone Techniques* (CEC000014470).

<sup>219</sup> Kaplan, *Making it Count: The 12 Step Lock-In Process* (KHE 054136). See also Vatterott, *Appointment to Lead – What to Look For* (VAT-02-14-03822).

<sup>220</sup> Kaplan, *Kaplan Higher Education Western Region Director of Admissions Tool Kit* (KHE 056793). Kaplan states that training materials for admissions representatives are approved through a formal review process at Kaplan’s home office, and that this document was not authorized through that process and was used by a single manager and admissions team in California, and was removed from use by early 2008.

<sup>221</sup> See Kaplan University, *The Kaplan Commitment Statement*, <http://getinfo.kaplan.edu/kaplancommitment.aspx> (accessed July 1, 2012).



In addition to fabricating a sense of urgency, for-profit colleges also strived to create an aura of prestige around their brands, which the company then pushed recruiters to use to help “sell” students. Bridgepoint, for example, instructed recruiters to tell students that Ashford University was “established in 1918” and has been “regionally accredited since 1950,” claims that were repeated in marketing materials distributed at college and military job fairs nationwide.<sup>222</sup> However, Ashford University did not exist until 2005, when Bridgepoint Education, Inc. used funds from Wall Street private equity firm Warburg Pincus to buy a small religious college formerly known as Mount St. Clare in Clinton, IA. In fact, in 2006, Bridgepoint employees were invited to a “celebration of the one-year anniversary of [Ashford],” where CEO Andrew Clark would be speaking.<sup>223</sup>

### The Role of Lead Generators

Before the sales process begins, for-profit colleges must gather contact information for prospective students. These so-called “leads” are generated either directly by the for-profit colleges themselves, or purchased from third-party companies known as “lead generators” that specialize in gathering contact information and selling those contacts to schools. Documents show that for-profit colleges paid between about \$10 and \$150 per lead, depending on the type of lead provided.<sup>224</sup> “Everything on a campus or an Admissions department begins and ends with leads,” one executive at a for-profit college commented.<sup>225</sup>

<sup>222</sup> Bridgepoint, June 2009, *Need, Feature, Benefit* (BPI-HELP\_00005925) (Ashford University).

<sup>223</sup> Bridgepoint Internal Email, March 2006, re: *FAST 03-17-06* (BPI-HELP\_00048670). See also, Kaplan, July 2009, *Job Aid: Outbound With Rubric & OBS References Based on Undergraduate Script Published on July 08, 2009* (KHE 084935). 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. And indeed Bridgepoint made its submission to FSA and met with FSA staff regarding the Final Audit Report. 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. Nevertheless, Mr. Clark, through counsel, declined to appear, and thus declined the opportunity to give his perspective on the weighty issues of accountability and compliance with Federal law and regulation raised in the Final Audit Report and elsewhere. The committee held the hearing on March 10 without Mr. Clark but with the participation of 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.

<sup>224</sup> See, for example, Rasmussen, Insertion Order (RAS00003280) (\$37 per lead); Rasmussen, Advertising Agreement (RAS00003443) (\$75 per lead); Alta, Lead Development, Maintaining High Conversion Rates (HELP-ALTA\_000123) (Westwood College) (\$150 per lead).

<sup>225</sup> Kaplan Internal Presentation, *Who Are Our Leads?* (KHE 056401).

Documents demonstrate that for-profit colleges examined by the committee purchased leads from at least 62 lead-generation companies. Many of these companies derive either all or a substantial portion of their revenue from delivering leads to for-profit institutions.<sup>226</sup> Lead generators advertise themselves on Web sites, billboards and on TV as a free, safe, and reliable way to get information about college. But lead generator sites generally direct students only to schools and programs that pay them. Lead-generation companies have a history of engaging in online marketing using aggressive and misleading methods.<sup>227</sup> The *Chronicle of Higher Education*, a leading publication covering higher education, interviewed a former lead generator employee who said:

he told students that they would hear from their preferred public college, even though they almost never did. In the meantime, he said, they should consider attending a for-profit college—such as Kaplan University and Westwood College. Most of the prospective students were confused. Some hung up. But sometimes the pitch worked. Some people, especially high-school students, believed he was an educational counselor and gave weight to his recommendations.<sup>228</sup>

Moreover, crucial information is often missing from these sites. Tuition and fee information and curricular details are absent from most lead-generation sites. For example, EarnMyDegree.com, one high profile lead generator, merely serves as a gatekeeper to program details—a search of the business administration degrees listed by the site only directs visitors to a page with a brief description of the demand and salary for business majors and invites users to request more information.<sup>229</sup> Even a search of the word “tuition” returns no information about the cost of attending any of the advertised programs. Rather than disclose comparative costs of various colleges, lead generators entice prospective students with promises of how quickly and easily a

<sup>226</sup> See, for example, AcademixDirect, Inc., <http://www.academixdirect.com> (“100% of our business comes from the higher education market.”); Lead2Class, “Higher Education Lead Generation Services,” <http://www.lead2class.com> (“Our approach to Internet advertising is highly targeted and designed to promote online education programs.”).

<sup>227</sup> See Josh Keller, “Online Search Ads Hijack Prospective Students, Former Employee Says,” *The Chronicle of Higher Education*, September 7, 2011, <http://chronicle.com/blogs/wiredcampus/online-search-ads-hijack-prospective-students-former-employee-says/33047> (accessed May 3, 2012) (reporting that a former call center employee for Vantage Media recalled contacting “hundreds of students per day” and was “expected to keep students on the phone long enough to deliver three leads”). Lead-generation companies have been observed participating in Internet advertising campaigns that “falsely implied relationships with public colleges” in order to obtain prospective students’ contact information for their for-profit clients. See *id.*; see also Josh Keller, “Colleges Fight Google Ads That Reroute Prospective Students,” *The Chronicle of Higher Education*, July 31, 2011, <http://chronicle.com/article/Colleges-Fight-Google-Ads-That/128414/> (accessed May 3, 2012).

<sup>228</sup> *Id.*

<sup>229</sup> See EarnMyDegree.com, “Online Business Administration Associate Degree Programs,” [www.earnmydegree.com/online-education/associate/business/business-administration.html](http://www.earnmydegree.com/online-education/associate/business/business-administration.html) (accessed December 15, 2011); EarnMyDegree.com, “Associate’s in Business,” [www.earnmydegree.com/online-education/online-degrees/everest-university/business-associates-13.html](http://www.earnmydegree.com/online-education/online-degrees/everest-university/business-associates-13.html) (accessed May 3, 2012).

person can earn a degree and how much money a student can make at a subsequent career.

Frame from 2011 EducationConnection TV advertisement.<sup>230</sup>



Some lead generators use television commercials to drive traffic to their Web sites. EducationDynamics, for example, places television ads directing viewers to EducationConnection.com.<sup>231</sup> The television ads emphasize the ease and flexibility of online degree programs. In one spot, a young woman says, “You could be getting that online degree, right from your home, in your pajamas.”<sup>232</sup> Some of the commercials employ many of the same tactics observed online, such as messages implying that online degree programs described at EducationConnection.com serve as prerequisites to future financial success: “Remember, people with a degree, on average, earn a million dollars more in their lifetime.”<sup>233</sup> In another, seen above, the message “make \$25,000

<sup>230</sup> EducationConnection, Commercial, posted April 27, <http://www.youtube.com/watch?v=aDR28IIRGZw> (accessed July 15, 2012).

<sup>231</sup> See, for example, Television Commercial: EducationConnection.com, “College in PJ’s 2010,” available at <http://www.youtube.com/user/EducationConnection#p/u/6/OISn3TXFxlI>; EducationDynamics, “What We Do,” <http://www.educationdynamics.com/About-Us/What-We-Do.aspx>. (accessed March 15, 2012).

<sup>232</sup> Television Commercial: EducationConnection.com, “Don’t Choose Blindly,” available at [http://www.youtube.com/watch?feature=player\\_profilepage&v=8kddCyeXIMU](http://www.youtube.com/watch?feature=player_profilepage&v=8kddCyeXIMU) (accessed May 20, 2012).

<sup>233</sup> Id.

more every year” flashes while a woman sings, “if I earn a degree I will make a bigger salary.”<sup>234</sup>

Once a lead generator has the name of a prospective student who requests more information, it is transferred quickly to the schools that pay the lead generator. The Government Accountability Office (GAO), as part of their undercover investigation, entered an investigator’s name and number into a single lead generation site. Within 5 minutes, the GAO received the first calls from recruiters. In 1 month, the investigator received over 180 calls.<sup>235</sup>

### Military Focused Recruiting

Servicemembers, veterans, spouses, and family members have become highly attractive prospects to for-profit colleges, and many schools have invested significant resources into recruiting and enrolling students eligible for military education benefits. The recent expansion of military education benefits provided the industry with a new source of potential revenue. Most military benefits are grants rather than loans, allowing students to earn a higher education with smaller debt burdens. This is particularly important for companies at risk of losing Federal aid eligibility due to their students’ high loan default rates. And even though the benefits come from Federal taxpayer dollars, military educational benefits are not counted toward the maximum 90 percent in Federal revenues that for-profit colleges are permitted. Thus, these benefits provide a new tool to help for-profit colleges avoid this regulatory restriction.

As one example of how companies are investing heavily to recruit servicemembers and veterans, Kaplan, in one presentation, detailed plans to spend \$29 million and hire 45 people over 3 years to enroll more military personnel.<sup>236</sup> Another document, regarding Kaplan’s military recruiting strategy, stated that the company must “transition Kaplan into a ‘top of mind’ educator within the active duty and military segment, penetrating the key decision-maker and influencer (education service officers).”<sup>237</sup> To do so, it planned to place ads in key military publications and target key military installations. Kaplan also planned broad-based outreach through phone calls, Web sites, direct-mail, and a presence at military events. ITT initiated a similar military marketing plan with the goal of increasing military enrollments by 20 percent at selected campuses.<sup>238</sup> ITT’s CEO wrote in an email: “we didn’t even

<sup>234</sup> EducationConnection, Commercial, <http://www.youtube.com/watch?v=aDR28IIRGZw> (accessed July 15, 2012).

<sup>235</sup> Gregory Kutz (Managing Director, Office of Forensic Audits and Special Investigations, U.S. Government Accountability Office), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *For-Profit Schools: The Student Recruitment Experience*, 111th Congress (2010).

<sup>236</sup> Kaplan Internal Presentation, *Kaplan Military University* (KHE 267362). It is unclear whether the company invested these resources in their military efforts given that the company received comparably little post-9/11 GI bill funds in the years following the presentation.

<sup>237</sup> Id.

<sup>238</sup> ITT Internal Email, December 2009, re: *2010 Military Marketing Plan* (ITT-00144499).

make the top 40 providers to the military! What an opportunity that we have in front of us!” and that “we need to see how we can penetrate this world.”<sup>239</sup>

*Military-Specific Lead Generators*

There are a number of lead generation Web sites specifically designed to attract members of the military and veterans. QuinStreet, Inc., a publicly traded corporation that aggressively targets servicemembers, manages Web sites that initially appear to provide information of general interest to service members, with domains such as GIBill.com, Military-Net.com, and MilitaryGIBill.com.<sup>240</sup> Some of these 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. However, a search of the two sites for programs accepting GI bill funds results in markedly different lists of options. A search of the VA site displays a list of all 155 institutions accepting GI bill dollars for a given State, including private, non-profit colleges and public universities. But QuinStreet’s lead-generation site returns a list of only five schools—all for-profit colleges—representing four different companies.<sup>241</sup> Militaryfriendlyschoools.com, a lead generator site, releases a heavily-advertised list of the “top military schools.” The rankings, however, are not based on academic quality or other student-focused factors, but on the schools’ efforts to recruit military students.<sup>242</sup> On June 27, 2012, 20 State attorneys general announced a settlement of a lawsuit against QuinStreet. The States alleged that QuinStreet violated the States’ consumer protection laws in the course of operating Web sites that generate leads primarily for the for-profit education industry and that several of the company’s sites targeting military servicemembers, including GIBill.com, were deceptive and misleading.<sup>243</sup> GIBill.com, for example, mimicked the form and layout of the official GI bill Web site operated by the Department of Veterans Affairs (VA).<sup>244</sup> The settlement requires the company to turn over the Web site GIBill.com to the

<sup>239</sup> ITT Internal Email, fw:Stifel: Education-Summary From the CCME Conference Kickoff (ITT-00140384).

<sup>240</sup> A review of documents provided to the committee shows that QuinStreet provided lead-generation services to Anthem Education Group, Apollo Group, Inc., Capella Education Company, Concorde Career Colleges, Inc., DeVry, Inc., ECPI Colleges, Inc., National American University Holdings, Inc., TUI Learning LLC, Universal Technical Institute, Inc., and Walden University. Full list of QuinStreet-owned lead generator sites: ArmyStudyGuide.com, ArmyToolbag.com, GIBenefits.com, GIBill.com, GIBillAmerica.com, GruntsMilitary.com, Military-Net.com, MilitaryConnections.com, MilitaryGIBill.com, MilitaryPay.com, NavyStoreKeeper.com, US-Army-Info.com, and VNIS.com. See also QuinStreet, Connecting Customers to You, [http://quinstreet.com/what\\_we\\_do](http://quinstreet.com/what_we_do); Army Toolbag, Army Toolbag.com: Tools for Army Leaders, <http://www.armytoolbag.com>.

<sup>241</sup> See U.S. Department of Veterans Affairs, “WEAMS Public,” <http://inquiry.vba.va.gov/weamspub/searchInst.do#content-area>.

<sup>242</sup> Military Friendly Schools, “G.I. Jobs Military Friendly Schools @ Methodology,” <http://www.militaryfriendlyschoools.com/methodology.aspx> (accessed March 26, 2012).

<sup>243</sup> <http://migration.kentucky.gov/Newsroom/ag/quinstreetavc.htm>; see also, Bloomberg.com, GI Bill Site Called Misleading Closed in Settlement, Carter Dougherty-Jun 27, 2012.

<sup>244</sup> See U.S. Department of Veterans Affairs, “Welcome to the GI Bill Web Site,” <http://www.gibill.va.gov>.

Department of Veterans Affairs, pay a \$2.5 million fine, and fundamentally alter its disclosures on military and other Web sites.<sup>245</sup>

*Targeting Wounded Warrior Centers and Veterans' Hospitals*

The documents produced showed that some schools' pursuit of military benefits led them to recruit from the most vulnerable military populations, sometimes recruiting directly at wounded warrior centers and veterans hospitals. This practice was first highlighted in a *Bloomberg News* article about recruiters from a for-profit college making sales pitches to severely injured soldiers living in wounded warrior barracks.<sup>246</sup> As the article put it, "US Marine Corporal James Long," a veteran who suffered a traumatic brain injury, "knows he's enrolled. . . he just can't remember what course he's taking."<sup>247</sup>

For instance, in the training materials for military recruiters at Kaplan, the committee found express recommendations that recruiters look for potential recruits at both veterans' hospitals and wounded warrior programs:

Veterans' hospitals are another place that you can expect to find veterans . . . many of the facilities allow schools to come on site and set up in a common area, such as a lunch room, and provide an information tables. You can expect to see not only veterans but also family members of veterans, and hospital staff that will come to your table for information. . .

Check with your local Wounded Warrior program to find out how Kaplan University can best fit into their educational offerings.<sup>248</sup>

Kaplan states that this document does not reflect a training program approved or implemented by Kaplan or Kaplan's approach to enrollment of military personnel. However, one Kaplan recruiter spoke of visiting a wounded warrior unit with the hope of getting "some good soldiers out of the deal" and that they "definitely need to take advantage of" the fact that this was going to occur on a monthly basis.<sup>249</sup>

A recruiter at Grand Canyon University sent a superior the following note regarding her recruiting event for a wounded warrior unit:

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<sup>245</sup> Id.

<sup>246</sup> Daniel Golden, "Marine Can't Recall His Lessons at For-Profit College (Update 2)," *Bloomberg*, December 15, 2009, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a18HttoCG.ps> (accessed May 3, 2012).

<sup>247</sup> Id.

<sup>248</sup> Kaplan, *Military Training* (KHE 267268). Kaplan states that this document does not reflect a training program approved or implemented by Kaplan or Kaplan's approach to enrollment of military personnel.

<sup>249</sup> Kaplan Internal Email, March 2010, re: Wounded Warrior (KHE 195614).

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.<sup>250</sup>

*Misleading Servicemembers Regarding Military Bill Benefits*

In addition to aggressively seeking military personnel, the investigation showed that many recruiters misled or lied to service members as to whether their tuition would be covered by military benefits.

In some cases, students have felt duped by schools that claim to be eligible for GI bill funds. Jon Elliott, a Staff Sergeant in the Army and Iraq veteran who publicly shared the story of his experience at ATI Career Center in Texas, said: “I was assured over the phone that . . . they had been accepted back in April for the Post-9/11 program. I went in, did a face-to-face with a recruitment official. Once again I asked, ‘Are you sure we’re good for the Post-9/11?’ He said, ‘Yes’ and we started doing some paperwork.”<sup>251</sup> Yet, 3 months later, Sgt. Elliott received a letter from the Department of Veterans Affairs stating that ATI “was not an authorized institution of higher education, and no benefits would be paid.” Sgt. Elliott could not afford to pay the tuition without using his benefits, dropped out of school, and was subsequently pursued by ATI for the \$9,600 that he had been told the GI bill would pay for.<sup>252</sup>

In other cases, schools misled servicemembers regarding the cost of the program, and whether or not they would need student loans. 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 later [sic], I got bills from Sallie Mae saying I owe money for two loans! A federal and a private loan! What!? I was told I would never see a bill.<sup>253</sup>

The mother of the same soldier wrote in about her son’s experience with an ITT representative:

<sup>250</sup> Grand Canyon University, April 2010, re: *RE: Pizza Receipt* (GCUHELP 019907). Grand Canyon Education, Inc. (“Grand Canyon”) is a publicly traded for-profit higher education company that enrolled 42,300 students as of 2010 and is based in Phoenix, AZ.

<sup>251</sup> Video: Tom Harkin, “Senator Harkin and Senator Carper Unveil New Data on Post-9/11 G.I. Bill Benefits and For Profit Colleges,” [http://harkin.senate.gov/help/video\\_press.cfm](http://harkin.senate.gov/help/video_press.cfm).

<sup>252</sup> After Chairman Harkin invited Sgt. Elliott to tell his story at a press conference, ATI contacted Sgt. Elliott to forgive the alleged debt.

<sup>253</sup> ITT Internal Email, January 2009, re: *REDACTED* (ITT-00007708).

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. 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.<sup>254</sup>

The first GI bill made it possible for millions of service members returning from World War II to attend college and make rapid economic advances; in turn, their success helped to build the middle class, and led to an unprecedented era of shared prosperity in the United States. Congress has made every effort to repeat this success by providing generous educational benefits to the new generation of Iraq and Afghanistan veterans. But this success can only be achieved if taxpayer money is invested in quality institutions that yield a good education and solid career prospects for veterans. When for-profit colleges see veterans as “dollar signs in uniform” as Mrs. Hollister Petraeus, head of the Office of Servicemember Affairs of the Consumer Financial Protection Bureau, put it in a recent Opinion piece, it does a disservice to veterans and taxpayers alike.<sup>255</sup>

### **How Are Students Performing?**

At the outset of the investigation, a fundamental question facing the committee was what proportion of students at for-profit colleges were successfully completing their courses of study. Retention of students is one area over which colleges exercise significant control. Enrolling students who are likely to graduate, and supporting them along the way with academic services and counseling is a primary gauge of a successful institution. Completing a program is a student's first step on the way to securing employment, and repaying student loan debt.

Personal narratives and some statistics suggest that many students are succeeding in for-profit colleges. Apollo-owned University of Phoenix alone had graduated hundreds of thousands of students, most of whom might never

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<sup>254</sup> Id.

<sup>255</sup> Hollister K. Petraeus, “For-Profit Colleges, Vulnerable G.I.’s,” New York Times, September 21, 2011, <http://www.nytimes.com/2011/09/22/opinion/for-profit-colleges-vulnerable-gis.html> (accessed May 24, 2012).



have completed a degree at a traditional school.<sup>256</sup> Anecdotal evidence, supported by the companies' internal documents, indicate that for-profit colleges provide a particularly accessible route for students who have completed at least 1 year of higher education prior to enrolling. Meanwhile, community colleges are increasingly turning away potential students in some programs because of limited capacity. Yet at the outset of the investigation, limitations in available data made it very difficult to understand how many students were succeeding at for-profit colleges and in what types of degree programs.

Current publicly available graduation-rate data focus only on first-time students attending on a full-time basis; these data do not account for a large proportion of students attending for-profit colleges. To fill this information gap, the committee requested detailed student-retention data from 30 for-profit education companies. These data indicate that 54 percent of students who enrolled in school during a 1-year period between 2008 and 2009 had left school without a degree by mid-2010.<sup>257</sup>

#### Inadequate Public Data for Meaningful Oversight

Consistent and comprehensive institutional-level information tracking for-profit college student retention and graduation rates is not regularly available. The colleges themselves do not voluntarily disclose this information, and the measurements that the Department of Education collects and publishes are lacking in two key respects.

The Department of Education graduation rate measurement tracks only students who attend on a full-time basis and have not attended college previously. As the University of Phoenix explains the problem:

The issue for institutions such as the University of Phoenix is that IPEDS data is calculated using “first-time students.” These are students who start at one institution and complete their entire degree at that same institution. That student is an anomaly at University of Phoenix.<sup>258</sup>

The company notes in its 2011 Annual Academic Report that Associate degree completion rates are 12 percent higher, and Bachelor's degree

<sup>256</sup> In 2012, the University of Phoenix announced it had reached the milestone of 700,000 graduates. Apollo Group, Q2 Statement Issued March 12, 2012.

<sup>257</sup> Senate HELP Committee staff analysis of data provided by for-profit education companies. See Appendix 15. Data from two companies were not usable due to compromised data integrity.

<sup>258</sup> University of Phoenix, Academic Annual Report 2008, [http://cdn.assets-phoenix.net/content/dam/altcloud/doc/about\\_uopx/academic-annual-report-2008.pdf](http://cdn.assets-phoenix.net/content/dam/altcloud/doc/about_uopx/academic-annual-report-2008.pdf) (accessed May 3, 2012).

completion rates are 25 percent lower for its total student population than for the students captured in data reported to the Department of Education.<sup>259</sup>

The Department of Education also measures student retention by counting students who are enrolled in the fall of 1 year, and are still enrolled as of the fall of the following year. However, for-profit colleges enroll students throughout the year, not on a traditional fall to spring academic calendar. Data obtained by the committee show that many for-profit college students leave without earning a degree within a few months. Thus, none of those students who started later than the fall and departed before the following fall would be counted in the Department's measurement.

Moreover, the retention data also includes only first-time students who have never attended any other college.<sup>260</sup> For example, the Corinthian Colleges, Inc.-owned schools reported an overall *retention* rate of 64 percent to the Department of Education in the 2008–9 reporting period.<sup>261</sup> This number was based on a first-time full-time population of 15,488 students.<sup>262</sup> Yet, documents produced to the committee show that 130,920 students enrolled in Corinthian schools between 2008 and 2009. The retention rate measure failed to capture the vast majority of those students.

#### Low Student Retention

Because public data are so limited, the committee's request for student-level enrollment data from 30 for-profit colleges provides the most comprehensive view of the student retention landscape at for-profit colleges. The companies provided a table of each student, identified by a unique ID number, who enrolled in a specified period and whether each student was currently classified as completed, still enrolled or withdrawn. This dataset shows that 54 percent of students who started at a for-profit college examined by the committee in 2008–9 left without a degree by mid-2010.<sup>263</sup> In total, almost

<sup>259</sup> Id.; University of Phoenix, Academic Annual Report 2011, [http://cdn.assets-phoenix.net/content/dam/altcloud/doc/about\\_uopx/academic-annual-report-2011.pdf](http://cdn.assets-phoenix.net/content/dam/altcloud/doc/about_uopx/academic-annual-report-2011.pdf) (accessed May 3, 2012).

<sup>260</sup> In April 2012, the Department of Education announced plans to expand the persistence and completion reporting requirements to include part-time and transfer students. U.S. Department of Education, "Education Department Releases Action Plan to Improve Measures of Postsecondary Success," Press Release, April 11, 2012, <http://www.ed.gov/news/press-releases/education-department-releases-action-plan-improve-measures-postsecondary-success>. (accessed May 19, 2012).

<sup>261</sup> IPEDS data for Corinthian for 2008–9.

<sup>262</sup> Id.

<sup>263</sup> Senate HELP Committee analysis of comprehensive student-level data provided by 30 for-profit education companies, including all publicly traded companies. Data from two companies were unusable due to compromised data integrity. 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. The for-profit model allows students to stop and easily re-enroll assuming they have no outstanding tuition balance with the

600,000 students left the colleges without a degree. Among 2-year Associate degree seekers, 63 percent, almost 300,000 students, departed without a degree. Among 4-year Bachelor's degree seekers, 54 percent, or over 200,000 students, left by mid-2010. Completion rates were significantly better across most colleges for shorter duration Certificate or diploma programs: just 38.5 percent of students seeking those credentials left.<sup>264</sup>

Status of Students Enrolled in For-Profit Education Companies in 2008-9, as of 2010					
Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Median Days
Associate Degree	474,817	9.1	28.0	62.9	126
Bachelor's Degree	374,264	4.6	41.1	54.3	131
Certificate	246,792	56.8	4.7	38.5	100
All Students	1,095,873	18.3	27.2	54.4	124

#### Worst Performing Programs

Some for-profit colleges had significantly lower retention rates. The chart below shows the 10 Associate degree programs with the worst retention outcomes for students, 9 of which had withdrawal rates over 60 percent. In total, 247,617 Associate degree-seeking students left these 10 companies without a degree. These 10 companies are among the largest institutions of higher education in the country; they enroll over one million students, almost half of all for-profit students.

<sup>264</sup> However some certificate programs showed a far higher proportion of students leaving without completing their course of study.

<b>For-Profit Education Companies with the Highest Associate Degree Withdrawal Rates</b>		
<b>Company</b>	<b>Percent Withdrawn</b>	<b>Students Withdrawn</b>
Bridgepoint Education, Inc.	84	6,691
Lincoln Educational Services Company	70	4,306
Kaplan Higher Education, Inc.	69	23,030
Corinthian Colleges, Inc.	66	29,547
Apollo Group, Inc.	66	117,738
The Keiser School, Inc. <sup>265</sup>	65	5,877
Education Management Corporation	64	20,444
Rasmussen Colleges, Inc.	63	4,887
Career Education Corporation	62	33,634
Alta Colleges, Inc.	58	1,463
All Companies	66	247,617

Overall, the retention rate for Bachelor's degree students is only slightly better. Among the companies with the 10 highest Bachelor's withdrawal rates, between 57 and 70 percent of students left without a degree. In total, 118,087 students left these 10 companies without a Bachelor's degree. Five of these companies have withdrawal rates over 60 percent. Four of them are among the lowest retention colleges for both Associate and Bachelor's degree students.<sup>266</sup>

<b>For-Profit Education Companies with the Highest Bachelor's Degree Withdrawal Rates<sup>267</sup></b>		
<b>Company</b>	<b>Percent Withdrawn</b>	<b>Students Withdrawn</b>
Kaplan Higher Education, Inc.	68	21,390
Rasmussen Colleges, Inc.	64	1,198
Bridgepoint Education, Inc.	63	25,898
Education Management Corporation	62	23,609
Capella Education Company	60	3,378
Corinthian Colleges, Inc.	59	1,889
Grand Canyon Education, Inc.	59	10,212
The Keiser School, Inc. <sup>268</sup>	57	1,061
Alta Colleges, Inc.	57	6,237
DeVry, Inc.	56	23,215
All Companies	61	118,087

<sup>265</sup> Keiser asserts that their withdrawal rate includes students temporarily classified as not-enrolled while awaiting entry into the core nursing curriculum or who withdrew and later re-enrolled. For additional information see Keiser school profile.

<sup>266</sup> Bridgepoint, Lincoln, EDMC, Corinthian, and Kaplan.

<sup>267</sup> Data exclude Lincoln Educational Services Company due to small sample size.

<sup>268</sup> Keiser asserts that their withdrawal rate includes students temporarily classified as not-enrolled while awaiting entry into the core nursing curriculum or who withdrew and later re-enrolled. For additional information see Keiser school profile.

### Online Student Retention

For-profit colleges exhibit even lower retention rates, on average, among their students who attend exclusively online. Among companies that provided data detailing online enrollment, 64 percent of students attending online programs left without a degree compared to 46 percent of students attending campus-based programs offered by the same companies.<sup>269</sup> According to the CEO of ITT, the typical for-profit college student “does not necessarily do well in an unstructured, self-motivated environment like online learning.”<sup>270</sup> That reality, combined with the fact that for-profit colleges, as discussed below, typically invest less in academic instruction or student services, provides some explanation for the low retention amongst online students.

Online learning is already playing an important role in higher education, and this role is likely to increase in future years. In contrast to non-profit and public providers who appear to be producing much higher levels of student success for comparable students, more needs to be done to ensure that for-profit colleges are meeting the needs of the online student population.<sup>271</sup>

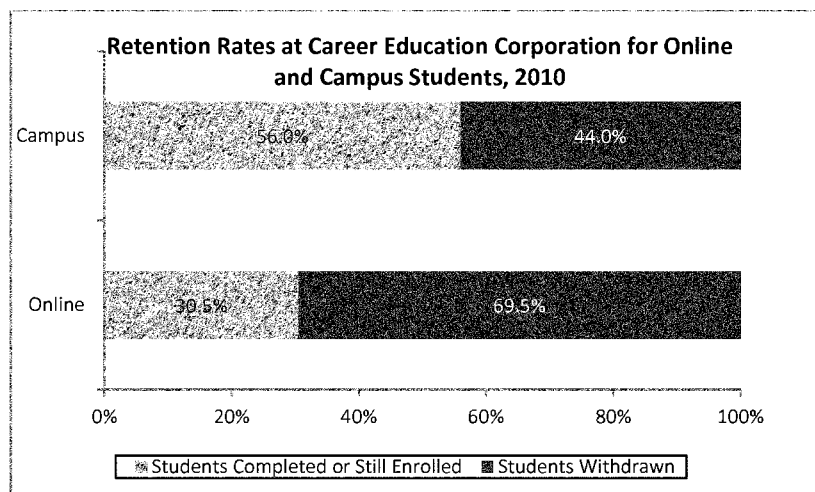
<b>Comparison of Withdrawal Rates for Students Attending School Online and On Campus</b>				
<b>Degree Level</b>	<b>ONLINE</b>		<b>ON CAMPUS</b>	
	<b>Percent Withdrawn</b>	<b>Students Withdrawn</b>	<b>Percent Withdrawn</b>	<b>Students Withdrawn</b>
Associate	68	172,256	51	28,013
Bachelor's	57	94,214	55	55,041
Certificate	59	698	34	26,600
All Students	64	277,046	46	100,110

Online outcomes are particularly troubling at some of the larger publicly traded companies. Career Education Corporation's online Associate program had a withdrawal rate of 69.5 percent, compared to a rate of 44 percent for its on-campus students.

<sup>269</sup> Apollo, Bridgepoint, Career Education Corporation, DeVry, ECPI, Grand Canyon, Herzing, Kaplan, Keiser, Vatterott, and Westwood.

<sup>270</sup> Statement of ITT CEO Kevin Modany at the Robert W. Baird Growth Stock Conference.

<sup>271</sup> For example, Western Governors University, a non-profit online college has a first-time full-time retention rate of 76 percent and spent \$2,172 per student on instruction in 2009–10. IPEDS, First-Time Full-Time Retention, and Instructional Expenses.



At Kaplan, which has since instituted a new orientation program that is expected to have an impact on this rate, 69.5 percent of online Bachelor's students withdrew within a year, compared to 44 percent of its on-campus students.

#### Publicly Traded Company Student Retention

Retention rates are also lower among the large publicly traded for-profit education companies, which enroll approximately two-thirds of all for-profit college students.<sup>272</sup> Together, the publicly traded companies had withdrawal rates 9 percent higher than privately held companies.<sup>273</sup> The five largest companies by enrollment, all of them publicly traded, had an average withdrawal rate of 57 percent and account for 62 percent of all students in the dataset who withdrew.<sup>274</sup>

Comparison of Withdrawal Rates for Students Attending Publicly Traded and Privately Held For-Profit Education Companies for Students Enrolling in 2008-9		
Company Type	Percent Withdrawn	Students Withdrawn
Five Largest For-Profit Education Companies, by Enrollment	57	369,656
Publicly Traded For-Profit Education Companies	55	549,773
Privately Held For-Profit Education Companies	46	46,832

<sup>272</sup> 1.4 million out of 2 million total for-profit college students attend a college owned by a publicly traded company. IPEDS, Fall Enrollment, Fall 2009 for unit identification numbers controlled by for-profit education companies.

<sup>273</sup> Senate HELP Committee staff analysis of data provided by for-profit education companies. See Appendix 15.

<sup>274</sup> Apollo, Career Education Corporation, Corinthian, Education Management Corporation, and Kaplan.

### Heavy “Churn”

Because so many students leave school after a short period of time, for-profit colleges must enroll an enormous number of new students each year to meet Wall Street investor expectations of enrollment growth. This practice is known in the industry as “churn.” For example, Corinthian Colleges, Inc., began 2010 with 86,066 students and ended with 110,550, a growth of 24,484 students.<sup>275</sup> But, in the same period, 113,317 students left the company (some by graduating or completing programs), requiring Corinthian to enroll 137,831 new students to achieve that growth.<sup>276</sup> In other words, to achieve net enrollment growth, Corinthian has to enroll the equivalent of its entire student body each year. The same trend is visible in the enrollment-withdrawal cycle at other colleges. In 2010, Apollo Group enrolled 371,700 new students to achieve a growth of 27,800 students. ITT enrolled 89,123 new students in order to grow its total student population by 3,920.<sup>277</sup>

### Community College Comparison

Making an accurate assessment of community college withdrawal rates is equally challenging because of the same data limitations. Many students who enroll in community colleges similarly do not show up in data collected and reported by the Department of Education because they attend on a part-time basis and a significant number who enroll, like those at for-profit schools, are not attending college for the first-time.<sup>278</sup>

Because the committee’s withdrawal data were the result of a for-profit college-specific document request, it is not possible to do an accurate comparison to other sectors of higher education. However, a more limited dataset from the Beginning Postsecondary Students (BPS) Longitudinal Study indicates that withdrawal rates at community colleges are similarly high.<sup>279</sup> A recent Harvard analysis of students entering in 2004 indicates 22 percent of community college students seeking an Associate degree completed the degree while 28 percent of for-profit students did so. Among bachelor degree-seeking

<sup>275</sup> Corinthian Colleges, Inc., Form 10-Q for period ending 03/31/2012; Corinthian Colleges, Inc., Form 10-Q for the Period Ending 12/31/2011; Corinthian Colleges, Inc., Form 10-Q for period ending 09/31/2012. Corinthian SEC quarterly filings. Churn can most easily be tracked for public companies that report their quarterly enrollment numbers in SEC filings.

<sup>276</sup> Id.

<sup>277</sup> Apollo Group, Inc., Form 10-K for period ending 10/21/2010; ITT Educational Services, Inc., Form 10-K for period ending 02/18/2011.

<sup>278</sup> In April 2012, the Department of Education announced plans to expand the persistence and completion reporting requirements to include part-time and transfer students. U.S. Department of Education, “Education Department Releases Action Plan to Improve Measures of Postsecondary Success,” Press Release, April 11, 2012, <http://www.ed.gov/news/press-releases/education-department-releases-action-plan-improve-measures-postsecondary-success> (accessed May 19, 2012).

<sup>279</sup> David J. Deming, Claudia Goldin, and Lawrence F. Katz, “The For-Profit Postsecondary School Sector: Nimble Critters or Agile Predators?,” *Journal of Economic Perspectives*, vol. 26(1), Winter 2012, pp. 139-164, [http://www.frbatlanta.org/documents/news/conferences/11employment\\_education\\_demming.pdf](http://www.frbatlanta.org/documents/news/conferences/11employment_education_demming.pdf) (accessed Apr. 27, 2012).

students, however, 66 percent of students attending 4-year public schools attained their degree, but only 26 percent of for-profit students did so.<sup>280</sup> While the BPS dataset is based on a statistical sample of students, rather than all students, it does track students who are not first-time students and represents the best available comparative dataset.<sup>281</sup>

However, because the BPS study looks at a cohort of students who entered school in 2004, the study does not capture the growth, and the corresponding completion problem, with students enrolling in for-profit Associate degree programs between 2004 and 2010. For example, in 2004, the University of Phoenix enrolled 4,000 Associate degree students, which represented 2 percent of the company's total enrollment. But, by 2008, the company enrolled 146,500 Associate degree students who made up 41 percent of the student body.<sup>282</sup> The committee staff analysis shows that 66.4 percent of students enrolling in the University of Phoenix Associate degree programs in 2008–9 withdrew, and did so within a median of 4 months.

This growth has been challenging for policymakers to track effectively because most data does not separately track Associate degree students who attend colleges that also offer Bachelor's degrees.<sup>283</sup> Yet, virtually across the board, colleges analyzed by the committee staff had significantly worse withdrawal rates for 2-year Associate programs than for 4-year, certificate or diploma programs. In the case of the Apollo Group, the withdrawal rate is 15 percent higher for students enrolled in 2-year programs compared to 4-year degree programs, and the company itself estimated that the 2006 cohort of Associate degree students is likely to have a lifetime student loan default rate in excess of 70 percent.<sup>284</sup>

While community colleges and 2-year for-profit programs have similarly low retention rates, the cost of the for-profit programs makes those programs more risky for students and Federal taxpayers. For-profit colleges are much more expensive than community colleges, forcing more for-profit students to borrow, and to borrow higher amounts.<sup>285</sup> While 96 percent of those attending a for-profit college borrow to attend, just 13 percent of community college students do so.<sup>286</sup> Thus, the expense and risk incurred from an attempt at college that did not end in a degree is greater at for-profit colleges, while most community college students have little or no debt if they leave school without a

<sup>280</sup> Id.

<sup>281</sup> Apollo Group, Inc. 10-K for period ending 8/31/2008.

<sup>282</sup> Id.

<sup>283</sup> Although the Department of Education collects this information through IPEDS and the reported annual graduation data separately breaks out Associate degree students who attend colleges that also offer Bachelor's degrees, it is not easily accessible.

<sup>284</sup> Apollo Internal Email, May 2010, re: *RE: Default Information* (AGI0049553).

<sup>285</sup> The average student debt among companies that received a document request is \$10,915. Senate HELP Committee staff analysis.

<sup>286</sup> College Board Advocacy & Policy Center, *Trends in College Pricing 2011*, College Board, pg. 13 (2011), [http://trends.collegeboard.org/downloads/College\\_Pricing\\_2011.pdf](http://trends.collegeboard.org/downloads/College_Pricing_2011.pdf) (accessed May 3, 2012).



degree. However, community colleges clearly struggle to provide non-traditional students with the support they need to complete programs and appear to have slightly worse to comparable student outcomes than for-profit colleges.

#### Companies That Charge More do not Show Higher Student Retention

Among for-profit colleges, those that charge more do not retain a higher percentage of students. In fact, as the table below indicates, some schools that charge extremely high tuition have some of the highest withdrawal rates.

<b>Withdrawal Rates of For-Profit Education Companies with the Highest Associate Degree Tuition for Students Enrolling in 2008-9</b>		
<b>Company</b>	<b>Associate Degree Tuition</b>	<b>Percent of Students Withdrawn</b>
Alta Colleges, Inc.	\$48,194	57.6
Education Management Corporation	\$47,410	63.7
ITT Educational Services, Inc.	\$44,895	53.1
Corinthian Colleges, Inc.	\$41,149	66.5
Rasmussen Colleges, Inc.	\$39,432	63.0

For instance, EDMC's Art Institute Pittsburgh campus charges tuition of \$94,765, despite the fact that EDMC has a 61.9 percent withdrawal rate across all Bachelor's degree programs. Career Education Corporation's American InterContinental University and Rasmussen charged \$30,659 and \$39,432 for Associate degrees, while, respectively, 62 percent and 63 percent of their students left school without a degree. In contrast, the tuition and withdrawal rates were sharply lower at the for-profit college American Public Education, Inc. (APEI).<sup>287</sup> APEI charged \$30,350 for a Bachelor's degree, and 46.4 percent of the company's students withdrew without a degree within a year.

The mismatch between student retention and tuition charges points to a larger lack of accountability in the for-profit higher education sector.

#### The Costs of Withdrawal

The high withdrawal rates raise a fundamental question about the value of for-profit colleges for low-income students. Students who leave school without earning a Bachelor's are 10 times more likely to default on their loans according to a National Center for Higher Education Policy report.<sup>288</sup> These

<sup>287</sup> American Public Education, Inc. ("APEI") is a publicly traded for-profit higher education company that enrolled 77,000 students as of fall 2010 and is based in Charlestown, WV.

<sup>288</sup> Lawrence Gladieux and Laura Perna, *Borrowers Who Drop Out: A Neglected Aspect of the College Student Loan Trend*, National Center for Public Policy and Higher Education, May 2005, <http://www.highereducation.org/reports/borrowing/borrowers.pdf> (accessed July 5, 2012).

institutions ask students with the most modest financial resources to take a big risk by enrolling in their high-tuition colleges. If students succeed at this gamble, they may increase their income. However, if they drop out, as a majority does at some institutions, they are left with significant debt, and a high chance of default. In the words of one Kaplan executive:

The value proposition does not exist for a dropped student. The value they gave (indebtedness . . . ) is greater than the value received (an incomplete education). So they default.<sup>289</sup>

### **Why Do Many Students Fail to Complete For-Profit Programs?**

#### **Spending Choices of For-Profit Education Companies**

In the absence of regulation that requires for-profit colleges to focus on high retention or other measures of student success, some for-profit companies dedicate up to 30 percent of revenues to marketing and recruiting efforts that ensure a stream of new “starts,” while minimizing spending on education and academic support services. Some companies also retain a large percentage of revenue as pre-tax profit, pay their executives far more than other colleges, and divert significant sums to non-educational activities such as lobbying.

#### **Marketing, Recruiting, and Profit**

Some for-profit colleges, including many with the highest profit margins, spend more per student on marketing, recruiting, and profit than on instruction. Publicly traded for-profit education companies spent, on average, \$248 million on marketing and recruiting in 2009.<sup>290</sup> Marketing and recruiting includes all spending on advertising, other marketing spending, lead generation, and the recruiting sales staff.<sup>291</sup> That spending equates to 23 percent of total revenue.<sup>292</sup> Some companies dedicate a higher percentage: Grand Canyon and

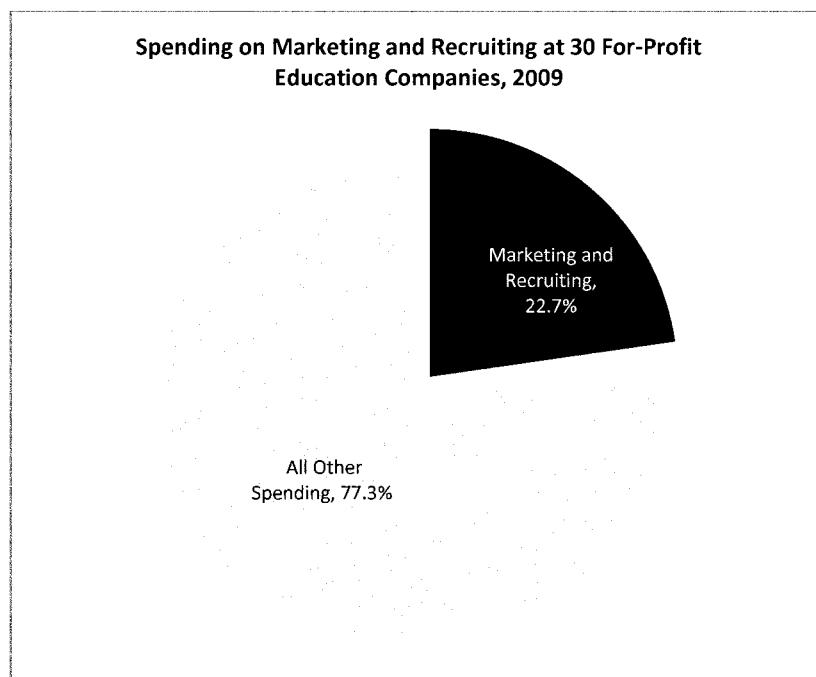
<sup>289</sup> Kaplan Internal Email, November 2008, re: *RE: KU CDR Original Loan Amount and Default Rate* (KHE 197327).

<sup>290</sup> See Appendix 22.

<sup>291</sup> Companies report spending on marketing and recruiting in different ways. In order to develop the most comprehensive estimate of spending on marketing and advertising as well as enrollment and recruiting for fiscal year 2009, committee staff used a combination of the annual 10-K statements of publicly traded companies, audited financial statements and information produced pursuant to item number 1 of the second tranche in the committee document request of August 5, 2010 (see Appendix 4). Form 10-K annual statements and financial statements were used wherever both marketing and recruiting expenses were broken out or where the two categories were combined (“marketing, promotion and selling”). See Appendix 22.

<sup>292</sup> See Appendix 19.

Bridgepoint Education, two companies with common roots, spent 32.6 and 32.1 percent respectively on marketing and recruiting. Alta Colleges, Inc., a privately held company that operates Westwood Colleges, devoted 29.1 percent of its revenues to marketing and recruiting. Together, the 30 education companies examined by the committee spent \$4.2 billion on marketing in 2009, or 22.7 percent of all revenue.<sup>293</sup> This translates to approximately \$2,622 per student spent on marketing.<sup>294</sup>



For-profit colleges have asserted that marketing and advertising are critical to reach the non-traditional students that have the potential to benefit the most from obtaining some level of higher education. But attracting non-traditional students through marketing and advertising does not mean that a college must employ aggressive recruiting tactics. For instance, the public online University of Maryland University College has managed to implement an advertising and marketing program directed at reaching these same students. UMUC spent \$27.3 million on marketing and advertising in fiscal year 2010 or \$1,325 per full-time equivalent student.<sup>295</sup> However, UMUC does not appear to

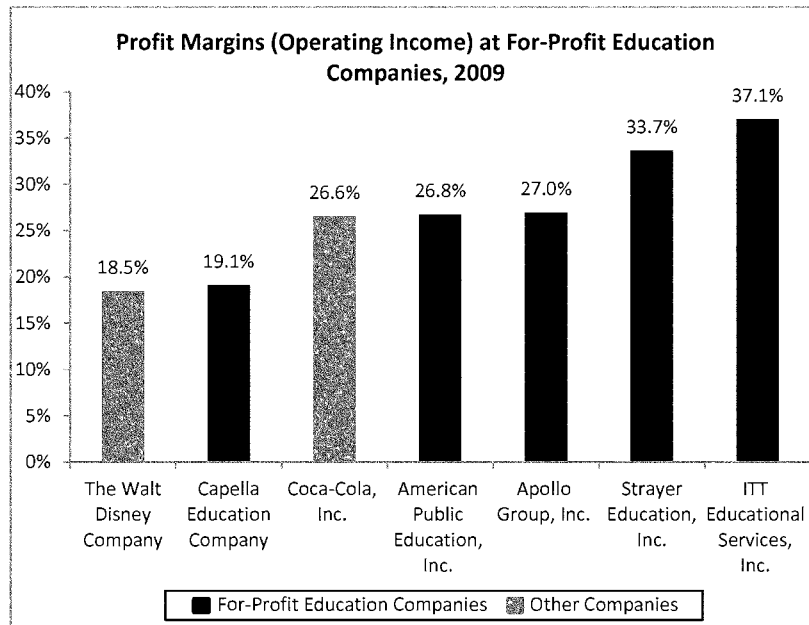
<sup>293</sup> Id.

<sup>294</sup> Student enrollment (denominator) is the "Full Time Equivalent" enrollment reported to the Department of Education. Henley Putnam is not included in this calculation because the company did not participate in title IV student aid programs and therefore is not required to report these data to the Department.

<sup>295</sup> Senate HELP Committee analysis of data provided by University of Maryland.

use the tactics of repeated phone calls and emails, sales pitches based on overcoming objections or the deceptive and misleading tactics documented above regarding cost, graduation and job placement.

For-profit education companies are successful as businesses; throughout the 2000s many of the companies had profit margins that topped most of Wall Street.<sup>296</sup> In 2009, publicly traded for-profit colleges had an average profit margin of 19.7 percent and generated a total of \$3.2 billion in profit.<sup>297</sup> (Altogether, the 30 companies examined by the committee generated \$3.6 billion in profit, or 19.4 percent of revenue, that year. This amount translates to \$2,277 per student spent on profit.) In comparison, the highly successful Walt Disney Company reported a profit margin of 18.5 percent in 2009.<sup>298</sup> Similarly, Coca-Cola reported a 26.6 percent profit in 2009.<sup>299</sup>



Of the 30 companies surveyed 24 posted double digit profit margins. Three companies, ITT, Strayer, and TUI posted profit margins above 30

<sup>296</sup> More recently, some for-profit education companies have seen their profit margins dip.

<sup>297</sup> Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 3.

<sup>298</sup> Walt Disney Company, Form 10-K for period ending 10/02/2010, available at <http://thewaltdisneycompany.com/investors/financial-information/sec-filings> (accessed May 24, 2012).

<sup>299</sup> The Coca-Cola Company, Form 10-K for period ending 02/26/2010, available at <http://ir.thecoca-colacompany.com/phoenix.zhtml?c=94566&p=irol-sec> (accessed May 24, 2012).

percent.<sup>300</sup> Apollo, the largest education company, posted a profit of \$1.1 billion in 2009.<sup>301</sup> That company collected \$3.1 billion in Federal student aid, in addition to \$46 million in military education benefits.<sup>302</sup> Proportionally, 86.8 percent of the company's revenue, and \$925 million of their profit, is attributed to Federal taxpayer sources.

The profit of many education companies is evidently disconnected from the value for students: revenues (from Federal financial aid dollars) continue to grow even though the most students leave without completing a degree, and many are not able to make payments on their student loan debt. Given that taxpayers are the source of most of those increasing revenues, they have the right to demand educational programs that work for more students.

#### Executive Compensation

At some for-profit education companies, a substantial amount of tuition dollars that could be spent on instruction are instead channeled to executives of for-profit education companies as salaries and bonuses. In addition, executives are awarded stock options that add up to sometimes enormous sums, even though students at the colleges they oversee are not achieving sought-after outcomes. The CEOs of the large publicly traded for-profit education companies, took home, on average, \$7.3 million each in fiscal year 2009.<sup>303</sup> That year saw some of the largest pay packages in the history of the sector: Andrew Clark, CEO of Bridgepoint Education, Inc., collected \$1.1 million in salary and bonus and \$19.4 million in stock options, and Robert Silberman, the CEO of Strayer, received \$40 million in stock options, in addition to \$1.5 million in salary and bonus.<sup>304</sup>

<sup>300</sup> TUI Learning LLC ("TUI") is a for-profit higher education company that enrolled 7,307 students as of fall 2010 and is based in Arlington, VA.

<sup>301</sup> Apollo Group, Inc., Form 10-K for period ending 8/31/2009.

<sup>302</sup> U.S. Department of Education, Federal Student Aid Data Center, title IV Program Volume Report for Apollo, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.

<sup>303</sup> Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

<sup>304</sup> Silberman's \$40 million in options vests over 10 years. Much of Clark's 2009 compensation was made up of stock options connected to Bridgepoint's IPO. Bridgepoint Education, Inc. Form DEF 14A for Period Ending 05/12/2012.

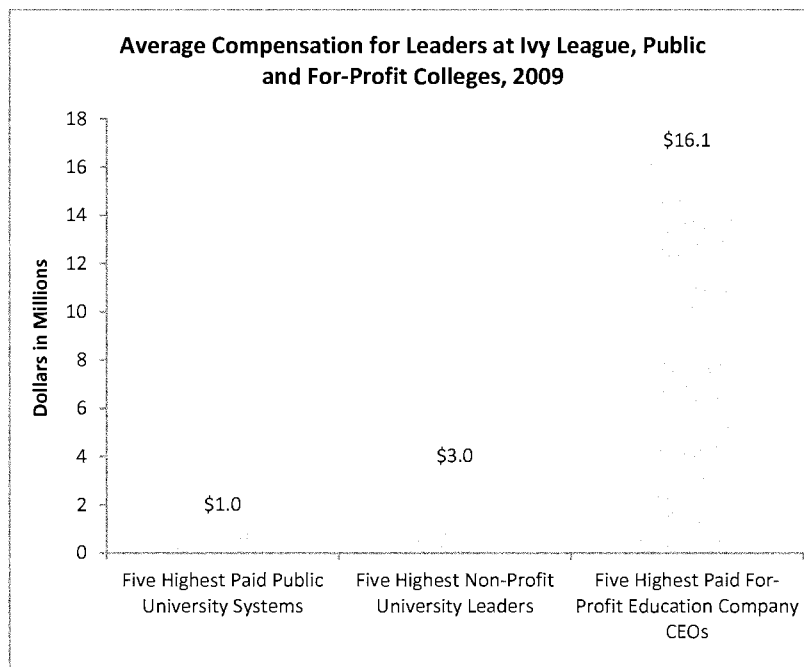
Five Highest Paid Executives at Publicly Traded For-Profit Education Companies, 2009				
Executive	Base Salary	Bonus and Stocks	Other Compensation	Total
Robert Silberman Strayer Education, Inc.	\$665,000	\$40,815,000	\$9,800	\$41,489,800
Andrew Clark Bridgepoint Education, Inc.	\$372,917	\$20,133,261	\$26,126	\$20,532,304
Karl McDonnell Strayer Education, Inc.	\$330,000	\$10,500,000	\$9,800	\$10,839,800
John Sperling Apollo Group, Inc.	\$850,000	\$7,403,089	\$229,265	\$8,617,597
Kevin Modany ITT Educational Services, Inc.	\$712,500	\$6,855,000	\$61,670	\$7,629,172

In comparison, the highest paid leader at each of the eight Ivy Leagues received an average of \$1.1 million in compensation, or nearly seven times less than for-profit CEOs.<sup>305</sup> Harvard President Drew Gilpin Faust, for example, received compensation that totaled \$822,000 in 2009.<sup>306</sup> The five highest paid leaders of large public universities averaged compensation of \$1 million while the five highest paid leaders at non-profit colleges and universities averaged \$3 million with most others earning far less.<sup>307</sup>

<sup>305</sup> Sandy Baum (Policy Analyst at the College Board and Senior Fellow at George Washington University School of Education) Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Drowning in Debt: Financial Outcomes of Students at For-Profit Colleges* 112th Congress (2011).

<sup>306</sup> The Chronicle of Higher Education, Salaries of Private-College Presidents, 2009, <http://chronicle.com/article/Sortable-Table-Salaries-of/129982/> (accessed May 24, 2012).

<sup>307</sup> Id. Football coaches at some non-profit and public schools are paid more than the college President. The top five salaries for coaches in 2011 are: University of Texas \$5.1 million, University of Alabama \$4.8 million; University of Oklahoma \$4 million; Louisiana State University \$3.8 million; University of Iowa \$3.7 million. See, Christopher Schnaars, Jodi Upton and Kristin DeRamus, USA TODAY College Football Coach Salary Database, *USA TODAY*, <http://www.usatoday.com/sports/college/football/story/2011-11-17/cover-college-football-coaches-salaries-rise/51242232/1> (accessed May 20, 2012). Sandy Baum, Policy Analyst at the College Board and Senior Fellow at George Washington University School of Education, noted the mismatch in her testimony before the committee: "Average compensation for the five highest-paid public university chief executives in 2009–10 was \$860,000. The five highest-paid Ivy League presidents received an average of \$1.3 million in 2008–9. The top five leaders of publicly traded for-profit postsecondary institutions received an average of \$10.5 million in 2009." Sandy Baum (Policy Analyst at the College Board and Senior Fellow at George Washington University School of Education) Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Drowning in Debt: Financial Outcomes of Students at For-Profit Colleges* 112th Congress (2011).



Perhaps most troubling is that the pay of executives at for-profit schools is based primarily on enrollment and profit goals, not student success. For example, at Corinthian, “75 percent of the annual bonus opportunity for executives [is] based on operating profit performance.”<sup>308</sup> Corinthian Colleges, Inc., has some of the highest student loan default rates and lowest retention rates among large for-profit college operators, yet it paid its CEO Peter Waller \$4.5 million in 2009.<sup>309</sup> UTI, a publicly traded school focused on automotive technology, bases its bonus structure on the company’s earnings.<sup>310</sup> Thus, they are paid large salaries and bonuses regardless of whether student outcomes improve or decline.<sup>311</sup>

For-profit colleges also divert significant sums that could otherwise be spent on education, to lobbying. In 2010, the industry spent more than \$8.1 million on lobbying members of Congress.<sup>312</sup> That amount is two and a half

<sup>308</sup> Corinthian Colleges, Inc., Form DEF 14A for Period Ending 11/15/11.

<sup>309</sup> Id.

<sup>310</sup> Universal Technical Institute, Inc., Form DEF 14A for Period Ending 2/22/12. Universal Technical Institute, Inc. (“UTI”) is a publicly traded for-profit higher education company that enrolled 21,000 students as of 2010 and is based in Scottsdale, AZ.

<sup>311</sup> UTI had some of the better outcomes of programs analyzed by the committee with 32 percent of Associate students and 36 percent of certificate students withdrawing in the period analyzed. See Appendix 15.

<sup>312</sup> A consistent criticism of the investigation has been that the for-profit college sector was not given sufficient opportunity to be heard in the hearings. The committee invited for-profit education executives to provide testimony in three of the six hearings. The hearings were conducted according to committee rules and while the

times greater than the amount the sector spent on lobbying in 2009. The companies and trade association spent another \$8 million in the first 9 months of 2011.<sup>313</sup> These funds paid for 158 lobbyists from 37 firms and for-profit education companies.<sup>314</sup> Some companies have significantly increased their lobbying spending. Capella Education Co., based in Minneapolis, for example, spent \$100,000 on lobbying in the first 9 months of 2010, five times more than in the same period in 2009.<sup>315</sup> Moreover, since the definition of a “registered lobbyist” is fairly narrow and does not include State lobbying activity, media campaigns, or funds paid to public relations firms specializing in astroturfing (creating the appearance of grassroots movements), the true amount that the industry spends on influencing lawmakers may be significantly higher.<sup>316</sup>

<b>Top For-Profit Colleges Registered Lobbying Expenditures January 2010 to October 2011<sup>317</sup></b>	
<b>Company</b>	<b>Lobbying Expenditures [in millions of dollars]</b>
Washington Post Company	\$1.7
Coalition for Educational Success	\$1.7
Career Education Corporation	\$1.6
Association of Private Sector Colleges and Universities	\$1.5
Apollo Group	\$1.4
Corinthian Colleges	\$1.4
Education Management Corporation	\$1.4
Bridgepoint Education	\$1.2
Total	\$11.9

### Instructional Spending

After spending on marketing, recruiting, profit and other non-education expenses is subtracted, the amount left for educating and supporting students

committee minority chose to not call witnesses at some hearings, they were always afforded the opportunity to do so. An additional hearing was planned for the spring of 2011, but was not held after leaders of two major for-profit education companies that receive over a billion in taxpayer dollars each year indicated that they would not appear. While the Chairman considered compelling the executives to appear, ultimately the facts documented in the investigation speak for themselves.

<sup>313</sup> Eric Lichtblau, “With Lobbying Blitz, For-Profit Colleges Diluted New Rules,” *New York Times*, December 9, 2011, <http://www.nytimes.com/2011/12/10/us/politics/for-profit-college-rules-scaled-back-after-lobbying.html?pagewanted=all> (accessed May 3, 2012).

<sup>314</sup> Paul Blumenthal, “Regulations Lead To Lobbying Surge By The For-Profit College Industry,” *Sunlight Foundation Blog*, March 10, 2011, <http://sunlightfoundation.com/blog/2011/03/10/regulations-lead-to-lobbying-surge-by-the-for-profit-college-industry/> (accessed May 3, 2012).

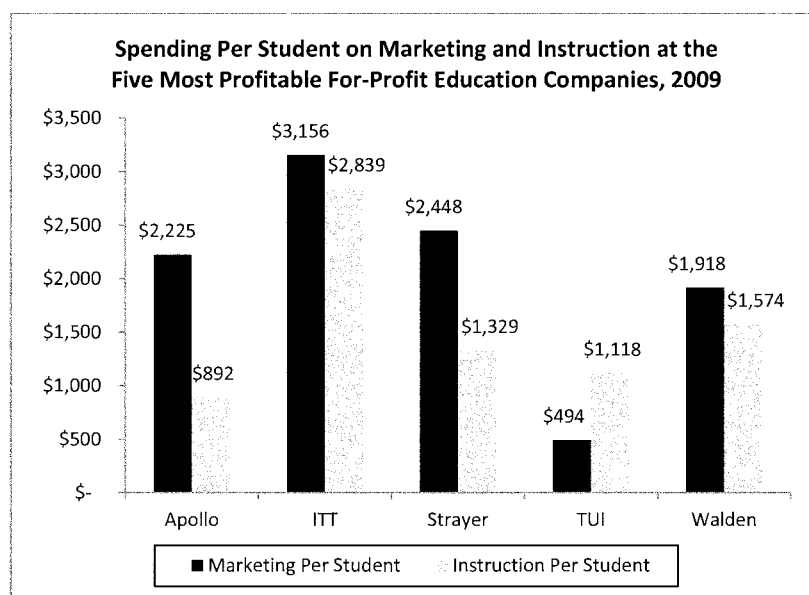
<sup>315</sup> Drinker Biddle & Reath, LLP, Lobbying Report for Capella University for First Quarter 2010; Drinker Biddle & Reath, LLP, Lobbying Report for Capella University for Second Quarter 2010; Drinker Biddle & Reath, LLP, Lobbying Report for Capella University for Third Quarter 2010.

<sup>316</sup> The for-profit college sector engaged outside entities like the DCI Group and LawMedia Group to assist in their public relations campaign.

<sup>317</sup> Eric Lichtblau, “With Lobbying Blitz, For-Profit Colleges Diluted New Rules,” *New York Times*, December 9, 2011, <http://www.nytimes.com/2011/12/10/us/politics/for-profit-college-rules-scaled-back-after-lobbying.html?pagewanted=all> (accessed May 3, 2012).



appears relatively meager at many for-profit colleges. The amount that publicly traded for-profit companies spend on instruction ranges from \$892 to \$3,969 per student per year. Among all companies that received a document request, companies spent an average of \$2,050 on instruction per student in 2009.<sup>318</sup> The chart below details the annual per student spending on instruction and marketing and recruiting for each of the five for-profit institutions with the highest profit margins.<sup>319</sup>



In contrast, public and non-profit schools, which by definition do not retain any revenue as profit and do not pay taxes, generally spend a higher amount per student on instruction, and spend a far lower amount on marketing and recruiting. For example, Northern Virginia Community College spends about \$4,068 per student per year on instruction.<sup>320</sup> It devotes two-fifths of 1 percent of its budget to marketing, or about \$22 per student per year.<sup>321</sup> Portland Community College in Oregon spends \$5,953 per student on instruction, and about 1.2 percent of its budget, or \$185 per student, on marketing.<sup>322</sup>

<sup>318</sup> See Appendix 21. Senate HELP Committee staff analysis of documents produced by companies for marketing, and IPEDs data for instruction spending. 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 (students) used is the U.S. Department of Education’s “Full Time Equivalent” enrollment for 2009.

<sup>319</sup> Appendix 21 and Appendix 22.

<sup>320</sup> IPEDS 2009 reported data for Northern Virginia Community College.

<sup>321</sup> Senate HELP Committee staff analysis of fiscal year 2010 data provided by college.

<sup>322</sup> Senate HELP Committee staff analysis of data provided by college and IPEDS.

Some for-profit executives also assert that when comparing institutions' spending on marketing, money spent by public and non-profit schools on marketing and recruiting for sports programs including football and basketball should be included. However, these programs are generally not funded with student financial aid dollars, and are in many cases self-financed with receipts from ticket sales and media rights.<sup>323</sup> Even the University of Tennessee and the University of Texas at Austin, institutions with the highest spending on sports marketing and recruiting at \$8.7 million and \$7.8 million respectively, pay these expenses from the revenues generated by the sports programs, and still spend a fraction of the amount spent by many for-profit colleges.<sup>324</sup>

#### Student Success is Divorced From Company Success

The analysis above demonstrates that the problem of student withdrawals is much more acute among publicly traded for-profit education companies.<sup>325</sup> Looking at only the five publicly traded for-profit companies that were among the worst performers for both Associate degree and Bachelor's degree students, we also see companies with some of the highest profit margins in the country:

<b>Profit Margins of For-Profit Education Companies with the Highest Associate Degree Withdrawal Rates</b>		
<b>Company</b>	<b>Percent of Students Withdrawn</b>	<b>Company Profit Margin (Year) [in percent]</b>
Bridgepoint Education, Inc.	84	30 (2010)
Lincoln Educational Services Company	70	19 (2010)
Kaplan Higher Education, Inc. <sup>326</sup>	69	13 (2009)
Corinthian Colleges, Inc.	66	14 (2010)
Apollo Group, Inc.	66	21 (2010)

Student withdrawal rates call into serious question the annual Federal investment of \$32 billion in Federal financial aid to these companies. Further, the contrast between the low levels of academic success among students and the high levels of business success among some companies highlights the fact that the current regulatory environment is fundamentally insufficient to ensure that

<sup>323</sup> See ESPN, "The money that moves college sports," Database, <http://b2.caspio.com/dp.asp?AppKey=900c1000ea466e223e104a22814a> (accessed May 20, 2012).

<sup>324</sup> Id.

<sup>325</sup> Because the committee had not fully developed its research on for-profit education companies owned by private equity firms at the time the document request was issued, further analysis of the outcomes and spending in private equity-owned colleges is warranted.

<sup>326</sup> 2010 data not available for Kaplan because the company is part of the Washington Post Company and does not separately break out profit information for the Kaplan division in its Securities and Exchange Commission filings.

for-profit colleges are focused on an educational mission. Publicly traded companies are duty-bound to demonstrate growth and profitability with no countervailing requirement that they demonstrate high rates of student success. The consequence is a situation in which education companies disproportionately invest in marketing and recruiting while keeping educational spending low and tuition prices high. The 15 publicly traded companies, which saw more than half of their students, 549,773 people, who enrolled in 2008-9 leave without completing degrees, spent a total of \$1.9 billion on marketing (at least 85.6 percent of which came from Federal taxpayer dollars), and gave \$189 million to their top executives.<sup>327</sup> It is unclear that it is either prudent or sustainable to continue providing a large guaranteed stream of Federal taxpayer dollars to companies who use those dollars for marketing and profit in the absence of requirements that they also demonstrate high levels of student success.

### Academic Quality

A school that dedicates relatively little of its revenues to teaching students, on its face, raises serious questions about its academic quality and value. Students and employers should be able to expect and trust that institutions of higher education, especially career-focused education, have the integrity and rigor to teach skills that are valued in the workplace. Undercover observation and student complaints reveal that many for-profit schools have curricula that do not challenge students, academic integrity policies that are sparsely enforced, and teaching practices that in some cases do not lead to successful student learning and outcomes.

In 2011, undercover employees from the GAO enrolled in 12 different online colleges using fictitious identities and academic credentials.<sup>328</sup> A review of screenshots and other documents from the employees' undercover work presents a window into the for-profit online college experience.

The course structure, across the schools, consists of self-directed reading from books and Web sites, online discussion-threads, online tests, individual written assignments or power-points, and a few courses that included group assignments.<sup>329</sup> The discussions look like what one might expect from an

<sup>327</sup> Senate HELP Committee staff analysis of publicly available executive compensation information and data.

<sup>328</sup> 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> [hereinafter GAO II].

<sup>329</sup> See, for example, GAO Investigation Documentation, January 2011, History of Electronic Messages Between GAO Investigator and Online Intro to Computer Instructor (GAOHQ-4750764); GAO Investigation Documentation, May 2011, Week Two Class Discussion, Instructions and Student Comments (DALLAS-334889); GAO Investigation Documentation, December 2011, ITT Technical Institute Discussion Forum Summary Page

online blog or social networking site, and discussion posts were often worth between 10 percent and 40 percent of the overall course grade.<sup>330</sup> One Introductory Computing quiz included questions such as: “When entering text within a document, you normally press Enter at the end of every \_\_\_\_\_,” with possible answers including: page, sentence, line, and paragraph.<sup>331</sup> Interaction with the teacher was primarily through text-based chat rooms, discussion posts, and direct emails.<sup>332</sup> Few of the courses featured video or audio lecture components.

Moreover, GAO employees were charged thousands of dollars to enroll in 3- to 6-week basic courses such as “Keyboarding” and “Learning Strategies and Techniques.”<sup>333</sup> Schools also enrolled the GAO’s employees in: Introduction to the Criminal Justice Program, Introduction to Paralegal Studies, Introductory Computing, Introductory Math, Critical Thinking, and Introduction to the Medical Billing Program (I and II).<sup>334</sup>

The GAO’s employees used various tactics to examine academic standards including: submitting obviously plagiarized work; submitting non-responsive or objectively incorrect work; and failing to submit assignments.<sup>335</sup> While several of the for-profit colleges tested responded appropriately to the subpar student performance, the GAO employees’ experiences reflect, in many cases, a lack of academic integrity and rigor on the part of for-profit schools.<sup>336</sup>

GAO employees enrolled in five different courses at Rasmussen University and Corinthian-owned Everest University.<sup>337</sup> These employees

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(HQ-4643279). See, for example, GAO Investigation Documentation, *Title: TB 141 Week 2 Quiz* (HQ-4628843); GAO Investigation Documentation, February 2011, *Record of Analysis: Rasmussen --IB-- Week 7 Quiz* (HQ-4687765).

See, for example, GAO Investigation Documentation, *The Gross Domestic Product* (HQ-4600689); GAO Investigation Documentation, *A SWOT Analysis for Online Learning* (HQ-4631902).

<sup>330</sup> See, for example, GAO Investigation Documentation, January 2011, History of Electronic Messages Between GAO Investigator and Online Intro to Computer Instructor (GAOHQ-4750764); GAO Investigation Documentation, May 2011, Week Two Class Discussion, Instructions and Student Comments (DALLAS-334889); GAO Investigation Documentation, December 2011, ITT Technical Institute Discussion Forum Summary Page (HQ-4643279); GAO Investigation Documentation, *Title: TB 141 Week 2 Quiz* (HQ-4628843); GAO Investigation Documentation, February 2011, *Record of Analysis: Rasmussen --IB-- Week 7 Quiz* (HQ-4687765); GAO Investigation Documentation, *The Gross Domestic Product* (HQ-4600689); GAO Investigation Documentation, *A SWOT Analysis for Online Learning* (HQ-4631902).

<sup>331</sup> GAO Investigation Documentation, *Title: TB 141 Week 2 Quiz* (HQ-4628843).

<sup>332</sup> GAO II.

<sup>333</sup> GAO II, Table 1: Federal Financial Aid and Out-of-Pocket Costs of Undercover Student Attendance at 15 For-Profit Colleges.

<sup>334</sup> GAO II, Table 2: Selected Case Details from Undercover Testing at 15 For-Profit Colleges.

<sup>335</sup> Id.

<sup>336</sup> GAO produced documentation to HELP Committee staff of their employees’ experiences. This documentation included screenshots and printouts of submitted coursework and communications with the school. Identifying information was first redacted by the GAO to protect the identities of parties involved.

<sup>337</sup> 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. The undercover GAO staff enrolled in the following schools: Community Care College, Bridgepoint-owned Ashford University, Kaplan University, Career Point College, CEC-owned International Academy of Design and Technology, Rasmussen College, Corinthian-owned Everest College, Newport Business Institute, Pinnacle Career Institute, ITT, Fortis College, and Trumbull Business College. The

repeatedly submitted plagiarized work for each of those courses.<sup>338</sup> Four of the five courses granted full or partial credit for multiple plagiarized assignments, and instructors in two of those courses never acknowledged the plagiarism in any way. Although according to the methodology established by the GAO, all students ultimately failed the courses, the failure to discipline the student is contrary to Everest's academic honesty policy provides for discipline ranging from expulsion to reduced credit.<sup>339</sup> Rasmussen's policy requires that no credit be granted for the first dishonest assignment and removal from the course after the second. Neither school followed its own academic honesty policy in response to the plagiarized work.<sup>340</sup>

These failures were not due to the plagiarism being difficult to detect. The plagiarized material was often copied directly from Web sites like Wikipedia or Answer.com, and GAO employees included links to the source Web sites, making it easy to identify plagiarized work.<sup>341</sup>

In some cases, teachers failed to notify the student or the school of plagiarized submissions that were copied verbatim from other students' discussion posts for the same assignment. Several assignments submitted by GAO employees were given full or partial credit even when the teachers noted that the assignment was plagiarized. For instance, in an Introduction to Business course at Rasmussen University, the GAO's employee submitted material copied directly from the Bureau of Labor Statistics' Web site.<sup>342</sup> 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 work than with the fact that the student plagiarized material that was not relevant to the assignment. 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 [sic].<sup>343</sup>

In some cases, teachers did note plagiarism. The most responsible reaction to the plagiarized work came from a teacher of Everest's "Learning

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three schools that did not permit GAO to enroll were University of Phoenix, DeVry, and Anthem. ITT was school number 10 in the GAO report; Rasmussen was school number 6, and Corinthian-owned Everest College was school number 7.

<sup>338</sup> Another agent submitted a single partially plagiarized assignment at a sixth school, Community Care College, and received partial credit for that assignment in accordance with the school's policies. See GAO II at 12.

<sup>339</sup> GAO II at pg. 20 (GAO refers to Everest College as School 7).

<sup>340</sup> GAO II. GAO agents withdrew after one term, thus any later actions the school might have taken to enforce the academic honesty policy would not be recorded in the GAO documentation.

<sup>341</sup> See, for example, GAO II; GAO Investigation Documentation, Submitted Essay Assignment (HQ-4686888).

<sup>342</sup> GAO Investigation Documentation, *The Gross Domestic Product* (HQ-4600695).

<sup>343</sup> GAO Investigation Documentation, January 2011, *Record of Analysis: Rasmussen IB Email 3* (HQ-4610903).

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.<sup>344</sup>

GAO employees not only submitted plagiarized work, but also poor quality assignments. Although according to the methodology established by the GAO, all students ultimately failed the course, those who submitted low quality work frequently received higher credit than they should have according to the schools’ own academic standards. In 6 of the 20 courses examined by committee staff, undercover employees received full or partial credit that exceeded the grade prescribed by the school’s established grading standards. For example, a Career Point College written exam required the student to submit written answers to four questions.<sup>345</sup> The GAO employee instead submitted photographs of political figures and celebrities, but nevertheless got a passing grade of “C-” for the exam.<sup>346</sup> At Newport Business Institute, a student submitted an assignment answering only half of the questions. The teacher acknowledged that the submission was only “worth 50%” of the grade, but granted the assignment a grade of 75 percent.<sup>347</sup>

Further, even where a student “earned” a credit by the school’s own grading standards, the academic experience was far less rigorous than a student or potential employer might expect. For instance, at Career Point, it is extremely difficult for students to fail a course because if a student does fail a test, they are required to re-take the same test.<sup>348</sup> For example, after failing a few assignments, an undercover agent was told by a Career Point teacher:

Those assignments you did not pass, I've opened them up so you can retake them. They are open book so there should not be any failure. All answers are right in the book and there is no time limit.<sup>349</sup>

Teachers also varied widely in terms of how rigorously they graded material. For example, in a “Learning Strategies and Techniques” course at ITT, students were instructed to write one to two pages describing the eight steps to problem solving and applying them to a work, school, or personal problem. The undercover agent submitted a Word document that listed four

<sup>344</sup> GAO Investigation Documentation, May 2011, *Record of Analysis: Everest (Strategies for Success) – Professor Feedback* (DALLAS-335083).

<sup>345</sup> Career Point College is not one of the 30 for-profit higher education companies that received a document request from the committee in the course of its investigation.

<sup>346</sup> GAO II.

<sup>347</sup> Id.

<sup>348</sup> GAO Investigation Documentation, August 2010, Career Point College, Introduction to Computers Syllabus and Course Outline (GAOHQ-4662274).

<sup>349</sup> GAO Investigation Documentation, January 2011, History of Electronic Messages Between GAO Investigator and Online Intro to Computer Instructor (GAOHQ-4750764).

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.”<sup>350</sup>

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 even those communications often reflect remarkably 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. For example, one teacher from Everest University seemed to copy-and-paste the exact same feedback for multiple assignments, including identical grammatical and typographical errors in the teacher’s comments.<sup>351</sup> 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 [sic]. As we learn from each other responses to the course material [sic]. Please let me know if there is any assistance I can provide to assist you in succeeding in the course next discussion.<sup>352</sup>

The GAO employees’ experience is borne out by separate complaints of students and instructors at for-profit schools. Although complaints do not represent the experience of the majority of students, they do provide a useful window into some common student grievances. For instance, an instructor at a UTI-owned campus called NTI wrote,

Every day that I come to work, I hear students tell me that they have encountered employers that point blank tell them that they do not hire NTI students because of consistent poor performance. Meanwhile we at NTI are being told to pass students who should fail because we are ‘training entry level technicians who paid for the certificates like everybody else.’ I am sorry if this offends you, but I was under the impression that our students paid for an education, not just a piece of

<sup>350</sup> GAO Investigation Documentation, February 2011, Problem Solving Writing Assignment Instructions and Response (HQ-4682883).

<sup>351</sup> GAO Investigation Documentation, May 2011, Record of Analysis: Everest—(Computer Applications)—Professor Feedback (DALLAS-335023).

<sup>352</sup> Id.

paper!! I have been told to give students points to pass my courses when they should fail.<sup>353</sup>

Similarly, a Lincoln instructor stated,

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 to teach using the 'Oklahoma Model.' Test questions were outdated. I was told to leave 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!<sup>354</sup>

Students complained about easy classes that they believed did not prepare them for the job market, highly variable instructor quality, difficulty getting questions answered, and old equipment and facilities.

"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," complained one ITT student.<sup>355</sup> 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."<sup>356</sup> One summary of a Kaplan student's complaint stated, "Basically student is upset about quality of instructors; having to teach herself the material; the poor quality of students in the class"<sup>357</sup> A summary of another student's complaint read, "At Kaplan the price is high and the instruction lacking. He is not happy with the quality of the faculty and says that lab experiences have been few and far and between"<sup>358</sup> The complaint ends with, "This is a corporate run school and as such...Money is the main object, not the quality of the education provided."<sup>359</sup>

A Herzing student wrote of one class, "We are currently in our fourth week of class and ... I can honestly say that I have not learned anything in this

<sup>353</sup> UTI Internal Email, August 2008, re: *IW*; (UTI-C-000492). UTI was not one of the institutions investigated by GAO II.

<sup>354</sup> Lincoln, May 2007, Letter of Complaint from Instructor to New Jersey Board of Nursing (LINC0000044). The New Jersey Office of the Attorney General closed the investigation into this complaint without finding violations of law or issuing sanctions. Lincoln was not one of the institutions investigated by GAO II.

<sup>355</sup> ITT Educational Services, August 2006, Completed Student Comment/Complaint Report (ITT-00003876).

<sup>356</sup> ITT Educational Services, July 2010, Letter from Better Business Bureau Regarding a Student Complaint (ITT-00009785).

<sup>357</sup> Kaplan, June 2008, Document Describing Complaint from a Medical Assistant Student (KHE 0038274).

<sup>358</sup> Kaplan, August 2009, Document Describing Complaint from a HVAC Student (KHE 0038727).

<sup>359</sup> *Id.*



class.”<sup>360</sup> She goes on to note that on several occasions when students asked teachers basic questions, the teacher was unable to answer.<sup>361</sup> One UTI student stated,

what I’ve gathered in my first course is that it appears I’ve indebted myself \$15k dollars to show up in uniform and decipher procedures from a service manual, basically teaching myself instead of receiving accurate and consistent direction from an instructor regarding practical, procedural instruction ... the fact that he was left to instruct us without having a demonstrable mastery of all the concepts and procedures covered is something I can’t comprehend or ignore without critique ... I know that many instructors at the school are former technicians or were otherwise involved in shop operations at dealerships or their own private enterprises, but this type of experience alone doesn’t make a good teacher. *Mr. [redacted] is the worst teacher I have ever studied under, including my associate degree and all the various workshops, paid courses, schools, and seminars I’ve attended throughout my life [emphasis in original].*<sup>362</sup>

Twenty-two students, an entire class of nursing students at a Concorde Career Colleges, Inc. 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; and when instructors were absent the class was “left to sit unlectured, unguided, untested and uninformed,” and classes were sometimes excused an hour early.<sup>363</sup>

One ITT student taking courses in information technology 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 instructor not teaching any HTML coding language and instead encouraging students to find code for other Internet websites and copy and paste said code as the student’s own work. Furthermore, [instructor] installed a computer game on computers which were supposed to be for

<sup>360</sup> Herzing Student Email, November 2009, Student Letter of Complaint (HP000002321).

<sup>361</sup> *Id.*

<sup>362</sup> UTI Internal Email, October 2007, re: *FW: Course 2 ESI full report* (UTI-C-001040, at UTI-C-001041).

<sup>363</sup> Concorde, September 2009, Letter of Complaint from Class of Nursing Students to Concorde Deans and Administration (CCC000109599).

students' final exam website demonstrations and spent the class period playing that game instead of evaluating student projects.<sup>364</sup>

Another ITT student complained, "I have a huge problem. I have no teacher. It seems like ITT has yet again fired a teacher that plays a very important role up there without a replacement. Therefore, there was a class full of students up there last night and not one person knew what was going on."<sup>365</sup>

While it may suit some colleges' purposes to simply pass students despite negligible learning, this is a betrayal of both students and taxpayers. It fails to equip students for jobs in their chosen fields, and it provides little or no benefit to the economy or the tax base.

#### Part-time Faculty

Documents produced to the committee show that the majority of faculty at for-profit colleges consists of part-time and adjunct faculty, rather than full-time faculty. Among the 28 colleges analyzed, 80 percent of the faculty is part-time. Together, the companies employed 99,565 faculty members, of whom 79,738 were not full-time, and 22 of the 28 companies had a majority of part-time faculty.<sup>366</sup>

At a number of schools, the disparity is particularly striking. At Bridgepoint, for instance, 98.3 percent of the faculty is part-time, and 96.1 percent of Grand Canyon University's faculty is part time.<sup>367</sup>

Part-time and adjunct instructors are less expensive to employ and frequently are hired on a short-term basis, thus helping to minimize educational costs. While this model is affordable and efficient, it is unclear if it allows for faculty to exercise genuine academic independence or to have a vested stake in the quality of the institution, two key questions for accreditors. At least one recent study found that community colleges with higher portions of part-time faculty also have lower student graduation rates.<sup>368</sup> While the part-time adjunct model is clearly an important innovation, it is unclear whether sufficient attention is being paid to ensuring that quality is not sacrificed as a result of this trend.

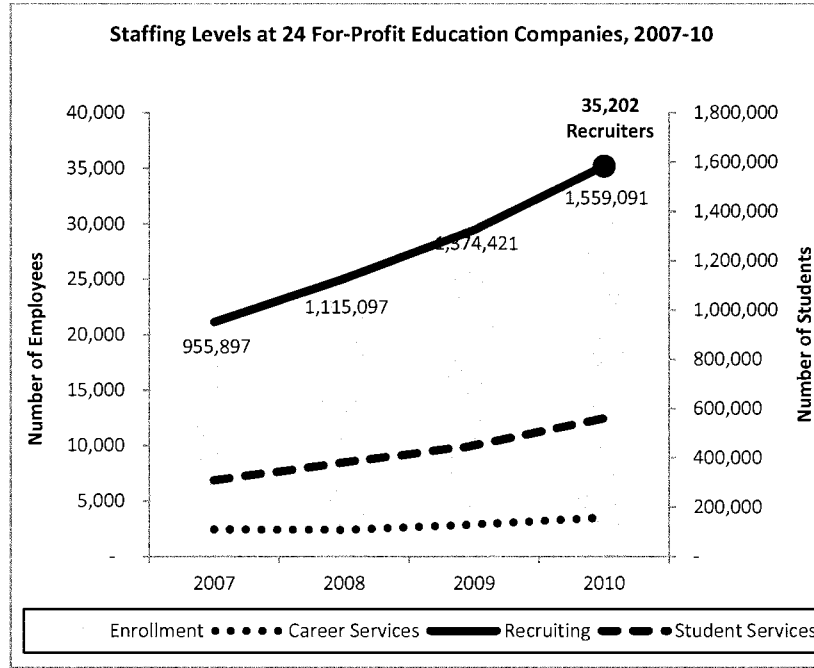
<sup>364</sup> ITT Educational Services, February 2007, Completed Student Comment/Complaint Report and Attachments (ITT-00005086).

<sup>365</sup> ITT Educational Services, December 2006, Completed Student Comment/Complaint Report (ITT-00004629).

<sup>366</sup> Appendix 24.

<sup>367</sup> Senate HELP Committee analysis of data provided by companies. See Appendix 24.

<sup>368</sup> Daniel Jacoby, "Effects of Part-Time Faculty Employment on Community College Graduation Rates," *The Journal of Higher Education*, Vol. 77, No. 6, November/December 2006, pp. 1081-1103.



**Student Services**

*First of all, we all need to understand there's a radical difference in educating and graduating a low-income first-generation student than there is a middle-income student... [In] the for-profit sector they address the financial barriers, but they have not adequately addressed the supportive services barriers.*

— Dr. Arnold Mitchem, President of the Council for Opportunity in Education.<sup>369</sup>

For-profit schools enroll large numbers of non-traditional adult learners including low-income and first generation college students, who require more extensive support and services in order to succeed in college.<sup>370</sup> ITT employees,

<sup>369</sup> *The Federal Investment in For-Profit Education: Are Students Succeeding?*, Hearing Before the Senate Committee on Health, Education, Labor, and Pensions, 111th Congress (2010).

<sup>370</sup> 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

for example, indicated in an internal email that over 90 percent of their students cannot do basic math.<sup>371</sup> For-profit colleges extol the access to higher education they provide to non-traditional low-income and minority students, who have historically been underserved by traditional higher education. While the industry often points to the high enrollment of at-risk students to explain poor student outcomes, many for-profit schools fail to make the necessary investments in student support services that have been shown to help students succeed in school and afterwards. Two large for-profit colleges, committee staff found, offer no organized tutoring services aside from the instructor.<sup>372</sup>

Support services, when they are provided, include tutoring and other out-of-class academic help, as well as advising students on choosing classes, librarian services, and connecting students with child care and transportation help. These services enable students to confidently move through their academic programs and overcome the day-to-day hurdles that may hinder their successful completion. As Dr. Arnold Mitchem, president of the Council for Opportunity in Education, testified at the committee's hearing in September 2010:

What am I talking about when I talk about supportive services? I'm talking about you have to engage these students. You have to provide intensive counseling. You have to provide mentoring, you have to provide tutoring, you have to provide learning communities. There's a variety of tactics, services, and treatments that you have to put in play to work with this individual. You have to work with them in a holistic way.<sup>373</sup>

The relatively low number of student services staff available to help students at many for-profit colleges severely limits the availability and quality of services the colleges provide. While the services available at individual colleges range from robust to nearly non-existent, in general, staffing is prioritized towards recruiting not student services.

Due to resource constraints, student services are also lacking at many community colleges and at many minority-serving institutions. This helps explain low retention and completion at some of those institutions. However,

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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 their students have parents with an Associate degree or higher, compared to 46 percent at private non-profits, and 52 percent at public schools. U.S. Government Accountability Office, *Postsecondary Education: Student Outcomes Vary at For-Profit, Nonprofit, and Public Schools*, GAO-12-143 (December 2011), <http://www.gao.gov/assets/590/586738.pdf> (accessed May 3, 2012).

<sup>371</sup> ITT, April 2010, Budget Forecast Spreadsheets (ITT-0014496).

<sup>372</sup> Senate HELP Committee interviews with executives of Bridgepoint and CEC.

<sup>373</sup> Arnold Mitchem, Ph.D. (President, Council For Opportunity In Education), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *The Federal Investment in For-Profit Education: Are Students Succeeding?*, 111th Congress (2010).

those colleges, many of them struggling financially, commit available funds to efforts to boost retention and completion. Staffing data indicate that for-profit institutions, many of which generate tens or hundreds of millions of dollars in pre-tax profit, by and large do not invest significantly in these kinds of efforts compared to the sum they invest in recruiting new students.<sup>374</sup>

Among the companies that provided usable data in 2010, the schools employed 35,202 recruiters compared with 3,512 career services staff and 12,452 support services staff.<sup>375</sup>

The deficit of services is reflected in formal complaints students lodged seeking help with academics. For example, one Ashford student, in and out of the hospital due to a chronic disease, felt that she was left to “flounder.” She filed a complaint citing “failure on [the school staff’s] part to find ways to help [her] during that time period, and also their failure to communicate with [her].”<sup>376</sup> A Kaplan student took issue with an “academic success center,” which Kaplan’s Web site advertises as “offer[ing] assistance with writing, math, and science.” In reality, that center did not have a single tutor.<sup>377</sup> Another 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 . . . saying I was agitating them.”<sup>378</sup> The student concluded: “In so many ways I feel like my life’s dream has been ripped right out of my hands.”<sup>379</sup>

Formal complaints also reveal a pattern of inattention by the schools encompassing virtually every department, from academic advisors to financial aid to technical support. An Ashford student was careful to tell the enrollment advisors that she was pregnant with twins and “having a great deal of medical issues.”<sup>380</sup> After being enrolled and taking classes for a number of weeks, she tried to get help because she would not be able to log in to attend class for a week due to these medical issues. After receiving no help, she submitted a complaint: “No one is responding and giving me the correct information that I need.”<sup>381</sup> Another Ashford student wrote, “My major complaint is the fact that when I was enrolling in classes I had no problems with someone from the school

<sup>374</sup> The analysis for the table below excludes six companies that were either not in operation or did not provide data for all years.

<sup>375</sup> Appendix 24. TUI and Walden did not provide information for 2010. Additionally, TUI, Chancellor and Henley Putnam were not in existence for the entire period and CEC provided only 1 year of information.

<sup>376</sup> Bridgepoint Student Email, May 2010, re: *I want to file a grievance please.* (BPI-HELP\_00025856).

<sup>377</sup> Kaplan Internal Document, October 2008, Student Complaint Record (KHE 0039787).

<sup>378</sup> ITT Student Complaint, June 2006, Student Letter of Complaint (ITT-00004357).

<sup>379</sup> *Id.*

<sup>380</sup> Bridgepoint Student Complaint, April 2010, Student Letter of Complaint ( BPI-HELP\_00026171).

<sup>381</sup> *Id.*

returning my phone call. . . . Now that I am an existing student I cannot get anyone to return my phone calls.”<sup>382</sup>

One Herzing student reported receiving very attentive treatment while being recruited, but then not getting phone calls returned once enrolled.<sup>383</sup> She stated, “In my experience, communication between Herzing and online students does not exist.”<sup>384</sup> She continued, “I am absolutely astonished by the lack of communication, lack of effort and lack of support that I have had from Herzing.”<sup>385</sup> A UTI student complained about problems 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.”<sup>386</sup>

### Career Placement Services

For-profit schools present themselves as career-oriented, skill-focused places. Indeed, most advertising for for-profit higher education focuses on “getting the job” after graduating from school. As an example, DeVry recently ran a bus-shelter billboard advertising campaign: “John doesn’t need to take the bus anymore because he was given the company car because he got a job with a big-time contractor because he studied game and simulation programming at DeVry University,” the ads read.<sup>387</sup> But data and testimony collected during the investigation indicate that for-profit schools’ investment in career services is meager. Among colleges that offered career services, the ratio of students to career advisers ranged from 91 to 1545 students per career services advisor. The University of Phoenix, with a student population of nearly half a million, has no career placement staff at all.<sup>388</sup> Bridgepoint-owned Ashford University employs one career placement official for a student population of 77,179 students (as of fall 2010).<sup>389</sup>

This limited investment also often appears focused on satisfaction of placement requirements mandated by accreditors rather than thorough career counseling.

<sup>382</sup> Bridgepoint Student Email, July 2008, re: *This is my formal complaint* (BPI-HELP\_00027543).

<sup>383</sup> Herzing Student Correspondence, May 2009, re: Herzing University at Birmingham, AL (HP000002286).

<sup>384</sup> *Id.*

<sup>385</sup> *Id.*

<sup>386</sup> UTI Student Email, October 2009, re: *(no subject)* (UTI-C-000604, at UTI-C-000608).

<sup>387</sup> Image: DeVry Bus Stop Ad, “John doesn’t need to take the bus anymore,” available at <http://images.greatergreaterwashington.org/images/200903/devry.jpg> (on file with the committee).

<sup>388</sup> U.S. Senate HELP Committee staff analysis of documents produced by the companies. See Appendixes 7 and 24. In Apollo’s response, found in Appendix 6, the company, 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.”

<sup>389</sup> U.S. Senate HELP Committee staff analysis of documents produced by the companies.

Even where career services are available, many students report that those services are not helpful. A robust investment in career services would ensure that career placement employees are able to foster employer and alumni networks, provide resume and interviewing advice, and give students and graduates access to non-public job information about potential hiring. But Kathleen Bittel, a career services employee at the EDMC-owned Art Institute online division, described a very different process during her testimony at the committee's September 2010 hearing:

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 1,600. Career Services employees are being paid nearly a third of what the top performers in the admissions department receive. I believe these facts speak volumes as to where the real priorities lie within these companies.<sup>390</sup>

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. Eric Schmitt, a former Kaplan student testified at the committee's June 2011 hearing,

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 Waterloo Courier. These were job postings that I could apply to on my own, instead of driving to the school.<sup>391</sup>

Student complaints highlight the lack of quality career services. One Kaplan student, who graduated *summa cum laude*, stated that the "Career Placement Service is horrible."<sup>392</sup> Another Kaplan student stated that the "job assistance program really is NO help what so ever! [sic]" and that any job leads he received were from Craigslist, not the school.<sup>393</sup> One Herzing complaint noted that the only support the student received from the career services office

<sup>390</sup> 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).

<sup>391</sup> Eric Schmitt (Hampton, IA), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Drowning in Debt: Financial Outcomes of Students at For-Profit Colleges?*, 112th Congress (2011). The company states that 14 out of 17 graduates from Mr. Schmitt's class (who did not seek further education) were placed in jobs. The company also notes that Mr. Schmitt did take a job with the law firm at which he externed, though the job was short-lived because of disciplinary action and misconduct on the part of the partner at the firm.

<sup>392</sup> Kaplan Internal Document, August 2010, Record of Student Complaint (KHE 0039225).

<sup>393</sup> Kaplan, July 2010, Record of Student Complaint About Insufficient Career Services (KHE 0039604).

was to be sent job postings that he had already found himself.<sup>394</sup> He stated, “If I would have known I would be without a job a year after I finished school then I would never have [come] to your school. [sic]”<sup>395</sup>

A Lincoln student complained,

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 admission representative and she never emailed me any job leads. My Federal aid was wasted on something that I cannot even consider an education.<sup>396</sup>

A Concorde student wrote, “It was made to sound like they had connections that a graduate at any point in their career as long as they asked for help [sic].”<sup>397</sup> “The only ‘job placement’ the school does is search three websites (main websites as in Craig’s List, Monster, and one other) . . . Everyone searches these websites.”

The Criminal Justice Department Chair at UEI College, a for-profit college in California, wrote to Senator Harkin to relate his experience: “The real problem I saw was that there was no one in Career Services working on getting these students’ jobs. I have kept in contact with some students and so far I believe none of my former CJ [Criminal Justice] students have been able to obtain a job in the field.”<sup>398</sup> A former ITT student wrote 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.”<sup>399</sup>

Aside from difficulties students face in obtaining meaningful career counseling, several investigations have called into question the credibility of job

<sup>394</sup> Herzing External Email, September 2009, Former Student Complaint About Lack of Job Assistance (HP00002319).

<sup>395</sup> Id.

<sup>396</sup> Lincoln External Correspondence, December 2008, re: *CHRO No. 0930220 [redacted] v. Lincoln Technical School* (LINC0000264). The agencies to which the complaint was submitted closed the investigations into this complaint without finding violations of law or issuing sanctions. Lincoln Education Services Company (“Lincoln”) is a publicly traded for-profit higher education company that enrolled 33,175 students as of fall 2010 and is based in West Orange, NJ.

<sup>397</sup> Concorde External Correspondence, December 2009, Notification of Student Complaint Submitted to the Better Business Bureau (CCC000110342).

<sup>398</sup> Letter from Paul Scazillo, former instructor at UEI College, to Chairman Tom Harkin, July 7, 2010. UEI is not one of the 30 for-profit higher education companies that received a document request from the committee during its investigation.

<sup>399</sup> Letter from Steven Gossman, former ITT Student, to Chairman Tom Harkin, April 9, 2011.



placement data reported by for-profit schools.<sup>400</sup> Career services staff are often incentivized to report as high a number as possible to satisfy their managers, which in turn is used to satisfy regulators and as a promotional tool to convince prospective students to enroll.

#### Incentives for Career Services Staff

Testimony and internal documents indicate that some for-profit career services offices are more focused on reporting positive placement numbers than actually helping students achieve worthwhile full-time employment.

Kathleen Bittel, who worked in EDMC's Art Institute online job placement office, testified that placement counselors work under a quota system. These employees were 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 testified, she could earn a 33 percent bonus (up to \$12,000 per year over her salary of \$36,000). Conversely, she testified, she was repeatedly told that she would be fired if she failed to meet her placement quotas.<sup>401</sup>

The first step in meeting the requirement, she said, was eliminating certain graduates from the calculation altogether so they would not count against the quota. 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 at least some of these individuals presumably pursued a degree to further a different career.<sup>402</sup>

One key exclusion employed by a number of colleges is the placement exception for "pursuing further education." In an email between two campus directors at Kaplan University, one director wrote, "John, I was wondering if you could send a list of your MA and MOS graduates from the last 2 years so we can reach out to them to offer the MPM Associate Degree Program. If they haven't been employed yet this will help you with your placement numbers since they will be continuing school."<sup>403</sup>

If a student cannot be excluded from the quota, placement counselors must find a way to count graduates as employed in their field of study. As Ms. Bittel explained, her colleagues at EDMC "were expected to convince graduates

<sup>400</sup> A description of several investigations is included in the "Job Placement Rate Manipulation" section of this report, discussing regulatory evasion.

<sup>401</sup> 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).

<sup>402</sup> *Id.*

<sup>403</sup> Kaplan Internal Email, May 2010, re: *Re: MOS and MA Graduates* (KHE279471).

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.<sup>404</sup> 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.

Internal documents from ITT illustrate the highly flexible criteria that some 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.<sup>405</sup> Another ITT document indicates that counselors are sometimes permitted to classify graduates of the digital entertainment and game design program as successfully placed if they work at “a Blockbuster or an electronics department that sells video games.”<sup>406</sup> To classify students, many of whom took on significant debt, as successfully placed when they take a retail job requiring no specialized training indicates that the job placement requirements are not always aligned with the best interest of students.

Dissatisfaction with career services was a common source of student complaints in the documents reviewed by the committee. For instance, one 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.”<sup>407</sup> Westwood Colleges recently settled a Colorado lawsuit for \$4.5 million that stemmed, in part, from the college’s practice of counting students as “placed” if they did as little as a few days of freelance work.<sup>408</sup>

Many students enroll at for-profit universities and colleges because they are looking to start a new career and are often promised a new and better job if they enroll. They correctly expect assistance from the school in making the transition from school to work.

But, for many for-profit colleges, helping students achieve educational and career goals is not a priority. Most for-profit colleges examined devote

<sup>404</sup> 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).

<sup>405</sup> ITT Internal Document, *Career Services Graduate Employment Definitions CS-2* (ITT-00065475).

<sup>406</sup> ITT Internal Document, *FAQs on Employment Classification* (ITT-00065499, at ITT-00065501).

<sup>407</sup> ITT External Correspondence, Notification of Student Complaint Submitted to the Better Business Bureau (ITT-00005144).

<sup>408</sup> Office of the Colorado Attorney General, “Attorney General Announces \$4.5 Million Settlement with Westwood College to Address Deceptive Business Practices,” Press Release, March 4, 2012, [http://www.coloradoattorneygeneral.gov/press/news/2012/03/14/attorney\\_general\\_announces\\_45\\_million\\_settlement\\_westwood\\_college\\_address\\_dece](http://www.coloradoattorneygeneral.gov/press/news/2012/03/14/attorney_general_announces_45_million_settlement_westwood_college_address_dece) (accessed May 3, 2012).

fewer resources to student services than to recruiting and enrolling students. As student complaints make clear, students often felt a personal connection with the recruiter who enrolled them. But, they did not receive a similar level of attention from the student services representatives. Both the quantity and quality of attention given to students often decline sharply once students are officially enrolled and attending classes. As a result, some for-profit schools are shortchanging their students and failing to provide an education worthy of Federal funding.

### **Programmatic Accreditation and Licensure**

For-profit colleges sometimes offer programs that do not carry the industry-standard accreditation that allows graduates to obtain employment in the field. Graduates from these programs are often surprised to learn that, although they went to an *institutionally* accredited school, they cannot practice the professions for which they purportedly trained. Some fields, mostly in the health care occupations, require program-specific accreditation. If a college offers a program that does not carry programmatic accreditation, then students often cannot find work because employers only hire graduates from accredited programs, or because State laws prohibit graduates from non-accredited programs from practicing their specialty. In spite of these serious consequences, for-profit schools that offer unaccredited programs seldom provide a meaningful warning to their students about this issue. As a result, many students first learn about their program's accreditation after accumulating debt, attending school, and attempting to enter the workforce.

#### What Is Programmatic Accreditation

There are two broad types of accreditation for institutions of higher education. The first type is institutional accreditation, which indicates that a membership organization approved by the Department of Education has conducted a peer review of the institution and certified that the college or university meets specified school-wide standards of quality. Institutional accreditation is critical for all colleges and universities because it is required for any school to be eligible to receive financial aid funds from the U.S. Department of Education.

In contrast, rather than certifying an entire school or institution, programmatic accreditation certifies that a specific degree or certificate program meets standards expected within a particular field or profession. Different professions and different States place a different emphasis on programmatic accreditation. For instance, in almost every State, recent law school graduates can become licensed to practice law only if they graduated from a program

accredited by the American Bar Association.<sup>409</sup> In contrast, no State laws mandate that diagnostic sonographers graduate from programs accredited by the Commission on Accreditation of Allied Health Education Programs (CAAHEP).<sup>410</sup> However, most employers seek to hire only registered sonographers, and registration is not open to recent graduates of non-accredited degree programs. In order to become registered, students must either graduate from an accredited program or work for a number of years in the field. Because employers prefer to hire already-registered sonographers, gaining work experience in lieu of an accredited degree can be very challenging. Accordingly, while State law does not create an absolute barrier to practicing for students from unaccredited programs, the practical effect can be the same for many students.

#### Students Are Not Informed About 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 post 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.

Few people would enroll in a program if they knew they would be unable to use their degree or diploma to qualify for a job in their field after graduation. Unfortunately, the investigation has documented multiple examples of students who have been 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 Sanford-Brown College New York, a school owned by Career Education Corporation (CEC).<sup>411</sup> CEC is the fourth largest for-profit higher education corporation in the country and operates 36 Sanford-Brown facilities in 18 States. Ms. Issa enrolled in the 18-month program to study sonography with the goal of working in an obstetrical office performing ultrasounds. She completed the program in 2008 at a cost of \$32,000. However, it was not until after she completed the program that she learned, from prospective employers, that she needed to take a licensing examination and be certified by the American Registry for Diagnostic Medical Sonographers (ARDMS) in order to be hired.

<sup>409</sup> National Conference of Bar Examiners, *Comprehensive Guide to Bar Admission Requirements 2012*, National Conference of Bar Examiners and American Bar Association Section of Legal Education and Admissions to the Bar, [http://www.ncbex.org/assets/media\\_files/Comp-Guide/2012CompGuide.pdf](http://www.ncbex.org/assets/media_files/Comp-Guide/2012CompGuide.pdf) (last accessed May 15, 2012).

<sup>410</sup> See U.S. Department of Labor, Bureau of Labor Statistics, "Diagnostic Medical Sonographers," *Occupational Outlook Handbook*, March 29, 2012, <http://www.bls.gov/ooh/healthcare/print/diagnostic-medical-sonographers.htm> (last accessed May 15, 2012).

<sup>411</sup> Yasmine Issa (Yonkers, NY), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Emerging Risk? Federal Spending on For-Profit Education*, 111th Congress (2010).

Unfortunately, since the program Ms. Issa attended was not programmatically accredited, she was not allowed to sit for the licensing exam unless she first had a year of work experience in the field.<sup>412</sup> But no employer would give her the work experience in the absence of the license. 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.”<sup>413</sup>

During a visit to a hospital in New Jersey, the supervising ultrasound technician explained to Ms. Issa that she could have taken the certification exam without work experience if her degree program had been programmatically accredited. This was the first Ms. Issa had heard about her school’s lack of programmatic accreditation. Because the school failed to share that information, except in a disclosure buried in pages of enrollment documents, Ms. Issa cannot find work in her field, nor repay her student loan debt.

Similarly, on June 7, 2011, Eric Schmitt of Hampton, IA testified before the committee regarding his experiences pursuing his degree at Kaplan University’s Cedar Falls, IA campus. Mr. Schmitt testified that, in the course of obtaining his associate degree in paralegal studies, the campus dean told him he could go on to law school by attending Concord Law School, also owned by Kaplan Higher Education.<sup>414</sup> As Mr. Schmitt put it, “It seemed . . . that Kaplan could provide everything I needed to fulfill my dream of practicing law.”<sup>415</sup>

It was not until several years later, as he was finishing his Bachelor’s degree with Kaplan, that Mr. Schmitt happened to mention Concord to a temporary adjunct professor. The professor broke the news that Concord, an online law school, was not accredited by the American Bar Association. The only way to take the bar exam would be to sit for the exam in California, and practice in California if he passed, which was a serious problem since Mr. Schmitt had never planned to relocate from Iowa.<sup>416</sup> To learn these facts from

<sup>412</sup> 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.

<sup>413</sup> Yasmine Issa (Yonkers, NY), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Emerging Risk? Federal Spending on For-Profit Education*, 111th Congress (2010).

<sup>414</sup> See Eric Schmitt (Hampton, IA), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Drowning in Debt: Financial Outcomes of Students at For-Profit Colleges*, 111th Congress (2011). See also email from Eric Schmitt to the Senate Committee on Health, Education, Labor, and Pensions, March 28, 2011 (on file with committee).

<sup>415</sup> *Id.* The company states that the initial conversation with the dean, according to Mr. Schmitt’s testimony, occurred in the second year of his Associate degree program when law school was no more than a thought on the horizon. The company also states that Mr. Schmitt never applied to Concord law school, and if he had he would have immediately learned that he would not be eligible to sit for the Iowa bar exam.

<sup>416</sup> Mr. Schmitt was encouraged by a Kaplan academic dean to attend Concord Law School, however Mr. Schmitt did not learn about Concord’s accreditation status—and its effect on his ability to sit for the bar exam—until he had already completed three-quarters of the work required for his bachelor’s degree. See Eric Schmitt (Hampton, IA), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Drowning in Debt: Financial Outcomes of Students at For-Profit Colleges*, 112th Congress (2011). Some States might let Concord graduates sit for the bar exam if they first practice law in California for several years. National Conference of Bar

Concord's Web site requires a prospective student click on a small-print section titled "Concord Law School accreditation and disclosure information" and to read multiple small-print paragraphs.

The experiences of Ms. Issa and Mr. Schmitt are not isolated. On March 10, 2011, the committee heard testimony from a retired official of the Iowa Department of Education, Arlie Thoreson Willems, regarding the experiences of students attending Ashford University.<sup>417</sup> Ms. Willems testified that she and her colleagues regularly received calls from around the country about Ashford graduates' lack of eligibility to obtain a teaching credential in their State, many from students who were misled by Ashford's recruiters regarding that eligibility. Even though Ashford is operated by California-based Bridgepoint Education, Inc. and its tens of thousands of online students live in all parts of the country, students called Ms. Willems because Ashford operates a single small physical campus located in Iowa. In order to work as elementary school teachers, students attending Ashford, had to participate in an approved clinical program from another college.<sup>418</sup> Ashford partnered with an Arizona-based community college, Rio Salado, approved by the State of Arizona to provide online clinical teaching programs leading to Arizona State teaching licenses.<sup>419</sup> Through the partnership, students who attended Ashford followed by a separate online year-long program at Rio Salado, were eligible for an Arizona teaching license. However, depending on the laws of a given student's State, that Arizona license might or might not allow them to be licensed to teach in their own State. The University of Phoenix has a similar arrangement with Rio Salado for its teacher programs.

Student complaints produced to the committee by Ashford's parent company, Bridgepoint, provide multiple examples of the misleading tactics used with regard to this program in other States. For instance, a Kansas student wrote to the university saying,

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

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Examiners, Comprehensive Guide to Bar Admission Requirements 2012, National Conference of Bar Examiners and American Bar Association Section of Legal Education and Admissions to the Bar, [http://www.ncbex.org/assets/media\\_files/Comp-Guide/2012CompGuide.pdf](http://www.ncbex.org/assets/media_files/Comp-Guide/2012CompGuide.pdf) (last accessed May 15, 2012).

<sup>417</sup> Arlie Thoreson Willems, Ph.D. (Administrative Consultant for Practitioner Preparation, Iowa Department of Education, retired), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Bridgepoint Education, Inc.: A Case Study in For-Profit Education and Oversight*, 112th Congress (2011).

<sup>418</sup> Although Ashford's brick-and-mortar education programs do qualify graduates for a teaching credential, the institution's online education programs do not meet the State's Department of Education standards. Therefore, graduates from the online program cannot use their degree to qualify for a teaching credential in Iowa. Further, over 99 percent of Ashford's students are online-only students. See, Chapter on Bridgepoint, *infra*.

<sup>419</sup> New approval requirements from the Iowa Department of Education will impact distance education programs offering a path to a teaching credential. Rio De Salado has advised the Iowa College Student Aid Commission that they do not plan to seek approval for a practitioner preparation program in Iowa under the new requirements. Accordingly, once the new requirements take effect, Rio De Salado's teaching program will not be able to enroll Iowa students. Email correspondence with Carolyn Small, Postsecondary Registration Administrator at the Iowa College Student Aid Commission, August 4, 2010.

obtain my Teacher's license from. The only reason I left my other college was because I was told that I would be able to receive my Teacher's license from Ashford.<sup>420</sup>

Similarly, another student wrote:

I was told by my state's department of education that neither Rio Salado [nor] Ashford was transferrable to Ohio and that if I continue with my Bachelor's Degree from Ashford...that my Bachelor's Degree would not be recognized and I would have to start all over with a school here in Ohio...I am extremely upset about this because I was told when I enrolled that I could obtain my BA from Ashford regardless, but that I would only need to see if my state would accept Rio Salado.<sup>421</sup>

Complaints filed by students at other schools reflect a similar feeling of being misled about programmatic accreditation. A Kaplan student, who was similarly frustrated with his electrician program, wrote,

I started attending Kaplan Career Institute in February of 2007. I noted the overly eager sales representative who reeled me in. ... I was told by the instructors that the classes we were taking were going to count towards our licensing as electricians, but later down the road I began to hear differently. The School is accredited by the state, but the Electrician program was not recognized by the Electrical board.<sup>422</sup>

A Concorde student contacted the Florida Attorney General's office saying, "when I signed up for surgical tech at Concorde, they told me they were accredited."<sup>423</sup> Then 5 months into the program, "they . . . told us we had to sign papers" that stated that "if they don't become accredited before we finish it's basically not their fault." She told the attorney general's office that if the course was not accredited, she could not sit for the surgical technology certification exam and that she felt lied to. The school's response did not dispute that the program lacked programmatic accreditation, only that the student had signed a statement attesting that she had read the campus's course catalog, which disclosed the lack of accreditation and the fact that the campus was trying to obtain it. The school states that the accreditation was not, at the time, required. However, the student makes clear that to be employable the accreditation was essential.

<sup>420</sup> Bridgepoint, August 2010, Formal Grievance Submission Form and Attachments (BPI-HELP\_00026808).

<sup>421</sup> Ashford University, *Formal Grievance*, July 29, 2010 (BPI-HELP\_00026393).

<sup>422</sup> Kaplan, August 2007, Record of Student Complaint and Follow-Up (KHE0038613).

<sup>423</sup> Concorde, August 2006, Student Complaint Submitted to FL Attorney General (CCC000109930).

Some students with similar experiences at other for-profit institutions have successfully sued their schools for misrepresenting or omitting accreditation information.<sup>424</sup> In a recent case, the North Carolina Attorney General opened an investigation into allegations that Kaplan College was operating an unaccredited dental program and for which no application was pending while allegedly telling students accreditation should be approved soon.<sup>425</sup> As a result, the school reportedly refunded over \$1 million to students in the program, and surrendered its license to operate that program.<sup>426</sup>

It is clear that some for-profit colleges are working to rectify these problems, though at least some schools still offer programs that do not meet programmatic accreditors' standards. Additionally, even high-quality programs must initially operate without programmatic accreditation while the accreditor reviews the program. However, many other institutions fail to inform students about accreditation issues, despite the fact that accreditation is critically important to professional success. While most schools now include some mention of programmatic accreditation on their Web sites, this information is often in fine-print and seldom conveys how it can be for students' job prospects.

#### A Case Study of Sanford-Brown's Disclosures for Popular Program Areas

Committee staff examined three programs at Sanford-Brown, (the school attended by Ms. Issa) 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 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

<sup>424</sup> See, for example, Completed Jury Verdict Form, *Cooney v. Saybrook Graduate School*, Case No. 1:04cv11572 (D. Mass. April 2, 2007) (awarding a graduate \$137,000 for fraud regarding programmatic accreditation for a counseling degree).

<sup>425</sup> "Whistleblower 9: Students say they were misled by local college," *WSOTV.com*, November 22, 2011, <http://www.wsotv.com/news/news/whistleblower-9-students-say-they-were-misled-by-l/nGSy3/> (accessed May 15, 2012).

<sup>426</sup> Ames Alexander, "Kaplan College Reimburses Students After Probe of Dental Program," *Charlotte Observer*, February 10, 2012, <http://www.charlotteobserver.com/2012/02/01/2974937/college-reimburses-students-after.html> (accessed May 15, 2012).



NBSTSA is not an absolute requirement for employment, the Bureau of Labor Statistics reports that most employers seek to hire certified surgical technologists.<sup>427</sup> 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,<sup>428</sup> 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.<sup>429</sup> In order to sit for one of the national certification exams, applicants must either graduate from an accredited program or from a program that provides students with hands-on, clinical training.<sup>430</sup> 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.”<sup>431</sup>

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.<sup>432</sup> 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.<sup>433</sup> 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

<sup>427</sup> See U.S. Department of Labor, Bureau of Labor Statistics, “Surgical Technologists,” *Occupational Outlook Handbook*, May 29, 2012, <http://www.bls.gov/oco/ocos106.htm> (accessed May 9, 2012).

<sup>428</sup> 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 May 9, 2012).

<sup>429</sup> *Id.*

<sup>430</sup> Dialysis technology programs are accredited by the Board of Nephrology Examiners, Inc. Nursing and Technology (BONENT), but certifications exams are offered by Nephrology Nursing Certification Commission (NNCC), BONENT, and the National Nephrology Certification Organization (NNCO). See Mark Neumann, “Time Running Out for Technicians,” *Nephrology News*, March 2010, <http://www.nephrologynews.com/renal-policy/article/time-running-out-for-technicians> (accessed May 17, 2012).

<sup>431</sup> 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 May 9, 2012).

<sup>432</sup> See U. S. Department of Labor, Bureau of Labor Statistics, “Veterinary Technologists and Technicians,” *Occupational Outlook Handbook*, March 29, 2012, <http://www.bls.gov/oco/ocos183.htm> (accessed May 9, 2012).

<sup>433</sup> See American Association of Veterinary State Boards, <http://www.aavsb.org/VTNE> (accessed May 9, 2012).

program that is accredited by either the American or Canadian Veterinary Medical Association.<sup>434</sup>

### *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.<sup>435</sup> 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,<sup>436</sup> 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."<sup>437</sup> 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.

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. Confusingly for a student, 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.

The page on which the accreditation and licensure information is published also downplays the role of accreditation. The Sanford-Brown Web

<sup>434</sup> See American Association of Veterinary State Boards, *Eligibility for First Timers*, [http://www.aavsb.org/VTNE/eligibility for first timers](http://www.aavsb.org/VTNE/eligibility%20for%20first%20timers) (accessed May 9, 2012).

<sup>435</sup> See Sanford-Brown, *Accreditation & Licensure*, <http://www.sanfordbrown.edu/About-Us/Accreditation-And-Certification> (accessed May 9, 2012).

<sup>436</sup> See Sanford-Brown, *Surgical Technology*, <http://www.sanfordbrown.edu/Areas-Of-Study/Allied-Health-Technicians-And-Therapists/Surgical-Technology> (accessed May 9, 2012) (providing a list of every Sanford-Brown campus at which a surgical technology program is available).

<sup>437</sup> 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 May 9, 2012) (describing the associate degree program available at the St. Peters, MO, location).

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.”<sup>438</sup>

Tellingly, 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.”<sup>439</sup> In truth, the program has not been accredited by the American Veterinary Medical Association (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.<sup>440</sup> 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.

The company appears to purposefully diminish the significance of programmatic accreditation and fails to inform prospective students that the lack of accreditation can stand as a barrier to professional success following graduation.

#### A Comparison of Multiple Schools’ Disclosures for Two Smaller Degree Programs

Committee staff also analyzed disclosures for two smaller degree programs that are commonly understood to require licensure: law degrees or Juris Doctorates (JD), and Doctoral programs in clinical psychology. Four of the 30 institutions offered doctoral programs in clinical psychology, and two companies offered JD programs.

The JD programs were offered by Concord Law School, owned by Kaplan, and Western State School of Law, owned by EDMC. Western State School of Law is accredited by the ABA, while Concord Law School is not. Concord’s JD Program Web page correctly notes that graduates of the program are eligible to sit for the California Bar Exam and, if they pass the bar exam and meet other requirements, would be eligible to practice law in California.<sup>441</sup> However, the page does not mention that the program was not accredited by the American Bar Association and that as a result, even students who ultimately

<sup>438</sup> Id.

<sup>439</sup> Sanford-Brown Career Training Programs, *Associate of Applied Science Degree Program in Veterinary Technology*, <http://www.sanfordbrown.edu/Areas-Of-Study/Allied-Health-Technicians-And-Therapists/Veterinary-Technology/Associate-Of-Applied-Science-Degree-Program-In-Veterinary-Technology> (accessed May 9, 2012).

<sup>440</sup> Oregon Veterinary Medical Examining Board, *Veterinary Applications*, <http://www.oregon.gov/OVMEB/applications.shtml> (accessed May 9, 2012).

<sup>441</sup> Concord Law School, *Juris Doctorate Degree Program*, <http://www.concordlawschool.edu/juris-doctorate-degree.asp> (accessed May 9, 2012).

passed the California Bar Exam would not be allowed to sit for the required bar examination in many other States.<sup>442</sup>

Each of the four clinical psychology doctorate programs correctly stated the American Psychological Association (APA) accreditation status of the program. With regard to clinical psychology, attending an APA accredited program is required in some States in order to practice as a psychologist. Of the four companies offering a doctorate in clinical psychology, Argosy College—owned by Education Management Corporation, the second largest for-profit higher education corporation—was the only school with some programs accredited by the APA. Argosy’s Web site provides a list of campuses at which its doctoral clinical psychology programs were accredited.<sup>443</sup> Like Sanford-Brown’s disclosures, however, the same page neither mentioned that two of its 11 programs were not accredited, nor that graduates from those two programs would not be able to practice in several States.<sup>444</sup>

Web sites for the other three companies with Clinical Psychology Doctorates acknowledged that they lacked programmatic accreditation. Two of the schools, Laureate-owned Walden University<sup>445</sup> and Bridgepoint-owned University of the Rockies,<sup>446</sup> took the additional step of noting that accreditation is required to obtain a license in some States, although they failed to list those States. The third school, Capella University, made no mention that the lack of program accreditation meant that, as a practical matter, graduates would be unable to practice in some States.<sup>447</sup> Capella also chose to print the accreditation information in an easy-to-miss greyed-out font near the end of the page.

<sup>442</sup> Some States might let Concord graduates sit for the bar exam if they first practice law in California for several years. National Conference of Bar Examiners, *Comprehensive Guide to Bar Admission Requirements 2012*, National Conference of Bar Examiners and American Bar Association Section of Legal Education and Admissions to the Bar, [http://www.ncbex.org/assets/media\\_files/Comp-Guide/2012CompGuide.pdf](http://www.ncbex.org/assets/media_files/Comp-Guide/2012CompGuide.pdf) (accessed May 15, 2012).

<sup>443</sup> Argosy University, *Clinical Psychology Programs*, <http://www.argosy.edu/colleges/ProgramSummary.aspx?id=12> (accessed May 9, 2012).

<sup>444</sup> Florida, Georgia, Mississippi, and Oklahoma require APA accreditation for some licenses. Other States, including Connecticut, Idaho, and Illinois, among others, accept APA accreditation as sufficient to demonstrate a program’s eligibility for certification purposes, but also allow students from some non-APA-accredited programs to become certified. See Association of State and Provincial Psychology Boards, *Handbook of Licensing and Certification Requirements*, <http://www.asppb.org/HandbookPublic/HandbookReview.aspx> (accessed May 9, 2012).

<sup>445</sup> Walden University, *Clinical Psychology Specialization—Doctoral Programs*, <http://www.waldenu.edu/Degree-Programs/Doctorate/18013.htm> (accessed May 9, 2012). Walden LLC is a for-profit higher education company that enrolled 47,456 students as of 2010 and is based in Minneapolis, MN.

<sup>446</sup> University of the Rockies, *Doctor of Psychology—Clinical Specialization*, <http://rockies.edu/degrees/psyd/clinical.htm> (accessed May 17, 2012).

<sup>447</sup> Capella University, *Doctor of Psychology (PsyD)*, [http://www.capella.edu/schools\\_programs/psychology/psyd/clinical\\_psychology.aspx](http://www.capella.edu/schools_programs/psychology/psyd/clinical_psychology.aspx) (accessed May 17, 2012).

Lower Licensing Exam Pass Rates<sup>448</sup>

In some cases, the for-profit college sector is not performing as well as other sectors in preparing students for licensing exams in comparison to other sectors of higher education. Between 2008 and 2010, even for those schools that possess the required programmatic accreditations, graduates of for-profit schools generally had lower pass rates than graduates of non-profit and public schools, with wide differences among sectors in a number of fields.<sup>449</sup>

A December 2011 GAO survey determined that, the pass rate for students who attended for-profit colleges was 8.8 percent lower than for students who attended non-profit colleges, and 9.1 percent lower than for students who attended public colleges.<sup>450</sup> Surgical Technology, a program offered by many for-profit schools such as American Career College, Everest, Anthem, Brown Mackie, and Sanford-Brown, had the widest disparity in pass rates: students who attended for-profit schools failed that exam more than twice as often as students who attended public schools.<sup>451</sup>

Student complaints frequently refer to for-profit colleges' inadequate preparation for licensing exams.<sup>452</sup> For example, at Vatterott College, students complained that the Pharmacy Assistant program did not prepare them for the Certified Pharmacy Technician exam.<sup>453</sup> In response to these complaints, school officials denied that Vatterott had ever represented that their program could prepare students to become Certified Pharmacy Technicians. Instead, officials

<sup>448</sup> Defined by GAO to refer to exams that are required to work in a specific occupation, even though some of those exams are technically certification exams. For instance, according to The National Board of Surgical Technology and Surgical Assisting, certification as a surgical technologist is voluntary. However, as discussed above, licensing is often required by employers.

<sup>449</sup> U.S. Government Accountability Office, *Postsecondary Education: Student Outcomes Vary at For-Profit, Nonprofit, and Public Schools*, December 2011, GAO-12-143, <http://www.gao.gov/assets/590/586738.pdf> (accessed May 17, 2012). ("The nine licensing exams for which graduates of for-profit schools generally had lower pass rates were for Registered Nurses (RN), Licensed Practical Nurses (LPN), Radiographers, Emergency Medical Technicians (EMT), Paramedics, Surgical Technologists, Massage Therapists, Lawyers, and Cosmetologists. On some exams, the differences across sectors were statistically significant, but relatively small. For example, 85 percent of graduates earning a bachelor's degree from for-profit nursing programs passed the RN exam, compared to 87 percent of such graduates from nonprofit schools. While we were unable to calculate overall pass rates on the 10th exam (for funeral directors), separate analyses of the two sections of the exam suggest that graduates of for-profit schools had similar or better pass rates than graduates of nonprofit and public schools. While for-profit graduates as a group generally had lower pass rates, some individual for-profit schools had relatively high pass rates.")

<sup>450</sup> *Id.*

<sup>451</sup> The sample was based off of 225 for-profit students and 393 public students. American Career Colleges, Inc. ("ACC") is a publicly traded for-profit higher education company that enrolled 4,716 students as of fall 2010 and is based in Irvine, CA. Brown Mackie is a brand of colleges operated by Education Management Corporation ("EDMC"), a publicly traded for-profit higher education company that enrolled 158,300 students in 2010 and is based in Pittsburgh, PA.

<sup>452</sup> See, for example, Vatterott External Correspondence, March 2009, re: *Complaint of [redacted student name]* (VAT-02-05-02337).

<sup>453</sup> *Id.*

claimed, the program was designed to prepare students for “entry level” positions in a pharmacy, such as a position as a pharmacy office assistant.<sup>454</sup>

Many professional licensing organizations require potential professionals to meet certain preparatory requirements before they are eligible to sit for a licensing exam. Nonetheless, recruiters sometimes mislead students about those requirements in order to secure an enrollment. For example, Chairman Harkin received a letter from a graduate of Apollo’s Associate degree-based Axia College who had a felony drug conviction from her teenage years.<sup>455</sup> Axia’s admissions counselor told her that the conviction would not hinder a career as a pharmacy technician after she finished her degree at Axia. 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 felony drug convictions sitting for the exam.<sup>456</sup>

### Conclusion

Some for-profit colleges make the investments in academics and support services necessary to help students succeed. However, across the for-profit spectrum, tremendous amounts of taxpayer dollars are being diverted from education-related spending to marketing and recruiting efforts that are sometimes misleading and deceptive. This focus on ensuring the financial success of the companies without first ensuring the academic success of students has tremendous consequences.

## **What Are the Consequences for Students?**

### High Debt

At the committee’s June 7, 2011 hearing, Sandy Baum, a policy analyst at the College Board and a top expert on student debt, testified that “student loans are an important and justified component of our higher education financing system” but “there is overwhelming evidence that large numbers of students, particularly students from low-income backgrounds, are suffering great hardship as a result of excessive borrowing required to finance their enrollment in for-profit institutions.”<sup>457</sup> As college costs continue to rise, more students are borrowing to pay for school, and they are taking out large loans. Student debt

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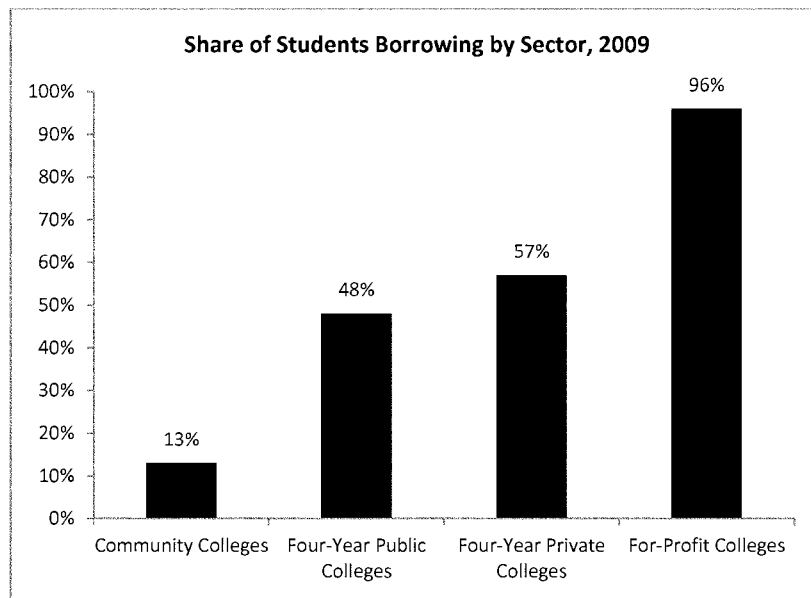
<sup>454</sup> Id.

<sup>455</sup> Letter from Aubrie Roupe, former University of Phoenix student, to Senator Tom Harkin, April 2, 2011.

<sup>456</sup> Id.

<sup>457</sup> *Drowning in Debt: Financial Outcomes of Students at For-Profit Colleges*, Hearings Before the Senate Committee on Health, Education, Labor, and Pensions, 112<sup>th</sup> Congress (2011).

across all sectors is growing.<sup>458</sup> Funds paid out under title IV student loan programs have tripled in the past 10 years. The amount students are borrowing at public colleges has doubled in the past 2 years. High student debt is a serious issue, explored in HELP Committee hearings in February 2007, April 2008, March 2012 and most recently in July 2012. High borrowing is a problem in higher education generally, but students at for-profit institutions are more likely to borrow, and more likely to borrow large loan amounts, than their peers at other types of institutions.<sup>459</sup>



Ninety-six percent of for-profit students take out student loans, according to the most recent U.S. Department of Education data.<sup>460</sup> In comparison, 13 percent of students at community colleges, 48 percent at 4-year public, and 57 percent at 4-year private non-profit colleges borrow money to pay for school.<sup>461</sup> For-profit schools typically enroll students who are independent from their parents and who do not have high income or assets to pay for school. But that fact does not fully explain the high volume of borrowing, since many community colleges generally enroll this same population of students. One difference is that, as discussed above, for-profit schools charge higher tuition than public schools and do not generally have institutional scholarship money

<sup>458</sup> Sandy Baum (Policy Analyst at the College Board and Senior Fellow at George Washington University School of Education) Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Drowning in Debt: Financial Outcomes of Students at For-Profit Colleges* 112th Congress (2011).

<sup>459</sup> Id.

<sup>460</sup> College Board Advocacy & Policy Center, *Trends in College Pricing 2011*, College Board, pg. 13 (2011), [http://trends.collegeboard.org/downloads/College\\_Pricing\\_2011.pdf](http://trends.collegeboard.org/downloads/College_Pricing_2011.pdf) (accessed May 3, 2012).

<sup>461</sup> Id.

available, as many private non-profit schools do.<sup>462</sup> The combination of factors contribute to this harsh reality: nearly every student who enrolls in a for-profit school must borrow money.

Not only do more students at for-profit schools borrow, they borrow more money than their peers at other types of schools. Independent students, who make up most of the for-profit student body, leave for-profit schools with a median debt of \$32,700, but leave public colleges with median debt of \$20,000, and private non-profit colleges with a median debt of \$24,600.<sup>463</sup> Moreover, for-profit schools enroll far more high-dollar borrowers. While most for-profit students do not graduate, the 57 percent of Bachelor's students who do graduate owe \$30,000 or more.<sup>464</sup> In contrast, 25 percent of those who earned degrees in the private non-profit sector and 12 percent from the public sector borrowed that much.<sup>465</sup>

These high debt loads place a heavy burden on students who leave for-profit schools, whether they withdraw or graduate. A Lincoln student filed a complaint with the college, telling officials, "I went to school to better my life, and when my loans become due, I will actually be in worse financial shape than I was before I attend[ed] school. I wish I would have never attended school at all."<sup>466</sup> An ITT student told the college, "I've heard of 10k for a 2 year degree but 40k?! [emphasis in the original]."<sup>467</sup> Another ITT student filed a complaint stating that he took out student loans "in the hopes of improving my knowledge so that I could improve my worth in society, for a higher paying job. Instead now I have a loan to pay off and absolutely nothing to show for it."<sup>468</sup> Some students are incurring debt that they may never be able to pay off. An uncle of a Kaplan student with cerebral palsy told the school that his nephew "is left with \$8,400 in loans for a degree he could not possibly obtain."<sup>469</sup> Students with disabilities often require extra accommodations that ensure they can perform at their full level of ability; in the case of this Kaplan student, those accommodations were not provided.

<sup>462</sup> See, generally, Delta Cost Project, *Trends in College Spending 1999-2009: Where Does the Money Come From? Where Does It Go? What Does It Buy?*, Delta Project on Postsecondary Education Costs, Productivity, and Accountability (2011), [http://www.deltacostproject.org/resources/pdf/Trends2011\\_Final\\_090711.pdf](http://www.deltacostproject.org/resources/pdf/Trends2011_Final_090711.pdf) (accessed May 3, 2012).

<sup>463</sup> Median debt for students receiving a Bachelor's degree in 2007-8. Sandy Baum (Senior Fellow, George Washington University School of Education and Human Development), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Drowning in Debt: Financial Outcomes of Students at For-Profit Colleges*, 112<sup>th</sup> Congress (2011).

<sup>464</sup> *Id.* at 2.

<sup>465</sup> *Id.*

<sup>466</sup> Lincoln External Email, January 2007, re: *BBB Complaint Case#42006975(Ref # 58-6023-42006975-4-12200)* (LINC0000001, at LINC0000003). The Better Business Bureau did not pursue an investigation of this complaint.

<sup>467</sup> ITT External Correspondence, January 2009, re: *ITT Technical Institute* (ITT-00009376, at ITT-00009383) (response to student's complaint with text of student's complaint enclosed).

<sup>468</sup> ITT External Correspondence, July 2010, Notice of Student Complaint to Better Business Bureau (ITT-00009785, at ITT-00009786).

<sup>469</sup> Kaplan Internal Record, July 2006, Record of Student's Family's Letter of Complaint (KHE 0038287).



*Low Repayment and High Default*

Struggling under their debt burdens and unable to find work that allows them to pay down that debt, many students who attended for-profit schools are not actively repaying their loans or have already defaulted.

A little over one-third, about 36 percent, of students who attended for-profit schools are paying down the principal on their student loans, according to Department of Education data.<sup>470</sup> In comparison, 54 percent of students at public colleges, and 56 percent at private non-profit institutions, are actively repaying their student loans.<sup>471</sup> Some for-profit schools have higher repayment rates: At UTI, for example, 54 percent of students were making payments on their loans.<sup>472</sup> Other schools have very low rates: only 23 percent of Vatterott's students and 18 percent of Remington's students are actively repaying their loans.<sup>473</sup>

Students who do not make their student loan payments for 360 days are considered in default.<sup>474</sup> Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan within 3 years of leaving the school, according to the most recent data.<sup>475</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>476</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>477</sup> 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.<sup>478</sup>

<sup>470</sup> Senate HELP Committee staff analysis of data from Department of Education, Cumulative Four-Year Repayment Rate by Institution. <http://www2.ed.gov/policy/highered/heard/2009/ge-cumulative-rates.xls>. 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). While the decision questioned the basis for the repayment rate threshold as a part of Department's rulemaking, it did not question the accuracy of the repayment rate data.

<sup>471</sup> *Id.*

<sup>472</sup> *Id.*

<sup>473</sup> *Id.*

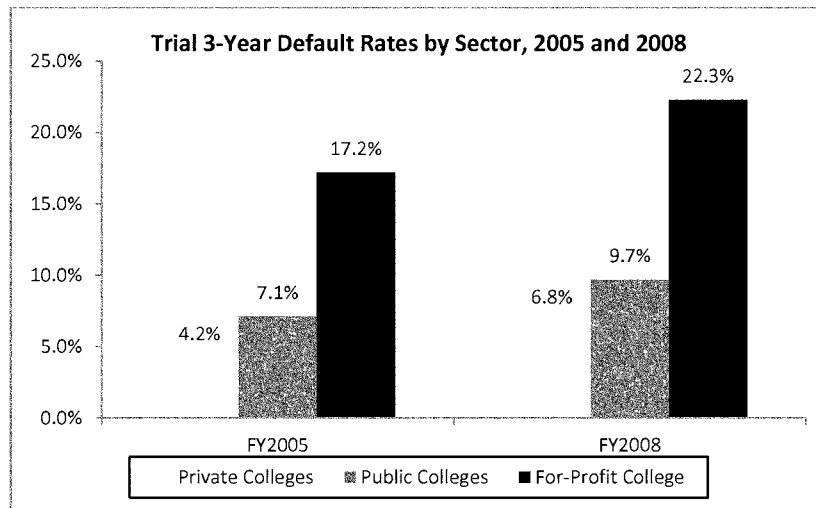
<sup>474</sup> Under the Direct Loan Program. Under the Federal Family Education Loan (FFEL) program, default occurred on the date that a guarantee agency paid a claim of default, which could be between 270 and up to 360 days delinquent.

<sup>475</sup> 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.

<sup>476</sup> *Id.*

<sup>477</sup> *Id.*

<sup>478</sup> *Id.*



The trend in default rates points upwards. Among the schools the committee examined, the cohort default rate has been growing 8.9 percent each year for successive groups of students entering repayment in 2005 through 2008.<sup>479</sup> In terms of the impact for students, this growth means that tens of thousands more students are defaulting each year. The situation at some individual campuses is dire. At Lincoln's Southwestern College in Dayton, OH, 19.7 percent of students default within 3 years, for the 2005 cohort.<sup>480</sup> For the 2008 cohort, the proportion of students defaulting jumped to 35.3 percent. Remington College's Tampa, FL, campus saw its 3-year default rate jump by nearly 50 percent, from 16.9 percent to 25.1 percent between 2005 and 2008.<sup>481</sup>

As total student debt reaches \$1 trillion and students across all sectors of higher education are confronted with higher debt than previous generations and fewer than expected job opportunities, it is likely that default rates across all sectors of higher education will increase. Since 1996 average debt for Bachelor's degree students has jumped 35 percent, partially accounting for the 68 percent drop in net worth of households led by those under 35 between 1984 and 2009.<sup>482</sup>

However, students who attended a for-profit college already account for 47 percent of all borrowers in default, and 1 in 5 students enrolling in a for-profit college (22 percent) defaults within 3 years of entering repayment on his

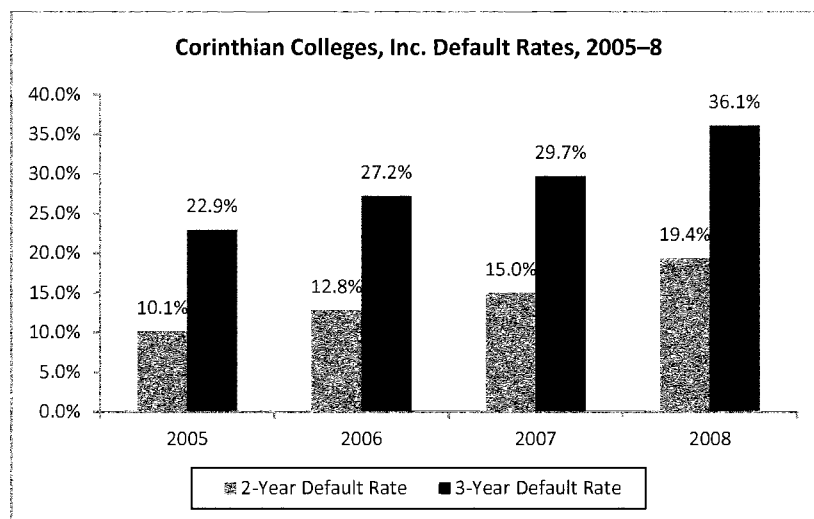
<sup>479</sup> Id.

<sup>480</sup> Id.

<sup>481</sup> Id.

<sup>482</sup> Matt Townsend, "Young Consumers Pinch Their Pennies," *Bloomberg Businessweek*, March 22, 2012, <http://www.businessweek.com/articles/2012-03-22/young-consumers-pinch-their-pennies> (accessed May 20, 2012).

or her student loans. This is already an unacceptably high rate of failure that needs to be addressed.



Some for-profit education companies have particularly troubling default rates. Corinthian Colleges, the company with the highest default rates among any large for-profit operator, saw 23,623 of its students who entered repayment in 2008 default on a Federal student loan. Among all the students leaving Corinthian-owned schools from 2005–8, over 73,000 defaulted.<sup>483</sup> Moreover, as discussed below, some for-profit education companies use default management tactics that may cross the line to default manipulation and place former students in forbearances or deferments so that these students do not show up in the companies' reported default rates.

#### Lifetime Default Rates

While the Department of Education only reports school-specific default rates for the first 3 years of students' repayments, the Department of Education publishes a Budget Lifetime Default Rate that measures the dollars (as opposed to student borrowers) that the Department expects to default for each sector of higher education.<sup>484</sup> The Department estimates that 46.3 percent of all dollars

<sup>483</sup> 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>. In March 2012 Corinthian announced that its 2009 3-year default rate had fallen by 7.3 percent to 28.8 percent.

<sup>484</sup> U.S. Department of Education, Information for Financial Aid Professionals, Cohort Default Rates Charts (2010), <http://ifap.ed.gov/eannouncements/attachments/122010CDRlifetimedefaultattachment2ratechart2010.pdf> (accessed May 3, 2012).

lent to for-profit students who entered repayment in 2008 will default.<sup>485</sup> The comparable number for 2-year public and non-profit colleges is 31.1 percent.<sup>486</sup>

The committee's investigation uncovered internal documents showing some schools' own internal calculations of lifetime default rates. An email between Apollo Group executives indicated that the company estimated lifetime default rates for the company's Western International University, which included all 2-year degree program students, as high as 77.7 percent.<sup>487</sup> For its larger University of Phoenix division, including all 4-year degree students, estimated lifetime default rates ranged from 21.7 to 33.5 percent.<sup>488</sup> These numbers, which track students leaving college 5 to 10 years ago, are especially disturbing in light of the increase in the cost of tuition and the heavy borrowing of students in the past few years.

### High Interest Institutional Loans

In addition to Federal debt, some students, because of the high price of tuition, must rely on alternative financing. Prior to 2007, the standard practice was for students to obtain this financing through the private lending companies. After the 2008 credit crash, private lenders (led by Sallie Mae) made the decision that they would no longer provide third party private loans to most for-profit college students.<sup>489</sup> The result was the creation of institutional loan programs operated by for-profit education companies themselves. These loans often carry high interest rates, and do not provide students with the same safeguards as Federal loans.

While the interest rate on undergraduate subsidized Federal Stafford loans is currently 3.4 percent (5.6 percent in 2009), for-profit colleges charged students much higher rates for institutional loans. Interest rates documented by the committee range from 13 to 18 percent, though some companies have since lowered their rates. For example, in 2009, Corinthian Colleges lent \$65 million to its students at an average interest rate of 14.8 percent, with some students paying as much as 18 percent.<sup>490</sup> For comparison, the Federal Reserve calculated that the average interest rate on credit card debt in 2009 was 14.3 percent.<sup>491</sup>

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<sup>485</sup> Id.

<sup>486</sup> Id.

<sup>487</sup> Apollo, May 2010, re: *RE: Default Information . . .* (AGI0049553). Estimated lifetime default rate was 77.7 percent for 2-year degree students in the 2006 cohort.

<sup>488</sup> Id.

<sup>489</sup> Doug Lederman, "The Credit Crunch Takes a Toll," *Inside Higher Ed*, January 23, 2008, <http://www.insidehighered.com/news/2008/01/23/credit> (accessed May 9, 2012).

<sup>490</sup> Note that in 2010 Corinthian lowered its rate to 6.8 percent.

<sup>491</sup> Board of Governors of the Federal Reserve System, *Report to the Congress on the Profitability of Credit Card Operations of Depository Institutions: Recent Trends in Credit Card Pricing*, June 2012, <http://www.federalreserve.gov/publications/other-reports/credit-card-profitability-2012-recent-trends-in-credit-card-pricing.htm> (accessed July 5, 2012).

<b>Institutional Loan Interest Rates by Company, 2009</b>	
<b>Company</b>	<b>Interest Rate (High) [in percent]</b>
Alta Colleges, Inc.	18
Career Education Corporation	13
Corinthian Colleges, Inc.	18
DeVry, Inc.	12
Education Management Corporation	11.2
Kaplan Higher Education, Inc.	15
ITT Educational Services, Inc.	14.75
Department of Education	5.6

Moreover, for-profit colleges anticipate high rates of expected default on their institutional loan programs. In their internal accounting, companies estimate the portion of the amounts they lend to students that will default.<sup>492</sup> For instance, according to the company's own internal analysis, Corinthian estimates that 55 percent of its institutional loan balances will default at some point.<sup>493</sup> Kaplan expects that as high as 80 percent of its institutional loan balances will default.<sup>494</sup>

<b>Institutional Loan Program Expected Student Default Rates by Company, 2009</b>	
<b>Company</b>	<b>Expected Default Rate [in percent]</b>
Alta Colleges, Inc.	44
Career Education Corporation	48
Corinthian Colleges, Inc.	55
DeVry, Inc.	45
Education Management Corporation	42
Kaplan Higher Education, Inc.	80
ITT Educational Services, Inc.	N/A
Department of Education	16

These loans underscore the for-profit colleges' knowledge and expectation that a majority of students will not succeed in obtaining the employment and financial security necessary to avoid default. An internal Kaplan email between executives discussed defaults in the course of creating the company's new institutional lending program. A senior executive reported that

<sup>492</sup> This equates closely with *student* defaults but since students borrow varying amounts, the measurement of the amount of the loans that default is different from the number of student borrowers who default.

<sup>493</sup> Corinthian Colleges, Inc., August 24, 2009, Q4 Earnings Conference Call.

<sup>494</sup> Kaplan Internal Email, April 2009, re: *RE: KC Loan Default Assumption [Redacted]* (KHE 137576).

the company "should assume an 80% default rate for loans in repayment."<sup>495</sup> This assumption was based on private student loans made by a private lender to Kaplan students (before the lender stopped making the loans), which had experienced defaults of 70 percent and 65 percent for loans made in 2006 and 2007, respectively.<sup>496</sup> Typically, students who are taking out private and institutional loans have already borrowed the maximum eligibility for Federal loans. Accordingly, this Kaplan assessment indicates that the risk of default for Federal loans may be equally extreme.

#### What Default Means for Students and Society

Default rates are driven by students who drop out, for whom their incomplete education and no degree leaves them with debt but little means to repay it. Students' ability to repay their loans is tightly tied to whether they stayed in school and achieved a degree. The Institute for Higher Education Policy, a non-partisan non-profit, reported that, for all sectors of higher education, among students who attended for 1 year or less, nearly two-thirds became delinquent (30 percent) or defaulted (34 percent) on their loans.<sup>497</sup> Internal documents indicate that this point has not gone unnoticed among for-profit executives. In a November 2009 email, a Kaplan executive notes that "97% of KU defaulters 'drop' rather than graduate."<sup>498</sup> He goes on to point out that students who drop in the first term default at a rate of 27 percent.

When a school has a large proportion of its students defaulting on their loans, this can indicate problems with program quality, retention, student services, career services, and reputation in the employer community. Students who default, in many cases, have not achieved their educational or career goals that led them to attend college. Behind each student loan default is a person who is struggling financially and who may have to put off or cancel plans to continue their education, buy a home or car, or start a family. The number of students facing default points to a huge problem: Among for-profit students who entered repayment on their student loans between 2005 and 2008, more than 638,000 students defaulted.<sup>499</sup>

Because default rates look at the student population that left school 3 years earlier, it cannot provide an accurate snapshot of what is happening now. Thus, there is a significant risk that a higher proportion of students will default in the coming years. The committee determined that, among students enrolling

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<sup>495</sup> Id.

<sup>496</sup> Id.

<sup>497</sup> Alisa F. Cunningham and Gregory S. Kienzl, *Delinquency: The Untold Story of Student Loan Borrowing*, Institute for Higher Education Policy, March 2011, <http://www.ihep.org/publications/publications-detail.cfm?id=142> (accessed May 8, 2012).

<sup>498</sup> Kaplan Internal Email, November 2008, re: *RE: KU CDR Original Loan Amount and Default Rate* (KHE 197327).

<sup>499</sup> The total number of defaults in the for-profit sector is actually higher because these data only include the 30 for-profit companies examined by the committee, which account for most, but not all of, the enrollment in the sector.

in 2008–9, 54.4 percent withdrew by summer 2010, but it is currently unknown as to how many of these students will ultimately end up in default.<sup>500</sup>

The for-profit industry points to student demographics as a justification for high default rates. The companies argue that non-traditional students are less likely to be able to repay their debts. The colleges, their argument implies, have little ability to change this. But when a school enrolls a student, sets tuition, and recommends that the student take out a loan, the school is making a *de facto* investment recommendation. For each student who defaults, schools have access to information such as the student's program, total debt load, how long he or she stayed, and whether he or she had prior college credit. The school can use this information to predict how other prospective students are likely to succeed academically, earn a degree that will actually help them secure a good job, and be able to repay their loans. Over the past 18 months some for-profit colleges including Kaplan, Apollo, Rasmussen and Walden have introduced varying types of orientation programs that are based at least in-part on these sorts of analyses and appear to be having a beneficial impact on the likelihood of success for students enrolling in those schools.

Some for-profit executives also advance the argument that because students are dropping out quickly, they are not accumulating massive amounts of debt.<sup>501</sup> Retention data obtained by the committee indicate that among students who withdrew, median attendance was approximately 4 months.<sup>502</sup> Withdrawn students have an estimated average debt of \$4,000 to \$11,000.<sup>503</sup> For the typical student who attends a for-profit college, this level of debt coupled with the lack of a degree, is a significant burden. New skills, self-confidence, and alumni networks assist college graduates to find a well-paying job. This should be true whether a student is rich or poor, white or Latino or African-American. A school that enrolls students who have struggled financially and academically in the past is taking on the responsibility to make sure that those students have a reasonable chance of success. Access to debt is not the same thing as access to the opportunity offered by a good education. States have designed a national network of low-cost, open-access community colleges to make sure that students who have a lower probability of graduating are able to try out higher education with very little financial risk. While some community colleges face serious challenges because of State budget cuts and

<sup>500</sup> Senate HELP Committee staff analysis of enrollment data provided to the committee by for-profit education companies.

<sup>501</sup> "Furthermore, debt levels of those who leave school early, and who account for the vast majority of defaults, are relatively low. *In fact, the average debt among Kaplan non-graduates who default is \$4,400. In fact, the average debt of our graduates who default is less than twice that amount—\$7,700.* These are not insignificant amounts, but neither are these students burdened with 'mountains of debt.'" Kaplan, Letter to Chairman Tom Harkin, May 26, 2011 [emphasis in original].

<sup>502</sup> Students who withdrew from colleges operated by publicly traded companies stay an average of 3.5 months.

<sup>503</sup> *The Return on the Federal Investment in For-Profit Education: Debt Without a Diploma*, Report of Chairman Tom Harkin, Chairman, Committee on Health, Education, Labor, and Pensions, September 30, 2010, <http://harkin.senate.gov/documents/pdf/4caf6639e24c3.pdf>.

strained capacity in some programs, they nonetheless offer a much lower risk option to students, while offering a similar chance of successful completion and economic advancement.

### Higher Unemployment

Students who attend for-profit schools are more likely to experience unemployment after leaving school. Twenty-three percent of students who attended for-profit schools were unemployed and seeking work, according to the most recent Department of Education longitudinal data.<sup>504</sup> At the time of this report's publication, the national unemployment rate is 8.2 percent, nearly a third the rate of people who attended for-profit schools.<sup>505</sup>

While some of the former students who are unemployed might have had trouble securing employment due to other factors, the role that college plays is significant. One UTI student told the college,

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 private 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.<sup>506</sup>

The effect of this higher unemployment extends beyond individual students. A school that leaves large numbers of students without the means to pay back their education debt is not offering an acceptable return on taxpayers' investment in terms of building a stronger, better-educated, and better-skilled workforce. Even many of those students who ultimately can pay back their loans must service a large debt into middle age and beyond. To repay this debt, they often must put off life decisions that have a significant positive impact on the American economy, such as starting a family and buying a house.

The type of training that for-profit schools offer can make a difference in unemployment rates and earnings for former students. Education Sector's analysis of Department of Education longitudinal data shows student borrowers "who *graduated* from for-profit, less-than-4-year institutions had an unemployment rate comparable to, *but slightly higher than*, the overall unemployment rate for borrowers who dropped out (27 percent versus 25

<sup>504</sup> National Center for Education Statistics, *2008-9 Baccalaureate and Beyond Longitudinal Study: First Look*, July 2011.

<sup>505</sup> U.S. Department of Labor, Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey: Unemployment Rate (extracted on July 9, 2012).

<sup>506</sup> UTI Student Correspondence, September 2009, Letter in Regards to [Redacted] as a UTI EM at Norwood Campus (UTI-C-000567, at UTI-C-000577).



percent).”<sup>507</sup> In other words, students who enrolled at a for-profit school and left without earning a degree or certificate had similar unemployment rates to students who earned those credentials.

Earnings from employment is another concern. As discussed above, for-profit schools have been expanding their Associate enrollment rapidly in the past decade. Yet the long-term economic benefits of completing an Associate degree, especially at a for-profit college, is significantly less than for a Bachelor’s degree. According to an analysis by the College Board, a typical person who earns an Associate degree will earn about \$42,000 a year. That is \$8,200 more per year than a person with just a high school diploma, but \$13,700 less than a person who earns a Bachelor’s degree.<sup>508</sup> The increased earnings potential does not always justify the tuition that some for-profit colleges charge for an Associate degree. Moreover, a recently published study by economists at the National Bureau of Economic Research states that “students who obtain certificates/degrees from a public or not-for-profit institution receive a large wage premium. ... In contrast there is little evidence of a return to any certificate or degree from a for-profit institution. The estimated return to an associates degree is ... a modest 9.2 percent return.”<sup>509</sup>

#### Credentials in Lower Demand Careers

Though for-profit colleges tout their career-focused, get-out-and-get-a-job approach, evidence indicates that many colleges’ programs are not in high-demand career fields. One of the biggest advantages that for-profit colleges have over traditional colleges is the ability to respond quickly to emerging workforce needs and implement programs that genuinely meet those needs. The sector has a demonstrated ability to develop curricula and implement programs far more rapidly than most traditional institutions. Yet in some cases for-profits do not base programming on workforce needs, so much as they base programming on revenue potential. For example, nearly every large for-profit education company operates one or more criminal justice programs. Yet criminal justice programs offer few clear paths to quality employment opportunities. As the CEO of ITT noted in a recent call with investors, the company placed enrollment caps on some criminal justice programs because they were not generating good student outcomes, meaning retention, completion and job placement.<sup>510</sup> Programs offered in the health care field offer another

<sup>507</sup> Mary Nguyen, *Degreeless In Debt: What Happens to Borrowers Who Drop Out*, Education Sector, [http://www.educationsector.org/sites/default/files/publications/DegreelessDebt\\_CYCT\\_RELEASE.pdf](http://www.educationsector.org/sites/default/files/publications/DegreelessDebt_CYCT_RELEASE.pdf) (accessed May 8, 2012).

<sup>508</sup> College Board, *Education Pays 2010: The Benefits of Higher Education for Individuals and Society*, CollegeBoard Advocacy & Policy Center, [http://trends.collegeboard.org/downloads/Education\\_Pays\\_2010.pdf](http://trends.collegeboard.org/downloads/Education_Pays_2010.pdf) (accessed May 8, 2012).

<sup>509</sup> Kevin Lang and Russell Weinstein, “Evaluating Student Outcomes at For-Profit Colleges,” National Bureau of Economic Research, June 2012, <http://www.nber.org/papers/w18201>. (For students starting in Associate degree programs at public and non-profit colleges, “the value of an associates degree is large and statistically significant.” In contrast, “there is little evidence of any certificate or degree from a for-profit institution.”)

<sup>510</sup> ITT Call with Investors, Q1 January 21, 2012.

example. For example, for-profit schools offer a multitude of programs to prepare students for jobs in the health care field. For-profit colleges often cite data showing that in 2018 there will be 2.8 million job openings in that field.<sup>511</sup> But the health care field is divided into many separate sectors, not all of which promise such high growth. The higher-growth areas of the healthcare field are concentrated in direct patient care jobs, such as nursing. However, as the Center for American Progress found, the majority of for-profit programs in the health care field, 44 percent, were medical assistant, medical billing or massage therapy programs, while just 9 percent of health care programs were Licensed Practical Nursing and Registered Nursing programs.<sup>512</sup>

### **Why is This Happening?**

All institutions of higher education that receive Federal student aid are regulated by three distinct entities: the Federal Government, the State in which the institution operates, and an accrediting body recognized by the U.S. Secretary of Education. Together, these three bodies are referred to as “the triad,” and are collectively tasked with ensuring that the schools are meeting basic guarantees of academic quality and fiscal soundness, and that they are complying with pertinent State and Federal laws.<sup>513</sup> Recurring problems in the for-profit sector have exposed weaknesses of the triad in regulating sophisticated national and international for-profit education companies. The nature of the for-profit education business model and the extreme growth in the sector have strained the capacity of regulators to protect students, ensure academic quality, and safeguard State and Federal taxpayer dollars.

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<sup>511</sup> Julie Margetta Morgan and Ellen-Marie Whelan, *Profiting from Health Care: The Role of For-Profit Schools in Training the Health Care Workforce*, Center for American Progress, January 2011, [http://www.americanprogress.org/issues/2011/01/profitting\\_from\\_health\\_care.html](http://www.americanprogress.org/issues/2011/01/profitting_from_health_care.html) (accessed May 8, 2012).

<sup>512</sup> *Id.*

<sup>513</sup> See, for example, Accrediting Council for Independent Colleges and Schools, *History of Accreditation*, <http://www.acics.org/accreditation/content.aspx?id=2258> (accessed May 23, 2012); The Higher Learning Commission, About the Higher Learning Commission, <http://www.ncahlc.org/About-HLC/about-hlc.html> (accessed May 23, 2012).

## Accreditation

*I would just like to take up the distinction you made between a multistate, billion-dollar corporation and a school, and to urge you as you seek solutions, perhaps to think about distinguishing, so that insofar as this is a multistate, billion-dollar corporation, you may well need to have a different regulatory scheme at the Federal level.*

—Sylvia Manning, Executive Director of the Higher Learning Commission, a regional accreditor.<sup>514</sup>

Accreditors are private, non-profit bodies that organize peer review of institutions of higher education. Because the Department of Education requires that institutions be accredited in order to access title IV funds, student aid to ensure that schools apply adequate standards of academics to receive taxpayer dollars, accreditors also serve as *de facto* gatekeepers for billions of dollars of Federal education benefits each year.<sup>515</sup> Unfortunately, the traditional accreditation process has not placed much weight on student outcomes like retention and student loan default. As a result, for-profit institutions routinely obtain and retain accreditation in spite of low graduation rates, job placement rates, or student loan debt repayment rates. For example, as discussed in more detail below, Bridgepoint’s Ashford University received full accreditation from the Higher Learning Commission despite information indicating that the majority of Ashford students do not graduate.<sup>516</sup>

Accreditation has traditionally existed as “a process of external quality review created and used by higher education to scrutinize colleges, universities, and programs for quality assurance and quality improvement.”<sup>517</sup> Once granted, accreditation can be good for up to a 10-year period, although factors like change of ownership or the addition of new campuses may trigger a review by an accreditation team.<sup>518</sup>

There are two types of accrediting agencies: national accreditors that focus on accrediting for-profit schools, and regional accreditors that accredit most public and non-profit universities. Eight regional accrediting commissions

<sup>514</sup> Dr. Sylvia Manning (President, Higher Learning Commission), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Bridgepoint Education, Inc.: A Case Study in For-Profit Education and Oversight*, 112th Congress (2011).

<sup>515</sup> See Higher Education Act of 1965, 20 U.S.C.A. § 1058(b)(1)(D) (2008) (defining an eligible institution as one “accredited by a nationally recognized accrediting agency or association determined by the Secretary to be reliable authority as to the quality of training offered or which is, according to such an agency or association, making reasonable progress toward accreditation”). Federal funds include Pell grants, Federal student loans, and other Federal and State government funding. Students are eligible for Federal aid only if enrolled at an institution accredited by an agency recognized by the Department of Education.

<sup>516</sup> See Ashford University, November 2009, *Institutional Snapshot* (BPI-HELP\_00021644).

<sup>517</sup> Judith S. Eaton, *An Overview of U.S. Accreditation*, Council for Higher Education, p. 1 (2009).

<sup>518</sup> *Id.* at 4.

currently operate in six regions throughout the United States.<sup>519</sup> Regional accreditors are responsible for accrediting 3,040 institutions, 96 percent of which are degree-granting non-profit or public colleges and universities.<sup>520</sup> National accreditors oversee the accreditation of 3,933 institutions, 70 percent of which are non-degree granting.<sup>521</sup> Approximately 90 percent of the schools accredited by national accreditors are for-profit institutions.<sup>522</sup> While national accreditation was created as a means to ensure the quality of non-degree programs, thus allowing those programs to access title IV student aid funds, in reality it now offers some large *degree-granting* for-profit colleges a path to Federal dollars without having to meet the same academic quality standards as traditional public and non-profit colleges. The first step of accreditation typically consists of the school performing an institutional self-assessment to determine whether its operation and performance meet the standards of the accrediting organization. This self-assessment is usually followed by a site visit, during which an outside team of volunteers—higher education faculty and administrators, practitioners in specific fields, and sometimes interested members of the public—evaluate the school or program. The visiting team typically prepares an accreditation report that includes judgments about the institution's or program's strengths, weaknesses, and potential for improvement. The draft report may be discussed with accrediting agency staff before the final version is submitted to the accreditation agency's decision making body, with recommendations for action.<sup>523</sup>

### Structural Defects in the Accrediting Process

The self-reporting and peer-review nature of the accreditation process exposes it to manipulation by companies that are more concerned with their bottom line than academic quality and improvement.<sup>524</sup> Because national accreditation agencies are composed primarily of for-profit members, for-profit executives dominate the boards of two large national accrediting bodies—the Accrediting Council for Independent Colleges and Schools (ACICS) and the Accrediting Commission of Career Schools and Colleges (ACCSC). The current chair of ACCSC's board also serves as the executive vice president of operations for Corinthian Colleges, Inc., a for-profit school with more than

<sup>519</sup> Council for Higher Education Accreditation, *Recognized Accrediting Organizations (as of May 2012)* (2012), [http://www.chea.org/pdf/CHEA\\_USDE\\_AllAccred.pdf](http://www.chea.org/pdf/CHEA_USDE_AllAccred.pdf) (accessed May 23, 2012).

<sup>520</sup> Senate HELP Committee analysis of publicly available accreditor membership information.

<sup>521</sup> Senate HELP Committee analysis of publicly available accreditor membership information.

<sup>522</sup> See Accrediting Council for Independent Colleges and Schools, *ACICS Member Directory*, <https://personify.acics.org/ACICSMemberDirectory/tabid/204/Default.aspx> (accessed May 15, 2012); Accrediting Commission of Career Schools and Colleges, *School Directory Search*, <http://www.accsc.org/Directory/index.aspx> (accessed May 15, 2012).

<sup>523</sup> Judith S. Eaton, *An Overview of U.S. Accreditation*, Council for Higher Education, p. 4 (2009).

<sup>524</sup> Id. ("Accrediting organizations are funded primarily by annual dues from institutions and programs that are accredited and fees that institutions and programs pay for accreditation reviews.") ACCSC, for example, charges around \$9,500 for the initial accreditation process and then collects annual fees.

113,000 students enrolled.<sup>525</sup> The Commission has no members who are current faculty. Its 13-member board includes six members representing the for-profit sector, including Kaplan Higher Education, Lincoln Educational Services, and Remington Colleges, Inc., among others.<sup>526</sup> Similarly, ACICS's 16-member board includes representatives from eight for-profit institutions, and the 2012 chair-elect currently serves as the executive vice president, general counsel, and chief compliance officer at Education Corporation of America, a for-profit education company that operates 35 campuses and an online division under four brand names.<sup>527</sup>

Regional accrediting bodies do not suffer from the same inherent conflicts given the diversity of their membership. However, one regional accreditor, the Higher Learning Commission of the North Central Association of Colleges and Schools, accredits a significant portion of the for-profit sector, and for many years accepted a comparatively large number of for-profit education companies seeking regional accreditation.<sup>528</sup> Additionally, while regional accreditors appear to have more stringent standards as it relates to academic quality, unlike regional accreditors, national accreditors at least require some demonstration that students attending its institutions are finding jobs.

The fee structure also means that both regional and national accrediting organizations are by definition financially dependent on the very institutions they review. This fee-for-review arrangement creates a dynamic that some observers compare to the Wall Street credit ratings agencies that rubber-stamped mortgage-backed securities and other instruments that later incurred large losses.<sup>529</sup> This creates particular problems for regional accreditation agencies reluctant to take on the expense of challenging well-financed for-profit education companies and the extensive legal teams they employ. Moreover, since institutions can select to seek accreditation from a number of agencies, if a particular accrediting agency gets a reputation for being too tough, schools can opt for other, more lenient accreditors. This ability to "forum-shop" makes it more difficult for national accrediting agencies to stick to tough standards. Holding to high standards could result in an accreditor putting itself out of business. In fact, after ACCSC challenged Westwood for having poor career placement rates, Westwood applied to two other accreditors: the Higher

<sup>525</sup> See ACCSC, *ACCSC Commissioners*, <http://www.accsc.org/Content/AboutACCSC/CommissionersBiographies.asp> (accessed May 15, 2012).

<sup>526</sup> *Id.*

<sup>527</sup> See ACICS, *Meet our Commissioners*, <http://www.acics.org/contact/content.aspx?id=2272> (accessed May 15, 2012). Regional accrediting commissions, responsible for accrediting most public and non-profit schools, are largely composed of college Presidents, faculty and representatives of the public interest. In other words, members come from an academic, not business or operational, background.

<sup>528</sup> Higher Learning Commission, *Currently or Previously Affiliated Institutions—05/24/2012*, <http://www.ncahlc.org/Directory-of-HLC-Institutions.html> (accessed May 24, 2012).

<sup>529</sup> See for example, Doug Lederman, "Comparing Higher Ed to Wall Street," *Inside Higher Ed*, April 29, 2010, <http://www.insidehighered.com/news/2010/04/29/shireman> (accessed July 6, 2012).

Learning Commission and ACICS. Michale McComis, the executive director of ACCSC, said about Westwood:

Westwood indicated to us that they had chosen to make application to another agency. They told us directly that it was because they were unable to meet our standards particularly with regard to student achievement. I think that's indicative of a problem throughout with regard to accreditation shopping and the opportunity for that to occur.<sup>530</sup>

In general, ACICS appears to be the least stringent standards for degree granting institutions.<sup>531</sup>

#### Accreditors Are Not Equipped to Properly Regulate Large For-Profit Institutions

The for-profit education sector has outpaced accrediting agencies' efforts to measure and enforce basic standards of quality in higher education. Self-evaluation and deference to institutional academic judgment make sense in settings where tenured faculty are in control of the curriculum through shared governance. But, as Barmak Nassirian, the associate executive director of the American Association of Collegiate Registrars & Admissions Officers, testified before the committee, "Now you have an arrangement in which higher education can be extremely lucrative, where executives, who are primarily businessmen as opposed to educators, design academic policy."<sup>532</sup>

Accrediting agencies seek to help colleges improve. Because of this institutional focus on continuous improvement, they often appear to have difficulty drawing and enforcing bright lines and minimum standards. Accreditors have struggled to effectively evaluate institutions driven by business principles that emphasize growth and revenue maximization rather than academic improvement or integrity. Indeed, the for-profit, business-centered model represents a sharp departure from the typical college or university that accrediting agencies traditionally evaluated. As the current president of the Higher Learning Commission testified, accreditors were "behind the curve" when faced with "the entry of large private equity funds into higher education and ... the development of distance education"—both hallmarks of the for-profit

<sup>530</sup> Michale McComis (Executive Director, Accrediting Commission of Career Schools and Colleges), Prepared Testimony submitted to the Senate Committee on Health, Education, Labor, and Pensions, *For-Profit Schools: The Student Recruitment Experience*, 111<sup>th</sup> Congress (2010).

<sup>531</sup> See generally ACICS, *Accreditation Criteria Policies, Procedures, and Standards*, <http://www.acics.org/publications/criteria.aspx> (accessed July 10, 2012).

<sup>532</sup> Barmak Nassirian (Associate Executive Director, American Association of Collegiate Registrars and Admissions Officers), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Improving For-Profit Higher Education: A Roundtable Discussion of Policy Solutions*, 112<sup>th</sup> Congress (2011).

sector.<sup>533</sup> They simply “did not have the policy framework and ...did not have the procedures to deal with it adequately.”<sup>534</sup>

Accrediting agencies have been overwhelmed by the rapid growth of non-traditional educational organizations, whose size and methods of education are unfamiliar and demand different protocols of assessment.<sup>535</sup> Accreditors are not equipped to properly oversee the modern-day for-profit education institution, especially those whose important decisions are made at corporate headquarters, not at the campus level. For instance, ACCSC has 32 employees and accredits 951 schools, many of which have multiple campuses and are spread throughout the country.<sup>536</sup> Although about one-third of those schools get reviewed every year, in his testimony at the committee’s August 4, 2010 hearing, Doctor Michale McComis, the Executive Director of ACCSC was unable to provide a compelling explanation of how, in 629 on-site evaluations over the previous 2 years, ACCSC did not find any “substantial noncompliance,” yet undercover recordings show serious problems all three ACCSC-accredited campuses visited by GAO agents.<sup>537</sup> The current design of the accrediting process ensures only a minimal review of business and recruiting policies practices, and accrediting bodies often have insufficient resources to comprehensively examine policies and practices that originate at the corporate level of a for-profit school.<sup>538</sup>

The other major national accrediting agency, ACICS, has faced similar problems. Career Education Corporation, with 49 campuses accredited by ACICS, recently announced that it had revised its placement data for each of its 49 campuses under scrutiny by the New York State attorney general.<sup>539</sup> The revised numbers showed that only 13 of the 49 campuses met the accreditor’s placement-rate standards.<sup>540</sup> ACICS’s auditing procedures from the past several years were apparently insufficient to prevent or discover such pervasively false

<sup>533</sup> Dr. Sylvia Manning (President, Higher Learning Commission), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Bridgepoint Education, Inc.: A Case Study in For-Profit Education and Oversight*, 112th Congress (2011).

<sup>534</sup> Dr. Sylvia Manning (President, Higher Learning Commission), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Bridgepoint Education, Inc.: A Case Study in For-Profit Education and Oversight*, 112th Congress (2011).

<sup>535</sup> Jose Cruz (Vice President for Higher Education Policy and Practice, Higher Education Trust), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Bridgepoint Education, Inc.: A Case study in For-Profit Education and Oversight*, 112th Congress (2011).

<sup>536</sup> Michale McComis (Executive Director, Accrediting Commission of Career Schools and Colleges), *Prepared Testimony submitted to the Senate Committee on Health, Education, Labor, and Pensions, For-Profit Schools: The Student Recruitment Experience*, 111<sup>th</sup> Congress (2010).

<sup>537</sup> Id.

<sup>538</sup> *Improving For-Profit Higher Education: A Roundtable Discussion of Policy Solutions*, Hearing Before the Senate Committee on Health, Education, Labor, and Pensions, 112th Cong. (2011) [hereinafter *Hearings*] (testimony of Barnak Nassirian).

<sup>539</sup> See Erica Perez, “Accreditor Seeks More Accurate Job Placement Data on For-Profits,” *California Watch*, January 27, 2012, <http://californiawatch.org/dailyreport/accreditor-seeks-more-accurate-job-placement-data-profits-14644> (accessed May 24, 2012); Stephen Burd, “Career Education’s Inadequate Response to Job Placement Rate Abuses,” *Higher Ed Watch*, November 2, 2011, <http://higheredwatch.newamerica.net/node/59900> (accessed May 24, 2012).

<sup>540</sup> Career Education Corporation, Form 8K filed May 7, 2012.

data. This is particularly disconcerting given the central role that job placement plays in the educational mission of for-profit colleges.

Higher Learning Commission of the North Central Association of Colleges and Schools

Of the approximately 1.4 million students attending publicly traded for-profit colleges, all but 160,000 of those attended a college accredited by the Higher Learning Commission, a division of the North Central Association of Colleges and Schools.<sup>541</sup> Companies like Bridgepoint Education, Inc. have purchased non-profit institutions with HLC accreditation in order to inherit those institution's access to title IV funds. In fact, for-profit education companies have purchased at least 16 non-profit colleges with regional accreditation since 2004.<sup>542</sup> The fact that HLC granted accreditation to so many for-profit education companies has led to some serious complications for the agency; after it granted accreditation to Career Education Corporation-owned American InterContinental University despite serious problems with how it awards credits to students, the Department of Education issued an alert memo indicating that HLC was at risk of sanctions by the Department.<sup>543</sup> The Department took further action against HLC, establishing a corrective action plan for the organization, after determining the accreditor was not providing sufficient guidance to its members regarding its minimum standards.<sup>544</sup> HLC has since instituted a number of new policies and procedures aimed at remedying these weaknesses.<sup>545</sup> These policies appear to be having an impact at stemming the purchase and expansion of existing schools within the HLC region, but it is unclear if the HLC reforms will prove sufficient to allow the agency to more accurately assess the performance of its current members.

*Bridgepoint-Owned Ashford University's Accreditation*

In 2005, Bridgepoint Education, Inc., purchased Mount St. Clare, a financially struggling non-profit school of 312 students in Clinton, IA, and converted it into the for-profit Ashford University.<sup>546</sup> In accordance with the

<sup>541</sup> Senate HELP Committee staff analysis of IPEDS enrollment information for for-profit college companies accredited by HLC.

<sup>542</sup> Daniel Golden, "How Colleges are Buying Respect," *BusinessWeek*, March 4, 2010, [http://www.businessweek.com/magazine/content/10\\_11/b4170050344129.htm](http://www.businessweek.com/magazine/content/10_11/b4170050344129.htm) (accessed May 9, 2012). See also, Barmak Nassirian (Associate Executive Director, American Association of Collegiate Registrars and Admissions Officers), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Improving For-Profit Higher Education: A Roundtable Discussion of Policy Solutions*, 112th Congress (2011) ("taxicab medallions can't be sold as easily as accreditation was sold").

<sup>543</sup> See U.S. Department of Education, Office of the Inspector General, *Alert Memorandum on the Higher Learning Commission of the North Central Association of Colleges and Schools' Decision to Accredite American InterContinental University*, Control Number ED-OIG/L13J0006, Dec. 17, 2009.

<sup>544</sup> *Id.*

<sup>545</sup> The Higher Learning Commission, *Commission Policies Affecting Institutional Affiliation*, <http://www.ncahlc.org/> (accessed May 24, 2010).

<sup>546</sup> Donald J. Andorfer, Jerald L. Garner, and David E. Leasure, "Assurance Section to Ashford University," *Report of a Commission-Mandated Focused Visit*, April 25-26, 2005, (on file with the committee).



Commission's change-of-ownership policy at the time, the college's transformation triggered an initial review in 2006, resulting in HLC reaffirming the school's accreditation status for a period of 10 years.<sup>547</sup>

The Commission performed a second review following Bridgepoint's IPO in 2009 in order to verify continued compliance with HLC academic, staffing, and governance requirements, as well as to inspect the institution's finances.<sup>548</sup> By the time of the second review, company leaders had shifted the school's modality to an almost exclusively online model and grown the enrollment of the school from approximately 312 to over 50,000.<sup>549</sup> The Commission's post-IPO review demanded that impartial observers apply the closest scrutiny to the "effectiveness and outcomes of current experiential learning formats," including the effect of the expanded online offerings on the wider curriculum.<sup>550</sup>

The three-member team assigned to perform the Ashford University site visit included two representatives of the for-profit education industry—the provost of National American University, and the senior vice president of American Public University System.<sup>551</sup> While HLC's Handbook of Accreditation provides that "the Commission does not knowingly allow any person to participate in an organizational evaluation whose past or present activities could affect his/her ability to be impartial and objective,"<sup>552</sup> the balance of power on the team sent to evaluate the fitness of Ashford University was nonetheless heavily skewed toward executives at other for-profit institutions steeped in the business culture of the for-profit industry. When asked about this imbalance, and if she thought it constituted "a good peer review," Dr. Manning answered, "No." She further testified, "In this particular case, frankly, as I look back on it, we had a disproportion. . . . This question of assigning peer reviewers is something that we are in the process of reviewing and revising."<sup>553</sup> Additionally, the peer review team visited the small physical campus facility in Iowa but did not review the company's headquarters in San Diego, CA where the management team is based.

<sup>547</sup> Bridgepoint External Correspondence, June 2005, Action Letter from The Higher Learning Commission Acknowledging Successful Completion of Review (on file with the committee).

<sup>548</sup> Michael Horowitz, Samuel Kerr and Karan Hinman Powell, *Report of a Visit for Institutional Change of Control—Institution: Ashford University*, Higher Learning Commission, November 16–18, 2009 (on file with the committee).

<sup>549</sup> See Ashford University, November 2009, *Institutional Snapshot* (BPI-HELP\_00021644).

<sup>550</sup> Letter from Andrew Lootens-White, Ph.D., HLC Vice President for Accreditation Relations, to Dr. Jane McAuliffe, President of Ashford University, January 21, 2010 (on file with the committee). According to the company's September 2011 Securities and Exchange Commission (SEC) filings, enrollment has risen further to 90,597 students.

<sup>551</sup> Michael Horowitz, Samuel Kerr and Karan Hinman Powell, *Report of a Visit for Institutional Change of Control—Institution: Ashford University*, Higher Learning Commission, p. 1 of 7, November 16–18, 2009 (on file with the committee).

<sup>552</sup> *Handbook of Accreditation, Third Edition*, Higher Learning Commission, Sections 1.3–2, October 1, 2008.

<sup>553</sup> Dr. Sylvia Manning (President, Higher Learning Commission), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Bridgepoint Education, Inc.: A Case Study in For-Profit Education and Oversight*, 112th Congress, (2011).

The review panel overlooked red flags at Ashford. An “Institutional Snapshot” that Ashford provided showed that the enrollment had increased 1,150 percent in the past 3 years. And the percent of first-time new students the college enrolled and retained for 1 year was 41 percent, meaning 59 percent of students had withdrawn in 1 year.<sup>554</sup> This information is substantially similar to the committee’s own analysis, which revealed that for students who enrolled during the 2008–9 academic year (the year in which HLC’s reviewers visited) 63.4 percent of Bachelor’s degree students withdrew by 2010.<sup>555</sup>

Despite these poor outcomes for students, the reviewers reported that Ashford was an institution thriving in the midst of monumental change.<sup>556</sup> Rather than discussing, or even acknowledging, the strikingly low retention rates, reviewers only mentioned the following problems: “limited parking and challenges finding parking, overcrowding in cafeteria, limited computer access in libraries and designated resource centers.”<sup>557</sup> The peer reviewers’ characterization of Ashford University completely overlooked the fact that student outcomes had declined dramatically and included no examination of whether the recruiting practices or other operations satisfied the requirements of institutional integrity.<sup>558</sup>

#### *American InterContinental*

Defects in the peer review process were also evident in HLC’s 2009 initial accreditation of American InterContinental University (AIU), a for-profit institution owned by Career Education Corporation. When the Commission decided to accredit AIU, the college was accredited by another regional body, the Commission on Colleges of the Southern Association of Colleges and Schools (SACS/COC).<sup>559</sup> It is unclear if AIU relocated its headquarters to its existing Illinois campus in order to obtain HLC accreditation as it expanded its online operations and engaged in a rapid expansion. However, the comprehensive peer review used to evaluate AIU’s application for initial accreditation fell short of rendering effective oversight.

Just as HLC’s review of Ashford University failed to take sufficient notice of drastically declining student outcomes, the peer review team assigned

<sup>554</sup> See Ashford University, November 2009, *Institutional Snapshot* (BPI-HELP\_00021644, at BPI-HELP\_00021647).

<sup>555</sup> Senate HELP Committee analysis of data provided by Bridgepoint.

<sup>556</sup> See *Id.* at 4.

<sup>557</sup> The Higher Learning Commission, *Report of a Visit for Institutional Change of Control*, p. 4, January 21, 2010 (on file with the committee).

<sup>558</sup> Similarly, board meeting minutes from American Public University System show that the executives believed “site visit teams spend much of their time confirming the information set forth in the institution’s self-study report.” American Public University, February 2006, *Minutes of the Board of Trustees of American Public University System* (1APEI-HELP-3-00000445).

<sup>559</sup> See The Higher Learning Commission, *Report of a Comprehensive Evaluation Visit for Initial Accreditation to American InterContinental University*, p. 3, May 4, 2009 (on file with the committee).

to evaluate AIU's Illinois campus declined to take appropriate action in the face of apparent infractions. The two peer reviews were also similar in the composition of their teams: three of the six members of the evaluation team sent to AIU were administrators at for-profit institutions.<sup>560</sup> At AIU, peer reviewers noted radical inflation in the university's assignment of credit hours. According to the Commission's report, "upper-division bachelor's course syllabi, course assignments, and student artifacts showed that the 9-unit courses offered by AIU are closely equivalent in content to 3-semester-hour courses taught at traditional and other online universities."<sup>561</sup> AIU's inflation of credit hours was significant in that the Federal Government uses credit hours as a measure of student work in establishing the amount of Federal title IV dollars a college may collect for a class or program of study.<sup>562</sup> For a class that AIU claimed was nine-units, AIU could collect significantly more Federal aid compared to another college that deemed the class was 3 credit hours. The credit hours noted by the Commission at AIU represented an inflation of "as much as 100% relative to common practice in American higher education."<sup>563</sup> Despite this finding, the HLC committee tasked with approving the peer reviewers' report signaled that "the institution meets the Commission's Criteria/Core Components for Accreditation."<sup>564</sup>

HLC's accreditation of AIU caught the attention of the U.S. Department of Education's Office of Inspector General, which in late 2009 was concluding a review of regional accreditors' credit hour standards.<sup>565</sup> The Inspector General discovered insufficient oversight of credit hours at three of the seven regional accrediting agencies, together accounting for schools receiving more than 70 percent of the Federal student aid awarded in the 2009–10 academic year. In fact, in the wake of the AIU investigation, the Inspector General recommended that the Department reconsider HLC's accrediting

<sup>560</sup> See *id.* at 1. The HLC evaluation team included the provost and general counsel of National American University, the senior vice president and academic dean of American Public University System, and the president of Rasmussen College.

<sup>561</sup> See *id.* at 17.

<sup>562</sup> See Dear Colleague Letter from Eduardo M. Ochoa, Assistant Secretary for Postsecondary Education, re: *AMENDED—State authorization under the Program Integrity Rules*, p. 2, March 18, 2011, <http://www.ifap.ed.gov/dpceletters/attachments/GEN1106.pdf> (accessed May 9, 2012) ("A credit hour is unit of measure that gives value to the level of instruction, academic rigor, and time requirements for a course taken at an educational institution."). See also Higher Education Act of 1965, 20 U.S.C.A. § 1058(e) (2008) (providing that "the term 'full-time equivalent students' [for the purpose of Title IV eligibility] means the sum of the number of students enrolled full time at an institution, plus the full-time equivalent number of students enrolled part time (determined on the basis of the quotient of the sum of the *credit hours* of all part-time students divided by 12) at such institution") [emphasis added].

<sup>563</sup> The Higher Learning Commission, *Report of a Comprehensive Evaluation Visit for Initial Accreditation to American InterContinental University*, p. 17, May 4, 2009 (on file with the committee).

<sup>564</sup> *Id.* at iii.

<sup>565</sup> See U.S. Department of Education, Office of the Inspector General, *Alert Memorandum on the Higher Learning Commission of the North Central Association of Colleges and Schools' Decision to Accredite American InterContinental University*, Control Number ED-OIG/L13J0006, December 17, 2009 (on file with the committee).

authority.<sup>566</sup> The Department did not suspend or limit HLC's authority but did put in place a Corrective Action Plan.

HLC's handling of both the credit hour problem and the Bridgepoint situation where the change of control was immediately followed by unprecedented enrollment growth and huge drops in student retention, makes clear the challenges that face accreditors. Further discussion is needed to determine the appropriate process and responsibility for determining access to Federal financial aid dollars, and whether the current structure, which depends on a process focused on assessing academic quality, is the most appropriate or sufficient method of allowing access to Federal financial aid dollars.

### State Oversight

Since its enactment in 1965, the Higher Education Act has required States to legally authorize the postsecondary educational institutions within their States.<sup>567</sup> As a leg of the "triad," States play a key role in overseeing postsecondary educational institutions within their jurisdiction. Such oversight includes authorizing these institutions to operate and ensuring that students attending these schools receive proper consumer protection. It is a State's responsibility to vet, oversee and address complaints from students attending its schools. Most States utilize an agency, commission or other State body to oversee postsecondary schools, and almost every State has a law extending its authority over all students physically located within the state who are taking classes outside the State.<sup>568</sup> However, the U.S. Department of Education had never defined minimum requirements for State authorization, and many States have taken a passive or minimal role in approving institutions, ensuring their practices comply with State law, and reviewing and addressing complaints from the public about them. Many State regulators have been relying on the other two legs of the triad—private accrediting agencies and the Federal Government—to vet and monitor the schools located in their States. This reliance is especially problematic in regards to schools that are neither regionally nor nationally accredited.<sup>569</sup> In fact, among members of the triad, States may have the greatest potential to properly regulate these institutions

<sup>566</sup> See *id.* at 1–2 (HLC's grant of full initial accreditation with no limitations to AIU "is not in the best interest of students and calls into question whether the accrediting decisions made by HLC should be relied upon by the Department of Education when assisting students to obtain quality education through the title IV programs. We recommend that the [Department] determine whether HLC is in compliance with [Department regulations] and, if not, take appropriate action . . . to limit, suspend, or terminate HLC's recognition by the Secretary.").

<sup>567</sup> Higher Education Act of 1965, Pub. L. No. 89–329, 79 Stat. 1219 (1965).

<sup>568</sup> Deanne Loonin and Jillian McLaughlin, *State Inaction: Gaps in State Oversight of For-Profit Higher Education*, *National Consumer Law Center*, December 2011, <http://bit.ly/vvenoc> (accessed May 9, 2012).

<sup>569</sup> This has particular consequences for DOD Tuition Assistance, MyCAA spousal educational benefits, and Veterans Administration GI bill benefits. The Senate HELP Committee's February 23, 2012 report shows that 6 of the top 10 recipients of MyCAA benefits are unaccredited and unregulated schools.

given their broad legal authority, their public accountability, and their proximity to campuses.<sup>570</sup>

In a number of States, oversight has eroded over time due to a variety of factors, including State budget cuts and the influence of the for-profit college industry with State policymakers. While the industry has gotten larger, State budgets and appropriations for regulatory oversight and enforcement have been reduced. In New York, during the mid-1990s, the Bureau of Proprietary School Supervision had a staff of 40 to oversee 300 schools. Today, that staff has been reduced by half and is expected to oversee 500 schools, with another 100 to 150 schools' applications waiting to be reviewed.<sup>571</sup> A December 2011 report by the National Consumer Law Center highlighted the top five States with the highest ratios of colleges to State-oversight staff. Washington State topped the list, with a ratio of 187 schools for every oversight employee.<sup>572</sup> More troubling than states without oversight resources are those States where the regulators are the for-profit schools themselves. Arizona's Board for Private Postsecondary Education has eight members, five of whom are employed by the for-profit education industry. State law requires that Florida's oversight agency, the Commission for Independent Education, to reserve four of the seven commissioners seats for for-profit schools.<sup>573</sup> In these cases, it is not clear who is looking out for the interests of students and taxpayers.

Student complaints produced to the committee provide a clear indication of consumer protection related issues occurring at multiple for-profit education companies, yet few States appear to have a system in place that encourages students to file complaints or that allows for any comprehensive assessment of student complaints.

Concerned that "the checks and balances provided by the separate processes of accreditation and State legal authorization [were] being compromised," the U.S. Department of Education released a State authorization rule in 2010.<sup>574</sup> In its justification for proposing the new State authorization regulation, the Department cited recent events regarding the California Bureau for Private Postsecondary and Vocational Education as an example of why it was shifting away from its past approach to the law:

<sup>570</sup> Thomas L. Harnisch, "Changing Dynamics in State Oversight of For-Profit Colleges," American Association of State Colleges and Universities, A Higher Education Policy Brief, April 2012.

<sup>571</sup> Benjamin Lesser and Greg B. Smith, "Watchdog All Bark But No Bite: Anemic State Agency Overwhelmed by Job of Policing For-Profit Schools," *New York Daily News*, January 18, 2011, <http://nydn.us/ySftCx> (accessed May 9, 2012).

<sup>572</sup> Deanne Loonin and Jillian McLaughlin, "State Inaction: Gaps in State Oversight of For-Profit Higher Education," *National Consumer Law Center*, December 2011, <http://bit.ly/vvenoc> (accessed May 9, 2012).

<sup>573</sup> Fla. Stat. §1005.21 (2011).

<sup>574</sup> Reasons for Proposed Regulations, 75 Fed. Reg. 34813, June 18, 2010, <http://www.gpo.gov/fdsys/pkg/FR-2010-06-18/pdf/2010-14107.pdf> (accessed May 9, 2012).

The weakness of the historical approach of not requiring active State approval and oversight may have contributed to the recent lapse in the existence of California's Bureau for Private Postsecondary and Vocational Education. The Bureau served as the State's oversight and regulatory agency for private proprietary postsecondary institutions until the State legislature eliminated the Bureau. . . . During the period when there was no State agency authorizing private postsecondary institutions, these institutions continued to participate in the title IV, HEA programs under some voluntary agreements while the State legislature worked on creating a new oversight agency. The proposed regulations, had they been in effect at that time, would have required that the State keep in place the prior oversight agency, or to designate a different State agency to perform the required State functions during the transition to a new State oversight agency.<sup>575</sup>

The Department's finalized rule stated that the Secretary would consider an institution to be legally authorized by a State if: (1) the authorization is given to the institution specifically to offer programs beyond secondary education, (2) the authorization can be revoked by the State, and (3) the State has a process to review and appropriately act on complaints concerning an institution and enforces applicable State laws.<sup>576</sup> The finalized rule also required schools offering postsecondary education through distance or correspondence education in a State in which it was not physically located, to meet any of that State's requirements in order for it to offer postsecondary education to students located in the State. The purpose of this requirement was to ensure that schools offering online classes to students in multiple States were properly authorized by each of the States. Without this requirement, and what is happening currently, is that many schools that primarily offer online classes to students located across the country only have to be authorized by the State in which they are headquartered.

On July 12, 2011, the U.S. District Court for the District of Columbia struck down the distance education portion of the regulation.<sup>577</sup> The U.S.

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<sup>575</sup> Proposed Regulations, 75 Fed. Reg. 34813, June 18, 2010, <http://www.gpo.gov/fdsys/pkg/FR-2010-06-18/pdf/2010-14107.pdf> (accessed May 9, 2012).

<sup>576</sup> Comment, 75 Fed. Reg. 66858, October 29, 2010, <http://www.gpo.gov/fdsys/pkg/FR-2010-10-29/pdf/2010-26531.pdf> (accessed May 9, 2012).

<sup>577</sup> *Career College Association v. Duncan*, 796 F.Supp.2d 108 (D.D.C. 2011), <http://www.career.org/iMISPublic/AM/CM/ContentDisplay.cfm?ContentFileID=12948&MicrositeID=0&FusePreview=Yes> (accessed May 9, 2012).

Department of Education is appealing this decision.<sup>578</sup> However, States are still expected to comply with the other components of the regulation.

### Federal Law and Regulation

The Federal Government is the third leg of the regulatory triad overseeing higher education. While for-profit education providers operated in the United States as early as the mid-19<sup>th</sup> century, it was the 20<sup>th</sup> century that brought Federal money, and some Federal regulation, into the sector.

The Servicemen’s Readjustment Act of 1944 (the first GI bill) marked the first time the Federal Government provided direct resources to individuals pursuing higher education. The new revenue stream led to an explosion of for-profit schools. The number of for-profit trade and vocational institutions enrolling veterans tripled after the introduction of the GI bill.<sup>579</sup> With the explosion in the number of for-profit schools, concerns about their quality arose. In 1951, the General Accounting Office (GAO)<sup>580</sup> reported that 1.7 million veterans attended for-profit trade schools, yet only 20 percent reported completing their studies.<sup>581</sup> Moreover, the GAO concluded that 65 percent of for-profit schools examined were engaged in “questionable practices that resulted in excessive charges to the Treasury.”<sup>582</sup> Following the GAO’s findings, the Veterans’ Administration (VA) enacted a rule stating that no institution could have a student body that was more than 85 percent veterans. The House Veterans Affairs Committee at the time described the “85/15” rule as “a real safeguard to assure sound training for the veteran, at reasonable cost, by seasoned institutions” and observed that had the rule been in effect during the administration of the World War II GI bill “considerable savings would have resulted.”<sup>583</sup>

For-profit colleges became eligible to receive Federal student aid loans and grants through the U.S. Department of Education in 1972.<sup>584</sup> Before that

<sup>578</sup> Though this 2010 Federal regulation is based in language that has been on the books for decades, it received pushback from higher education stakeholders, including the for-profit college industry. In January 2011, the Association of Private Colleges and Universities (APSCU) sued the U.S. Department of Education to overturn the rule. In its complaint, APSCU stated that the state authorization regulation “make[s] the availability of student financial assistance dependent upon States adopting specified regulatory regimes for licensing schools, creating significant economic and administrative burdens for schools that operate in multiple States that could adversely affect students’ ability to use title IV funds to pursue their higher education goals.” In a notice to schools on April 20, 2011, the U.S. Department of Education announced it would not enforce the State authorization regulation before July 1, 2014 in order to give schools time to comply.

<sup>579</sup> H.R. Rep. No. 82-160, at 81 (1951).

<sup>580</sup> Since re-named the Government Accountability Office.

<sup>581</sup> Charles A. Quattlebaum, *Educational Benefits for Veterans of the Korean Conflict*, Legislative Reference Service, pg. 29 (1952).

<sup>582</sup> *Id.* at 110.

<sup>583</sup> H. R. Rep. No. 1943, 82d Congress (1952).

<sup>584</sup> Higher Education Amendments of 1972, Pub. L. No. 92-318, 86 Stat. 235 (1972).

year, only non-profit and public institutions were eligible for these title IV student aid funds.<sup>585</sup> Even while allowing for-profit colleges to receive loans and grants, the Senate Education and Labor Committee at the time expressed concern that some for-profit schools attract students through “sophisticated advertising and unfulfillable promises,” and “do not offer the quality of education which the schools claim is available.”<sup>586</sup>

This new source of money for eligible for-profit colleges put them on an enrollment growth path. Between 1970 and 1975, enrollment across all higher education sectors grew by 30 percent, but enrollment in for-profit schools increased by 112 percent.<sup>587</sup> With this growth came significant problems. By 1990, the student loan default rate at for-profit schools was double that of higher education overall.<sup>588</sup>

This troubling development led to an investigation by the Senate Permanent Subcommittee on Investigations (PSI) under the leadership of then-Chairman Sam Nunn and then-Ranking Member William Roth, Jr. The investigation and hearings by PSI uncovered a host of troubling practices at for-profit schools, including alarming rates of loan volume increases and student defaults.<sup>589</sup> The investigations found that many students attending for-profit schools received little or no training, leaving them with “no job and a large bill to repay.”<sup>590</sup> A review of student aid by the Government Accountability Office found that, on average, the more revenue a for-profit school derived from Federal financial aid, the lower its students’ completion and job placement rates and the higher its default rates.<sup>591</sup> The widespread abuse documented by the PSI investigation and accompanying audits by the Department of Education Inspector General led to the closing of hundreds of for-profit schools.

Following the PSI investigation, as part of the Higher Education Amendments of 1992, Congress enacted significant reforms designed to ensure better quality in the for-profit college sector. First, Congress limited the amount of Department of Education student aid funds a for-profit college could receive to 85 percent of the school’s revenues.<sup>592</sup> This rule was modeled after the

<sup>585</sup> In 1965, with the passage of the Higher Education Act (HEA) the modern student loan program and the Equal Opportunity Grant program (the precursor of the modern Pell grant program) were created. The programs are housed in title IV of the act.

<sup>586</sup> S. Rept. No. 92-346, at 51 (1971).

<sup>587</sup> U.S. Department of Education, National Center for Education Statistics, Higher Education General Information Survey (HEGIS), “Fall Enrollment in Colleges and Universities” surveys, 1970 through 1985; and 1990 through 2009 PEDS “Fall Enrollment Survey” (IPEDS-EF:90-99), and Spring 2001 through Spring 2010.

<sup>588</sup> See *Abuses in Federal Student Aid Program*, Hearing before the Permanent Subcommittee on Investigations, of the Committee on Governmental Affairs, 101st Congress (1990).

<sup>589</sup> *Id.*

<sup>590</sup> *Id.*

<sup>591</sup> U.S. General Accounting Office *Proprietary Schools: Poorer Student Outcomes at Schools That Rely More on Federal Student Aid*, June 1997, Publication No. HEHS-97-103.

<sup>592</sup> Higher Education Amendments of 1992, Pub. L. No. 89-329, section 487(a)(24)). At the time of enactment in 1992, for-profit schools were prohibited from receiving more than 85 percent of their revenue from Federal student aid funds but the industry successfully lobbied to modify the rule to 90 percent in 1998. When the rule was



“85/15” rule put in place to protect veterans and the GI bill program. Under the rule, a for-profit campus, as identified by an Education Department “Office of Postsecondary Education Identification” number (OPEID), that violates the rule in 1 fiscal year is put on provisional status for the following 2 years. As currently written, colleges that fail to comply with the rule for 2 consecutive fiscal years lose eligibility to participate in Federal student aid programs under Title IV of the Higher Education Act.<sup>593</sup>

The rule was designed to require some “skin in the game”: a measurement of the amount of money that students, employers and State agencies are willing to contribute up-front for students’ education at a particular college. It also provides some transparency as to the amount of Federal aid dollars that a company receives, because the Department of Education reports the number publicly. The legislation contemplates that the quality of the programs and the institutions falling under the rule are sufficiently high to attract at least a minimal number of cash-paying students and employers. Though the for-profit landscape has changed, this policy rationale remains.

In the 1992 Higher Education Act Amendments, Congress also prohibited institutions from receiving title IV funds if they either offered more than 50 percent of their programs as distance-education courses, or enrolled over 50 percent of students in distance programs (the “50 percent rule”).<sup>594</sup> Additionally, it prohibited institutions in all sectors from receiving title IV student aid funds if more than 25 percent of the institution’s student loan borrowers defaulted on their loans.<sup>595</sup> Finally, Congress put in place a ban on paying college recruiters based on how many students they enrolled (“incentive compensation ban”), and sought to strengthen the accreditation system to ensure that accrediting agencies were operating separately and independently from the institutions they oversaw.

The 1992 amendments were enacted just as the for-profit sector was undergoing a shift away from small vocational and career schools, such as truck driving and secretarial schools, and towards large, degree-granting entities. The University of Phoenix, in particular, pioneered a new model of enrolling students who had already earned a significant number of higher education credits at another institution but had not finished their degree. The University of Phoenix model provided students, primarily working adults, with flexibility and convenience. Students take one class at a time, moving through a standard

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translated into the Federal student aid context, it was altered to track dollars, not students. See CRS Report for Congress, *Institutional Eligibility: The Higher Education Amendments of 1992*, Congressional Research Service, Publications No. 93-861 EPW, September (Publication No. 93-861 EPW).

<sup>593</sup> While originally a campus that violated this rule in a single year lost Federal financial aid eligibility, in the 2008 reauthorization of the Higher Education Act Congress loosened the sanctions to apply only when a campus exceeds 90 percent revenue from title IV programs for 2 consecutive fiscal years.

<sup>594</sup> See Margot A. Schenet, *Higher Education: Reauthorization of the Higher Education Act*, Congressional Research Service, December 3, 1992.

<sup>595</sup> Higher Education Amendments of 1992, Pub. L. No. 89-329, section 487(a)(24).

curriculum with a small group of students. As enrollment soared, other for-profit education providers began to move into degree programs. DeVry and the University of Phoenix broke new ground in the mid-1990s by becoming publicly traded companies.

With newfound capital, as the for-profit sector grew in enrollment and revenues, the sector initiated a gradual campaign to roll back some of the 1992 amendments. In 1998, the reauthorization of the Higher Education Act raised the limit on title IV revenues from 85 percent to 90 percent.<sup>596</sup> This gave for-profit schools that were nearing the 85 percent ceiling relief from potential penalties, and made it possible to enroll more students who were eligible for full Federal student aid. In 2002, the Bush administration's Department of Education effectively dismantled the ban on paying recruiters based on the number of students they enroll by creating "safe harbors," which allowed incentive payments as long as the number of students enrolled was not the sole criterion for compensating recruiters.<sup>597</sup> In practice, this meant that for-profit schools could use the number of students a recruiter enrolled as the basis for 95 percent of his or her salary, and only 5 percent based on other job performance criteria.

In 2006, as part of a provision to provide relief in the wake of Hurricane Katrina, the Deficit Reduction Act eliminated the 50 percent rule requiring at least 50 percent campus-based students and programs.<sup>598</sup> Today, three publicly traded schools now offer exclusively online programs, and many more companies currently have more than 50 percent of students in exclusively online programs.<sup>599</sup> Committee data indicate that, in 2008–9, at least 434,945 students were enrolled in exclusively online programs offered by just 11 for-profit companies.<sup>600</sup>

The Higher Education Opportunity Act of 2008 brought more rollbacks. Originally, a campus that violated the 90/10 rule in a single year lost all Federal financial aid eligibility. The 2008 law loosened the sanctions, stipulating that they would apply only when a campus exceeds 90 percent revenue from title IV programs for 2 consecutive fiscal years.<sup>601</sup> At the time it was passed, industry lobbyists called the rollback "a significant change because it means that a school will no longer face an immediate" penalty for violating

<sup>596</sup> Rebecca R. Skinner, *Institutional Eligibility and the Higher Education Act: Legislative History of the 90/10 Rule and Its Current Status*, Congressional Research Service, p. CRS-6, January 19, 2005.

<sup>597</sup> Federal Student Aid Programs, Final Regulations, 67 Fed. Reg. 67048, November 2, 2002, <http://www.gpo.gov/fdsys/pkg/FR-2002-11-01/pdf/02-27627.pdf>; 34 C.F.R. 668.14(b)(22).

<sup>598</sup> The claim was made that students displaced by Katrina needed access to distance education.

<sup>599</sup> The three publicly traded online schools are APEI, Capella and Walden. The committee's investigation included an additional 3 companies that are over 90 percent online Bridgepoint Education, Inc., Grand Canyon Education, Inc, and TUI as well as other companies with large online operations including Apollo, DeVry, CEC, ITT and Kaplan.

<sup>600</sup> Senate HELP Committee analysis of data provided by 11 for-profit education companies.

<sup>601</sup> Higher Education Opportunity Act of 2008, Pub. L. No. 110–315, § 101, 122 Stat. 3086 (2008), available at <http://www.gpo.gov/fdsys/pkg/PLAW-110publ315/pdf/PLAW-110publ315.pdf> (accessed July 3, 2012).

the rule.<sup>602</sup> In practice, this means that a for-profit college can collect more than 90 percent of its revenues without facing a penalty by failing and complying with the 90/10 rule in alternate years. The law also allowed for-profit colleges to count half of the value of loans made to students by the school (“institutional loans”) as revenue in the year the money was loaned. This temporary provision, in effect between July 2008 and July 2012, was a significant change from previous law that only allowed *payments* made by students to be counted.<sup>603</sup> Finally, the Ensuring Continued Access to Student Loans Act of 2008, which increased the Stafford Loan limit for each borrower by up to \$2,000 a year, also allowed that for-profit colleges were not required to count the increases in the 90/10 calculation until July 2011.<sup>604</sup>

More recently, during the Obama administration, the Department of Education has attempted to regulate some of the problems in for-profit schools.<sup>605</sup> As part of a rulemaking package enacted in October 2010, the Department of Education once again ensured that recruiters at for-profit schools cannot not be compensated based on the number of students they enrolled. The Department also prohibited colleges from making misrepresentations about their educational programs, financial charges and graduate employability.<sup>606</sup>

In June 2011, the Department finalized a new regulation that, for the first time, defined colleges’ obligation to “provide gainful employment in a

<sup>602</sup> Association of Private Sector Colleges and Universities, HEA Conferees Include Major Changes to 90-10 Rules, Newsletter, 2008, <http://www.career.org/iMISPublic/AM/Template.cfm?Section=Search&template=/CM/HTMLDisplay.cfm&ContentID=17598> (accessed May 24, 2012) (Association of Private Sector Colleges and Universities was known as Career College Association at the time of this newsletter’s publication).

<sup>603</sup> Higher Education Opportunity Act of 2008, Pub. L. No. 110–315, § 101, 122 Stat. 3086 (2008), available at <http://www.gpo.gov/fdsys/pkg/PLAW-110publ315/pdf/PLAW-110publ315.pdf> (accessed July 3, 2012).

<sup>604</sup> Ensuring Continued Access to Student Loans Act of 2008, Pub. L. No. 110–227, § 2, 112 Stat. 740 (2008), available at <http://www.gpo.gov/fdsys/pkg/PLAW-110publ227/html/PLAW-110publ227.htm>.

<sup>605</sup> Program Integrity: Gainful Employment—Debt Measures, Final Regulations, 76 Fed. Reg. 34386, June 13, 2011.

<sup>606</sup> Additional regulations enacted as part of the 2010 rulemaking package, many of which apply to all institutions of higher education include: requirements to furnish information regarding graduation rates and job placement that will allow the determination of student debt levels and incomes after program completion (gainful employment data collection); minimum standards for the State authorization process; requirement of a structured and consistent policy approach to evaluating satisfactory academic progress; definition of a credit hour that allows accrediting agencies to determine whether an institution’s assignment of a credit hour is acceptable; definitions of when a student is considered to have withdrawn from a program for purposes of returning title IV aid; requirement that the Department receive notice of new programs and potential for the Department to require formal new program approval; development of procedures to evaluate the validity of a student’s high school diploma; enhanced authority to take action against institutions engaging in deceptive advertising, marketing, and sales practices; revised Ability To Benefit (ATB) test approval procedures and criteria and requirement of some completion of some credits before title IV aid is made available for ATB students; strengthened criteria for when a portion of another institution’s educational program can be delivered through a written arrangement; simplification of FAFSA verification; and allowance that a one-time retake of a course may count toward a full course load for purposes of title IV aid. Some alleged that the Department of Education improperly handled confidential information during the rulemaking process. A subsequent investigation by the Inspector General of the Department of Education found “found no improper disclosure of sensitive information by Department officials in their communications with outside parties.” U.S. Department of Education, Office of the Inspector General, *Department’s Negotiated Rulemaking Process for Gainful Employment*, Final Audit Report, June 2012 <http://www2.ed.gov/about/offices/list/oig/auditreports/fv2012/a19l0002.pdf> (accessed July 8, 2012).

recognized occupation.”<sup>607</sup> The rule requires that each program at for-profit colleges, as well as vocational programs offered by public and non-profit colleges, demonstrate that 35 percent of their student-borrowers are repaying their student loans, *or* the ratio of their typical graduate’s debt to their total income is below 12 percent, *or* the ratio of their typical graduate’s debt to the graduate’s *discretionary* income is below 30 percent.<sup>608</sup> Although this rule is a first step towards ensuring that students attending for-profit schools are getting a valuable education that serves them well in the job market, the extremely low bar that programs must meet, and the fact that a program must violate all three thresholds for 3 out of 4 years, make it unlikely that many poor-performing programs will face consequences. Moreover, 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.<sup>609</sup> While the decision will require that the Department either prevail on an appeal, or initiate a new rulemaking process to better substantiate the need for the 35 percent repayment rate, programs must still disclose whether they meet the gainful employment criteria. 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 3 gainful employment criteria.<sup>610</sup> Among the companies with more than five programs failing all three criteria were Corinthian, Career Education Corporation, Westwood, Vatterott and Education Management Corporation.<sup>611</sup>

<sup>607</sup> Program Integrity: Gainful Employment—Debt Measures, Final Regulations, 76 Fed. Reg. 34386, June 13, 2011.

<sup>608</sup> Program Integrity: Gainful Employment—Debt Measures, Final Regulations, 76 Fed. Reg. 34386, June 13, 2011.

<sup>609</sup> “The Department does not identify any expert studies or industry practices indicating that a repayment rate of 35 percent would be a “meaningful performance standard,” but rather emphasizes that the number was chosen because approximately one quarter of gainful employment programs would fail a test set at that level. ... The question before the court is whether the Department has provided a reasoned basis for selecting the debt repayment and debt-to-income standards. The debt-to-income standards were based upon expert studies and industry practice—objective criteria upon which the Department could reasonably rely. ... The debt repayment standard, by contrast, was not based upon any facts at all. No expert study or industry standard suggested that the rate selected by the Department would appropriately measure whether a particular program adequately prepared its students. Instead, the Department simply explained that the chosen rate would identify the worst-performing quarter of programs. Why the bottom quarter? Because failing fewer programs would suggest that the test was not ‘meaningful’ while failing more would make for too large a ‘subset of programs that could potentially lose eligibility.’ That this explanation could be used to justify any rate at all demonstrates its arbitrariness.” 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).

<sup>610</sup> 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-percent> (accessed July 6, 2012).

<sup>611</sup> 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).

Thus, only two key regulatory provisions impose some measure of accountability on for-profit colleges: the weakened 90/10 rule, and the requirement that no more than 30 percent of students default within 3 years. Data and internal documents indicate that some for-profit schools go to great lengths to evade these modest checks.

### **Evasion of Regulatory Requirements**

The two primary Federal checks on for-profit colleges pertain to the proportion of Federal money that the colleges collect and the percentage of students who default on Federal student loans. In addition, some accreditors also require schools to meet standards regarding the percentage of graduates who obtain employment in their field of study. Some for-profit colleges employ questionable tactics to meet these requirements. Strategies for complying with 90/10 include switching campuses between Office of Postsecondary Education ID (OPEID) numbers, stopping the flow of funds to high-90/10 OPEIDs, maximizing cash collected from students, creating scholarship programs, increasing tuition, establishing roadblocks for living expense stipends, utilizing institutional loan programs, pursuing military benefits, and converting from for-profit to non-profit status. Default management tactics involve aggressively signing students up for forbearance and deferment plans. Job placement statistics have been plagued by irregularities and sometimes falsified data.

#### 90/10 Strategies

Each for-profit education company must report annually to the Department of Education the amount of Federal student aid they took in (the “numerator”) and the company’s total revenue from academic activity (the “denominator”) for each OPEID number under the company’s control.<sup>612</sup> The numerator consists of all title IV program funds—primarily Federal Stafford Loans and Pell Grants—used for tuition, fees and other institutional charges. The denominator is the sum of all revenues generated by the institution from tuition, fees, and other institutional charges used for educational purposes. In addition to title IV funds, the denominator includes student-paid tuition, employer-paid tuition, State educational loans and grants, scholarships, and, because of a loophole in the law, all other Federal funds (which includes military servicemember and veteran educational benefits). It does not include funds generated from non-educational activities, such as outside investments, or

<sup>612</sup> The determination regarding whether more than 90 percent of revenues are coming from Federal financial aid dollars is performed for each OPEID number, not based upon all schools operating under the same name or all schools owned by the same corporation. Typically, an OPEID number corresponds to one campus. But because of the consolidation, combinations, and growth in the for-profit sector, one corporate entity may have one number for many campuses, or many. For example, Strayer University, with its 92 campuses has one OPEID number whereas Corinthian Colleges, Inc., with 105 campuses, has 49 OPEID numbers.

cafeteria and school brand apparel sales. Schools must use cash-basis accounting, meaning that revenue is recognized when it is actually received (instead of when it is earned).

Each year, many for-profit schools edge closer to the 90 percent line. Twenty-four percent of for-profit institutions had a 90/10 ratio of 80 percent or above in 2007–8; just 2 years later, in 2009–10, the proportion jumped to 37 percent of all for-profit institutions.<sup>613</sup>

For-Profit Education Companies with Highest Reported 90/10 Share, 2010		
Company	Reported 90/10 Share [in percent]	Estimated Share Including All Federal Funds [in percent]
Apollo Group, Inc.	85.3	88.7
Bridgepoint Education, Inc.	85.1	93.7
Herzing, Inc.	86.1	87.4
Kaplan Higher Education Corporation	85.9	87.9
Vatterott Education Holdings, Inc.	87.0	88.1

Instead of seeking to attract cash-paying students or employers by offering quality programs, some for-profit schools have devised a number of tactics to artificially lower their reported 90/10 figure.<sup>614</sup> These tactics are detailed below.

#### *Switching Campuses Between OPEIDs*

The 90/10 rule attaches to an OPEID number, not a school or a parent company. One OPEID number may consist of a main campus and 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. This requires the blessing of the Department of Education, the college's accrediting agency, and the State regulator, which usually grant these shifts. As an example, Career Education Corporation recently applied to consolidate 19 of its OPEIDs into one.<sup>615</sup> Included in this 19 were 6 of its OPEIDs that were over 90 percent.<sup>616</sup>

EDMC discussed internally a consolidation and reorganization of its campuses in late 2009 in part to address concerns with 90/10 issues at some

<sup>613</sup> U.S. Department of Education, *Proprietary Schools 90/10 Revenue Percentages Tracked Over Student Aid Award Year*, <http://federalstudentaid.ed.gov/datacenter/proprietary.html>.

<sup>614</sup> One executive said, "90/10 is a multi-front battle, like cancer—we won't find one single solution other than abolition." Herzing Internal Email, September 2009, re: *RE: 90/10 combining* (HP000006166).

<sup>615</sup> Career Education Corporation 10-Q for the period ending 3/31/2011. Consolidation of campuses into fewer OPEID groups is not, in itself, a suspect practice. However, the Department of Education must be mindful of proposed consolidations that seek primarily to evade the penalties for violating the 90/10 rule or student loan default rate rule.

<sup>616</sup> *Id.*

campuses.<sup>617</sup> Similarly, Herzing University enlisted the help of a consultant to review potential schools to purchase “for 90/10 strategies.” A Herzing executive instructed the consultant, “We are only interested in schools with low 90/10 ratios, which are healthy, and \$1M+ in revenue.”<sup>618</sup> The school also made plans to shift its current campuses around under different arrangements of OPEID numbers. Faced with high 90/10 campuses in Toledo and Akron, one executive wrote,

My initial thought is to match Toledo with Omaha because they are smaller enterprises and that way we can reserve Minneapolis for Akron if necessary. Right now the Toledo/Omaha rate would be . . . 72.6% . . . Right now Akron/Minneapolis would be . . . 78.5%. This group could in theory go up to the \$20,000,000.00 mark in combined revenue, with the current cash and still be under the 90% threshold.<sup>619</sup>

Herzing managers also discussed paying bonuses to employees based on each 0.1 percent reduction in 90/10 their campus achieved over the course of a year.<sup>620</sup>

#### *Stopping Flow of Funds to OPEID*

Documents reviewed by the committee reveal that some companies have taken the drastic step of stopping the flow of title IV student aid money to its high-90/10 OPEID groups. 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.<sup>621</sup>

Stopping the flow of aid hurts students because campuses that do not receive student aid funds may not disburse, in a timely manner, living-expense checks to students who depend on those funds to pay for books, housing, food, transportation, and childcare. Indeed, internal documents show that schools are well aware that withholding aid money could cause significant disruptions and potentially drop-outs. Yet, these schools sometimes ignore the potential harm to students. In an internal email, an EDMC executive noted that “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

<sup>617</sup> EDMC, December 2009, *WASC Announcement* (EDMC-916-000200071, at EDMC-916-000200081) (document on file with the committee).

<sup>618</sup> Herzing Internal Email, June 2010, re: *Brookfield opportunity etc* (HP000006414).

<sup>619</sup> Herzing Internal Email, August 2009, re: *RE: 90 10 as of 8.14.2009* (HP000006169).

<sup>620</sup> Herzing Internal Email, April 2010, re: *RE: YTD HAPPY Bonus Results* (HP000006143).

<sup>621</sup> 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.

debt on drops.”<sup>622</sup> The company ultimately opted not to cease drawing down title IV funds at the end of Fiscal Year 2010. A senior vice president in charge of student finance told the chief administrative officer that one EDMC brand had previously used delayed aid disbursement prior to the acquisition at a few campus locations.<sup>623</sup> Likewise, internal documents show that Vatterott engaged in the same practice in 2008: A concerned regional director emailed that the Quincy, IL campus had “more than \$900K past due” in title IV funds that should have been disbursed to the campus. An employee at the Quincy campus responded, “Because of the 90/10 issue, corporate has put a hold on our title IV disbursements until the first of the year.”<sup>624</sup>

CEC’s withholding of Federal student aid funds to its “Fenton OPEID,” which reported that it exceeded the 90/10 metric in 2011, led to student frustration over not being given their living stipend disbursements: “Last year during this time, the CPC [CEC’s Student Aid Centralized Processing Center] started to receive several calls . . . [from] students questioning why they were not able to receive their disbursements.”<sup>625</sup>

#### *Collecting Cash from Students*

Internal documents demonstrate that some schools have raised their initial enrollment fee—which must be paid in cash—or insisted on cash payments from students in order to lower their reported 90/10 ratio. While asking students to make up-front payments on their education can be a good idea because it is interest-free and also helps them to understand what it will be like to make payments on their loans later, it seems that some for-profit schools are primarily seeking to drive down their 90/10 ratios with these cash payments.

In 2007, Herzing raised its enrollment fee to \$100 for its online students.<sup>626</sup> The company also proposed to award its recruiters extra points toward salary increases for enrolling students who make cash payments.<sup>627</sup> In order to collect more cash, ITT created “SWAT teams” of three to four financial aid employees to visit specific campuses and approach students in class who were behind on payments to the school.<sup>628</sup> Kaplan proposed “sponsor[ing] tables/treats for a school-wide yard sale, flea market, or food sales to help students obtain additional cash” to pay the school.<sup>629</sup> The company also initiated

<sup>622</sup> EDMC Internal Email, March 2010, re: *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).

<sup>623</sup> EDMC Internal Email, August 2008, re: *RE: 90/10 definition ?* (EDMC-916-000208935). The company asserts that this activity occurred prior to Brown Mackie’s acquisition by EDMC.

<sup>624</sup> Vatterott Internal Email, December 2008, re: *Re: accounts receivable* (VAT-02-33-00360).

<sup>625</sup> Career Education Corporation, August 2009, re: *FW: SEC 90 10 - HOLD PELL* (CEC000026555).

<sup>626</sup> Herzing, June 2007, *90/10 Report to Finance Committee of the Board* (HP000001629).

<sup>627</sup> *Id.*

<sup>628</sup> ITT Internal Presentation, August 2008, *SWAT Team Volunteers* (ITT-00052133) and Senate HELP Committee staff interview with Rashidah Smallwood, February 17, 2011.

<sup>629</sup> Kaplan Internal Presentation, *90/10 Overview* (KHE 272311, at 272318).



the “Encourage X-tra Cash Investment Toward Education [EXCITE]” campaign to secure more cash from students.<sup>630</sup> The EXCITE campaign included training for financial aid and other staff to overcome students’ objections to paying more cash.<sup>631</sup> The training featured this scenario:

Sally has a mortgage, car note, day care, utilities, and insurance to pay every month. She is barely making these payments and with the current lay offs occurring at her job, she is not sure how long she can continue to make them. When Sally decides that making \$100 per month tuition payments is not a good idea, given her current situation, use the feel, felt, found method to overcome her concerns.

The training materials instruct the employee to respond:

Sally, I understand how you feel about not wanting to make \$100 per month tuition payments. Many of our students felt the same way when they enrolled into the program. What they found, Sally, is this investment in their future was well worth any sacrifices they had to make such as finding ways to reduce utility costs or determine ways to obtain additional resources. Do you agree, that the benefits of getting an education to achieve a stable rewarding career outweigh the costs? Here at Kaplan College, we will gladly work with you to make it easier. How much do you think you could afford? [emphasis in original].<sup>632</sup>

#### *Scholarship Programs*

Department of Education regulations dictate that scholarships awarded to a student do not count as Federal financial aid and instead count on the “10” side of the 90/10 calculation, only if the scholarships are awarded by an organization independent of the school. The 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 in reality the design and control of the programs appears to come from within the for-profit school. In these cases, the money used to fund the scholarship comes from sources connected to the school and the awards are only given to students at that particular school.

<sup>630</sup> Kaplan Internal Document, *EXCITE Initiative Training: Encourage X-tra Cash Investment Towards Education* (KHE 272310).

<sup>631</sup> Kaplan Internal Presentation, *Overcoming Objections Tuition Payment Commitment* (KHE 272320).

<sup>632</sup> Kaplan Internal Presentation, *Overcoming Objections Tuition Payment Commitment* (KHE 272320, at KHE 272326 and KHE 272326).

ITT created the “Champagne Scholarship,” a “new scholarship named for and funded by [the company’s] previous chief executive officer, Renee Champagne.”<sup>633</sup> A former employee and whistleblower confirmed that nearly every student who applied received the scholarship.<sup>634</sup> 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 achievement if a school is in danger of exceeding 90 percent.<sup>635</sup>

Similarly, EDMC created a non-profit tax entity called the “Education Foundation” to bestow scholarships that count towards the 10 percent side.<sup>636</sup> The foundation awards scholarships only to students at EDMC schools.<sup>637</sup> The money is gathered from EDMC employee donations and corporate foundations, often representing companies that do business with EDMC or that market their products to EDMC students, such as student loans from Bank of America, software from Journey Education Marketing, textbooks from Wiley and McGraw-Hill publishers, and soda-machine sales from Vending Management Services, Inc.<sup>638</sup> The company awarded more than 400 scholarships in 2009, ranging up to \$5,000 each. In 2009, the company looked to “quadruple the amount of employee contributions and school fund raising activity” explicitly for the purpose of 90/10 compliance.<sup>639</sup>

### *Increase Tuition*

Perhaps most troublingly, some schools push their tuition higher in order to create a gap between the total amount of Federal aid a student can receive and the cost of attending. This illustrates the fundamental problem with the cost of for-profit schools—that the tuition fees and other academic charges bear no relationship to the cost of providing the education. This gap means that students attending these schools must find even more financing by taking out private loans, taking on more debt through a private or institutional loan, or making monthly cash payments, often by credit card, directly to the school to pay for the artificially high cost of the school. The student is left with more debt, likely at a higher rate of interest, just so the school can count that money towards the “10” side.

<sup>633</sup> ITT Internal Document, *Champagne Scholarship Fund* (ITT-00060529). See also ITT Internal Presentation Slide, *Champagne Scholarship* (ITT-00052394).

<sup>634</sup> Senate HELP Committee staff interview with Rashidah Smallwood.

<sup>635</sup> Senate HELP Committee staff analysis of documents provided by ITT.

<sup>636</sup> EDMC Internal Document, November 2009, *90-10 Student Mix Project Tracker* (EDMC-916-000000483). The company asserts that EDMC foundation funds are not included in its 90/10 calculation.

<sup>637</sup> The Education Foundation, *What is The Education Foundation?*, <http://www.educationfdn.org/about.php> (accessed May 10, 2012).

<sup>638</sup> See EDMC Education Foundation, *Charting Courses*, Education Foundation Newsletter, Spring 2009, [http://www.educationfdn.org/documents/newsletter\\_spring\\_2009.pdf](http://www.educationfdn.org/documents/newsletter_spring_2009.pdf) (accessed May 8, 2012); The Education Foundation, *Building Futures Through the Education Foundation*, Program Brochure, <http://www.educationfdn.org/documents/Tri-fold%202010%20brochurefinal.pdf> (accessed May 8, 2012).

<sup>639</sup> EDMC Internal Document, November 2009, *90-10 Student Mix Project Tracker* (EDMC-916-000000483). The company asserts that EDMC foundation funds are not included in its 90/10 calculation.

What is striking is that 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. This practice would align with 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. It is clear, in the case of at least some schools, that such a policy is unacceptable because of the potential reductions in revenue and profit.

Many for-profit colleges stay well under 90 percent even with comparatively low tuition. For example, an analysis of the American Public Education Inc. (APEI), a for-profit system headquartered in West Virginia that enrolls a significant number of military veterans and servicemembers, finds that even when all military benefits are included on the “90” side, the company receives approximately 77.4 percent of revenues from Federal dollars, well under the 90/10 threshold.<sup>640</sup> APEI has avoided 90/10 compliance issues, in part because the company offers much lower tuition than most for-profit education companies and is able to attract both students and employers based on this value proposition. Colleges can also avoid 90/10 issues by attracting employers that offer programs to their employees to pay some or all of the cost of getting a higher degree. For example, Strayer has been able to remain well under the 90/10 threshold largely due to its employer-sponsored tuition programs. Students who receive tuition help from their employers or associations make up approximately 25 percent of the student body at Strayer.<sup>641</sup>

The higher a company sets tuition, the less likely it is for student contributions to provide 10 percent of revenue.<sup>642</sup> At APUS, a student contributing 10 percent towards his or her Associate degree would need to pay \$1,535, while the same student contributing 10 percent towards a Corinthian Associate degree, which is priced far higher, would need to find \$4,183 out-of-pocket.

An email from the vice president of Argosy University Online highlights 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 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.”<sup>643</sup>

Financial analysts, who are usually champions of for-profit higher education, have taken issue with the tactic of justifying tuition raises with 90/10

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<sup>640</sup> Senate HELP Committee staff analysis.

<sup>641</sup> Strayer, Q2 2011 Earnings Call with Investors.

<sup>642</sup> GAO, “For-Profit Schools: Large Schools and Schools that Specialize in Healthcare Are More Likely to Rely Heavily on Federal Student Aid,” October 2010, Slide 28, <http://www.gao.gov/assets/320/310897.pdf>.

<sup>643</sup> EDMC Internal Email, June 7, 2010, re: *AUO Pricing* (EDMC-916-000229388).

compliance. After Corinthian instituted a 12 percent tuition increase in the name of 90/10 compliance, Ariel Sokol, a financial analyst with UBS, posed a question to Corinthian executives in an investor conference call, “I’m a little confused why the burden to comply is being placed on the student because if the Company is providing value to businesses where it places students why aren’t the businesses willing to offer scholarships to the students you’re willing to serve, particularly when the alternative is either the closure of the school or burdening the students/employees with additional debt?”<sup>644</sup> The CEO responded that since Corinthian focuses their recruiting efforts on people who do not have the money to pay for school, most of their students must borrow the maximum they are eligible for.<sup>645</sup> And since most of their students do not have a job and are seeking entry-level positions with their Corinthian degree, employers are not willing to help them fund the cost of school. Sokol called Corinthian’s decision to raise tuition 12 percent “perhaps the most counterproductive public negotiating tactic that we’ve ever witnessed.”<sup>646</sup> Corinthian announced the tuition increase “as if they are somehow the victims” when in reality the company knowingly pursued this kind of a growth strategy notwithstanding the existence of 90/10.<sup>647</sup> “It’s not as if [the company’s 90/10 situation] happened by surprise,” and now, “students are being burdened with debt they can’t repay. That’s not a viable long-term strategy,” Sokol said.<sup>648</sup>

#### *Establishing Roadblocks for Living Expense Stipends*

Students are eligible for stipend checks to pay living expenses while in school if there is money leftover after using their aid to pay tuition and institutional charges. In an effort to reduce their reported 90/10 ratio, some schools have resorted to putting roadblocks up for students to get their stipend checks. An internal document titled “90/10 plan FY2010” reveals 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.”<sup>649</sup> While counseling students to avoid borrowing more than they need to pay for school helps students manage their

<sup>644</sup> Corinthian Investor Call, February 2011.

<sup>645</sup> The CEO said, “Most of our students come to us without jobs, and so, as a result, these are entry level positions and most employers are not willing to step up and provide scholarships or fund that kind of program. . . . And because Congress has done such a good job for our students in terms of increasing the amount of Stafford money available to students and the amount of Pell money available to students, and our tuition historically has been going up at 3 percent to 4 percent a year, it’s created this kind of a problem.”

<sup>646</sup> 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 Education*, April 2, 2011, <http://chronicle.com/article/Colleges-Scramble-to-Avoid/126986/> (accessed May 8, 2012).

<sup>647</sup> *Id.*

<sup>648</sup> *Id.*

<sup>649</sup> EDMC, *90/10 plan FY2010 Akron* (EDMC-916-000227880). The company asserts that the document only refers to counseling students to limit stipend borrowing and that it has never held back stipend amounts from students. See also Corinthian Internal Email, June 2010, re: *FW: Fwd: [redacted]* (CCi\_00058084).

future loan payments, the practice of making it burdensome to obtain money students need for living expenses is not helpful.

Bridgepoint Education instituted a stipend check procedure under which students must wait 14 weeks to get the full amount of their stipend.<sup>650</sup> Complaints from students attending Bridgepoint-owned Ashford University show many students frustrated by delayed payments, improper amounts, and poor communication with students.<sup>651</sup> One student wrote that his account balance showed that the school owed him a stipend check for \$6,393.50 that was delayed multiple times. He wrote, “I am scheduled to start class on Wed the 14<sup>th</sup>, HOWEVER, like the past 3 classes, I don’t have the money to buy books for them, so I had to take the classes without the textbooks” [emphasis in original].<sup>652</sup> Another student wrote,

After requesting to have my excess Student Loan money refunded to me and check was supposed to be mailed out. . . . After numerous calls and many Financial Aid Representatives telling me they would research this and follow up I have yet to receive the fund or a phone call. This is the second time this has happened this academic year. . . . Unfortunately, I had to complete my first class without all of the required materials.<sup>653</sup>

In 2010, the Inspector General of the Department of Education released a report detailing an audit of Bridgepoint, finding, among other problems, that the company was using a flawed process for managing stipends.<sup>654</sup>

#### *Institutional Loans*

Historically, when a school operated its own loan program, these “institutional loans” could only be counted on the “10” side when a student makes payments on the loan, not at the time of disbursement of the loan. At some colleges only a small portion of these loans are ever repaid, perhaps as low as 20-50 percent for students who leave school without a degree, and loan payments that students do make are spread over multiple years. Thus, the utility

<sup>650</sup> Bridgepoint, October 2008, *New Stipend Process for Financial Aid Students: Effective 10.13.2008* (BPI-HELP\_00016331).

<sup>651</sup> See, for example, Bridgepoint Student Email, April 2009, re: *This is my formal complaint* (BPI-HELP\_00028217); Bridgepoint External Correspondence, May 2009, re: [redacted] (Letter From an Attorney Regarding Student Loan Complaint) (BPI-HELP\_00027873); Bridgepoint Student Correspondence, May 2009, Student Letter of Complaint (BPI-HELP\_00027845); Bridgepoint Student Email, February 2010, re: *This Constitutes My Formal Complaint* (BPI-HELP\_00027194) (Ashford University); Bridgepoint Student Email, Monday 2010, re: *“This constitutes my formal complaint”* (BPI-HELP\_00026309); Bridgepoint Student Correspondence, March 2010, Student Letter of Complaint (BPI-HELP\_00026143).

<sup>652</sup> Bridgepoint Student Email, July 2010, re: *“This constitutes my formal complaint.”* (BPI-HELP\_00026309) (Ashford University).

<sup>653</sup> Bridgepoint, April 2010, Complaint Overview Form from the Better Business Bureau (BPI-HELP\_00025972).

<sup>654</sup> 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.

of institutional loans to move a school's 90/10 ratio was low.<sup>655</sup> However, two recent developments altered the landscape. Congress enacted an exception to this treatment of institutional loans as part of the 2008 reauthorization of the Higher Education Act (HEA).<sup>656</sup> For institutional loans made to students from July 1, 2008 until July 1, 2012, schools are permitted to count 50 percent of the loan amount at the time the loan is made to the student.<sup>657</sup>

Some for-profit colleges subsequently created lending programs or expanded the volume of loans issued under existing loan programs, often at extremely high interest rates. Corinthian partnered with a non-prime consumer credit lender to create the Genesis loan program in 2008. In the first full year of the program, the company made \$120 million in loans.<sup>658</sup> The company planned to double the volume of loans in the next fiscal year.<sup>659</sup> The CFO of Corinthian told 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 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."<sup>660</sup> When Corinthian introduced the program, students were charged as much as 18 percent interest. Similarly, EDMC created a new "Education Finance Loan" program in 2008, carrying interest rates up to 11.2 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.<sup>661</sup> However, with the temporary exception soon expiring, EDMC announced that it would shut down its institutional loan program and look to sell off the loans that it holds on its books.<sup>662</sup>

Additionally, education companies have partnered with Wall Street investment banks to devise lending programs that, through an impressively complex series of financial transactions, allow them to count the amounts they lend to students—not just 50 percent—on the "10" side of the 90/10 ratio. These loan programs consist of pools of money arranged by Wall Street banks and used to fund student loans made by a third-party student lender. The student loans are packaged into securities and sold to investors. The for-profit education

<sup>655</sup> Kaplan Internal Correspondence, June 2009, re: *Kaplan Higher Education Corporation Reserve Estimate for Kaplan Choice Loans* (KHE 0037010).

<sup>656</sup> Higher Education Opportunity Act of 2008, Pub. L. No. 110-315, § 101, 122 Stat. 3086 (2008), available at <http://www.gpo.gov/fdsys/pkg/PLAW-110publ315/pdf/PLAW-110publ315.pdf> (accessed July 3, 2012).

<sup>657</sup> Technically, 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 Department of Education 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. Under the act, colleges may not sell those loans to investors until they have been in repayment for 2 years.

<sup>658</sup> Corinthian investor call, August 2009.

<sup>659</sup> Corinthian investor call, February 2010.

<sup>660</sup> Corinthian investor call, February 2010.

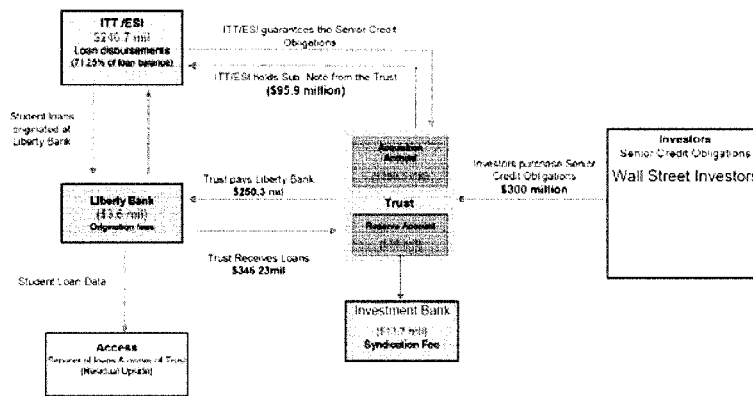
<sup>661</sup> EDMC investor call, March 2010.

<sup>662</sup> Daniel Malloy, "EDMC ends loans during tough times for industry," *Pittsburgh Post-Gazette*, May 11, 2012, <http://old.post-gazette.com/pg/11079/1133033-28.stm> (accessed May 11, 2012).

company essentially guarantees the loans by obligating itself to make “recourse” payments to investors in the event that an agreed-upon number of the loans default.<sup>663</sup> The Department of Education allows for-profit colleges to count proceeds from these loans on the “10” side of the 90/10 calculation at the time the loans are made.<sup>664</sup>

ITT, the first school to utilize Wall Street backed “recourse” lending on a large scale, partnered with Deutsche Bank to lend approximately \$346 million to its students.<sup>665</sup>

ITT PEAKS Transaction Flowchart<sup>666</sup>



According to an analysis by Morgan Stanley, the PEAKS program allowed ITT to lower its 90/10 ratio by about 10 percent.<sup>667</sup> In June 2011, Corinthian entered into an arrangement similar to ITT’s. 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.”<sup>668</sup> The arrangement

<sup>663</sup> The structure of the transactions also provide other mechanisms of guarantee, such as over-collateralization and subordination.

<sup>664</sup> U.S. Department of Education, “Chapter 3: General GSA Participation Requirements,” *Federal Student Aid Handbook*, vol. 2, p. 32, March 2009, <http://ifap.ed.gov/fsahandbook/attachments/0910FSAHbkVol2Ch3GenRequirements.pdf> (accessed May 11, 2012).

<sup>665</sup> As part of this program, the company issued \$300 million in senior debt to investors. ITT 8-K January 20, 2010.

<sup>666</sup> ITT, Program for Education and Knowledge Access (PEAKS) Summary of Transaction Details, January 18, 2010 (ITT-00146556).

<sup>667</sup> Suzanne E. Stein, Gregory Jonas, Thomas Allen, Todd Castagno and Keith Paxton, *ITT Educational Services: Accounting Treatment of Loans Bears Watching*, January 11, 2012, [http://pg.iri.com.cn/acc/Res%SCCN\\_RES%5CINVEST%SC2012%5C1%5C18%5C6367af6a-afa9-49dc-85ae-e4d6a693e127.pdf](http://pg.iri.com.cn/acc/Res%SCCN_RES%5CINVEST%SC2012%5C1%5C18%5C6367af6a-afa9-49dc-85ae-e4d6a693e127.pdf) (accessed May 24, 2012).

<sup>668</sup> Corinthian Investor Call, Q3 August 2011.

called for \$450 million to lend to Corinthian students over 2 years. According to ASFG's Web site, its student 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.<sup>669</sup> Corinthian is obligated to purchase every loan on which no payment has been made for 90 days, essentially guaranteeing a profit for investors. The company expects that it will be obligated to buy back about 55 percent of the loans, in line with its previous "Genesis" institutional loan program in which the company set a reserve of 55 percent based on their own internal analysis of expected defaults.<sup>670</sup> Although Corinthian's Genesis loan program was already large by industry standards, the new loan program will have an even larger impact on Corinthian's 90/10 number. Assuming that \$225 million is lent to students each year, judging by the company's 2010 financial results, it will be able to lower its consolidated 90/10 number by more than 10 percent. Without this Wall Street transaction, Corinthian would be at risk of exceeding 90/10.

#### *Pursuing Military Benefits*

For-profit institutions have strong incentives that drive the industry's pursuit of veterans' and servicemembers' benefits. One prominent reason is that the recent expansion of veterans' education benefits provides a huge new pool of Federal-taxpayer dollars that are risk-free revenues because they come in the form of grants, not loans, with no obligation to repay and no risk of default. This pool is particularly enticing to for-profit colleges eagerly looking to expand their enrollment or facing problems with meeting 90/10.

Because neither Department of Defense (DOD) nor Veterans Affairs (VA) educational benefits originate in title IV of the Higher Education Act, money received through these programs is not counted as Federal financial aid for the purposes of 90/10. Because of this loophole, the rule considers DOD and VA funds as non-Federal aid by allowing these funds to be counted on the "10" side of the calculation.<sup>671</sup> At least 18 companies received at least 2 percent of revenues from Federal military educational benefit programs.<sup>672</sup> These funds have a significant potential to affect compliance with the 90/10 rule. As Ms. Hollister Petraeus, head of the Office of Servicemember Affairs at the Consumer Financial Protection Bureau, testified before the Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security on September 22, 2011, this loophole creates "an

<sup>669</sup> See, for example, FinAid, *Private Student Loans*, The SmartStudent Guide to Financial Aid, <http://www.finaid.org/loans/privatestudentloans.phtml>.

<sup>670</sup> Corinthian Colleges, Inc. Form 8-K for Period Ending 6/29/11.

<sup>671</sup> See H.R. Rep. No. 1943, 82nd Congress (1952).

<sup>672</sup> Companies receiving more than 2 percent of revenues from post-9/11 G1 bill benefits or from Department of Defense programs are: Alta, APEI, Apollo, Bridgepoint, Capella, Career Education Corp., Concorde, DeVry, ECPI, EDMC, Grand Canyon, ITT, Kaplan, National American University, Remington, Strayer, TUI, and UTL.



incentive to see servicemembers as nothing more than dollar signs in uniform, and to use some very unscrupulous marketing techniques to draw them in.”<sup>673</sup>

This focus on recruiting servicemembers and veterans primarily as a 90/10 compliance strategy is documented in the materials produced to the committee. The companies’ internal communications reflected their strong interest in enrolling military students.<sup>674</sup> For example, Bridgepoint’s CEO Andrew Clark said in a presentation to Deutsche Bank:

We believe that when we are able to report our 90/10 for 2009 that it should decrease and we think that decrease from 2008 will be due to our tuition assistance that our students are receiving through the military and our penetration in particular into the military market. We’ve had a lot of success in that are. . . . Our military enrollment grew from 1% in 2007 to 17% [in] September 2009.<sup>675</sup>

In a July 2010 memo, a consulting company employed by at least one for-profit education company identifies “military spouses” as a prime source of new students to help meet 90/10:

Probably one of the most important potential short and long-term targets . . . are the 800,000-plus military spouses who have been authorized . . . for a one-time entitlement of up to \$6,000. [Also] under the most recent G.I. Bill, [servicemembers and veterans] **can authorize up to 50 percent of his/her education benefits for the spouse to continue their education.** Therefore, in theory, every spouse has access to two separate sources of funding [emphasis in original].<sup>676</sup>

At Kaplan, a high level executive sent an e-mail proposing possible strategies to address the company’s 90/10 situation. His eight-point list of strategies led with: “1. Accelerate military billings/collections at [Kaplan University]. Go to D.C. and pick up the check if you have to.”<sup>677</sup> Kaplan’s

<sup>673</sup> Testimony before Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, U.S. Senate Committee on Homeland Security and Governmental Affairs, September 22, 2011.

<sup>674</sup> A Kaplan email described “active duty military and veterans as the big driver of non-title IV money” and stated that within Kaplan’s criminal justice program active duty military and veterans make up 16 percent of the enrollments but 34 percent of the non-title IV revenue. Kaplan Internal Email, February 2010, re: *90-10 Only Data v3.0.xlsx* (KHE 226920, at KHE 226921).

<sup>675</sup> Bridgepoint CEO Andrew Clark Presentation to Deutsche Bank Conference, February 8, 2010.

<sup>676</sup> Consultant Memorandum, July 2010, (EDMC-916-000228224). The consultant’s Web site lists a number of colleges, including Corinthian, Des Moines Area Community College, George Mason and University of North Texas, as clients but EDMC was never a client of Strategic Partnerships. See Strategic Partnerships LLC, Clients, <http://strategicpartnershipsllc.com/clients.cfm> (accessed June 28, 2012).

<sup>677</sup> Kaplan Internal Email, November 2009, re: *FW: KU 90 10 Issue* (KHE 211344).

chief financial officer replied to another email titled “*Active Military Update*” by stating: “How can we get the money faster? This is important for meeting 90.10.”<sup>678</sup> That sense of urgency was reflected by Kaplan’s financial investment in recruiting servicemembers and veterans. According to a Kaplan executive presentation provided to the committee, Kaplan planned to spend \$29 million between 2009 and 2011 on military recruitment and marketing. While not all of these funds were ultimately committed, the plan called for a variety of uses, including dedicated military recruiting field staff and advertisements.<sup>679</sup> Kaplan ultimately collected \$44 million in post-9/11 GI bill funds between 2009 and 2011, and \$8.5 million of Department of Defense Education Benefits in fiscal year 2011.<sup>680</sup>

An email exchange between executives at Education Management Corporation (EDMC) demonstrates a similarly determined attitude towards maximizing military families’ benefits. A July 2010 email from the vice president for EDMC’s Art Institute Online reported that she wanted to “ensur[e] we are leveraging the military spouse benefits to the fullest extent possible” for 90/10.<sup>681</sup> 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.<sup>682</sup>

The president and vice president of Herzing, a smaller Wisconsin-based chain of 12 campuses and an online division, similarly discussed whether or not to participate in the post-9/11 GI bill’s yellow ribbon initiative, they showed a similar focus on 90/10.<sup>683</sup> The vice president acknowledged that they were “all in agreement that we should do this for 90/10 if nothing else.”<sup>684</sup>

### *Conversion to Non-Profit Status*

Two for-profit colleges, Keiser and Remington, have gone as far as to convert from for-profit to non-profit status, at least in part to avoid violating 90/10.<sup>685</sup> However, it is unclear whether this change in tax status has been

<sup>678</sup> Kaplan Internal Email, October 2009, re: *FW: Active Military update* (KHE 292824).

<sup>679</sup> Kaplan Internal Presentation, *Kaplan Military University* (KHE 267384)

<sup>680</sup> Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, Title IV Program Volume Reports for Kaplan, 2009, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.

<sup>681</sup> EDMC Internal Email, July 2010, re: *FW: Possible Opportunities for EDMC: “90:10”* (EDMC-916-000228222).

<sup>682</sup> 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).

<sup>683</sup> Herzing University enrolled 6,578 students in 2009, compared to EDMC’s 136,000 and ITT’s 79,208. U.S. Senate HELP Committee staff analysis of Department of Education Data and company SEC Filings.

<sup>684</sup> Herzing Internal Email, February 2009, re: *RE: Veterans Yellow Ribbon Program (Feb 27 deadline)* (H0000728).

<sup>685</sup> There are three additional issues with these conversions that require attention: (1) the terms of the deals and whether the sale of the schools to the non-profits was done to the private benefit of the owners, (2) whether the

accompanied by a corresponding change in the companies' business practices.<sup>686</sup> Both companies have essentially "sold" the for-profit companies to a non-profit arm that appears to be controlled by the same owners. In both cases, a loan from the for-profit company was made to the non-profit arm in order to then "purchase" the company.<sup>687</sup> For the original for-profit entity and its owners, the payment of this debt will allow them to earn a continuing profit from these debt payments. These transactions raise fundamental questions about using non-profit status as a shield to avoid regulatory review.

In January 2011, Keiser University announced that the company, privately held by Arthur Keiser and other members of the Keiser family, had been sold to Everglades College Inc., a non-profit entity created by the Keiser family in 2000. Everglades is receiving part of the company as a donation, and is acquiring the rest through a purchase financed through a loan from Keiser University.<sup>688</sup> In describing the change, Arthur Keiser specifically noted that the change was not expected to affect tuition and fees or program offerings, saying, "it's operating in the same way, with the same people; the only difference is that it's owned by a nonprofit."<sup>689</sup> In May, 2011, Mr. Keiser was re-elected as chairman of the Association of Private Sector Colleges and Universities, the main trade association that represents for-profit colleges, and Keiser University remains a member of the association.<sup>690</sup>

A week after Keiser announced its acquisition by Everglades, Remington College announced that it had made a loan to non-profit Remington Colleges, Inc., in order to buy Remington College, thus converting itself to non-profit status. Remington is expected to pay back the sales price, which was not disclosed, over 15 years, from its excess cash flows. All the managers and

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compensation of the executives of the now non-profit schools is unreasonable, and (3) whether converting to non-profit status in order to avoid Federal regulation without accompanying changes in operation is commensurate with serving a purely educational and charitable public purpose that warrants exemption from Federal taxes. Neither Remington nor Keiser publicly disclosed the terms of their transactions. On its face, this raises questions about how the values of the schools were 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. The Keiser School, Inc. ("Keiser") is a for-profit higher education company that enrolled 18,956 students as of 2010 and is based in Fort Lauderdale, FL.

<sup>686</sup> In the words of Barnak Nassirian "Until now, the very purpose of this entity was to be a profit-maximizing firm. Now we're being told it has suddenly taken a 180-degree turn and become a charity?" Scott Travis, "Keiser Becomes a Nonprofit; Move Could Mean More State Aid," *Sun Sentinel*, January 18, 2011, available at <http://www.accessmylibrary.com/article-1G1-247153443/keiser-becomes-nonprofit-move.html> (accessed May 20, 2012).

<sup>687</sup> Goldie Blumenstyk, "For Some Colleges, the Road to Growth is to Go Hybrid," *The Chronicle of Higher Education*, <http://chronicle.com/article/For-Some-Colleges-the-Road-to/126001/> (accessed May 20, 2012); Goldie Blumenstyk, "Another College Takes the Path From For-Profit to Nonprofit," *The Chronicle of Higher Education*, January 20, 2012, [http://www.intered.com/storage/deptofed/CHE\\_AnotherCollegeGoesNonProfit.pdf](http://www.intered.com/storage/deptofed/CHE_AnotherCollegeGoesNonProfit.pdf) (accessed May 20, 2012).

<sup>688</sup> Goldie Blumenstyk, "For Some Colleges, the Road to Growth is to Go Hybrid," *The Chronicle of Higher Education*, <http://chronicle.com/article/For-Some-Colleges-the-Road-to/126001/> (accessed May 20, 2012).

<sup>689</sup> Id.; Scott Travis, "Keiser Becomes a Nonprofit; Move Could Mean More State Aid," *Sun Sentinel*, January 18, 2011, available at <http://www.accessmylibrary.com/article-1G1-247153443/keiser-becomes-nonprofit-move.html> (accessed May 20, 2012).

<sup>690</sup> committee staff were informed by company executives that he is no longer serving in this role.

executives will continue to work for the college, and the founder will serve as a consultant to the college and has been appointed to serve on its new five-member board.<sup>691</sup> Meanwhile, as recently as January 20 (after the change to non-profit status), Jack W. Forrest, president and CEO of Remington, was still referring to revenue in excess of operating expenses as “profits.”<sup>692</sup> Notably, Remington has not made dramatic changes to its business operations since becoming a non-profit.

Both Keiser and Remington had been struggling to meet the regulatory requirement to keep Federal revenue under 90 percent.<sup>693</sup> According to data provided by the Department of Education, Remington had a 2009 90/10 ratio of 84.3 percent.<sup>694</sup> However taking into account the additional \$2,000 per student in Stafford funds that companies could permissibly exempt under the Ensuring Continued Access to Student Loan Act (ECASLA), the company may have excluded an additional \$10.5 million in Federal revenues.<sup>695</sup> If this amount is included, the proportion of the company’s revenue derived from Federal sources could be as high as 91.3 percent.<sup>696</sup> When Remington would no longer be able to take advantage of the ECASLA exception, the company would have faced exceeding 90/10 at some of its OPEID groups. Remington’s President indicated that the conversion to non-profit status was driven, at least in part, by concern over exceeding 90/10.<sup>697</sup>

While the full purpose of the conversions remains unclear, converting 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.

#### Student Loan Default Rate Management And Manipulation

The Higher Education Act provides that colleges (defined by OPEID numbers) lose access to Federal aid money if more than 25 percent of students default on student loans within 2 years of entering repayment, which typically

<sup>691</sup> Goldie Blumenstyk, “Another College Takes the Path From For-Profit to Nonprofit,” *The Chronicle of Higher Education*, January 20, 2012, [http://www.intered.com/storage/deptofed/CHE\\_AnotherCollegeGoesNonProfit.pdf](http://www.intered.com/storage/deptofed/CHE_AnotherCollegeGoesNonProfit.pdf) (accessed May 20, 2012).

<sup>692</sup> Id.

<sup>693</sup> 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. Goldie Blumenstyk, “Another College Takes the Path From For-Profit to Nonprofit,” *The Chronicle of Higher Education*, January 20, 2012, [http://www.intered.com/storage/deptofed/CHE\\_AnotherCollegeGoesNonProfit.pdf](http://www.intered.com/storage/deptofed/CHE_AnotherCollegeGoesNonProfit.pdf) (accessed May 20, 2012).

<sup>694</sup> U.S. Department of Education, *Proprietary Schools 90-10 Revenue Percentages Tracked Over Student Aid Award Year*, <http://federalstudentaid.ed.gov/datacenter/proprietary.html>. See Appendix 9.

<sup>695</sup> See Appendix 10.

<sup>696</sup> 91.8 percent when military educational benefits are included.

<sup>697</sup> Goldie Blumenstyk, “Another College Takes the Path From For-Profit to Nonprofit,” *The Chronicle of Higher Education*, January 20, 2012, [http://www.intered.com/storage/deptofed/CHE\\_AnotherCollegeGoesNonProfit.pdf](http://www.intered.com/storage/deptofed/CHE_AnotherCollegeGoesNonProfit.pdf) (accessed May 20, 2012).

occurs 6 months after a student graduates or withdraws.<sup>698</sup> The regulation applies to all colleges and universities, whether public, non-profit, or for-profit. The Higher Education Opportunity Act amended the law so that, in 2014, colleges will be required to demonstrate that no more than 30 percent of students default on Federal student loans within 3 years of entering repayment on their loans.<sup>699</sup> Although penalties would not apply until 2014, the Department of Education has published the 3-year rates since 2009.

Default rates among all sectors of higher education have increased in recent years. But, the trend among for-profit schools is particularly steep. For example, Lincoln Educational Services, Inc., reported a 3-year default rate of 21.6 percent for students entering repayment in 2005.<sup>700</sup> Four years later, for students entering repayment in 2008, the rate had climbed to 27.7 percent.<sup>701</sup> DeVry saw a 40 percent growth in the portion of its students defaulting between 2005 and 2008.<sup>702</sup> Bridgepoint-owned Ashford University saw its default rate more than double in the same time period.<sup>703</sup>

Because continued financial aid eligibility hinges on default rates, schools that have high rates of students defaulting attempt to lower their rates through a variety of means known as “default management.” Default management is not intrinsically negative. It may involve a multitude of strategies premised on sound goals, such as enrolling students who are likely to graduate and succeed, giving those students the support and tools they need to learn and secure a degree that is valued in the job marketplace, helping them secure a well-paying job, and offering financial literacy classes and quality debt counseling.

The Department of Education encourages all colleges to contact students who are delinquent on Federal student loan payments in order to help those students avoid the negative and lasting consequences of default. These contacts can include alternative repayment counseling and helping students

<sup>698</sup> Under 34 CFR 668.187(a) a school loses eligibility for Federal loans if the cohort default rate is greater than 40 percent in a single year, or if the cohort default rate is greater than 25% for each of the 3 most recent years. An institution’s CDR is the percentage of the institution’s former student borrowers who entered repayment on a Federal student loan during the relevant cohort year who defaulted before the end of the next government fiscal year following the cohort year. The government fiscal year begins on October 1. Therefore, for example, a student who leaves school in August 2010 would enter repayment after the 6 month grace period in February, 2011. This student would be included in the school’s fiscal year 2011 cohort default rate. If the student defaults any time before the start of fiscal year 2013 on October 1, 2012, then the student would be counted as a “defaulter” under the current 2-year window. Under the 3-year window, if the student defaults any time before October 1, 2013, the student would be counted as a “defaulter.” Under the Direct Loan program, default is defined as 360 days of delinquency.

<sup>699</sup> Beginning with the fiscal year 2014 cohort, a school loses eligibility for Federal loans if the 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.

<sup>700</sup> 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>. See Appendix 16.

<sup>701</sup> Id.

<sup>702</sup> Id.

<sup>703</sup> Id.

address obstacles to repayment. However, when contacting delinquent students results in the majority of those students being placed in forbearance or deferment rather than repayment and when these policies simply delay default, the practice crosses a line from default management to default manipulation.

While assisting with students' debt repayment can be helpful to students, 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—the lifeblood of the for-profit model. Many for-profit schools have chosen instead to commit significant resources to sophisticated operations that keep students out of default for the duration of the 2-year (and now 3-year) monitoring window by aggressively signing students up for forbearance and deferment to temporarily delay loan payments. 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, this means taxpayers and policymakers fail to get an accurate assessment of default rates. A school that has large numbers of 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 over the long run. 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.

While many of these tactics appear to cross the line from default management to default manipulation, particularly when efforts to keep students out of default abruptly halt at the close of the 3-year monitoring period, current law and regulations provide little guidance about what procedure constitutes appropriate default management and what amounts to manipulation.

#### *Forbearance Operations*

Data provided to the committee, internal documents, and statements made to the companies' investors make clear that many schools are achieving lower cohort default rates by committing resources to efforts to routinely place former students into forbearance and deferment.<sup>704</sup> Deferments and

<sup>704</sup> Forbearance can be mandatory or discretionary. The loan holder may grant a forbearance up to 12 months at a time. During the forbearance period, interest continues to accrue on all loans, and the interest is added to the principal at the end of the forbearance. Crucially, a forbearance can be granted verbally over the phone as long as the loan holder sends the borrower confirmation of the terms of the forbearance within 30 days. Deferment must be granted by the loan holder for students and is limited to following situations: pursuing at least half-time study at an eligible school, in a graduate fellowship program approved by the U.S. Department of Education, in a rehabilitation training program, for individuals with disabilities approved by the U.S. Department of Education, active duty military service, actively seeking but unable to find full-time employment, or experiencing economic

forbearances can be extended for 3 years, meaning that a school can use these options to effectively ensure that a student will not show up in the school's cohort default rate. And schools pursue these goals aggressively. Career Education Corporation's 2009 default management guide shows that a student would be contacted an average of 46 times by phone, plus 12 times by letters and emails, once that student's loans entered repayment.<sup>705</sup>

In and of themselves, deferment and forbearance are simply tools available to help a student get through a temporary period when he or she is unable to make payments on loans. However, evidence suggests that some for-profit colleges use forbearance and deferment as tools for manipulating the school's default rate, without concern for a student's particular situation or whether it is the best financial decision for the individual. 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."<sup>706</sup> A Remington executive stated, "we've known all along what ED finally figured out—that most of the borrowers who receive payment postponements (forbearance, deferment) during the cohort period ultimately default after the postponement ends. That's the primary reason ED made the change to 3-yr CDR—they decided we were getting off too easy."<sup>707</sup>

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. A student who enters forbearance for 36 months will end up paying about 20 percent more over the life of their loan.<sup>708</sup> For example, the average Vatterott student left school (withdrew or graduated) with roughly \$11,000 in debt. According to Department of Education data, if the student has trouble paying back his or her loans and enters into a forbearance at the behest of the school, the student will end up paying

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hardship. The unemployment and economic hardship deferments are available for up to 36 months; a student must re-apply periodically. During the deferment no interest accrues on subsidized loans. Interest continues to accrue on non-subsidized loans, and the interest is added to the principal at the end of the deferment period.

<sup>705</sup> Career Education Corporation, March 2009, *Cohort Default Management Plan* (CEC000012944, 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. 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>. See Appendix 16.

<sup>706</sup> ECPI, November 2007, re: *RE: Grijalva Amendment Yesterday* (E0016579, at E0016580). ECPI is a for-profit higher education company that enrolled 13,119 students as of fall 2010 and is based in Virginia Beach, VA.

<sup>707</sup> Remington, December 2009, RE: *RE: Cohort Default Rates - Three Year Calculation Publication* (Remington 22-000144).

<sup>708</sup> Career College Association presentation, June 2009, *Default Prevention at the Campus Level* (HELP-CCA\_000001).

\$3,100 more over the next 10 years of the loan.<sup>709</sup> At Chancellor, the average former student carries \$18,267 in debt, and would end up paying \$5,146 more if she signed up for forbearance for 3 years.<sup>710</sup>

For many students, moreover, forbearance will simply push default further down the road; Pauline Abernathy, vice president of the Institute for College Access and Success, testified at the committee's June 2011, hearing: "Putting students willy-nilly into forbearance when it is not in their interest to be in forbearance just increases the likelihood of default." These students still face a high risk of default, but on a higher balance. Thus, this delaying tactic may help a school while harming students.

Eric Schmitt, a former Kaplan student who also testified at the committee's June 7, 2011, hearing, discussed his loan situation:

I owe \$45,000 in student loans without a permanent job to pay those bills, only very rarely in the past seven years since completing my associates, have I been able to make any payments at all and the debt continues to pile up. The loans from my Associate degree went in default late last year. The loans from my Bachelor's degree are in deferment, but I have no idea how I will manage after my deferment time runs out. Because of the deferment and forbearances, the interest has added more than 10 percent on top of my original balance, and in this battle, it seems even time is against me.<sup>711</sup>

While registering for income-based repayment, a Federal program that adjusts monthly loan payments to fit a student's income, requires time and paperwork, securing a forbearance can be done quickly. Thus, the forbearance option has become the *de facto* tool to lower a school's default rate. Many loan servicers allow forbearances over the phone, with just a "yes" from the student. "Get comfortable with doing a verbal forbearance!!!" instructs EDMC's Spring 2010 Default Prevention presentation.<sup>712</sup> Many schools counsel students on how to enter forbearance or deferment before telling them about different repayment options. Concorde Career College's form letter sent to students who have fallen behind on their loan payments does not mention alternative repayment options, only that the student "may be able to exercise the right to delay [his or her]

<sup>709</sup> Assuming a 6.8 percent interest rate, and 120 monthly payments remaining at the time of forbearance. See forbearance loan calculator at Student Loan Finance Corporation, *Forbearance Calculator*, [https://www.slfc.com/slfcPresentationTier/slfcPortal.portal?nfpb=true&planForCollegePortlet\\_actionOverride=/portlets/tools/CalculateCostOffForb](https://www.slfc.com/slfcPresentationTier/slfcPortal.portal?nfpb=true&planForCollegePortlet_actionOverride=/portlets/tools/CalculateCostOffForb) (accessed May 12, 2012).

<sup>710</sup> Chancellor University LLC ("Chancellor") is a for-profit higher education company that enrolled 739 students as of fall 2010 and is based in Seven Hills, OH.

<sup>711</sup> Eric Schmitt (Hampton, IA), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Drowning in Debt: Financial Outcomes of Students at For-Profit Colleges*, 112th Congress (2011).

<sup>712</sup> EDMC Internal Presentation, *September 2010, Default Prevention: EDMC, Spring 2010* (EDMC-916-000083630, at EDMC-916-000083647).



payments through deferment or forbearance options.”<sup>713</sup> Likewise, the Concorde telephone script for calling students mentions only forbearance and deferment, not repayment.<sup>714</sup> The company states that these documents are no longer in use.

Internal documents show that some schools pay lip service to other options, such as alternative repayment plans, but in practice still focus on getting students into forbearance because it is the easiest for the school. For instance, a for-profit school executive told his default-management subordinates, “we do know that [forbearance] is the only successful answer most of the time,” but “we need to modify our message to students slightly” so it does not appear “to focus entirely on forbearance.”<sup>715</sup>

This strategy has proven effective for the schools. At Capella, forbearances and deferments equal 9.4 percent of students who are counted as “in repayment” and therefore excluded from the default rate.<sup>716</sup> ECPI executives estimated that as many as 90 percent of late-stage delinquencies that are cured, meaning kept out of the default rate, are “cured through [forbearance and deferment] and some by consolidation.”<sup>717</sup> ECPI showed an overall 2008 3-year default rate of 23.2 percent, with one of its three OPEID campuses reporting a 29 percent default rate. An 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!” [sic].<sup>718</sup> That same vice president prepared a speech for a leadership institute explaining cohort default rate manipulation before the change to a 3-year window: “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!”<sup>719</sup> The “proper effort” includes plenty of attempts at contacting students and putting them into forbearance.

### *Third-Party Default Management Vendors*

As default rates have increasingly become a problem for for-profit colleges, many have turned for help to General Revenue Corporation (GRC), a subsidiary of Sallie Mae. Among other services, GRC operates call centers with hundreds of employees trained to “cure” student defaults. While GRC counsels

<sup>713</sup> Concorde External Correspondence, Form Letter From a Loan Management Advisor (CCC000060626).

<sup>714</sup> Concorde Internal Document, Script for Calling Students Delinquent on Loans (CCC000052355).

<sup>715</sup> ECPI Internal Email, November 2008, re: *RE: Epci Loan Help* (E0016551, at E0016553).

<sup>716</sup> Capella Internal Email, February 2010, re: *FW: Active Repayment* (CAPELLA-1291450).

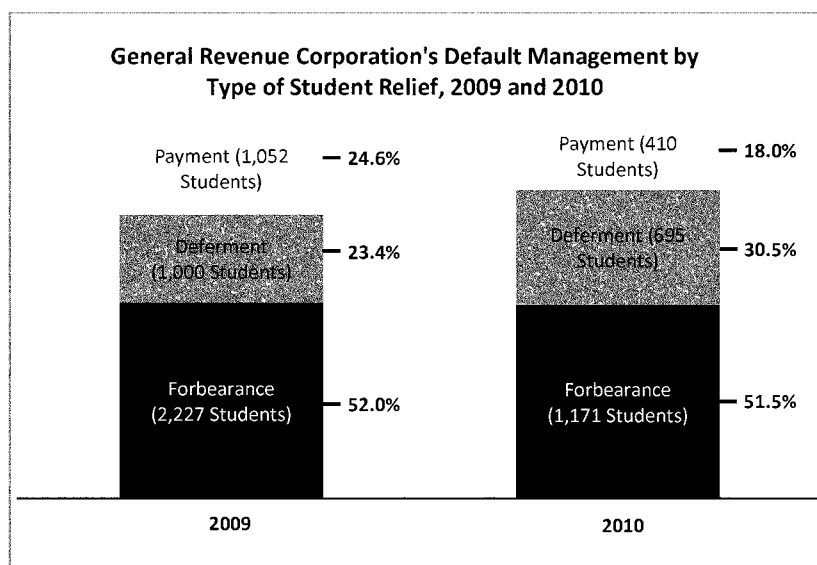
<sup>717</sup> *Id.*

<sup>718</sup> ECPI Internal Email, July 2010, re: *RE: FY09 rates* (E0016590).

<sup>719</sup> ECPI Internal Email, November 2008, re: *RE: Epci Loan Help* (E0016551, at E0016553).

<sup>720</sup> ECPI Internal Document, Script for Presentation on Default Management (E0007942).

delinquent students on all repayment options, including income-based repayment options, internal documents demonstrate that the majority of students approached by GRC end up in forbearance, leading to increased debt. At least 12 of the 30 companies examined by the committee contract with GRC for default management services.<sup>720</sup> Documents obtained from four large for-profit education companies demonstrate that, on average, over 75 percent of the students GRC “cured” were forbearances or deferments, while only 24 percent were the result of a student making payments on their loans.<sup>721</sup> For example, of 776 student cures handled on behalf of DeVry Inc., 64 percent (590) were forbearances, another 13 percent (97) were deferments, and 24 percent were payments. Unlike other companies, DeVry prioritizes repayment by paying GRC a bonus for students placed in repayments and deferments, but not for forbearances.<sup>722</sup> Other companies, such as Corinthian and ITT, pay this bonus regardless of the type of cure. This bonus can be as much as \$120 per cure, on top of the standard fee of \$30 to \$40 for each student account placed with the company.<sup>723</sup>



<sup>720</sup> They are Apollo, Bridgepoint, Capella, Corinthian, DeVry, EDMC, ITT, Kaplan, Lincoln, National American, Rasmussen, and Strayer.

<sup>721</sup> ITT Internal Record, August 2010, Cohort Default Management Solutions Executive Dashboard: Table of Key Performance Indicators (ITT-00002316); Bridgepoint Internal Records, August 2010, Cohort Default Management Solutions Executive Dashboard: Table of Key Performance Indicators (BPI-HELP-00049480); DeVry Internal Presentation, August 2010, *Default Management Update* (DEVRY0037185), Strayer, July 2010, Cohort Default Management Solutions Executive Dashboard: Table of Key Performance Indicators (SC-HELP-014911).

<sup>722</sup> DeVry, Services Agreement with General Revenue Corporation (DEVRY0037204), DeVry Internal Presentation, August 2010, *Default Management Update* (DEVRY0037181).

<sup>723</sup> Corinthian, June 2010, *First Amendment to Cohort Default Management Services Agreement* (CCi-00067423), ITT, June 2010, *First Amendment to Cohort Default Management Services Agreement* (ITT-00002281).

*Case Study: Corinthian Colleges, Inc's Default Management*

Corinthian Colleges, Inc., which operates the Everest, Wyotech and Heald brand schools, has some of the highest default rates among all institutions of higher education. For the 65,485 Corinthian students who entered repayment on their loans in 2008, 12,671 defaulted within 2 years, and 23,623 defaulted within 3 years. All 14 of Corinthian's Everest campuses, 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.<sup>724</sup>

Faced with the switch to a 3-year default rate measurement, Corinthian began to dedicate millions of dollars and employee hours to reduce the company's reported default rate. Company 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]."<sup>725</sup> The company made it clear that while the *company* was seeing benefits from the effort, the number of students repaying their loans was virtually unchanged: "Our payment rate really has not moved a whole heck of a lot from where it was prior to this effort."<sup>726</sup>

To accomplish a lower reported default rate, Corinthian hired three contractors. One was General Revenue Corporation, which devoted 60 full-time employees to call former Corinthian students who were late making payments but not yet in default. The company also hired two firms, ROI and TEAM Enterprises, to send out 30 or more people to knock on former students' doors to secure "cures."<sup>727</sup> This same document reveals that students in late stages of delinquency but not yet in default—a period during which they are the biggest threat to Corinthian's default rate—could be contacted up to 110 times per month. Another internal document shows that, in order to achieve the company's desired default rate, the call center run by General Revenue Corporation would make between 2 and 2.5 million calls a year, or 429 calls per employee per day to former Corinthian students.<sup>728</sup>

Corinthian also built its own internal default-management operation, complete with a call center and dozens of employees.<sup>729</sup> Documents show that the default-management operations at Corinthian are run with the same high-pressure sales environment as the recruiting department. Compensation is directly tied to the number of students an employee successfully eliminates from

<sup>724</sup> Corinthian owns more than one-fourth of the schools suspended 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).

<sup>725</sup> Corinthian Investor Call, Q3 May 2011.

<sup>726</sup> Id.

<sup>727</sup> Corinthian Internal Presentation, *Default Prevention Operations* (CCI-00056216).

<sup>728</sup> Corinthian Internal Presentation, *Financial Aid and Default Prevention Organization* (CCI-00057049, at CCI-00057051).

<sup>729</sup> Corinthian Internal Presentation, *Default Prevention Operations* (CCI-00056216).

the company's default rate. An internal training presentation for default management employees explains that the final step in the cure process is to "close the sale."<sup>730</sup> Corinthian began offering students gift cards to McDonald's in February 2010 in certain "high CDR [Cohort Default Rate] OPEID's" to incentivize students to contact the default management department. The campaign was conducted by email and mobile phone text messages, and the messages explicitly referred to postponing student loan payments. 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 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."<sup>731</sup>

In addition to this message of encouragement, other emails demonstrate a willingness to reprimand employees 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."<sup>732</sup>

Once the student defaults, the company is no longer interested in counseling: According to their model, efforts at contacting defaulted students drop significantly once a student defaults.<sup>733</sup> Moreover, helping students find a job that allows them to repay their loans, which is more difficult than securing a forbearance, is a lower priority. While the student may get hundreds of calls from the default-management offices, Corinthian career services contacts students two to four times per month in the first months after graduation, then not at all if a student becomes delinquent on their loans.<sup>734</sup>

On February 28, 2012, Corinthian announced that it was offering its Everest College campuses in Hayward, San Jose, San Francisco, and the Wilshire area of Los Angeles for sale, noting that while these campuses are doing well in terms of student achievement, their recent financial performance has not met the company's expectations.<sup>735</sup> Three of the four for-sale schools have 3-year default rates over 30 percent, calling into question the company's assertion that these campuses are doing well in terms of student achievement. Corinthian also announced that the company would be closing its Everest campuses in Ft. Lauderdale, Decatur, and Arlington for falling below the company's student outcome or financial performance standards.<sup>736</sup> The sale or closure of these seven campuses is likely to have a positive effect on

<sup>730</sup> Corinthian Internal Presentation, *Counseling at Risk Borrowers* (CCI-00056493, at CCI-00056505).

<sup>731</sup> Corinthian Internal Email, April 2010, re: *CDR Daily Activity 4-28-10* (CCI-00068416).

<sup>732</sup> Corinthian Internal Email, April 2010, re: *CDR Daily Activity 4-20-10* (CCI-00068830).

<sup>733</sup> Corinthian Internal Presentation, *Default Prevention Operations* (CCI-00056216).

<sup>734</sup> Id.

<sup>735</sup> Corinthian Colleges, Inc., Form 8-K Filed February 28, 2012.

<sup>736</sup> Id.

Corinthian's default rates, and it may be that closing campuses that have poor outcomes is potentially in prospective students' interest.

Corinthian's default management strategy, put in place in 2009, is having a big impact. Thirty-six of the company's 49 OPEID campuses posted 3-year default rates over 30 percent for students entering repayment in 2008. Thirteen campuses posted rates above 40 percent. If the sanctions for the 3-year rate were already in effect, these campuses would be at risk of losing access to Federal financial aid, which accounts for nearly all their revenues.

For the following year's cohort, students entering repayment in 2009, the company was able to lower its default rate to 28.8 percent, a decrease of 7.3 percent from its 2008 rate.<sup>737</sup> Corinthian was especially successful in reducing the default rate of its worst performing OPEIDS. The company reported that zero OPEIDs had rates above 40 percent and only seven had rates above 35 percent. Corinthian touts these efforts as a successful investment, yet it is clear that the program is implemented to accomplish business goals, not to meet the needs of students.

Moreover, the CFO forecasted that, for the 2010 rate, the company would be able to achieve a consolidated 3-year default rate of 18 to 20 percent because of its sophisticated default-management operations.<sup>738</sup> That change is an unprecedented drop from the company's most recent default rate, demonstrating the effectiveness of its efforts. With regard to 2-year cohort default rates, Corinthian recently announced that the rate had dropped from 21.5 percent for the 2009 cohort to an expected 6.7 percent for 2010, a 14.8 percent improvement in a year.<sup>739</sup>

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<sup>737</sup> Corinthian Colleges Inc, Form 8-K. Filed March 5, 2012.

<sup>738</sup> Corinthian Investor Call, Q3 August 2011.

<sup>739</sup> Corinthian Investor Call, Q2 May 2012.

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

#### *Use of Private Investigators*

Some schools, notably Kaplan and Rasmussen, have gone so far as to hire private investigators to track down students in order to sign them up for forbearances.<sup>740</sup> These investigators, normally accustomed to finding people who skip town on bail bonds or photographing cheating spouses, find former students and approach them with a forbearance form in-hand. Internal company documents make clear that private investigators, who are not trained in financial aid or debt counseling, are only authorized to present the student with the option of placing loans into forbearance and are paid only for forbearances.<sup>741</sup> In 2009, Kaplan, facing potential default rates above the 25 percent sanction threshold for at least six campuses, paid private investigators a bonus of \$625 to \$1,000 for *each* forbearance that they secured.<sup>742</sup> In all, the school spent more than half a million dollars on private investigators.<sup>743</sup> Similarly, in 2009, Rasmussen paid private investigators \$2,000 per month for “signature gathering services” on forbearance forms.<sup>744</sup>

<sup>740</sup> The committee also notes that, at least in the case of Kaplan, concern that the company could lose access to financial aid as a result of having too many students in default, together with the company’s internal analysis of the high correlation between default by students who enrolled for a short period, was at least partially responsible for the company’s decision to implement the “Kaplan Commitment.” While the committee views this program as an important protection for students—a disproportionate number of whom are Iowa residents—it is important to note that a key rationale for the program’s implementation was to address the company’s concerns about regulatory compliance with both the cohort default rate regulation and the 90/10 regulation.

<sup>741</sup> Kaplan External Correspondence, August 2008, re: *Terms of Engagement for Retention of Investigatory Services* (KHE 0036513).

<sup>742</sup> Kaplan Internal Presentation, July 2009, *Default Management Status Update and Strategy* (KHE 325968, at KHE 325979); Kaplan Internal Email, July 2009, re: *Delinquent Accounts for Top 6* (KHE 191661); Kaplan, July 2009, re: *RE: Delinquent Accounts for Top 6 - 2* (KHE 137350).

<sup>743</sup> Kaplan Internal Presentation, July 2009, *Default Management Status Update and Strategy* (KHE 325968, at KHE 325989, KHE 325994).

<sup>744</sup> Rasmussen, *Default Prevention & Management* (RAS00004217); Rasmussen Internal Presentation, *Default Management Department* (RAS00004301, at RAS00004313). The company states that it no longer uses private investigators.

Through sophisticated default-management operations, including spending millions on contractors and consultants, some for-profit schools have undermined the effectiveness of the cohort default rate measurement. If a school can artificially maintain a low rate by signing high numbers of its former students for temporary forbearances, then the default rate does not paint a true picture of the school. Students may lose because they end up paying more on their student loans after entering forbearance, and, many times, the forbearance will simply push their default further down the road. In the words of one Grand Canyon executive, “students at a certain point run out of options and are no longer able to apply for forbearances and such. They realize the payments are too high and they don’t pay anything. This is a new trend that has been recognized recently that more and more students are defaulting between years 3 and 4.”<sup>745</sup> And taxpayers lose because high-default schools continue to access Federal student aid funds, including Pell grants and Stafford loan dollars.

The line between helping students who are late making payments on student loans avoid default, generally known as default management, and manipulating student default rates for purposes of regulatory compliance is not entirely clear. However, the investigation has demonstrated that manipulation of default rates is occurring and that tactics are being deployed that are not in the interests of students.

#### Return of Title IV Funds

In recent years, the Department of Education has uncovered instances of colleges, both for-profit and non-profit, improperly retaining unearned title IV student aid funds or not returning the funds in a timely manner. In the case of some for-profit colleges, rapid enrollment growth has led to situations where the financial aid department is overwhelmed by the number of students. In other cases, aggressive business practices result in schools keeping more money than they are entitled to.

When a student who receives Federal financial aid withdraws, the student’s school is required to perform a calculation to determine whether any refund must be sent back to the Department of Education. Colleges, of course, prefer to keep as much Federal financial aid money as possible. Although the college may still charge a student directly for tuition and fees if the school is obligated to return Federal financial aid money, as a practical matter many students who withdraw cannot afford to pay and the school must expend resources to attempt to collect the bill.

The Department of Education disburses Stafford loans and Pell grants to schools, not students. The school then applies the funds towards tuition and fees, and, if there is any left over, the school sends a stipend check to the

<sup>745</sup> Grand Canyon Internal Email, September 2009, re: *RI: 2008 Default Rate Projections* (GCUHEL019302).

student. The Department sends money to cover an “award period,” which can differ according to whether a school uses a quarter, semester or other academic period. A typical award period is 20 weeks. When a student withdraws, the amount of aid money “earned” is determined on a pro rata basis, meaning if a student attended class during 30 percent of the award period, the school keeps 30 percent of the awarded money. Once a student attends class for 60 percent of the award period, that school can keep 100 percent of the money.

In order to make this calculation, the school must determine the date on which the student withdrew. The Department of Education considers a student’s withdrawal date to be the date the student began the school’s official withdrawal process or provided official notification to the school of his or her intent to withdraw. When a student does not come to class or log in for an extended period, the school must determine that student’s withdrawal date by figuring out the student’s last date of attendance. A school must return unearned title IV funds within 45 days of the school determining the student’s withdrawal date.

In January 2011, the Department of Education’s Office of Inspector General (OIG) released a final audit report on Bridgepoint Education’s Ashford University, and noted serious deficiencies in the school’s return of title IV funds. The Inspector General discovered that Ashford did not properly calculate the amount of unearned funds it was required to return to the Federal Government, because it used an incorrect payment period length, last date of attendance, or tuition amount. As a result, Ashford improperly retained funds for 38 of the 85 students included in the OIG’s audit sample. Extrapolating from this sample, the OIG concluded that Ashford improperly retained at least \$1.1 million of title IV funds issued in 2006–7. Ashford received \$81.4 million in title IV funds that year. Since that time, Ashford has grown enormously. In 2010, the school took in six times more, or \$496.6 million, title IV funds. In addition, of the returns that Ashford did make, the school did not return title IV funds in a timely manner. Of the 47 required returns in the audit sample, Ashford was late in paying 21 of them, or 45 percent.<sup>746</sup>

The Department has found similar problems at other for-profit schools. In an audit of Capella University, the OIG found that the school used the midpoint of the academic term as the withdrawal date for all students who unofficially withdrew, regardless of a student’s actual last date of attendance. As a result, Capella improperly retained \$588,000 in unearned title IV funds.<sup>747</sup> In an audit of Vatterott College, the OIG found that the school did not maintain adequate documentation of students’ official withdrawal notifications, which

<sup>746</sup> 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, (pp.30) <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2011/a05i0014.pdf>. (accessed May 17, 2012).

<sup>747</sup> U.S. Department of Education, Office of the Inspector General, *Capella University’s Compliance with Selected Provisions of the Higher Education Act of 1965 and Corresponding Regulations*, Final Audit Report, (pp. 1) <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2008/a05g0017.pdf>. (accessed May 17, 2012).



could affect the determination of the students' withdrawal dates.<sup>748</sup> In a program review of Career Education Corporation's American Intercontinental University, the Department of Education found systemic problems with the school's policy for determining students' withdrawal dates and, therefore, problems with timely return of unearned title IV funds.<sup>749</sup> In an audit of Technical Career Institutes, Inc., a subsidiary of EVCI Career Colleges Holding Corp., the OIG reviewed files for 30 withdrawn students and determined that the school used incorrect withdrawal dates for 15 of those students.<sup>750</sup> The problems at these schools generally stemmed from a lack of adequate policies and procedures concerning the return of title IV funds.

Student aid programs provide taxpayer funds intended to be used to further students' education. When a college improperly retains this money, it is not being used for education. Rather, in the case of for-profit schools, it is money that adds to companies' profits. The college is no longer providing instruction and services to a student who withdraws in the middle of a term, but the college keeps money that is intended for that very purpose.

#### Job Placement Rate Manipulation

For-profit colleges market themselves as career focused, and entice students to enroll by offering the prospect of better jobs and better wages. Accordingly, for-profit colleges use job placement data to sell their offerings, and to satisfy national accrediting agencies and State regulators that they are performing adequately.

However, some for-profit colleges' job placement statistics have been plagued by irregularities and falsified data. A number of recent law enforcement investigations have revealed widespread falsification of placement rates at some colleges in the for-profit sector.

Undercover tapes show that 5 out of 15 campuses visited by the Government Accountability Office provided misleading information about the salaries students could expect to earn from new jobs after graduation.<sup>751</sup> Two schools guaranteed or virtually guaranteed jobs for the undercover GAO agents after graduation. Another told an agent, who expressed interest in a barber

<sup>748</sup> U.S. Department of Education, Office of the Inspector General, *Vatterott College - Des Moines' Compliance with Selected Provisions of the Higher Education Act of 1965 and Corresponding Regulations*, Final Audit Report, (pp. 3-4), <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2008/a07h0018.pdf> (accessed May 17, 2012).

<sup>749</sup> Career Education Corporation, Form 10-Q for the period ending 9/30/10.

<sup>750</sup> U.S. Department of Education, Office of the Inspector General, *Technical Career Institutes, Inc.'s Administration of the Federal Pell Grant and Federal Family Education Loan Programs*, Final Audit Report <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2008/a02h0007.pdf> (accessed May 17, 2012).

<sup>751</sup> Audio of undercover visits can be reviewed at <http://harkin.senate.gov/help/gao.cfm#gaovid1>.

program, that barbers can earn \$150,000 to \$200,000 per year, \$100,000 more than the Bureau of Labor Statistics reports that nearly all barbers earn.<sup>752</sup>

*Inconsistent, Unreliable, and Misrepresented Placement Data*

Most taxpayers and policymakers would agree that, at the end of the day, what matters is that students at for-profit colleges end up with quality jobs that pay good wages. However, most regional accreditors (which accredit at least 24 for-profit college brands attended by 1.1 million students) do not require schools to track career placement data. Significantly, at two major regionally accredited for-profit institutions which heavily market their programs as steps towards career advancement, Bridgepoint's Ashford University and Apollo Group's University of Phoenix, this means that they provide *no* career services.<sup>753</sup>

Most national accrediting agencies, as well as some States, do require institutions to track job placements, but this information is self-reported and inconsistent.<sup>754</sup> The reporting requirements vary regarding what information is tracked and how it is verified.<sup>755</sup> Individual colleges' methodology and consistency can vary when collecting the data, and the procedures used are seldom transparent to prospective students or even to policymakers.<sup>756</sup>

*Misleading Accreditors and Regulators*

At schools that track and provide placement data to accreditors or prospective students, internal documents and external investigations provide evidence of a multitude of irregularities and misrepresentations. For instance, 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.<sup>757</sup> 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

<sup>752</sup> The mean wage for barbers in Washington, DC is less than \$30,000 a year. Bureau of Labor Statistics, Occupational Employment Statistics, 39-5011 Barbers. <http://www.bls.gov/oes/current/oes395011.htm>.

<sup>753</sup> In the company's response, Apollo, for the first time, stated that it utilizes a third-party provider to "accelerate the delivery of career services to University of Phoenix students."

<sup>754</sup> IPEDS, Technical Review Panel Report No. 35.

<sup>755</sup> *Id.*

<sup>756</sup> *Id.*

<sup>757</sup> Lincoln Internal Email, June 2010, re: *FW: Grand Prairie Investigation* (LINC0088022).

placements. They chose to enter this information rather than perform due diligence and confirm these placements.<sup>758</sup>

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 staffs’ conduct, or whether other job placements recorded by other Lincoln career services staff were reviewed.<sup>759</sup>

Numerous investigations of other for-profit colleges have found that the Lincoln situation was not an isolated instance.

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<sup>758</sup> *Id.*

<sup>759</sup> *Id.*

Summary of Selected For-Profit Education Company Placement Investigations		
Year	Company / School	Summary
2005	<b>Career Education Corporation</b> Brooks College	"60 Minutes" reported that Brooks College was advertising a 98 percent job placement and strong career services, while graduates came forward to assert that neither was true.
2007	<b>Corinthian Colleges, Inc.</b>	California's attorney general filed suit following an investigation revealing that the company significantly inflated its placement rates—by as much as 37 percent—for every program examined. The company paid \$6.5 million to students and the State of California to settle the suit.
2009	<b>Alta Colleges, Inc.</b> Westwood College	Alta paid the United States \$7 million to settle allegations that it inflated its placement rates, advertising 90 percent job placement when the actual rate was 50 percent.
2010	<b>ATI Enterprises, Inc.</b> ATI Career Training Center	Several campuses were closed in an agreement with the Texas Workforce Commission after ATI significantly inflated placement rates for 90 percent of its programs.
2010	<b>Corinthian Colleges, Inc.</b> Everest College	Corinthian reported that administrators in one of its Everest Campuses in Texas falsified placement records for 288 graduates over 4 years.
2011	<b>Career Education Corporation</b>	CEC audited its placement rates as part of an investigation by the NY attorney general. As a result, CEC announced that it was revising placement rates for 49 of its campuses, and that 36 of those no longer met its accreditor's standards for placement.
2012	<b>Alta Colleges, Inc.</b> Westwood College	Alta paid \$4.5 million in damages to students and the state to settle a suit, brought by Colorado's attorney general, alleging inflated placement statistics, deceptive advertising, misleading recruiting practices, and enrolling students in institutional loans without their knowledge.

*Corinthian, the Texas Workforce Commission, and the California Attorney General*

In 2007, the California attorney general filed a lawsuit accusing Corinthian schools of deliberately and persistently misleading prospective students about the schools' placement rates. 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.<sup>760</sup> 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 has among the “most persistent, egregious, and widespread [consumer abuses] of any industry” she had ever seen.<sup>761</sup> In 2010, Corinthian Colleges 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 claimed to be working for a company that actually employed a total of just seven Everest College students.<sup>762</sup>

*ATI and the Texas Workforce Commission*

ATI Career Training, a Texas-based privately held for-profit education company owned by the UK-based private equity firm BC Partners, was found to have falsified job placement data in nearly all of its programs. The Texas Workforce Commission requires each educational program to achieve job placement rates of 60 percent or more in order to operate in the State. The company offers programs in a small number of fields including Automotive Service and Medical billing. ATI operates 24 campuses, with 16 in Texas and another 8 in Florida, New Mexico, and Oklahoma. In 2009, the company’s enrollment was 9,374 students. A news outlet in Dallas, TX, uncovered evidence that the company was systematically falsifying its job placement data in an effort to mislead students and regulators. The Texas Workforce Commission moved to revoke ATI’s license to operate in the State after media reports that:

- Six graduates of ATI’s HVAC program, who ATI reported as hired by an air conditioning firm, were in fact never employed and the business address the school listed led to a residential address;
- Five ATI welding graduates were recorded as employed at a company called Paradise Landscaping. The owner of that business said he had never hired anyone from ATI;

<sup>760</sup> Margaret Reiter (former supervising deputy attorney general in Consumer Law, California Attorney General’s Office), Testimony before the Senate Health, Education, Labor, and Pensions Committee, *Emerging Risk? An Overview of the Federal Investment in For-Profit Education*, 111th Congress (2010). The company paid \$6.5 million to settle the suit. Corinthian Colleges, Inc. 10-k for the period ending June 30, 2007.

<sup>761</sup> *Id.*

<sup>762</sup> Corinthian Colleges, *Statement by Corinthian Colleges Regarding Everest College, Arlington Mid-Cities Campus*, October 11, 2010, [http://higheredwatch.newamerica.net/sites/newamerica.net/files/articles/1011\\_corinthian\\_statement%5B1%5D.pdf](http://higheredwatch.newamerica.net/sites/newamerica.net/files/articles/1011_corinthian_statement%5B1%5D.pdf) (accessed May 9, 2012).

- Eight electronics technicians were recorded as employed by two companies, Pyle Security and Widgeon Technology. The owners of those firms say just one ATI student was hired.<sup>763</sup>

According to former ATI officials, the schools would, among other things, forge students' signatures on employment records: "When [students] graduate, they would sign off on all kinds of paperwork," said a former ATI employee and whistleblower. "Then you would take a clean version of their signature, make copies of it, and then paste it into documents to say they were placed."<sup>764</sup>

An outside accounting firm, hired after the scandal broke, found that ATI "significantly over-reported" its job placement rates for 90 percent of the school's programs for the 2010 fiscal year, and 63 percent had actual placement rates below Texas Workforce Commission's required threshold. In addition, none of the 16 campuses had abided by the Commission's rules requiring that they contact all of their most recent graduates to verify their employment records (and some contacted as few as 11 percent).

The Texas Workforce Commission's final dispensation of the matter was to revoke approval for 22 ATI programs and allow all other programs to remain open under certain conditions. As a result, ATI must verify 2011 student employment rates through an independent third party. ATI must also make refunds to all students currently enrolled in any of the 22 programs.

#### *Career Education Corporation*

In 2005, an investigation by "60 Minutes" found significant discrepancies in the job placement promises made to prospective students compared to the actual employment of the graduates at Career Education Corporation's Brooks College. Recruiters promised 98 percent job placement and placement assistance after graduation. Yet, after graduation, several of the graduating class's top students complained that they received little or no placement assistance from the school, and no employment in their field. Career Education Corporation (CEC) replied to the news report by saying that it was disappointed that the news outlet "opted to paint us ... with a broad brush based on a few allegations."<sup>765</sup>

Six years later, the same company is facing another larger job placement scandal. The company recently revised its 2010 placement rates for

<sup>763</sup> Byron Harris, "Bitter lessons for trade school graduates," *WFAA.com Dallas Fort Worth*, December 15, 2010, <http://www.wfaa.com/news/investigates/Bitter-Lessons-106350718.html> (accessed May 9, 2012).

<sup>764</sup> Id.

<sup>765</sup> Career Education Corporation, Career Education Corporation Comments on "60 Minutes" Story, BusinessWire, January 31, 2005, <http://www.businesswire.com/news/home/20050130005030/en/Career-Education-Corporation-Comments-60-Minutes-Story> (accessed May 9, 2012).

49 of its campuses to correct “irregularities” found following an investigation by New York’s attorney general. The 2010 job placement rates at all 49 campuses were incorrect, and 36 of those campuses had revised job placement rates that were below the campus accreditor’s minimum threshold of 65 percent job placement.<sup>766</sup> The CEO of Career Education Corporation, Gary McCullough, resigned when these widespread misrepresentations were uncovered.<sup>767</sup> After initially requiring all 71 ACICS-accredited campuses to “show cause” why their accreditation should not be suspended, ACICS placed four campuses on probation that had revised placement rates below 40 percent, and subjected 24 to additional oversight.<sup>768</sup> CEC has not made the audit of its placement rates public, nor has it indicated whether it will review previous years of placement data or campuses that were not accredited by ACICS.

These recent revelations about CEC of systematic misreporting also indicate the weaknesses of current accreditors’ verification of placement rates. 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.<sup>769</sup>

*Westwood, and Investigations by Texas, Colorado, and Federal Authorities*

Westwood colleges, owned by Alta Colleges, Inc., settled a lawsuit in 2009 for \$7 million stemming from allegations that the company misled students and officials regarding job placement rates.<sup>770</sup> The U.S. Department of Justice determined that Westwood was claiming a 90 percent job placement rate, when the actual rates were around 50 percent. By doing so, the school falsely obtained its operating license from the Texas Workforce Commission, and thereby acquired the ability to collect Federal student aid dollars.<sup>771</sup>

More recently, the Colorado attorney general brought forward evidence that revealed a pattern of misconduct by Westwood.<sup>772</sup> The attorney general

<sup>766</sup> Career Education Corporation, Form 10-Q filed November 9, 2011.

<sup>767</sup> Id.

<sup>768</sup> Career Education Corporation, Form 8-K filed May 7, 2012.

<sup>769</sup> ACICS requires schools to report placement rates every year.

<sup>770</sup> U.S. Department of Justice, Office of Public Affairs, “Alta Colleges to Pay U.S. \$7 Million to Resolve False Claims Act Allegations,” *Justice News*, April 20, 2009 (<http://www.justice.gov/opa/pr/2009/April/09-civ-367.html>).

<sup>771</sup> Stephen Burd, “Who’s to Blame for Job Placement Rate Abuses at For-Profit Colleges,” *New Foundation America*, November 9, 2011,

[http://higheredwatch.newamerica.net/blogposts/2011/who\\_s\\_to\\_blame\\_for\\_job\\_placement\\_rate\\_abuses\\_at\\_for\\_profit\\_colleges-60157](http://higheredwatch.newamerica.net/blogposts/2011/who_s_to_blame_for_job_placement_rate_abuses_at_for_profit_colleges-60157) (accessed May 9, 2012).

<sup>772</sup> 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](http://www.coloradoattorneygeneral.gov/press/news/2012/03/14/attorney_general_announces_45_million_settlement_westwood_college_address_dece) (accessed March 14, 2012).

found that Westwood had engaged in deceptive advertising, misleading recruiting practices, and inflating placement statistics. The AG also found evidence that Westwood deceived some students by enrolling them in a private loan program operated by the college without their knowledge, and that the loan program itself was a violation of Colorado law because of its default interest rate. The company settled the case for \$4.5 million in damages to students and the student aid programs.<sup>773</sup>

In sum, many for-profit colleges show a remarkable level of sophistication in deploying tactics and policies that do not appear to be in the interest of students or taxpayers in order to technically remain in compliance with the few regulations put in place to protect students and the integrity of taxpayer funds. This phenomenon is, perhaps, the logical result of a profit-driven system that lacks meaningful enforcement and regular oversight. But it raises serious questions about for-profit colleges' stewardship of the multi-billion dollar annual investment they receive from students and taxpayers.

### **The Consequences of Inaction**

If Congress does not enact effective controls, for-profit education companies will continue to churn through students and consume an increasing amount of taxpayer dollars. The available evidence shows that many for-profit colleges make decisions that prioritize their bottom line, even when those decisions limit their students' opportunities for academic success. New rules on program integrity, including the re-instituted ban on paying recruiters based on the number of students they enroll, and the gainful employment regulation, are welcome improvements, but they are a first step to correcting the misaligned incentives that govern the sector.<sup>774</sup>

For-profit colleges receive a large and growing share of Federal student aid dollars. Pell grant disbursements flowing to for-profit colleges increased six fold over the last decade, from \$1.4 billion to \$8.8 billion. Moreover, for-profit schools collect 38 percent of all post-9/11 GI bill dollars, and 50 percent of all Department of Defense Tuition Assistance funds. At a time when Federal spending is being closely scrutinized, it is more important than ever to ensure that taxpayers are getting the return they seek by providing Federal loans and grants. We are currently committing \$32 billion in taxpayer dollars to for-profit higher education with minimal accountability for student success.

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<sup>773</sup> Id.

<sup>774</sup> 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).



For-profit education companies ask students with modest financial resources to take a big risk by enrolling in their high-tuition schools. As a result of high tuition, students must take on significant student loan debt to attend school. When students withdraw, as hundreds of thousands do each year, they are left with high monthly payments but not the commensurate increase in earning power from new training and skills. This debt follows former students throughout their lives and can create a hole that is extremely difficult, and sometimes impossible, to climb out of. Default, while adding fees to a student's debt load, does not eliminate the debt. Nor is student loan debt dischargeable through bankruptcy. Moreover, since students are not eligible for Federal student aid if they have defaulted on a student loan, the opportunity to pursue higher education again may be foreclosed.

Students often blame themselves for academic failures when they leave for-profit colleges before attaining a degree. Students who attend a campus that is part of a large chain, or who enroll online, may be unaware that there are thousands or tens of thousands of other students like them. Many students at for-profit schools are first generation college students who do not have siblings, parents, aunts or uncles who attended college to guide their expectations about what a college should provide and what it should cost. Moreover, they do not recognize that many for-profit schools lack the support services that could help students stay in school and complete their degree.

The existing capacity of non-profit and public higher education is insufficient to satisfy current, much less future, demand, particularly in an era of drastic cutbacks in state funding for higher education. Even if resources were available to make significant new investments in community colleges, it would be virtually impossible to accommodate the 2.2 million postsecondary students who currently attend for-profit colleges. The for-profit sector will continue to play an important role in providing capacity to the Nation's higher education infrastructure. And, indeed, the sector can play a constructive role, bringing much-needed innovation to the higher education sector and producing graduates in high-demand fields.

But the goal cannot be simply to enroll students. As Dr. Arnold Mitchem, the President of the Council for Opportunity in Education, told the committee, "for-profits are the only institutions providing access to postsecondary education for many low-income youth and adults. . . . I think all of us in this room agree that access is critical, but access to what?" Access to debt is not the same thing as access to the opportunity offered by a good education. Federal law and regulations must strive to align the incentives of for-profit colleges so that the colleges succeed financially when, and only when, students also succeed.

In the absence of significant reforms that require for-profit education companies to focus on their educational mission first and foremost, and ensure that taxpayer dollars are not directed to marketing that is often aggressive and sometimes deceptive and misleading, the growing for-profit education sector will continue on its current path. For-profit colleges, with their potential to provide innovative options for students to obtain a quality higher education that prepares them for available jobs, will continue to fall far short of that promise, with devastating consequences for students, taxpayers, the Federal student aid system, and the American economy.

### **What Needs to Be Done?**

Over the course of this investigation, the committee identified several problems that indicate significant weaknesses with the effectiveness of the current regulatory scheme in ensuring protections for students and taxpayers. While lax State oversight and insufficient quality control by accrediting agencies are responsible for many of these weaknesses, it is Federal policymakers who have failed to adequately safeguard the \$32 billion annual taxpayer investment in the for-profit college sector.

Because for-profit institutions, especially those owned by publicly traded and private equity-held corporations, are fundamentally different from public and private non-profit institutions as a result of profit incentives and fiduciary responsibilities, such institutions have always been, and must continue to be, treated differently under Federal law. While there are also issues that transcend the for-profit sector and should be addressed on a sector-neutral basis, Congress has failed to adjust the unique legislative framework that governs this sector of higher education to ensure that the demands of shareholders and investors do not overrun those of taxpayers and students. Not only has Congress failed to strengthen protections for students and taxpayers, it has actually taken repeated steps to rollback or weaken existing regulations. Therefore, policy changes to account for the changing landscape of the sector are needed.

In particular, the committee believes that a revised framework must address three main areas in dire need of improvement: enhanced transparency through the collection of relevant and accurate information about student outcomes, stronger oversight of the \$155 billion Federal financial aid investment to curb fraud and abuse, and meaningful protections for students.

## Enhanced Transparency

### *Improved Data on Student Outcomes*

Any discussion of legislative solutions must begin with new requirements for the collection and analysis of meaningful and accurate information on student outcomes across all sectors of higher education. Currently, only first-time higher education students who attend college on a full-time basis are included in the Department of Education's Integrated Postsecondary Education Data System (IPEDS) graduation rate measurement. IPEDS retention rate does include students attending part-time, but only first-time students. This means that a significant portion of the student population, including returning and transfer students, are not captured. As an example, the University of Phoenix in its 2008 Annual Academic report notes:

The issue for institutions such as the University of Phoenix is that IPEDS data is calculated using "first-time students." These are students who start at one institution and complete their entire degree at that same institution. That student is an anomaly at University of Phoenix. Therefore, the completion rates reported to IPEDS differ from the completion rates calculated by using the true population of the University, most of whom do not fall within the IPEDS definition.

These limitations make the available data virtually useless for assessing the retention, completion and graduation rates of non-traditional students, or for conducting cross-sector analysis.

In addition to the incomplete data, often times the definitions of existing metrics limit data validity. For example, the IPEDS retention rate represents an annual snapshot of how many first-time students who were enrolled in classes in the fall returned to the same institution of higher education the following fall. Thus, this measure not only fails to capture students who are not first-time students, but also fails to capture any student who enrolls after the fall reporting but withdraws in less than 1 year or who transfers to another institution. As an example, in 2009 schools owned by Corinthian Colleges, Inc. reported a retention rate of 64 percent based on a population of 15,488 students. The committee's analysis demonstrated that about 131,000 students enrolled at Corinthian between 2008 and 2009, meaning that more than 100,000 students are not captured in the IPEDS retention rate. The committee's analysis indicates that about 49.5 percent of students were still enrolled or graduated as of mid-2010, significantly lower than the IPEDS rate. Across the education companies analyzed, the median drop-out period for students was approximately 4 months, suggesting that the annual retention rate is failing to capture hundreds of

thousands of students entering and leaving again between the traditional fall start periods.

As discussed in the report, manipulation of Office of Postsecondary Education Identifiers or OPEIDs can also obfuscate the performance of individual campuses or campuses owned by a particular corporation. In part because of the large number of “brands” operated by for-profit college companies and the various ownership-shifting acquisitions, the OPEID tracking system bears little relation to the corporate ownership structure or to an individual campus-based identification system. This further complicates a clear understanding of how students are performing at all schools operated and owned by the same entity.

**Recommendation:** Require that the Department of Education collect comprehensive student outcome information and enable data retrieval by corporate ownership.

#### Job Placement and Earnings

The current system of tracking job placement is not comprehensive and is subject to manipulation. Regional accrediting agencies generally do not set standards for job placement rates, although over half of all students enrolling in a for-profit college attend a regionally accredited college. National accreditors set varying standards and perform limited audits of self-reported data. Schools required to report job placement rates work to meet required thresholds, but without providing much career counseling. Multiple State investigations have demonstrated that this information is sometimes manipulated or even falsified.

**Recommendation:** Establish a uniform methodology for calculating job placement rates to better understand if students are working in their chosen field and set standards to ensure the accuracy of reported job placement rates.

#### Cost of Attendance

Soaring college costs is an area of great concern for the committee. As with consumer choice for any product or service, it is critical that students have access to accurate and easily understood information that will enable them to compare the costs of attending across colleges and programs of study. This remains a concern in the for-profit sector where, even with new regulations requiring tuition disclosures, it can be challenging to accurately determine the actual cost of a program.

**Recommendation:** Create a consumer-friendly source where prospective students can easily obtain and compare timely,

accurate and complete information on the cost of attendance of any program.

*Private Lending*

Because some for-profit colleges purposefully set tuition above Federal lending limits, some students are forced to take on additional institutional or private loans. However, there is little data available regarding the number of students taking additional private loans and the terms of such loans.

**Recommendation:** Require the reporting of the terms of private and institutional loans, as well as the number and amount of loans made, and the characteristics of such borrowers. Require mandatory institutional certification of private student loans to curb the use of private loans by students who have not exhausted their Federal loans and to better inform students regarding the risks of private loans. Allow private loans to be discharged in bankruptcy.

**Stronger Oversight**

*Outcomes-Based Thresholds*

Between 2001 and 2010, the amount of Federal financial aid flowing to student borrowers through loans and grants almost tripled from \$44 billion to \$130 billion. With the taxpayer investment rapidly growing and an increasing number of student borrowers struggling to repay their loans, Congress needs to examine placing more rigorous performance-based limitations on access to Federal financial aid.

The committee heard testimony that outcomes-based metrics are a potential area of agreement among stakeholders. As DeVry CEO Daniel Hamburger stated: “There is common ground among all parties in two areas—the current metrics used to evaluate institutional performance are insufficient, and the opportunity exists to improve institutional programs and services.” Former U.S. Department of Education deputy undersecretary Bob Shireman went on to explain his view that outcome-based metrics “become unenforceable if it’s not a hard line, but if we have a hard line, it ends up being really low level. So figuring out how to get those incentives to push for the high levels of success, that’s going to be a critical part of what we aim for.”

**Recommendation:** Examine incentivizing higher standards of student success and tying access to Federal financial student

assistance to institutions of higher education meeting minimum student outcome thresholds.

*Limits on Use of Federal Financial Aid Dollars*

One of the significant findings of the investigation is that the term “for-profit education company” is in many ways a misnomer, given that well over 80 percent of for-profit education company revenues examined by the investigation come from Federal taxpayer dollars. The committee found that, in 2009, 86 percent of the revenues of publicly traded companies operating for-profit colleges were directly derived from taxpayer dollars. That same year the companies spent 23 percent of revenues on marketing. Thus, it appears at least 9 percent of the funds spent on advertising and recruiting campaigns, some of which are misleading and deceptive, came from Federal taxpayer dollars designated for education. In this environment of difficult spending choices, allowing taxpayer dollars to be used for marketing, advertising and recruiting rather than on education-related costs such as instruction and student services is unacceptable.

**Recommendation:** Prohibit institutions of higher education from funding marketing, advertising and recruiting activities with Federal financial aid dollars.

*Improved Cohort Default Rate Tracking*

Starting 4 years ago, in preparation for the transition to the 3-year default rate threshold in 2014, the Department of Education began to publish the number of students entering default within 3 years of leaving school, in addition to the existing reporting of the number of those entering default within 2 years of leaving school. The trial 3-year default data show that there is a significant disparity between 2-year and 3-year rates, indicating manipulation of the 2-year default rates. The investigation found that the use of questionable default management practices is rapidly increasing, in an effort to ensure that default rates are reduced significantly prior to implementation of the new 3-year threshold. Because the rate remains subject to manipulation, the window of reporting default rates should be significantly expanded. Additionally, in order to better protect against efforts to place students in forbearance or deferment, which may not be in students’ best interest, the threshold for determining continued eligibility for Federal financial aid should be extended from 3 years to 4.

**Recommendation:** Expand the default reporting period and continue using the default rate threshold for purposes of limiting access to Federal financial aid by extending the

threshold for determining continued eligibility for Federal financial aid from 3 to 4 years after a student enters repayment.

*Ensuring Quality—the 90/10 Rule*

Current law requires that no more than 90 percent of revenues of a for-profit college may come from revenues derived from title IV funds. The regulation is based on the premise that if a college is of sufficient quality, it should be able to obtain at least 10 percent of its revenues from sources other than the Federal Government, presumably from private funds. While the 90/10 rule has been repeatedly weakened, it remains a critical tool in ensuring that for-profit colleges are held accountable for the tremendous Federal investment they receive and a useful tool in assessing whether a college's quality is sufficient enough so that students and employers are willing to make a financial commitment. However, allowing non-title IV Federal funds to be excluded from this calculation, including veterans and military educational benefits, has had the perverse effect of making servicemembers and veterans the target of for-profit college recruiting efforts. Instead of being further weakened, the 90/10 rule should be strengthened.

**Recommendation:** Require that for-profit colleges receive at least 15 percent of revenues from sources other than Federal funds, with all Federal educational assistance funds included in the 85 percent calculation, and return to annual compliance for continued title IV eligibility.

*Access to Financial Aid*

The fundamental role of accrediting agencies is to ensure that institutions of higher education are meeting standards of institutional integrity and academic quality. Accreditation remains a peer-based review process premised on a shared commitment to academic improvement. As a result, regional accrediting agencies in particular have found it extremely difficult to evaluate colleges owned by for-profit education companies that enroll many times more students than some of the largest public systems. The committee has documented that the Higher Learning Commission of the North Central Association of Colleges and Schools was particularly ill-equipped to adequately assess the integrity of some of these colleges. Because accreditation is also the means by which the Federal Government determines whether higher education institutions should access Federal financial aid dollars, this is a serious concern.

While accreditation should remain a required component of access to title IV Federal financial aid, the Department of Education should assume

greater responsibility for determining access to title IV based not solely on accreditation but also on additional and expanded criteria.

**Recommendation:** Utilize criteria beyond accreditation and State authorization for determining access to Federal financial aid.

## **Meaningful Protections**

### *Improved Complaint Process*

At the initiation of the committee investigation it was difficult to make an accurate assessment of the level of students concerns because there was no centralized or obvious place to turn to evaluate student complaints. In fact, the investigation determined that while hundreds of thousands of students file complaints, the majority of these complaints are made to the students' college or to the Better Business Bureau, which simply refers the complaint back to the college. Close to 100 current and former students and employees of for-profit colleges reached out to the committee, many of whom expressed frustration that they did not know who else to contact regarding their stories.

Students complained that their schools made deceptive statements regarding the cost of the program and availability of Federal aid, misled students regarding programmatic accreditation, structured classes in such a way that the student was left owing money prior to graduation, performed financial audits after additional student aid was no longer available and engaged in additional problematic practices. The investigation found that schools that are regionally accredited have a more robust complaint process but that the complaints made to all for-profit colleges were a useful way of determining if a particular for-profit college was engaged in a pattern of conduct that generated multiple similar complaints.

Currently, however, no centralized complaint structure exists that allows for an effective analysis of student or employee complaints, or that serves as a clearinghouse in steering complaints to the appropriate entity—for fielding quality complaint to accreditors, financial aid complaints to the Department of Education or the Inspector General, and misleading and deceptive tactics complaints to the Federal Trade Commission. More critically, students have little idea where to file a complaint other than directly with the school.

**Recommendation:** Create an online student complaint clearinghouse at the Department of Education for the collection and referral of student complaints to the appropriate



agency or division, and require all institutions of higher education to provide a link to the complaint center on their Web sites.

*Making Students Whole—Arbitration Clauses*

Twenty-one of the twenty-seven enrollment agreements produced to the committee by for-profit education companies contained a clause that required students to go through a process of mandatory binding arbitration. Because the recent Supreme Court decision, *AT&T Mobility v. Concepcion*, held that arbitration claims may not be joined in a class action, students who may have been similarly deceived with regard to cost, likelihood of obtaining a job, or likely salary cannot in most cases join together to sue the school.<sup>775</sup> The investigation has documented that these practices are occurring at a number of for-profit schools, but these students are left with little recourse. Students should have the right to pursue a class action lawsuit against their former colleges if the college deceived them about costs, student loans, programs, job placement or salary after college, and not be forced into arbitration as most enrollment contracts currently stipulate.

**Recommendation:** Require that institutions of higher education accepting Federal financial aid may not include mandatory binding arbitration clauses in enrollment agreements.

*Minimum Standards for Student Services*

As detailed above, the committee investigation demonstrated that the investment made in student services is surprisingly low in the for-profit sector. At least two publicly traded for-profit companies confirmed to the committee staff that they offer no tutoring or other assistance outside of the (usually online) instructor. The committee also documented tremendous disparities between the staffing of enrollment and recruiting departments and other student services departments, including career counseling and financial aid. Although the information produced could not be analyzed in such a way as to demonstrate a greater disparity in services available to online students, anecdotal reports suggest that this might be the case. As a result, it seems necessary to create minimum standards for student services.

**Recommendation:** Require a set of minimum standards of student services, including tutoring, remediation, financial aid, and career counseling and job placement.

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<sup>775</sup> *AT&T Mobility v. Concepcion*, 131 S.Ct. 1740 (2011).

Compensation-Based Policies

The committee investigation has demonstrated problems with the recruiting and admissions tactics used by the for-profit sector. The Government Accountability Office undercover recordings document that misrepresentations and omissions were made during the recruiting process at each of the 15 for-profit college campuses visited. Internal documents make clear that recruiters are often trained in aggressive tactics of emotional exploitation, and that misleading and deceptive practices are tolerated and sometimes tacitly encouraged.

Recently enacted regulations clarified that recruiter salaries may not be based on the number of students they enroll. However, evidence suggests that at some for-profit education companies, enrollment targets are still enforced, not through compensation but through termination of non-performing employees.

The investigation has also found evidence that similar quota-based systems and compensation-based incentives are not limited to recruiting, enrollment and financial aid staff. Faculty, job placement and debt counseling staff at some colleges are offered compensation-based incentives for meeting thresholds and quotas ranging from students completing classes to students placed in forbearance to students “placed” in jobs. The investigation uncovered instances where faculty and staff were pushed to pass unqualified students or exaggerating job placements in order to hit company-demanded quotas.<sup>776</sup> Numeric quotas have no place in decisions regarding compensation or retention of faculty members or any other staff members of an institution of higher education.

**Recommendation:** Extend the incentive compensation ban to all employees of institutions of higher education and clarify that numeric threshold or quota-based termination policies are not permissible.

Enforcement

The Department of Education has taken significant steps to enact new regulations on incentive-based compensation and misrepresentation. Yet, the Department has not implemented an effective enforcement plan to ensure that colleges are meeting these requirements. Further, the Department struggles with setting out clear risk-based criteria that will trigger an audit or program review. Several for-profit colleges continue to promote misleading information regarding the cost of programs, and other colleges, currently under investigation

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<sup>776</sup> At least 10 current and former employees of multiple for-profit colleges have contacted Committee staff stating they were pressured to pass student.

for the integrity of job placement data, have made significant misrepresentations to students and regulators. And while some for-profit colleges appear to have put new controls in place with regard to the conduct of lead generators they hire, in general, these marketing efforts continue to be a serious cause for concern.

**Recommendation:** Create an enforcement task force within the Department of Education to focus on targeted enforcement of new and existing regulations and require the Department to develop clear risk-based criteria that will trigger audits or program reviews.

These recommendations represent some of the elements of a comprehensive legislative framework that should be developed to adequately counterbalance the financial pressures that publicly traded and private equity-owned for-profit colleges bring to the sector. Much work remains to be done to ensure that legislation is crafted to ensure that for-profit colleges properly prioritize student success and deliver on the sector's potential not just for access and added capacity, but for affordable quality programs as well.

## 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.<sup>777</sup> 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.<sup>778</sup> The school changed its name to the National Electronics Institute (NEI) in 1958, as it adapted and expanded the curriculum.<sup>779</sup> NEI was acquired by the Denver Institute of Technology, Inc. in 1974, which was in turn acquired by the

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<sup>777</sup> 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.

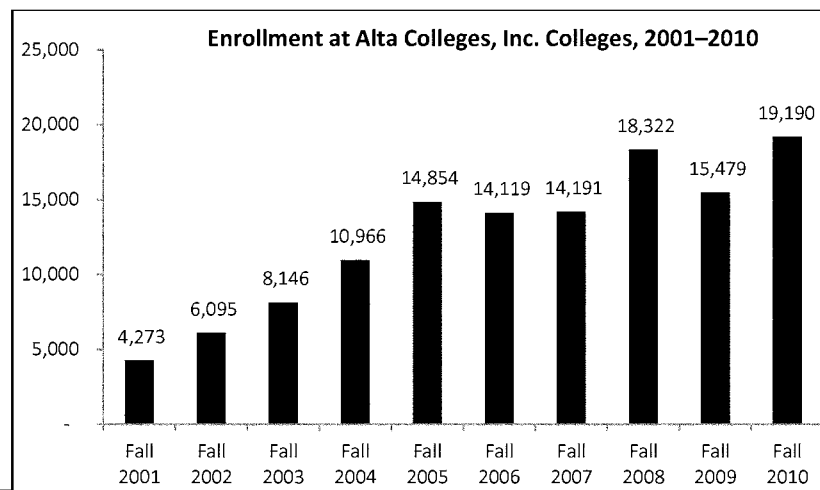
<sup>778</sup> See Westwood College, 2012 Academic Catalog: California/Colorado/Georgia/Virginia (2011).

<sup>779</sup> See id.

founders of Alta in 1987.<sup>780</sup> 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).<sup>781</sup> Westwood College campuses are nationally accredited by the Accrediting 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.<sup>782</sup> Eric Goodman, Alta's Chief Academic Officer, also left and moved to ECPI University, a Virginia-based for-profit education company.<sup>783</sup> He was replaced by John Keim.



<sup>780</sup> 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).

<sup>781</sup> Alta, February 2010, *Program Portfolio Review* (HELP-ALTA-000167).

<sup>782</sup> Business Briefs, "Chief of Alta Colleges tenders resignation," *Denver Post*, September 27, 2011.

<sup>783</sup> [http://www.denverpost.com/business/ci\\_18983399](http://www.denverpost.com/business/ci_18983399) (accessed June 13, 2012).

<sup>783</sup> Eric Goodman, *LinkedIn profile*. <http://www.linkedin.com/pub/eric-goodman/1/699/b0a> (accessed May 23, 2012).

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.<sup>784</sup> 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.<sup>785</sup>

## 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.<sup>786</sup> 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.<sup>787</sup>

In 2010, Alta reported 83.9 percent of revenue from title IV Federal financial aid programs.<sup>788</sup> 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).<sup>789</sup> 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

<sup>784</sup> 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.

<sup>785</sup> 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 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.

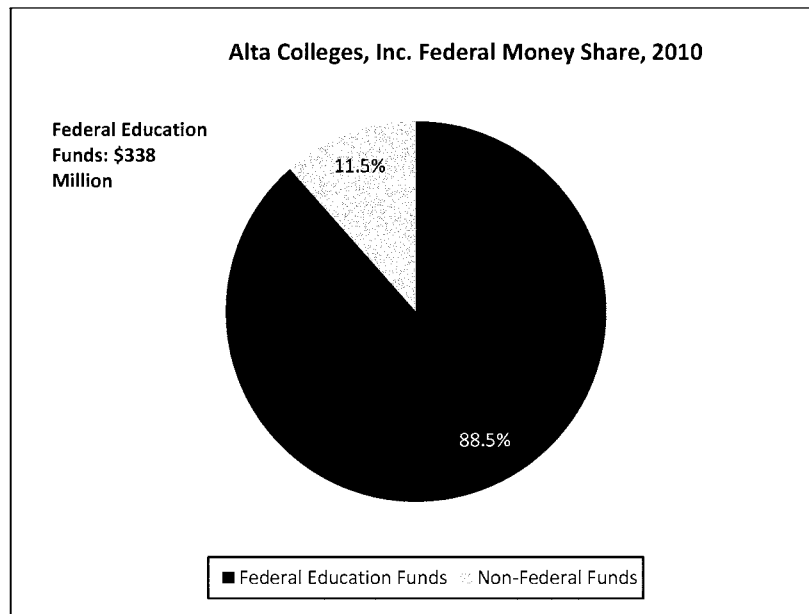
<sup>786</sup> "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq. Senate 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.

<sup>787</sup> 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.

<sup>788</sup> 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.

<sup>789</sup> 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.

of Alta's revenue, or \$17.5 million.<sup>790</sup> 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.<sup>791</sup>



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.<sup>792</sup>

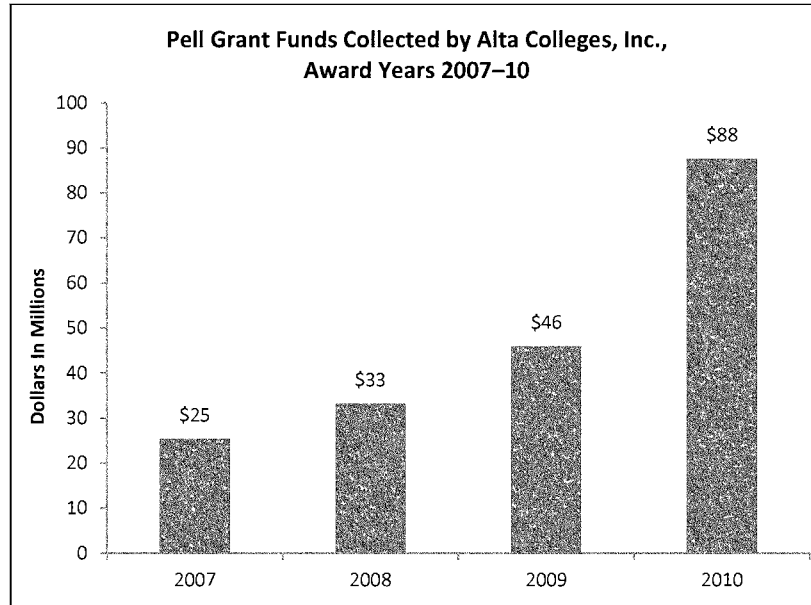
Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009–10 and 2010–11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic

<sup>790</sup> 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.

<sup>791</sup> See Appendix 10.

<sup>792</sup> 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, 2000–1 and 2009–10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.

conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.



Alta more than tripled the amount of Pell grant funds it collected, from \$25.4 million in 2007 to \$87.6 million in 2010.<sup>793</sup> 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).”<sup>794</sup>

### 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

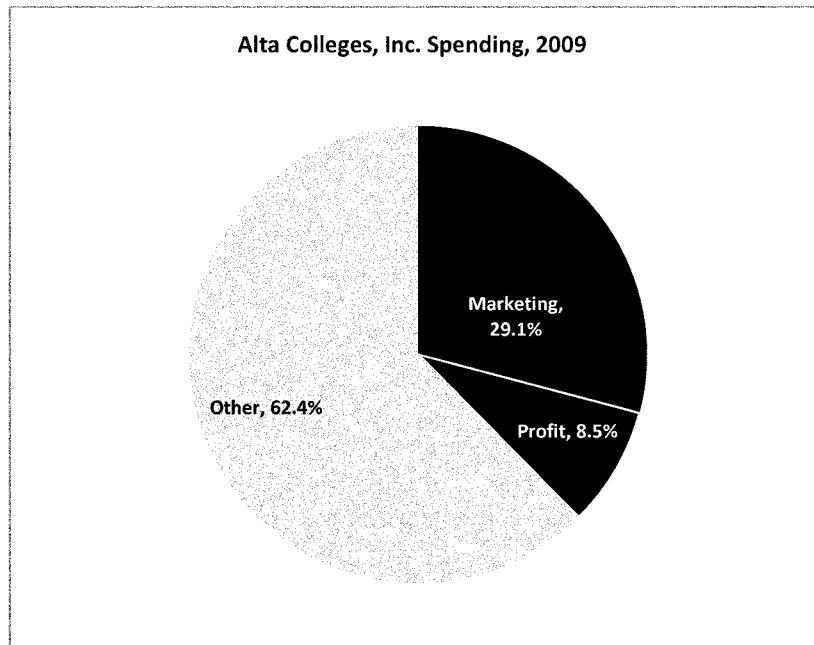
<sup>793</sup> Pell disbursements are reported according to the Department of Education’s student aid “award year,” which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School, 2006-7 through 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>. See Appendix 13.

<sup>794</sup> Alta, February 2009, *Pricing Manager Business Case*, (HELP-ALTA-000153, at HELP-ALTA-000159).



2009.<sup>795</sup> 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).<sup>796</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.<sup>797</sup>

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.<sup>798</sup>



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.<sup>799</sup>

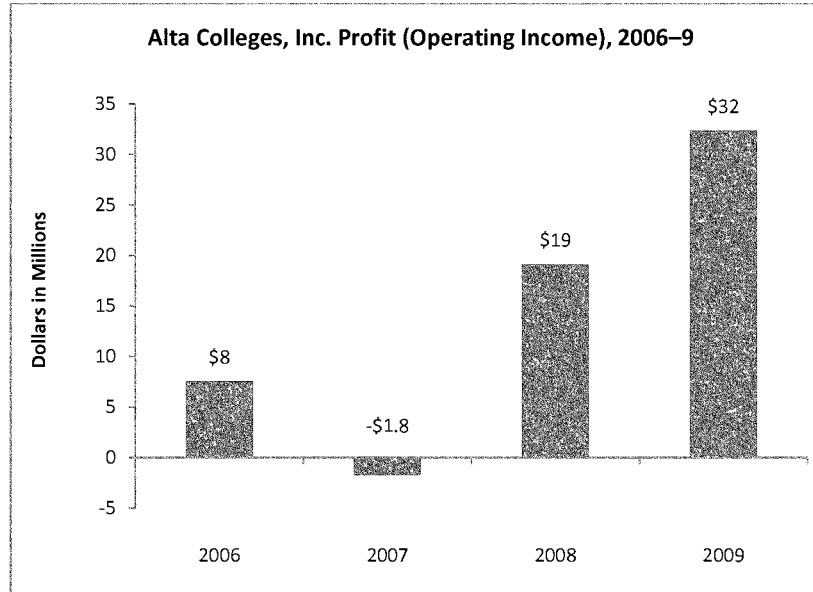
<sup>795</sup> Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

<sup>796</sup> 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.

<sup>797</sup> Id.

<sup>798</sup> 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.

<sup>799</sup> 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.”<sup>800</sup> 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.”<sup>801</sup>

#### Executive Compensation

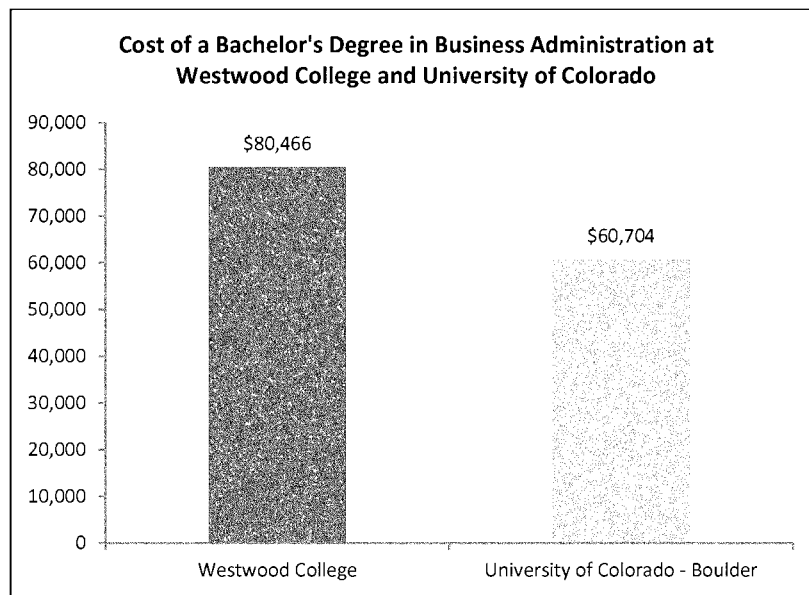
As a privately held company, Alta is not obligated to release executive compensation figures.

<sup>800</sup> 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.)

<sup>801</sup> Alta, February 2009, *Admissions Support Book of Operations* (WP000036541, at WP000036576).

### 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.<sup>802</sup> The same degree at the University of Colorado at Boulder costs approximately \$60,704.<sup>803</sup> An Associate degree in information technology at Westwood costs \$48,194<sup>804</sup>, while the same degree at the Community College of Denver cost \$8,823.<sup>805</sup>



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.<sup>806</sup>

<sup>802</sup> See Appendix 14; see also, Westwood College, *Tuition Information for Colorado*, [http://www.westwood.edu/media/files/pdf/catalogs/D6485b\\_CO\\_Addendum.pdf](http://www.westwood.edu/media/files/pdf/catalogs/D6485b_CO_Addendum.pdf) (accessed June 12, 2012).

<sup>803</sup> See Appendix 14; see also, University of Colorado Boulder, *University of Colorado Boulder*, <http://www.colorado.edu/> (accessed June 12, 2012).

<sup>804</sup> See Appendix 14; see also, Westwood College, *Tuition Information for Colorado*, [http://www.westwood.edu/media/files/pdf/catalogs/D6485b\\_CO\\_Addendum.pdf](http://www.westwood.edu/media/files/pdf/catalogs/D6485b_CO_Addendum.pdf) (accessed June 12, 2012).

<sup>805</sup> See Appendix 14; Community College of Denver, *Community College of Denver*, <http://www.ccd.edu/> (accessed July 12, 2012).

<sup>806</sup> 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.

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.<sup>807</sup> 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 special to where they feel they can charge so much more than other well-respected schools [sic]?”<sup>808</sup> 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!”<sup>809</sup>

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.<sup>810</sup> 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.<sup>811</sup> 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.”<sup>812</sup>

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.<sup>813</sup> He testified, “More

<sup>807</sup> Westwood College, *Westwood Online Pricing Strategy* (WP000002798, at WP000002799).

<sup>808</sup> *Id.*

<sup>809</sup> *Id.*

<sup>810</sup> See Alta, September 2007, *Pricing Strategy Discussion Document* (WP000004122); Alta, June 2012, *Strategic Price Down 2009* (HELP-ALTA-000266).

<sup>811</sup> Alta, September 2007, *Pricing Strategy Discussion Document*, (WP000004122, at WP000004142).

<sup>812</sup> *Id.*

<sup>813</sup> 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.

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].”<sup>814</sup> 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.”<sup>815</sup> 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.”<sup>816</sup> 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.<sup>817</sup>

### 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.<sup>818</sup> 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.<sup>819</sup> 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.<sup>820</sup> 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

<sup>814</sup> 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).

<sup>815</sup> 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.)

<sup>816</sup> *Id.*

<sup>817</sup> Westwood College. *Admissions New Hire Classroom Training*, January 2010 (WP000036036 at WP000036092).

<sup>818</sup> Westwood College, “Westwood College and Colorado Attorney General Agreement,” [www.westwood.edu/apexcredit](http://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.

<sup>819</sup> APEX Educational Services, 2009, *Payment Agreement*, (WP000035120).

<sup>820</sup> National Consumer Law Center, “The Growth of Proprietary School Loans and the Consequences for Students,” January 2011.

student borrows.<sup>821</sup> The origination fee on Federal Stafford direct loans is 1 percent.<sup>822</sup>

The loan agreement contains an arbitration clause that prevents students from pursuing relief in court.<sup>823</sup> 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.”<sup>824</sup> 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.”<sup>825</sup> 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.”<sup>826</sup>

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 pay a maximum of \$150 a month while they’re in school.”<sup>827</sup> Additionally, the Colorado attorney general uncovered

<sup>821</sup> 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.

<sup>822</sup> Department of Education, Federal Student Aid, Direct Stafford Loans, <http://studentaid.ed.gov/PORTALSWebApp/students/english/studentloans.jsp> (accessed May 22, 2012).

<sup>823</sup> APEX Educational Services, 2009, Payment Agreement, (WP000035120).

<sup>824</sup> APEX Educational Services, Promissory Note and Disclosure, (WP000035133).

<sup>825</sup> Id.

<sup>826</sup> Id.

<sup>827</sup> 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.

similar evidence that “students complained that Westwood enrolled them into an APEX financing without their knowledge and consent.”<sup>828</sup>

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.<sup>829</sup> 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.<sup>830</sup> 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.<sup>831</sup> Students in different degree programs were worth different numbers of points in the pay scale.<sup>832</sup> Bachelor’s degree students were worth 1.25 points, Associate degree students were worth 0.75 and “Medical and Other Diploma” were worth

<sup>828</sup> Complaint, *State of Colorado v. Alta Colleges*, no case number, [http://www.coloradoattomeygeneral.gov/sites/default/files/press\\_releases/2012/03/14/westwood\\_complaint.pdf](http://www.coloradoattomeygeneral.gov/sites/default/files/press_releases/2012/03/14/westwood_complaint.pdf) (accessed June 12, 2012).

<sup>829</sup> *Id.*

<sup>830</sup> *Id.*

<sup>831</sup> 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).

<sup>832</sup> 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 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.

0.50.<sup>833</sup> 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.<sup>834</sup> To achieve a bump in pay, a recruiter had to enroll 66–75 students.<sup>835</sup> 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.<sup>836</sup> The top recruiters were rewarded with an invitation to an annual banquet.<sup>837</sup>

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.”<sup>838</sup> The rules concerning local challenges permit taking winning teams out to dinner or awarding “gift cards in small amounts.”<sup>839</sup>

An internal document obtained by the committee indicates that recruiting managers listened into sales calls, and gave feedback to recruiters.<sup>840</sup> 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.”<sup>841</sup> 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.”<sup>842</sup> 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.”<sup>843</sup>

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<sup>833</sup> Id. at HELP-ALTA-000016.

<sup>834</sup> Id. at HELP-ALTA-000006.

<sup>835</sup> Id.

<sup>836</sup> Alta Colleges, Inc. 2010, *Recognition and Awards Guide*. (HELP-ALTA-000239).

<sup>837</sup> Id. at HELP-ALTA-000260)

<sup>838</sup> Westwood College, *Guidelines for Local Challenges*, April 2009, (HELP-ALTA-000042).

<sup>839</sup> Id.

<sup>840</sup> Westwood College, *Observation Requirements* (WP000037181).

<sup>841</sup> Id.

<sup>842</sup> Id.

<sup>843</sup> 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).



### 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.<sup>844</sup> The company spent about \$150 per lead.<sup>845</sup> 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" and "procrastinators" that "may require more calls/contact prior to interviewing."<sup>846</sup> 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."<sup>847</sup> 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.<sup>848</sup>

### The Sales Pitch

Alta's recruiter training manual instructed recruiters in specific tactics to respond to questions and concerns that prospective students may raise.<sup>849</sup> It used the example question of "so what is the tuition at your school."<sup>850</sup> 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."<sup>851</sup> 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."<sup>852</sup> 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?"<sup>853</sup> 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. . . ."<sup>854</sup> The training manual also provided

<sup>844</sup> Alta Colleges Inc., *Lead Development, Maintaining High Conversion Rates*, April 2006, (HELP-ALTA-000123 at HELP-ALTA-000126).

<sup>845</sup> Id. at HELP-ALTA-000129.

<sup>846</sup> Id. at HELP-ALTA-000144.

<sup>847</sup> Id. at HELP-ALTA-000148.

<sup>848</sup> Id. at HELP-ALTA-000134.

<sup>849</sup> Westwood College, *Admissions New Hire Classroom Training*, January 2010 (WP000036036 at WP000036053).

<sup>850</sup> Id.

<sup>851</sup> Id.

<sup>852</sup> Id. at WP000036090.

<sup>853</sup> Id.

<sup>854</sup> Id. at WP000036092.

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.”<sup>855</sup>

“Closing” the sale is a term found throughout the recruiters’ training.<sup>856</sup> 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.<sup>857</sup> Mr. Pruyn testified that “during training, admissions reps. learned sales techniques, a seven step sales process and the cookie close.”<sup>858</sup> A recruiter training document, obtained pursuant to a document request, outlined this seven-step process and contained a number of “trial closes.”<sup>859</sup> In fact, recruiters underwent a specific training module on closing.<sup>860</sup> The training tells recruiters, “Don’t hesitate or ask if it is OK to proceed” when selling a student.<sup>861</sup>

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.”<sup>862</sup> 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

<sup>855</sup> Id.

<sup>856</sup> See for example, Alta Colleges Inc., *The Admissions Presentation Seven-Step Overview*, July 2008 (HELP-ALTA-000273).

<sup>857</sup> Id.

<sup>858</sup> 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).

<sup>859</sup> Alta Colleges Inc., *The Admissions Presentation Seven-Step Overview*, July 2008 (HELP-ALTA-000273).

<sup>860</sup> Alta Colleges Inc., *Close and Affirmation, Writing an Applicant who will Graduate*, April 2006 (HELP-ALTA-000022).

<sup>861</sup> Id. at HELP-ALTA-000025

<sup>862</sup> Id. at HELP-ALTA-000029.

and start pulling the paperwork back out of the drawer.”<sup>863</sup> 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.

### GAO

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.<sup>864</sup> 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.”<sup>865</sup> The other responds, “When FAFSA’s asking how much cash you have on hand, frankly, in my opinion, it’s none of their business.”<sup>866</sup> 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, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.<sup>867</sup>

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee and (2) student loan “cohort

<sup>863</sup> Id. at HELP-ALTA-000039.

<sup>864</sup> Audio Recording: Undercover Recordings of Visits by GAO Agents to For-Profit Schools, School 13, Scenario 2 at 16:57.

<sup>865</sup> Id. at 29:57.

<sup>866</sup> Id. at 16:57.

<sup>867</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf).

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.<sup>868</sup> 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.<sup>869</sup>

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.<sup>870</sup> The presentation breaks down the graduation rates by program area: 29.4 percent for

<sup>868</sup> 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.

<sup>869</sup> 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.

<sup>870</sup> Westwood College, *Impact on Revenue From Enhanced Course Structure*, March 17, 2009 (HELP-ALTA-000043).

School of Business students, 36.8 percent for School of Technology, and 32.7 for School of Justice.<sup>871</sup>

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.<sup>872</sup> In 2006, Alta sent a similar survey to its brick-and-mortar students.<sup>873</sup> 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.”<sup>874</sup> 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.”<sup>875</sup> 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.”<sup>876</sup> 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.<sup>877</sup> 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].”<sup>878</sup> 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].”<sup>879</sup>

#### 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).

<sup>871</sup> Id.

<sup>872</sup> Westwood College, *WOL Attrition Survey*, October 2005 (HELP-ALTA-000304).

<sup>873</sup> Westwood College, *Campus Attrition Survey Results*, April 13, 2006 (HELP-ALTA-000288).

<sup>874</sup> Id. at HELP-ALTA-000294.

<sup>875</sup> Id. at HELP-ALTA-000301.

<sup>876</sup> Id. at HELP-ALTA-000319.

<sup>877</sup> Westwood College, September 2010, *Student Complaint Log FY 05-06*, (WP000034025 at WP000034030).

<sup>878</sup> Id.

<sup>879</sup> Id.

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%

#### 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.<sup>880</sup>

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.<sup>881</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>882</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>883</sup> 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.<sup>884</sup>

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.<sup>885</sup> Alta's default rate has

<sup>880</sup> Direct Loan default rates, 34 CFR 668.183(c).

<sup>881</sup> 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.

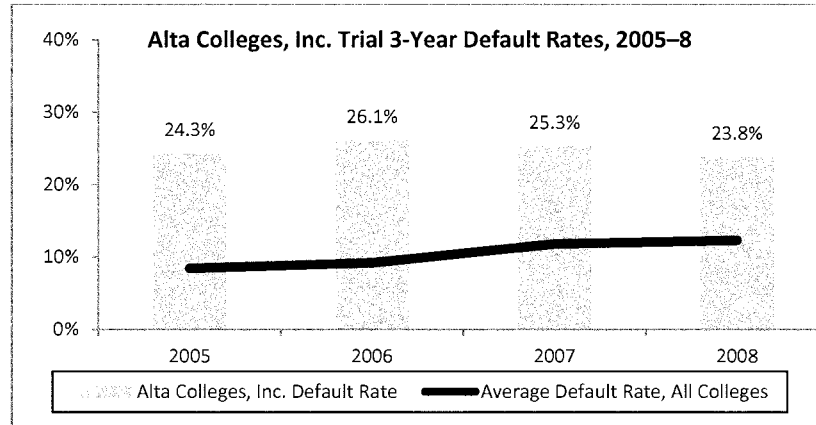
<sup>882</sup> Id.

<sup>883</sup> Id.

<sup>884</sup> Id.

<sup>885</sup> 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.

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.



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.”<sup>886</sup> “Typically, one successful contact and forbearance request was all that was necessary to exclude the student from the default rate calculation,” the presentation stated.<sup>887</sup> The presentation identified that “the vast majority of these students [behind on their payments] were drops, rather than graduates.”<sup>888</sup> Another Alta training document for default management employees indicates that the company prioritized deferment and forbearance over actual student loan counseling.<sup>889</sup> The training discusses deferment and forbearance as the answer to preventing default, but does not mention alternative repayment options.<sup>890</sup>

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.”<sup>891</sup> 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.”<sup>892</sup>

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.<sup>893</sup> 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.<sup>894</sup>

<sup>886</sup> Alta Colleges Inc., *Board of Directors Appendix*, August 20, 2009 (WP000000439 at WP000000452).

<sup>887</sup> Id. at WP000000449.

<sup>888</sup> Id. at WP000000452.

<sup>889</sup> Alta Colleges, *Default Management*, (WP000033945).

<sup>890</sup> Id.

<sup>891</sup> Alta Colleges Inc., *Board of Directors Appendix*, August 20, 2009 (WP000000439 at WP000000454).

<sup>892</sup> Alta Colleges, Inc. *Default Management Plans* (HELP-ALTA-000327).

<sup>893</sup> Westwood College, *Default Management Plan*, (WP000033931).

<sup>894</sup> Id. at WP00033934-35



## 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.<sup>895</sup> Alta spends the most per student on instruction compared to other privately held education companies: the amount that these education 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. 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.<sup>896</sup>

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.<sup>897</sup> In 2010, Alta had a similar ratio; the company employed 339 full-time and 1,332 part-time faculty.<sup>898</sup>

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.<sup>899</sup> "There was a constant focus on recruiting and turning a profit rather than on educating," she said.<sup>900</sup> "Members

<sup>895</sup> 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.

<sup>896</sup> 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.

<sup>897</sup> 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.

<sup>898</sup> Id.

<sup>899</sup> 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.)

<sup>900</sup> Id.

of the admissions team were treated to higher salaries, bonuses and better office accommodations than members of the academic team.”<sup>901</sup> “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.”<sup>902</sup>

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.<sup>903</sup>

### 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 career services employees, and 143 student services employees.<sup>904</sup> 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.

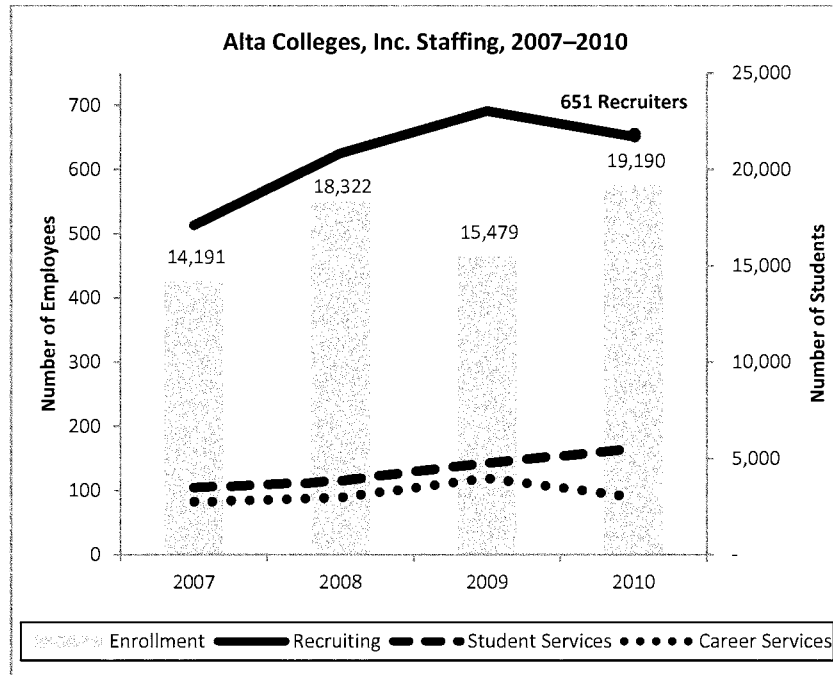
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<sup>901</sup> *Id.*

<sup>902</sup> *Id.*

<sup>903</sup> 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).

<sup>904</sup> 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.



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.<sup>905</sup>

<sup>905</sup> 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.<sup>906</sup>

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.”<sup>907</sup> 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.”<sup>908</sup>

<sup>906</sup> Westwood College, September 2009, *Student Complaint Log, FY 2007*, (WP000034152, at WP000034155).

<sup>907</sup> 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.)

<sup>908</sup> 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](http://www.coloradoattorneygeneral.gov/sites/default/files/press_releases/2012/03/14/westwood_complaint.pdf) (accessed June 12, 2012).

### 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.<sup>909</sup> 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 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."<sup>910</sup>

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.<sup>911</sup>

In 2009, a Department of Education investigation of three Texas Westwood College campuses uncovered a pattern of noncompliance with both State and Federal regulations.<sup>912</sup> 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

<sup>909</sup> 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](http://www.coloradoattorneygeneral.gov/press/news/2012/03/14/attorney_general_announces_45_million_settlement_westwood_college_address_dece) (accessed May 20, 2012).

<sup>910</sup> Id.

<sup>911</sup> Complaint, *Illinois v. Alta Coll., Inc.*, et. al., No. 12CH01587 (Ill. Cir. Ct., Cook Cty. Jan. 18, 2012), [http://illinoisattorneygeneral.gov/pressroom/2012\\_01/WESTWOOD\\_Complaint\\_11812.pdf](http://illinoisattorneygeneral.gov/pressroom/2012_01/WESTWOOD_Complaint_11812.pdf) (accessed May 21, 2012)

<sup>912</sup> 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).

settlement in order to resolve these allegations in 2009.<sup>913</sup> 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.<sup>914</sup> 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.”<sup>915</sup>

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.<sup>916</sup> The Commission, which evaluates Texas schools on behalf of the VA, cited concerns about 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.<sup>917</sup>

The Dallas, Fort Worth, and Houston South Campuses continue to operate under conditional certificates of approval pursuant to the Texas

<sup>913</sup> 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.

<sup>914</sup> 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).

<sup>915</sup> Id.

<sup>916</sup> 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).

<sup>917</sup> See id.

Workforce Commission's probation order, and are to date not currently enrolling new students.<sup>918</sup>

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.<sup>919</sup> 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.<sup>920</sup> 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.<sup>921</sup>

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.

## 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

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

<sup>919</sup> "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).

<sup>920</sup> See Allison Sherry, "Westwood College placed on state probation," *Denver Post*, Dec. 15, 2010, [http://www.denverpost.com/news/ci\\_16860773](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 CCHC spokesman Chad Marturano.).

<sup>921</sup> See Yesenia Robles, "Accreditation restored to for-profit Westwood College," *Denver Post*, Mar. 3, 2011, [http://www.denverpost.com/breakingnews/ci\\_17541572](http://www.denverpost.com/breakingnews/ci_17541572) (last accessed Jan. 11, 2012).

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.<sup>922</sup>

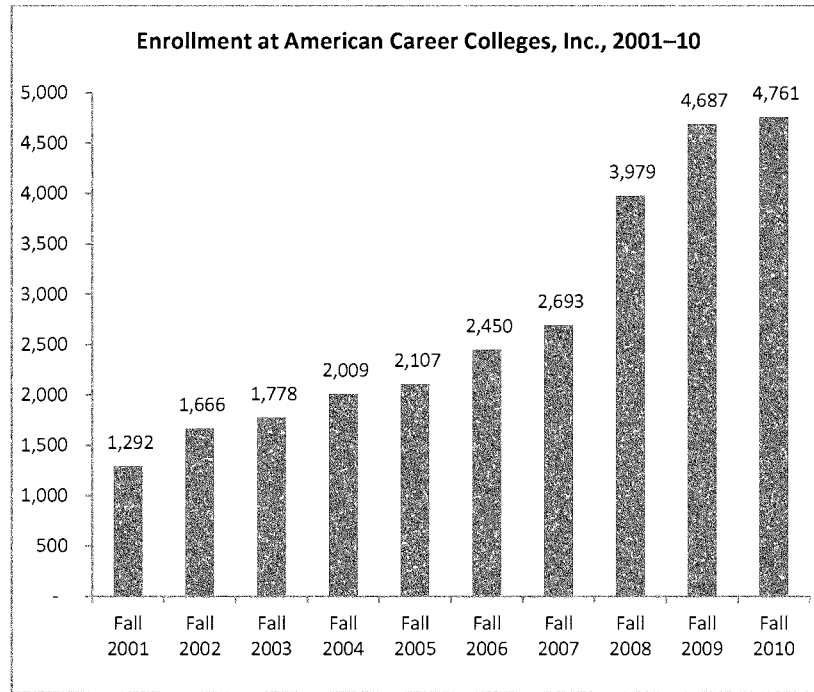
American Career College was founded by David Pyle in 1979. Mr. Pyle currently serves as chief executive officer and is the sole stockholder in the company; he controls the company completely. Originally, the school was called American College of Optics and offered programs in eye-care assistance.

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.<sup>923</sup>

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<sup>922</sup> 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.

<sup>923</sup> 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.<sup>924</sup> 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.<sup>925</sup>

### Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs.<sup>926</sup> 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.<sup>927</sup> Together,

<sup>924</sup> 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.

<sup>925</sup> 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).

<sup>926</sup> "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.

<sup>927</sup> 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

the 30 companies the committee examined derived 79 percent of revenues from title IV Federal aid programs in 2010, up from 69 percent in 2006.<sup>928</sup>

In 2010, ACC reported 79 percent of revenue from title IV Federal student aid programs.<sup>929</sup> 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).<sup>930</sup> 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.<sup>931</sup> 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.<sup>932</sup>

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2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

<sup>928</sup> 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.

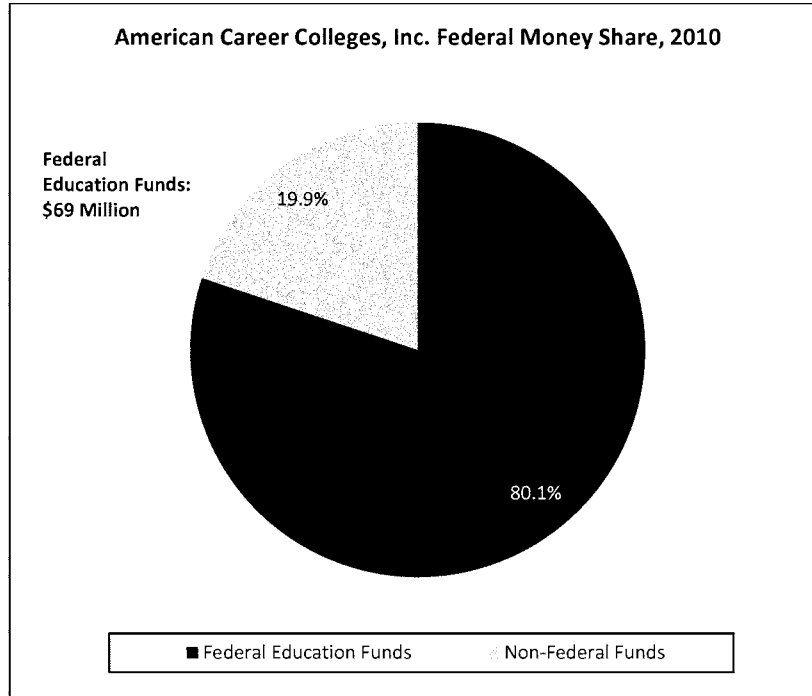
<sup>929</sup> Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on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

<sup>930</sup> 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.

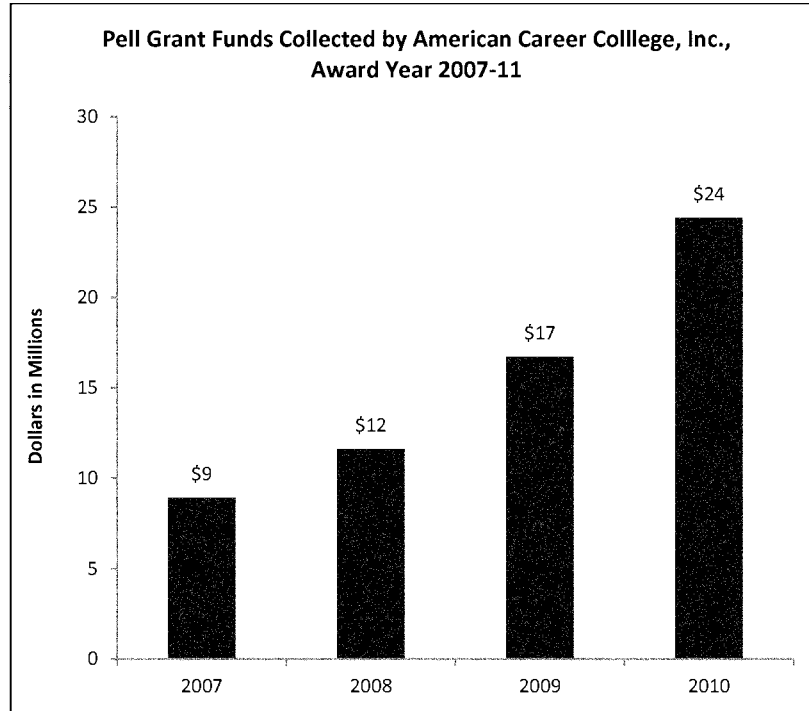
<sup>931</sup> Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs 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.

<sup>932</sup> "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.<sup>933</sup> 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.

<sup>933</sup> 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, 2000-1 and 2009-10*, <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.<sup>934</sup>

### Spending

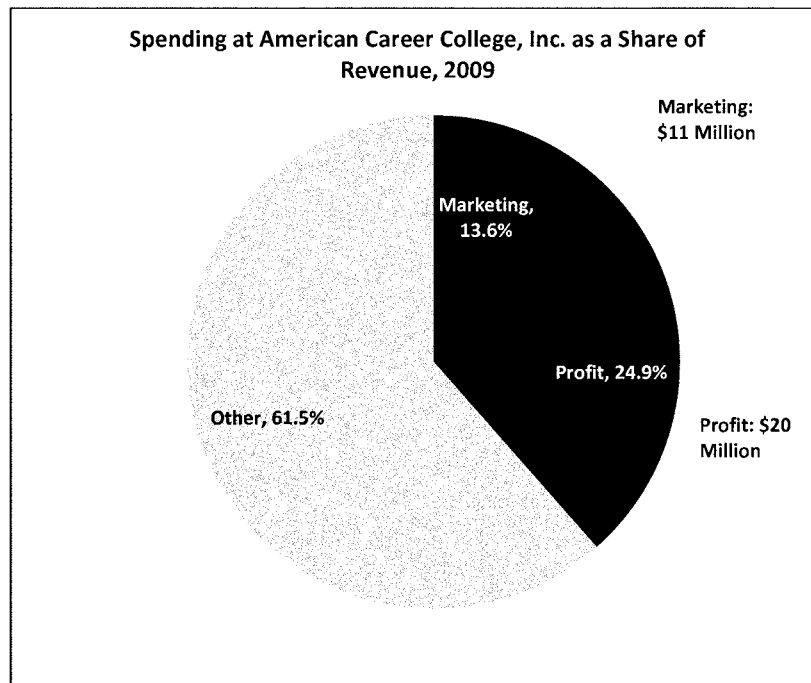
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.<sup>935</sup> During the same period the companies spent 23 percent of revenue on

<sup>934</sup> 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.

<sup>935</sup> 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.

marketing and recruiting (\$3.7 billion) and 19.7 percent on profit (\$3.2 billion).<sup>936</sup>

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).<sup>937</sup>



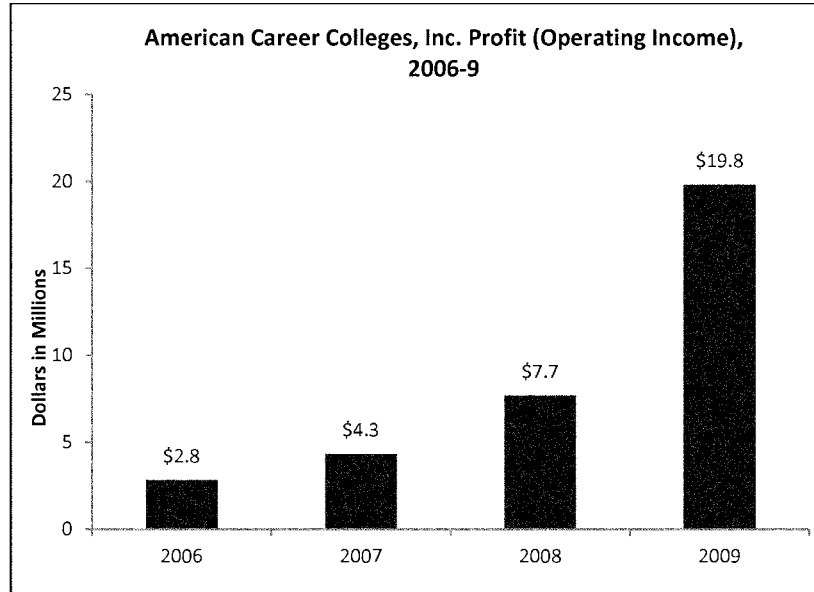
American Career College devoted a total of \$30.7 million to marketing, recruiting and profit in fiscal year 2009.<sup>938</sup> The amount of profit American Career College generated has also risen rapidly, increasing sixfold from \$2.8 million in 2006 to \$19.8 million in 2009.<sup>939</sup>

<sup>936</sup> 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.

<sup>937</sup> 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.

<sup>938</sup> Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.

<sup>939</sup> 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.<sup>940</sup>

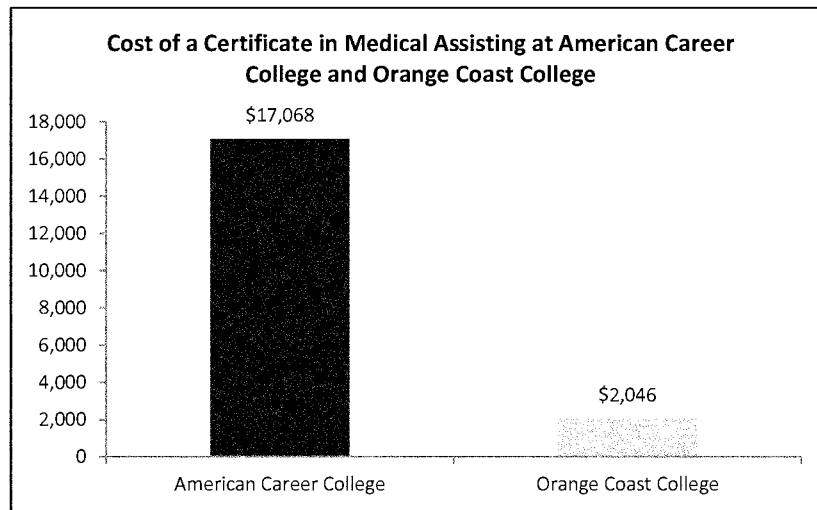
#### **Tuition and Other Academic Charges**

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.<sup>941</sup> 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.

<sup>940</sup> 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).

<sup>941</sup> 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.<sup>942</sup>



### 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.<sup>943</sup>

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

<sup>942</sup> See Appendix 14; see also, Orange Coast College, *Orange Coast College*, <http://www.orangecoastcollege.edu/> (accessed June 21, 2012).

<sup>943</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 12, 2012).



2008-9, 27 percent, or 1,396 students, withdrew by mid-2010.<sup>944</sup> Compared to the average withdrawal rate of 54.1 percent for the 30 schools examined by the committee, ACC performed better than average.<sup>945</sup> 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.<sup>946</sup>

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.<sup>947</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>948</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of

<sup>944</sup> 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.

<sup>945</sup> 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.

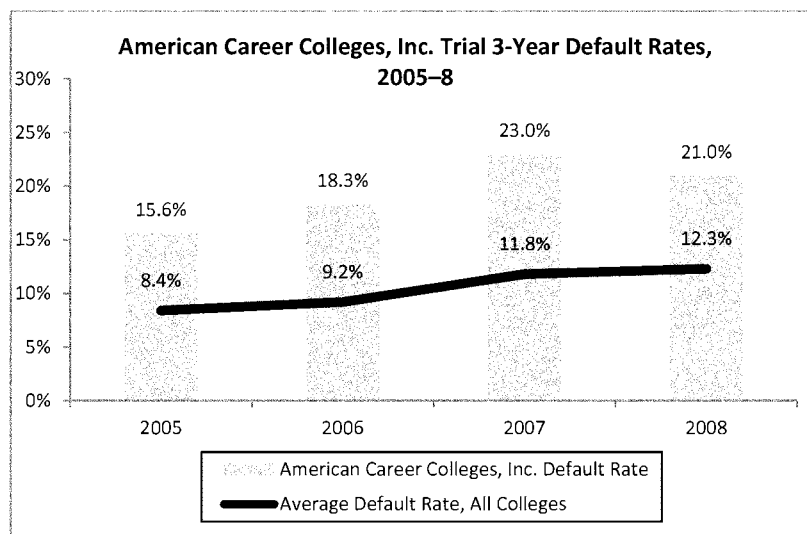
<sup>946</sup> Direct Loan Default Rates, 34 CFR 668.183(c).

<sup>947</sup> 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.

<sup>948</sup> *Id.*

institutions.<sup>949</sup> 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.<sup>950</sup>

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.<sup>951</sup> This change represents a 32.6 percent increase over 4 years.<sup>952</sup> 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.

<sup>949</sup> Id.

<sup>950</sup> Id.

<sup>951</sup> 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.

<sup>952</sup> Id.

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.<sup>953</sup> 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 spend on instruction ranges from \$1,118 to \$6,389 per student per year.<sup>954</sup> 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.<sup>955</sup>

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.<sup>956</sup> Likely reflecting its emphasis on bricks and mortar classes, American Career College has a more even division between full-time and part-time faculty.<sup>957</sup> In 2009, the company employed 108 full-time and 114 part-time faculty.<sup>958</sup>

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

<sup>953</sup> 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.

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

<sup>955</sup> 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.

<sup>956</sup> 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.

<sup>957</sup> Id.

<sup>958</sup> Id.

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.<sup>959</sup>

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 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.<sup>960</sup>

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.<sup>961</sup>

<sup>959</sup> Consumer Affairs complaint, "April of Riverside, CA on Sept. 8, 2011,"

[http://www.consumeraffairs.com/education/american\\_career\\_college.html](http://www.consumeraffairs.com/education/american_career_college.html) (accessed May 12, 2012).

<sup>960</sup> Consumer Affairs complaint, "jessica of pomona, CA on Aug. 28, 2010,"

[http://www.consumeraffairs.com/education/american\\_career\\_college.html](http://www.consumeraffairs.com/education/american_career_college.html) (accessed May 12, 2012).

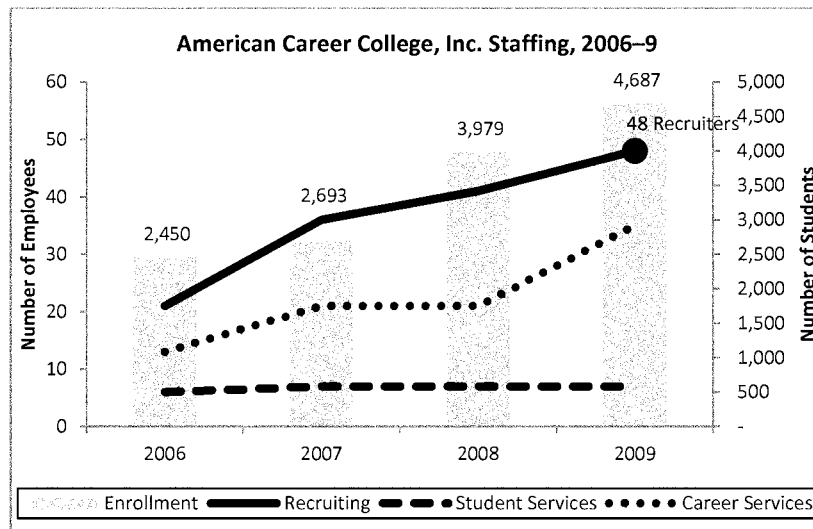
<sup>961</sup> Consumer Affairs complaint, "JULIE of Ontario, ca on March 22, 2010,"

[http://www.consumeraffairs.com/education/american\\_career\\_college.html](http://www.consumeraffairs.com/education/american_career_college.html) (accessed May 12, 2012).

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.<sup>962</sup> 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.



**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

<sup>962</sup> 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.

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.<sup>963</sup> 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.<sup>964</sup> 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

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<sup>963</sup> American Public University System *APUS Facts* 2012 <http://www.apus.edu/about-us/facts.htm> (accessed, May 5, 2012).

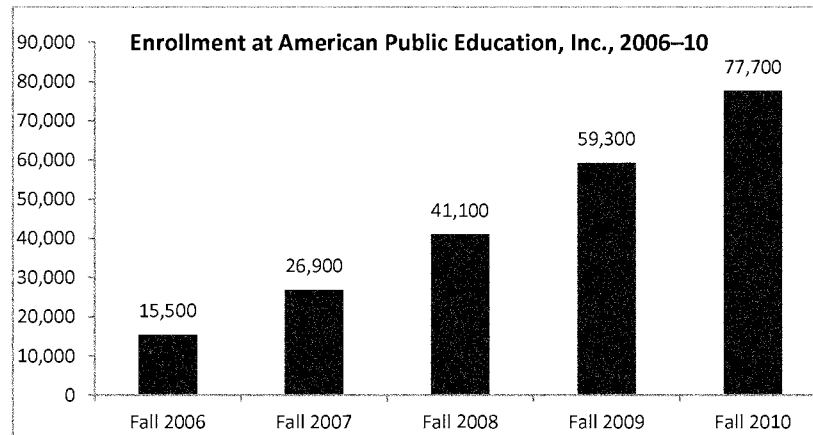
<sup>964</sup> Distance Education and Training Council, [http://www.detc.org/school\\_details.php?id=309](http://www.detc.org/school_details.php?id=309) (accessed, May 5, 2012).

accreditors' requirements of having full-time professors and a library.<sup>965</sup> 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."<sup>966</sup>

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.<sup>967</sup> ABS Partners controlled 54 percent of the company and Camden Partners 13 percent until the November 2007 initial public offering that took the company public.<sup>968</sup> 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.<sup>969</sup>

Enrollment at APEI grew from 15,500 in the fall of 2006 to 77,700 students in the fall of 2010, a fivefold increase.<sup>970</sup>



<sup>965</sup> 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=a18HttoCG.ps> (accessed June 12, 2012).

<sup>966</sup> Id.

<sup>967</sup> APEI, Inc., SEC Form 10-K, filed 3/28/2010.

<sup>968</sup> 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).

<sup>969</sup> 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).

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



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.<sup>971</sup>

## 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.<sup>972</sup> 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.<sup>973</sup>

In 2010, APEI reported 26.0 percent of revenue from title IV Federal financial aid programs.<sup>974</sup> 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.<sup>975</sup> With these funds included, 77.4 percent of APEI's total revenue was comprised of Federal education funds.<sup>976</sup>

<sup>971</sup> 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.

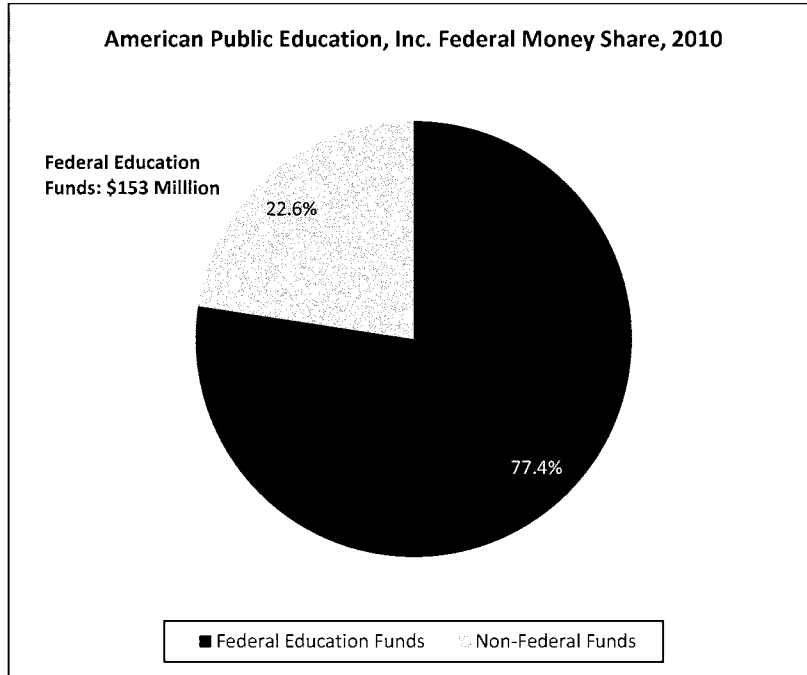
<sup>972</sup> "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq. Senate 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.

<sup>973</sup> 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.

<sup>974</sup> 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.

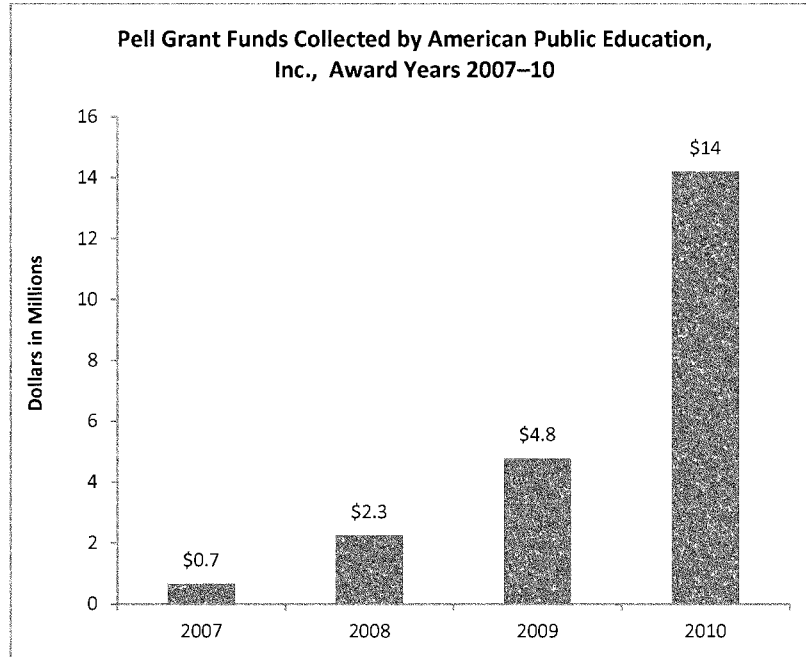
<sup>975</sup> Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs 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.

<sup>976</sup> "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.<sup>977</sup> 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.

<sup>977</sup> 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, 2000-01 and 2009-10*, <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.<sup>978</sup>

### Spending

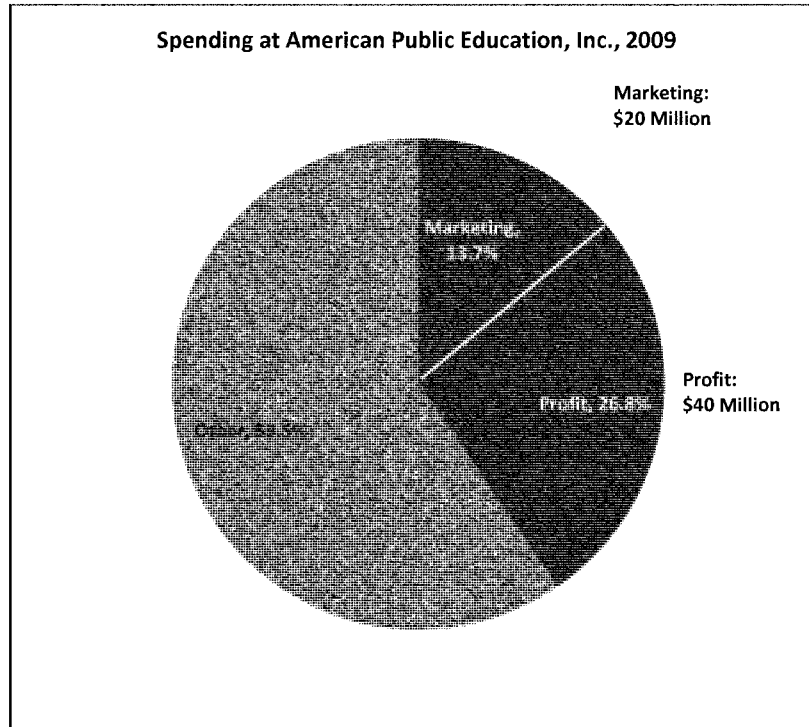
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profits. On average, among the 15 publicly traded education companies,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

<sup>978</sup> 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.

<sup>979</sup> 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.

(\$3.2 billion).<sup>980</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.

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.<sup>981</sup>

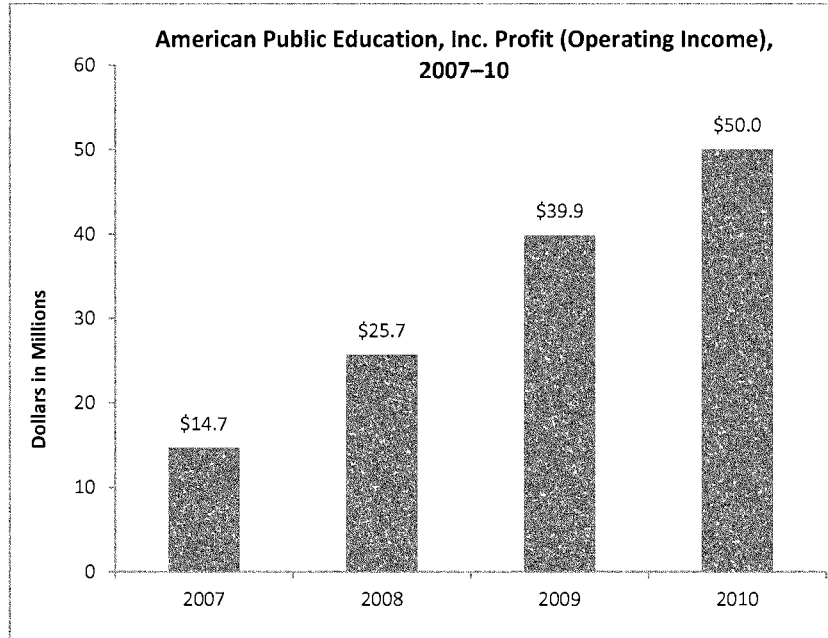


APEI devoted a total of \$60 million to marketing, recruiting and profit in fiscal year 2009.<sup>982</sup> The amount of profit APEI has generated has also increased rapidly, tripling from \$14.7 million in 2006 to \$50 million in 2010.

<sup>980</sup> 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.

<sup>981</sup> Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

<sup>982</sup> "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 \$464,700 in total compensation for 2009-10.<sup>983</sup>

<sup>983</sup> 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
<b>Total</b> <sup>984</sup>		\$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.<sup>985</sup> 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.<sup>986</sup> The same degree at West Virginia University costs \$28,936.<sup>987</sup> However, American Public University charges \$15,250 for an Associate degree in Business Administration<sup>988</sup> while Blue Ridge Community and Technical College charges \$8,900.<sup>989</sup>

<sup>984</sup> 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.

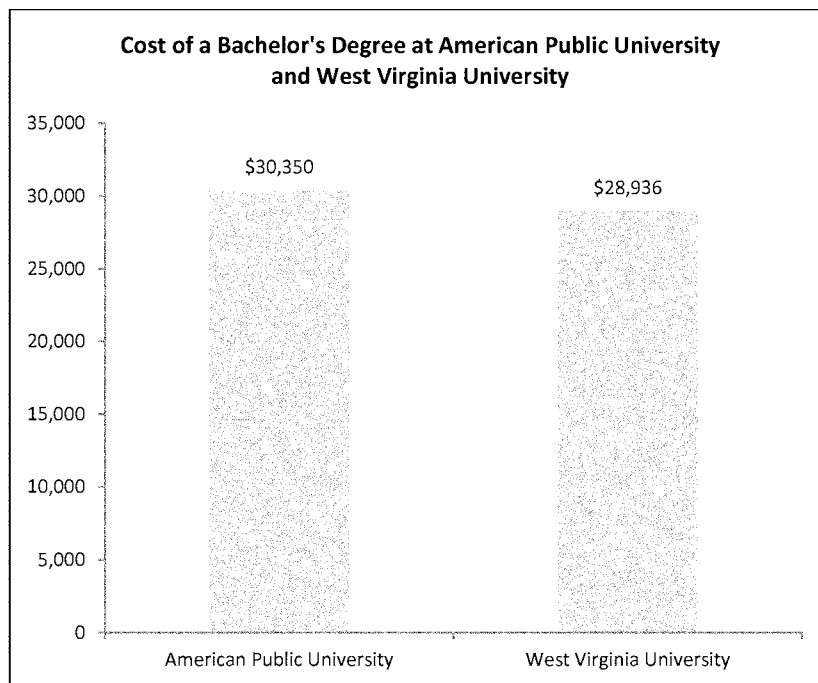
<sup>985</sup> Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

<sup>986</sup> 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).

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

<sup>988</sup> 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-administration><http://www.apu.apus.edu/academic/programs/degree/1326/associate-of-arts-in-business-administration> (accessed June 12, 2012).

<sup>989</sup> 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.”<sup>990</sup> At 2012 investor conference, Boston said, “We have had a mission to be affordable. We haven't increased our undergraduate tuition in 11 years.”<sup>991</sup> 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

<sup>990</sup> Statement of CEO Wally Boston American Public Education, Inc. at UBS Technology and Services Conference, 6/8/09 (accessed Fair Disclosure Wire).

<sup>991</sup> American Public Education, Inc., *Investor Presentation*, March 1, 2012.

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 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]." <sup>992</sup>

Internal company documents make clear that recruiters employed by APEI 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. <sup>993</sup> 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. <sup>994</sup>

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. <sup>995</sup> 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.

<sup>992</sup> American Public Education, Inc. *Admissions Quiz 4*. (2APEI-HELP-24-00000457 at 2APEI-HELP-24-00000458). NOTE: Internal Training Document with title, no date.

<sup>993</sup> 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.

<sup>994</sup> 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.

<sup>995</sup> American Public Education, Inc. No Date, *Student Enrollment Agreement* (2APEI-HELP-18-00000100).



## 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.<sup>996</sup>

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.

### Retention Rates

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-2010. These withdrawn students were enrolled a median of 2 months.<sup>997</sup> 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.<sup>998</sup> APEI’s Associate degree withdrawal rate of 46.4 percent is significantly better than the sector-wide rate of 62.8 percent.<sup>999</sup>

<sup>996</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 2, 2012).

<sup>997</sup> 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.

<sup>998</sup> 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.

<sup>999</sup> 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 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	4,859	2.8%	50.8%	46.4%	2,256	54
Bachelor's	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.<sup>1000</sup>

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.<sup>1001</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>1002</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>1003</sup> 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.<sup>1004</sup>

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.<sup>1005</sup> This change

<sup>1000</sup> Direct Loan Default Rates, 34 CFR 668.183(c).

<sup>1001</sup> 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.

<sup>1002</sup> Id.

<sup>1003</sup> Id.

<sup>1004</sup> Id.

<sup>1005</sup> 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.

represents a 32.6 percent increase over 4 years.<sup>1006</sup> 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."<sup>1007</sup>

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."<sup>1008</sup> A December 2009 default management update to the APEI board states "Horizon has cured 129 borrowers [between] October 1, 2009 – November 16, 2009."<sup>1009</sup> The update also states "overall more [students] are in deferment than forbearance."<sup>1010</sup> 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.

<sup>1006</sup> Id.

<sup>1007</sup> Russell Kitchner, *FW: Neg Reg Issues*, June 2010 (2APEI-HELP-26-00000315). NOTE: internal email.

<sup>1008</sup> Keith Wellings, *Re: Financial Aid Benchmarks* August 11, 2009 (2APEI-HELP-26-00000651). NOTE: internal email.

<sup>1009</sup> 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).

<sup>1010</sup> 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.<sup>1011</sup> 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.<sup>1012</sup>

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.<sup>1013</sup> In 2010, APEI employed 261 full-time and 1,062 part-time faculty.<sup>1014</sup>

## 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

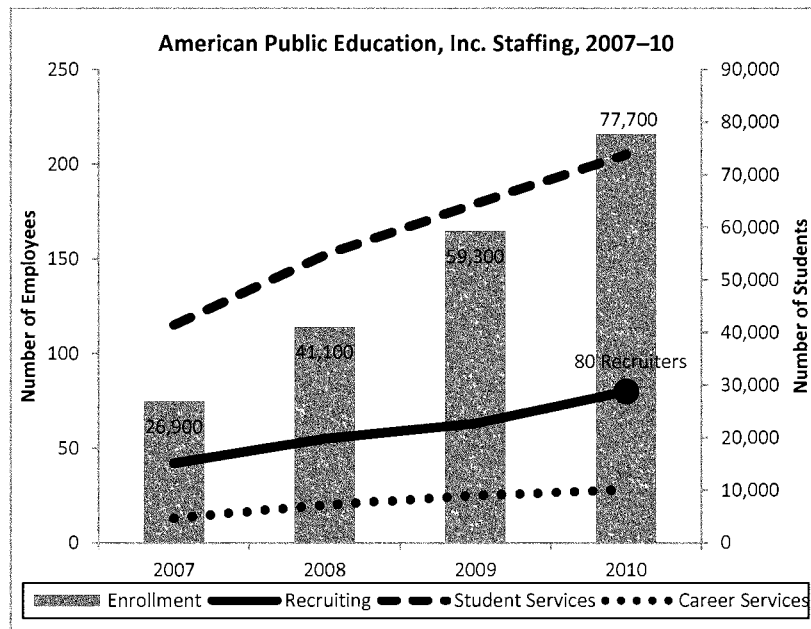
<sup>1011</sup> Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDS data for instruction spending based on instructional cost provided by the company 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.

<sup>1012</sup> 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.

<sup>1013</sup> 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.

<sup>1014</sup> *Id.*

student services employees.<sup>1015</sup> 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.



### 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

<sup>1015</sup> Id. See Appendix 24.

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.<sup>1016</sup> According to a May 2012 report by *Inside Higher Ed*, 2,800 Wal-Mart employees have enrolled in American Public University System programs.<sup>1017</sup> The retailer will reportedly provide up to \$50 million in tuition assistance for store associates to attend American Public University over 3 years.<sup>1018</sup> 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 Bachelors 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.

<sup>1016</sup> 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).

<sup>1017</sup> 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).

<sup>1018</sup> 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](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 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.<sup>1019</sup> 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.<sup>1020</sup> In 1999, Great Hill Equity Partners, a Boston private equity firm, acquired 50 percent interest in High-Tech Institute, Inc.<sup>1021</sup> High-Tech Institute, Inc. acquired the Chubb Institute in 2004 and renamed it Anthem institute in 2008.<sup>1022</sup>

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.<sup>1023</sup> At the time, the company

<sup>1019</sup> 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.

<sup>1020</sup> 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).

<sup>1021</sup> High-Tech Institute, *Self-Evaluation Report to ACCSCCT*, 2004, (2AEG-HELP-31-00000432, at 448).

<sup>1022</sup> High-Tech Institute, *Institutional Leadership*, (2AEG-HELP-14-00000996, 2AEG-HELP-14-00001008).

<sup>1023</sup> 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).

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.<sup>1024</sup>

<b>Brands</b>
Anthem College Online
Anthem Career College
Anthem College
Anthem Institute
Morrison University
The Bryman School of Arizona

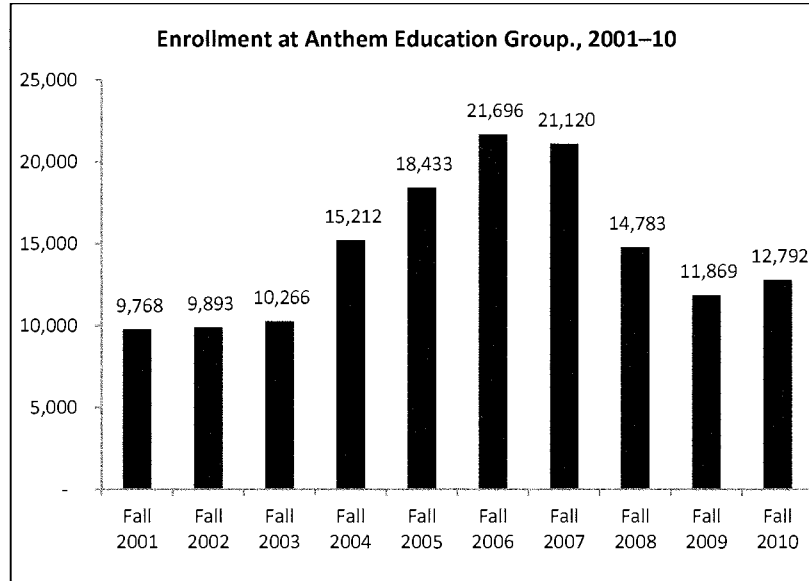
Anthem Education Group schools and colleges offer career-focused Diploma, Associate, Bachelor's and Master's programs in a wide variety of fields, including health care, technology, business administration, criminal justice and graphic design and animation. Schools under the Anthem Education Group banner 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.<sup>1025</sup>

<sup>1024</sup> Anthem operates campuses in Tennessee, Georgia, Colorado, Oregon, Wisconsin, Missouri, Texas, Florida, Arizona, California, Minnesota, New York, Pennsylvania, and Nevada.

<sup>1025</sup> 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.<sup>1026</sup> 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

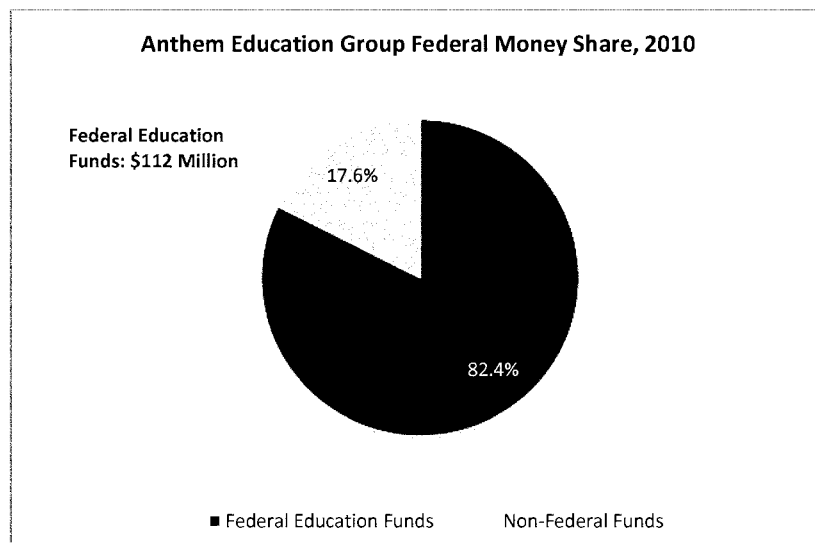
Nearly all for-profit education companies derive the majority of their revenue from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from \$5.4 to \$32.2 billion.<sup>1027</sup> 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.<sup>1028</sup>

<sup>1026</sup> Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

<sup>1027</sup> 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.

<sup>1028</sup> 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

In 2010, Anthem reported 81.9 percent of revenue from title IV Federal financial aid programs.<sup>1029</sup> 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).<sup>1030</sup> 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.<sup>1031</sup> 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.<sup>1032</sup>



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.

<sup>1029</sup> 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.

<sup>1030</sup> 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.

<sup>1031</sup> 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.

<sup>1032</sup> "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.<sup>1033</sup>

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.<sup>1034</sup>

## 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.<sup>1035</sup> 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.<sup>1036</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.

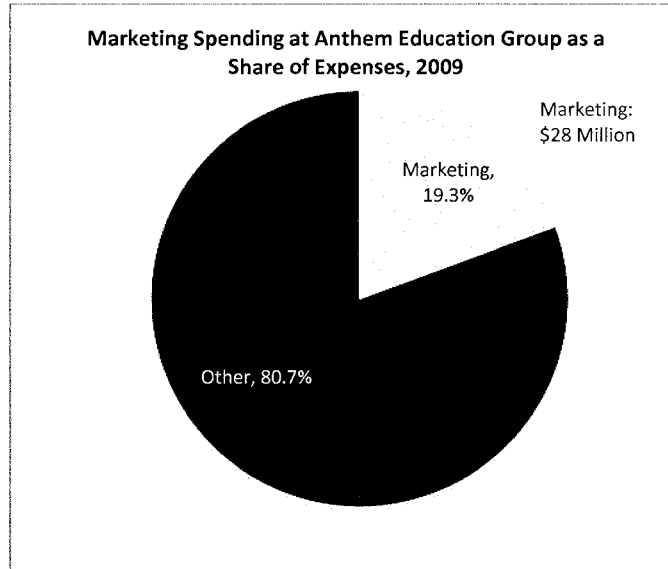
<sup>1033</sup> Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School, 2000–1 and 2009–10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.

<sup>1034</sup> 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.

<sup>1035</sup> 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.

<sup>1036</sup> 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.

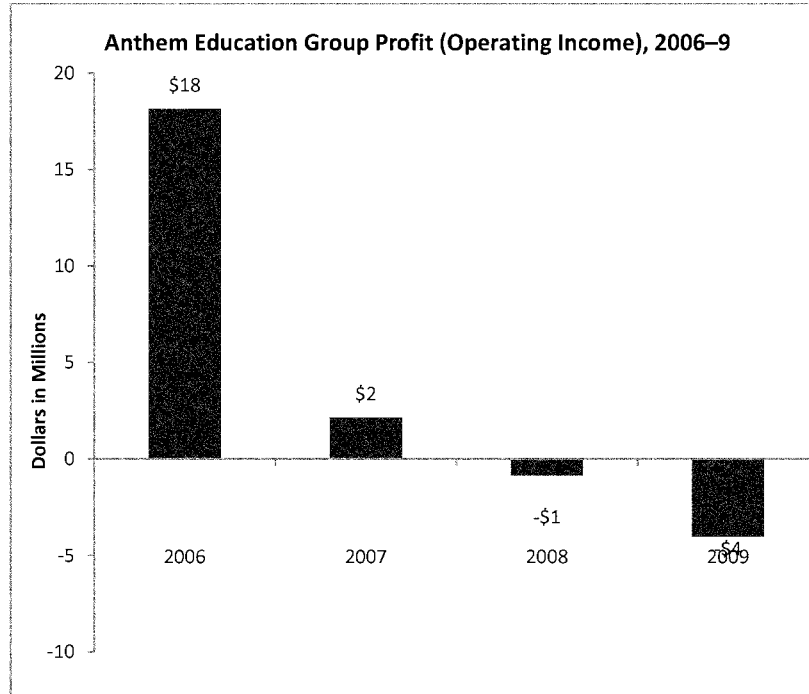
In 2009, Anthem Education Company devoted 19.3 percent of its revenue, or \$28 million, to marketing and recruiting.<sup>1037</sup>



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.<sup>1038</sup> By 2009, the company's profitability further declined, and its expenses exceed its revenue by \$4 million.

<sup>1037</sup> 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.

<sup>1038</sup> Senate HELP Committee staff analysis. See Appendix 18.



### Executive Compensation

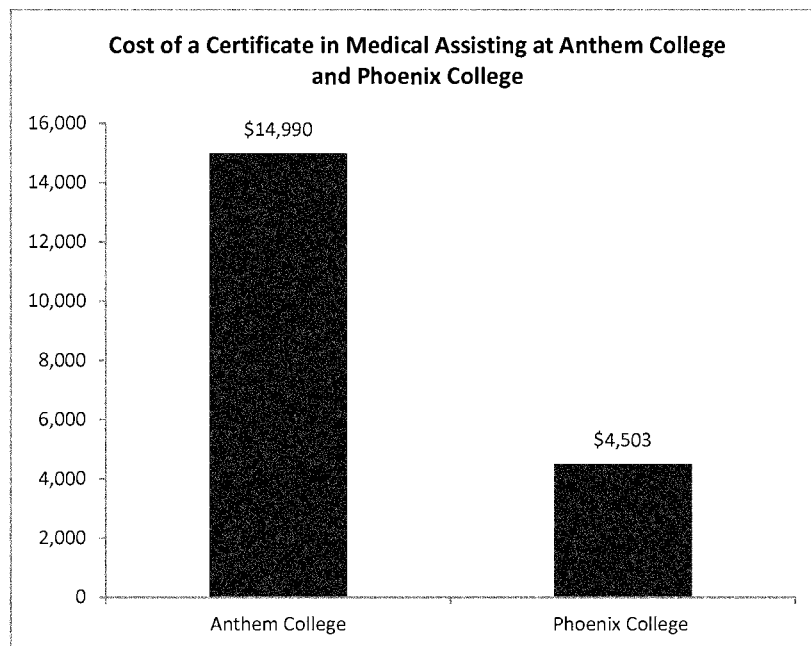
As a privately held company, Anthem is not obligated to release executive compensation figures.

### **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,<sup>1039</sup> 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.<sup>1040</sup>

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

<sup>1040</sup> 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.<sup>1041</sup>

### **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,

<sup>1041</sup> 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.

Low Self Confidence, Low Self Esteem, Have a desire to prove to themselves and family their success.”<sup>1042</sup>

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

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.<sup>1043</sup>

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).<sup>1044</sup>

Many student complaints assert that recruiters failed to inform prospective students of the accreditation status of various Anthem colleges.<sup>1045</sup> 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

<sup>1042</sup> Anthem Education Group, *AEG and the Education Industry*, (2AEG-HELP-14-00000996, at 2AEG-HELP-14-00001019).

<sup>1043</sup> 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).

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

<sup>1045</sup> 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).

coursework at HTI and that she has had to start her education all over again.<sup>1046</sup>

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.<sup>1047</sup>

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].<sup>1048</sup>

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

<sup>1046</sup> Letter from State of Minnesota Office of the Attorney General, to High Tech Institute, *Re: Consumer Complaint from [REDACTED]*, April 24, 2008 (2AEG-HELP-05-00000803); 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 Koliias 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”).

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

<sup>1048</sup> 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).



undercover applicant to speak with a financial aid representative until after she enrolled.<sup>1049</sup>

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.<sup>1050</sup> 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, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.<sup>1051</sup>

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan “cohort

<sup>1049</sup> 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 begins.

<sup>1050</sup> 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 FAFSA for him when it finishes processing.

<sup>1051</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf).

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.<sup>1052</sup> Withdrawn students were enrolled a median of 3 to 4 months.<sup>1053</sup> Compared to the overall sector-wide rate of 54.1 percent for the 30 schools the committee examined, Anthem performed better than average.<sup>1054</sup> 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.

<b>Status of Students Enrolled in Anthem Education Group in 2008–9, as of 2010</b>						
<b>Degree Level</b>	<b>Enrollment</b>	<b>Percent Completed</b>	<b>Percent Still Enrolled</b>	<b>Percent With-drawn</b>	<b>Number With-drawn</b>	<b>Media n Days</b>
Associate	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

<sup>1052</sup> 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.

<sup>1053</sup> Id.

<sup>1054</sup> 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.

had a 38.8 percent withdrawal rate, whereas their brick and mortar counterparts withdrew at a rate of 26.2 percent.

### 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.<sup>1055</sup>

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.<sup>1056</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>1057</sup> 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.<sup>1058</sup>

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.<sup>1059</sup> 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.<sup>1060</sup> 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.<sup>1061</sup>

<sup>1055</sup> Direct Loan Default Rates, 34 CFR 668.183(c).

<sup>1056</sup> 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.

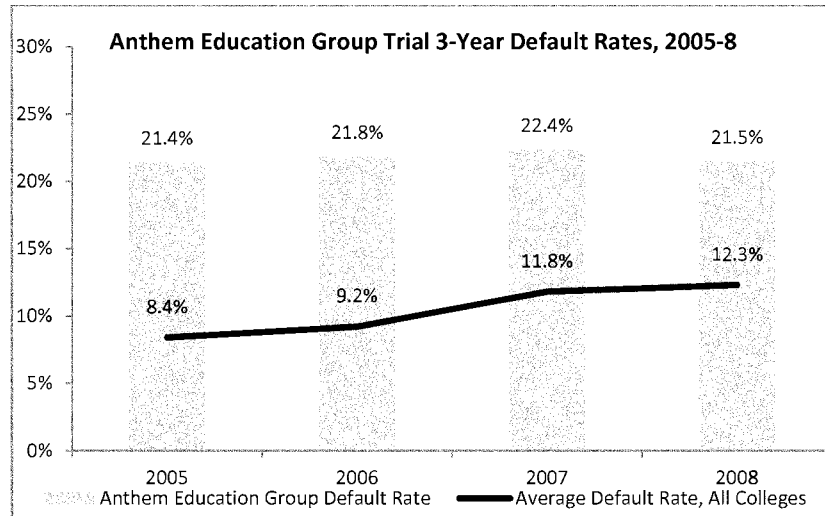
<sup>1057</sup> *Id.*

<sup>1058</sup> *Id.*

<sup>1059</sup> 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.

<sup>1060</sup> 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.

<sup>1061</sup> *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.<sup>1062</sup> 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.<sup>1063</sup>

<sup>1062</sup> Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

<sup>1063</sup> 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 investigated, 80 percent of the faculty is part-time.<sup>1064</sup> In 2009, Anthem employed 583 full-time and 341 part-time faculty.<sup>1065</sup>

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.<sup>1066</sup> 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....<sup>1067</sup>

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'.<sup>1068</sup>

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

---

include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

<sup>1064</sup> 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.

<sup>1065</sup> Id.

<sup>1066</sup> 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").

<sup>1067</sup> Letter from Better Business Bureau to Allied Medical College, *Re: Case # 1310420*, November 22, 2006, (2AEG-HELP-05-00000166, at 2AEG-HELP-05-00000167).

<sup>1068</sup> Anthem correspondence, *Re: My Experience with The Chubb Institute*, March 30, 2008 (2AEG-HELP-05-00000119, at 2AEG-HELP-05-00000126).

accredited by and because the curriculum does not meet the standards of a criminal justice degree.<sup>1069</sup>

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.<sup>1070</sup> 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. 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].<sup>1071</sup>

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.<sup>1072</sup>

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.

<sup>1069</sup> Letter from Better Business Bureau to Allied Medical College, *Re: Case # 1306201*, September 29, 2006 (2AEG-HELP-05-00000149, at 2AEG-HELP-00000150).

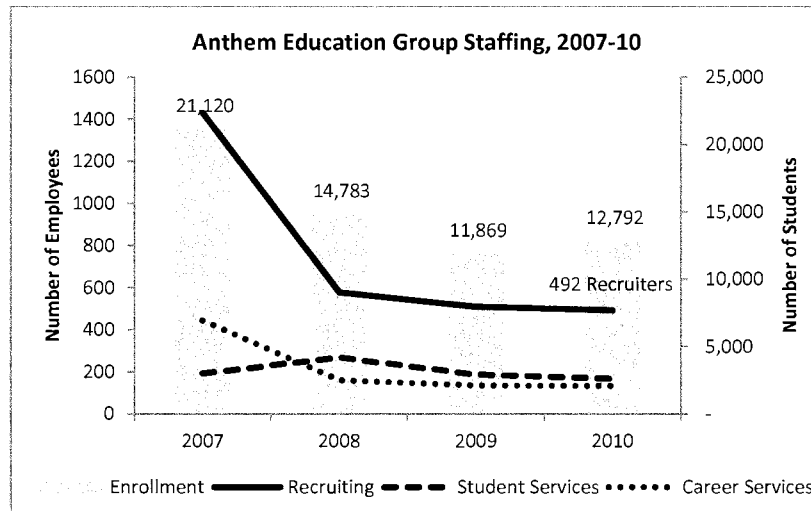
<sup>1070</sup> All three High-Tech Institute campuses were renamed Anthem College in 2010. These campuses are located in: Memphis, Tennessee, Nashville, Tennessee, and Las Vegas, Nevada.

<sup>1071</sup> Letter to High Tech Institute, February 3, 2008 (2AEG-HELP-05-00000805, at 2AEG-HELP-05-00000810).

<sup>1072</sup> Letter from [REDACTED] to High Tech Institute, *Re: [REDACTED]*, February 22, 2008 (2AEG-HELP-05-00000594).

## 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.<sup>1073</sup> 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.



Student complaints express dissatisfaction with the level of services available and the high rate of staff turnover.<sup>1074</sup> 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

<sup>1073</sup> 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.

<sup>1074</sup> 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-05-00000072) (“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”).

people are treated and how poor the quality of education is and they bail!<sup>1075</sup>

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?<sup>1076</sup>

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."<sup>1077</sup>

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

<sup>1075</sup> 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).

<sup>1076</sup> 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).

<sup>1077</sup> 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).



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.

## 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.<sup>1078</sup> 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.<sup>1079</sup> The company’s Associate degree program is exclusively online.<sup>1080</sup>

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.

<sup>1078</sup> 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).

<sup>1079</sup> Apollo Group, 2011 Form 10-K.

<sup>1080</sup> 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.

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.<sup>1081</sup> 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.<sup>1082</sup> 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 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.<sup>1083</sup> 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."<sup>1084</sup> 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."<sup>1085</sup>

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.

<sup>1081</sup> Christopher R. Beha, "Leaving the Field: What I Learned from For-Profit Education," *Harper's Magazine*, October 2011.

<sup>1082</sup> *Id.*

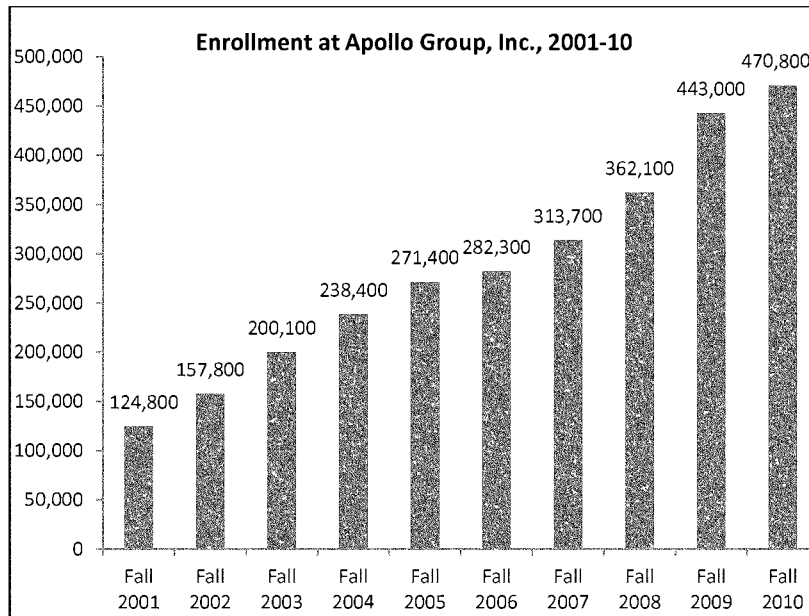
<sup>1083</sup> Nelson's combined compensation and severance pay from Apollo amounted to \$41.3 million. In 2007, Nelson became CEO of EDMC and continues in that role today.

<sup>1084</sup> 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).

<sup>1085</sup> Thomas Bartlett, "Phoenix Risen" *The Chronicle of Higher Education*, July 6, 2009.

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.<sup>1086</sup> This aspiration was reinforced by a 2002 corporate goal known as "5-5-5": "Five Years, Five Million Students and Five Billion Dollars."<sup>1087</sup> 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.<sup>1088</sup>



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

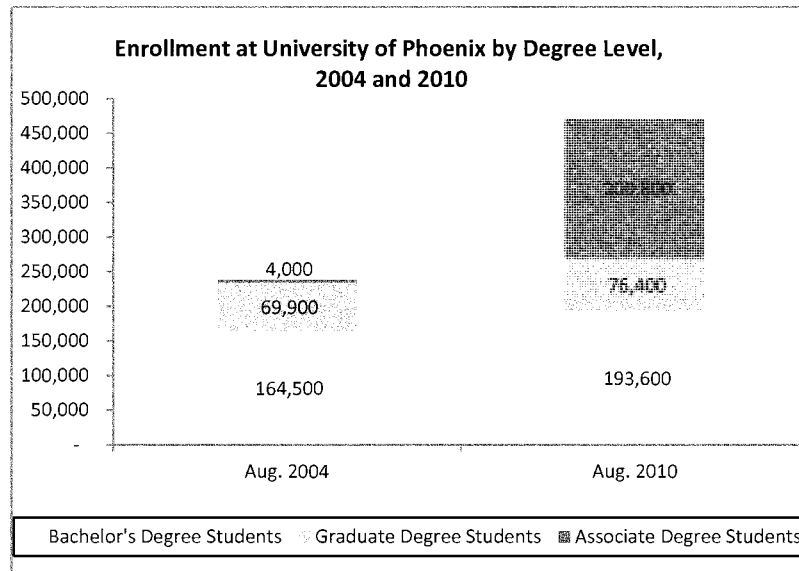
<sup>1086</sup> Daniel Golden, "Plunge of For-Profit College Shares Make Patriarch Sperling Rail at Obama" *Bloomberg*, December 29, 2010.

<sup>1087</sup> 2004 Department of Education University of Phoenix Program Review Report.

<sup>1088</sup> Daniel Golden, "Plunge of For-Profit College Shares Make Patriarch Sperling Rail at Obama" *Bloomberg*, December 29, 2010.

Conference.<sup>1089</sup> 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.”<sup>1090</sup>

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



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.<sup>1091</sup>

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

<sup>1089</sup> 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.

<sup>1090</sup> “Plunge of For-Profit College Shares Make Patriarch Sperling Rail at Obama” Daniel Golden. Bloomberg. Dec 29, 2010.

<sup>1091</sup> Apollo Group, Inc. 10-K period ending 8/31/2008.

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 appears 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.<sup>1092</sup> 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.<sup>1093</sup> Both the drop in enrollments and the changing mix of students has been helpful to Apollo's 90/10 ratio.<sup>1094</sup> The company at least partly attributes the lower mix of Associate degree students as the reason it was able to remain in compliance with the 90/10 rule for fiscal year 2011.<sup>1095</sup>

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.<sup>1096</sup>

## 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.<sup>1097</sup> 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.<sup>1098</sup>

<sup>1092</sup> November 2011, Wunderlich Securities Conference; Apollo Group, Inc. 2012, Q2 Form 10-Q.

<sup>1093</sup> Apollo Group Investors Call, Q2 2011.

<sup>1094</sup> December 2011 William Blair Conference.

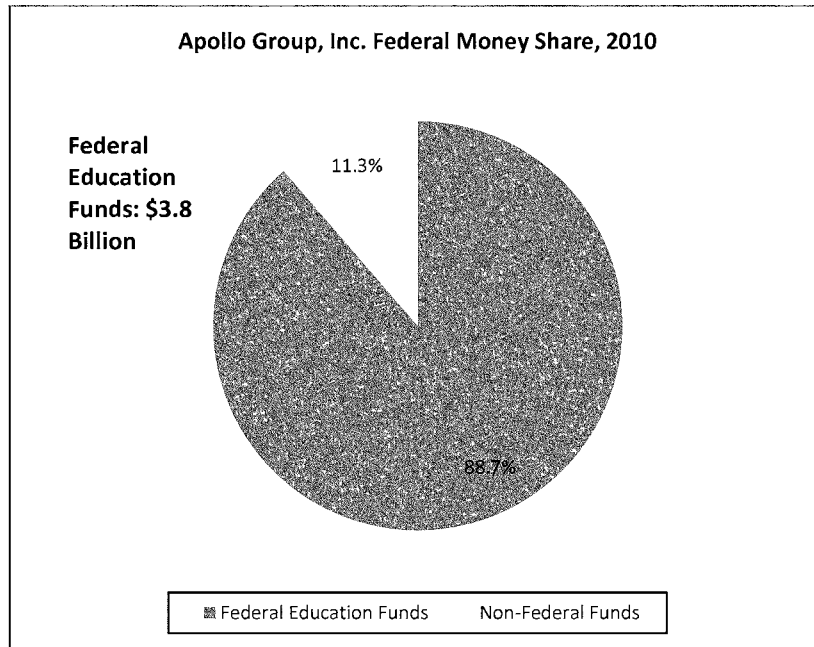
<sup>1095</sup> Apollo Group Investors Call, Q2 2011. Apollo elected not to take advantage of the temporary ECASLA provision allowing for the exclusion of up to \$2,000 in loans per student from their 90/10 calculation. This means that unlike a number of other for-profit education companies, their 90/10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

<sup>1096</sup> 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.

<sup>1097</sup> "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.

<sup>1098</sup> 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, Apollo reported 85.3 percent of revenue from title IV Federal financial aid programs.<sup>1099</sup> 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.<sup>1100</sup> With these funds included, 88.7 percent of Apollo's total revenue was comprised of Federal education funds.<sup>1101</sup>



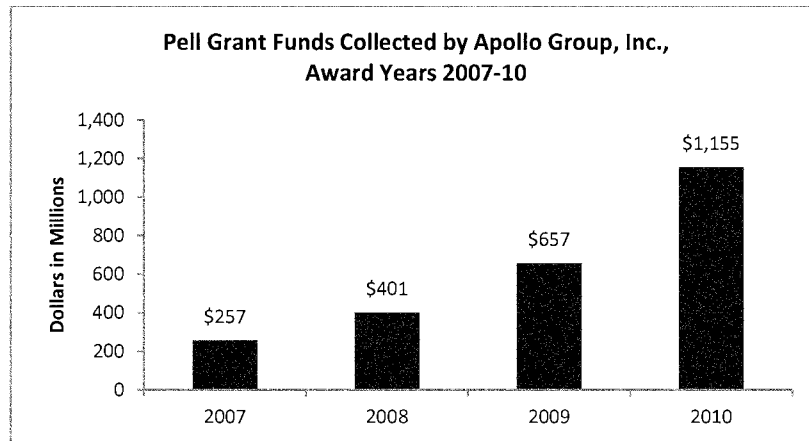
Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from \$1.4 billion to \$8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to

<sup>1099</sup> 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.

<sup>1100</sup> 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.

<sup>1101</sup> "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.

25 percent.<sup>1102</sup> 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 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.<sup>1103</sup>

## 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

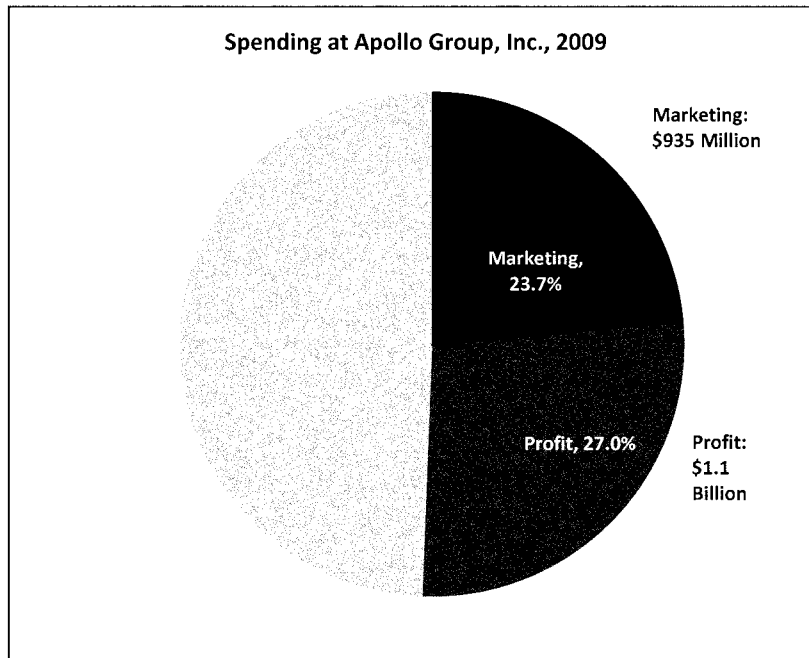
<sup>1102</sup> Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School, 2000-1 and 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.

<sup>1103</sup> 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.



2009.<sup>1104</sup> 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).<sup>1105</sup> 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.<sup>1106</sup>



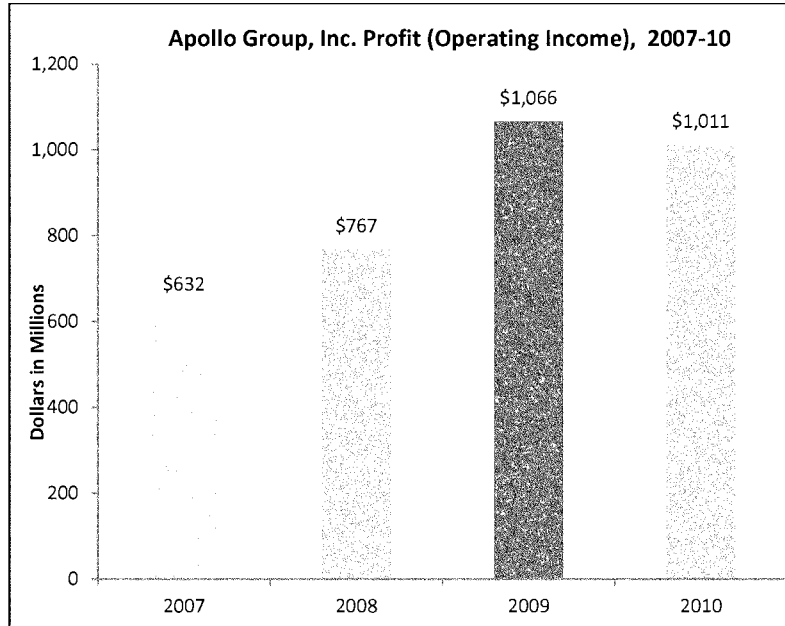
Apollo devoted a total of \$2.04 billion to marketing, recruiting, and profit in fiscal year 2009.<sup>1107</sup> The amount of profit Apollo generated also increased rapidly, growing from \$632 million in 2006 to over \$1 billion in 2010. Matching the drop in enrollment, profit fell in 2011 to \$961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

<sup>1104</sup> 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.

<sup>1105</sup> 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.

<sup>1106</sup> 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.

<sup>1107</sup> 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.<sup>1108</sup> 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.<sup>1109</sup>

<sup>1108</sup> 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.

<sup>1109</sup> 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
<b>Total</b> <sup>1110</sup>		\$21,573,421.00	\$20,165,218.00

Co-CEO's Gregory Capelli's 2011 compensation was \$25.1 million.<sup>1111</sup>

### Tuition and Other Academic Charges

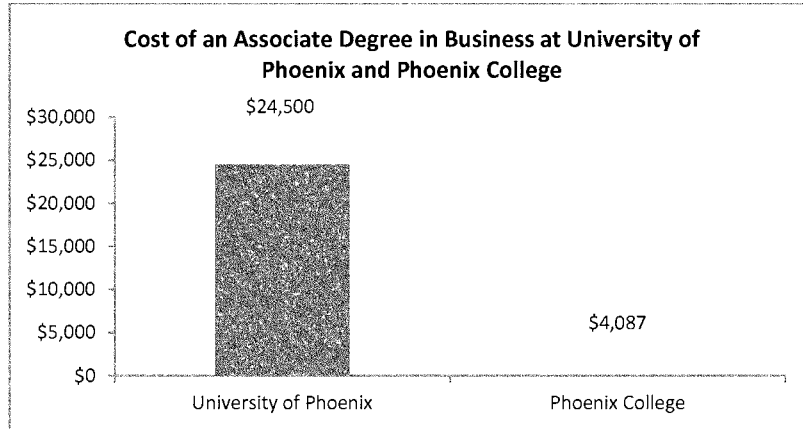
Compared to public colleges offering the same programs, the price of tuition is higher at Apollo. Tuition for an Associate of Arts in Business at the University of Phoenix Online costs \$24,500.<sup>1112</sup> The same degree costs \$4,087 at Phoenix College in the Maricopa Community College system.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

<sup>1110</sup> 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.

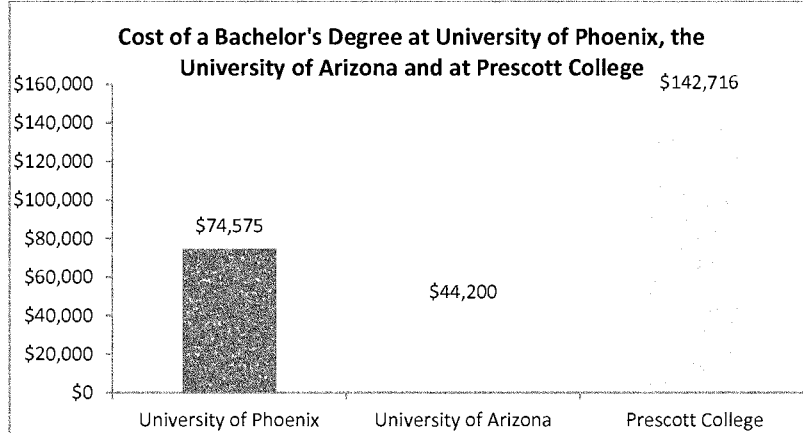
<sup>1111</sup> Apollo Group 2011 DEF 14C.

<sup>1112</sup> 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](http://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/AAFB-013B.pdf?cm_sp=Program+Page-_-SealSheet+PDF--AAFB) (accessed April 19, 2012).

<sup>1113</sup> 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.<sup>1114</sup> The same degree at the University of Arizona costs \$44,200.<sup>1115</sup> 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.<sup>1116</sup>



<sup>1114</sup> 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-\\_-AAF](http://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/AAFB-013B.pdf?cm_sp=Program+Page-_-SealSheet+PDF-_-AAF) ([http://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/BSB-M-025B.pdf?cm\\_sp=Program+Page-\\_-SealSheet+PDF-\\_-BSB-M](http://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).

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

<sup>1116</sup> 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.<sup>1117</sup>

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.”<sup>1118</sup> 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.<sup>1119</sup>

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.”<sup>1120</sup>

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 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?”<sup>1121</sup> 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?”<sup>1122</sup>

<sup>1117</sup> 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.

<sup>1118</sup> William Blair Conference, December 2011.

<sup>1119</sup> 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, Q4 Earnings Call with Investors; Apollo Group, 2011, Q3 Earnings Call with Investors.

<sup>1120</sup> Apollo Group, Internal Email, *RE: GP*, October 2, 2008 (AGI0045757, at AGI0045758).

<sup>1121</sup> Apollo Group, *University of Phoenix Enrollment Counselor Guide*, 2007 (AGI0015231, at 15339).

<sup>1122</sup> Apollo Group, *University of Phoenix Enrollment Counselor Guide Online Campus*, 2007 (AGI0014312, at AGI0014465).

## 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.<sup>1123</sup> 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.”<sup>1124</sup> 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.”<sup>1125</sup>

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.”<sup>1126</sup> 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.<sup>1127</sup> 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.”<sup>1128</sup>

The committee reviewed a small sampling of complaints from students who felt they were misled or deceived by recruiters.<sup>1129</sup> 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:

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

<sup>1123</sup> According to Apollo the training manuals stated in the report are no longer in use.

<sup>1124</sup> Apollo Group, *University of Phoenix Enrollment Counselor Guide*, 2007 (AGI0015231, at AGI0015329).

<sup>1125</sup> Id.

<sup>1126</sup> Id., at 15333; See Also, Apollo Group, *University of Phoenix Enrollment Counselor Guide Online Campus*, 2007 (AGI0014312).

<sup>1127</sup> Apollo Group, *University of Phoenix Enrollment Counselor Guide*, 2007 (AGI0015231, at AGI0015334).

<sup>1128</sup> Apollo, 2007, *Enrollment Counselor Guide: School of Advanced Studies* (AGI00014312, at AGI0014504) (University of Phoenix).

<sup>1129</sup> 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.

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].<sup>1130</sup>

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].<sup>1131</sup>

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]."<sup>1132</sup>

Another former student was told by an Apollo admissions counselor that her felony conviction would not hinder a career as a pharmacy technician.<sup>1133</sup> 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.<sup>1134</sup>

<sup>1130</sup> Letter from Office of the Attorney General State of Arizona Consumer Information & Complaints to University of Phoenix, May 4, 2009 (AGI0051856).

<sup>1131</sup> Apollo Group, Internal Correspondence, July 7, 2009 (AGI0053273).

<sup>1132</sup> Letter from [REDACTED] to Apollo Group, July 27, 2009 (AGI0052827).

<sup>1133</sup> Letter from Aubrie Roupe, former University of Phoenix student, to Senator Tom Harkin, April 2, 2011.

<sup>1134</sup> Id.

Government Accountability Office Undercover Recordings<sup>1135</sup>

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."<sup>1136</sup> Yet, when the undercover prospective student asks about cost, the recruiter quoted a price based on attending three terms a year, "With tuition and books it's approximately . . . its right about \$9,500 a year."<sup>1137</sup> 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."<sup>1138</sup>

## 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.<sup>1139</sup>

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee and (2) student loan "cohort

<sup>1135</sup> 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.

<sup>1136</sup> 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).

<sup>1137</sup> 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).

<sup>1138</sup> 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).

<sup>1139</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 12, 2012).



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.<sup>1140</sup> 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.<sup>1141</sup>

Status of Students Enrolled in Apollo Group, Inc. in 2008-9, as of 2010						
Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent With-drawn	Number With-drawn	Median Days
Associate	177,368	4.7%	28.9%	66.4%	117,738	126
Bachelor’s	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.

<sup>1140</sup> 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.

<sup>1141</sup> 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

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.<sup>1142</sup>

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 at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.<sup>1143</sup>

<sup>1142</sup> Apollo, *Default Management Plan*, September, 2010 (AGI0032838).

<sup>1143</sup> 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.<sup>1144</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>1145</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>1146</sup> 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.<sup>1147</sup>

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.<sup>1148</sup> This change represents a 32.6 percent increase over 4 years.<sup>1149</sup> 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.<sup>1150</sup> The company expects the rate for 2009 to be 26.7 percent.<sup>1151</sup> Company officials have also told investors that they do not expect the 2010 rate to exceed 30 percent.<sup>1152</sup> 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.

<sup>1144</sup> 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.

<sup>1145</sup> Id.

<sup>1146</sup> Id.

<sup>1147</sup> Id.

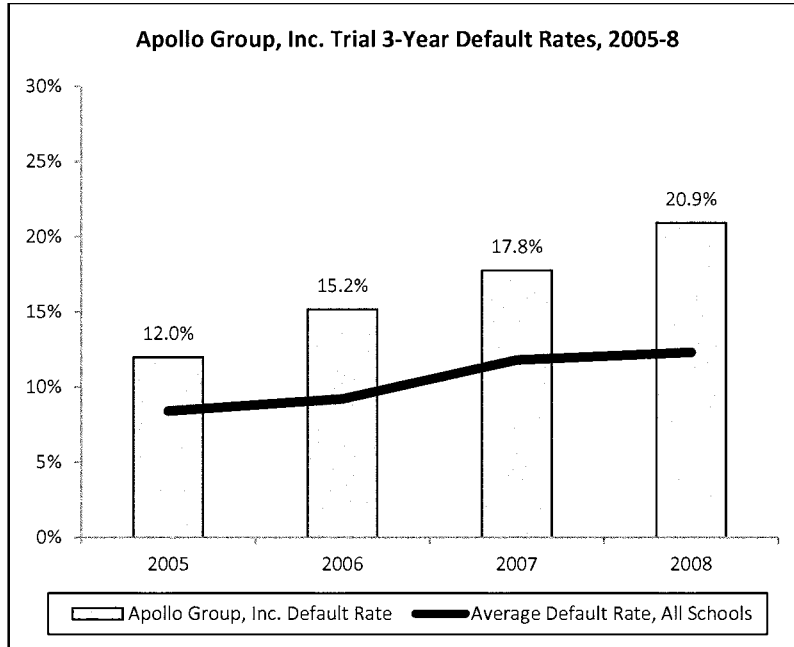
<sup>1148</sup> Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-08, <http://federalstudentaid.ed.gov/datacenter/cohort.html>. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.

<sup>1149</sup> Id.

<sup>1150</sup> Id.

<sup>1151</sup> Apollo Investors Call, Q2 2012.

<sup>1152</sup> 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.<sup>1153</sup>

#### 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

<sup>1153</sup> 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).

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.

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.<sup>1154</sup> The company also contracts with the i3 group for additional default management services.<sup>1155</sup> 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.”<sup>1156</sup> 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.

<sup>1154</sup> Apollo, *Cohort Default Management Solutions Agreement*, June 22, 2010. (AG10034246). Company redacted all information regarding fees paid to GRC.

<sup>1155</sup> Apollo Internal Email, *Re:i3 Contract – Ready for your execution*, August 18, 2010 (AG10034261).

<sup>1156</sup> *Id.*

### 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.<sup>1157</sup> 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 \$2,070 on instruction per student, and the 15 publicly traded education companies spend \$1,943 on 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.<sup>1158</sup>

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.<sup>1159</sup> In 2010, Apollo employed 1,140 full-time and 31,671 part-time faculty.<sup>1160</sup> Thus, fully 96 percent of Apollo's faculty was employed on a part-time basis.<sup>1161</sup>

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.<sup>1162</sup> Directed studies is the practice by which students pursue independent study with more minimal instruction supervision. At least one

<sup>1157</sup> 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.

<sup>1158</sup> 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.

<sup>1159</sup> 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.

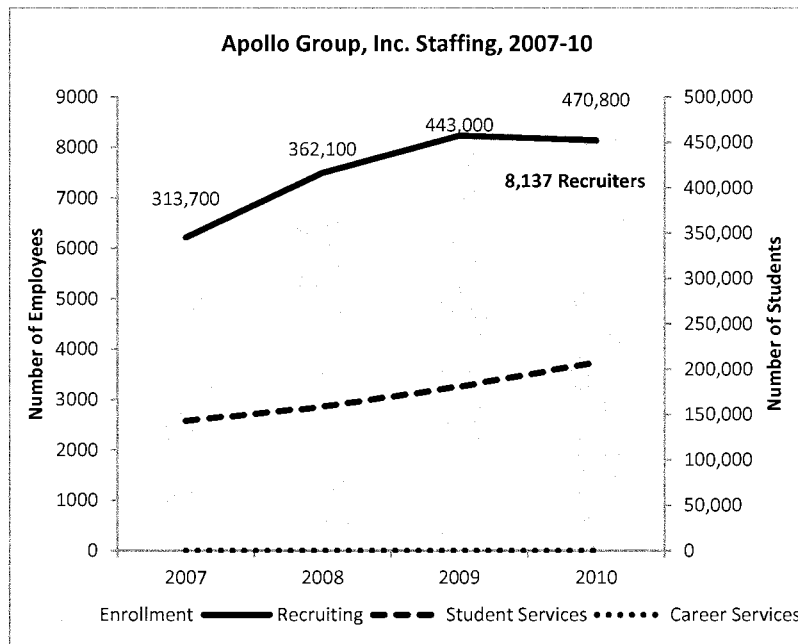
<sup>1160</sup> Id.

<sup>1161</sup> Id.

<sup>1162</sup> Apollo, Internal Email, *FW: DS study guidelines*, March 1, 2010 (AGI0047203).

campus (Oklahoma City) had over 40 percent of students in directed studies.<sup>1163</sup> 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.<sup>1164</sup>

### 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.<sup>1165</sup> 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.<sup>1166</sup> Additionally, because the company holds regional accreditation, their accreditor does not require tracking

<sup>1163</sup> Apollo, Directed Studies graph, March 1, 2010 (AGI0047205).

<sup>1164</sup> Apollo, Internal Email, *JW: DS discussion*, March 18, 2010 (AGI0047230).

<sup>1165</sup> 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.

<sup>1166</sup> 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."

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 practices regarding recruiting, enrollment, placement, etc."<sup>1167</sup> The Delaware attorney general also issued a subpoena to the University of Phoenix regarding the company's business practices in Delaware.<sup>1168</sup> 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.<sup>1169</sup>

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.<sup>1170</sup> In April 2012, the SEC announced an insider investigation based on trades prior to the February 2012 announcement of lower than expected earnings.<sup>1171</sup>

### 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

<sup>1167</sup> Florida Office of the Attorney General, *Public Consumer-Related Investigation*, <http://myfloridalegal.com/85256309005085AB.nsf/0/9682560BAF290B1F852577C000722E75> (accessed June 19, 2012).

<sup>1168</sup> Apollo 10-K August 31, 2011.

<sup>1169</sup> 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).

<sup>1170</sup> Apollo 8-K October 26, 2010.

<sup>1171</sup> Apollo 8-K April 18, 2012.



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.

## **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.<sup>1172</sup> 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.<sup>1173</sup>

Bridgepoint Education, was formed in 2003 with the backing of Warburg Pincus, a Wall Street private equity firm. In 2005, the company

<sup>1172</sup> 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.

<sup>1173</sup> Bridgepoint Education, Inc. Form 10-K (3/7/2012).

purchased The Franciscan University of the Prairies in Clinton, IA.<sup>1174</sup> 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.<sup>1175</sup> 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.<sup>1176</sup>

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.<sup>1177</sup> At the company's average share price over the past 12 months, Warburg would stand to earn \$773.1 million from selling its holdings.<sup>1178</sup>

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.<sup>1179</sup> 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

<sup>1174</sup> Until 2003, the school had previously been known as Mt. St. Clare College.

<sup>1175</sup> Bridgepoint Education, Inc. Prospectus, December 22, 2008.

<sup>1176</sup> Id.

<sup>1177</sup> Bridgepoint Education, Inc. Form S-3, July 22, 2011.

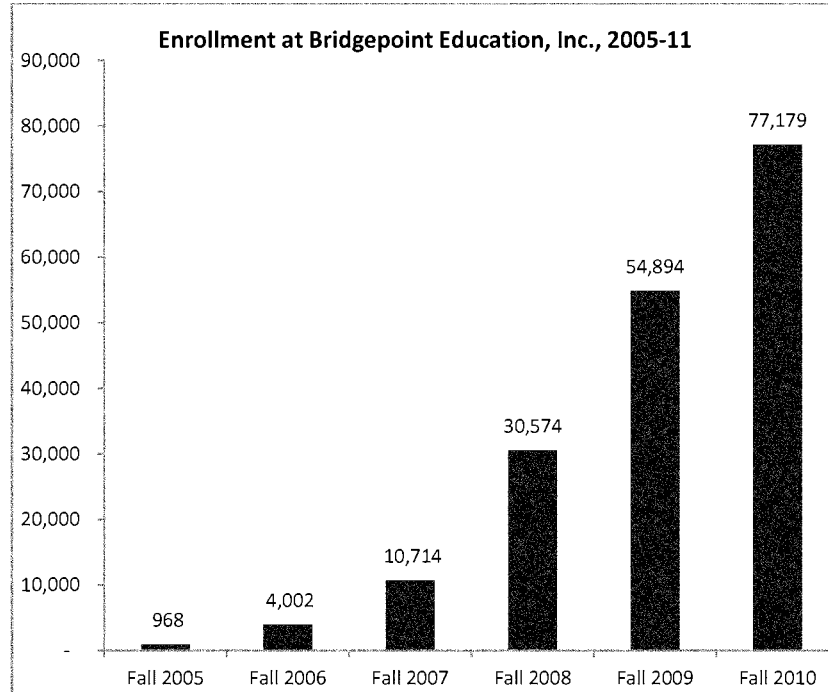
<sup>1178</sup> The average closing share price from July 11, 2011 to July 10, 2012 was \$22.35; Warburg owns 34,589,220 shares of Bridgepoint stock.

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

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.<sup>1180</sup> 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.

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<sup>1180</sup> Letter of March 9, 2011 from Department of Education Office of Federal Student Aid COO William Taggart 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.<sup>1181</sup> 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.”<sup>1182</sup>

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

<sup>1181</sup> 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.

<sup>1182</sup> US News and World Report, College Rankings & Lists, <http://colleges.usnews.rankingsandreviews.com/best-colleges/ashford-university-1881> (accessed April 24, 2012).

2011 the company leased office space in Denver and hired about 750 employees for the new space.<sup>1183</sup>

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.<sup>1184</sup>

### Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid funds.<sup>1185</sup> 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.<sup>1186</sup> 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.<sup>1187</sup>

In 2010, Bridgepoint reported that 85.1 percent of its revenues, equal to \$496.6 million, came from Federal financial aid programs.<sup>1188</sup> 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

<sup>1183</sup> "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).

<sup>1184</sup> 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.

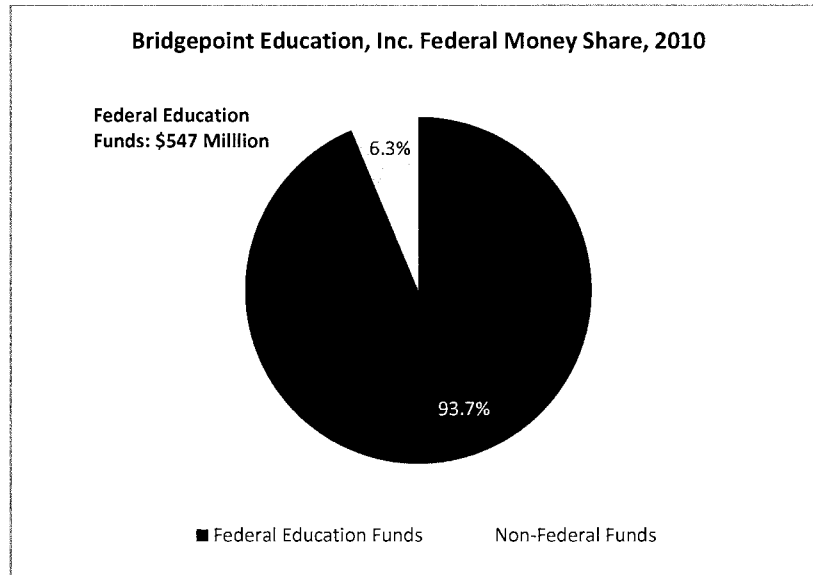
<sup>1185</sup> "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

<sup>1186</sup> 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.

<sup>1187</sup> 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.

<sup>1188</sup> 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.

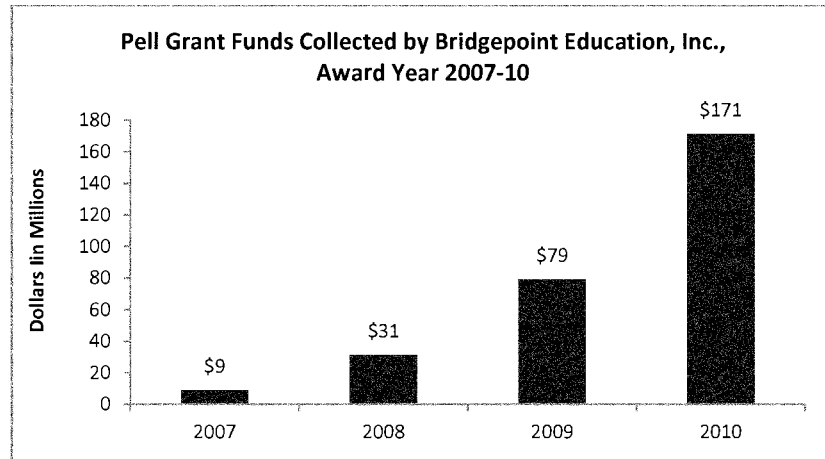
Bridgepoint's total revenue, or \$50.4 million, was collected from Department of Defense Tuition Assistance or post 9/11 GI bill funds.<sup>1189</sup>



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.<sup>1190</sup> 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.

<sup>1189</sup> 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.

<sup>1190</sup> 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, 2000-01 and 2009-10*, <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.<sup>1191</sup> For 2011, the company increased the amount of Pell funds it collects by 70 percent to \$290.8 million.

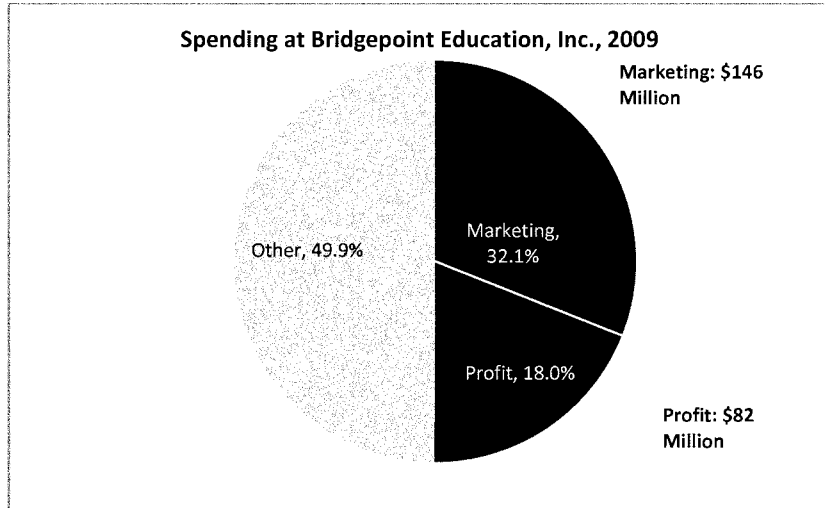
### Spending

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).<sup>1192</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.

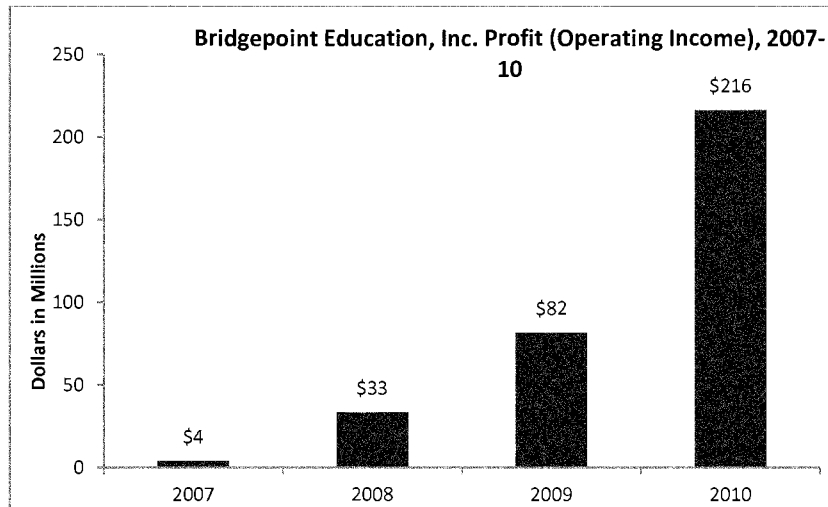
<sup>1191</sup> Pell disbursements are reported by the Department of Education's student aid "award year," other revenue figures are reported on the company's fiscal year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School, 2000-1 and 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>. See Appendix 13.

<sup>1192</sup> 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.<sup>1193</sup> Bridgepoint spent a higher proportion of its revenue on marketing than any other publicly traded education company.<sup>1194</sup>



<sup>1193</sup> Id. On average, the 30 for-profit schools examined spent 23 percent of revenue on marketing and 19.4 percent on profit.

<sup>1194</sup> 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.<sup>1195</sup>

#### 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.<sup>1196</sup> 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.<sup>1197</sup> This is over 33 times as much as president of the University of Iowa, who received \$610,234 in total compensation for 2009-10.

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
<b>Total</b> <sup>1198</sup>		\$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.

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

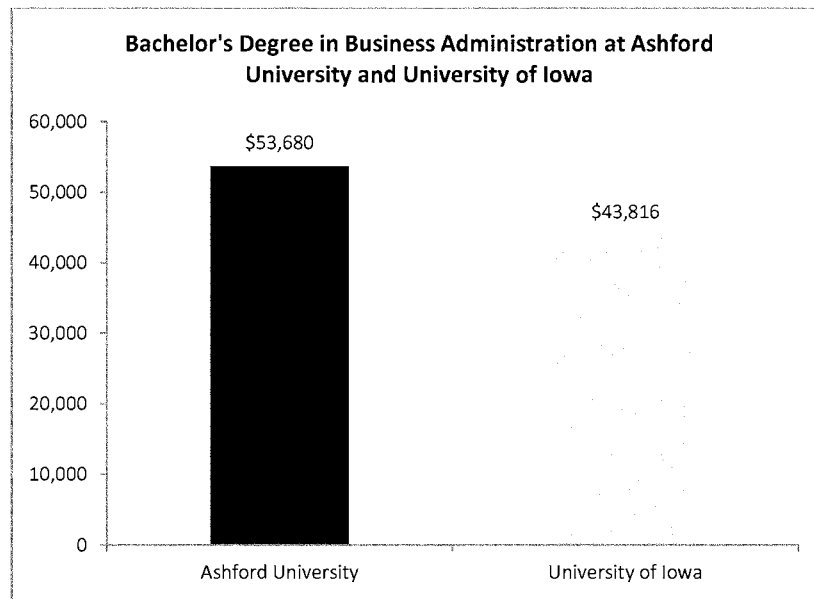
<sup>1196</sup> Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and Chief Executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a and Appendix 17b.

<sup>1197</sup> The stock options contained in Clark's 2009 compensation package were the result of the company's 2009 IPO. His compensation in 2010 was \$2.2 million.

<sup>1198</sup> 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 17h.

### 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.<sup>1199</sup> The same degree at Eastern Iowa Community College in Davenport, IA costs \$7,936.<sup>1200</sup> A Bachelor's degree in business administration at Ashford University Online costs \$53,680.<sup>1201</sup> The same degree at the University of Iowa costs \$43,816.<sup>1202</sup>



Although it is more expensive 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.<sup>1203</sup> In February 2009, Bridgepoint created a new fee for most courses, called the "Course Digital Materials" fee, pushing the total cost of attendance

<sup>1199</sup> See Appendix 14; and see, Ashford University, *Associates of Arts in Business*, <http://www.ashford.edu/static/programdisclosures?p=oaab#oaab> (accessed April 19, 2012).

<sup>1200</sup> See Appendix 14; and see, Eastern Iowa Community College, *Eastern Iowa Community Colleges*, [www.eicc.edu](http://www.eicc.edu) (accessed July 12, 2012).

<sup>1201</sup> 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).

<sup>1202</sup> See Appendix 14; and see, University of Iowa, *University of Iowa*, <http://www.uiowa.edu/> (accessed July 12, 2012).

<sup>1203</sup> Bridgepoint Education Inc, *Key Issues Messaging*, January 22, 2010 (BPI-HELP\_00046828).

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.<sup>1204</sup>

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.

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]." <sup>1205</sup> 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 . . ." <sup>1206</sup> 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.<sup>1207</sup>

<sup>1204</sup> Bridgepoint Internal Email, February 2010, re: *Re: MAJOR ISSUE* (BPI-HELP\_00048618).

<sup>1205</sup> Student email sent to Jane McAullife, February 22, 2008 (BPI-HELP\_00026097); See also, Student email, March 30, 2010 (BPI-HELP\_00027611).

<sup>1206</sup> Student email sent to dispute resolution, January 17, 2009 (BPI-HELP\_00028256).

<sup>1207</sup> *Id.*

## 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.<sup>1208</sup> A former recruiter wrote to Chairman Harkin to tell the story of the pressure put on her to enroll students.<sup>1209</sup> 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.

She was terminated, despite the fact that, as she stated in her letter, the students she enrolled had a 100 percent retention rate.<sup>1210</sup> 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

<sup>1208</sup> 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.

<sup>1209</sup> Letter from Merrill R. Mitchell to Senator Harkin, February 22, 2012.

<sup>1210</sup> *Id.*

we also have to meet our quotas . . . and these are high quotas. Turnover is high, most employees don't last more than 6 months, there 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.<sup>1211</sup>

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.<sup>1212</sup>

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."<sup>1213</sup> 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.<sup>1214</sup> Recruiters were also told to send two emails and leave two

<sup>1211</sup> Comment sent to Department of Education by Brent Park pursuant to Gainful Employment rulemaking.

<sup>1212</sup> *Id.*

<sup>1213</sup> Ashford University, *Internal 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).

<sup>1214</sup> Ashford University, *Leaving Effective Messages*, April 13, 2009 (BPI-HELP\_00032345).

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.”<sup>1215</sup>

Recruiters were taught a sales technique known as “overcoming objections.”<sup>1216</sup> If a student presented an “objection” to enrolling, recruiters were instructed to think of this as a “buying signal” that 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].”<sup>1217</sup>

“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.<sup>1218</sup> 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.<sup>1219</sup>

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:

<sup>1215</sup> Bridgepoint Education Inc., *Creating Urgency* (BPI-HELP\_00005972).

<sup>1216</sup> Ashford University, *Overcoming Objections* (BPI-HELP\_00005921).

<sup>1217</sup> Comment sent to Department of Education by Brent Park pursuant to Gainful Employment rulemaking.

<sup>1218</sup> Bridgepoint Education, Inc., *[Title Redacted]*, October 13, 2008 (BPI-HELP\_00063243).

<sup>1219</sup> Bridgepoint Education, Inc., *[Title Redacted]*, October 13, 2008 (BPI-HELP\_00063587).

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.<sup>1220</sup>

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.<sup>1221</sup>

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.<sup>1222</sup> “I was extremely disappointed, confused and angry,” he wrote.<sup>1223</sup> 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 appearances of meeting a specific enrollment quota or with malicious intent to deceive me into signing a contract.”<sup>1224</sup>

Another student was told he would be able to receive his teaching license from Ashford.<sup>1225</sup> 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.”<sup>1226</sup>

Another student entered Ashford intending to become a licensed dental assistant.<sup>1227</sup> His letter states that recruiters told him that he could achieve this goal at Ashford.<sup>1228</sup> 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.”<sup>1229</sup> He was distraught, telling the school “I feel like I was completely and

<sup>1220</sup> Bridgepoint Education, Inc., *Better Business Bureau, Complaint 8194819*, May 26, 2010 (BPI-HELP\_00026263).

<sup>1221</sup> *Id.*

<sup>1222</sup> Ashford University, *This Constitutes My Formal Complaint*, August 9, 2010 (BPI-HELP\_00026639).

<sup>1223</sup> *Id.*

<sup>1224</sup> *Id.*

<sup>1225</sup> Ashford University, *Formal Complaint*, August 23, 2010 (BPI-HELP\_00026807).

<sup>1226</sup> *Id.*

<sup>1227</sup> Ashford University, *Untitled Letter from student*, March 17, 2010 (BPI-HELP\_00027158).

<sup>1228</sup> *Id.*

<sup>1229</sup> *Id.*



utterly lied to.” He is left with \$9,000 in loans and \$3,000 owed to the school.<sup>1230</sup>

## 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.<sup>1231</sup> 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.<sup>1232</sup> These withdrawn students were enrolled a median of 19 weeks. Over the same time 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

<sup>1230</sup> Id.

<sup>1231</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 12, 2012).

<sup>1232</sup> 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.

highest college.<sup>1233</sup> 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.<sup>1234</sup>

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.<sup>1235</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>1236</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>1237</sup> The consequence of this higher rate is that almost half of all

<sup>1233</sup> 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.

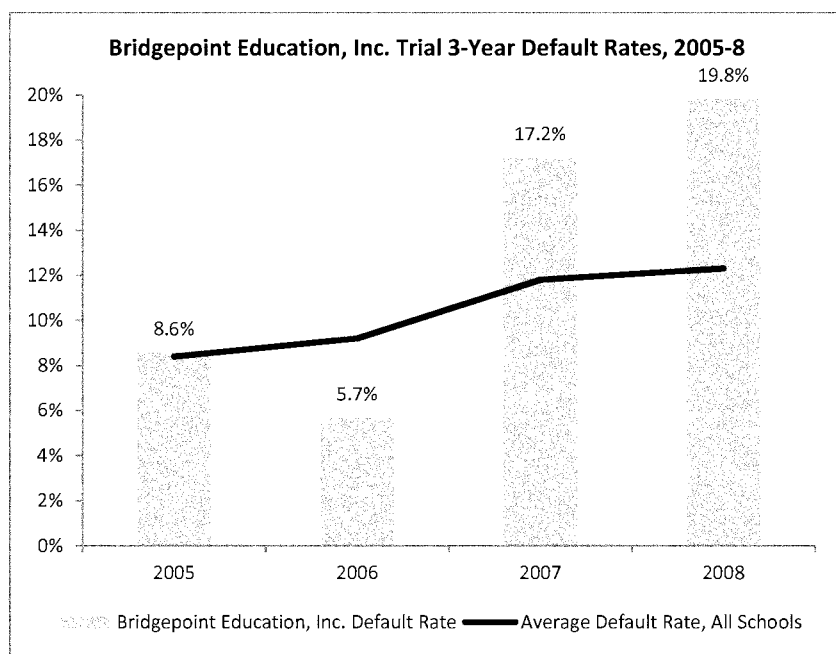
<sup>1234</sup> Direct Loan default rates, 34 CFR 668.183(c).

<sup>1235</sup> 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.

<sup>1236</sup> Id.  
<sup>1237</sup> Id.

student loans defaults nationwide are held by students who attended for-profit colleges.<sup>1238</sup>

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.<sup>1239</sup> 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 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-

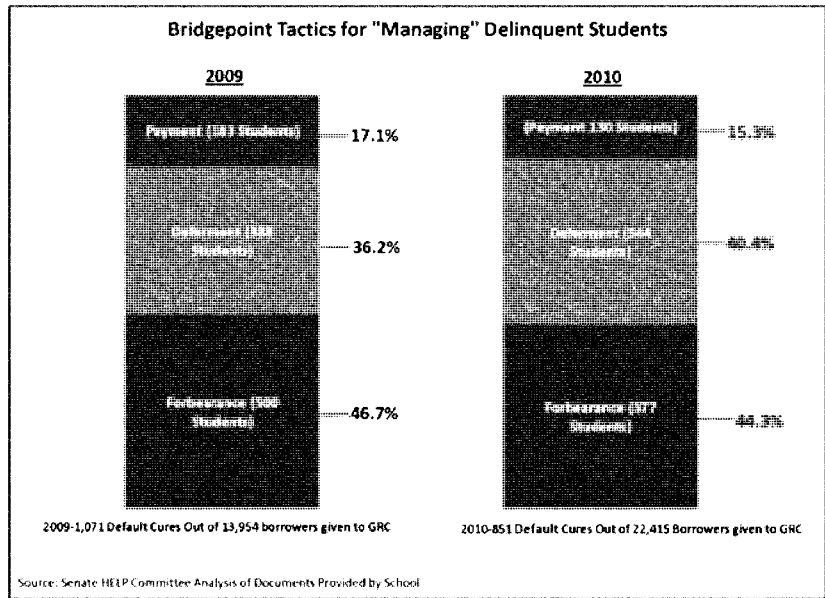
<sup>1238</sup> Id.

<sup>1239</sup> Id.

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.<sup>1240</sup> In addition, Bridgepoint will pay GRC a bonus of 7.5 percent of the total fees if GRC succeeds in lowering 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

<sup>1240</sup> Bridgepoint Education Inc., *Cohort Default Management Services Agreement with General Revenue Corporation*, June 26, 2009 (BPI\_HELP\_00044540).

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.<sup>1241</sup> 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.<sup>1242</sup> 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

<sup>1241</sup> 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).

<sup>1242</sup> 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.

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.<sup>1243</sup>

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.<sup>1244</sup> Bridgepoint's faculty composition was more heavily weighted towards part-time.<sup>1245</sup> In 2010, 98 percent of Bridgepoint's faculty, 2,977 out of 3,028, were part-time.<sup>1246</sup>

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 responded [to] questions in [a] timely manner," wrote one student in organizational management.<sup>1247</sup> 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]."<sup>1248</sup>

<sup>1243</sup> Senate HELP Committee staff analysis. See Appendix 23.

<sup>1244</sup> 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.

<sup>1245</sup> *Id.*

<sup>1246</sup> *Id.*

<sup>1247</sup> Ashford University, *End of Course Student Survey*, January 6, 2009 (BPI-HELP\_00053393).

<sup>1248</sup> *Id.*

### 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."<sup>1249</sup> 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.<sup>1250</sup> 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.<sup>1251</sup> 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

<sup>1249</sup> Ashford University, *Bachelor of Arts in Education Studies*, 2012 <http://ashford.edu/degrees/online/baedsummary.htm> (accessed June 14, 2012).

<sup>1250</sup> Ashford University, *Formal Grievance*, July 29, 2010 (BPI-HELP\_00026393).

<sup>1251</sup> Ashford University, *Formal Grievance*, August 23, 2010 (BPI-HELP\_00026807).

Ashford degree.<sup>1252</sup> 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 take an additional 12 to 18 months.<sup>1253</sup> 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.<sup>1254</sup> An "Institutional Snapshot" that Ashford provided showed that the enrollment had increased 1,150 percent in the past 3 years.<sup>1255</sup> It also showed the percent of first-time new students the college enrolled and retained for 1 year was 41 percent.<sup>1256</sup> 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.

<sup>1252</sup> Ashford University, *Enrollment Problem*, September 30, 2008 (BPI-HELP\_00028844).

<sup>1253</sup> *Id.*

<sup>1254</sup> Bridgepoint Education, Inc., *Institutional Snapshot*, April 2010 (BPI-HELP\_00021599).

<sup>1255</sup> *Id.*

<sup>1256</sup> *Id.*



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.<sup>1257</sup> 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.<sup>1258</sup> 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.<sup>1259</sup> The 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.<sup>1260</sup> 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.<sup>1261</sup> 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."<sup>1262</sup> Ashford has indicated its intent to appeal as well as re-apply for initial accreditation.

<sup>1257</sup> 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).

<sup>1258</sup> Western Association of Schools and Colleges, Commission Action Letter, July 3, 2012 <https://www.wascenior.org/apps/institutions/ashford-university#zoom=15&lat=41.84998&lon=-90.19784&layers=FT0BT> (accessed July 10, 2012).

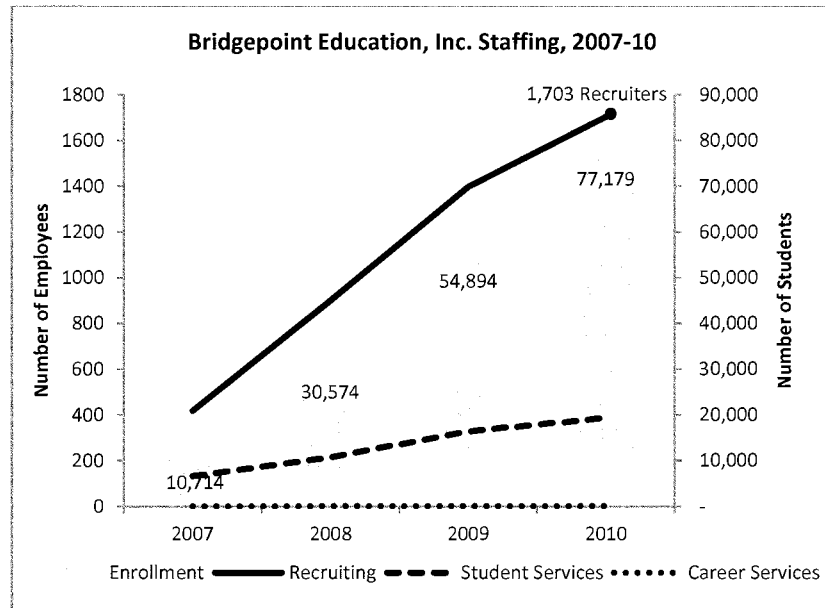
<sup>1259</sup> Western Association of Schools and Colleges, *Public Statement Regarding Ashford University*, July 9, 2012 <http://www.wascenior.org/publicstatements/public-statement-regarding-ashford-university> (accessed July 10, 2012).

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

<sup>1261</sup> Id.

<sup>1262</sup> Id.

## 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 recruiters, 1 career services employee, and 386 student services employees.<sup>1263</sup> 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.”<sup>1264</sup> 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

<sup>1263</sup> 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.

<sup>1264</sup> Bridgepoint Education, Inc., *Key Issues Messaging*, January 22, 2010 (BPI-HELP\_00046828).

withdraw – are unemployed does not compare favorably with the national unemployment rate of 8.2 percent.<sup>1265</sup>

### **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.

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<sup>1265</sup> 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.<sup>1266</sup>

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).<sup>1267</sup> At the time HLC first accredited Capella in 1997, the company enrolled fewer than 1,000 students.<sup>1268</sup> 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

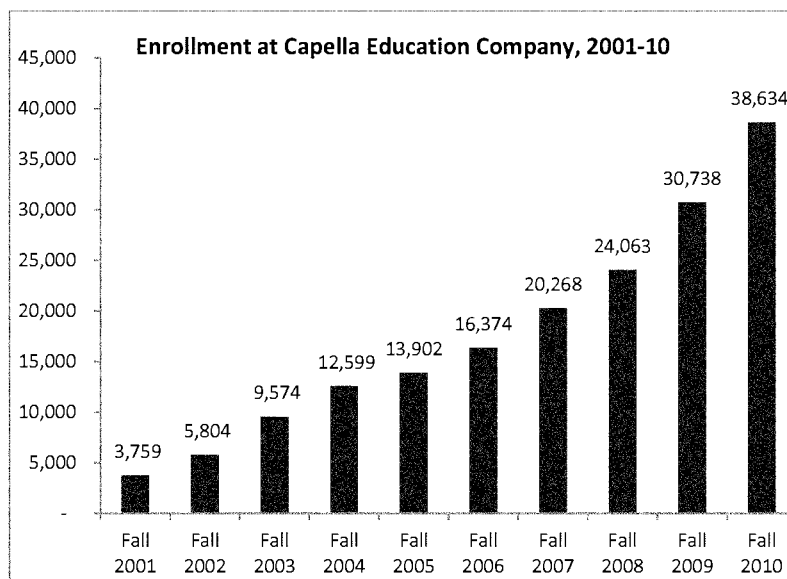
<sup>1266</sup> The company's board of directors also includes: Mark N. Green (CEO, Fair Isaac Corporation), Michael Linton (Executive VP, FMN Technologies), Michael Lomax (CEO and president, United Negro College Fund), Jody G. Miller (CEO and president, Business Talent Group), Stephen G. Shank (Founder, 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).

<sup>1267</sup> The 30 companies operate 71 different brands not including the Art Institute.

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

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.<sup>1269</sup>



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.<sup>1270</sup>

<sup>1269</sup> 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 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.

<sup>1270</sup> 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.

## 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.<sup>1271</sup> 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.<sup>1272</sup>

In 2010, Capella reported 78.2 percent of revenue from title IV Federal student aid programs.<sup>1273</sup> 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.<sup>1274</sup> 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.<sup>1275</sup> 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.<sup>1276</sup>

<sup>1271</sup> 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.

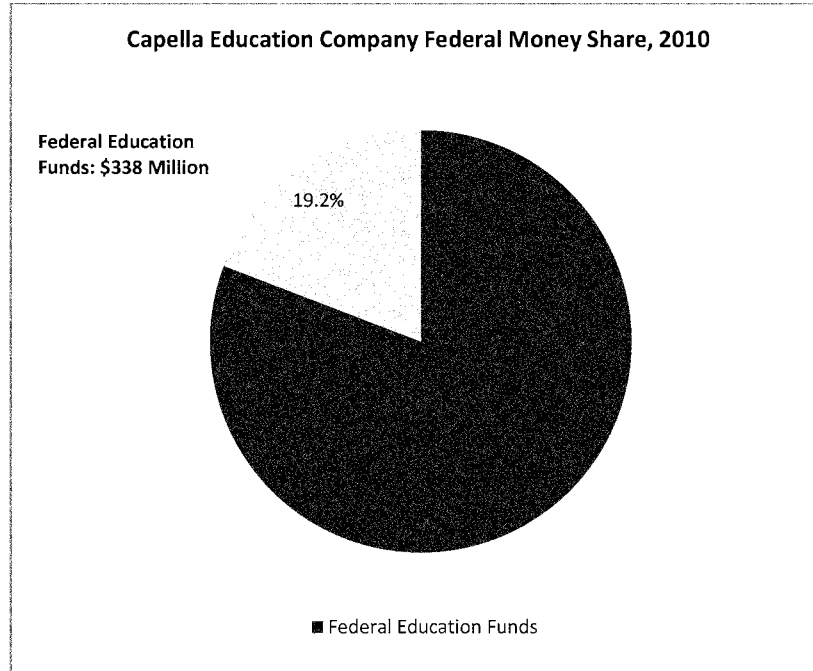
<sup>1272</sup> Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each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

<sup>1273</sup> 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.

<sup>1274</sup> 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.

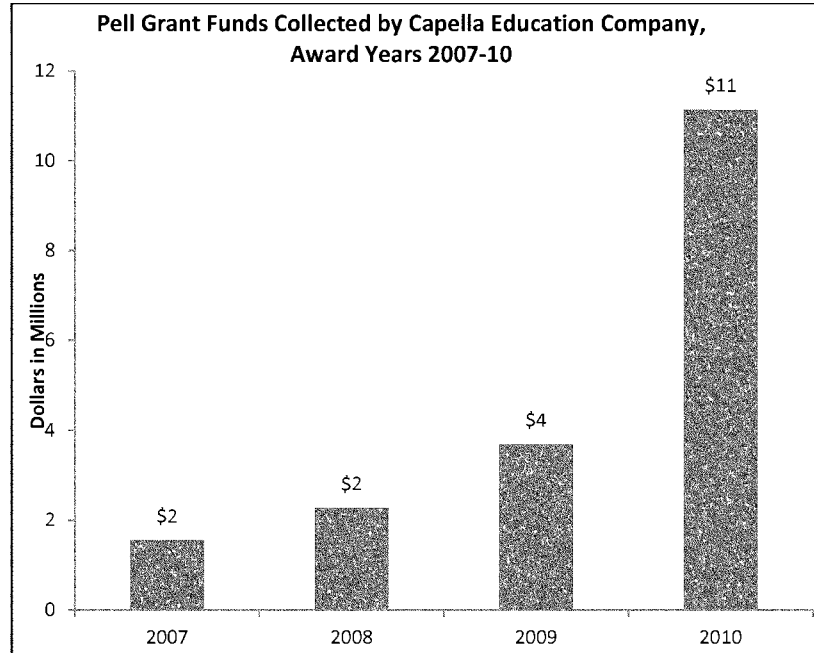
<sup>1275</sup> Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs 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.

<sup>1276</sup> "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.<sup>1277</sup> 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.

<sup>1277</sup> 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, 2000-1 and 2009-10*, <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.<sup>1278</sup>

### 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.<sup>1279</sup> 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

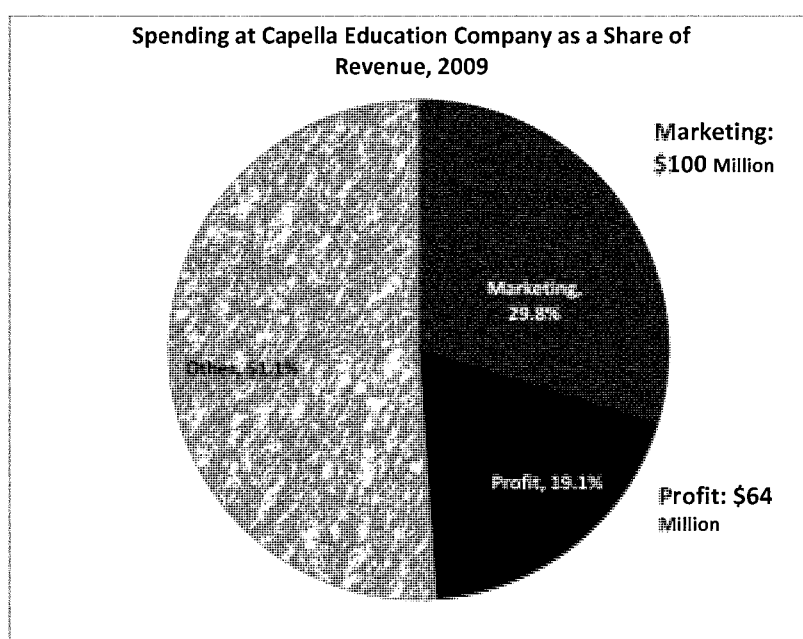
<sup>1278</sup> Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-2007 through 2009-2010, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>. See Appendix 13.

<sup>1279</sup> 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).<sup>1280</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.<sup>1281</sup>

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



Capella devoted a total of \$163.5 million to marketing, recruiting and profit in fiscal year 2009.<sup>1284</sup> The amount of profit Capella generated also

<sup>1280</sup> 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.

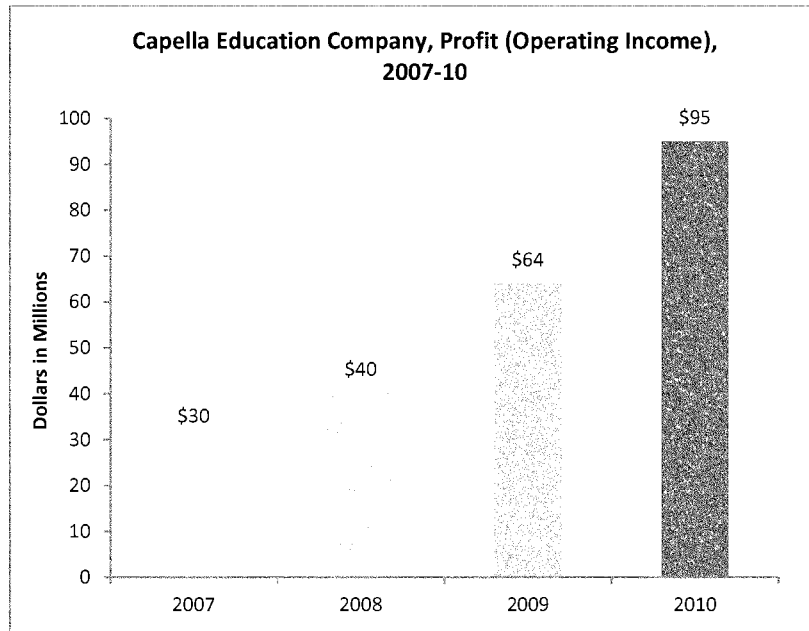
<sup>1281</sup> Id.

<sup>1282</sup> 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.

<sup>1283</sup> Senate HELP Committee staff analysis. See Appendix 19.

<sup>1284</sup> “Other” category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.

increased rapidly, more than tripling from \$30 million in 2007 to \$95 million in 2010.<sup>1285</sup>



#### 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.<sup>1286</sup> 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.<sup>1287</sup>

<sup>1285</sup> Senate HELP Committee staff analysis. See Appendix 18.

<sup>1286</sup> 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.

<sup>1287</sup> *Star Tribune*, "Salary Snapshots," 2012, <http://ww3.startribune.com/dynamic/salaries/> (accessed June 12, 2012).

Executive	Title	2009 Compensation	2010 Compensation
J. Kevin Gilligan	Chief Executive Officer	\$3,848,253	\$2,347,197
Lois M. Martin	Former SVP and Chief Financial Officer	\$748,499	\$967,637
Stephen G. Shank	Former Chief Executive Officer		\$685,879
Sally B. Chial	Senior Vice President - Capella Experience	\$952,482	\$644,665
Michael J. Offerman	Chancellor	\$820,718	\$605,422
Gregory W. Thom	Vice President and Senior Counsel		\$564,332
Steve L. Polacek	SVP and Chief Financial Officer	\$557,862	
Kyle M. Carpenter	SVP Strategic Business Development	\$895,249	
Jason Van De Loo	Vice President - Marketing	\$742,362	
<b>Total</b> <sup>1288</sup>		\$8,565,425	\$5,815,132

The chief executive officers of the large publicly traded, for-profit education companies received, on average, \$7.3 million in fiscal year 2009.<sup>1289</sup> 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.<sup>1290</sup> The same online degree at for-profit Walden University costs \$56,800<sup>1291</sup> and \$56,240 at the University of

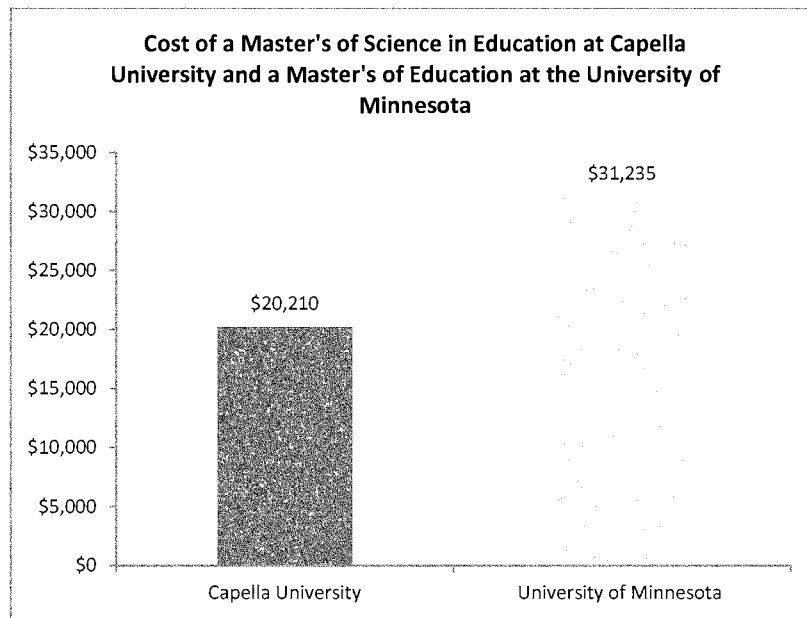
<sup>1288</sup> Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities and Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17a.

<sup>1289</sup> 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.

<sup>1290</sup> See Appendix 14; see also, Capella University, *Business Administration*, [http://www.capella.edu/schools\\_programs/undergraduate\\_studies/business/business\\_administration.aspx](http://www.capella.edu/schools_programs/undergraduate_studies/business/business_administration.aspx) (accessed June 12, 2012).

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

Minnesota.<sup>1292</sup> 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.<sup>1293</sup>



For the last 4 years, Capella University has implemented an annual tuition increase ranging from 2.4 percent to 5 percent.<sup>1294</sup>

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.<sup>1295</sup> 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.

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

<sup>1293</sup> See Appendix 14; and see, Capella, *Cost & Financial Aid*, 2012, [http://www.capella.edu/tuition\\_financial\\_aid/tuition\\_financial\\_aid\\_index.aspx](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).

<sup>1294</sup> Capella Education Co. 10-K, 2011; Capella Education Co. 10-K, 2010; Capella Education Co. 10-K, 2009; Capella Education Co. 10-K, 2008.

<sup>1295</sup> 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.

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 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).”<sup>1296</sup>

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.<sup>1298</sup>

A Capella recruiter training presentation entitled “Sales Framework Overview” provides insight into the sales culture that informs Capella’s

<sup>1296</sup> Capella, *Background & Annual Investor Q&A Confidential & Private*, October 26, 2009 (CAPELLA-0106278, at CAPELLA-0106292).

<sup>1297</sup> Capella, *Complaint Activity Report Case # 57102948*, September 7, 2007 (CAPELLA-0049370).

<sup>1298</sup> 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.

recruiting practices.<sup>1299</sup> The presentation explains that “selling education is unique” and as such Capella sells, “Opportunity” and “Possibly a Better Life.”<sup>1300</sup> 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.”<sup>1301</sup> 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.”<sup>1302</sup>

## 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.<sup>1303</sup>

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.<sup>1304</sup> Capella’s Bachelor’s withdrawal rate

<sup>1299</sup> Capella University, *Sales Framework Overview*, 2005 (CAPELLA-0015960).

<sup>1300</sup> *Id.*

<sup>1301</sup> *Id.*

<sup>1302</sup> *Id.*

<sup>1303</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 12, 2012).

<sup>1304</sup> 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

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.<sup>1305</sup> 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	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.<sup>1306</sup>

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.<sup>1307</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>1308</sup> 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.<sup>1309</sup>

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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.

<sup>1305</sup> 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.

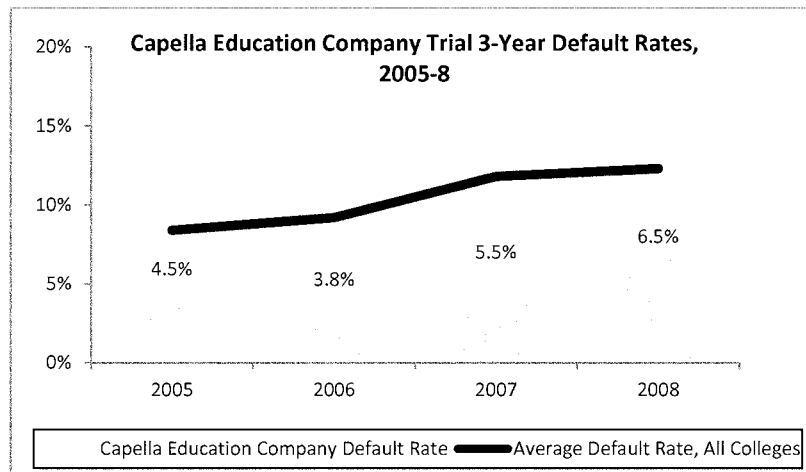
<sup>1306</sup> Direct Loan default rates, 34 CFR 668.183(c).

<sup>1307</sup> 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.

<sup>1308</sup> Id.

<sup>1309</sup> 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.<sup>1310</sup> This change represents a 32.6 percent increase over 4 years.<sup>1311</sup> 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."<sup>1312</sup> 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

<sup>1310</sup> 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.

<sup>1311</sup> Id.

<sup>1312</sup> Capella Internal Email, *FW: Active Repayment*, February 21, 2010 (CAPELLA-1291450).



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.<sup>1313</sup> The amount that publicly traded, for-profit companies spend on instruction ranges from \$892 to \$3,969 per student per year.<sup>1314</sup> 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.<sup>1315</sup>

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.<sup>1316</sup> 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.<sup>1317</sup>

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

<sup>1313</sup> 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.

<sup>1314</sup> *Id.*

<sup>1315</sup> 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.

<sup>1316</sup> 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.

<sup>1317</sup> *Id.*

to review and respond to the potential customer service issues these complaints suggest.<sup>1318</sup>

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.<sup>1319</sup>

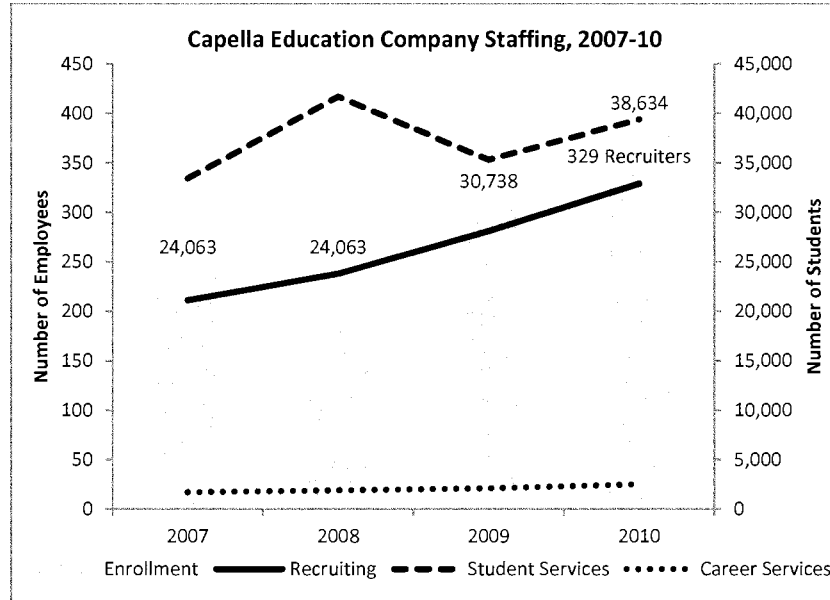
### Staffing

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.<sup>1320</sup> 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.

<sup>1318</sup> Letter from The Higher Learning Commission to Capella University President, December 20, 2006 (CAPELLA-0049248).

<sup>1319</sup> 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 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 enroll 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 #: 57087636*, 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)).

<sup>1320</sup> 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.<sup>1321</sup>

### 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

<sup>1321</sup> 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).

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.

## **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 AI Collins Graphic Design School in Tempe, AZ, and Brooks College in California.<sup>1322</sup> 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.<sup>1323</sup> CEC schools offer Certificates as well as Associate, Bachelor's, Master's, and Doctoral degrees in areas including visual communication and design, culinary

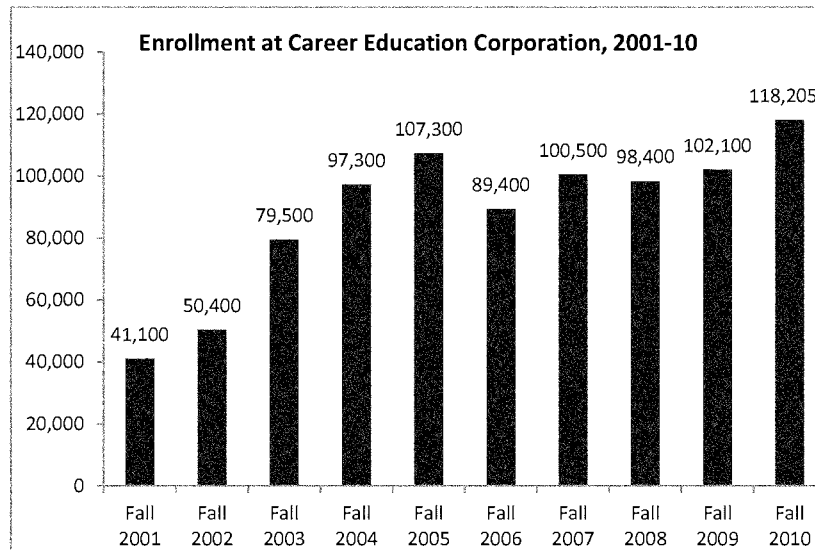
<sup>1322</sup> After facing accreditation problems and coming under scrutiny by the U.S. Department of Education, CEC ceased enrolling students at Brooks College in 2007 and closed the Sunnyvale campus in September 2008 and the Long Beach campus in March 2009. Goldie Blumestyk, “Career Education Corp.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

<sup>1323</sup> Career Education Corporation, Form 10-K For periode December 31, 2011.

arts, information technology, business studies and health education. According to CEC, nearly 40 percent of its students attend one of its online programs.

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.<sup>1324</sup> 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.<sup>1325</sup>

### 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.<sup>1326</sup> 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.<sup>1327</sup> Together, the 30

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

<sup>1325</sup> 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.

<sup>1326</sup> More than half of the regionally accredited brands at the 30 companies examined by the committee are accredited by the HLC.

<sup>1327</sup> 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.

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.<sup>1328</sup>

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.<sup>1329</sup> Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 3.8 percent of CEC's revenue, or \$71.5 million.<sup>1330</sup> With these funds included, 85.3 percent of CEC's total revenue was comprised of Federal education funds.<sup>1331</sup>

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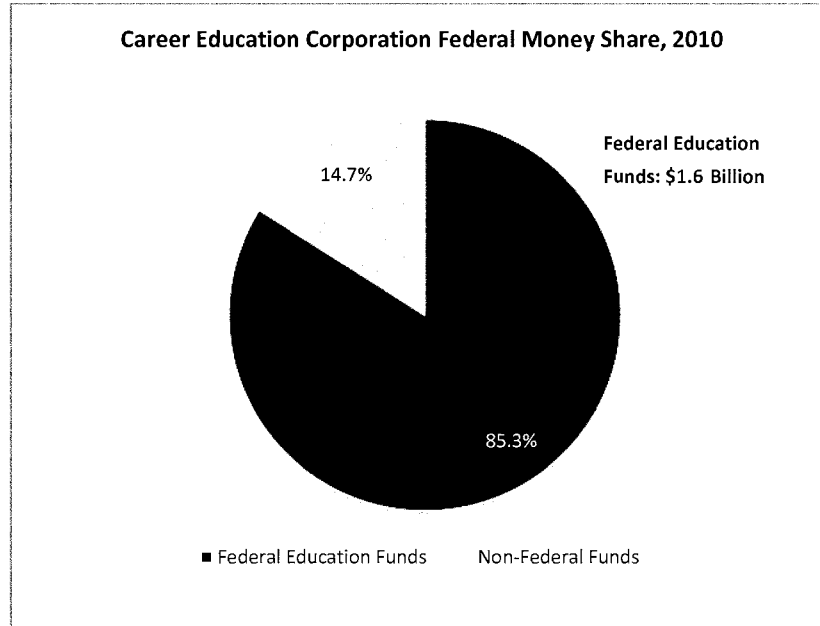
<sup>1328</sup> Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each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

<sup>1329</sup> 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.

<sup>1330</sup> 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.

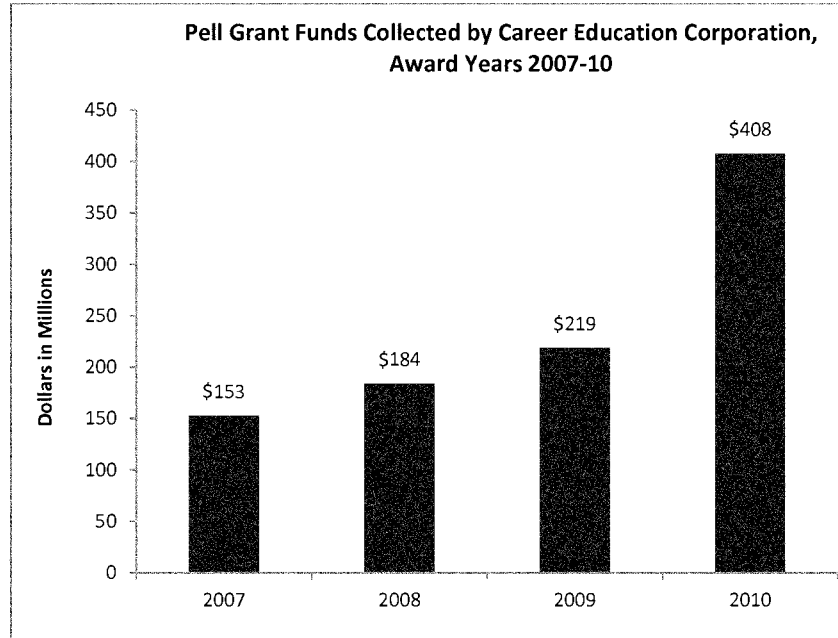
<sup>1331</sup> "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs, and where available Federal financial aid funds permissibly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





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.<sup>1332</sup> 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.

<sup>1332</sup> 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, 2000-1 and 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.



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.<sup>1333</sup>

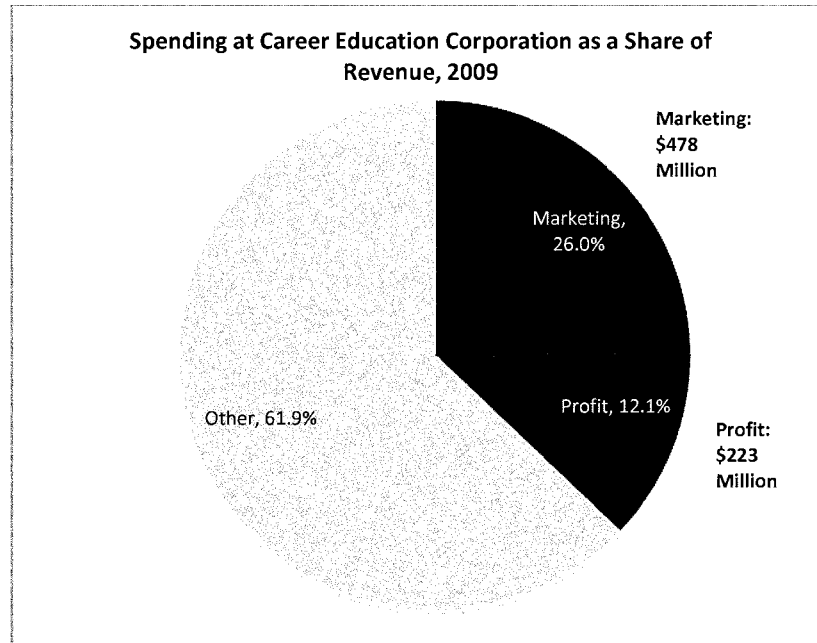
### Spending

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 and 19.7 percent, \$3.2 billion, on profit.<sup>1334</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.

<sup>1333</sup> 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.

<sup>1334</sup> 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, CEC allocated 12.1 percent of its revenue, \$222.6 million, to profit, and 26.0 percent, \$477.9 million, to marketing and recruiting.<sup>1335</sup>

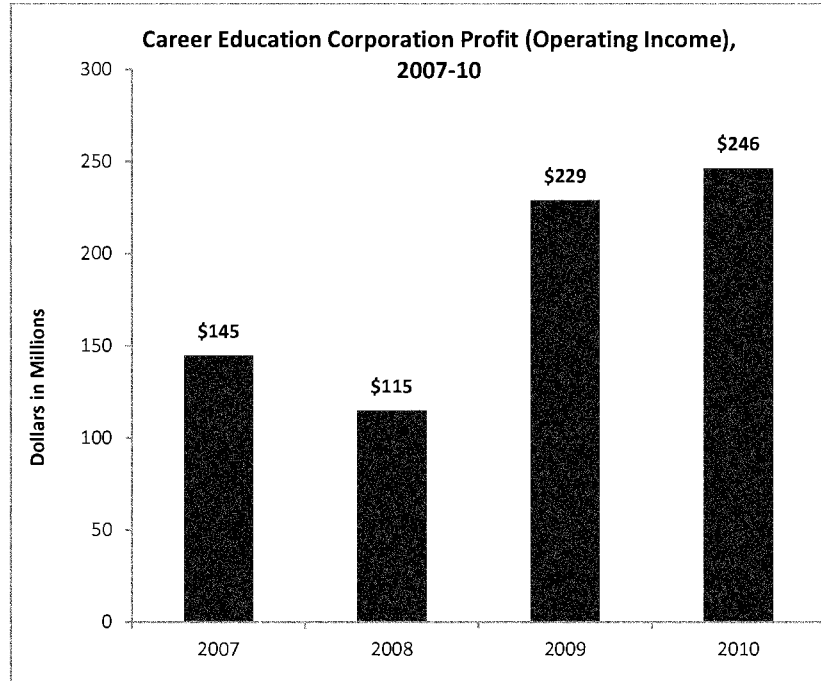


CEC devoted a total of \$692 million to marketing, recruiting and profit in fiscal year 2009.<sup>1336</sup> The amount of profit generated by CEC has also risen in recent years. In 2007, CEC reported a profit of \$144.8 million; by 2010 that profit increased by 70 percent to \$246.4 million although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

<sup>1335</sup> 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.

<sup>1336</sup> Id.

<sup>1337</sup> 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.<sup>1338</sup> 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.<sup>1339</sup> 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.<sup>1340</sup>

<sup>1338</sup> 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.

<sup>1339</sup> Daily Illini, *Salary Guide*, <http://data.illinimedia.com/salaries/index/2009/cu/> (accessed June 14, 2012).

<sup>1340</sup> Career Education Corporation, Form 8-K November 22, 2011.

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
<b>Total</b> <sup>1341</sup>		\$11,557,882	\$10,717,520

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

### 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,<sup>1343</sup> over 250 percent more than an Associate degree in Management at the College of DuPage, which costs \$8,704.<sup>1344</sup> CEC owned Sanford Brown charges \$28,737 for a Certificate in Medical Assisting.<sup>1345</sup> The same degree from the College of DuPage costs \$5,858.<sup>1346</sup> However, a Bachelor's degree in Business

<sup>1341</sup> 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.

<sup>1342</sup> 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.

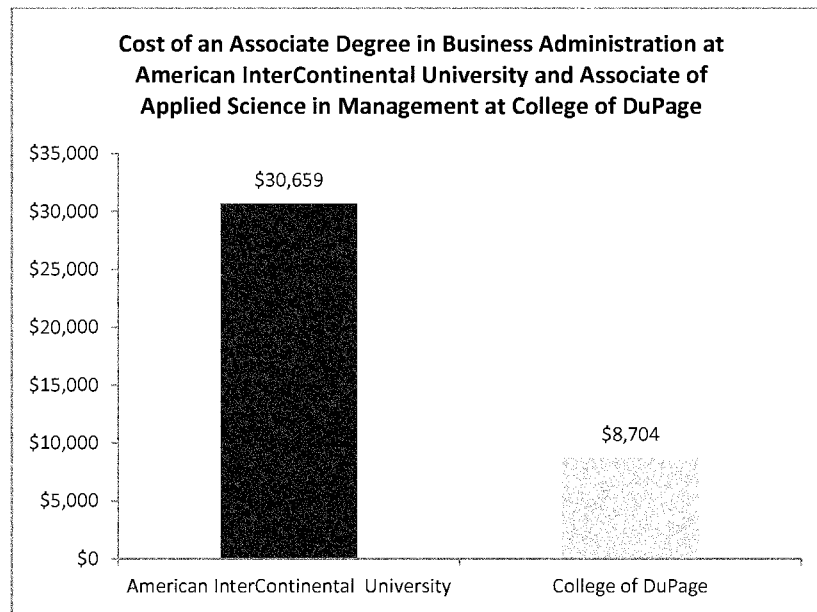
<sup>1343</sup> See Appendix 14; see also, American InterContinental University, *2012 Tuition Schedule*, <http://catalog.careered.com/~media/Catalogs/39/Fees.ashx> (accessed June 14, 2012).

<sup>1344</sup> See Appendix 14; see also, College of DuPage, *College of DuPage*, <http://www.cod.edu/> (accessed June 14, 2012).

<sup>1345</sup> Sanford-Brown College, *Tuition, Fees, and Median Loan Debt Disclosure*, <http://www.sanfordbrown.edu/~media/Dislosures/SB/Tinley-Park/Sanford-Brown-College-Tinley-Park-032103-14-Tuition-Debt-Disclosure.ashx> (July 13, 2012).

<sup>1346</sup> College of DuPage, *College of DuPage*, <http://www.cod.edu/> (accessed June 14, 2012).

Administration at CEC's American InterContinental University in Illinois costs \$67,819,<sup>1347</sup> while the same degree at the University of Illinois at Urbana Champagne costs \$84,320.<sup>1348</sup>



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.<sup>1349</sup>

## 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

<sup>1347</sup> 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.aspx> (accessed July 12, 2012).

<sup>1348</sup> See Appendix 14; see also, University of Illinois, *University of Illinois at Urbana-Champaign*, <http://illinois.edu/> (accessed July 12, 2012).

<sup>1349</sup> 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.

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].<sup>1350</sup>

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.”<sup>1351</sup>

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.<sup>1352</sup> At one of the schools, the Katherine Gibbs School,<sup>1353</sup> 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.<sup>1354</sup> 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

<sup>1350</sup> Career Education Corporation, *Telephone Techniques* (CEC000014470, at CEC000014473).

<sup>1351</sup> Id. at CEC000014471.

<sup>1352</sup> Rebecca Leung, “For-Profit College: Costly Lesson,” *60 Minutes*, February 11, 2009, <http://www.cbsnews.com/stories/2005/01/31/60minutes/main670479.shtml>.

<sup>1353</sup> 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.

<sup>1354</sup> Rebecca Leung, “For-Profit College: Costly Lesson,” *60 Minutes*, February 11, 2009, <http://www.cbsnews.com/stories/2005/01/31/60minutes/main670479.shtml>.

would come in, try to close you.”<sup>1355</sup> 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.”<sup>1356</sup> 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.”<sup>1357</sup>

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.<sup>1358</sup> 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, 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.<sup>1359</sup>

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.<sup>1360</sup> Overall, CEC’s retention rate tracks the sector-wide rate withdrawal

<sup>1355</sup> Id.

<sup>1356</sup> Id.

<sup>1357</sup> Id.

<sup>1358</sup> Career Education Corporation, *American InterContinental University: Enrollment Agreement* (CEC000018486, at CEC000018488).

<sup>1359</sup> Patricia Steele & Sandy Baum, “How Much Are College Students Borrowing?” *College Board Policy Brief*, August 2009, [http://advocaev.collegeboard.org/sites/default/files/09b\\_552\\_PolicyBrief\\_WEB\\_090730.pdf](http://advocaev.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 14, 2012).

<sup>1360</sup> 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



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 than the sector-wide rates of 62.9 percent, and its Certificate program withdrawal rate of 32.9 percent is significantly lower than the sector-wide Certificate withdrawal rate of 38.5 percent.<sup>1361</sup> 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.

<b>Status of Students Enrolled at Career Education Corporation in 2008-9, as of 2010</b>						
<b>Degree Level</b>	<b>Enrollment</b>	<b>Percent Completed</b>	<b>Percent Still Enrolled</b>	<b>Percent Withdrawn</b>	<b>Number Withdrawn</b>	<b>Median Days</b>
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.

<sup>1361</sup> 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.

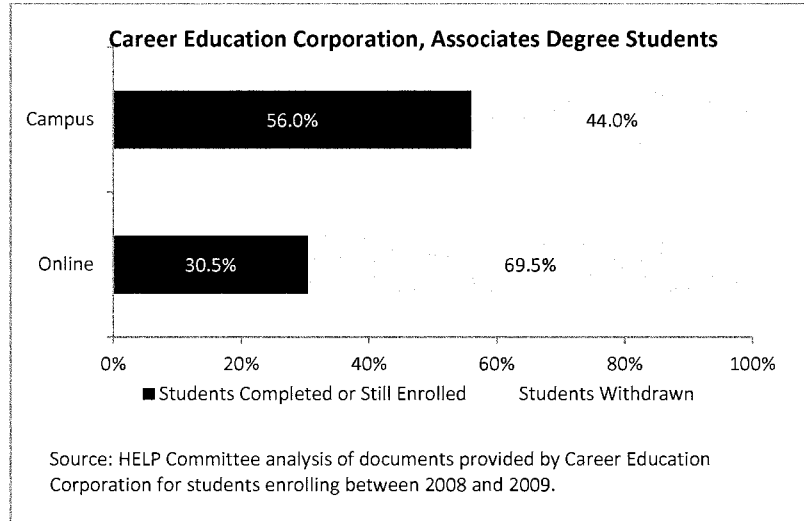
*Online v. Brick and Mortar Retention*

<b>Status of Bricks &amp; Mortar Students Enrolled at CEC in 2008-9, as of 2010</b>					
<b>Degree Level</b>	<b>Enrollment</b>	<b>Percent Completed</b>	<b>Percent Still Enrolled</b>	<b>Percent Withdrawn</b>	<b>Number Withdrawn</b>
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

<b>Status of Online Students Enrolled at Career Education Corporation in 2008-9, as of 2010</b>					
<b>Degree Level</b>	<b>Enrollment</b>	<b>Percent Completed</b>	<b>Percent Still Enrolled</b>	<b>Percent Withdrawn</b>	<b>Number Withdrawn</b>
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.<sup>1362</sup>

<sup>1362</sup> CEC does not offer Certificate programs online.



### 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.<sup>1363</sup>

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.<sup>1364</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>1365</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>1366</sup> 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.<sup>1367</sup>

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

<sup>1363</sup> Direct Loan default rates, 34 CFR 668.183(c).

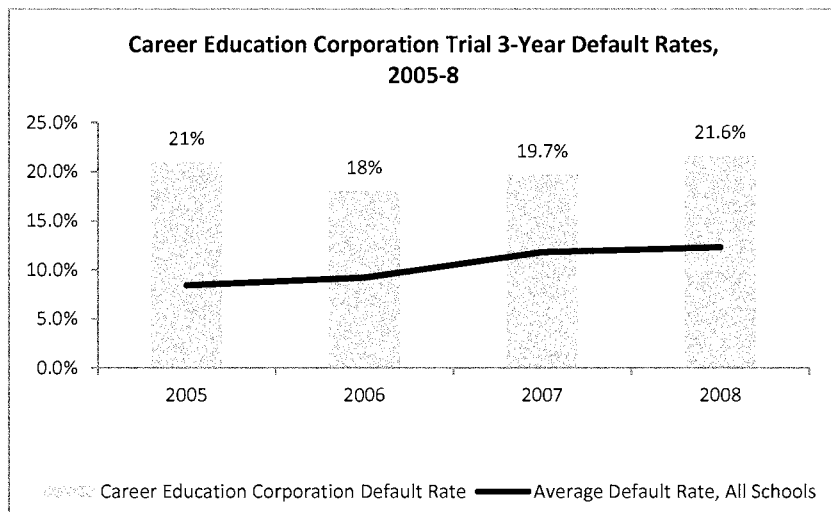
<sup>1364</sup> Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, <http://federalstudentaid.ed.gov/datacenter/cohort.html>. Default rates calculated by cumulating number of students entered into repayment and default by sector.

<sup>1365</sup> Id.

<sup>1366</sup> Id.

<sup>1367</sup> Id.

represents a 32.6 percent increase over 4 years.<sup>1368</sup> CEC's 3-year default has fluctuated over the last 4 years, but has gradually increased since 2006, 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.

<sup>1368</sup> 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.

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.<sup>1369</sup>

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.<sup>1370</sup> 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.<sup>1371</sup>

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.<sup>1372</sup>

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

<sup>1369</sup> Career Education Corporation, March 23, 2009, *Cohort Default Management Plan* (CEC000012944, at CEC000012949).

<sup>1370</sup> *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.

<sup>1371</sup> Career Education Corporation, *A skip tracing guide to location Students* (CEC000012813).

<sup>1372</sup> *Id.*

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.

### **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.<sup>1373</sup> 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.<sup>1374</sup>

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

<sup>1373</sup> 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.

<sup>1374</sup> 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.

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.<sup>1375</sup> In 2010, CEC employed 1,867 full-time and 5,005 part-time faculty.<sup>1376</sup>

### 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.<sup>1377</sup> 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 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.<sup>1378</sup> 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

<sup>1375</sup> 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.

<sup>1376</sup> *Id.*

<sup>1377</sup> Yasmine Issa, *Emerging Risk? Federal Spending on For-Profit Education*, Hearings Before the Senate Committee on Health, Education, Labor, and Pensions, 112th Congress (2010) (testimony of Yasmine Issa), available at <http://help.senate.gov/imo/media/doc/Issa.pdf>.

<sup>1378</sup> 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.

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 forthcoming 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.<sup>1379</sup> 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.<sup>1380</sup> In order to sit for one of the national certification exams, applicants must either graduate from an accredited program or from a program that provides students with hands-on, clinical training.<sup>1381</sup>

<sup>1379</sup> 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).

<sup>1380</sup> Id.

<sup>1381</sup> 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/CFRsAndCoPs/downloads/ESRDfinalrule0415.pdf> (accessed June 14, 2012).



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.”<sup>1382</sup>

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.<sup>1383</sup> 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.<sup>1384</sup> 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.<sup>1385</sup>

#### *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.<sup>1386</sup> 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,<sup>1387</sup> 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.”<sup>1388</sup> That, in turn, would take the

<sup>1382</sup> 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).

<sup>1383</sup> 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).

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

<sup>1385</sup> See American Association of Veterinary State Boards, *Eligibility for First Timers*, [http://www.aavsb.org/VTNE/eligibility for first timers](http://www.aavsb.org/VTNE/eligibility%20for%20first%20timers) (accessed Nov. 22, 2011).

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

<sup>1387</sup> 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).

<sup>1388</sup> 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->

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.

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."<sup>1389</sup>

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."<sup>1390</sup> 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.<sup>1391</sup> 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.

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[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).

<sup>1389</sup> Id.

<sup>1390</sup> See Sanford-Brown, *Accreditation & Licensure*, <http://www.sanfordbrown.edu/About-Us/Accreditation-And-Certification> (accessed Oct. 31, 2011).

<sup>1391</sup> Oregon Veterinary Medical Examining Board, *Veterinary Applications*, <http://www.oregon.gov/OVMEB/applications.shtml> (accessed Oct. 31, 2011).

## Staffing

While for-profit education companies employed large numbers of recruiters to enroll new students, some companies frequently employ 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.<sup>1392</sup> 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 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 ...

<sup>1392</sup> 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.

currently our 90/10 is 89.82% so we are very close to being over, which we cannot afford [emphasis in original].<sup>1393</sup>

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:”<sup>1394</sup>

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)<sup>1395</sup>

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.<sup>1396</sup>

In response, the senior student finance executive explains the rationale for the misinformation employees were instructed to relate to students:

<sup>1393</sup> Career Education Corporation, Internal E-mail, December 2008, *FW: Stipend Request* (CEC000026550, at CEC000026551).

<sup>1394</sup> Career Education Corporation, Internal E-mail, August 2009, *FW: SBC 90/10 - Hold Pell* (CEC000026555, at CEC000026556).

<sup>1395</sup> Id.

<sup>1396</sup> Id.

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.<sup>1397</sup>

### Student Lawsuits

Over the last few years, many former Sanford-Brown students have sued the school for its practice of misleading recruiting.<sup>1398</sup> 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.<sup>1399</sup> 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."<sup>1400</sup> In late 2010, this lawsuit was granted class action status.<sup>1401</sup>

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."<sup>1402</sup> 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."<sup>1403</sup>

<sup>1397</sup> Id.

<sup>1398</sup> Angela Riley, "Students Sue Sanford Brown College in Missouri for Fraud," *St. Louis Daily Record & St. Louis Countian*, January 6, 2009.

<sup>1399</sup> Leisa Zigman, "Students File Suit Against Sanford-Brown College," *KSDK News Channel*, August 2, 2007, <http://www.ksdk.com/news/story.aspx?storyid=125898>.

<sup>1400</sup> 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>.

<sup>1401</sup> 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](http://www.stltoday.com/news/local/education/article_3c4cb200-9ea1-5656-aa18-8dac41ddfa3f.html).

<sup>1402</sup> 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](http://blogs.riverfronttimes.com/dailyrft/2011/10/sanford-brown_college_career_education_corporation.php).

<sup>1403</sup> Id.

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.<sup>1404</sup> 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 expect upon graduation" and that "admissions advisors were sales persons with tremendous pressure placed on them to get prospective students to enroll."<sup>1405</sup>

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.<sup>1406</sup> 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.<sup>1407</sup> Additionally, the college personnel allegedly made up fake job placements and listed graduates as working at certain business who had never worked there.<sup>1408</sup>

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.<sup>1409</sup>

### 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

<sup>1404</sup> Id.

<sup>1405</sup> Id.

<sup>1406</sup> 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).

<sup>1407</sup> Id.

<sup>1408</sup> Id.

<sup>1409</sup> 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).

California restricted the license of another CEC owned college.<sup>1410</sup> 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.<sup>1411</sup> 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.<sup>1412</sup> The department said it also "had some concerns about misrepresentations" by company staff to prospective students at its Brooks College.<sup>1413</sup> In January 2007, the U.S. Department of Education lifted its restrictions on the company opening new schools or acquiring existing ones.<sup>1414</sup>

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."<sup>1415</sup>

#### 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."<sup>1416</sup> 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

<sup>1410</sup> 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).

<sup>1411</sup> Stephen Burd, "Promises and Profit," *The Chronicle of Higher Education* January 13, 2006, <http://chronicle.com/article/PromisesProfits/12779/> (accessed June 14, 2012).

<sup>1412</sup> Goldie Blumenstyk "The Chronicle Index of For-Profit Higher Education," *The Chronicle of Higher Education*, August, 11, 2006, <http://chronicle.com/article/The-Chronicle-Index-of/12758/>.

<sup>1413</sup> Id.

<sup>1414</sup> "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).

<sup>1415</sup> California Watch, *State Attorney's General Investigating For-Profit Colleges*, <http://californiawatch.org/data/state-attorneys-general-investigating-profit-colleges>.

<sup>1416</sup> Career Education Corporation, Form 10-Q For period ending September 30, 2011.

placement.<sup>1417</sup> The CEO of CEC, Gary McCullough, resigned when these widespread misrepresentations were uncovered.<sup>1418</sup>

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.<sup>1419</sup> 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.<sup>1420</sup>

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.<sup>1421</sup>

## 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

<sup>1417</sup> 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).

<sup>1418</sup> Id.

<sup>1419</sup> ACICS requires schools to report placement rates every year.

<sup>1420</sup> 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.

<sup>1421</sup> Career Education Corporation, Form 10-Q for period ending September 30, 2011.



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 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.<sup>1422</sup> 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.<sup>1423</sup>

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

<sup>1422</sup> Chancellor University, About CU: History, <http://www.chancelloru.edu/history.aspx> (access June 14, 2012).

<sup>1423</sup> 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).

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.<sup>1424</sup> 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 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.<sup>1425</sup>

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.<sup>1426</sup>

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.<sup>1427</sup> However, Chancellor has not been profitable since it was acquired and has been operating on an annual budget deficit.

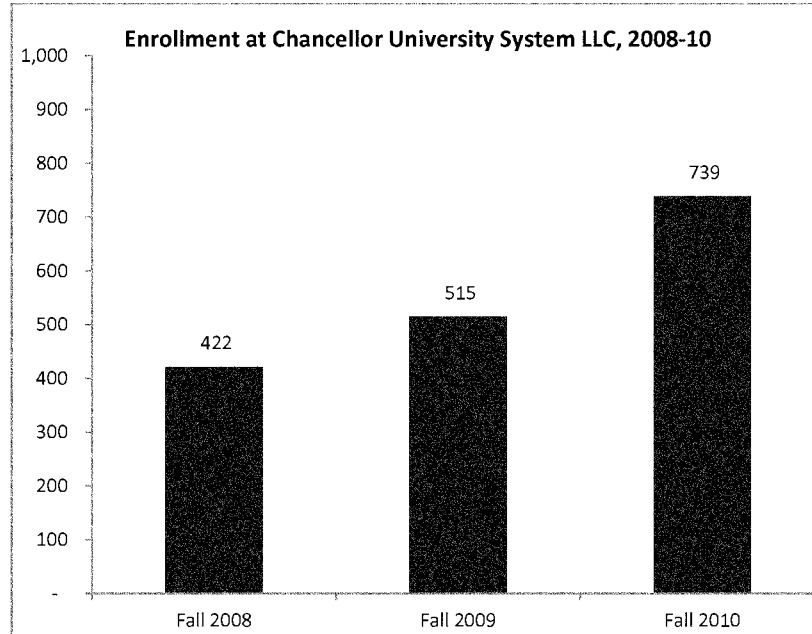
<sup>1424</sup> Higher Learning Commission, “Public Disclosure Notice on Chancellor University,” February 24, 2011, [http://www.ncahlc.org/download/PublicDisclosureNotices/PDN\\_1837.pdf](http://www.ncahlc.org/download/PublicDisclosureNotices/PDN_1837.pdf) (accessed June 14, 2010).

<sup>1425</sup> 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=/2011/11/11/FREE/111119952> (accessed June 14, 2010).

<sup>1426</sup> 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).

<sup>1427</sup> 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



### Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs.<sup>1428</sup> 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.<sup>1429</sup> 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.<sup>1430</sup>

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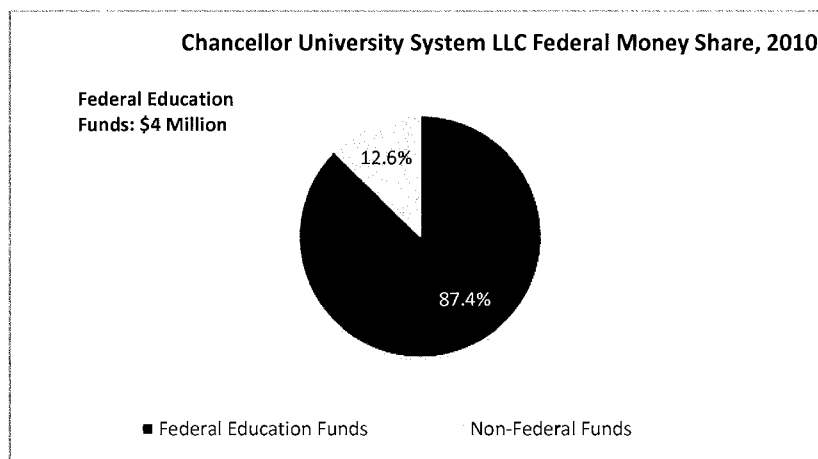
experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.

<sup>1428</sup> “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.

<sup>1429</sup> 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.

<sup>1430</sup> 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, Chancellor reported 86.7 percent of revenue from title IV Federal financial aid programs.<sup>1431</sup> However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education programs.<sup>1432</sup> Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 0.7 percent of Chancellor's revenue, or \$32,342.<sup>1433</sup> With these funds included, 87.4 percent of Chancellor's total revenue was comprised of Federal education funds.<sup>1434</sup>



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

<sup>1431</sup> 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.

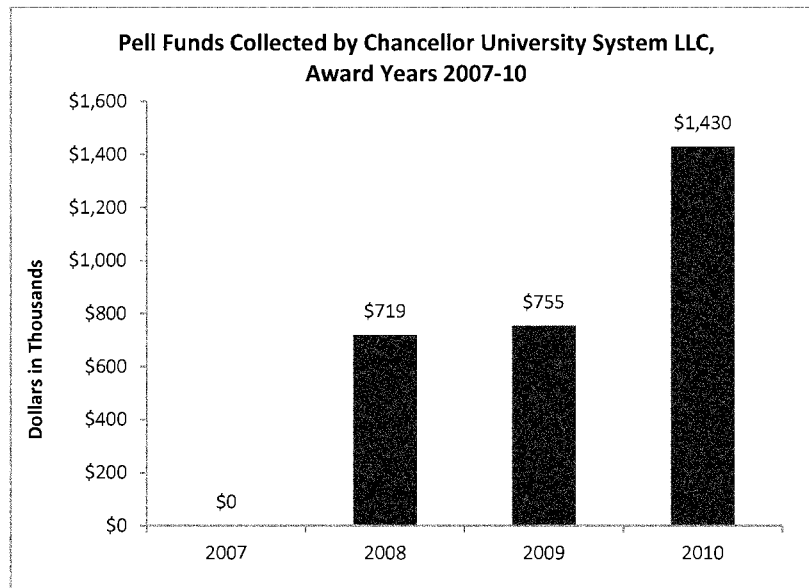
<sup>1432</sup> The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to \$2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for Chancellor could not be extrapolated from the data the company provided to the committee.

<sup>1433</sup> 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.

<sup>1434</sup> "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.<sup>1435</sup> 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.

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.<sup>1436</sup>



## Spending

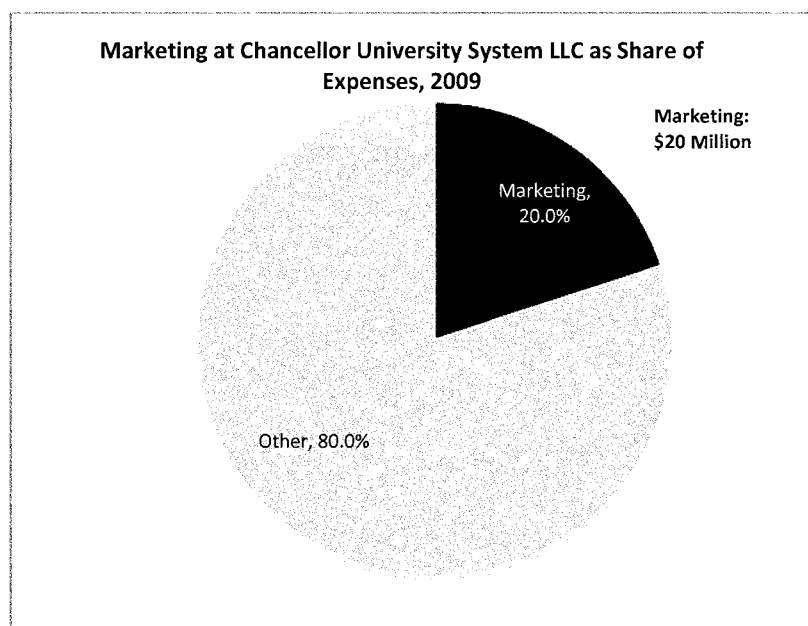
While Federal student aid programs are intended to provide educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students

<sup>1435</sup> 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*, 2000-1 and 2009-10, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.

<sup>1436</sup> 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 to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.<sup>1437</sup> 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).<sup>1438</sup>

In 2009, Chancellor allocated 20 percent of its expenditures, or \$20 million, to marketing and recruiting.<sup>1439</sup>



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.<sup>1440</sup> In 2009, the company's expenses exceeded its revenue by \$6.9 million.

<sup>1437</sup> 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.

<sup>1438</sup> 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.

<sup>1439</sup> Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

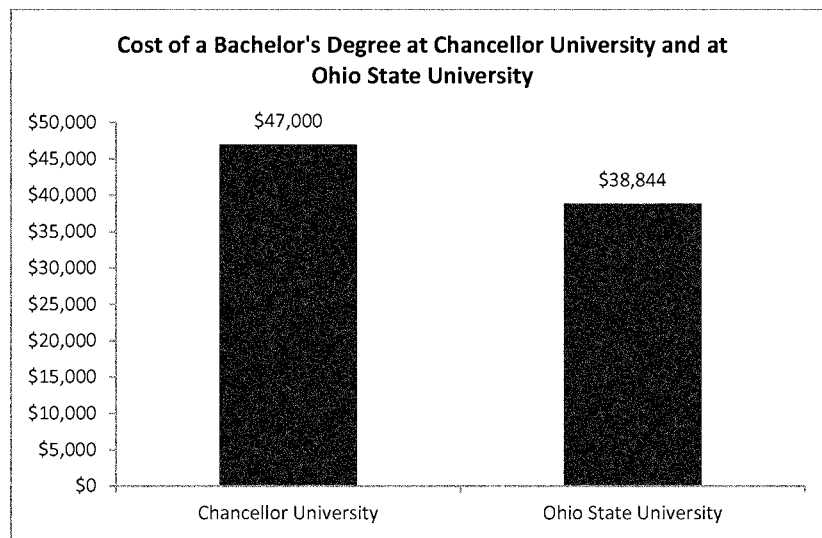
<sup>1440</sup> Senate HELP Committee staff analysis. See Appendix 18.

### Executive Compensation

As a private-held company, Chancellor is not obligated to release executive compensation figures.

### **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,<sup>1441</sup> while the same degree at Ohio State University costs \$38,844.<sup>1442</sup>



### **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.

<sup>1441</sup> 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.

<sup>1442</sup> See Appendix 14; see also, The Ohio State University, *Ohio State University*, <http://undergrad.osu.edu/> (accessed June 14, 2012).



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.<sup>1443</sup> 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 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.<sup>1444</sup>

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.

<sup>1443</sup> Daniel Golden, “The Homeless at College,” *Bloomberg Businessweek*, April 30, 2010, [http://www.businessweek.com/magazine/content/10\\_19/b4177064219731.htm](http://www.businessweek.com/magazine/content/10_19/b4177064219731.htm) (accessed June 14, 2012).

<sup>1444</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 14, 2012).

### 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.<sup>1445</sup>

### 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.<sup>1446</sup>

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.<sup>1447</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>1448</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>1449</sup> 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.<sup>1450</sup>

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.<sup>1451</sup> This change represents a 32.6 percent increase over 4 years.<sup>1452</sup> 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.

<sup>1445</sup> 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.

<sup>1446</sup> Direct Loan Default Rates, 34 CFR 668.183(c).

<sup>1447</sup> 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.

<sup>1448</sup> Id.

<sup>1449</sup> Id.

<sup>1450</sup> Id.

<sup>1451</sup> 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.

<sup>1452</sup> 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.

Chancellor spent \$10,893 per student on instruction in 2009, compared to \$5,726 on marketing.<sup>1453</sup> The amount that privately held companies the committee examined spend on instruction ranges from \$1,118 to \$6,389 per student per year.<sup>1454</sup> 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.<sup>1455</sup>

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.<sup>1456</sup> Seventy percent of Chancellor's faculty is employed part-time.<sup>1457</sup> In 2010, the company employed 20 full-time and 50 part-time faculty.<sup>1458</sup>

## 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.

<sup>1453</sup> 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.

<sup>1454</sup> Id. Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

<sup>1455</sup> 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.

<sup>1456</sup> 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.

<sup>1457</sup> Id.

<sup>1458</sup> Id.

In 2010, with 739 students, Chancellor employed 14 recruiters, 3 career services employees, and 15 student services employees.<sup>1459</sup>

### **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.

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<sup>1459</sup> 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).

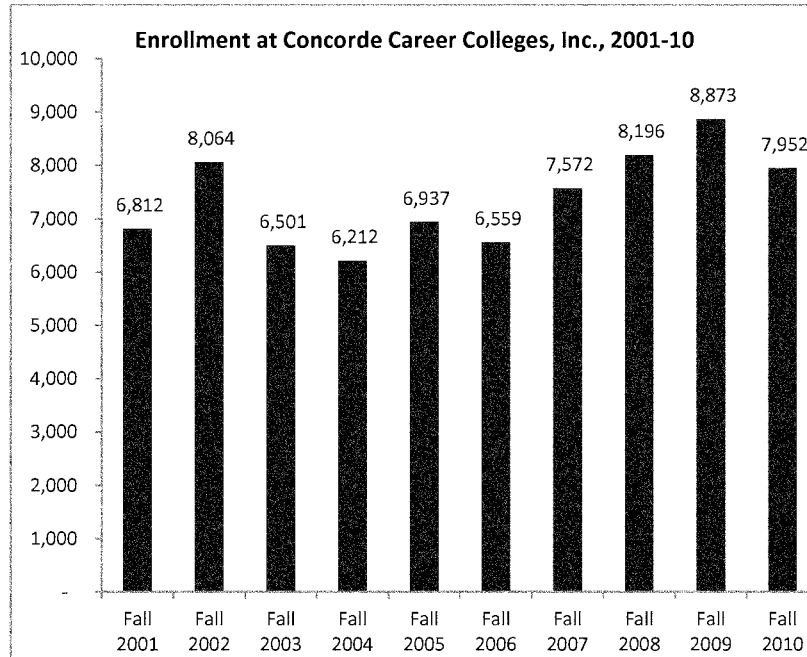
Concorde Career Colleges, Inc. was spun-off from CenCor, a company which operated vocational schools, in 1988.<sup>1460</sup> The newly formed Concorde Career Colleges, Inc. took over more than 20 campuses, eventually consolidating them to 11 by 2000. In 2006, Liberty Partners, a Wall Street private 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.<sup>1461</sup> Concorde pays Liberty Partners \$240,000 a year in “management fees.”<sup>1462</sup> The company began to grow its program offerings and open new campuses in 2006 and the growth has continued to the present.

<sup>1460</sup> Concorde Career College, Inc., June 2009, *Executive Summary* (CCC000042376, at CCC000042386).

<sup>1461</sup> Concorde Career Colleges, Inc., April 14, 2009, Letter to ACCSCT Re: *Concord Career Institute, Miramar (054977)* (CCC000059502, at CCC000059514).

<sup>1462</sup> 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].

In the fall of 2010, 7,952 students were enrolled at Concorde.<sup>1463</sup> 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.<sup>1464</sup>



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.<sup>1465</sup>

### 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

<sup>1463</sup> 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).

<sup>1464</sup> 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.

<sup>1465</sup> 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.

increased from 12.2 to 24.8 percent and from \$5.4 to \$32.2 billion.<sup>1466</sup> 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.<sup>1467</sup>

In 2010, Concorde reported 83.3 percent of revenue from title IV Federal financial aid programs.<sup>1468</sup> However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.<sup>1469</sup> 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.<sup>1470</sup> With these funds included, 85.7 percent of Concorde's total revenue was comprised of Federal education funds.<sup>1471</sup>

<sup>1466</sup> "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.

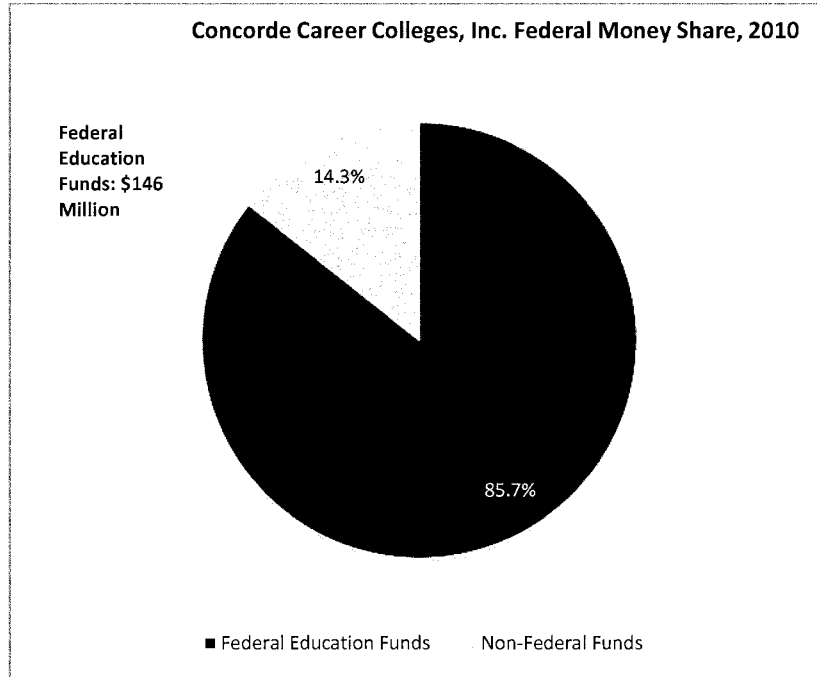
<sup>1467</sup> Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>1468</sup> 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.

<sup>1469</sup> 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.

<sup>1470</sup> 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.

<sup>1471</sup> "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.<sup>1472</sup> 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.<sup>1473</sup>

<sup>1472</sup> 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, 2000-1 and 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html> (accessed July 12, 2012).

<sup>1473</sup> 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, 2000-1 and 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html> (accessed July 12, 2012). See Appendix 13.



### 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.<sup>1474</sup> 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.<sup>1475</sup> 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.<sup>1476</sup> 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).<sup>1477</sup>

In 2009, Concorde allocated 13.2 percent of its revenue, or \$19.5 million, to marketing<sup>1478</sup> and recruiting and 18.3 percent, or \$26.9 million, to profit.<sup>1479</sup>

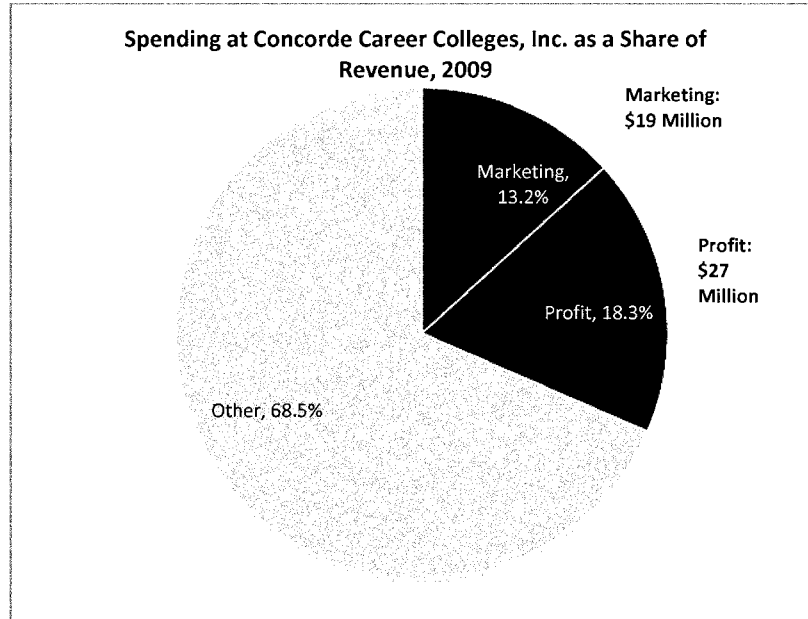
<sup>1474</sup> Concorde Career Colleges, Inc., *Accountant's Reports and Consolidated Financial Statements: December 31, 2009 and 2008* (CCC00000992, at CCC00001017). [unredacted document on file with committee].

<sup>1475</sup> *Id.*, at CCC00001000.

<sup>1476</sup> 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.

<sup>1477</sup> 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.

<sup>1478</sup> 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.



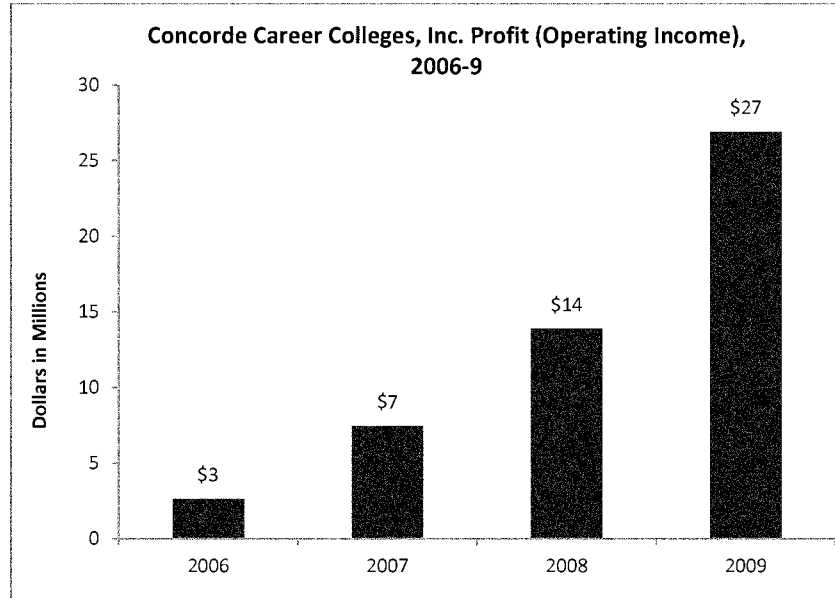
The amount of profit Concorde has generated increased rapidly since the company's acquisition by Liberty Partners. In the year of the acquisition, Concorde recorded a profit of \$2.6 million.<sup>1480</sup> The next year, the profit nearly tripled to \$7.4 million. In 2009, the company reported a profit of \$26.9 million.<sup>1481</sup> 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.<sup>1482</sup>

<sup>1479</sup> 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.

<sup>1480</sup> Senate HELP Committee staff analysis. See Appendix 18.

<sup>1481</sup> Id.

<sup>1482</sup> 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].



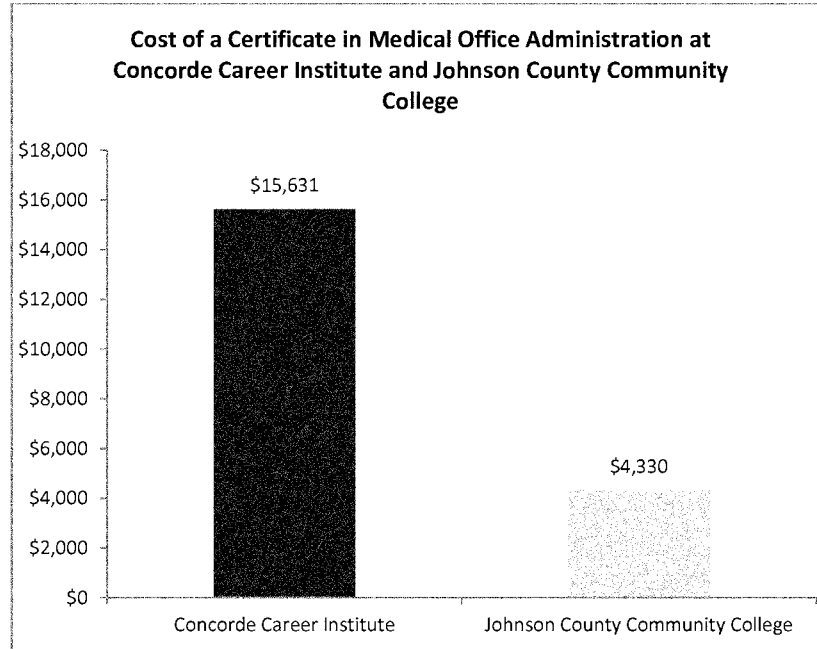
### Tuition and Other Academic Charges

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.<sup>1483</sup> 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.<sup>1484</sup> The same program at Johnson County Community College costs \$4,330.<sup>1485</sup> The company's Associate degree programs are priced from about \$24,000 to \$58,000 and typically take 14 to 17 months.

<sup>1483</sup> 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.

<sup>1484</sup> See Appendix 14; see also, Concorde Career Colleges, *Medical Office Administration*, [http://www.concorde.edu/docs/programs/disclosure/momkc\\_moa-info-051412.pdf](http://www.concorde.edu/docs/programs/disclosure/momkc_moa-info-051412.pdf) (accessed April 4, 2012).

<sup>1485</sup> 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.<sup>1486</sup>

### 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

<sup>1486</sup> 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.

students are leaving for-profit colleges with debt but no diploma or degree each year.<sup>1487</sup>

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.

#### 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.<sup>1488</sup> 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 26.6 percent while 32.1 percent of the company’s Associate degree students withdrew by 2010.<sup>1489</sup>

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

<sup>1487</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 14, 2012).

<sup>1488</sup> 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.

<sup>1489</sup> 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.

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.<sup>1490</sup> According to an internal survey, “average monthly net (of restarts) attrition decreas[ed] from 5.0% in 2006 to 3.0% YTD April 2009.”<sup>1491</sup> 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.<sup>1492</sup>

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.”<sup>1493</sup>

#### 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.<sup>1494</sup>

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.<sup>1495</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the

<sup>1490</sup> Concorde Career College, Inc., June 2009, *Executive Summary* (CCC000042376, at CCC000042392).

<sup>1491</sup> *Id.*

<sup>1492</sup> *Id.*

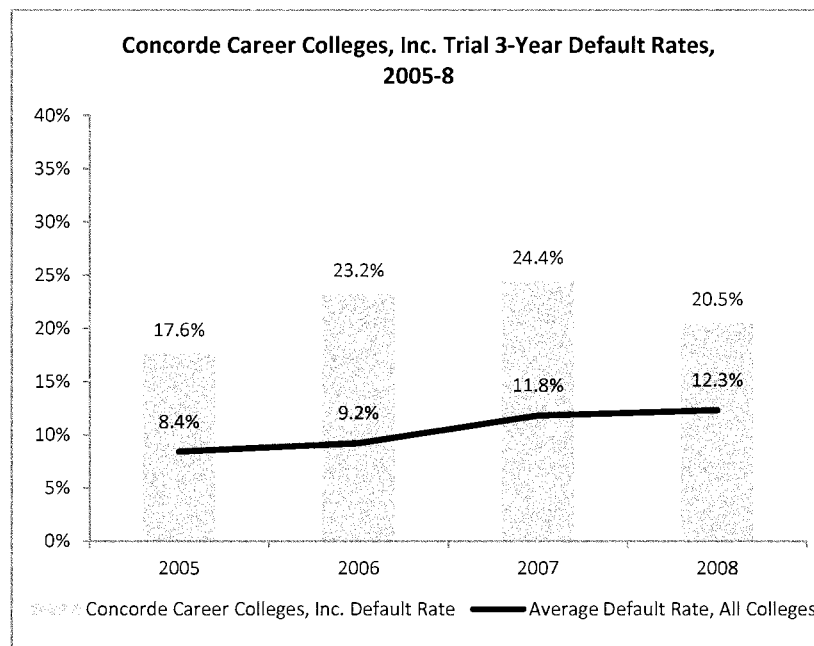
<sup>1493</sup> *Id.*

<sup>1494</sup> Direct Loan Default Rates, 34 CFR 668.183(c).

<sup>1495</sup> 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.

same period.<sup>1496</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>1497</sup> 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.<sup>1498</sup>

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.<sup>1499</sup> 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.



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

<sup>1496</sup> Id.

<sup>1497</sup> Id.

<sup>1498</sup> Id.

<sup>1499</sup> 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.

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.”<sup>1500</sup> Similarly, the letter that the school sends students who are late paying their loans only mentions deferment and forbearance.<sup>1501</sup> 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.<sup>1502</sup> The amount that privately held companies examined by the committee spend on instruction ranges from \$1,118 to \$6,389 per student per year.<sup>1503</sup> 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.<sup>1504</sup>

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

<sup>1500</sup> Concorde Career College, *Script* (CCC000052355). The company states that the script is not the one currently in use.

<sup>1501</sup> 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.

<sup>1502</sup> 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.

<sup>1503</sup> Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

<sup>1504</sup> 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.



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.<sup>1505</sup> 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.”<sup>1506</sup> “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.”<sup>1507</sup>

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.<sup>1508</sup> “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.<sup>1509</sup> 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.<sup>1510</sup> 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.

<sup>1505</sup> Concorde Career College, Complaint Letter from the LVN Class of 2010 to Concorde Dean (CCC000109599, at CCC000109599-600).

<sup>1506</sup> Concorde Career College, April 20, 2009, Response Letter to Student Complaint (CCC000109294, at CCC000109295).

<sup>1507</sup> Id.

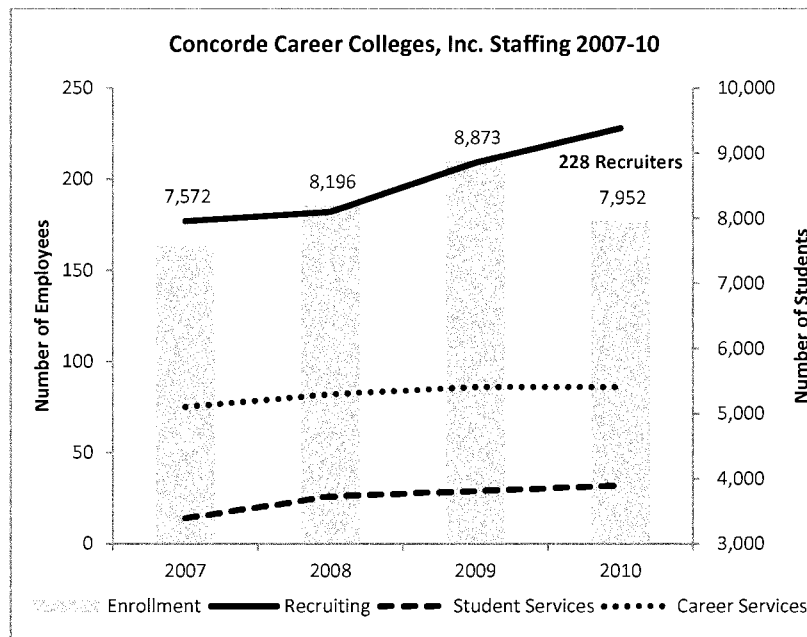
<sup>1508</sup> Concorde Career College, March 11, 2010, Student Complaint Letter (CCC000109630).

<sup>1509</sup> Id.

<sup>1510</sup> 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.<sup>1511</sup> 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

<sup>1511</sup> 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.

that all-important healthcare job,” the company’s Web site reads.<sup>1512</sup> But student complaints show that students’ experiences with job placement did not always match these advertisements.<sup>1513</sup> “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.<sup>1514</sup> “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.<sup>1515</sup>

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

<sup>1512</sup> Concorde Career Colleges, Inc., *Graduate Employment*, <http://www.concorde.edu/graduate-employment> (accessed April 24, 2012).

<sup>1513</sup> 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.

<sup>1514</sup> 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.”

<sup>1515</sup> 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.

have been living from place to place, staying in homeless shelter in order to try to complete the nursing program.”<sup>1516</sup>

### **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.<sup>1517</sup>

### **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.<sup>1518</sup> 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

<sup>1516</sup> Concorde Career Colleges, June 22, 2009, Student Complaint Letter, (CCC000109313).

<sup>1517</sup> 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.

<sup>1518</sup> Concord Career Colleges Internal Email, May 15, 2008, *FW: Formula 4 --34CFR 690.63e* (CCC000106391, at CCC000106392).

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."<sup>1519</sup> 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.<sup>1520</sup> 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

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<sup>1519</sup> Concord Career Colleges Internal Email, September 05, 2008, *RE: Concorde loans charging interest* (CCC000107536).

<sup>1520</sup> 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.<sup>1521</sup> Committee staff estimates that approximately 34 percent of Corinthian students are enrolled online, and 64 percent are enrolled in diploma (non-degree) programs.

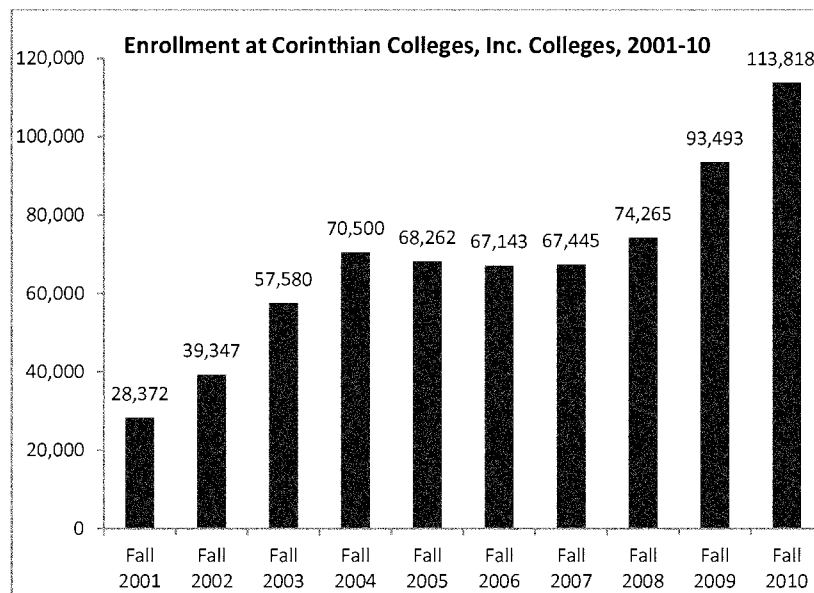
Brands
Everest
Heald College
Wyotech

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

<sup>1521</sup> Corinthian Colleges, Inc., *Company History*, <http://www.cci.edu/about/history> (accessed June 18, 2012).

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).

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.<sup>1522</sup> Enrollment quadrupled in 10 years, growing from 28,372 in 2001. Enrollment fell to 94,000 in 2011.<sup>1523</sup>

Corinthian's growth strategy focuses on expanding short-term Diploma program offerings across its campuses in healthcare and trades.<sup>1524</sup> It is also piloting three new Diploma programs in personal care, IT, and business, and is

<sup>1522</sup> 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.

<sup>1523</sup> 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.

<sup>1524</sup> Corinthian Colleges, Inc., August 23, 2012, Q4 Investor Call; See also Corinthian Colleges, Inc., August 25, 2009, Q4 Investor Call.

continuing to increase the number of Associate degree offerings.<sup>1525</sup> 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.<sup>1526</sup>

## 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.<sup>1527</sup> 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.<sup>1528</sup>

In 2010, Corinthian reported 81.9 percent of revenue from title IV Federal financial aid programs.<sup>1529</sup> 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).<sup>1530</sup> 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.<sup>1531</sup> With these funds from the Departments of Defense and Veterans Affairs included, 83.1 percent of Corinthian's total revenue was

<sup>1525</sup> Id.

<sup>1526</sup> 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.

<sup>1527</sup> 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.

<sup>1528</sup> 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.

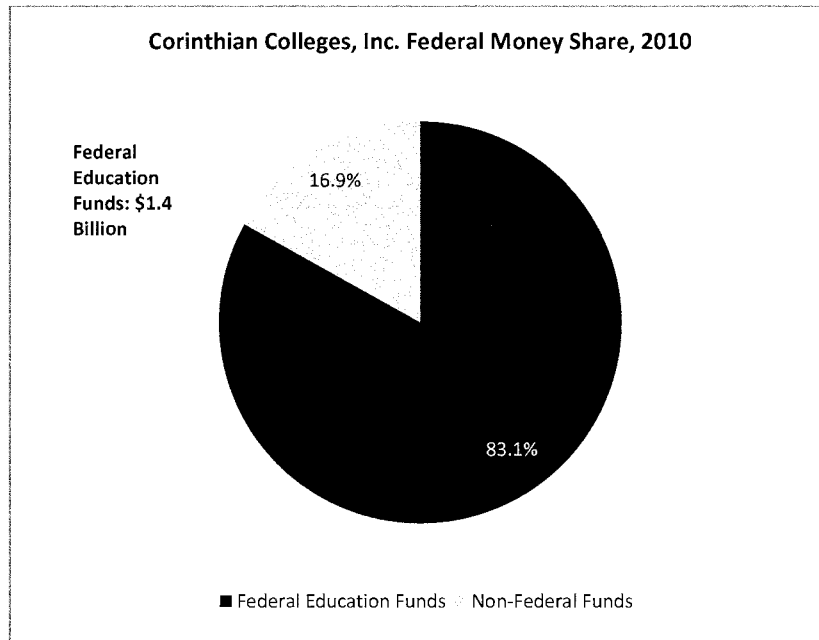
<sup>1529</sup> Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 15, 2011. See Appendix 9.

<sup>1530</sup> 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.

<sup>1531</sup> 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.



comprised of Federal education funds.<sup>1532</sup> Based on information the company provided, the committee estimates that may have Corinthian discounted up to 8 percent of revenue, or \$137.7 million, pursuant to ECASLA.

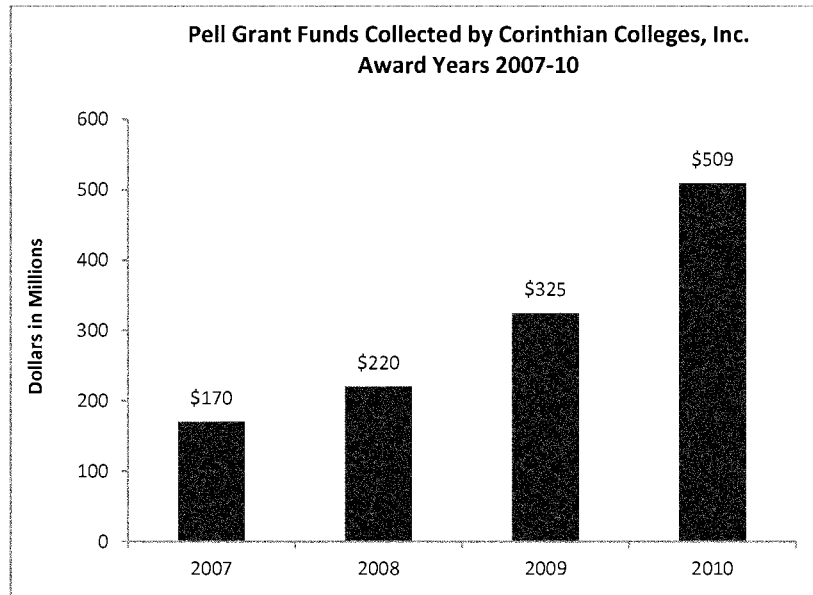


The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from \$1.4 billion to \$8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.<sup>1533</sup> 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.

<sup>1532</sup> "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.

<sup>1533</sup> 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, 2000-1 and 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.

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.<sup>1534</sup>



## Spending

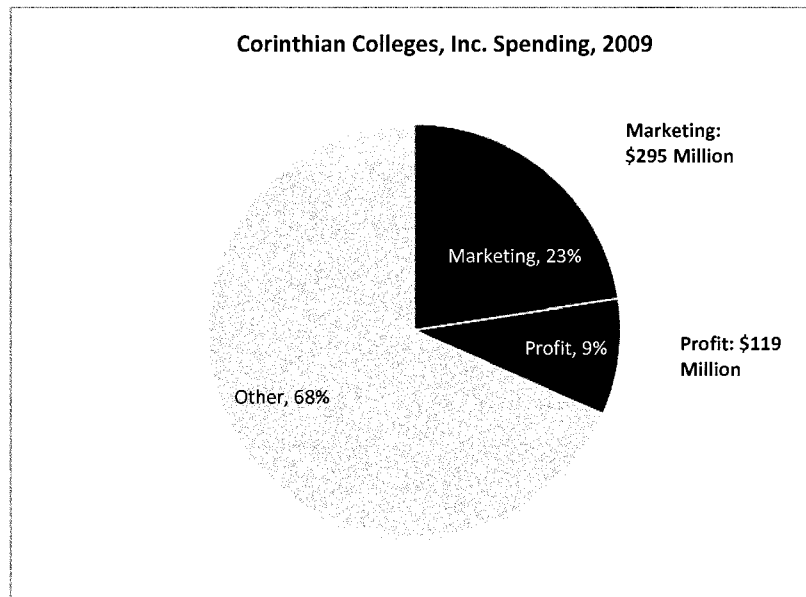
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.<sup>1535</sup> 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).<sup>1536</sup> These 15 companies allocated a total of \$6.9 billion to marketing, recruiting and profit in fiscal year 2009.

<sup>1534</sup> 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, 2000-1 and 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.

<sup>1535</sup> 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.

<sup>1536</sup> 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.

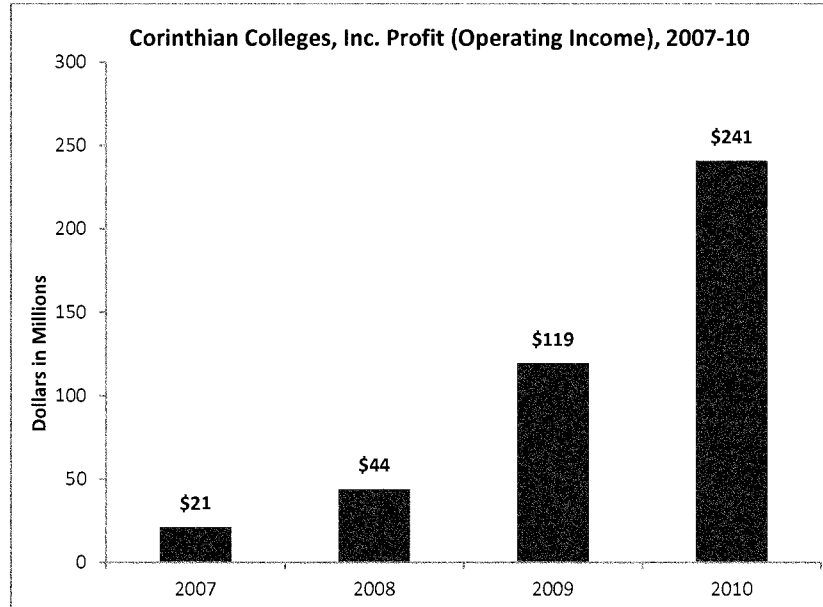
In 2009, Corinthian allocated 9.1 percent of its revenue, or \$119.2 million, to profit, and 22.5 percent, or \$294.7 million, to marketing and recruiting.<sup>1537</sup>



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.<sup>1538</sup>

<sup>1537</sup> 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.

<sup>1538</sup> 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.<sup>1539</sup> 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.<sup>1540</sup> 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

<sup>1539</sup> 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.

<sup>1540</sup> 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.

success.<sup>1541</sup> In fact, 75 percent of Mr. Massimino’s compensation is based on “operating profit performance.”

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
<b>Total</b> <sup>1542</sup>		\$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.<sup>1543</sup> A comparable program at Fresno City College costs \$1,650.<sup>1544</sup> An Associate degree in paralegal studies at Corinthian-Owned Everest College in Ontario, CA, costs \$41,149<sup>1545</sup>, compared to \$2,392 for the same degree at Santa Ana College.<sup>1546</sup> Everest College charges \$82,280 for a Bachelor’s Degree in Business.<sup>1547</sup> The same degree is available at the University of California – Irvine for \$55,880.<sup>1548</sup> 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.

<sup>1541</sup> Corinthian Colleges, Inc., Form DEF 14A, October 6, 2011.

<sup>1542</sup> 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.

<sup>1543</sup> 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).

<sup>1544</sup> See Appendix 14; See also, Fresno City College, *Fresno City College*, <http://www.fresnocitycollege.edu/> (accessed June 18, 2012).

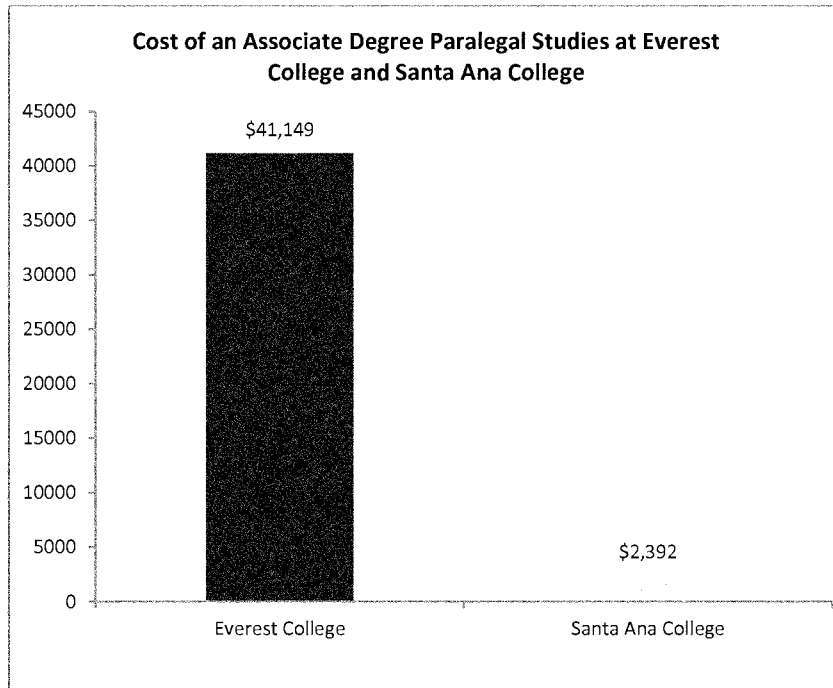
<sup>1545</sup> See Appendix 14; See also, Corinthian Colleges, Inc., *Program Disclosures: Everest College, Ontario Metro*, <http://disclosures.everest.edu/disclosures/everest-college-ontario-metro.pdf> (accessed June 18, 2012).

<sup>1546</sup> See Appendix 14; See also, Santa Ana College, *Santa Ana College*, <http://www.sac.edu/Pages/default.aspx> (accessed July 12, 2012).

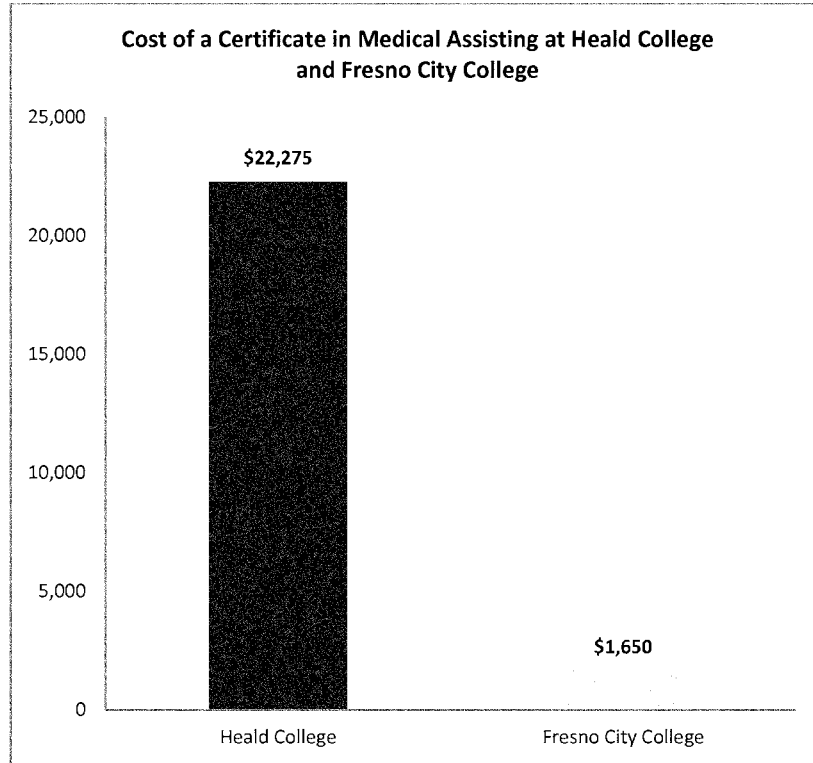
<sup>1547</sup> See Appendix 14; See also, Everest University, *Program Disclosures*, <http://disclosures.everest.edu/disclosures/everest-university-tampa.pdf?cache1342188115> (accessed July 13, 2012).

<sup>1548</sup> See Appendix 14; See also, University of California – Irvine, *University of California - Irvine*, <http://www.uci.edu/> (accessed July 13, 2012).

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.<sup>1549</sup>



<sup>1549</sup> 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.



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.<sup>1550</sup>

Corinthian implemented a 12 percent tuition increase in February 2011, and like much of the industry, increases its tuition regularly.<sup>1551</sup> 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:

<sup>1550</sup> 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.

<sup>1551</sup> Corinthian Colleges, Inc., February 1, 2011, Q2 Investor Call; See Department of Education, *College Affordability and Transparency Center*, <http://collegecost.ed.gov/cato/Default.aspx#> (accessed June 18, 2012).

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).<sup>1552</sup>

## 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."<sup>1553</sup> Once a recruiter is hired, managers check the numbers of "appointments being set, interviews conduct[ed], applications taken and daily enrollment" twice a day.<sup>1554</sup> 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]."<sup>1555</sup>

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) all operated by for-profit colleges failed to meet all three gainful employment criteria.<sup>1556</sup> These three standards include: (1) at least 35 percent of

<sup>1552</sup> 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).

<sup>1553</sup> Corinthian Colleges, Inc., *Admissions Representative Training Manual* (CCi-00045716) describing the job as "a sales position"; See also Corinthian Colleges, Inc., *CC1 Director of Admissions Operations* (CCi-00045638).

<sup>1554</sup> *Id.*

<sup>1555</sup> *Id.*

<sup>1556</sup> 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,



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.<sup>1557</sup>

## 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.<sup>1558</sup>

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.

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2012, <http://www.ed.gov/news/press-releases/five-percent-career-training-programs-risk-losing-access-federal-funds-35-percent> (accessed July 6, 2012).

<sup>1557</sup> 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).

<sup>1558</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 18, 2012).

Retention Rates

Status of Students Enrolled in Corinthian Colleges, Inc. in 2008-9, 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 <sup>1559</sup>	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.<sup>1560</sup> 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

<sup>1559</sup> 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.

<sup>1560</sup> 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.

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.

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.<sup>1561</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>1562</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>1563</sup> 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.<sup>1564</sup>

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.<sup>1565</sup> Corinthian's 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.<sup>1566</sup> 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.<sup>1567</sup>

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.<sup>1568</sup> Corinthian's default rate has

<sup>1561</sup> 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.

<sup>1562</sup> Id.

<sup>1563</sup> Id.

<sup>1564</sup> Id.

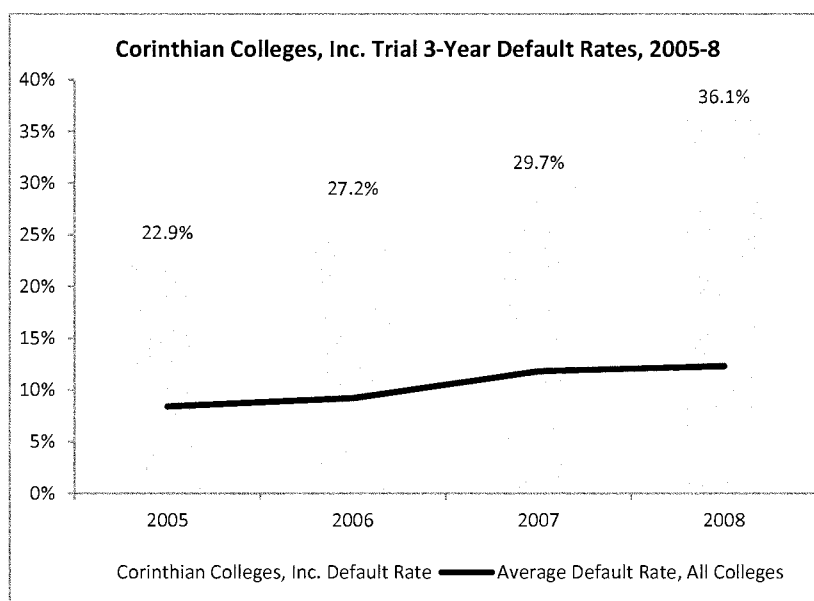
<sup>1565</sup> H.R. 4137, *The Higher Education Opportunity Act*, 110th Congress, (2008).

<sup>1566</sup> Department of Education 3-year cohort default rate, for students entering repayment in fiscal year 2008.

<sup>1567</sup> 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).

<sup>1568</sup> 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

similarly increased, growing from 22.9 percent for students entering repayment in 2005 to 36.1 percent for students entering repayment in 2008.<sup>1569</sup> This is by far the highest default rate of any publicly traded company examined, and the second highest overall.<sup>1570</sup> 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's 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.



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.<sup>1571</sup> 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

cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.

<sup>1569</sup> 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.

<sup>1570</sup> Med-Com or Drake University has the highest 3-year default rate.

<sup>1571</sup> Corinthian Colleges, Inc., Form 8-K, June 30, 2012.

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).<sup>1572</sup>

#### 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 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.<sup>1573</sup> 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].<sup>1574</sup> The company made it clear that while the company was seeing benefits from the effort, the

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<sup>1572</sup> Id.

<sup>1573</sup> Corinthian Colleges, Inc., May 4, 2010, Q3 Investor Call.

<sup>1574</sup> Corinthian Colleges, Inc., May 3, 2011, Q3 Investor Call.

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.”<sup>1575</sup>

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.<sup>1576</sup> Corinthian also hired two additional contractors to manage their default rates and instituted an in-house effort as well.<sup>1577</sup> 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.”<sup>1578</sup> 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.<sup>1579</sup> 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.<sup>1580</sup>

Corinthian also built its own internal default management operation, complete with a call center and dozens of employees.<sup>1581</sup> 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 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.”<sup>1582</sup>

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].”<sup>1583</sup> In an internal training presentation, the last step when contacting a former student is to “close the sale.”<sup>1584</sup> Corinthian also began offering students gift cards to McDonald’s in February 2010, for campuses with high default

<sup>1575</sup> Id.

<sup>1576</sup> 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.

<sup>1577</sup> 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).

<sup>1578</sup> Id.

<sup>1579</sup> Id.

<sup>1580</sup> Corinthian Colleges, Inc., *Default Prevention Staff Presentation* (CCI-00057049).

<sup>1581</sup> Corinthian College, Inc., *Default Prevention Operations Presentation* (CCI-00056216).

<sup>1582</sup> Corinthian Colleges Internal E-mail, April 29, 2010, *CDR Daily Activity 4-28-10* (CCI-00068416).

<sup>1583</sup> Corinthian Internal Email, April 2010, re: *CDR Daily Activity 4-20-10* (CCI-00068830).

<sup>1584</sup> Corinthian Colleges, Inc., *Counseling At Risk Borrowers* (CCI-00056493).

rates, to incentivize students to contact the default management department.<sup>1585</sup> The campaign was conducted by email and mobile phone text messages, which explicitly referred to postponing student loan payments.<sup>1586</sup>

These investments in default rate management are working.<sup>1587</sup> 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.<sup>1588</sup> 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.<sup>1589</sup> 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.<sup>1590</sup>

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.<sup>1591</sup>

<sup>1585</sup> Corinthian Colleges, Inc., January 28, 2010, *E-mail and Text Incentive Plan* (CCi-00056773). The company notes that this plan was altered before implementation.

<sup>1586</sup> *Id.*

<sup>1587</sup> 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.

<sup>1588</sup> Corinthian Colleges, Inc., August 23, 2011 Q4 Investor Call.

<sup>1589</sup> Corinthian Colleges, Inc., Form 8-K, March 5, 2012.

<sup>1590</sup> Corinthian Colleges, Inc., Form 8-K, February 28, 2012.

<sup>1591</sup> 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.

<b>Corinthian Colleges Institutions by Default Rate</b>		
	<b>2008 3-Year Default Rates</b>	<b>2009 3-Year Default Rates</b>
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 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.<sup>1592</sup> 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.

<sup>1592</sup> 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.



Corinthian spent \$3,969 per student on instruction in 2009, compared to \$2,465 on marketing and \$998 on profit.<sup>1593</sup> 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.<sup>1594</sup>

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.<sup>1595</sup> In 2010, Corinthian employed 2,577 full-time and 3,857 part-time faculty, meaning that it employed more full-time faculty than the average.<sup>1596</sup>

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.<sup>1597</sup>

The course structure at Everest consisted of self-directed reading from books and Web sites, online discussion-threads, online tests, individual written

<sup>1593</sup> 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.

<sup>1594</sup> Senate HELP Committee staff analysis. See Appendix 23.

<sup>1595</sup> 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.

<sup>1596</sup> *Id.*

<sup>1597</sup> 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].

assignments or power-points and some courses included group assignments.<sup>1598</sup> 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.<sup>1599</sup>

GAO employees enrolled in three different courses at Corinthian's Everest University.<sup>1600</sup> 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.<sup>1601</sup>

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 understanding behavior and mental processes. In addition, psychology is the study of behavior and mental processes so it makes sense,

<sup>1598</sup> GOA Investigation Documentation, CFS 2167 Computer Application Course Syllabus (DALLAS-334171).

<sup>1599</sup> GAO additionally provided work papers to the Chairman, including screenshots and printouts of submitted coursework and communications with the school.

<sup>1600</sup> 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.

<sup>1601</sup> 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.

[http://wiki.answers.com/Q/Why\\_do\\_psychologist\\_study\\_the\\_brain\\_and\\_nervous\\_system](http://wiki.answers.com/Q/Why_do_psychologist_study_the_brain_and_nervous_system)<sup>1602</sup>

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.”<sup>1603</sup> 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.<sup>1604</sup> However, the school did not follow up with disciplinary action.<sup>1605</sup>

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.<sup>1606</sup> The professor gave a low grade for the post (10/25), but only critiqued it for being short and incomplete.<sup>1607</sup>

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.<sup>1608</sup>

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.<sup>1609</sup> 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:

<sup>1602</sup> GAO Investigation Documentation, CFS 2167 Computer Application Course Syllabus (DALLAS-334889).

<sup>1603</sup> Id.

<sup>1604</sup> GAO Investigation Documentation, Week 2 Graded Activity: Class Discussion (DALLAS-334889).

<sup>1605</sup> GAO II.

<sup>1606</sup> GAO Investigation Documentation, Week 5 Graded Activity: Class Discussion (DALLAS-336134).

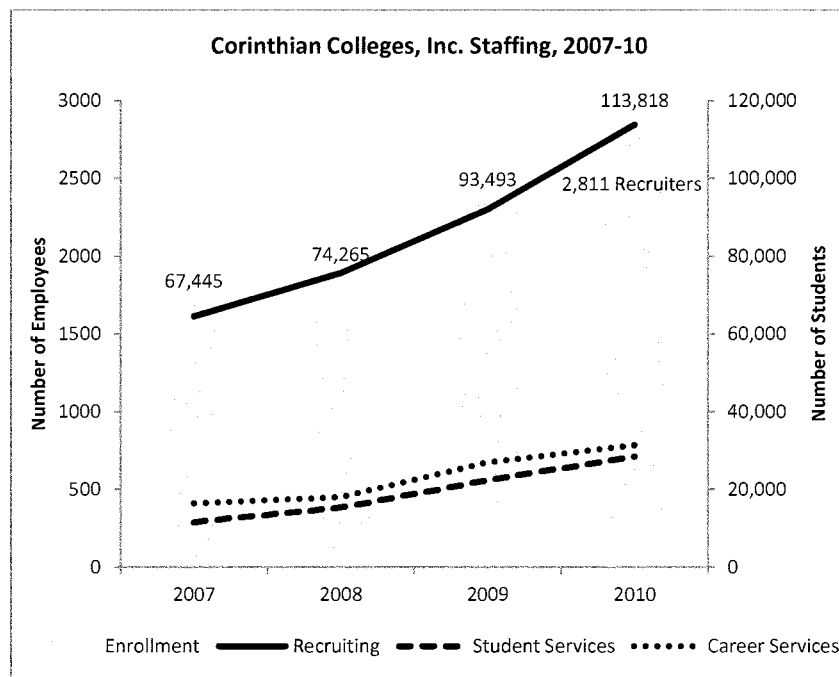
<sup>1607</sup> GAO Investigation Documentation, Everest Professor Feedback 335023 (DALLAS-335023).

<sup>1608</sup> GAO Investigation Documentation, Everest Professor Feedback 335083 (DALLAS-335083).

<sup>1609</sup> GAO Investigation Documentation, Everest Professor Feedback 335023 (DALLAS-335023).

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].<sup>1610</sup>

**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.<sup>1611</sup> 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.

<sup>1610</sup> Id.

<sup>1611</sup> 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.

### 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.

### **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.”<sup>1612</sup> 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.<sup>1613</sup> “It’s not as if it happened by surprise,” and now, “students are being burdened with debt they can’t repay.”<sup>1614</sup> For the company, “that’s not a viable long-term strategy.”<sup>1615</sup>

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

<sup>1612</sup> 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 Education*, April 2, 2011, <http://chronicle.com/article/Colleges-Scramble-to-Avoid/126986/> (accessed May 8, 2012).

<sup>1613</sup> Id.

<sup>1614</sup> Id.

<sup>1615</sup> Id.

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.”<sup>1616</sup> 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.”<sup>1617</sup>

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.<sup>1618</sup> Corinthian partnered with a third-party lender to create the Genesis loan program in 2008. Corinthian estimates that 55 percent of those loans will default at some point.<sup>1619</sup> 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 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.”<sup>1620</sup>

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.<sup>1621</sup> 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.<sup>1622</sup> 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.”<sup>1623</sup> 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

<sup>1616</sup> 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.

<sup>1617</sup> *Id.*

<sup>1618</sup> 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.

<sup>1619</sup> Corinthian Colleges, Inc., August 24, 2009, Q4 Investor Call.

<sup>1620</sup> Corinthian Colleges, Inc., February 1, 2011 Q2 Investor Call.

<sup>1621</sup> Note that in 2010 Corinthian has since lowered its rate to 6.8 percent.

<sup>1622</sup> However, Corinthian does not directly issue these loans.

<sup>1623</sup> Corinthian Colleges, Inc., August 23, 2011, Q4 Investor Call.

percent.<sup>1624</sup> 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.<sup>1625</sup>

### 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.<sup>1626</sup> 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.<sup>1627</sup>

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.<sup>1628</sup>

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."<sup>1629</sup> The U.S. Consumer Financial Protection Bureau is also investigating Corinthian to determine

<sup>1624</sup> See, for example, FinAid, *Private Student Loans*, The SmartStudent Guide to Financial Aid, <http://www.finaid.org/loans/privatestudentloans.phtml>.

<sup>1625</sup> Corinthian Career Colleges, Form 8-K, June 30, 2011.

<sup>1626</sup> 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).

<sup>1627</sup> *Id.*

<sup>1628</sup> HigherEd Watch, "Statement by Corinthian Colleges Regarding Everest College: Arlington Mid-Cities Campus," October 11, 2010, [http://higheredwatch.newamerica.net/sites/newamerica.net/files/articles/1011\\_corinthian\\_statement%5B1%5D.pdf](http://higheredwatch.newamerica.net/sites/newamerica.net/files/articles/1011_corinthian_statement%5B1%5D.pdf) (accessed June 18, 2012).

<sup>1629</sup> Florida Office of the Attorney General, *Active Public Consumer-Related Investigation*, [http://www.myfloridalegal.com/lit\\_ec.nsf/investigations/3B283CFAC6AF9709852577C00072A46E](http://www.myfloridalegal.com/lit_ec.nsf/investigations/3B283CFAC6AF9709852577C00072A46E) (accessed June 18, 2012).

whether the company engaged in “unlawful acts or practices relating to the advertising, marketing, or origination of private student loans.”<sup>1630</sup>

### **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, 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 them 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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<sup>1630</sup> 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.<sup>1631</sup> Business students make up almost half of DeVry's enrollment, with technology students comprising 27 percent and healthcare students 26 percent.<sup>1632</sup> 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.<sup>1633</sup>

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

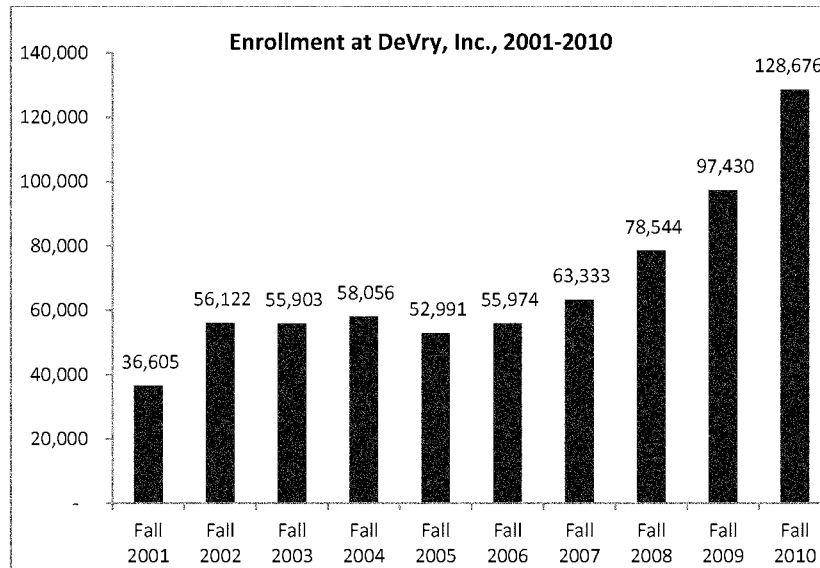
<sup>1631</sup> See DeVry, Inc. *DeVry University Locations*, [http://www.devry.edu/locations/search\\_locations.jsp](http://www.devry.edu/locations/search_locations.jsp) (accessed June 19, 2012), DeVry, Inc., *Keller Graduate School of Management of DeVry University: Campus Locations*, <http://www.keller.edu/graduate-school-campus-locations> (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).

<sup>1632</sup> DeVry, Inc., Feb 16, 2011, Deutsche Bank Securities Inc. Small and Mid Cap Conference.

<sup>1633</sup> DeVry, Inc., May 11, 2011, Barclays Capital Inc. Global Services Conference.

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).

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.<sup>1634</sup> This growth in enrollment led to growth in revenue. Revenue more than doubled from \$933 million in 2007 to \$1.9 billion in 2010.<sup>1635</sup>

<sup>1634</sup> Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.

<sup>1635</sup> 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.

## 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.<sup>1636</sup> 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.<sup>1637</sup>

In 2010, DeVry reported 77.5 percent of revenue from title IV Federal financial aid programs.<sup>1638</sup> However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.<sup>1639</sup> 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.<sup>1640</sup> With these funds included, 80.9 percent of DeVry's total revenue was comprised of Federal education funds.<sup>1641</sup>

<sup>1636</sup> "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.

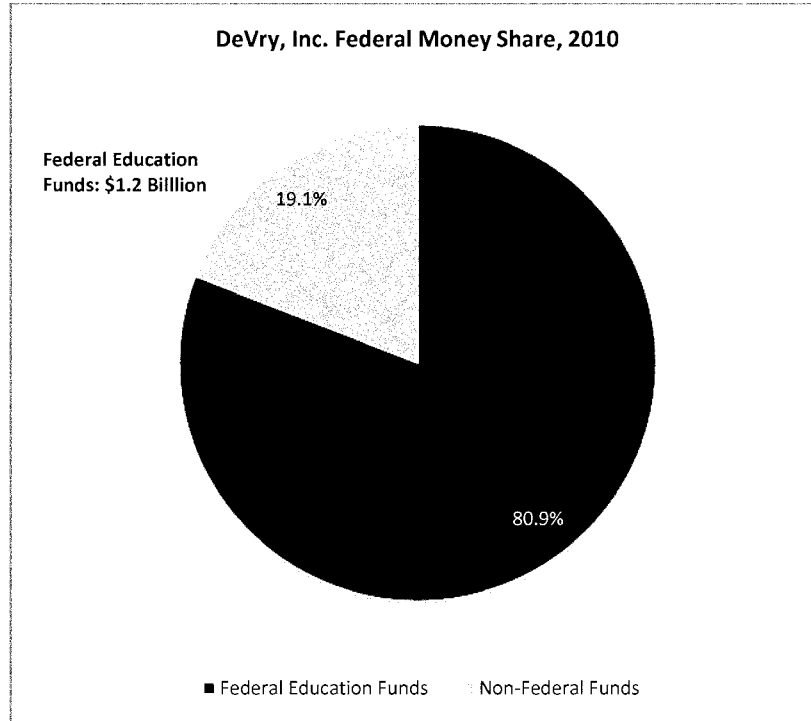
<sup>1637</sup> Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>1638</sup> *Id.*

<sup>1639</sup> 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.

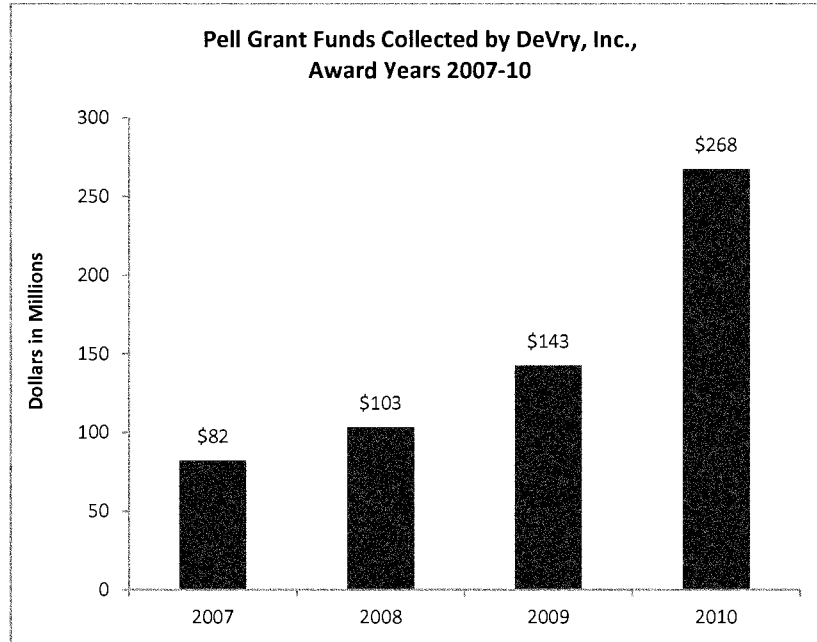
<sup>1640</sup> Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs 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.

<sup>1641</sup> "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.<sup>1642</sup> 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.

<sup>1642</sup> 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, 2000-1 and 2009-10*, <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.<sup>1643</sup>

### Spending

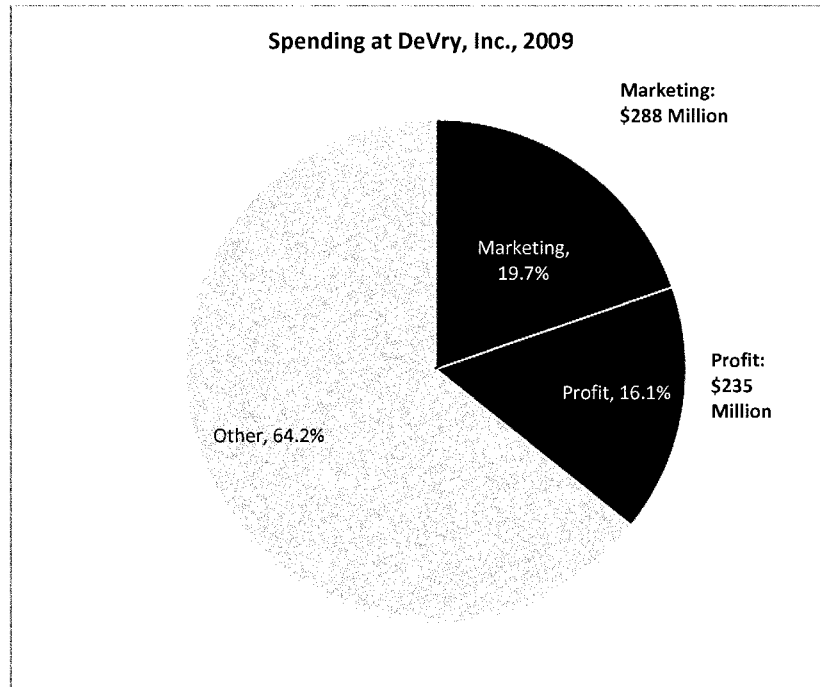
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.<sup>1644</sup> 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

<sup>1643</sup> 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.

<sup>1644</sup> 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).<sup>1645</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.

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.<sup>1646</sup>



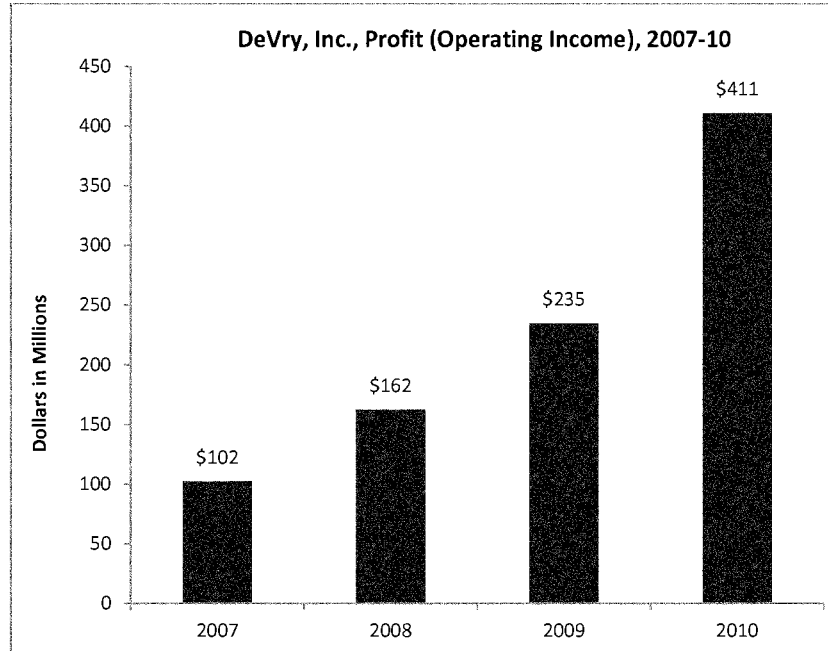
DeVry devoted a total of \$522.4 million to marketing, recruiting, and profit in fiscal year 2009.<sup>1647</sup> The amount of profit DeVry generated also increased rapidly, quadrupling from \$102.3 million in 2007 to \$410.9 million in 2010.<sup>1648</sup>

<sup>1645</sup> 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 SEC filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.

<sup>1646</sup> Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

<sup>1647</sup> Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.

<sup>1648</sup> 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.<sup>1649</sup> 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.<sup>1650</sup>

<sup>1649</sup> 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.

<sup>1650</sup> 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 Treasurer	\$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	\$10,922,642

The chief executive officers of the large publicly traded, for-profit education companies took home, on average, \$7.3 million in fiscal year 2009.<sup>1651</sup> 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.<sup>1652</sup> The same degree at San Jose City College, cost \$3,116.<sup>1653</sup> However, the cost of tuition for a Bachelor of Science in Business Administration at DeVry's Chicago, IL campus is \$75,184,<sup>1654</sup> considerably less than same program at the costly University of Illinois, at costs \$84,320.<sup>1655</sup>

<sup>1651</sup> 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.

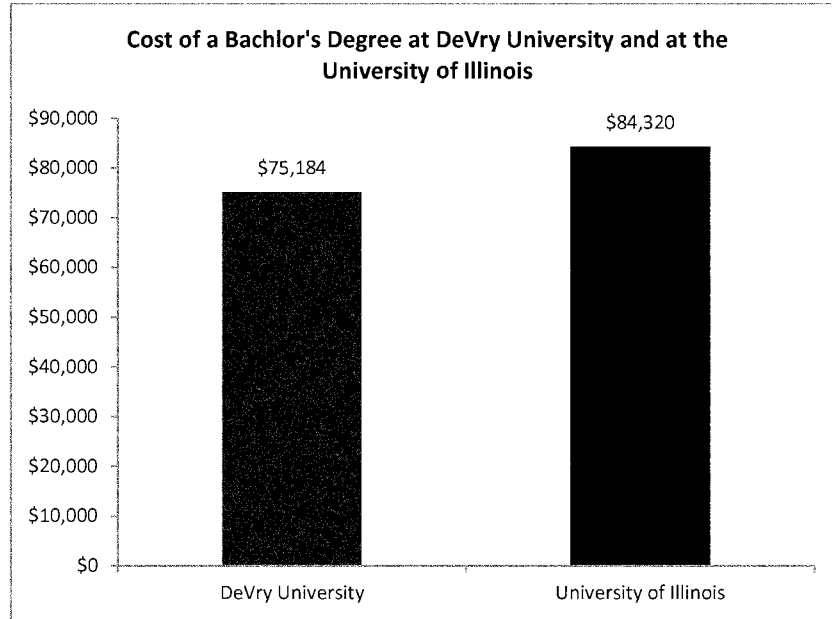
<sup>1652</sup> See Appendix 14; see also, DeVry, Inc., *Carrington Part of the DeVry Education Family: Medical Assisting Program*, <http://carrington.edu/ccc/programs/medical-assisting/> (accessed June 20, 2012).

<sup>1653</sup> See Appendix 14; see also, San Jose City College, *San Jose City College*, <http://www.sjcc.edu/> (accessed June 19, 2012).

<sup>1654</sup> 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).

<sup>1655</sup> 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.<sup>1656</sup>

Historically, the company has increased tuition between 3 and 6 percent every year.<sup>1657</sup> 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.”<sup>1658</sup> The presentation goes on to note, “higher priced players do not appear to have slower enrollment growth”<sup>1659</sup> and that “recent increases in federal loans may help offset the current credit environment and allow students to finance the increases.”<sup>1660</sup>

<sup>1656</sup> 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.

<sup>1657</sup> DeVry, Inc., May 11, 2011, Barclays Capital Inc. Global Services Conference.

<sup>1658</sup> DeVry, Inc., September 5, 2008, Developing Full Potential Pricing in Higher Education (DEVRY0036430, at DEVRY0036431).

<sup>1659</sup> Id.

<sup>1660</sup> Id. at DEVRY0036436

An internal presentation regarding tuition at DeVry's Chamberlain College of Nursing recommended that Chamberlain "could take an aggressive price leadership position. So long as out-of-pocket expenses can remain minimal, significant price increases will likely create minimal changes in demand."<sup>1661</sup> The presentation went on to note that "students seem total price agnostic [sic]."<sup>1662</sup>

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?<sup>1663</sup>

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.<sup>1664</sup>

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?"<sup>1665</sup>

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.<sup>1666</sup> The company charged students an interest rate of 12 percent.<sup>1667</sup>

<sup>1661</sup> DeVry Inc., February 4, 2009, Net Promoter Score, Strategic Pricing, Brand Building (DEVRY0036668 at DEVRY0036696 (emphasis in original)).

<sup>1662</sup> Id. at DEVRY0036698 [SIC].

<sup>1663</sup> DeVry Internal Email, September 8, 2010, *FW: pricing* (DEVRY0036666).

<sup>1664</sup> DeVry Internal Email, April 12, 2010, *US&du Proposed Pricing* (DEVRY0034862).

<sup>1665</sup> DeVry, Inc., Chamberlain Online: RN to BSN Common Phone Objections (DEVRY0085118); See also DeVry Inc., Advance Advisor Academy & Certification: Overcoming Objections (DEVRY0085677).

<sup>1666</sup> DeVry, Inc., *DEVRY INC. INSTITUTIONAL LOAN PROGRAMS* (DEVRY0037499, at DEVRY0037501).

Document on file with committee.

<sup>1667</sup> Id.

## 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.”<sup>1668</sup>

At DeVry, recruiters are encouraged to consider “how else do you think you can create urgency with a student?”<sup>1669</sup> Recruiting materials counsel recruiters to use tactics like “the Tie Down.”<sup>1670</sup> The 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.”<sup>1671</sup> Another similar tactic is the “The Alternate of Choice.”<sup>1672</sup> 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.”<sup>1673</sup>

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.”<sup>1674</sup>

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.<sup>1675</sup> 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

<sup>1668</sup> DeVry, Inc., Chamberlain College of Nursing: New Hire Training (DEVRY0089835, at DEVRY0089928).

<sup>1669</sup> Id., at DEVRY0089854.

<sup>1670</sup> Id., at DEVRY0089952.

<sup>1671</sup> Id.

<sup>1672</sup> Id., at DEVRY0089954.

<sup>1673</sup> Id.

<sup>1674</sup> Id., at DEVRY0089948.

<sup>1675</sup> DeVry, Inc., Summer 2010, Enrollment Agreement (DEVRY0094127).

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.<sup>1676</sup> 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.<sup>1677</sup> However, in the same filing, QuinStreet also indicated that DeVry had retained an advertising agency and reduced its purchases of leads.<sup>1678</sup>

## 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.<sup>1679</sup>

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

<sup>1676</sup> 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.

<sup>1677</sup> DeVry, Inc., February 10, 2010, QuinStreet Prospectus.

<sup>1678</sup> *Id.*

<sup>1679</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 18, 2012).

students, withdrew by mid-2010.<sup>1680</sup> These withdrawn students were enrolled a median of 3 ½ months.<sup>1681</sup> 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.<sup>1682</sup> 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.

#### 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

<sup>1680</sup> 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.

<sup>1681</sup> Id.

<sup>1682</sup> 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.

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.<sup>1683</sup>

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.<sup>1684</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>1685</sup> On the whole, students who attended for-profit schools default

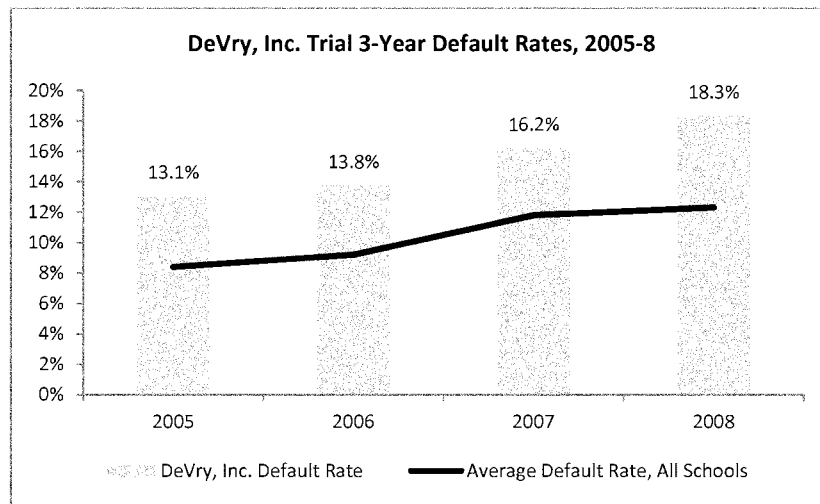
<sup>1683</sup> Direct Loan Default Rates, 34 CFR § 668.183(c).

<sup>1684</sup> 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.

<sup>1685</sup> Id.

at nearly three times the rate of students who attended other types of institutions.<sup>1686</sup> 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.<sup>1687</sup>

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.<sup>1688</sup> This change represents a 32.6 percent increase over 4 years.<sup>1689</sup> 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

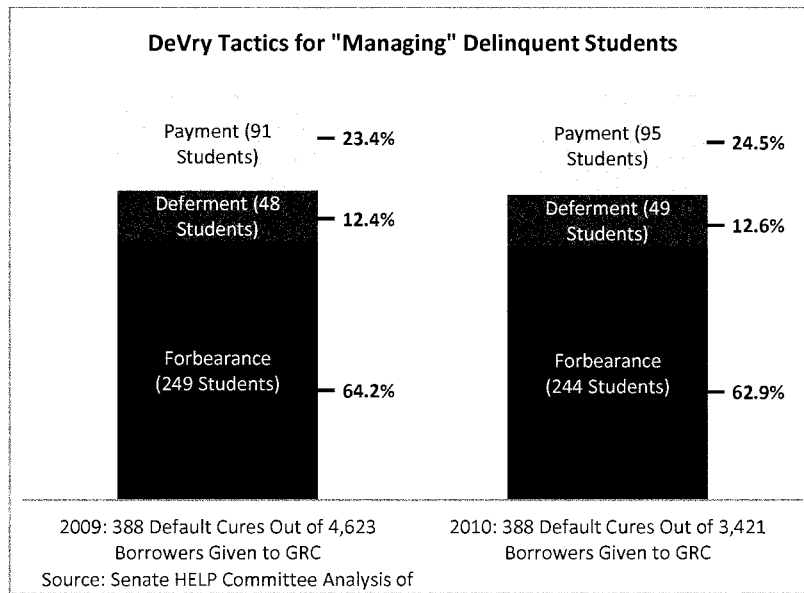
<sup>1686</sup> Id.

<sup>1687</sup> Id.

<sup>1688</sup> 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.

<sup>1689</sup> Id.

the agreement, DeVry pays GRC a fee of \$45.50 per student borrower.<sup>1690</sup> Unlike other companies, DeVry prioritizes repayment by paying GRC a bonus for students placed in repayments and certain deferments, but not for forbearances.<sup>1691</sup> 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.



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.

<sup>1690</sup> DeVry, April 16, 2010, Cohort Default Management Agreement with GRC (DEVRY0037214, at DEVRY0037224).  
<sup>1691</sup> DeVry, Inc., Services Agreement with Chaperone LLC (DEVRY0037204, at DEVRY0037212), DeVry, Inc., Default Management Update (DEVRY0037181).



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.<sup>1692</sup> 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 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.<sup>1693</sup>

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.<sup>1694</sup> In 2010, DeVry employed 1,476 full-time and 7,349 part-time faculty.<sup>1695</sup>

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 be 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."<sup>1696</sup> Another student wrote, "I am afraid to go out in the real world – I am not getting what I need here."<sup>1697</sup> 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]."<sup>1698</sup>

<sup>1692</sup> 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.

<sup>1693</sup> 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.

<sup>1694</sup> 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.

<sup>1695</sup> Id.

<sup>1696</sup> DeVry Inc., February 4, 2009, Net Promoter Score, Strategic Pricing, Brand Building (DEVRY0036668, at DEVRY0036683).

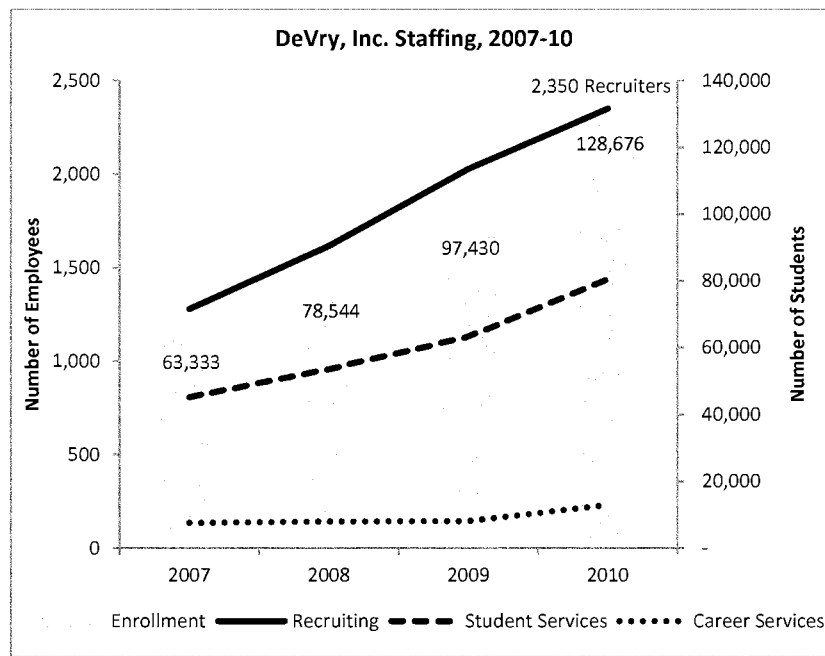
<sup>1697</sup> Id.

<sup>1698</sup> Id.

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.<sup>1699</sup> 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.



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,

<sup>1699</sup> 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.

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.<sup>1700</sup>

### **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 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.'" <sup>1701</sup>

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<sup>1700</sup> 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, 111<sup>th</sup> Congress (2010).

<sup>1701</sup> Daniel Hamburger (President and CEO, DeVry Inc.) Written Statement for the Senate Committee on Health, Education, Labor, and Pensions. 112<sup>th</sup> 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.<sup>1702</sup> 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.<sup>1703</sup>

In the fall of 2010, ECPI enrolled 13,119 students, many of whom were veterans and servicemembers.<sup>1704</sup> 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.<sup>1705</sup>

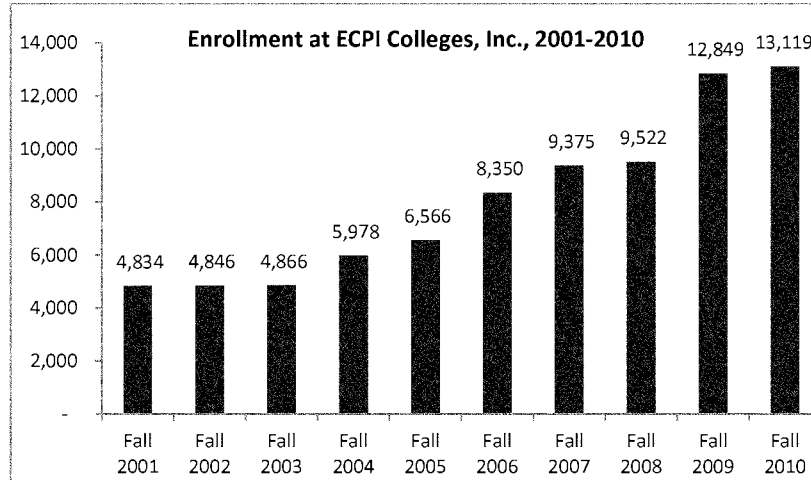
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<sup>1702</sup> ECPI University, March 5, 2012, *2012 Catalog: Volume 20 Issue 1*, [http://www.ecpi.edu/assets/uploads/2012/03/ECPI\\_University\\_Catalog.pdf](http://www.ecpi.edu/assets/uploads/2012/03/ECPI_University_Catalog.pdf) (accessed April 12, 2012).

<sup>1703</sup> Id.

<sup>1704</sup> 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.

<sup>1705</sup> Id.



The growth in enrollment led to growth in revenue. Revenues at ECPI increased 176 percent between 2006 and 2009.<sup>1706</sup>

### Federal Revenue

Nearly all for-profit education companies derive the majority of revenue from Federal financial aid programs.<sup>1707</sup> 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.<sup>1708</sup> 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.<sup>1709</sup>

In 2010, ECPI reported 74.5 percent of revenue from title IV Federal financial aid programs.<sup>1710</sup> However, this amount does not include revenue

<sup>1706</sup> 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.

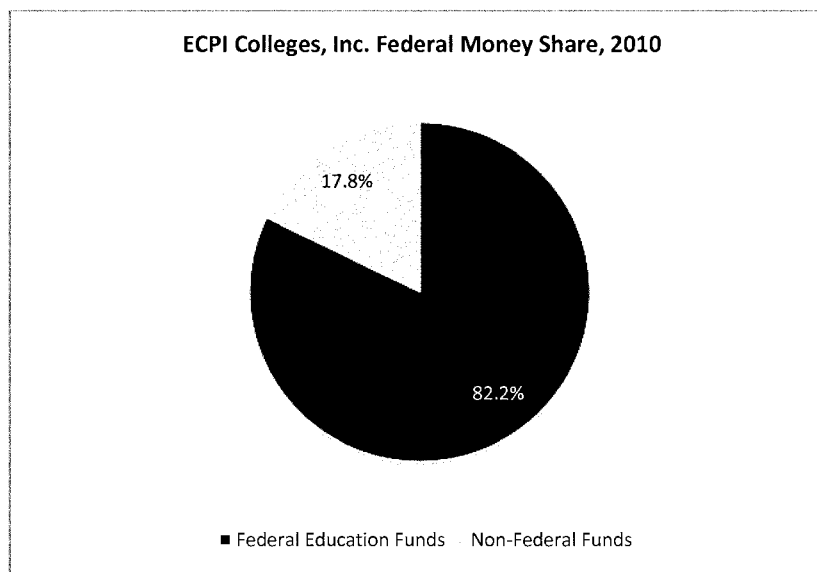
<sup>1707</sup> "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

<sup>1708</sup> 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.

<sup>1709</sup> 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.

<sup>1710</sup> Id.

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).<sup>1711</sup> Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 7.7 percent of ECPI's revenue.<sup>1712</sup> With the Departments of Defense and Veterans Affairs funds included, 82.2 percent of ECPI's total revenue was comprised of Federal education funds.<sup>1713</sup> The committee estimates that ECPI also discounted as much as 5.1 percent of revenue, pursuant to ECASLA.



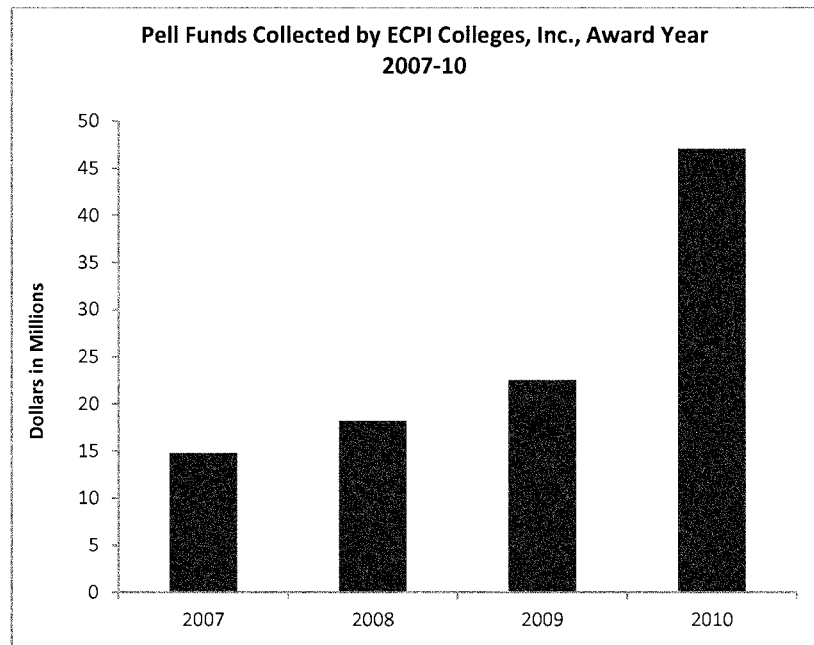
The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from \$1.4

<sup>1711</sup> 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.

<sup>1712</sup> 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.

<sup>1713</sup> "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.

billion to \$8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.<sup>1714</sup> 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.



ECPI more than tripled the amount of Pell grant funds it collected in just 3 years between 2007 and 2010.<sup>1715</sup>

## Spending

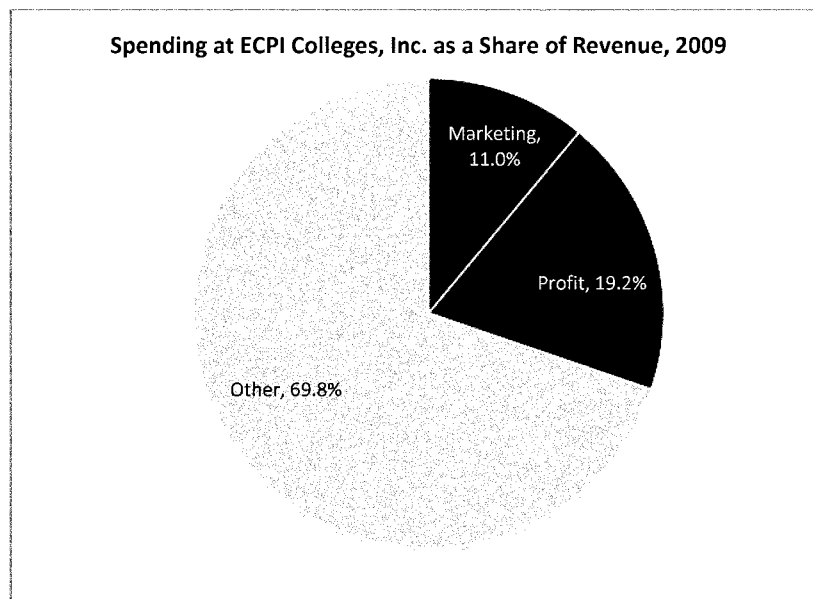
While Federal student aid programs are intended to provide educational opportunities for students, for-profit education companies direct much of the

<sup>1714</sup> 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, 2000-1 and 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.

<sup>1715</sup> 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.

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.<sup>1716</sup> During the same period the companies allocated 23 percent of revenues to marketing and recruiting and 19.7 percent to profit.<sup>1717</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.<sup>1718</sup>

In 2009, privately held ECPI allocated 11 percent of its revenue to marketing and recruiting, and 19.2 percent to profit.<sup>1719</sup>



The amount of profit ECPI generated has also risen rapidly in recent years, quadrupling between 2006 and 2009.<sup>1720</sup>

<sup>1716</sup> 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.

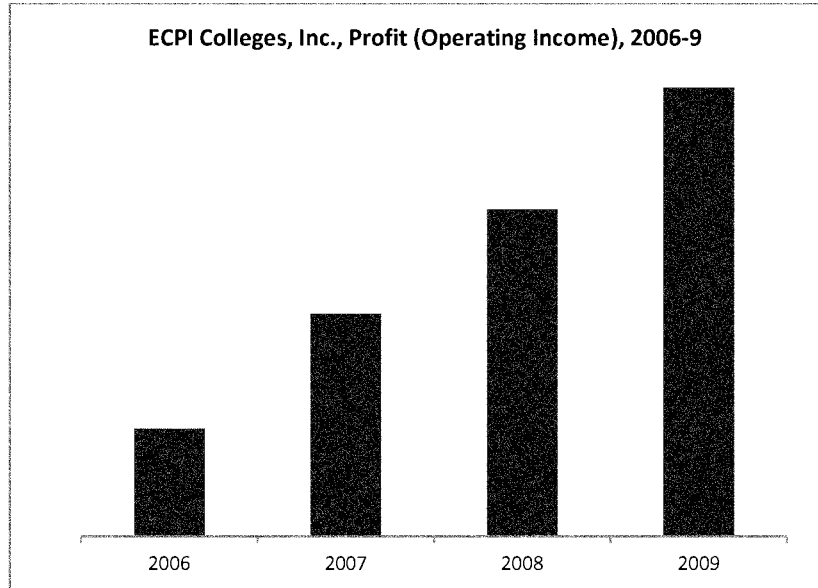
<sup>1717</sup> Senate HELP Committee staff analysis of fiscal year 2009 financial statements and information provided to the committee by each company pursuant to the committee document request of August 5, 2010. Profit is based on operating income. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.

<sup>1718</sup> Id.

<sup>1719</sup> Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.

<sup>1720</sup> Senate HELP Committee staff analysis. See Appendix 18.





### Executive Compensation

As a private-held company, ECPI is not obligated to release executive compensation figures.

### **Tuition and Other Academic Charges**

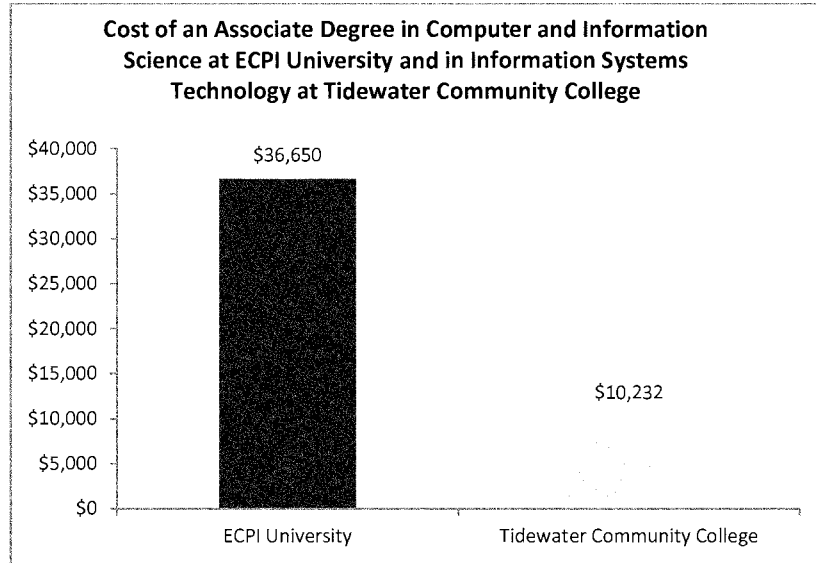
Compared to its public non-profit counterparts, it is more expensive to obtain a degree at ECPI. An Associate degree in Computer and Information Science at ECPI costs \$36,650,<sup>1721</sup> compared to the cost of an Associate Degree in Information Systems Technology at Tidewater Community College in Virginia which costs \$10,232.<sup>1722</sup> ECPI charges \$58,550 for a Bachelor's degree in Business Administration.<sup>1723</sup> The same degree costs \$51,912 at the University of Virginia.<sup>1724</sup>

<sup>1721</sup> See Appendix 14; see also, EPCI University, *Network Security*, <http://www.ecpi.edu/technology/program/network-security-associate-degree/> (accessed July 12, 2012).

<sup>1722</sup> See Appendix 14; see also, Tidewater Community College, *Tuition & Fees for In-State*, [http://www.tcc.edu/students/admissions/tuition/tuition\\_is.htm](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).

<sup>1723</sup> See Appendix 14; see also, EPCI University, *Business Administration*, <http://www.ecpi.edu/business/program/business-administration-bachelor-degree/> (accessed July 12, 2012).

<sup>1724</sup> 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.<sup>1725</sup>

Another student notes:

<sup>1725</sup> ECPI 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.

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 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].<sup>1726</sup>

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.<sup>1727</sup> 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.<sup>1728</sup>

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,

<sup>1726</sup> EPCI University, April 23, 2009, Student Complaint Letter (E0014918).

<sup>1727</sup> EPCI University, Enrollment Agreement (E0008277).

<sup>1728</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 18, 2012).

withdrew by mid-2010.<sup>1729</sup> 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).<sup>1730</sup>

Status of Students Enrolled in ECPI Colleges, Inc. in 2008-9, as of 2010						
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.

<sup>1729</sup> 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.

<sup>1730</sup> 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.

<b>Status of Online Students Enrolled in ECPI Colleges, Inc. in 2008-9, as of 2010</b>					
<b>Degree Level</b>	<b>Enroll-ment</b>	<b>Percent Completed</b>	<b>Percent Still Enrolled</b>	<b>Percent With-drawn</b>	<b>Number With-drawn</b>
Associate	383	14.8%	13.3%	71.8%	275
Bachelor's	400	5.0%	31.8%	63.3%	253
All Students	783	9.8%	22.7%	67.4%	528

<b>Status of Brick-and-Mortar Students Enrolled in ECPI Colleges, Inc. in 2008-9, as of 2010</b>					
<b>Degree Level</b>	<b>Enroll-ment</b>	<b>Percent Completed</b>	<b>Percent Still Enrolled</b>	<b>Percent With-drawn</b>	<b>Number With-drawn</b>
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.<sup>1731</sup>

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.<sup>1732</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>1733</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>1734</sup> 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.<sup>1735</sup>

<sup>1731</sup> Direct Loan Default Rates, 34 CFR § 668.183(c).

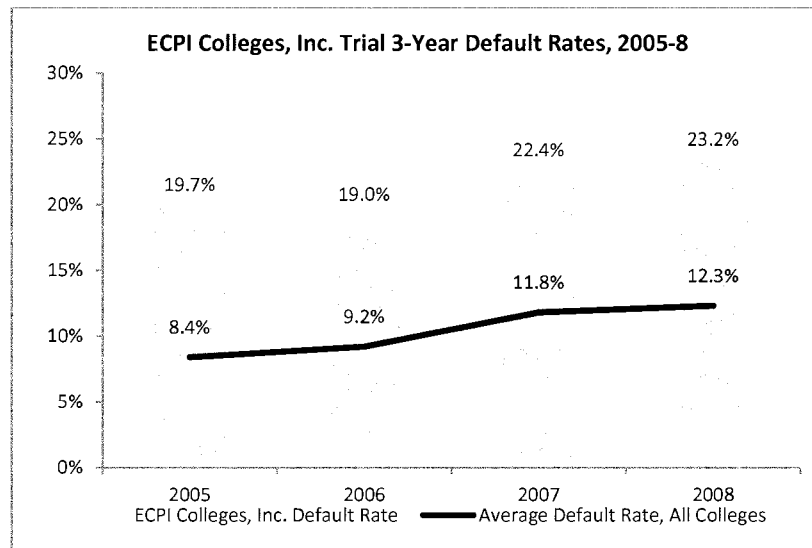
<sup>1732</sup> Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, <http://federalstudentaid.ed.gov/datacenter/cohort.html>. Default rates calculated by cumulating number of students entered into repayment and default by sector.

<sup>1733</sup> Id.

<sup>1734</sup> Id.

<sup>1735</sup> 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.<sup>1736</sup> This change represents a 32.6 percent increase over 4 years.<sup>1737</sup> 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 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."<sup>1738</sup>

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

<sup>1736</sup> 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.

<sup>1737</sup> Id.

<sup>1738</sup> ECPI University Internal Email, November 15, 2007, RE: *Grijalva Amendment Yesterday* (E0016579, at E0016580).

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.”<sup>1739</sup> 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.<sup>1740</sup>

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!”<sup>1741</sup>

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!”<sup>1742</sup>

## 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.<sup>1743</sup> The amount that privately held companies examined by the committee spend on instruction ranges from \$1,118 to \$6,389 per student per year.<sup>1744</sup> In contrast, other Virginia-based public and non-profit schools spent, on a per student basis,

<sup>1739</sup> ECPI University Internal Email, July 15, 2010, *RE: FY09 rates* (E0016590).

<sup>1740</sup> ECPI University Internal Email, November 17, 2008, *RE: Ecpi Loan Help* [sic] (E0016551, at E0016553).

<sup>1741</sup> *Id.*

<sup>1742</sup> ECPI University Internal Memorandum, CDR Management Presentation (E0007942, at E007943).

<sup>1743</sup> 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.

<sup>1744</sup> *Id.* Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

\$14,567 at the University of Virginia-Main Campus, \$3,789 at Tidewater Community College, and \$1,957 at Liberty University.<sup>1745</sup>

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.<sup>1746</sup> This is not the case at ECPI where in 2010, 598 faculty were employed part-time while 532 were full-time faculty.<sup>1747</sup>

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.<sup>1748</sup> 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...<sup>1749</sup>

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

<sup>1745</sup> 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.

<sup>1746</sup> 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.

<sup>1747</sup> *Id.*

<sup>1748</sup> ECPI University, First Monitoring Report (E0008473, at E008477).

<sup>1749</sup> *Id.* at E008478.



employed 266 adjunct (part-time) faculty in Fall of 2009, and 215 in Spring of 2010.<sup>1750</sup> ECPI also highlighted for the accreditor that the part-time faculty decreased in size by 20 percent.<sup>1751</sup>

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.”<sup>1752</sup> ECPI’s accreditation is due for renewal in 2013.

### **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.<sup>1753</sup> 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.

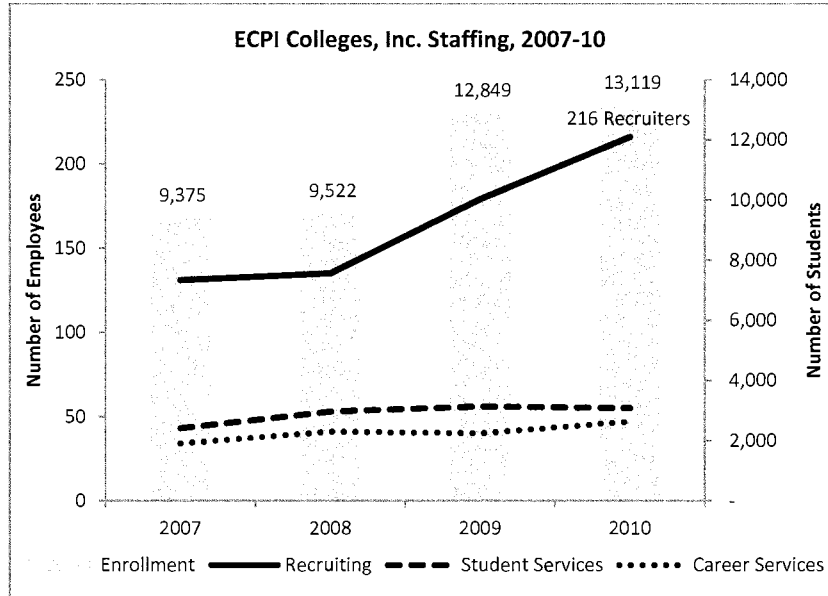
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<sup>1750</sup> Id. at E008490.

<sup>1751</sup> 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.

<sup>1752</sup> Id.

<sup>1753</sup> 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.



### 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 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, Incorporated (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, Incorporated is a non-profit education company currently headquartered in Heathrow, FL.<sup>1754</sup> The company was founded in 1985 by Jerry Barnett, and was originally headquartered in Little Rock, AK.<sup>1755</sup> The current president of Remington is Jack W. Forrest. Forrest became president in 2005, when majority shareholder and founder Jerry Barnett stepped down.<sup>1756</sup>

Remington operates 19 campuses in 10 States and a small online division.<sup>1757</sup> 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

<sup>1754</sup> Education America, Inc. operates Remington College

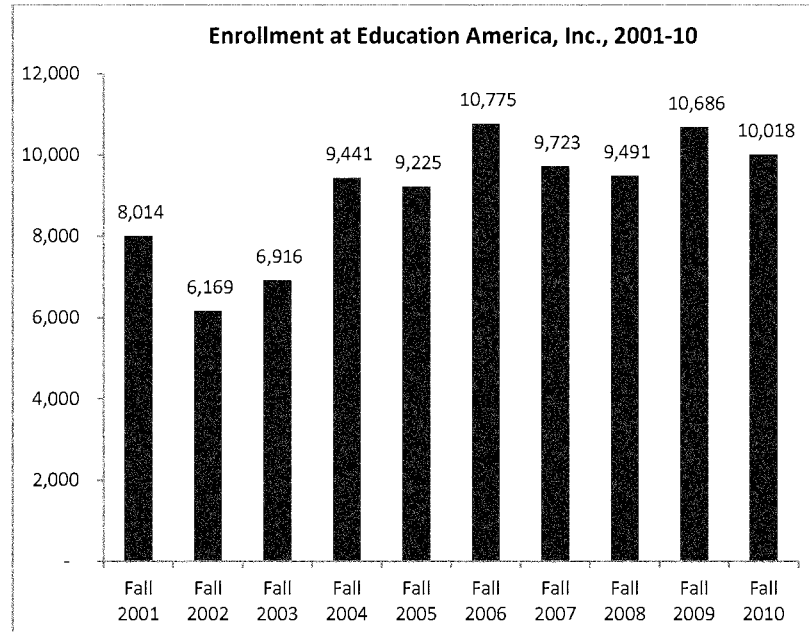
<sup>1755</sup> Business Wire, "Remington College Marks 25<sup>th</sup> Anniversary by Giving Back to its Campus Communities" January 6, 2010, <http://www.businesswire.com/news/home/20100106006350/en> (accessed June 19, 2012).

<sup>1756</sup> 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).

<sup>1757</sup> Education America, Inc., Remington College: Find a Remington College Campus Near You, <http://www.remingtoncollege.edu/campus-locations/> (accessed May 12, 2012).

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.<sup>1758</sup>



Revenue at Remington has also remained relatively level, decreasing slightly from \$138.8 million in 2006 to \$136.4 million in 2010.<sup>1759</sup>

#### 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

<sup>1758</sup> 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.

<sup>1759</sup> 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.

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.<sup>1760</sup>

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.

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.<sup>1761</sup> 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.”<sup>1762</sup>

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.<sup>1763</sup> 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.<sup>1764</sup> 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).<sup>1765</sup> 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

<sup>1760</sup> 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](http://www.intered.com/storage/deptofed/CHE_AnotherCollegeGoesNonProfit.pdf) (accessed June 20, 2012).

<sup>1761</sup> *Id.*

<sup>1762</sup> *Id.*

<sup>1763</sup> *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.

<sup>1764</sup> 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.

<sup>1765</sup> 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.

Federal funding.<sup>1766</sup> 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.<sup>1767</sup>

### 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.<sup>1768</sup> 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.<sup>1769</sup>

In 2010, Remington reported 83.9 percent of revenue from title IV Federal financial aid programs.<sup>1770</sup> 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.<sup>1771</sup> With funds from the Departments of Defense and Veterans Affairs

<sup>1766</sup> 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](http://www.intered.com/storage/deptofed/CHE_AnotherCollegeGoesNonProfit.pdf) (accessed June 20, 2012).

<sup>1767</sup> Florida Department of Education, July 1, 2010, HB5001 Conference Committee Report, [http://www.fldoe.org/GR/Bill\\_Summary/2010/HB5001.pdf](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).

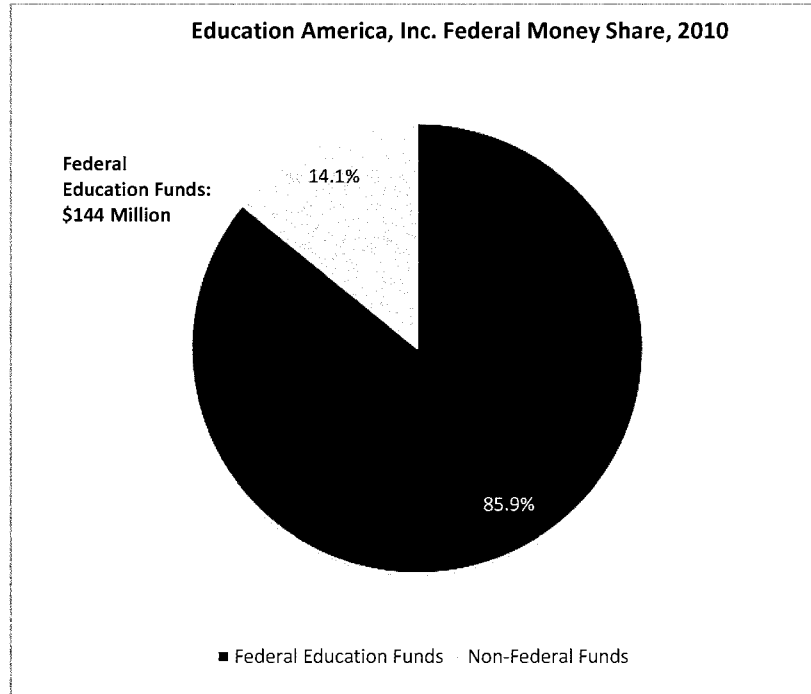
<sup>1768</sup> Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to 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.

<sup>1769</sup> 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.

<sup>1770</sup> Id.

<sup>1771</sup> 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.

included, 85.9 percent of Remington's total revenue was comprised of Federal education funds.<sup>1772</sup>



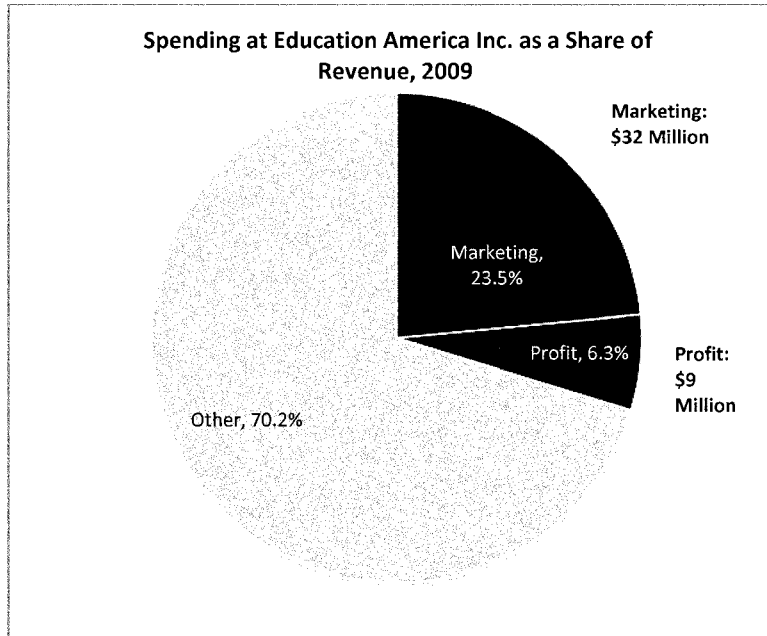
### Spending

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

<sup>1772</sup> "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.

billion).<sup>1773</sup> 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.<sup>1774</sup>



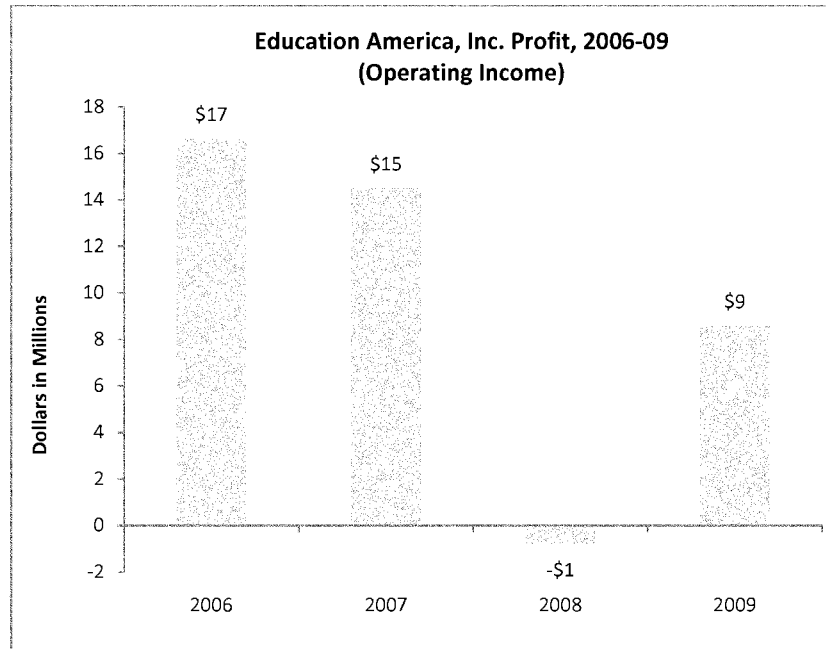
The amount of profit Remington generated has declined since 2006. In 2006, Remington reported a profit of \$16.6 million and by 2010 that profit decreased by nearly half to \$8.6 million, dropping as low as an operating loss of \$793,000 in 2008.<sup>1775</sup>

<sup>1773</sup> 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.

<sup>1774</sup> Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, and other expenditures.

<sup>1775</sup> Senate HELP Committee staff analysis. See Appendix 18.





#### Executive Compensation

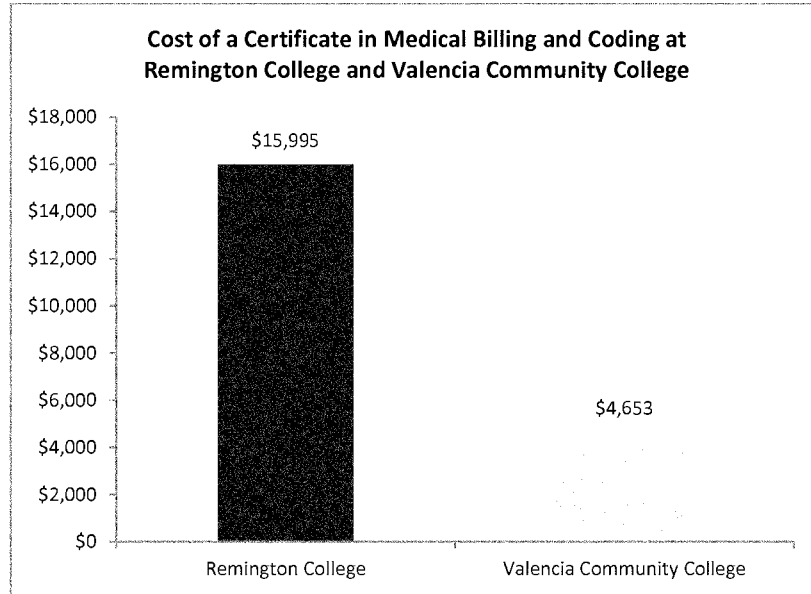
As a privately held company, Remington is not obligated to release executive compensation figures.

#### **Tuition and Other Academic Charges**

Compared to public colleges offering the same programs, the price of tuition is higher at Remington. A Certificate in medical assisting at Remington's Tampa campus costs \$15,995.<sup>1776</sup> A similar degree at Valencia Community College costs \$4,653.<sup>1777</sup>

<sup>1776</sup> See Appendix 14; see also, Remington College, *Medical Assisting Certificate Program*, <http://www.remingtoncollege.edu/ma-disclosures/> (accessed June 20, 2012).

<sup>1777</sup> See Appendix 14; see also, Erwin Technical Center, *Erwin Technical Center*, <http://erwin.edu/CourseDetail.aspx?CourseId=75> (accessed June 20, 2012).



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,”<sup>1778</sup> and that higher tuition “will make things harder on our students.”<sup>1779</sup>

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 lowe them over 3 thousand dollars for only 3 weeks of school . . . I was first told it would be about 1,7500 when I got the bill, it was for 3,276.02. big difference [sic].<sup>1780</sup>

<sup>1778</sup> Education America Internal Email, June 17, 2010, RE: HEA and the 90 10 rule (11-000085),

<sup>1779</sup> Id., at 11-000020

<sup>1780</sup> Education American, Inc., Student Complaint Letter, (5-000132).

Part of Remington's strategy for dealing with 90/10 was to increase tuition.<sup>1781</sup> 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."<sup>1782</sup>

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.<sup>1783</sup> 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 paperwork 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.<sup>1784</sup>

<sup>1781</sup> 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).

<sup>1782</sup> Id.

<sup>1783</sup> Education America Internal E-mail, December 17, 2009, *I need someone's help. Please.* (5-000332)

<sup>1784</sup> Education America, Inc., April 11, 2007, Student Complaint Letter (5-000102, at 5-000103).

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.<sup>1785</sup>

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.<sup>1786</sup> 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.<sup>1787</sup>

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

<sup>1785</sup> Education America, Inc., August 20, 2010, Complaint Activity Report (5-000312).

<sup>1786</sup> Education America, Inc., September 17, 2004, Program Application and Enrollment Agreement (29-000001).

<sup>1787</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 18, 2012).

a median of 3 ½ months.<sup>1788</sup> The withdrawal rates for all Remington's degrees are lower than average sector-wide withdrawal rates.<sup>1789</sup>

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.

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.<sup>1790</sup> 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.<sup>1791</sup> In contrast, 1 student in 11 at public and nonprofit schools defaulted within the same period.<sup>1792</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who

<sup>1788</sup> 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.

<sup>1789</sup> 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.

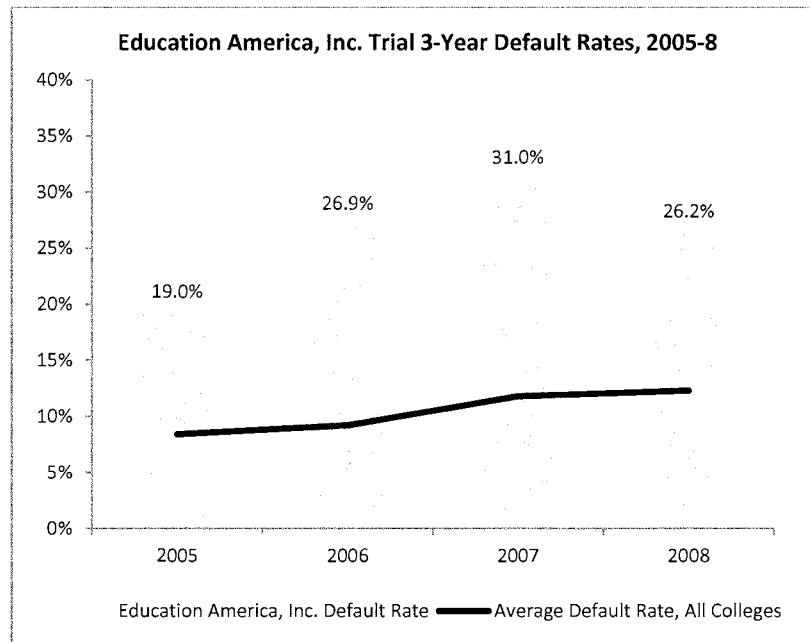
<sup>1790</sup> Direct Loan Default Rates, 34 CFR § 668.183(c).

<sup>1791</sup> 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.

<sup>1792</sup> Id.

attended other types of institutions.<sup>1793</sup> 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.<sup>1794</sup> This change represents a 32.6 percent increase over 4 years.<sup>1795</sup> 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.



<sup>1793</sup> Id.

<sup>1794</sup> 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.

<sup>1795</sup> 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.<sup>1796</sup> The amount that privately held companies examined by the committee spend on instruction ranges from \$1,118 to \$6,389 per student per year.<sup>1797</sup> 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.<sup>1798</sup>

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.<sup>1799</sup> 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.<sup>1800</sup>

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."<sup>1801</sup> Another student writes: "We had a teacher that did not teach us the course material and

<sup>1796</sup> 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.

<sup>1797</sup> Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

<sup>1798</sup> 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.

<sup>1799</sup> 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.

<sup>1800</sup> *Id.*

<sup>1801</sup> Education America, Inc., Student Complaint (5-000004).

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.”<sup>1802</sup>

Students report instructors who taught with expired materials, did not have adequate credentials, or could not communicate well in English.<sup>1803</sup> Others report that they were not adequately prepared by their instructors for the national licensing exam in their field of study.<sup>1804</sup> 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.<sup>1805</sup>

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.<sup>1806</sup>

<sup>1802</sup> Education America Internal E-mail, February 3, 2010, *Remington Complaint*, (5-000147).

<sup>1803</sup> 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).

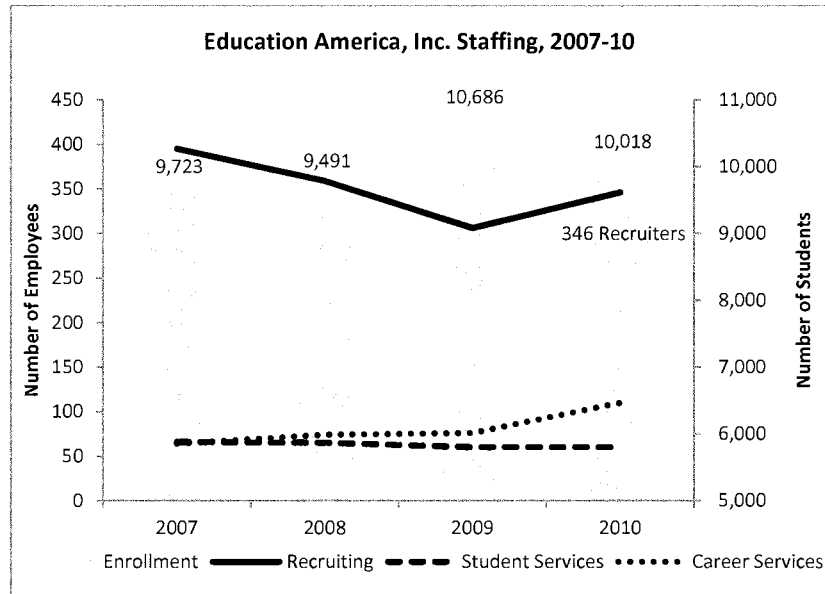
<sup>1804</sup> Education America, Inc., May 18, 2007, *West Tempe Justice Court: Civil Complaint* (5-000343)

<sup>1805</sup> Education America Internal E-mail, November 19, 2009, *FW: Complaint against Remington College Tampa Campus* (5-000031).

<sup>1806</sup> 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.<sup>1807</sup> 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.<sup>1808</sup> 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

<sup>1807</sup> 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.

<sup>1808</sup> Education America, Inc., July 9, 2009, Better Business Bureau of Southern Colorado: Complaint Activity Report (5-000058).

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, 'The girl that was working on your file is no longer here and corporate just now brought your file to attention.'<sup>1809</sup>

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.<sup>1810</sup> 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.<sup>1811</sup>

## 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.

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<sup>1809</sup> Id.

<sup>1810</sup> 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).

<sup>1811</sup> 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.<sup>1812</sup> 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.<sup>1813</sup>

Brands
Argosy University
Brown Mackie College
South University
The Art Institutes <sup>1814</sup>
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

<sup>1812</sup> 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).

<sup>1813</sup> Barclay's Bank High Yield Bond and Syndicated Loan Conference Transcripts (March 27, 2012).

<sup>1814</sup> 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.

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.<sup>1815</sup> The majority of students at The Art Institutes are younger than 25 and are primarily in Bachelor's programs.<sup>1816</sup> At Argosy, the majority of students are in graduate programs in behavioral health and education.<sup>1817</sup> The average student at Argosy is 36 years old.<sup>1818</sup> At Brown Mackie College, the majority of students are in Associate programs in health sciences, legal, and business.<sup>1819</sup> 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.<sup>1820</sup>

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."<sup>1821</sup>

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

<sup>1815</sup> Barclay's Bank High Yield Bond and Syndicated Loan Conference Transcripts (March 27, 2012).

<sup>1816</sup> *Id.*

<sup>1817</sup> *Id.*

<sup>1818</sup> *Id.*

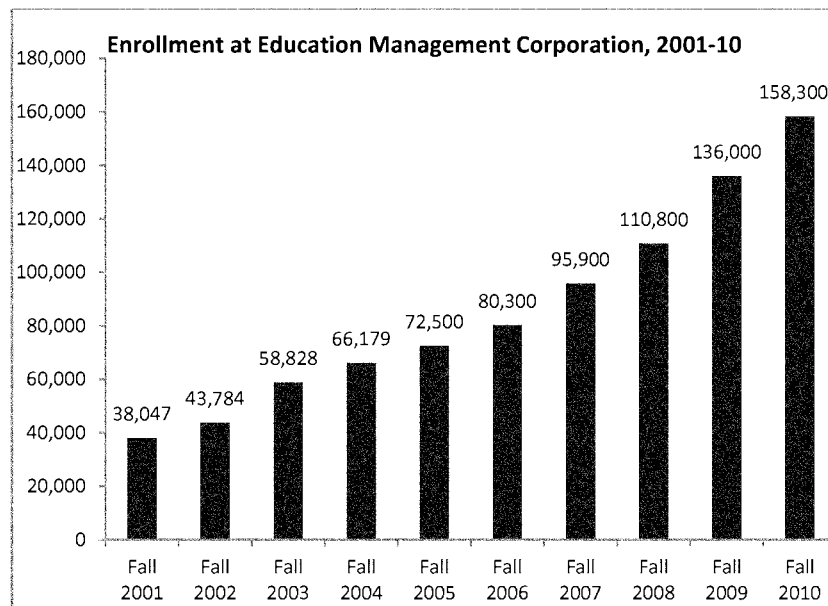
<sup>1819</sup> *Id.*

<sup>1820</sup> *Id.*

<sup>1821</sup> 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).

company, Providence Equity Partners 31.5 percent, and Leeds Equity Partners 7.6 percent.<sup>1822</sup>

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.



Enrollment at EDMC has grown more than four-fold since 2001, from 38,047 students that year to 158,300 students in 2010.<sup>1823</sup> Sixty-four percent of this growth has come since EDMC's 2006 purchase. Growth has fallen, however, in the last year.<sup>1824</sup> 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.<sup>1825</sup> The company plans to continue to expand by opening four to five new locations a year.<sup>1826</sup>

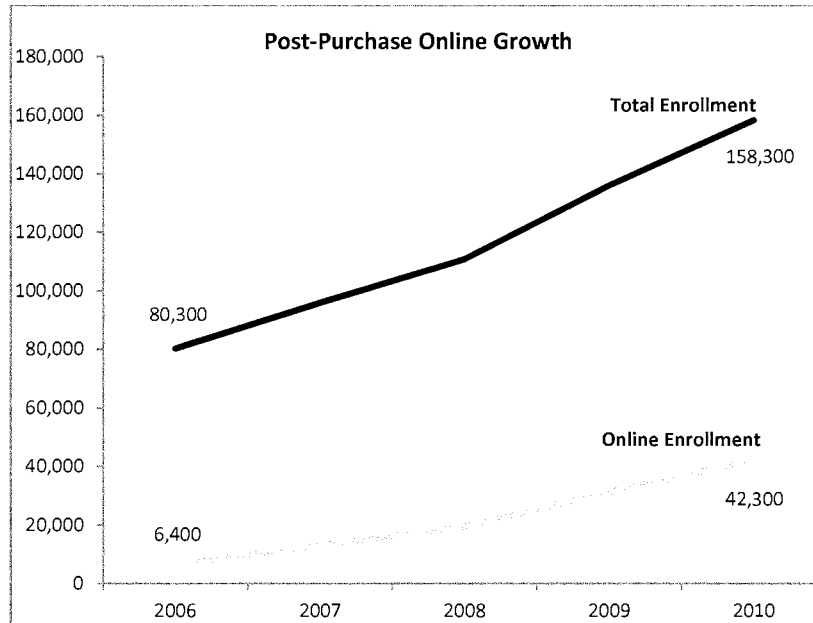
<sup>1822</sup> EDMC 2011 10-K.

<sup>1823</sup> 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.

<sup>1824</sup> Despite the drop in enrollment, EDMC's revenue and profit both increased from 2010 to 2011.

<sup>1825</sup> EDMC, 2012, Q3 Investor Call.

<sup>1826</sup> 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.<sup>1827</sup>

### 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.<sup>1828</sup> Together,

<sup>1827</sup> 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.

<sup>1828</sup> 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.

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.<sup>1829</sup>

In 2010, EDMC reported 77.4 percent of revenue from title IV Federal financial aid programs.<sup>1830</sup> However, this amount does not include the Departments of Defense and Veterans Affairs education programs.<sup>1831</sup> 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.<sup>1832</sup> With these funds included, 80 percent of EDMC's total revenue was comprised of Federal education funds.<sup>1833</sup> This figure does not include revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA).<sup>1834</sup> 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.

<sup>1829</sup> 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.

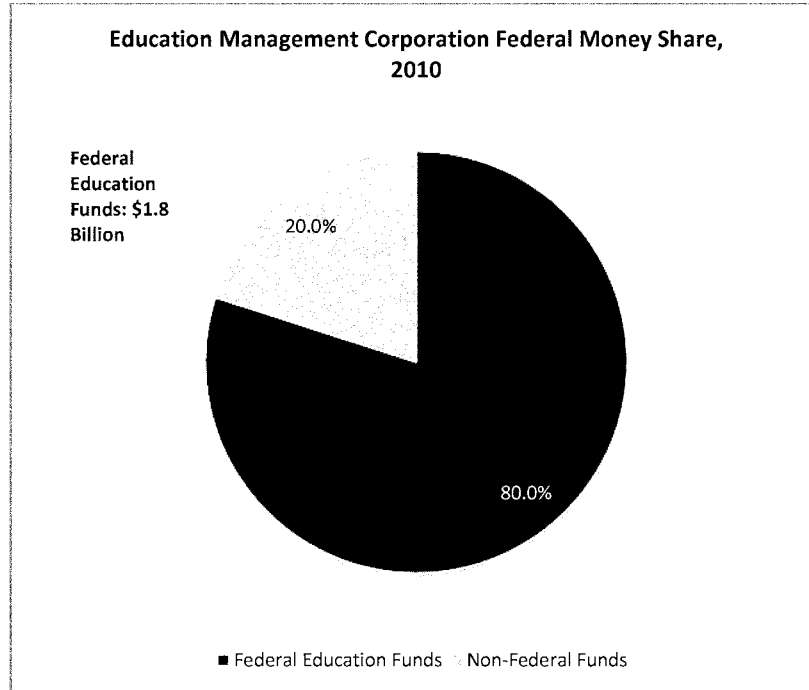
<sup>1830</sup> Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>1831</sup> 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.

<sup>1832</sup> Id.

<sup>1833</sup> "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.

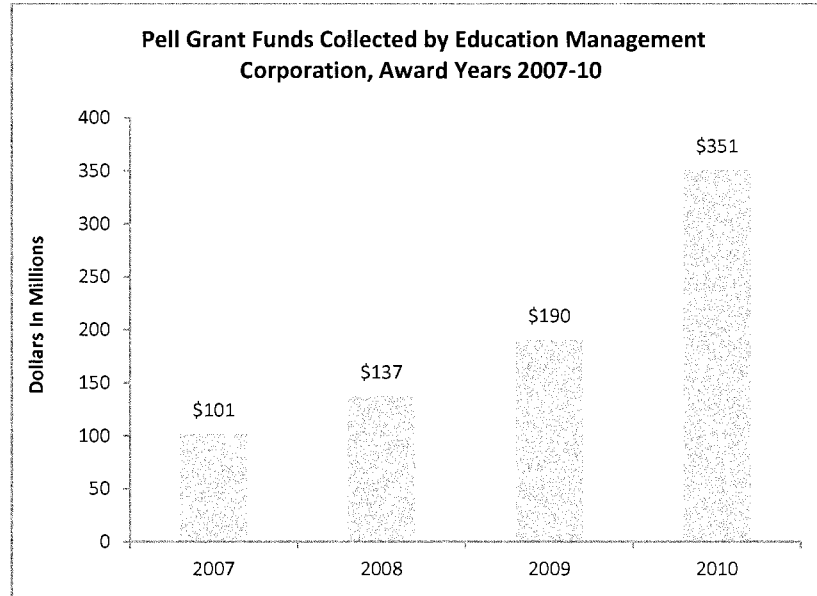
<sup>1834</sup> The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to \$2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) 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.<sup>1835</sup> 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.

<sup>1835</sup> 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, 2000-1 and 2009-10*, <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.<sup>1836</sup>

## Spending

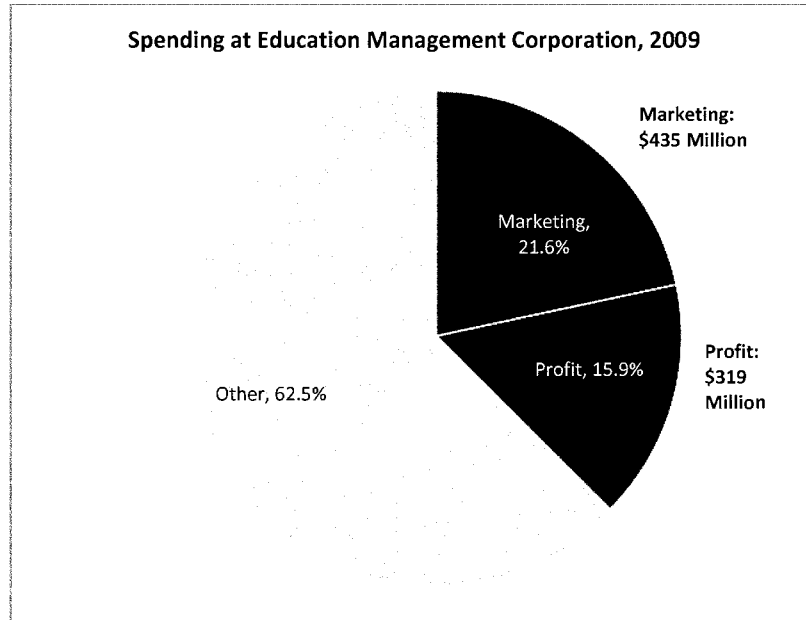
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.<sup>1837</sup> 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).<sup>1838</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.

<sup>1836</sup> 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.

<sup>1837</sup> 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.

<sup>1838</sup> 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

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.<sup>1839</sup>

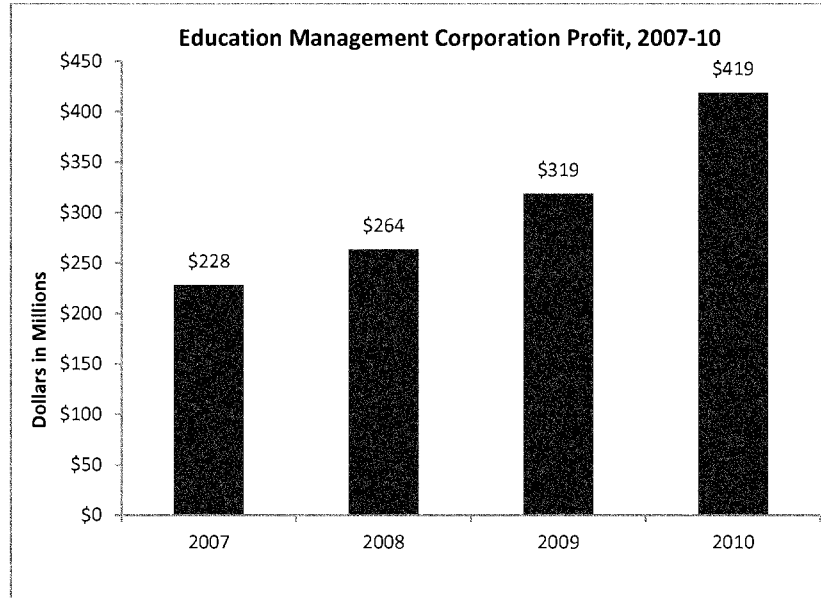


EDMC devoted a total of \$754 million to marketing, recruiting and profit in fiscal year 2009. The amount of profit EDMC has generated has also risen steadily. In 2007, EDMC reported a profit of \$228 million, and by 2010 that profit had grown to \$419 million.<sup>1840</sup>

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.

<sup>1839</sup> [d. "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.

<sup>1840</sup> 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.<sup>1841</sup> In 2009, EDMC CEO Todd Nelson received \$1.8 million in compensation.<sup>1842</sup> 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.

<sup>1841</sup> 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.

<sup>1842</sup> 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
<b>Total</b> <sup>1843</sup>		\$5,640,246	\$12,277,154

The chief executive officers of the large publicly traded for-profit education companies took home, on average, \$7.3 million in fiscal year 2009.<sup>1844</sup> 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.<sup>1845</sup> A Bachelor's of Science in Business at EDMC's Argosy University \$67,545.<sup>1846</sup> The same degree at Penn State University costs \$64,892.<sup>1847</sup> An Associate's Degree in Web Design and Interactive Media at the Art Institute of Pittsburgh costs \$47,410.<sup>1848</sup> The Community College of Allegheny County offers the same degree for \$6,800.<sup>1849</sup>

<sup>1843</sup> 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.

<sup>1844</sup> 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.

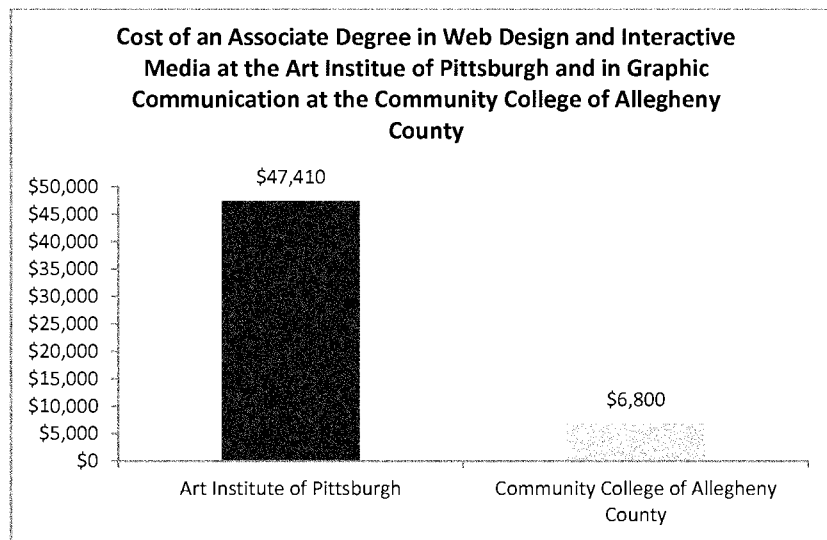
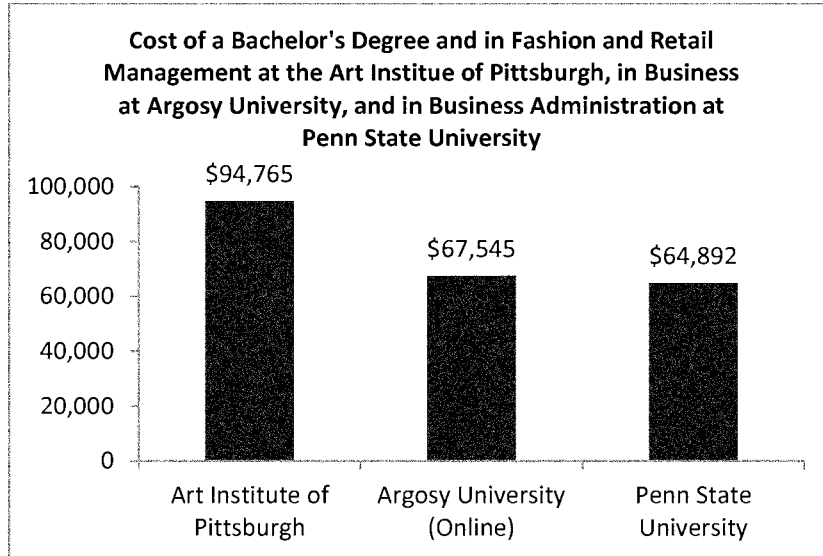
<sup>1845</sup> See Appendix 14; See also, The Art Institute of Pittsburgh, *Fashion - Programs & Curriculum*, <http://www.artinstitutes.edu/pittsburgh/fashion/fashion-and-retail-management-bs-4012.aspx> (accessed July 12, 2012).

<sup>1846</sup> See Appendix 14; See also, Argosy University, *Bachelor of Science in Business Administration*, [http://online.argosy.edu/college/undergraduate\\_studies/bsa/index.aspx](http://online.argosy.edu/college/undergraduate_studies/bsa/index.aspx) (accessed July 12, 2012).

<sup>1847</sup> See Appendix 14; see also, Penn State University, *Penn State*, <http://www.psu.edu/> (accessed July 12, 2012).

<sup>1848</sup> 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).

<sup>1849</sup> 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.<sup>1850</sup>

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?<sup>1851</sup>

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."<sup>1852</sup> 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]."<sup>1853</sup>

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?"<sup>1854</sup> 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."<sup>1855</sup> After a later tuition increase, the same executive wrote that he preferred, "not to have any

<sup>1850</sup> 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.

<sup>1851</sup> 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).

<sup>1852</sup> 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.

<sup>1853</sup> EDMC Internal Email, November 2, 2006, re: *Recommendation* (EDMC-916-000221049).

<sup>1854</sup> 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).

<sup>1855</sup> EDMC Internal Email, May 21, 2007, re: *October Tuition* (EDMC-916-000220745, at EDMC-916-00022047-48).

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.”<sup>1856</sup>

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].”<sup>1857</sup> 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 year, and tuition is increasing, it is getting harder and harder to package students without increasing the amount of institutional aid we give...”<sup>1858</sup>

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].”<sup>1859</sup> 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.”<sup>1860</sup>

The changes EDMC executives considered in response to the gainful employment regulation indicate the company’s awareness of the burden its high cost represents.<sup>1861</sup> In a November 2010 call with investors, EDMC President

<sup>1856</sup> EDMC Internal Email, June 11, 2007, re: *FW: Tuition Increase for October 1, 2007* (EDMC-916-000220815).

<sup>1857</sup> EDMC Internal Email, May 9, 2007, re: *New Tuition Increase* (EDMC-916-000212577).

<sup>1858</sup> EDMC Internal Email, August 27, 2007, re: *FBAR 08242007.xls* (EDMC-916-000229657).

<sup>1859</sup> EDMC Internal Email, May 24, 2008, re: *Tuition Increase* (EDMC-916-000212943).

<sup>1860</sup> 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).

<sup>1861</sup> 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).

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.<sup>1862</sup>

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.<sup>1863</sup> EDMC was among the companies with more than five programs failing all three criteria.<sup>1864</sup>

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 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."<sup>1865</sup>

### 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

<sup>1862</sup> EDMC 2011, Q1 Investor Call.

<sup>1863</sup> 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-percent> (accessed July 6, 2012).

<sup>1864</sup> 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).

<sup>1865</sup> EDMC Internal Email, June 7, 2010, re: *AUO Pricing* (EDMC-916-000229388).



next year to \$65.9 million.<sup>1866</sup> 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.<sup>1867</sup>

## 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."<sup>1868</sup> Another email adds, "WE ARE FAR BEHIND WHERE WE NEED TO BE!!!" [emphasis in original].<sup>1869</sup> 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."<sup>1870</sup>

EDMC managers use carrots such as "GET OUT OF WORK AT 3p.m." cards to push recruiters to enroll more students [emphasis in original].<sup>1871</sup> 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.<sup>1872</sup> The company asserts, 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

<sup>1866</sup> EDMC Investor Call, March 2010.

<sup>1867</sup> 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).

<sup>1868</sup> EDMC Internal Email, February 13, 2008, re: *No NSR Tomorrow!!!* (EDMC-916-000232415).

<sup>1869</sup> EDMC Internal Email, June 29, 2008, re: *FW: Conversion* (EDMC-916-000234003).

<sup>1870</sup> EDMC Internal Email, August 10, 2007, re: *Conversion* (EDMC-916-000234083).

<sup>1871</sup> EDMC Internal Email, May 16, 2008, re: *FW: Conversion* (EDMC-916-000234047).

<sup>1872</sup> EDMC Internal Email, December 23, 2008, re: *FW: CARS Report Attached: DB - aich TYPE - pdf File* (EDMC-916-000232456).

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.”<sup>1873</sup>

Students have little opportunity for recourse; EDMC like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.<sup>1874</sup> 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.”<sup>1875</sup>

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.<sup>1876</sup> 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.<sup>1877</sup>

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.”<sup>1878</sup> In a 2009 email, discussing 90/10 compliance, the president of Brown Mackie College further

<sup>1873</sup> 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](http://www.huffingtonpost.com/2011/10/14/goldman-sachs-for-profit-college_n_997409.html?view=print&comm_ref=false) (accessed June 14, 2012).

<sup>1874</sup> EDMC, *Brown Mackie College Enrollment Agreement* (EDMC-916-00000085, at EDMC-916-00000086). The company does stipulate however, that they will not elect to arbitrate any individual claim of less than \$5000 brought in small claims court.

<sup>1875</sup> 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.

<sup>1876</sup> EDMC Internal Email, July 30, 2012, re: *FW: Possible Opportunities for EDMC “90:10”* (EDMC-916-000228222).

<sup>1877</sup> 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://plx.corporate-ir.net/phoenix.zhtml?c=87813&p=irol-newsArticle&ID=1656526&highlight=> (accessed May 20, 2012).

<sup>1878</sup> 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).

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.”<sup>1879</sup>

## 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.<sup>1880</sup>

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.<sup>1881</sup> This is the fourth highest withdrawal rate of any company examined by the committee. These students were enrolled a median of 4 months.<sup>1882</sup> Further, a considerably higher percentage of students withdrew from EDMC compared to the overall withdrawal rate of 54 percent.<sup>1883</sup>

<sup>1879</sup> EDMC Internal Email, May 4, 2009, re: 90/10 (EDMC-916-000200233).

<sup>1880</sup> Patricia Steele and Sandy Bauin, “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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 14, 2012).

<sup>1881</sup> Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.

<sup>1882</sup> 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.

<sup>1883</sup> 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 or who do

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	32,107	2.9	33.5	63.7	20,444	162
Bachelor's	38,133	0.6	37.5	61.9	23,609	175
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.<sup>1884</sup>

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.<sup>1885</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>1886</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>1887</sup> The consequence of this higher rate is that almost half of all

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attend part-time 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.

<sup>1884</sup> Direct Loan Default Rates, 34 CFR 668.183(c).

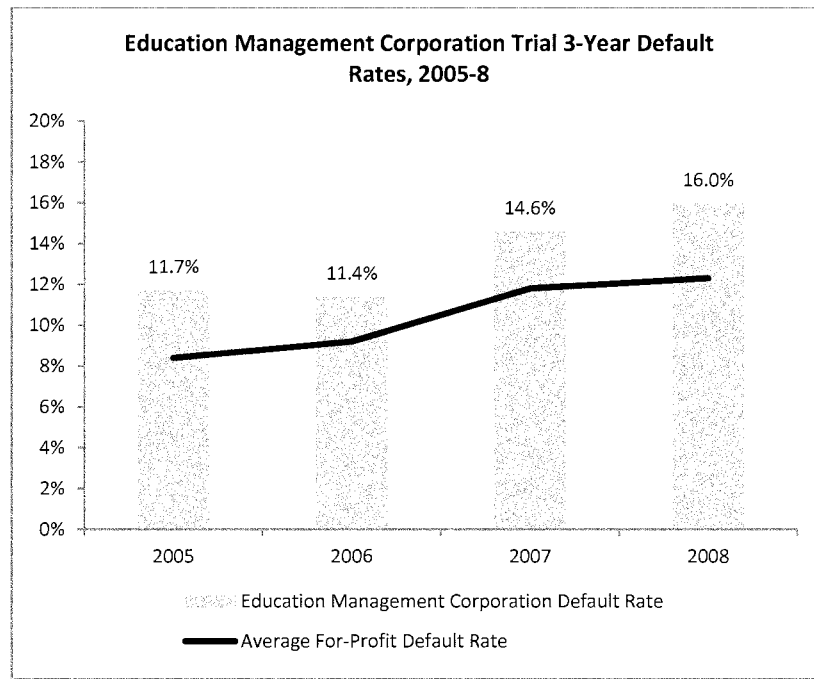
<sup>1885</sup> Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, <http://federalstudentaid.ed.gov/datacenter/cohort.html>. Default rates calculated by cumulating number of students entered into repayment and default by sector.

<sup>1886</sup> Id.

<sup>1887</sup> Id.

student loans defaults nationwide are held by students who attended for-profit colleges.<sup>1888</sup>

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.<sup>1889</sup> 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.



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, Ohio (24.9 percent default rate) and Findlay, Ohio (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

<sup>1888</sup> Id.

<sup>1889</sup> 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.

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.<sup>1890</sup> 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.<sup>1891</sup> 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!!"<sup>1892</sup>

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

<sup>1890</sup> EDMC, *Cohort Default Management Services Agreement* (EDMC-916-000083105).

<sup>1891</sup> EDMC, Spring 2010, *EDMC Default Prevention* (EDMC-916-000082490, at EDMC-916-000082537).

<sup>1892</sup> Id. at EDMC-916-000082539.

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.<sup>1893</sup> 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 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.

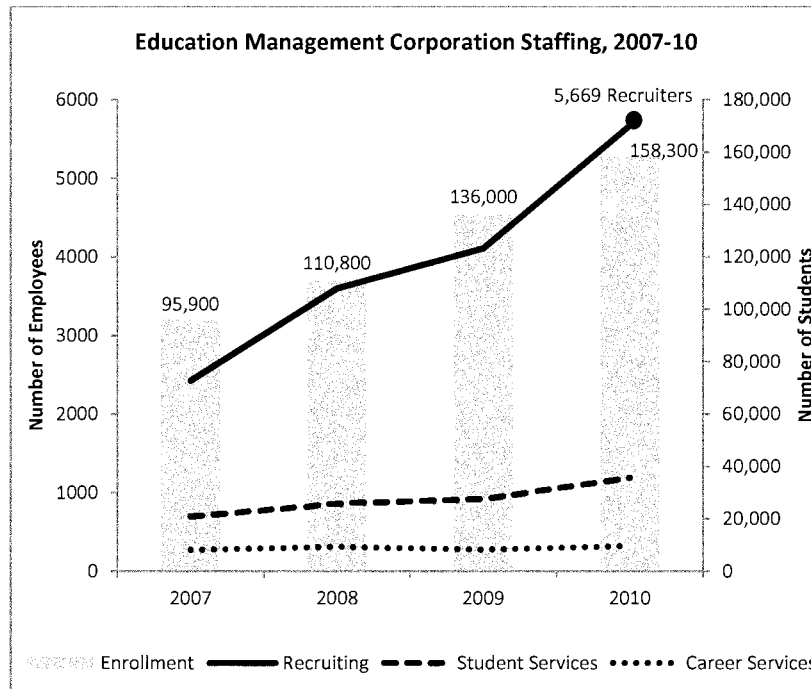
In contrast, public and non-profit 4-year colleges and universities, generally spend a higher amount per student on instruction, while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. On a per student basis, Penn State University spent \$16,507 on instruction, the University of Pennsylvania spent \$38,974, and Community College of Allegheny County spent \$4,173.<sup>1894</sup>

<sup>1893</sup> 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.

<sup>1894</sup> Senate HELP Committee staff analysis. See Appendix 23.

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.<sup>1895</sup> 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.<sup>1896</sup>

**Staffing**



While for-profit education companies employed large numbers of recruiters to enroll new students, the same companies frequently employ far less

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.

<sup>1895</sup> 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.

<sup>1896</sup> *Id.*



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.<sup>1897</sup> 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 Bittel, 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 department receive. I believe these facts speak volumes as to where the real priorities lie within these companies.<sup>1898</sup>

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).<sup>1899</sup> Conversely, she testified that she was repeatedly told that she would be fired if she failed to meet her placement quotas.<sup>1900</sup>

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

<sup>1897</sup> Id. See Appendix 7 and Appendix 24.

<sup>1898</sup> 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).

<sup>1899</sup> In contrast, Bittel was paid \$55,000 as an assistant director of admissions.

<sup>1900</sup> Id.

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.<sup>1901</sup>

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.<sup>1902</sup>

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 get stipends, manipulation of campus identifiers (OPEIDs), considering delaying the drawdown of title IV funds, and the use of scholarship programs.<sup>1903</sup>

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

<sup>1901</sup> Id.

<sup>1902</sup> 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).

<sup>1903</sup> 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).

their child care provider to support their stipend request. They are also counseled on the effect of taking out more loans.”<sup>1904</sup>

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.<sup>1905</sup> 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].<sup>1906</sup> EDMC discussed internally a consolidation and reorganization of its campuses in late 2009, at least in part, because of 90/10.<sup>1907</sup> 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.”<sup>1908</sup>

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?”<sup>1909</sup>

<sup>1904</sup> 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.

<sup>1905</sup> These shifts require the approval of the Department of Education and the accreditor. The moves are rarely contested.

<sup>1906</sup> EDMC Internal Email, September 7, 2007, re: *FW: BMC August 2007 90-10s* (EDMC-916-000217079).

<sup>1907</sup> 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).

<sup>1908</sup> EDMC, July 21, 2009, *Brown Mackie College: EDMC Executive Management Team Meeting* (EDMC-916-000228434, at EDMC-916-000228438).

<sup>1909</sup> EDMC Internal Email, May 4, 2009, re: *90/10* (EDMC-916-000200233, at EDMC-916-000200234).

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.<sup>1910</sup> While this practice is legal, stopping the flow of aid hurts students because campuses that do not receive student aid funds may not disburse in a timely manner living-expense checks to students who depend on those funds to pay for 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.”<sup>1911</sup> 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.<sup>1912</sup>

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.<sup>1913</sup> The foundation awards scholarships only to students at EDMC schools.<sup>1914</sup> 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.<sup>1915</sup> 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

<sup>1910</sup> 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.

<sup>1911</sup> 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).

<sup>1912</sup> 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).

<sup>1913</sup> EDMC, November 6, 2009, *90-10 Project Tracker-Student Mix* (EDMC-916-000000483, at EDMC-916-000000484).

<sup>1914</sup> The Education Foundation, “What is The Education Foundation,” <http://www.educationfdn.org/about.php> (accessed June 14, 2012).

<sup>1915</sup> See: The Education Foundation Spring 2009 Newsletter, [http://www.educationfdn.org/docs/newsletter%20archives/newsletter\\_spring\\_2009.pdf](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).

amount of employee contributions and school fund raising activity” explicitly for the purpose of 90/10 compliance.<sup>1916</sup> 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].”<sup>1917</sup>

### 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 attorney generals have intervened (along with the District of Columbia), is similar to those brought against the Apollo Group, Grand Canyon Education, and DeVry.<sup>1918</sup> In May 2012, a judge dismissed part of the case against EDMC finding that the written recruitment compensation policies 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.”<sup>1919</sup> 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.<sup>1920</sup> The attorney general of Kentucky is also investigating the business practices at Brown Mackie College.<sup>1921</sup> Additionally, the City Attorney of San Francisco is investigating recruiting practices, job placement reporting, and other issues at

<sup>1916</sup> EDMC, November 6, 2009, *90-10 Project Tracker-Student Mix* (EDMC-916-000000483, at EDMC-916-00000084).

<sup>1917</sup> EDMC, *90-10 Plan FY 2010 Akron* (EDMC-916-000227880).

<sup>1918</sup> California, Florida, Illinois, Indiana, and Minnesota 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.

<sup>1919</sup> Florida Office of the Attorney General, “Active Public Consumer-Related Investigation,” <http://myfloridalegal.com/.85256309005085AB.nsf/0/31BC85F3813C963C852577C00072D4CE> (accessed June 14, 2012).

<sup>1920</sup> EDMC Form 10-Q, March 31, 2012

<sup>1921</sup> *Id.*

the Art Institute of San Francisco and the seven other Art Institutes located in California.<sup>1922</sup>

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.<sup>1923</sup>

### **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.

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<sup>1922</sup> Id.

<sup>1923</sup> 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.<sup>1924</sup>

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

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<sup>1924</sup> 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).

enrolled online.<sup>1925</sup> Grand Canyon plans on growing its ground campus to 12,000 students by 2015.<sup>1926</sup>

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.

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?”<sup>1927</sup> 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.<sup>1928</sup> Enrollment has nearly doubled since the company’s IPO in 2008.

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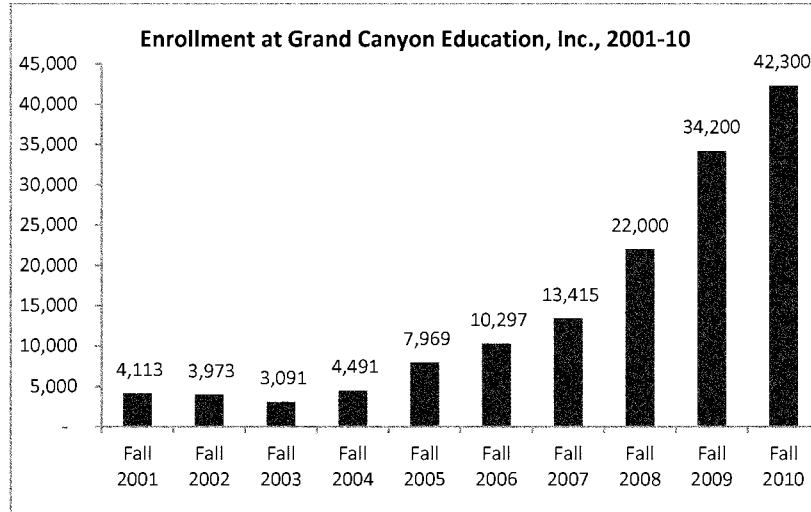
<sup>1925</sup> Grand Canyon University, “Grand Canyon Education, Inc. Reports Third Quarter 2011 Results,” Press Release, November 7, 2011, <http://investors.gcu.edu> (accessed June 14, 2012).

<sup>1926</sup> Grand Canyon University, 2011, Q3 Investor Call.

<sup>1927</sup> 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).

<sup>1928</sup> Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.





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.<sup>1929</sup>

### Federal Revenue

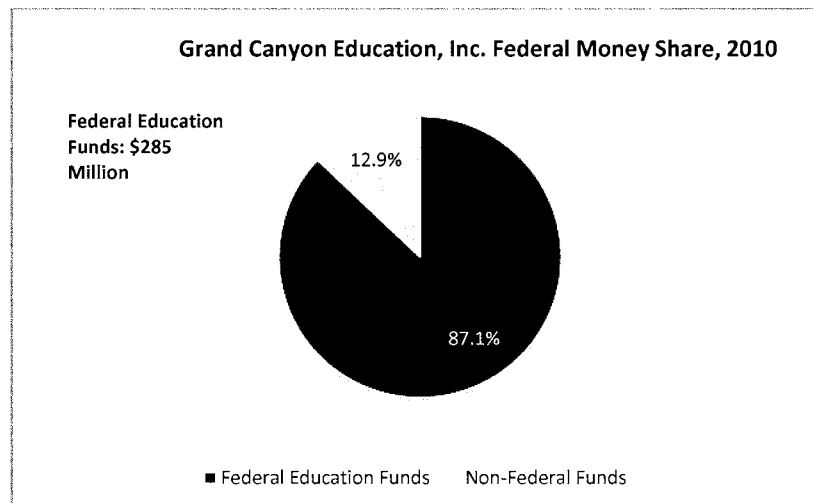
Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from \$5.4 to \$32.2 billion.<sup>1930</sup> Together, 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.<sup>1931</sup>

<sup>1929</sup> 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.

<sup>1930</sup> "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.

<sup>1931</sup> 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, Grand Canyon reported 84.9 percent of revenue came from title IV Federal financial aid programs.<sup>1932</sup> However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.<sup>1933</sup> 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.<sup>1934</sup> With these funds included, 87.1 percent of Grand Canyon's total revenue was comprised of Federal education funds.<sup>1935</sup>



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source

<sup>1932</sup> 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.

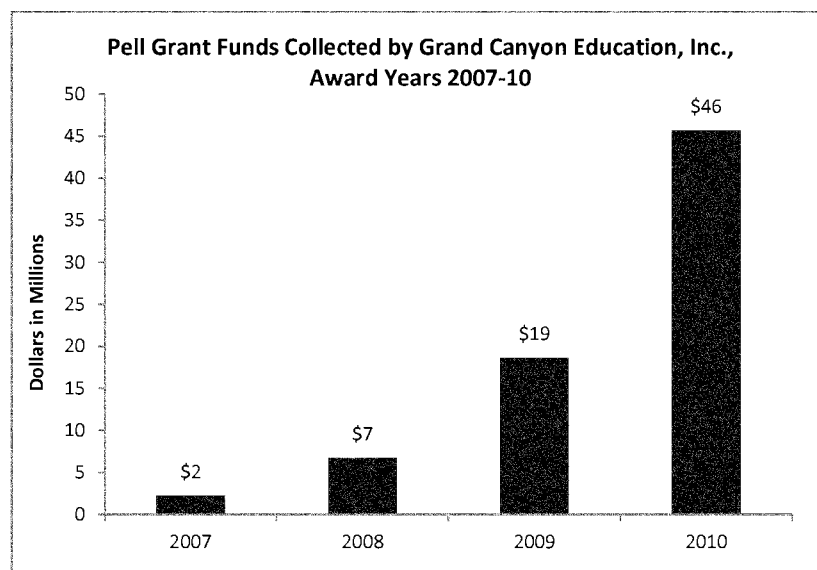
<sup>1933</sup> The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to \$2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) 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.

<sup>1934</sup> 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.

<sup>1935</sup> "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).

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.<sup>1936</sup> 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.



During 2007, Grand Canyon collected \$2.3 million in Federal Pell grants.<sup>1937</sup> Just 3 years later, during 2010, the company collected \$45.7 million, an increase of over 1,400 percent.<sup>1938</sup> 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.

<sup>1936</sup> 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*, 2000-1 and 2009-10, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.

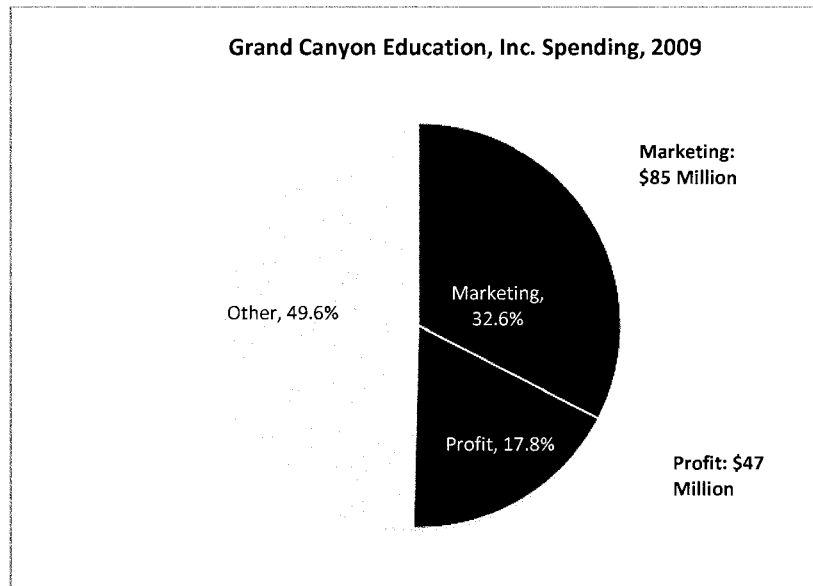
<sup>1937</sup> Pell disbursements are reported according to the Department of Education's student aid "award year," other revenue figures are reported according to the company's fiscal year.

<sup>1938</sup> 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*, 2000-1 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 revenues came from Federal taxpayers in fiscal year 2009.<sup>1939</sup> 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).<sup>1940</sup>

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.<sup>1941</sup> The percentage of revenue that Grand Canyon devoted to marketing is the second highest of all the companies examined by the committee.

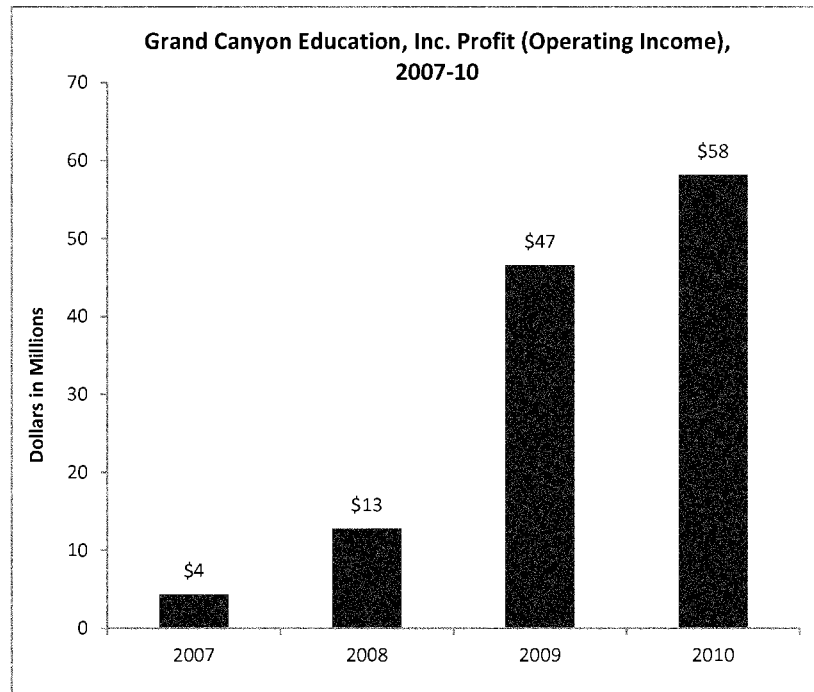


<sup>1939</sup> Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

<sup>1940</sup> 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.

<sup>1941</sup> "Other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.

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.



#### 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.<sup>1942</sup> 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.

<sup>1942</sup> 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
<b>Total</b> <sup>1943</sup>			<b>\$6,281,531</b>	<b>\$3,762,311</b>

The chief executive officers of the large publicly traded for-profit education companies took home, on average, \$7.3 million in fiscal year 2009.<sup>1944</sup> 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

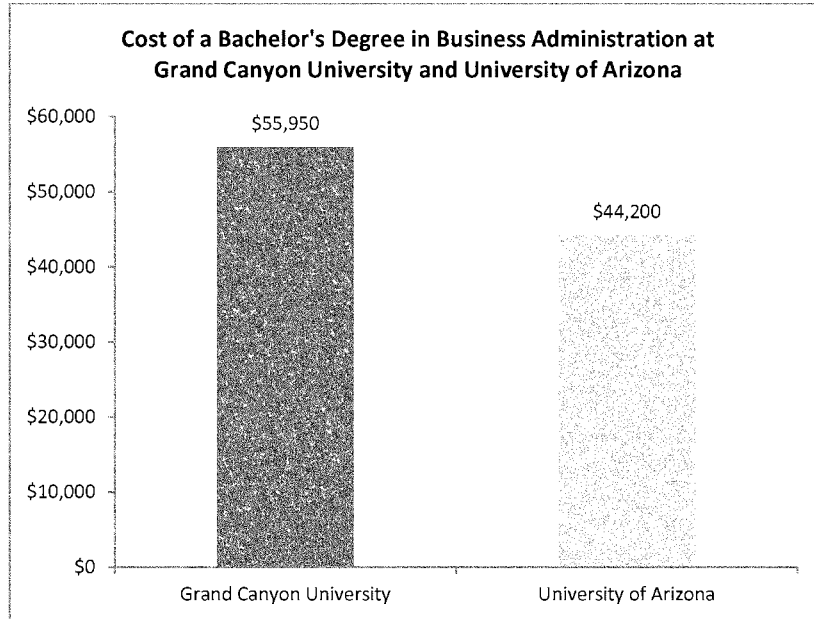
Compared to public colleges offering the same programs, the price of tuition is higher at Grand Canyon University. A Bachelor's of Science in Business Administration at Grand Canyon University costs \$55,950.<sup>1945</sup> The same degree at University of Arizona costs approximately \$44,200.<sup>1946</sup>

<sup>1943</sup> 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.

<sup>1944</sup> 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.

<sup>1945</sup> 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.

<sup>1946</sup> See Appendix 14; and see, University of Arizona, *University of Arizona*, [www.arizona.edu](http://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.<sup>1947</sup>

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.<sup>1948</sup>

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

<sup>1947</sup> "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).

<sup>1948</sup> 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.

school? With the recent research on how much more money you're apt to make after you earn your degree, isn't it time to get started now.<sup>1949</sup>

## 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.<sup>1950</sup> They were encouraged to create a sense of urgency and "assume that **NOW** is a good time to talk with the student."<sup>1951</sup> 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."<sup>1952</sup> Like many other for-profit colleges, Grand Canyon recruiting documents taught methods to uncover prospective students' pain and pleasure points.<sup>1953</sup> "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."<sup>1954</sup> The training encouraged asking "probing questions, which slowly peel away pain layers."<sup>1955</sup>

Unlike many other for-profit colleges, Grand Canyon's enrollment agreement does not include a binding arbitration clause.<sup>1956</sup>

<sup>1949</sup> Grand Canyon University, January 29, 2010, *Overcoming Objections Phase 4* (GCUHEL006343, at GCUHEL006355); See also Grand Canyon University, 2009, *GCU Student Services Training: Chapter 11: Enrollment Strategies* (GCUHEL003958).

<sup>1950</sup> Grand Canyon University, *Enrollment Manager, What is Your Role?* (GCUHEL006204 at GCUHEL006214).

<sup>1951</sup> Grand Canyon University, March 31, 2010, *GROW your Prospects* (GCUHEL011957).

<sup>1952</sup> Grand Canyon University, 2009, *GCU Student Services Training: Chapter 11: Enrollment Strategies* (GCUHEL003958 at GCUHEL003962); See also Grand Canyon University, 2005, *Chapter V. Selling* (GCUHEL004306).

<sup>1953</sup> Grand Canyon University, January 29, 2010, *Overcoming Objections Phase 4* (GCUHEL006343, at GCUHEL006349).

<sup>1954</sup> *Id.* at GCUHEL006345.

<sup>1955</sup> *Id.*

<sup>1956</sup> Grand Canyon University, *Enrollment Agreement* (GCUHEL004756).



### 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.<sup>1957</sup>

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.<sup>1958</sup>

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

<sup>1957</sup> Grand Canyon University Internal Email, April 1, 2010, re: *Pizza Receipt* (GCUHELP 019907).

<sup>1958</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 14, 2012).

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.

<b>Status of Students Enrolled in Grand Canyon Education, Inc. in 2008-9, as of 2010</b>						
<b>Degree Type</b>	<b>Enrollment</b>	<b>Percent Completed</b>	<b>Percent Still Enrolled</b>	<b>Students With-drawn</b>	<b>With-drawn</b>	<b>Median Days Attended</b>
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.

<b>Status of Online Students Enrolled in Grand Canyon in 2008-9, as of 2010</b>							
<b>Degree Type</b>	<b>Enrollment</b>	<b>Students Completed</b>	<b>Percent Completed</b>	<b>Still Enrolled</b>	<b>Percent Still Enrolled</b>	<b>Students With-drawn</b>	<b>With-drawn</b>
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.<sup>1959</sup>

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.<sup>1960</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>1961</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>1962</sup> The consequence of this higher rate is that almost half of all student loans defaulted nationwide are held by students who attended for-profit colleges.<sup>1963</sup>

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.<sup>1964</sup> 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.

<sup>1959</sup> Direct Loan Default Rates, 34 CFR § 668.183(c).

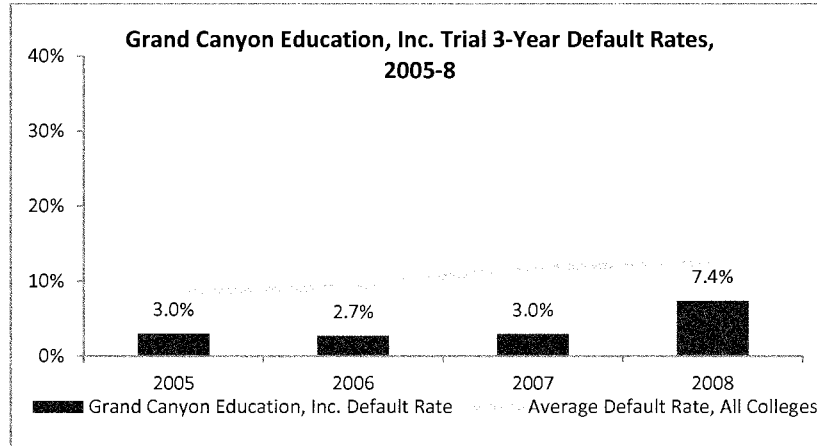
<sup>1960</sup> Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, <http://federalstudentaid.ed.gov/datacenter/cohort.html>. Default rates calculated by cumulating number of students entered into repayment and default by sector.

<sup>1961</sup> Id.

<sup>1962</sup> Id.

<sup>1963</sup> Id.

<sup>1964</sup> 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.<sup>1965</sup>

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?”<sup>1966</sup> 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

<sup>1965</sup> Grand Canyon University, Q4 2011, Call with Investors.

<sup>1966</sup> Grand Canyon University Internal Email, September 4, 2009, re: *2008 Default Rate Projections* (GCUHELP019302).

longer able to apply for forbearances and such. They realize the payments are too high and they don't pay anything."<sup>1967</sup> He also cited the bad economy as a factor.<sup>1968</sup> 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"<sup>1969</sup>

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.<sup>1970</sup> 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.<sup>1971</sup> 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."<sup>1972</sup>

### 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.<sup>1973</sup> 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

<sup>1967</sup> Grand Canyon University Internal Email, September 4, 2009, re: *2008 Default Rate Projections* (GCUHEL019302).

<sup>1968</sup> Id.

<sup>1969</sup> Id.

<sup>1970</sup> Grand Canyon University Internal Email, June 17, 2010; re: *June 2010 CDR Projections* (GCUHEL019938).

<sup>1971</sup> Grand Canyon University Internal Email, June 17, 2010; re: *June 2010 CDR Projections* (GCUHEL019938).

<sup>1972</sup> Grand Canyon University Internal Email, March 11, 2010, re: *2009 Default Rate Forecaster-March* (GCUHEL019937).

<sup>1973</sup> 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.

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.<sup>1974</sup>

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.<sup>1975</sup> 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.<sup>1976</sup> The company fired 17 full-time professors in 2005 that had been with the college before its conversion to a for-profit company.<sup>1977</sup>

### 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.<sup>1978</sup>

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.

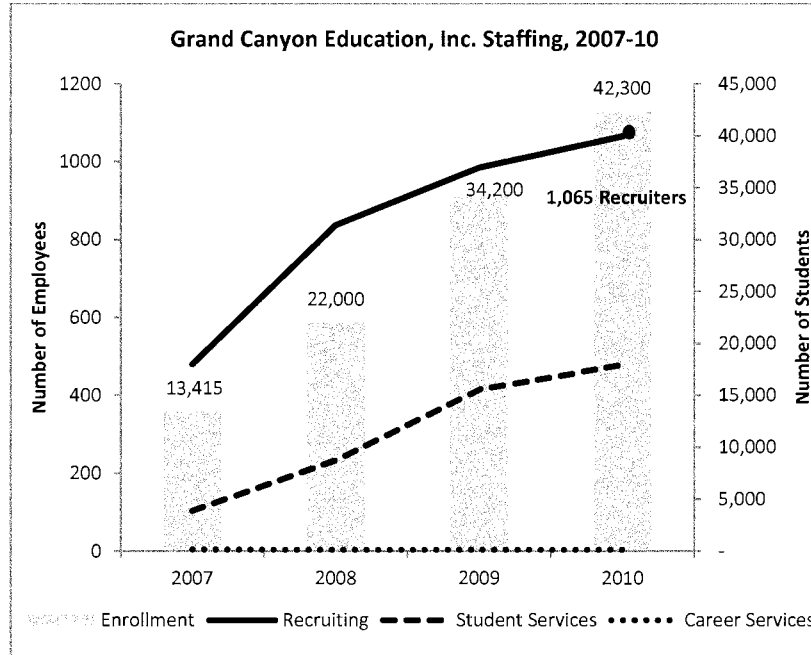
<sup>1974</sup> Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

<sup>1975</sup> 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.

<sup>1976</sup> *Id.*

<sup>1977</sup> 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).

<sup>1978</sup> *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.<sup>1979</sup>

### 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

<sup>1979</sup> 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).

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.



## 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.<sup>1980</sup> 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.”<sup>1981</sup> 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.<sup>1982</sup> 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,

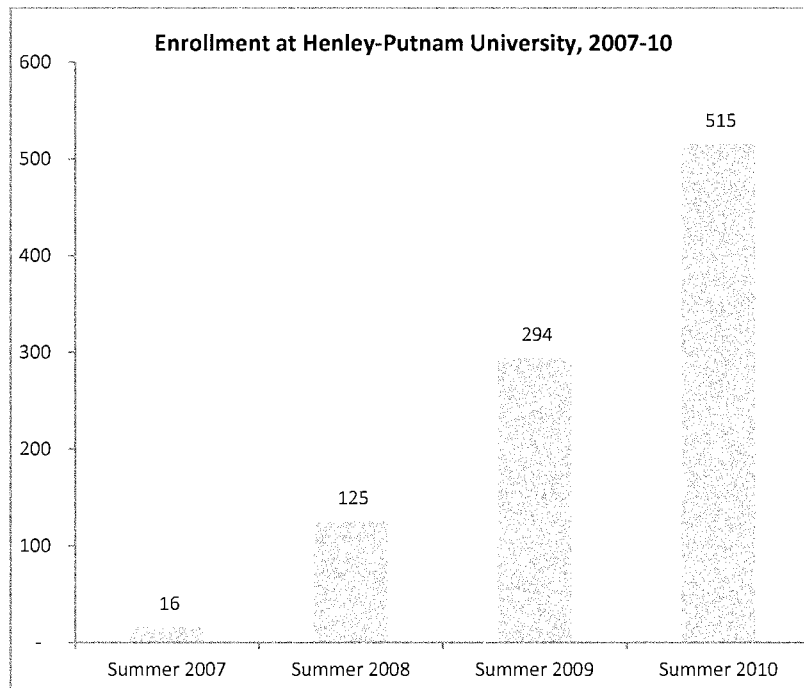
<sup>1980</sup> Liberty Partners, “Henley-Putnam University Portfolio”, <http://www.libertypartners.com/index.cfm/Fuseaction/Portfolio.viewCompany/companyID/44.cfm> (accessed June 14, 2012).

<sup>1981</sup> Letter from Gregory H. Vonn Gehr, CEO of Henley-Putnam University, to Mike Lambert, executive director for DETC Accrediting Commission, February 26, 2008, re: *Restructuring of Liberty Partners' Majority Stock Ownership* (HPU0001810, at HPU001811).

<sup>1982</sup> *Id.*

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.<sup>1983</sup>

Enrollment at Henley-Putnam has increased significantly since 2008, growing from 125 students to 515 students by the summer of 2010.



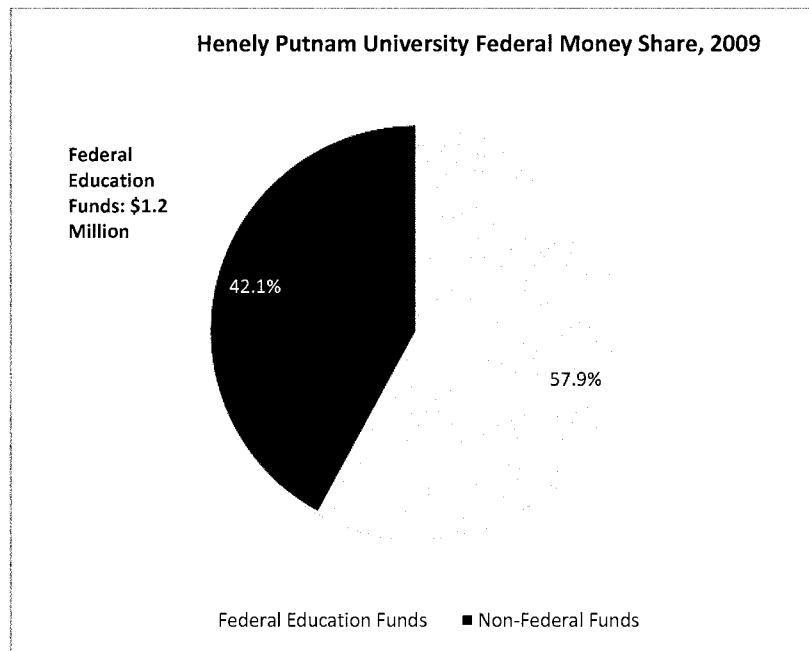
The growth in enrollment has led to growth in revenue. The company's revenue grew from \$181,179 in 2007 to \$2.1 million in 2009.<sup>1984</sup> With \$2.1 million in revenue, Henley-Putnam is the smallest of the 30 for-profit education companies examined.

<sup>1983</sup> 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).

<sup>1984</sup> 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 funds.<sup>1985</sup> 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.<sup>1986</sup>



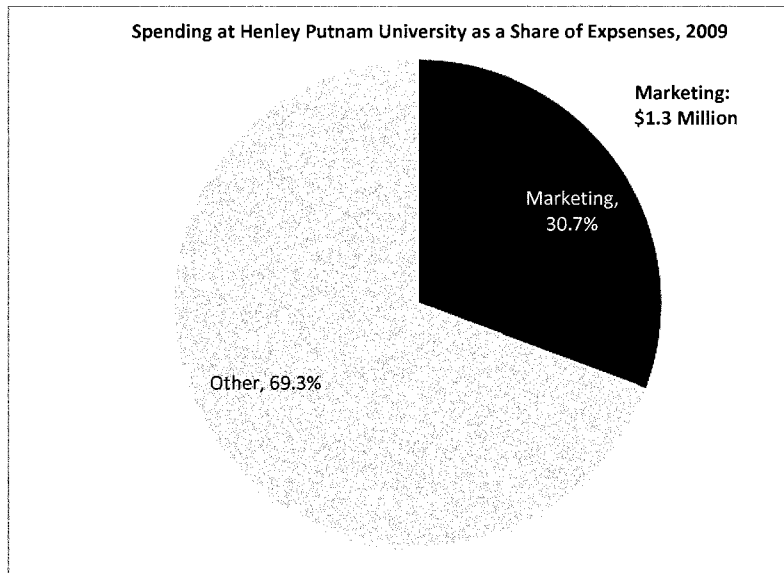
<sup>1985</sup> "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

<sup>1986</sup> 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 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.

## 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.

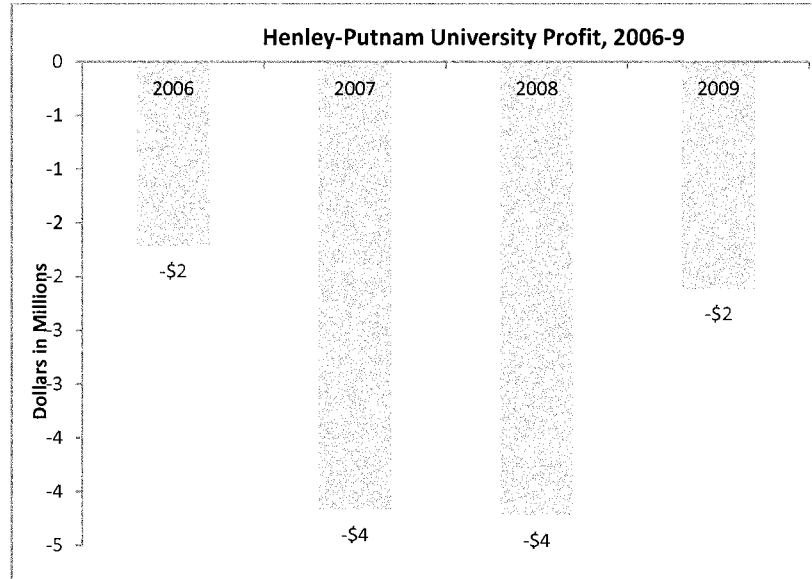
However, due to the start-up nature of Henley-Putnam and the limited amount of information available, it is unclear whether these concerns apply to this company. In 2009, Henley-Putnam devoted 30.7 percent of its spending, or \$1.3 million, to marketing and recruiting.<sup>1987</sup>



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.<sup>1988</sup>

<sup>1987</sup> 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.

<sup>1988</sup> Senate HELP Committee staff analysis. See Appendix 18.



#### Executive Compensation

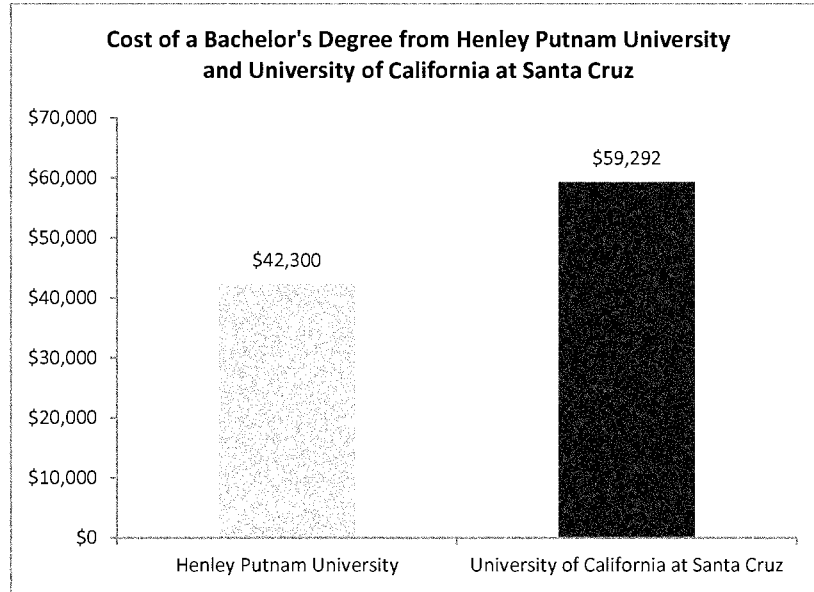
As a privately held company, Henley-Putnam is not obligated to release executive compensation figures.

#### **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<sup>1989</sup>, but costs \$59,292 at University of California at Santa Cruz.<sup>1990</sup>

<sup>1989</sup> See Appendix 14; see also, Henley Putnam University, *Admissions*, <http://www.henley-putnam.edu/admissions/tuition.aspx> (accessed July 12, 2012).

<sup>1990</sup> 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.<sup>1991</sup>

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.<sup>1992</sup> The company’s small

<sup>1991</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 14, 2012).

<sup>1992</sup> Senate HELP Committee staff analysis. See Appendix 15. Henley-Putnam did not produce information on student retention for graduate programs.

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 withdrawal rate is lower than the 54.3 percent average Bachelor's degree program rate for the entire sector.<sup>1993</sup>

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	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.<sup>1994</sup> Henley-Putnam is one such company.<sup>1995</sup> The company's entire faculty is part-time.<sup>1996</sup>

<sup>1993</sup> 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.

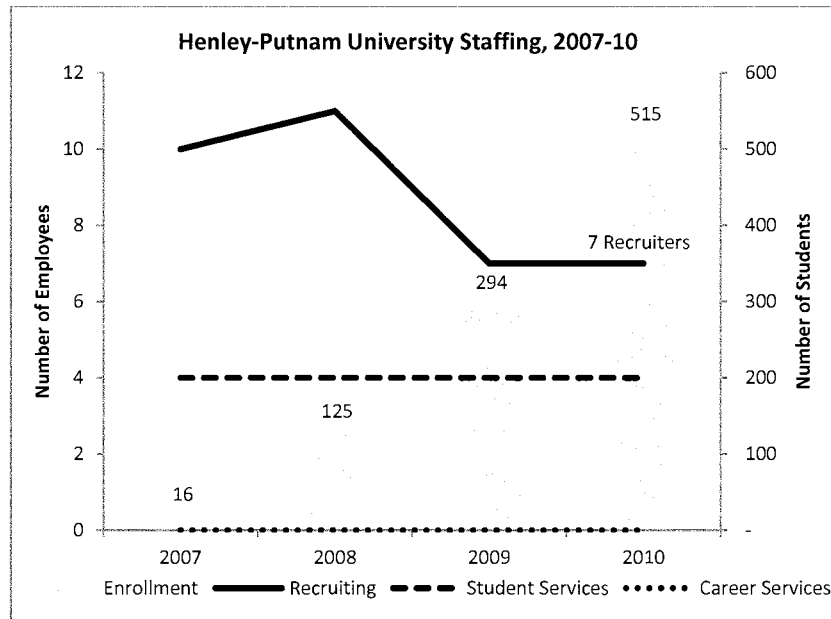
<sup>1994</sup> Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

<sup>1995</sup> Id.

<sup>1996</sup> Id.

## 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.<sup>1997</sup>



## Conclusion

Little information is available about Henley-Putnam. Without this information, it is 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.

<sup>1997</sup> Id. See Appendix 7 and Appendix 24.





## 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.<sup>1998</sup>

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).<sup>1999</sup> 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.<sup>2000</sup>

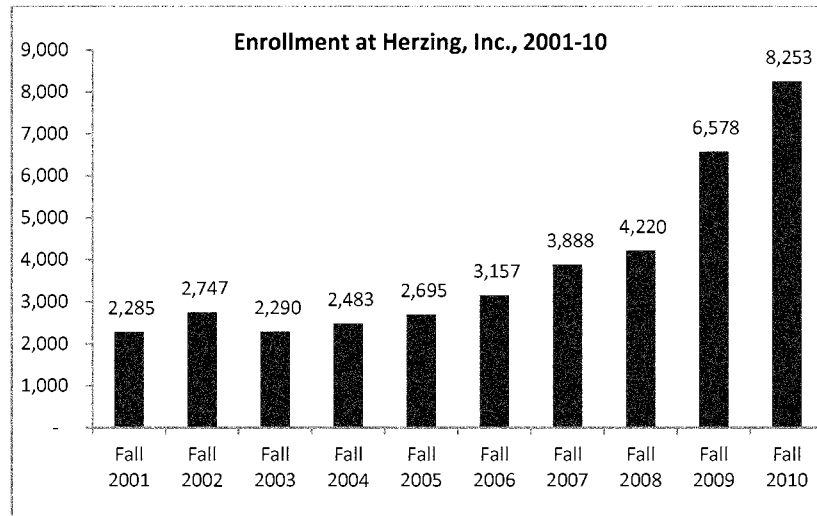
While it is significantly smaller than many companies the committee examined, Herzing has grown significantly over the last decade. Enrollment at Herzing has increased 260 percent since 2001. In the fall of 2001, Herzing

<sup>1998</sup> Akron, Atlanta, Birmingham, Brookfield, Kenosha, Madison, Minneapolis, New Orleans, Omaha, Orlando, and Toledo.

<sup>1999</sup> The 30 companies operate 71 different brands not including the Art Institute.

<sup>2000</sup> The Higher Learning Commission, “Currently or Previously Affiliated Institutions: Herzing University” [http://www.ncahlc.org/component/com\\_directory/Action\\_ShowBasic/Itemid./instid,2838/](http://www.ncahlc.org/component/com_directory/Action_ShowBasic/Itemid./instid,2838/) (accessed June 14, 2012).

enrolled 2,285 students. By the fall of 2010, the company enrolled 8,253 students.<sup>2001</sup>



Driven by this increase in enrollment, revenue at Herzing has grown steadily, increasing 48 percent between 2006 and 2009.<sup>2002</sup>

### 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.<sup>2003</sup> Together,

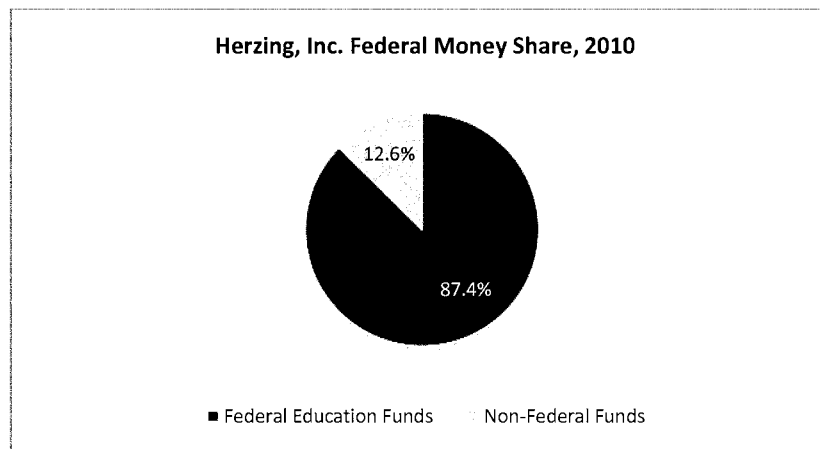
<sup>2001</sup> Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7. The most current enrollment data from the Department of Education 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.

<sup>2002</sup> 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.

<sup>2003</sup> 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.

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.<sup>2004</sup>

In 2010, Herzing reported 86.1 percent of revenue from title IV Federal financial aid programs.<sup>2005</sup> However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.<sup>2006</sup> 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.<sup>2007</sup> With these funds included, 87.4 percent of Herzing's total 2010 revenue was comprised of Federal education funds.<sup>2008</sup>



<sup>2004</sup> 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.

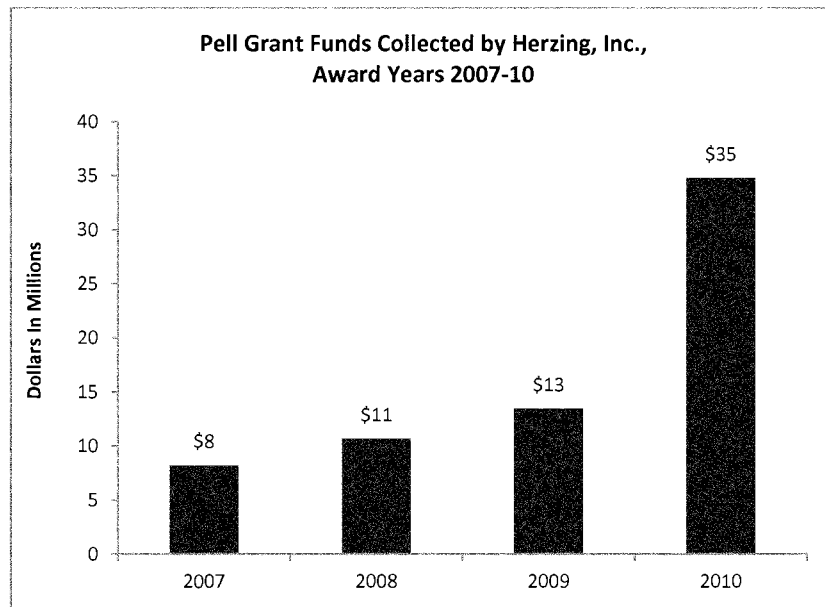
<sup>2005</sup> Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>2006</sup> 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.

<sup>2007</sup> 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.

<sup>2008</sup> "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.<sup>2009</sup> 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.<sup>2010</sup>

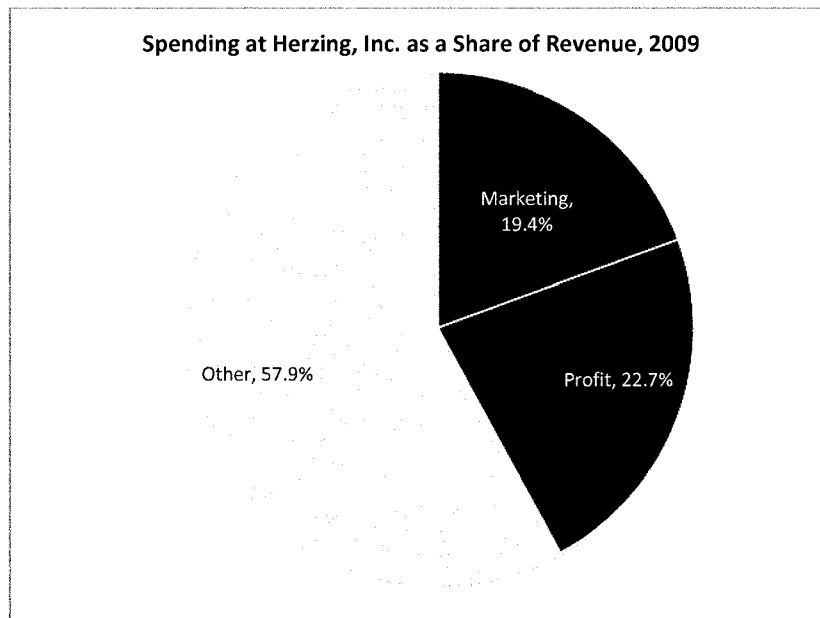
<sup>2009</sup> Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School, 2001-2 and 2010-11*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html> (accessed July 12, 2012).

<sup>2010</sup> 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.

## 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 revenues came from Federal taxpayers in fiscal year 2009.<sup>2011</sup> 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).<sup>2012</sup> 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.<sup>2013</sup>

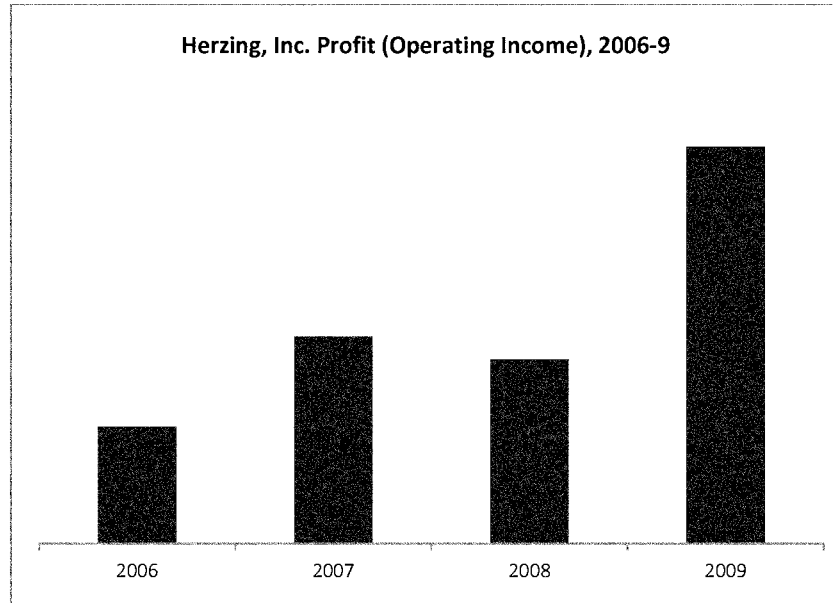


<sup>2011</sup> Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

<sup>2012</sup> 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.

<sup>2013</sup> 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.

The amount of profit Herzing generated also increased rapidly, rising 71 percent between 2006 and 2010.<sup>2014</sup>



#### 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.<sup>2015</sup> The same degree at Milwaukee Area Technical College costs \$5,459.<sup>2016</sup> Herzing charges \$27,300 for an Associates in Business Management;<sup>2017</sup> Milwaukee Area Technical College offers an Associates in

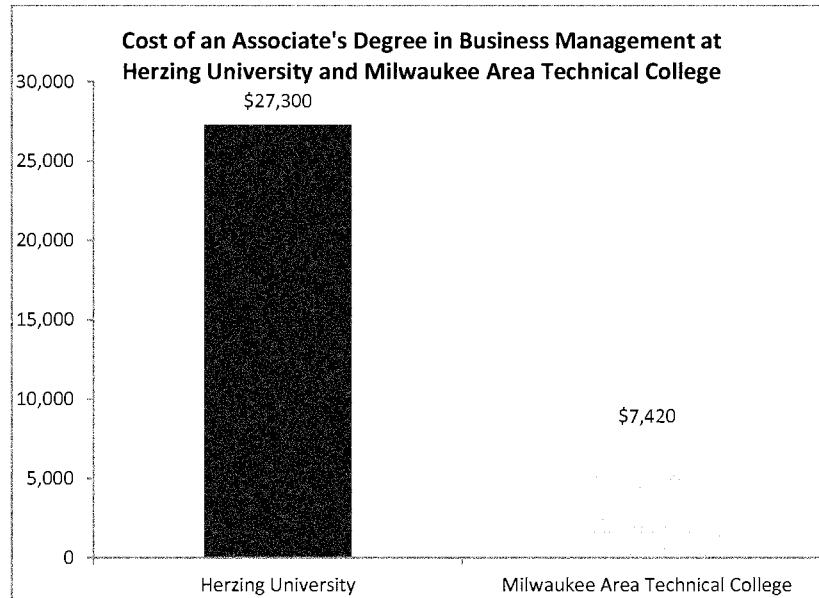
<sup>2014</sup> Senate HELP Committee staff analysis. See Appendix 18.

<sup>2015</sup> See Appendix 14; see also, Herzing University, *Medical Assisting Services*, <http://www.herzing.edu/academics/medical-assisting-services> (accessed July 13, 2012).

<sup>2016</sup> See Appendix 14; see also, Milwaukee Area Technical College, *Milwaukee Area Technical College*, <http://www.inatc.edu> (accessed July 13, 2012).

<sup>2017</sup> 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.

Business Management for \$7,420.<sup>2018</sup> A Bachelor of Science in Business Management with a concentration in business administration costs \$57,000 at Herzing University,<sup>2019</sup> while a Bachelor's degree in Business at the University of Wisconsin-Madison costs \$50,480.<sup>2020</sup>



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.<sup>2021</sup>

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

<sup>2018</sup> See Appendix 14; see also, See Appendix 14; see also, Milwaukee Area Technical College, *Milwaukee Area Technical College*, <http://www.mate.edu> (accessed July 13, 2012).

<sup>2019</sup> See Appendix 14; see also, Herzing University, *Business Management*, <http://www.herzing.edu/academics/business-management> (accessed July 13, 2012).

<sup>2020</sup> See Appendix 14; see also, University of Wisconsin-Madison, *Wisconsin*, <http://www.wisc.edu/> (accessed July 13, 2012).

<sup>2021</sup> 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.



in their programs. This is only adding to the student's debt without them gaining additional marketable skills/degrees.<sup>2022</sup>

He also states:

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.<sup>2023</sup>

Complaints help to document student concern regarding the cost of attendance. After being 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.<sup>2024</sup>

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.<sup>2025</sup>

She continues:

I wish this [annual] increase was brought to my attention before [I] signed all the papers to be admitted.<sup>2026</sup>

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.

<sup>2022</sup> Herzing Internal Email, November 6, 2009, re: *Tuition Increase Recommendations* (HP000006785).

<sup>2023</sup> Id.

<sup>2024</sup> Herzing Internal Email, February 10, 2009, re: *Don Madelung & [redacted] on Local Radio 2.7.2009* (HP000006830, at HP000006831).

<sup>2025</sup> Herzing Internal Email, February 13, 2012, re: *Annual Tuition Increase* (HP000006912). (emphasis in original)

<sup>2026</sup> Id.

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.<sup>2027</sup> 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.
5. Don’t want loans, only grants.
6. Concerned about placement, looking for guarantee.
7. Leery about the credibility of an online school.<sup>2028</sup>

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.<sup>2029</sup>

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.”<sup>2030</sup>

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

<sup>2027</sup> Herzing, *Handling Objections: A Step by Step Process* (HP000004085).

<sup>2028</sup> Id. at HP000004097.

<sup>2029</sup> Id. at HP000004087.

<sup>2030</sup> Id. at HP000004088.

Coder II you must have three years of experience to be eligible to take the certification test.<sup>2031</sup>

## 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.<sup>2032</sup>

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.

### 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.<sup>2033</sup> Overall, Herzing’s withdrawal rate of 52 percent closely tracks the withdrawal rate of 54.1 percent for the 30 schools the committee examined.<sup>2034</sup> 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

<sup>2031</sup> Herzing, November 2007, *Student Complaint Summary* (HP000002215, at HP000002216).

<sup>2032</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 14, 2012).

<sup>2033</sup> 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.

<sup>2034</sup> 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.

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	Completed	Still Enrolled	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.

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 With-drawn	With-drawn
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 With-drawn	With-drawn
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.<sup>2035</sup> HLC has also scheduled a focused visit to Herzing to examine "integrity of public information and on learning outcomes assessment."<sup>2036</sup>

#### 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.<sup>2037</sup>

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

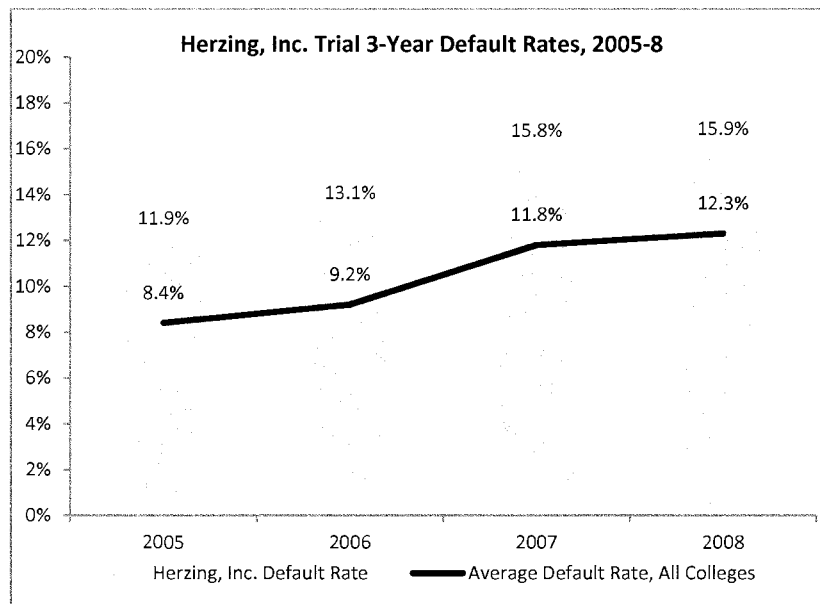
<sup>2035</sup> The Higher Learning Commission, "Currently or Previously Affiliated Institutions: Herzing University" [http://www.ncahlc.org/component/com\\_directory/Action\\_ShowBasic/Itemid\\_2838/](http://www.ncahlc.org/component/com_directory/Action_ShowBasic/Itemid_2838/) (accessed June 14, 2012).

<sup>2036</sup> Id.

<sup>2037</sup> Direct Loan Default Rates, 34 CFR 668.183(c).

data.<sup>2038</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>2039</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>2040</sup> 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.<sup>2041</sup>

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.<sup>2042</sup> This change represents a 32.6 percent increase over 4 years.<sup>2043</sup> 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.



<sup>2038</sup> 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.

<sup>2039</sup> Id.

<sup>2040</sup> Id.

<sup>2041</sup> Id.

<sup>2042</sup> Id.

<sup>2043</sup> 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.

## 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.<sup>2044</sup> The amount that privately held companies the committee examined spend on instruction ranges from \$1,118 to \$6,389 per student per year.<sup>2045</sup> In contrast, public and non-profit schools, generally spend a higher amount per student on instruction. By 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.<sup>2046</sup>

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.<sup>2047</sup> 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.<sup>2048</sup>

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.<sup>2049</sup>

<sup>2044</sup> 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.

<sup>2045</sup> Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

<sup>2046</sup> 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.

<sup>2047</sup> 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.

<sup>2048</sup> *Id.*

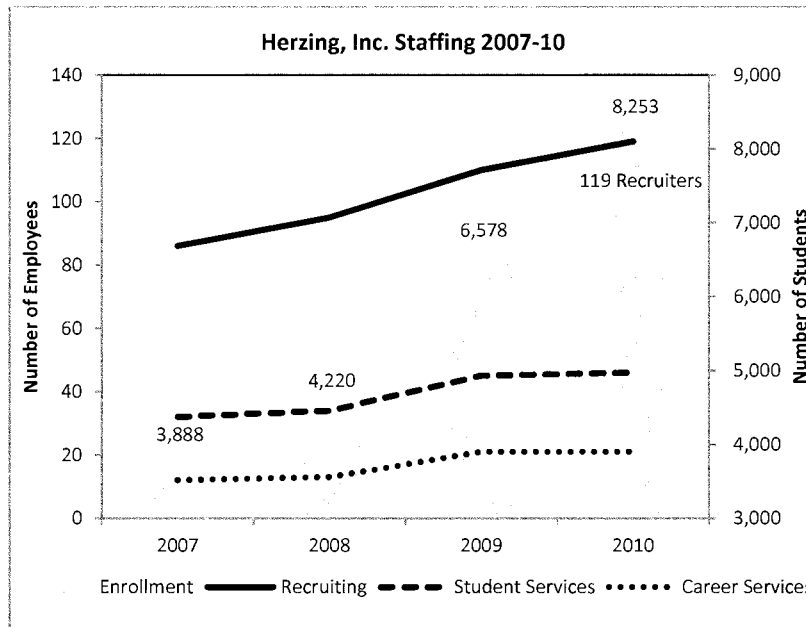
<sup>2049</sup> Herzing, Student Complaint, November 25, 2009 (HP000002321).

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.<sup>2050</sup> 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.



<sup>2050</sup> 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.<sup>2051</sup>

She continues:

I am absolutely astonished at the lack of communication, lack of effort and lack of support that I have had from Herzing.<sup>2052</sup>

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.<sup>2053</sup>

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:

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.<sup>2054</sup>

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

<sup>2051</sup> Herzing Internal Email, May 27, 2009, re: *Herzing – Birmingham, AL- (important)* (HP000002285, at HP000002287).

<sup>2052</sup> Id, at HP000002288.

<sup>2053</sup> Herzing Complaint, September 14, 2009, (HP000002319).

<sup>2054</sup> Herzing Complaint, April 1, 2009 (HP000002165, at HP000002166).

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 pursuing military funding, corporate funding, Native American tribal funding, international funding and State funding.<sup>2055</sup>

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.<sup>2056</sup>

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.<sup>2057</sup>

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

<sup>2055</sup> Herzing Internal Memorandum, December 7, 2009, re: *90/10 Mitigation and Business Development* (HP000001046).

<sup>2056</sup> Herzing Internal Email, September 19, 2009, re: *FW: Slides Board meeting Sept 09 EFC Equal to Zero by Campus.pptx* (HP000006680).

<sup>2057</sup> Herzing Internal Email, November 25, 2009, re: *90/10 Initiatives-possibilities* (HP000005715).

coming in weekly asking to reduce their contributions or take out the maximum loans to increase their credit balances.<sup>2058</sup>

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.<sup>2059</sup>

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.<sup>2060</sup> 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.

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<sup>2058</sup> Herzing Internal Email, November 30, 2009, re: *Tuition* (HP000005730, at HP000005732).

<sup>2059</sup> Herzing Internal Email, September 4, 2009, re: *90/10 combining* (HP000006166).

<sup>2060</sup> 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.<sup>2061</sup> Approximately 85 percent of ITT students are enrolled in associate programs.<sup>2062</sup> 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.<sup>2063</sup>

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

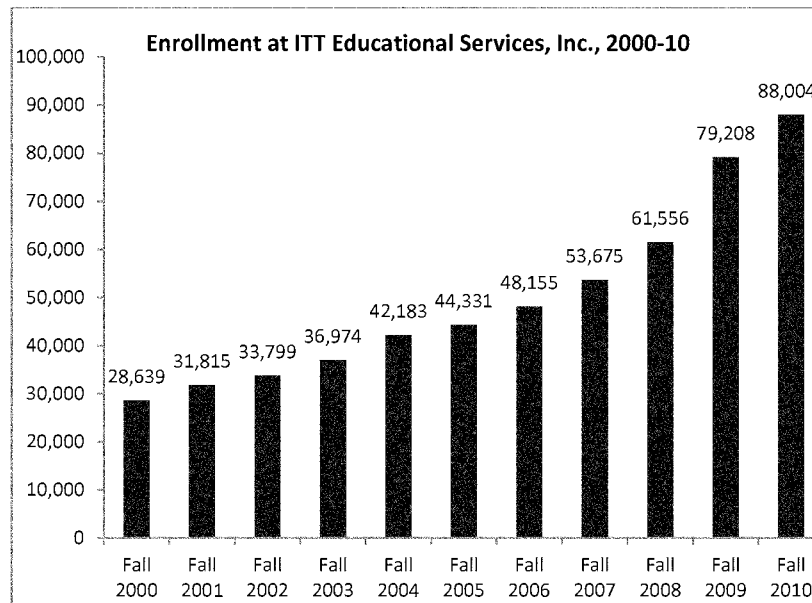
<sup>2061</sup> For list of campuses see <http://www.itt-tech.edu/campus/> (Accessed May 4, 2012).

<sup>2062</sup> ITT Educational Services, “ITT Educational Services at Robert W. Baird and Co. Inc. Business Solutions Conference,” *Lexis Nexis*, February 29, 2012.

<sup>2063</sup> ITT Educational Services, “ITT Educational Services at Robert W. Baird and Co. Inc. Business Solutions Conference,” *Lexis Nexis*, February 23, 2011.

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).<sup>2064</sup>

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.



In the fall of 2010, 88,004 students were enrolled at ITT,<sup>2065</sup> 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.<sup>2066</sup> According to ITT's CEO, the reason for this limitation is concern regarding outcomes of criminal justice students.<sup>2067</sup>

<sup>2064</sup> 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).

<sup>2065</sup> Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.

<sup>2066</sup> ITT Educational Services, 2011, Q4 Earnings Conference Call with Investors.

<sup>2067</sup> 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).

ITT's growth has been the result of aggressive campus expansion, as the company adds about 8 to 10 new locations per year.<sup>2068</sup> The company has identified at least 50 additional locations that they see as "viable opportunities to continue to expand."<sup>2069</sup>

ITT's revenue has grown along with enrollment, more than doubling from \$757.8 million in 2006 to \$1.6 billion in 2010.<sup>2070</sup>

#### Daniel Webster College

Daniel Webster College was acquired by ITT in 2009 for \$20.6 million.<sup>2071</sup> According to news reports, the primary rationale for the purchase was because ITT wanted to acquire a regionally accredited college.<sup>2072</sup>

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."<sup>2073</sup> 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.'" <sup>2074</sup>

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."<sup>2075</sup> 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).<sup>2076</sup>

<sup>2068</sup> ITT Educational Services at Robert W. Baird and Co. Inc. Business Solutions Conference. February 29, 2012.

<sup>2069</sup> Id.

<sup>2070</sup> 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.

<sup>2071</sup> ITT Educational Services, 2009, Q2 Earnings Conference Call with Investors.

<sup>2072</sup> "Your Taxes Support For-Profits as They Buy Colleges" Bloomberg. Daniel Golden. March 4, 2012.

<sup>2073</sup> Id.

<sup>2074</sup> Id.

<sup>2075</sup> Id.

<sup>2076</sup> ITT Educational Services, "ITT Educational Services at Robert W. Baird and Co. Inc. Business Solutions Conference," *Lexis Nexis*, February 29, 2012.

## 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.<sup>2077</sup> 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.<sup>2078</sup>

In 2010, ITT reported 60.8 percent of revenue from title IV Federal student aid programs.<sup>2079</sup> However this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.<sup>2080</sup> 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.<sup>2081</sup> 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.<sup>2082</sup> Additionally, ITT was able to mitigate potential 90/10 issues through the creation of a large scale semi-private lending program known as PEAKS.

<sup>2077</sup> "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.

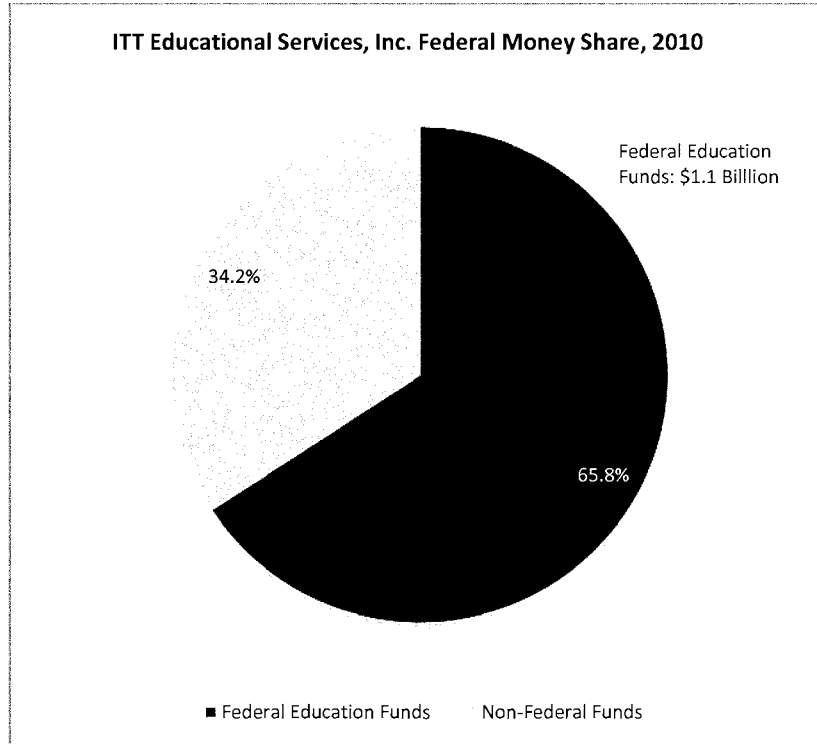
<sup>2078</sup> Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>2079</sup> 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.

<sup>2080</sup> 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.

<sup>2081</sup> 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.

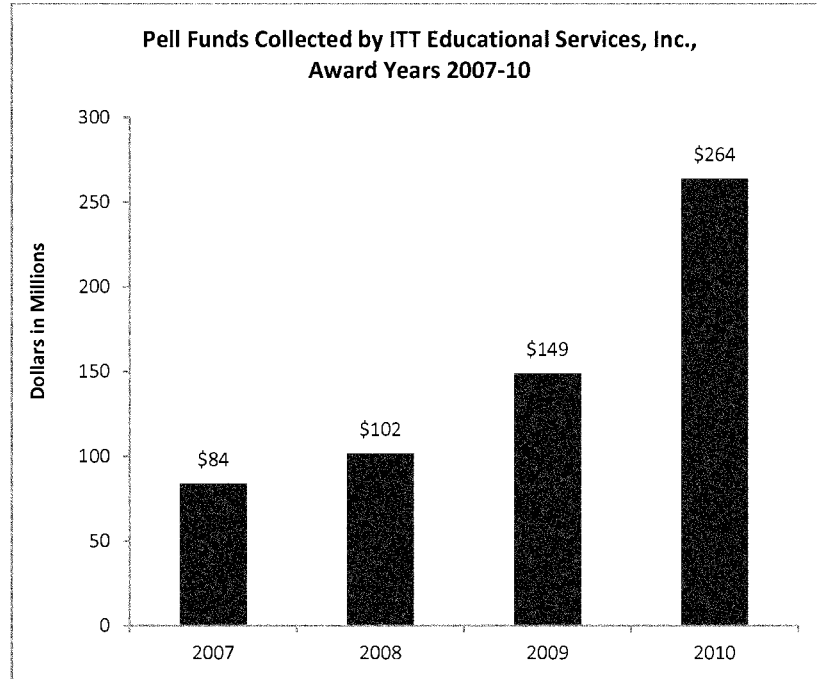
<sup>2082</sup> "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.



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; and the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.<sup>2083</sup> 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.

<sup>2083</sup> 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>.





ITT tripled the amount of Pell grants it collected, from \$84 million in 2007 to \$264 million in 2010.<sup>2084</sup>

### Spending

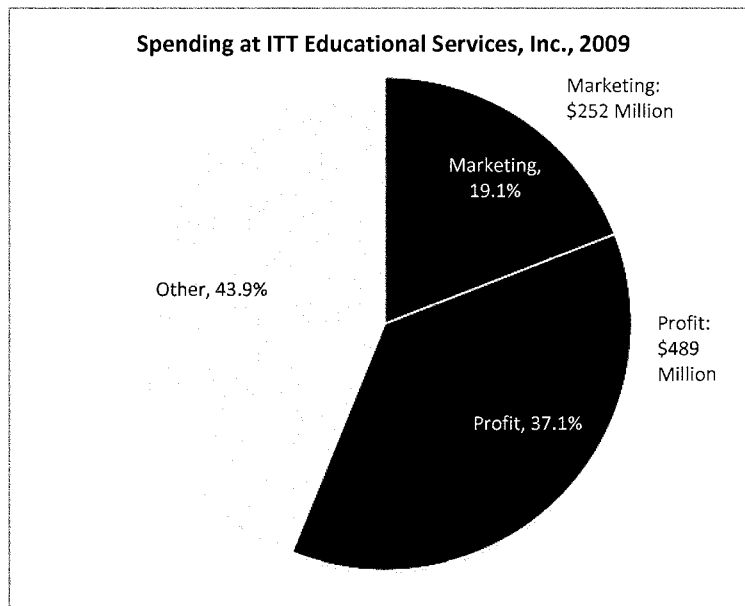
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.<sup>2085</sup> 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

<sup>2084</sup> 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.

<sup>2085</sup> 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).<sup>2086</sup> 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.<sup>2087</sup> ITT's 37.1 percent profit margin is the highest amongst the 30 companies the committee examined.



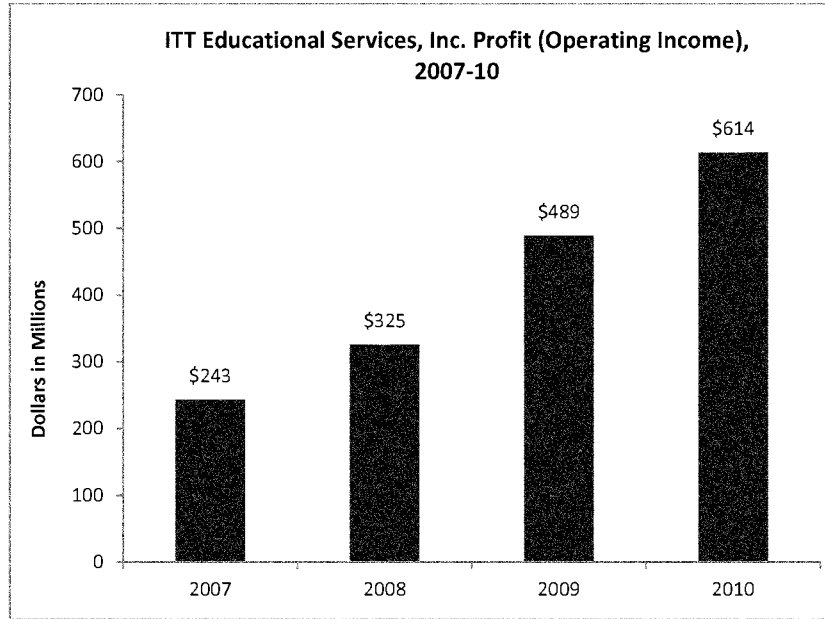
ITT devoted a total of \$741 million to marketing, recruiting and profit in fiscal year 2009.<sup>2088</sup> The amount of profit ITT generated has increased rapidly, more than doubling from \$243 million in 2007 to \$614 million in 2010.<sup>2089</sup>

<sup>2086</sup> 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.

<sup>2087</sup> 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.

<sup>2088</sup> Id.

<sup>2089</sup> Senate HELP Committee staff analysis. See Appendix 18. Matching the drop in enrollment, profit fell in 2011 to \$507 million.



#### 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.<sup>2090</sup> 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.

<sup>2090</sup> 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
<b>Total</b> <sup>2091</sup>		\$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.<sup>2092</sup> 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.<sup>2093</sup> The same program at Ivy Tech Community College in Bloomington, IN costs \$9,385.<sup>2094</sup> Tuition for a Bachelor's degree in Business Administration at ITT's Indianapolis, IN campus costs \$93,624.<sup>2095</sup> The same program at Indiana University in Bloomington, IN, costs \$43,528.<sup>2096</sup>

<sup>2091</sup> 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.

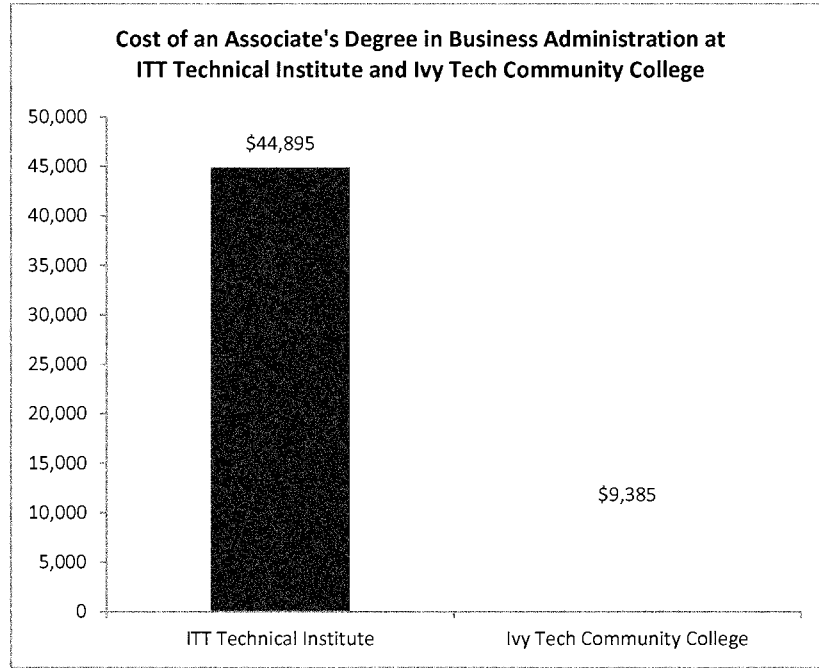
<sup>2092</sup> Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

<sup>2093</sup> 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).

<sup>2094</sup> See Appendix 14; see also, Ivey Tech Community College, *Ivy Tech*, <http://www.ivytech.edu/> (accessed July 12, 2012).

<sup>2095</sup> 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).

<sup>2096</sup> See Appendix 14; see also, Indiana University, *Indiana University*, <http://www.iub.edu/> (accessed July 12, 2012).

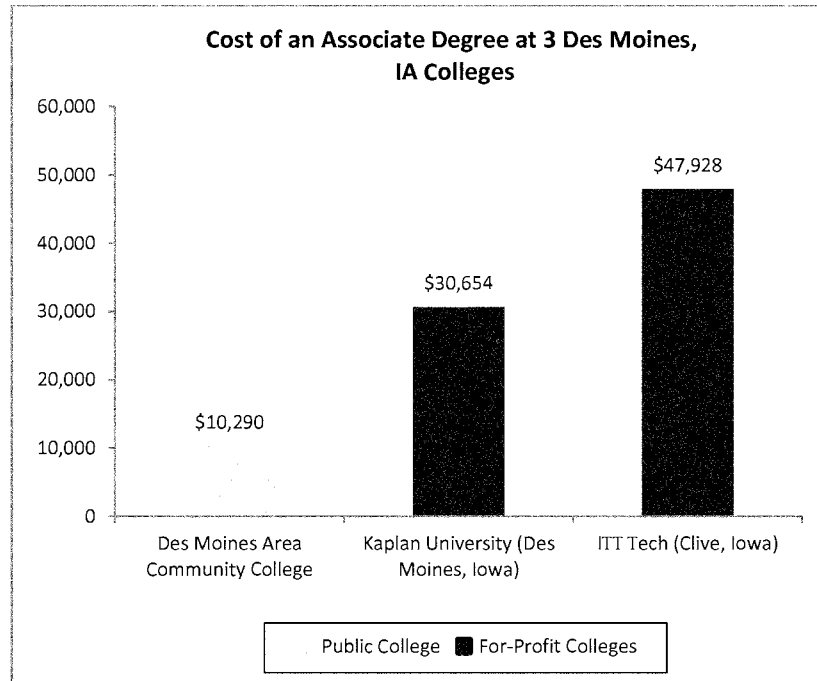


Not only does ITT cost more than their public school counterparts, it is also significantly more expensive than comparable for-profit colleges. For example, the cost of an Associate degree at ITT's Clive, IA campus is \$47,928.<sup>2097</sup> The same degree at Kaplan University in Des Moines, IA is \$30,654,<sup>2098</sup> and the degree costs \$10,290 at the Des Moines Area Community College.<sup>2099</sup> ITT's Clive campus had a 54.7 percent withdrawal rate for students enrolling between 2008 and 2009.

<sup>2097</sup> ITT Technical Institute, *Program of Study Information*, <http://www.itt-tech.edu/programinfo/psi-ind.pdf> (accessed July 12, 2012).

<sup>2098</sup> see also, Kaplan University, *Tuition and Fees*, <http://davenport.kaplanuniversity.edu/pages/tuition.aspx> (accessed July 12, 2012).

<sup>2099</sup> 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.<sup>2100</sup>

#### 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.<sup>2101</sup> 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*

<sup>2100</sup> 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.

<sup>2101</sup> 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).

*by reducing tuition levels by an average of 11 percent.* [Emphasis in original]<sup>2102</sup>

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.<sup>2103</sup> 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?<sup>2104</sup>

<sup>2102</sup> 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 than 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 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).

<sup>2103</sup> ITT Educational Services, April 19, 2009, *Board of Directors Meeting* (Id., ITT-00133682).

<sup>2104</sup> 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.

Education is an investment in you and an investment in yourself is never a bad investment.<sup>2105</sup>

Could you share with me your thoughts or ideas as to why you think it might be too expensive?<sup>2106</sup>

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 catalog. Until the ACICS criteria require an additional posting all ITT Technical Institutes will list tuition and other charges as required in the catalog."<sup>2107</sup>

#### 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.<sup>2108</sup>

<sup>2105</sup> Id.

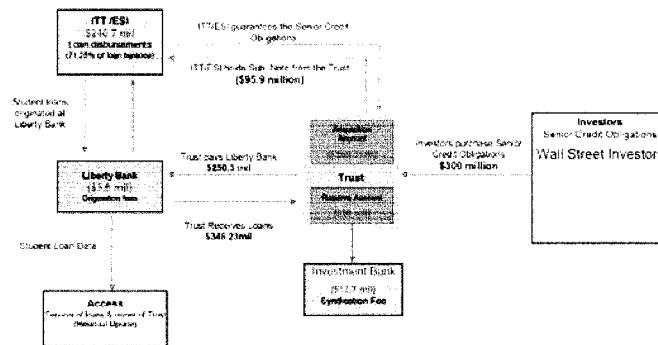
<sup>2106</sup> ITT Educational Services Internal Memorandum, re: *Sample Actions for Common Objections* (ITT-00016826); See also ITT Educational Services Internal Memorandum, re: *Handling Objections* (ITT-00020084), ITT Educational Services Internal Memorandum, re: *Overcoming Objections* (ITT-00025676).

<sup>2107</sup> ITT Educational Services Internal Email, January 7, 2009: re: *Tuition increase-posting for students* (ITT-00080730).

<sup>2108</sup> 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).



## 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.<sup>2109</sup> The PEAKS program has a variable interest rate ranging from 4.75 to 14.75 percent.<sup>2110</sup>

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

<sup>2109</sup> 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).

<sup>2110</sup> ITT Educational Services, *Private Education Loan Application and Solicitation Disclosure by Liberty Bank*, (ITT-00080791).

that the senior notes that the investors put into the trust to fund the program.<sup>2111</sup>

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 reinstating a similar program.<sup>2112</sup> 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.<sup>2113</sup>

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."<sup>2114</sup>

ITT's training materials lays out the sales steps: "Establishing Rapport," "Transition into digging for the motivation," "Transiting into feeling

<sup>2111</sup> ITT Educational Services, "ITT at Credit Suisse Global Services Conference," *Lexis Nexis*, March 13, 2012.

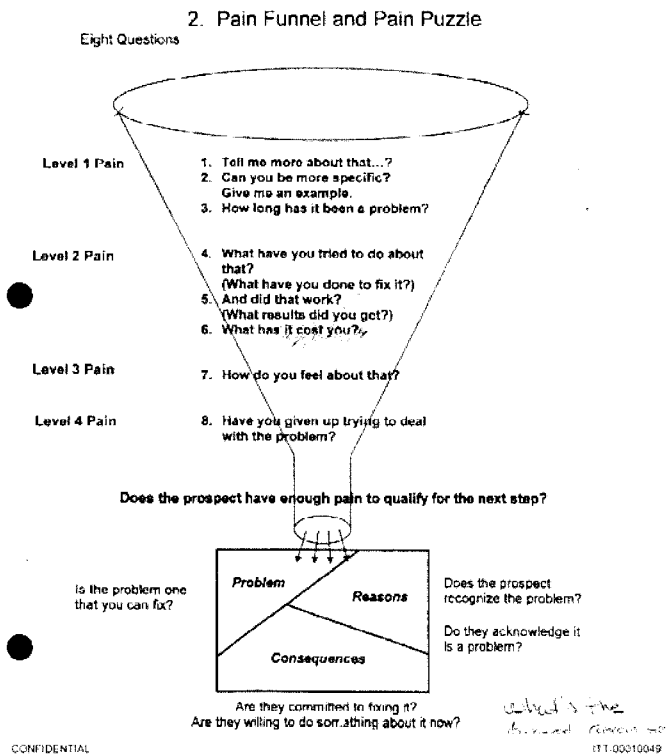
<sup>2112</sup> ITT Educational Institution, July 2011, Q2 Earnings Conference Call with Investors; See also ITT Educational Institution, "ITT at Credit Suisse Global Services Conference," *Lexis Nexis*, March 13, 2012. ITT Educational Institution, March 13, 2012, Q1 Earnings Conference Call with Investors.

<sup>2113</sup> 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.

<sup>2114</sup> 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.

the pain [sic],” and “Transitioning into making the connection between the motivation and getting a degree.”<sup>2115</sup> 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.”<sup>2116</sup>

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.<sup>2117</sup>



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

<sup>2115</sup> ITT Educational Services, *Jan. 5<sup>th</sup> Friday Morning Training Session: Phoning Techniques* (ITT-00015566, at ITT-00015567-68)

<sup>2116</sup> 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.

<sup>2117</sup> ITT Educational Services Internal Training Document, *Sandler Sales Institute: Pain Funnel and Pain Puzzle* (ITT-00010049). See also ITT Educational Services Internal Training Document, *Questionnaire 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.

more hurtful.<sup>2118</sup> In “Level 1” a recruiter asks 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.”<sup>2119</sup> 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.<sup>2120</sup> 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.<sup>2121</sup> 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.<sup>2122</sup>

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.<sup>2123</sup>

<sup>2118</sup> 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.

<sup>2119</sup> Letter to Chairman Harkin, from ITT Counsel, Gibson Dunn & Crutcher, LLP, February 10, 2011.

<sup>2120</sup> Majority HELP Committee staff interview with Laura Brozek and Wayne Beaudoin, June 21, 2011.

<sup>2121</sup> Letter from Laura Brozek, June 24, 2012.

<sup>2122</sup> Id.

<sup>2123</sup> Id.

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.<sup>2124</sup>

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 ... OR 2 APPLIED CAN WORK AN EARLY SHIFT ON WEDNESDAY.... [Emphasis in original]"<sup>2125</sup> 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."<sup>2126</sup>

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.<sup>2127</sup>

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]"<sup>2128</sup>

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 later, I

<sup>2124</sup> ITT Educational Services, *2008 Performance Planning and Evaluation (PP&E) Form for Management Employees* (ITT-00056795).

<sup>2125</sup> ITT Educational Services Internal Email, December 22, 2009, re: *CONTEST UPDATE!!! 30 APPOINTMENTS YAHOO!!!* (ITT-00028551, at ITT-00028552).

<sup>2126</sup> ITT Educational Services, 2011, Q1 Earnings Conference Call with Investors.

<sup>2127</sup> 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).

<sup>2128</sup> ITT Educational Services Internal Email, February 18, 2010, re: *FW: Stifel: Education-Summary from the CCME Conference Kickoff* (ITT-00140384).

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.<sup>2129</sup>

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.<sup>2130</sup>

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 school. I was also advised that should I decide to transfer to another college, that the credits were transferable.<sup>2131</sup>

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 misled [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."

<sup>2129</sup> ITT Educational Services Internal Email, January 29, 2009, re: (redacted) (ITT-00007708, at ITT-00007744).

<sup>2130</sup> Id., at ITT-00007716.

<sup>2131</sup> ITT Educational Services, February 2, 2007, *Student Comment/Complaint Report* (ITT-00006208).

<sup>2132</sup> Another student complained, “We have been misinformed and misled. [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.”<sup>2133</sup>

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.<sup>2134</sup>

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.<sup>2135</sup> Overall, ITT’s withdrawal rate closely tracks the sector-wide rate

<sup>2132</sup> ITT Educational Services, August 22, 2008, *Student Comment Complaint Report* (ITT-00008037, at ITT-00008040).

<sup>2133</sup> ITT Educational Services, May 11, 2010, Student Complaint Letter to Christopher Carpenter re: Grievance Procedure step 2 (ITT-00009637, at ITT-00009686).

<sup>2134</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 14, 2012).

<sup>2135</sup> 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.

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.<sup>2136</sup> The costs of withdrawal can be substantial, as 95 percent of ITT defaulters were students who did not graduate.<sup>2137</sup>

<b>Status of Students Enrolled in ITT Educational Services, Inc. in 2008-9, as of 2010</b>						
<b>Degree Level</b>	<b>Enrollment</b>	<b>Percent Completed</b>	<b>Percent Still Enrolled</b>	<b>Percent With-drawn</b>	<b>Number With-drawn</b>	<b>Median Days</b>
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 <sup>2138</sup>	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.<sup>2139</sup>

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.<sup>2140</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the

<sup>2136</sup> 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.

<sup>2137</sup> ITT Educational Services, 2010, Q2 Earnings Conference Call with Investors.

<sup>2138</sup> 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.

<sup>2139</sup> Direct Loan Default Rates, 34 CFR 668.183(c).

<sup>2140</sup> 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.



same period.<sup>2141</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>2142</sup> 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.<sup>2143</sup>

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.<sup>2144</sup> This change represents a 32.6 percent increase over 4 years.<sup>2145</sup> 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.<sup>2146</sup>

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<sup>2141</sup> Id.

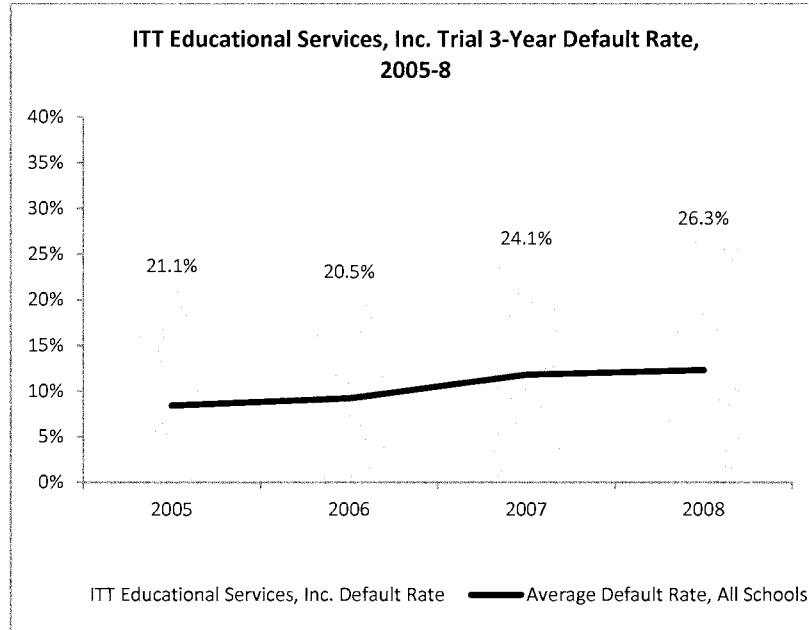
<sup>2142</sup> Id.

<sup>2143</sup> Id.

<sup>2144</sup> 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.

<sup>2145</sup> Department of Education 3-year cohort default rate, for students entering repayment in fiscal years 2005, 2006, 2007 and 2008.

<sup>2146</sup> Note this figure is prior to any appeals that that company expects to make. ITT at Credit Suisse Global Services Conference March 13, 2012.



### 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.

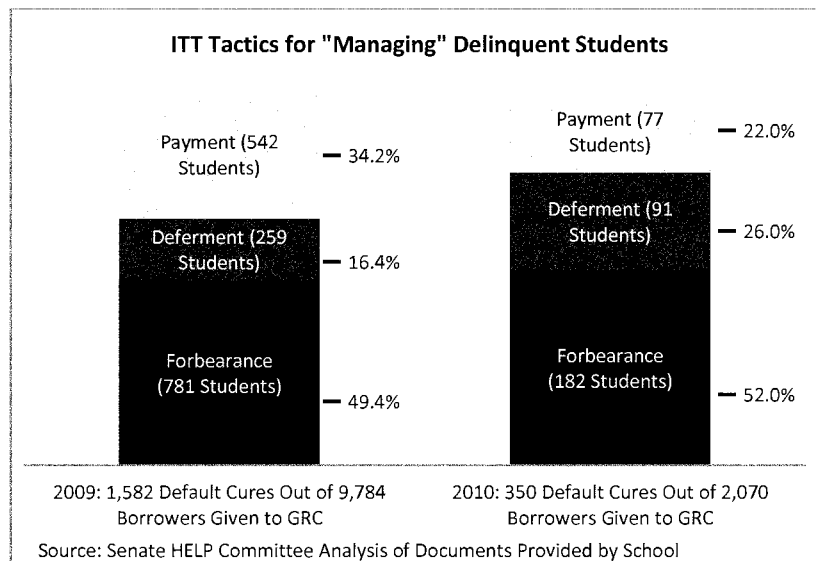
Default management is primarily accomplished by putting students who have not made payments on their student loans into temporary deferments or forbearances. Default management contractors are paid to counsel students into repayment options that ensure that students default outside the 2-year, soon to 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.<sup>2147</sup>

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.<sup>2148</sup> 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.



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

<sup>2147</sup> ITT Educational Services, 2009, Q4 Earnings Conference Call with Investors.

<sup>2148</sup> 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).

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.”<sup>2149</sup> The student also received full credit for an assignment submitted for this class that had also been submitted for another

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<sup>2149</sup> ITT Educational Services, February 22, 2011, Assessment Writing Assignment, (HQ-4682883).

class, and contained a clear notation that it was prepared for the other class.<sup>2150</sup> In another class, the student received 100 percent of the available points, despite submitting only two of three required components.<sup>2151</sup>

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.<sup>2152</sup> College personnel stated this is how they handle all student accounts.<sup>2153</sup> School staff also stated that exit counseling had been provided during the entrance interview.<sup>2154</sup> Regulations concerning exit counseling state that it must be conducted shortly before or after withdrawal.<sup>2155</sup>

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.<sup>2156</sup> 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.<sup>2157</sup>

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

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<sup>2150</sup> GAO II.

<sup>2151</sup> GAO II.

<sup>2152</sup> GAO II.

<sup>2153</sup> GAO II.

<sup>2154</sup> GAO II.

<sup>2155</sup> 1934 C.F.R. § 685.304.

<sup>2156</sup> 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.

<sup>2157</sup> 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.

examined, 80 percent of the faculty is part-time, higher in some companies.<sup>2158</sup> In 2010, ITT employed 1,682 full-time and 4,473 part-time faculty.<sup>2159</sup>

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."<sup>2160</sup> 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."<sup>2161</sup>

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."<sup>2162</sup> 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."<sup>2163</sup> 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 thought I would be challenge I was thinking that it would be hard classes not hard classes to stay awake in [sic]."<sup>2164</sup> 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."<sup>2165</sup>

<sup>2158</sup> 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.

<sup>2159</sup> Id.

<sup>2160</sup> ITT Educational Services, August 17, 2006, *Student Comment/Complaint Report* (ITT-00003876).

<sup>2161</sup> ITT Educational Services, April 19, 2010, Letter from Lynn Ward, re: Student Complaint (ITT-00009785, at ITT-00009786).

<sup>2162</sup> ITT Educational Services, February 22, 2007, *Student Comment/Complaint Report* (ITT-00005085 at ITT-00005086).

<sup>2163</sup> ITT Educational Services, December 12, 2006, *Student Comment/Complaint Report* (ITT-00004629); See also ITT Educational Services, August 28, 2008, *Student Complaint Summary* (ITT-00006239).

<sup>2164</sup> ITT Educational Services, February 22, 2006, Email re: *FW: To whom it may concern* (ITT-00004186, at ITT-00004189) (SIC).

<sup>2165</sup> ITT Educational Services, May 6, 2006, *Student Comment/Complaint Report* (ITT-00004287).

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."<sup>2166</sup>

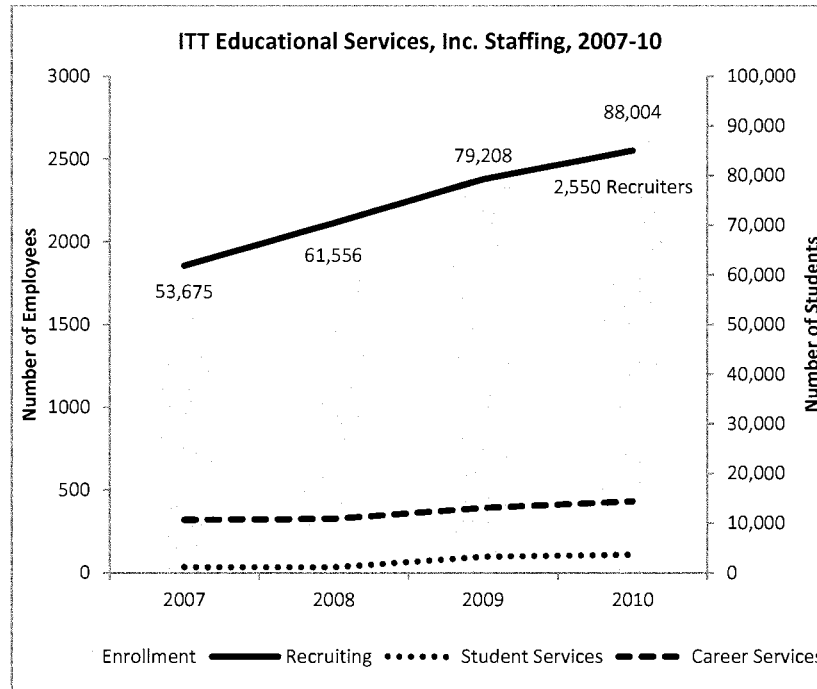
### **Staffing**

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.<sup>2167</sup> 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.

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<sup>2166</sup> 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.

<sup>2167</sup> 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.



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.<sup>2168</sup> 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.<sup>2169</sup>

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.”<sup>2170</sup> The student concluded: “In so many ways I feel like my life’s dream has been ripped

<sup>2168</sup> 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 their students have parents with an associate degree or higher, compared to 46 percent at private non-profits, and 52 percent at public schools.

<sup>2169</sup> ITT Educational Services Internal Email, January 21, 2010, re: *Gross Drop Attrition-Response needed by this Friday 1:22* (ITT-0014496).

<sup>2170</sup> ITT Educational Services, Letter from Student to Mr. Clark (ITT-00004357 at ITT-00004358).



right out of my hands.”<sup>2171</sup> 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.”<sup>2172</sup>

### 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.”<sup>2173</sup> 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.”<sup>2174</sup>

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!”<sup>2175</sup> 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”<sup>2176</sup>

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.<sup>2177</sup> According to the student’s mother “I don’t [know] where he’d get a job with the education they gave him making

<sup>2171</sup> Id., at ITT-00004359

<sup>2172</sup> ITT Educational Services Student Email, May 14, 2008, re: *SPF-064-General Comment* (ITT-00007386).

<sup>2173</sup> Letter from Steven Gossman, April 9, 2011.

<sup>2174</sup> ITT Educational Services, Description for Complaint ID #5014171 and Settlement Explanation (ITT-00005144, at ITT-00005148).

<sup>2175</sup> ITT Educational Services Internal Email, May 16, 2006, re: *Complaint* (ITT-00005047 at 47,49).

<sup>2176</sup> ITT Educational Services Internal Email, January 10, 2007, re: *FW: Immediate Attention Required* (redaction) (ITT-00005216, at ITT-00005220).

<sup>2177</sup> 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).

enough to pay the loans to survive.”<sup>2178</sup> The student added, “I feel like I’ve been ripped off. I’m embarrassed to tell people I went to that school.”<sup>2179</sup>

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.<sup>2180</sup> 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.<sup>2181</sup> 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.”<sup>2182</sup> 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

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<sup>2178</sup> Id.

<sup>2179</sup> Id.

<sup>2180</sup> ITT Educational Services, April 29, 2010, *Career Services Graduate Employment Definitions: CS-2 Procedure Manual* (ITT-00065475).

<sup>2181</sup> ITT Educational Services, *FAQs on Employment Classification* (ITT-00065499, at 65501).

<sup>2182</sup> Id.

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.<sup>2183</sup>

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 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.”<sup>2184</sup> A Champagne scholarship is an award of \$3,000 available for students who are enrolled full-time with a \$0 expected family contribution.<sup>2185</sup> A former employee who has spoken publicly about her experience stated that nearly every student who applied received the scholarship.<sup>2186</sup> Documents indicate that the company closely tracked the number of Champagne Scholarships awarded by campus.<sup>2187</sup> 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.

<sup>2183</sup> ITT Educational Services, “ITT at Barclays Capital Inc Global Services Conference,” *Lexis Nexis*, May 12, 2011.

<sup>2184</sup> ITT Educational Services, *Champagne Scholarship Fund* (ITT-00060529); See also ITT Educational Services, July 24, 2009, *ITT Technical Institutes Scholarship Update* (ITT-00052388).

<sup>2185</sup> ITT Educational Services, *Champagne Scholarship Application* (ITT-00003045).

<sup>2186</sup> Rashidah Smallwood interview with HELP Committee staff.

<sup>2187</sup> ITT Educational Services, September 29, 2009, *Q3 Financial Aid Update* (ITT-00060728).

### 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.<sup>2188</sup> 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.<sup>2189</sup>

On May 18, 2012, ITT received a Civil Investigative Demand from the U.S. Consumer Financial Protection Bureau.<sup>2190</sup> 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."<sup>2191</sup>

### 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 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

<sup>2188</sup> 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).

<sup>2189</sup> ITT Educational Services, ITT 8-K SEC Form, September 30, 2005, <http://www.secinfo.com/ds4r4.z1z.htm> (accessed June 14, 2012).

<sup>2190</sup> 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).

<sup>2191</sup> *Id.*

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.<sup>2192</sup>

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.<sup>2193</sup> Approximately 60 percent of Kaplan’s total enrollment is online.<sup>2194</sup> 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.<sup>2195</sup> Kaplan further

<sup>2192</sup> The Washington Post Company, 2010 Annual Report, <http://www.washpostco.com/phoenix.zhtml?c=62487&p=irol-reportsAnnualArch> (accessed June 19, 2012).

<sup>2193</sup> The Washington Post Company, March 2, 2011, 2011 10-K.

<sup>2194</sup> Id.

<sup>2195</sup> Kaplan, “Locations” at <http://portal.kaplan.edu/Pages/Homepage.aspx> (accessed June 19, 2012).

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.

Brands
Bauder College
Concord Law School
Hesser College
Kaplan Career Institute
Kaplan College
Kaplan University
TESST College of Technology
Texas School of Business

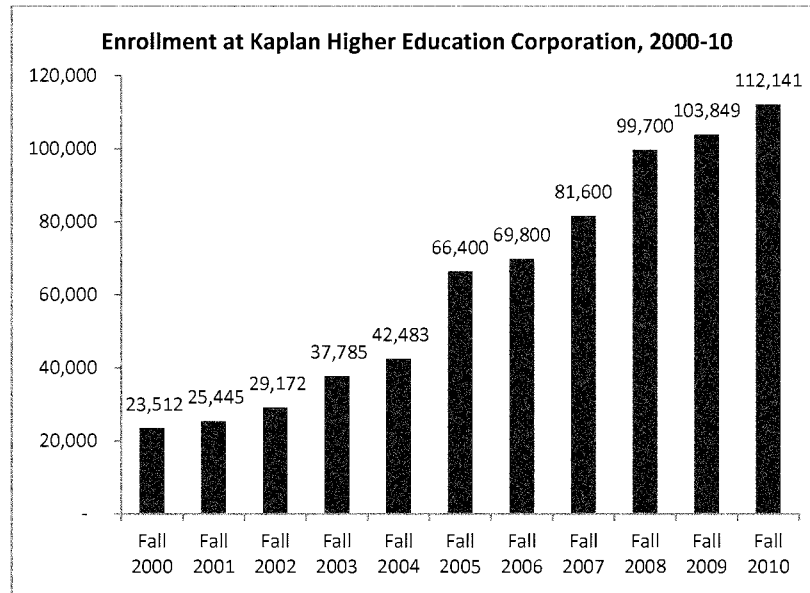
Like more than half of the regionally accredited brands the committee examined, Kaplan University is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools. Kaplan College and Kaplan Career Institute are the largest Kaplan brands, with 51 locations across 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.<sup>2196</sup> 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

<sup>2196</sup> Kaplan, Campus Organization Chart, (KHE 00000032).

predecessor as CEO Jonathan Grayer left the company in 2008, he received a severance package of \$76 million.<sup>2197</sup>



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.<sup>2198</sup> 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.<sup>2199</sup>

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,

<sup>2197</sup> 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](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).

<sup>2198</sup> 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.

<sup>2199</sup> 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.



which stood at 75,984 as of March 2012, nearly 36,000 students less than the company's enrollment in fall 2010.<sup>2200</sup> The Washington Post Company has seen a corresponding drop in its revenue.<sup>2201</sup>

## 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.<sup>2202</sup> 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.<sup>2203</sup>

In 2010, Kaplan reported 85.9 percent of revenue from title IV Federal financial aid programs.<sup>2204</sup> However, this amount does not include the Departments of Defense and Veterans Affairs education benefits.<sup>2205</sup> 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.<sup>2206</sup> With these funds included, 87.9 percent of Kaplan's total revenue was comprised of Federal education funds.<sup>2207</sup>

<sup>2200</sup> Washington Post Company, March 31, 2012, Def 14A SEC Filing, [http://www.washpost.com/phoenix.zhtml?c=62487&p=irol-sec&secCat01.1\\_rs=1&secCat01.1\\_rc=10&control\\_searchbox=&control\\_selectgroup=0](http://www.washpost.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).

<sup>2201</sup> Id.

<sup>2202</sup> "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.

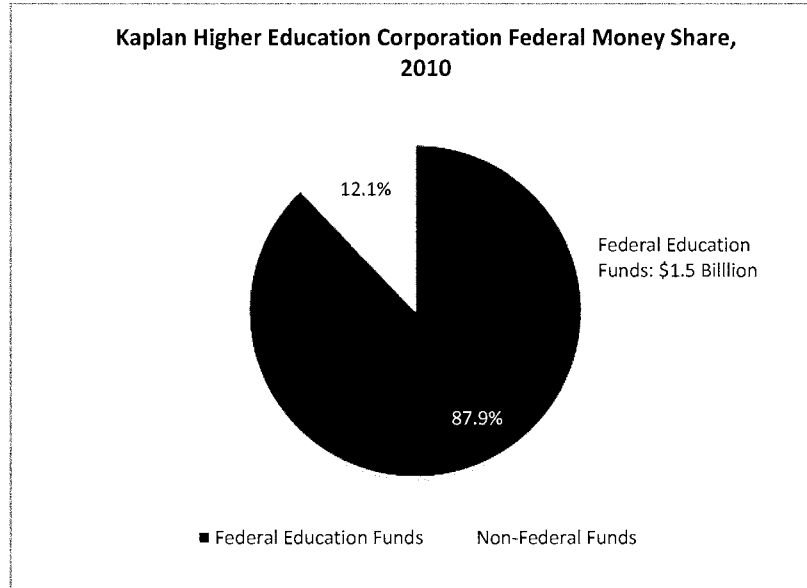
<sup>2203</sup> Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>2204</sup> Id.

<sup>2205</sup> 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.

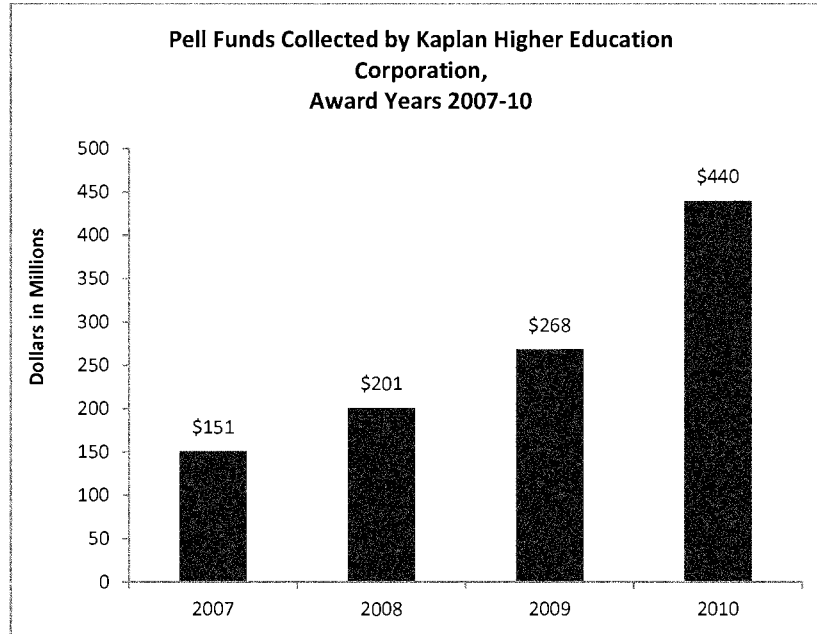
<sup>2206</sup> Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs 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.

<sup>2207</sup> "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.<sup>2208</sup> 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.

<sup>2208</sup> 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*, 2000-1 and 2009-10, <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.<sup>2209</sup>

## Spending

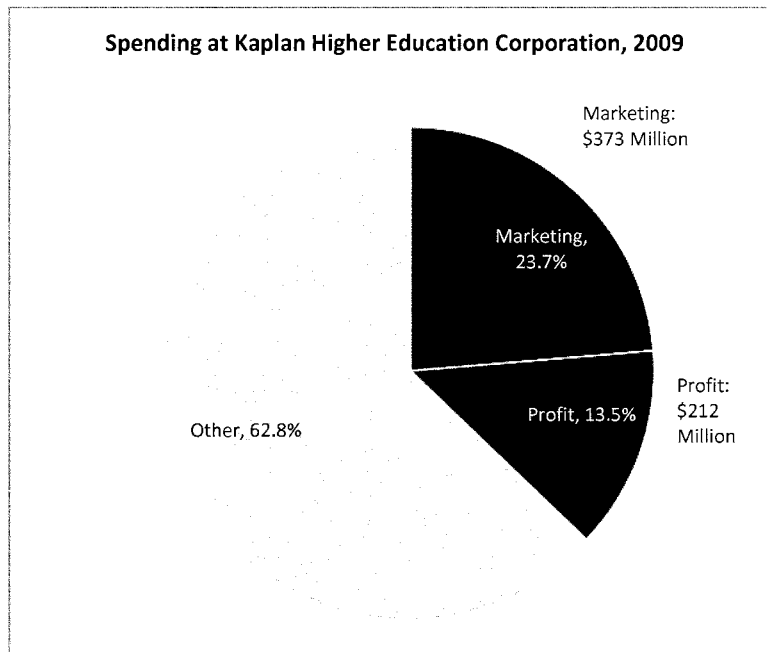
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.<sup>2210</sup> 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).<sup>2211</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.

<sup>2209</sup> 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, 2000-1 and 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html> (accessed July 12, 2012). See Appendix 13.

<sup>2210</sup> 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.

<sup>2211</sup> 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

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.<sup>2212</sup>



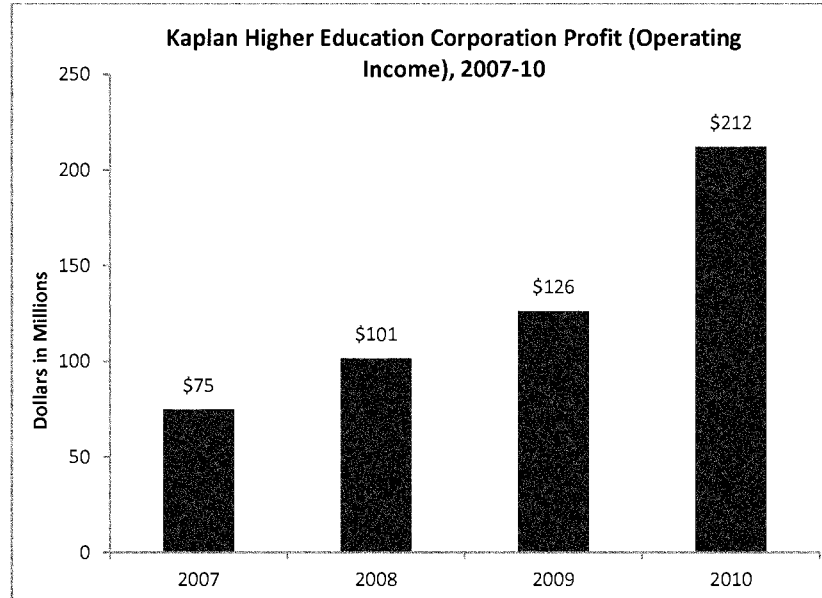
Kaplan devoted a total of \$585 million to marketing, recruiting, and profit in fiscal year 2009.<sup>2213</sup> The amount of profit Kaplan generated also increased rapidly, nearly tripling from \$74.7 million in 2006 to \$212 million in 2010.<sup>2214</sup>

personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.

<sup>2212</sup> Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

<sup>2213</sup> Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, and other expenditures.

<sup>2214</sup> 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.<sup>2215</sup> The same degree at Eastern Iowa Community College costs \$7,936.<sup>2216</sup> A Bachelor's of Science in Business Administration at Kaplan University's Davenport Campus costs \$66,417,<sup>2217</sup> while a Bachelor's of Science in Business Administration at the University of Iowa costs \$43,816.<sup>2218</sup> At Kaplan's Cedar

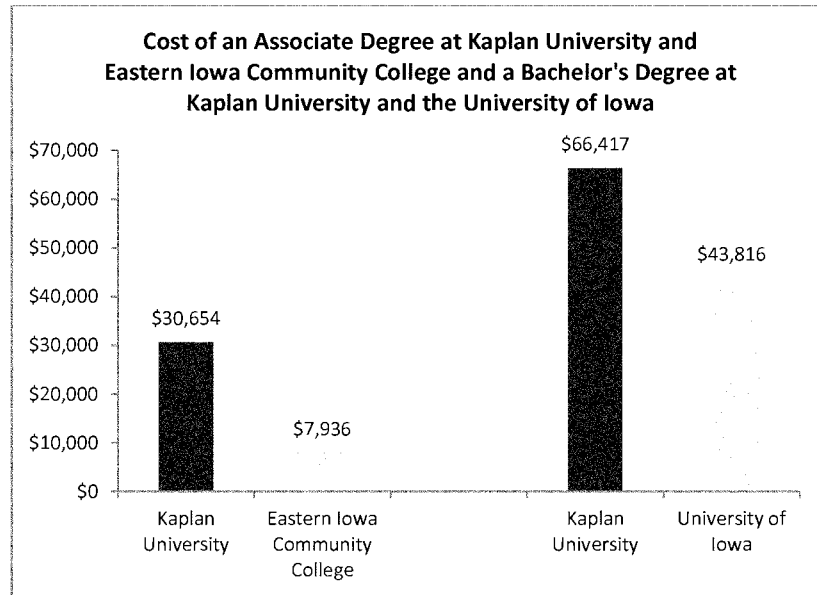
<sup>2215</sup> See Appendix 14; see also, Kaplan University, *Tuition and Fees*, <http://davenport.kaplanuniversity.edu/pages/tuition.aspx> (accessed July 12, 2012).

<sup>2216</sup> See Appendix 14; see also, Eastern Iowa Community College, *Eastern Iowa Community College*, <http://www.eicc.edu/> (accessed July 12, 2012).

<sup>2217</sup> See Appendix 14; see also, Kaplan University, *Tuition and Fees*, <http://davenport.kaplanuniversity.edu/pages/tuition.aspx> (accessed July 12, 2012).

<sup>2218</sup> See Appendix 14; see also, University of Iowa, *University of Iowa*, <http://www.uiowa.edu/> (accessed July 12, 2012).

Rapid's campus charges \$23,410 for a Diploma in Practical Nursing.<sup>2219</sup> The same diploma is available at Eastern Iowa Community College for \$7,376.<sup>2220</sup>



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.<sup>2221</sup>

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."<sup>2222</sup> In another situation, discussing locations in the southwest, Kaplan's Director of Strategy wrote, "since those public programs

<sup>2219</sup> Kaplan University, *Practical Nursing Diploma*, [http://cedarrapids.kaplanuniversity.edu/nursing/Pages/Practical\\_Nursing\\_Diploma.aspx#tuition\\_fee](http://cedarrapids.kaplanuniversity.edu/nursing/Pages/Practical_Nursing_Diploma.aspx#tuition_fee) (accessed July 13, 2012).

<sup>2220</sup> Eastern Iowa Community College, *Eastern Iowa Community College*, <http://www.eicc.edu/> (accessed July 12, 2012).

<sup>2221</sup> 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.

<sup>2222</sup> Kaplan Internal Email, September 10, 2009, re: *Sacramento Price Increase* (KHE 173528).

have long waiting lists, we have the ability to charge a premium in this market.”<sup>2223</sup>

Kaplan increases tuition approximately 5 percent every year.<sup>2224</sup> In 2005, online tuition was \$280 per credit hour.<sup>2225</sup> 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 concerns that some campuses were getting close to the 90 percent Federal revenue line.<sup>2226</sup> 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.<sup>2227</sup>

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.”<sup>2228</sup> 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.”<sup>2229</sup> 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.”<sup>2230</sup>

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].<sup>2231</sup>

<sup>2223</sup> Kaplan Internal Email, April 30, 2009, re: *Pricing Comparisons* (KHE 171956).

<sup>2224</sup> College Board, “Trends in College Pricing.”

<sup>2225</sup> [http://trends.collegeboard.org/downloads/College\\_Pricing\\_2011.pdf](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.”).

<sup>2226</sup> Kaplan, January 29, 2006, Board of Trustees Meeting Minutes (KHE 00003642, at KHE 00003651).

<sup>2227</sup> 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.”).

<sup>2228</sup> *Id.*

<sup>2229</sup> Kaplan Internal Email, December 6, 2009, re: *FW: To answer you email* (KHE 272465, at KHE 27267-68).

<sup>2230</sup> Kaplan Internal Email, October 28, 2009, re: *Price* (KHE 286119).

<sup>2231</sup> *Id.*

<sup>2231</sup> Kaplan Internal Email, June 29, 2009, re: *Lynne Smith* (KHE 297978) (emphasis in original).

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.”<sup>2232</sup> 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.<sup>2233</sup>

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.”<sup>2234</sup> 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 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.<sup>2235</sup> 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.”<sup>2236</sup>

<sup>2232</sup> Kaplan, Baird Talking Points It’s Official: We’re at the Top of Our Class (KHE 072778).

<sup>2233</sup> “Survey Results,” Kaplan University, available at <http://web.archive.org/web/20090307092139/http://www.kaplan.edu/ku/surveyresults/>. (accessed July 12, 2012).

<sup>2234</sup> Kaplan, *Overcoming Objections: Formula for Overcoming Objections* (KHE 077340, at KHE 077342-43).

<sup>2235</sup> 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).

<sup>2236</sup> Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 225776, at KHE 225779).



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]?"<sup>2237</sup> Another employee commented, "She met all the admissions requirements and was locked in during the start meeting. ... The student failed themselves [sic]...!"<sup>2238</sup> 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]<sup>2239</sup>

In the end, the executive director instructed his employees to accept the proof of graduation and charged the student.<sup>2240</sup>

### 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").<sup>2241</sup> 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.<sup>2242</sup> 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 originally issued at 15 percent started accruing the reduced 6.8 percent interest on September 3, 2010.<sup>2243</sup> Students may defer the loans while in school and may take up to 10 years to repay them.<sup>2244</sup>

<sup>2237</sup> Kaplan Internal Email, January 29, 2012, re: *Revenue Review* (KHE 225803).

<sup>2238</sup> Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 225776 at KHE 225779).

<sup>2239</sup> Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 225776).

<sup>2240</sup> Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 225794).

<sup>2241</sup> 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.

<sup>2242</sup> Students must apply for private loans before receiving Kaplan Choice loans, making the program a loan of last resort.

<sup>2243</sup> Kaplan, *Fact Sheet: Kaplan Choice Loan Program* (KHE 0036753).

<sup>2244</sup> 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).

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.<sup>2245</sup>

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.<sup>2246</sup> Kaplan executives relied on this number to determine that Kaplan should reserve 80 percent of the amount lent to students for defaults.<sup>2247</sup> In July 2010, Kaplan executives considered raising the loan reserve from 80 percent to 85 percent but decided against the increase.<sup>2248</sup>

## 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.”<sup>2249</sup>

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].”<sup>2250</sup> 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!”<sup>2251</sup> Kaplan especially encouraged contacting “impulse” leads because “they may lose interest and move on to something else.”<sup>2252</sup> 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.”<sup>2253</sup> In fact, a Kaplan presentation noted that 50 percent of

<sup>2245</sup> Id. at KHE 0037011.

<sup>2246</sup> Kaplan Internal Email, April 21, 2009, re: *KC Loan Default Assumption [Redacted Third Party Lender] Loan Data* (KHE 137576).

<sup>2247</sup> Kaplan Internal Email, July 17, 2009, re: *Kaplan Choice Loan Reserve Rate* (KHE 325963).

<sup>2248</sup> Kaplan Internal Email, July 1, 2010, re: *[Redacted – Third-Party Lender] Loan Performance Reports: Default Update* (KHE 207125).

<sup>2249</sup> Kaplan Internal Email, September 18, 2009, re: *Fit. Worth Verification Past Due* (KHE 233387).

<sup>2250</sup> Kaplan Internal PowerPoint, “*Explore” Another Piece of My Heart: Turning Inquiries into Appointments* (KHE 052058, at KHE 052059, 61).

<sup>2251</sup> Kaplan Internal Email, January 29, 2010, re: *Internet Leads!* (KHE 268102).

<sup>2252</sup> Kaplan, *Who Are Our Leads?* (KHE 056399, at KHE 056415).

<sup>2253</sup> Id. at KHE 056416.

all Internet leads enroll with the first campus that contacts them, and implying that Kaplan must strive to be the first to make contact.<sup>2254</sup>

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.<sup>2255</sup> 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]"<sup>2256</sup> 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]<sup>2257</sup>

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.<sup>2258</sup> 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!!!"<sup>2259</sup>

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 prospects that will move forward with the entire interview [sic]. [Emphasis in original]"<sup>2260</sup> Process-based words included seemingly important topics of discussion, such as: "program," "degree, diploma," "right school," and "online classes."<sup>2261</sup> In

<sup>2254</sup> Id.

<sup>2255</sup> Kaplan, *Job Aid: Outbound with Rubric & OBS references: Based on the Undergraduate Programs Script published on July 9, 2009* (KHE 084935, at KHE 084936).

<sup>2256</sup> Id. at KHE 084935.

<sup>2257</sup> Id. at KHE 084936.

<sup>2258</sup> Kaplan, March 2010, *Creating Urgency: Continuing Education* (KHE 096451).

<sup>2259</sup> Id.

<sup>2260</sup> Kaplan, November 5, 2008, *Illuminating Success Admissions Coaching: Six Components of a Conversation: Outcome Based Selling* (KHE 058787, at KHE 058789).

<sup>2261</sup> Kaplan, updated December 4, 2008, *Nursing Admissions Quality Contact Call Rubric* (KHE 058787, at KHE 058789).

contrast, outcome-based words include: “career,” “congratulations,” “first step in chan[g]ing your life,” and “future.”<sup>2262</sup> The presentation provided sample openings to “jump start the conversation and begin peeling the layers of the artichoke to expose the heart.”<sup>2263</sup>

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.”<sup>2264</sup> 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 “the Texas Cup.”<sup>2265</sup> The teams sent each other competitive emails such as, “BANDITS strike with their first for the day! Ponies are going DOWN!!!! [Emphasis in original]”<sup>2266</sup> 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?”<sup>2267</sup> 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.<sup>2268</sup>

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.<sup>2269</sup> 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.

<sup>2262</sup> Kaplan, November 5, 2008, *Admissions Coaching: Six Components of a Conversation: Outcome Based Selling Training Manual* (KHE 058787, at KHE 058790).

<sup>2263</sup> Id. at KHE 058797.

<sup>2264</sup> Kaplan, updated December 4, 2008, *Nursing Admissions: Quality Contact Call Rubric Training Manual* (KHE 0049214).

<sup>2265</sup> Kaplan Internal Email, June 28, 2010, re: *Week 1 In The Books*..... (KHE 236427, at KHE 236427-28).

<sup>2266</sup> Kaplan Internal Email, June 28, 2010, re: *Week 1 In The Books*..... (KHE 236459, at KHE 236466).

<sup>2267</sup> Kaplan Internal Email, June 14, 2010, re: *FW: The Ultimate Juggler Phone-A-Thon June 16, 2010* (KHE 196925at KHE 196927).

<sup>2268</sup> Kaplan, *Contest Guidelines: Contest Templates Training Document* (KHE 0048302, at KHE 0048307).

<sup>2269</sup> Kaplan, *Davenport Campus Enrollment Agreement* (KHE 0051386, at KHE 0051387).

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."<sup>2270</sup> 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.<sup>2271</sup> 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.<sup>2272</sup>

**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 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."<sup>2273</sup>

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%."<sup>2274</sup>

<sup>2270</sup> 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).

<sup>2271</sup> Id., at Scenario 2 40:04, 41:45, 44:07-47:02.

<sup>2272</sup> Kaplan Internal Email, October 13, 2009, re: *FW: Process Flow* (KHE 279097).

<sup>2273</sup> Kaplan Internal Email, November 11, 2009, re: *KU 90/10 Issue* (KHE 211344, at KHE 211345).

<sup>2274</sup> Kaplan, Military University PowerPoint (KHE 267362, at KHE 267364).

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.<sup>2275</sup> 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.”<sup>2276</sup>

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.”<sup>2277</sup>

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.<sup>2278</sup> 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.<sup>2279</sup> 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!”<sup>2280</sup> The education director at the campus ultimately issued the official transcript.

<sup>2275</sup> 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.

<sup>2276</sup> Kaplan, *Military eLearning Modules 2009 Training Document* (KHE 094981, at KHE 094987).

<sup>2277</sup> Kaplan Internal Email, March 29, 2010, re: *Wounded Warrior* (KHE 195614).

<sup>2278</sup> Having no balance can be a challenge for students, given that new classes begin every 5 weeks.

<sup>2279</sup> Danielle Johnson, Testimony before the U.S. Senate HELP Committee, “The Federal Investment in For-Profit Education: Are Students Succeeding?” September 30, 2010.

<sup>2280</sup> Kaplan, November 9, 1009, Student Complaint (KHE 0038790).

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:

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.<sup>2281</sup>

## 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.<sup>2282</sup>

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.

### Retention Rates

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.<sup>2283</sup> 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.<sup>2284</sup>

<sup>2281</sup> Kaplan Internal Email, April 1, 2009, re: *FW: Military Pricing* (KHE 192296).

<sup>2282</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 19, 2012).

<sup>2283</sup> 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.

<sup>2284</sup> 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 or who do

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.

<b>Status of Students Enrolled in Kaplan Higher Education Corporation in 2008-9, as of 2010</b>						
<b>Degree Level</b>	<b>Enrollment</b>	<b>Percent Completed</b>	<b>Percent Still Enrolled</b>	<b>Percent With-drawn</b>	<b>Number With-drawn</b>	<b>Median Days</b>
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.

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attend part-time 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

Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students With-drawn	With-drawn
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 With-drawn	With-drawn
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.<sup>2285</sup> The executive who noted this also noted that “dropped students are not successful” because “they did not accomplish their academic goals,” “they are 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.”<sup>2286</sup>

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.<sup>2287</sup>

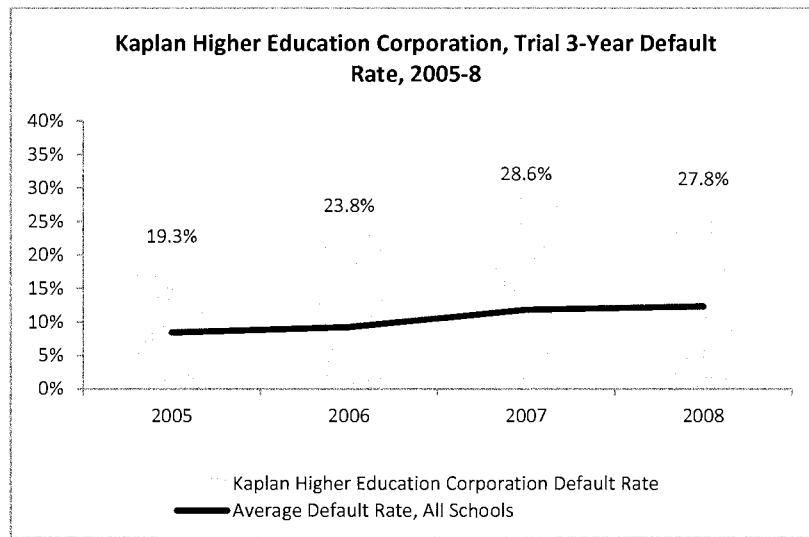
<sup>2285</sup> Kaplan Internal Email, November 28, 2009, re: *KU CDR Original Loan Amount and Default Rate* (KHE 197327).

<sup>2286</sup> Id.

<sup>2287</sup> 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.<sup>2288</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>2289</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>2290</sup> 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.<sup>2291</sup>

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.<sup>2292</sup> 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.



<sup>2288</sup> 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.

<sup>2289</sup> Id.

<sup>2290</sup> Id.

<sup>2291</sup> Id.

<sup>2292</sup> 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.<sup>2293</sup> 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."<sup>2294</sup>

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.

#### 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:

<sup>2293</sup> Kaplan Internal Email, February 1, 2010, re: *Default Reduction* (KHE 154379).

<sup>2294</sup> *Id.*

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?<sup>2295</sup>

Another executive pondered what Kaplan could “legally do to eliminate the low dollar defaulters before they make it into the stats.....”<sup>2296</sup>

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.<sup>2297</sup> 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.<sup>2298</sup> 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.”<sup>2299</sup> Kaplan had already paid the company \$500,000 for its services in the first half of 2009,<sup>2300</sup> when, in July 2009, with 12 weeks to get high delinquency rates under control, Kaplan temporarily increased these incentive payments to \$1,000.<sup>2301</sup>

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.<sup>2302</sup> 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 “curing” a 270+-day delinquency, \$50 for “curing” a 180-269 day delinquency, and \$30 for “curing” a 179-day-or-less delinquency.<sup>2303</sup>

<sup>2295</sup> Kaplan Internal Email, December 4, 2009, re: *FY 2007 Final Chart numerator denominator challenges* (KHE 112966).

<sup>2296</sup> Kaplan Internal Email, October 12, 2009, re: *CDR Analysis for 2007* (KHE 140077).

<sup>2297</sup> Kaplan, July 29, 2009, *Default Management Status Update and Strategy: Current State* (KHE 270925 at KHE270956).

<sup>2298</sup> 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).

<sup>2299</sup> *Id.*, at KHE 0036515.

<sup>2300</sup> Kaplan, July 29, 2009, *Default Management Status Update and Strategy: Current State* (KHE 270925 at KHE 270956).

<sup>2301</sup> *Id.* at KHE 270925.

<sup>2302</sup> 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.

<sup>2303</sup> Kaplan, July 29, 2009, *Default Management Status Update and Strategy: Bonus Plan* (KHE 270925 at KHE 270953).

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!”<sup>2304</sup> 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]”<sup>2305</sup>

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.<sup>2306</sup> 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

<sup>2304</sup> Kaplan, *FA Managers Role in Reducing Bad Debt: How do you eat an elephant? One bite at a time!* (KHE 063733).

<sup>2305</sup> Kaplan Internal Email, June 15, 2010, re: (subject redacted) (KHE 369139) (emphasis in original).

<sup>2306</sup> Kaplan, February 14, 2010, *Second Amendment to Cohort Default Management Services Agreement* (KHE 0036566); Kaplan, *Cohort Default Management Services Agreement* (KHE 0036546).

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.

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.<sup>2307</sup> 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.<sup>2308</sup>

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.<sup>2309</sup> Kaplan employed 1,705 full-time and 6,472 part-time faculty in 2010.<sup>2310</sup>

Students raised concerns with academic quality by filing complaints with the school, State, and Federal agencies. In one instance, a student in

<sup>2307</sup> 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.

<sup>2308</sup> 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.

<sup>2309</sup> 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.

<sup>2310</sup> Id.

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.<sup>2311</sup> Another student complained that her teacher "spent most of his time recruiting students to go to another school at which he was teaching."<sup>2312</sup> 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.<sup>2313</sup>

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.<sup>2314</sup> Another student complained that a class had no instructor for the last block 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.<sup>2315</sup>

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.<sup>2316</sup> 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.<sup>2317</sup>

<sup>2311</sup> Kaplan, February 27, 2008, Student Complaint (KHE 0039927).

<sup>2312</sup> Kaplan, August 7, 2007, Student Complaint (KHE 0038448).

<sup>2313</sup> Id.

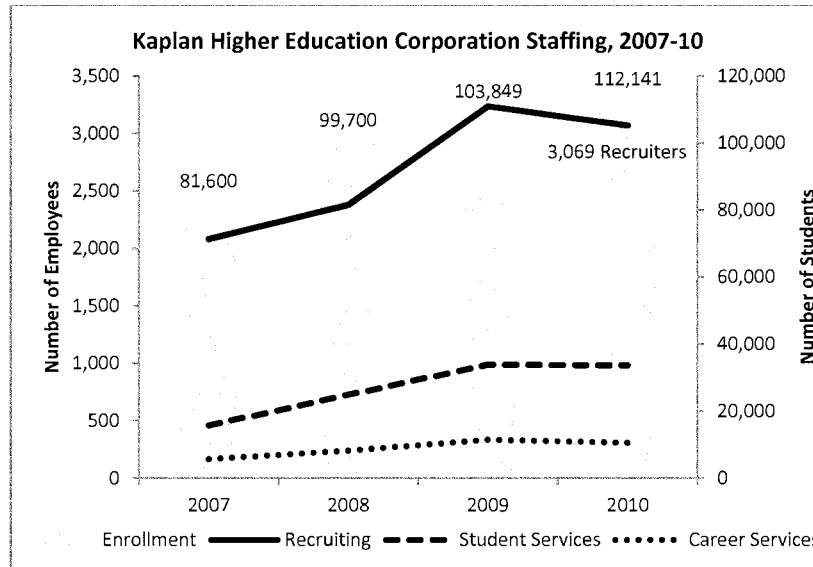
<sup>2314</sup> Kaplan, September 26, 2006, Student Complaint re: *no teacher in class* (KHE 0038360).

<sup>2315</sup> Kaplan, September 26, 2006, Student Complaint re: *lack of instruction* (KHE 0038425).

<sup>2316</sup> Kaplan, June 6, 2006, Student Complaint (KHE 0038443).

<sup>2317</sup> Kaplan, October 25, 2006, Student Complaint re: *false advertisement* (KHE 0038291).

## 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 services staff, and 307 career services and placement staff.<sup>2318</sup> 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

<sup>2318</sup> 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.



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.<sup>2319</sup>

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??<sup>2320</sup>

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.<sup>2321</sup>

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 Waterloo Courier.

<sup>2319</sup> Kaplan, June 29, 2009, Student Complaint re: *Career Services: insufficient service* (KHE 0038688) [sic].

<sup>2320</sup> Kaplan, June 16, 2010, Student Complaint re: *Career Service: insufficient* (KHE 0039604) .

<sup>2321</sup> Kaplan, August 4, 2010, Student Complaint re: *Career Services* (KHE 0039225).

These were job postings that I could apply to on my own, instead of driving to the school.<sup>2322</sup>

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].<sup>2323</sup>

### 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."<sup>2324</sup> Kaplan executives pushed the program, noting, "cash is King."<sup>2325</sup> 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."<sup>2326</sup>

<sup>2322</sup> 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.

<sup>2323</sup> Kaplan Internal Email, July 13, 2009, re: *Defaulter Analysis* (KHE 265925).

<sup>2324</sup> Kaplan, *EXCITE: Encourage X-tra Cash Investment Toward Education Training Manual* (KHE 063195).

<sup>2325</sup> Kaplan Internal Email, July 17, 2009, re: *Kaplan Choice Loan Reserve Rate* (KHE 325963).

<sup>2326</sup> Kaplan, *EXCITE: Encourage X-tra Cash Investment Toward Education: Asking for Monthly Tuition Payments, Admissions & Financial Aid Continued Training Manual* (KHE 063195, at 63200).

A Kaplan presentation advises employees to use a “feel, felt, found method” to overcome “customer” objections to paying more cash tuition.<sup>2327</sup> 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 feel about not being able to afford the required monthly payment.
- Other students initially felt that very same way.
- However, they found 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.
- Bill, what can you sacrifice for a few months to have job security, improved income, and the benefits you’ve always wanted?<sup>2328</sup>

### 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

<sup>2327</sup> Kaplan, *Overcoming Objections Tuition Payment Commitment* (KHE 272320, at KHE 272325).

<sup>2328</sup> *Id.* at KHE 272331.

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.

## **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**

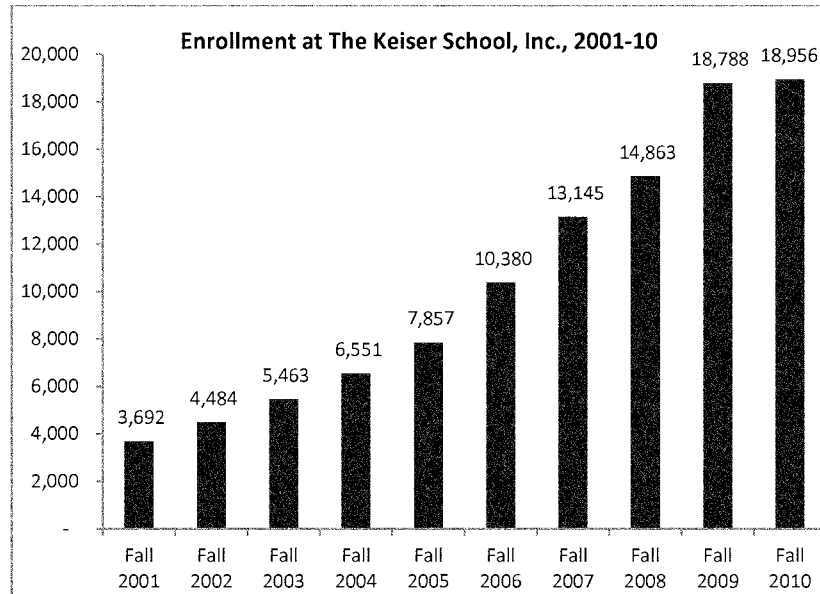
Keiser is a privately held for-profit education company headquartered in Fort Lauderdale, FL. It was started in 1977 by Arthur Keiser and his mother Evelyn with the idea of preparing students for jobs in Florida’s business and healthcare communities. In January 2011, Keiser converted to non-profit status. Keiser has 14 campuses, along with an online division, and offers programs in a wide variety of fields.<sup>2329</sup> 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.

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<sup>2329</sup> 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.<sup>2330</sup> 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.<sup>2331</sup>

#### 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.<sup>2332</sup> 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.”<sup>2333</sup>

Everglades is receiving part of the company as a donation, and is acquiring the rest through a purchase financed from a loan from Keiser

<sup>2330</sup> 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.

<sup>2331</sup> Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

<sup>2332</sup> 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).

<sup>2333</sup> Id.

University.<sup>2334</sup> The entire transaction is being financed by a loan from the for-profit entity to the non-profit entity.<sup>2335</sup> Surpluses generated by the new non-profit entity will go towards paying off this debt.<sup>2336</sup> 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 nonprofit, Keiser is also eligible for much higher levels of State-based grant aid. Florida for example, makes up to \$2,425 per student available

<sup>2334</sup> 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](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).

<sup>2335</sup> 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).

<sup>2336</sup> *Id.*

to students attending non-profit schools compared to \$945 per student at for-profit schools.<sup>2337</sup>

### 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.<sup>2338</sup> 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.<sup>2339</sup>

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.<sup>2340</sup> The additional Federal dollars accounted for 1.2 percent of Keiser's revenue, or \$2.9 million.<sup>2341</sup> Including these funds, Keiser derived approximately 78.6 percent of its revenue from Federal programs.<sup>2342</sup> This figure does not include revenue the company was allowed to temporarily discount pursuant to the ECASLA.<sup>2343</sup> Based on information the company

<sup>2337</sup> 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](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).

<sup>2338</sup> "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.

<sup>2339</sup> 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.

<sup>2340</sup> 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.

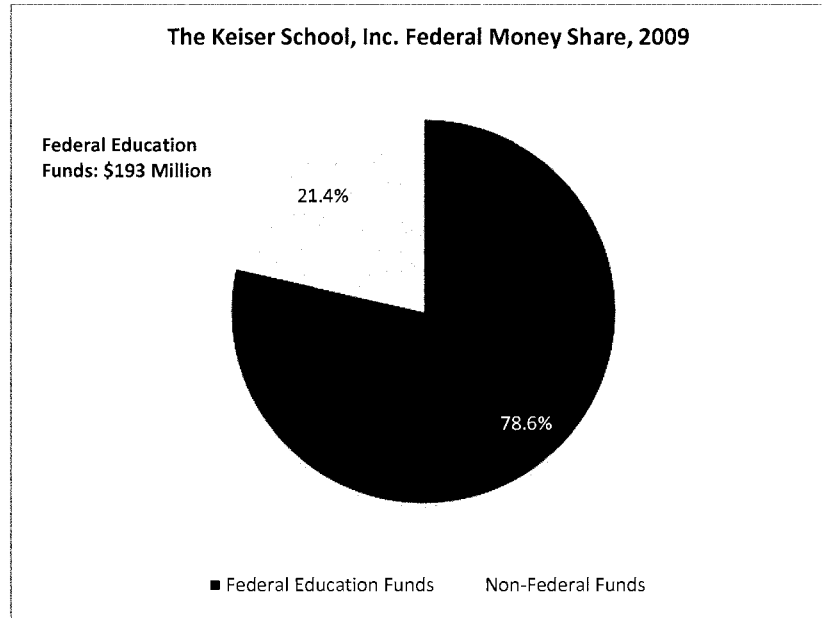
<sup>2341</sup> Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans Affairs 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.

<sup>2342</sup> "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.

<sup>2343</sup> 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.



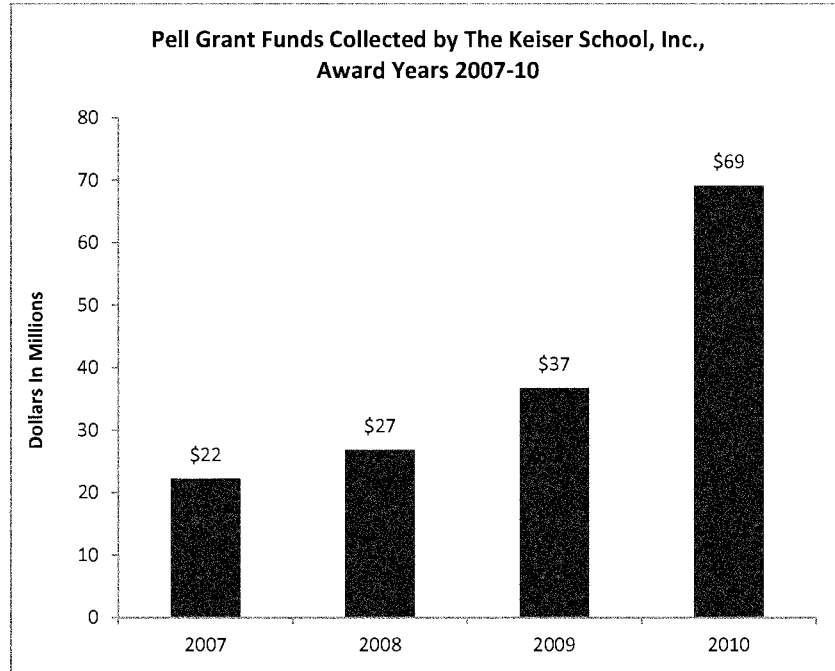
provided to the committee, Keiser may have excluded as much as \$20.7 million, or 8.4 percent of revenue, in 2009.<sup>2344</sup>



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.<sup>2345</sup> 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.

<sup>2344</sup> Id.

<sup>2345</sup> 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, 2000-1 and 2009-10*, <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.<sup>2346</sup>

### Spending

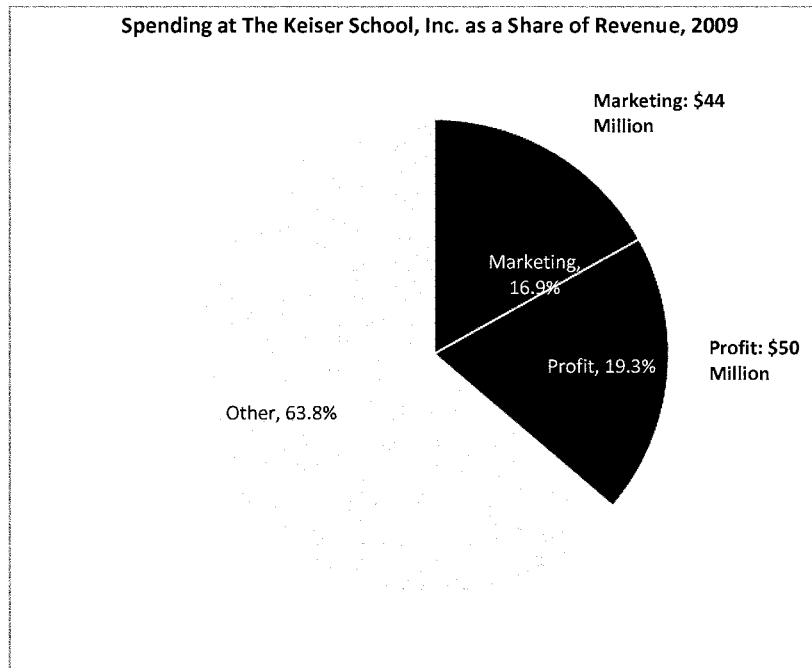
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.<sup>2347</sup> 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

<sup>2346</sup> 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, 2000-1 and 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html> (accessed July 12, 2012). See Appendix 13.

<sup>2347</sup> 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).<sup>2348</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.

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.<sup>2349</sup> Due to significant brick and mortar costs, Keiser spent 63.8 percent (or \$166 million) on other expenses, including education.

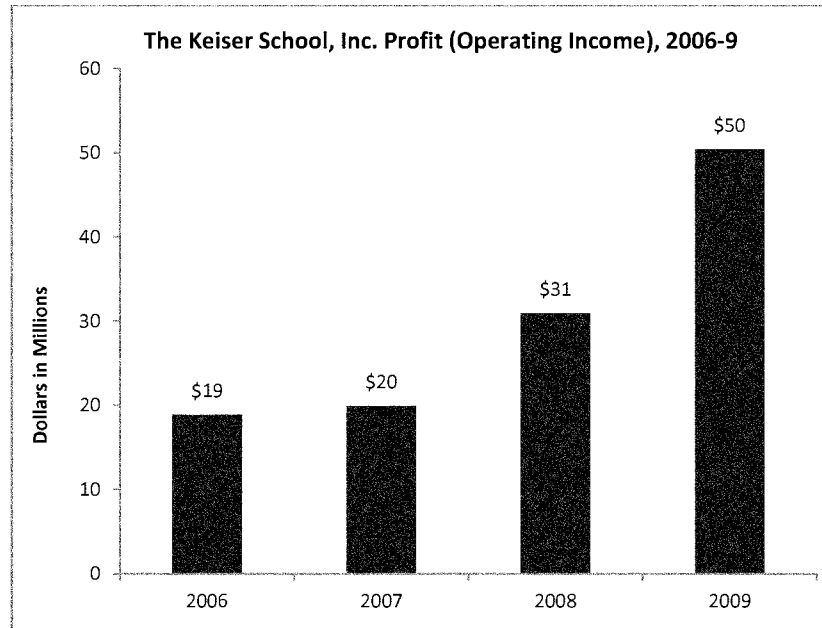


Keiser devoted a total of \$94 million to marketing, recruiting, and profit in fiscal year 2009. The amount of profit Keiser generated also increased rapidly, more than doubling from \$19 million in 2006 to \$50 million in 2009.<sup>2350</sup>

<sup>2348</sup> 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 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.

<sup>2349</sup> 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.

<sup>2350</sup> 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**

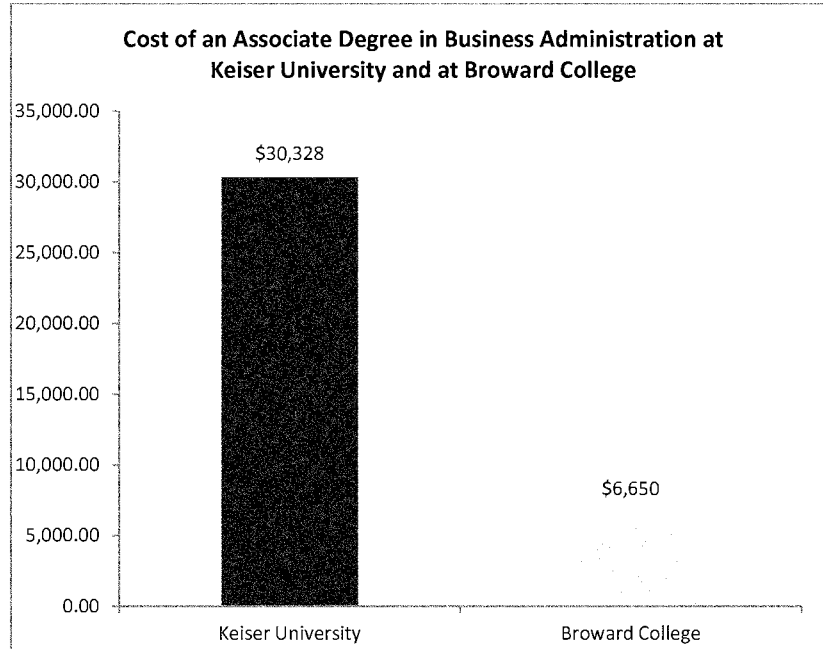
Compared to its public non-profit counterparts, it is more expensive to obtain a degree at Keiser University. A Bachelor's degree in Business Administration at Keiser University costs \$60,456.<sup>2351</sup> A Bachelor's degree in Business Administration at the University of Florida costs \$29,000.<sup>2352</sup> An Associate degree in Business Administration costs \$30,328 at Keiser.<sup>2353</sup> The same degree costs \$6,650 at Broward College.<sup>2354</sup>

<sup>2351</sup> See Appendix 14; see also, Keiser University, *Tuition and Fee Disclosure*, [http://www.keiseruniversity.edu/campus-admissions/add\\_enroll\\_agree6ofa.php](http://www.keiseruniversity.edu/campus-admissions/add_enroll_agree6ofa.php) (accessed July 12, 2012).

<sup>2352</sup> See Appendix 14; see also, University of Florida, University of Florida, <http://www.ufl.edu/> (accessed July 12, 2012).

<sup>2353</sup> See Appendix 14; see also, Keiser University, [http://www.keiseruniversity.edu/campus-admissions/add\\_enroll\\_agree6ofa.php](http://www.keiseruniversity.edu/campus-admissions/add_enroll_agree6ofa.php) (accessed July 12, 2012).

<sup>2354</sup> 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.<sup>2355</sup>

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.<sup>2356</sup> The company charges students an interest rate of 11.99 percent.

<sup>2355</sup> 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.

<sup>2356</sup> Keiser, *Keiser University Loan Info From 01/01/2010 To 06/30/2010* (KU 000025812).

## 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.<sup>2357</sup>

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.<sup>2358</sup> These withdrawn students were enrolled a median of 7 months.<sup>2359</sup> 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.<sup>2360</sup>

<sup>2357</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 19, 2012).

<sup>2358</sup> 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.

<sup>2359</sup> *Id.*

<sup>2360</sup> 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 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.

*Online vs. Brick and Mortar Outcomes<sup>2361</sup>*

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%

<sup>2361</sup> 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.

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.<sup>2362</sup> 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?"<sup>2363</sup>

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.<sup>2364</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>2365</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>2366</sup> 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.<sup>2367</sup>

<sup>2362</sup> Direct Loan Default Rates, 34 CFR § 668.183(c).

<sup>2363</sup> 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).

<sup>2364</sup> 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.

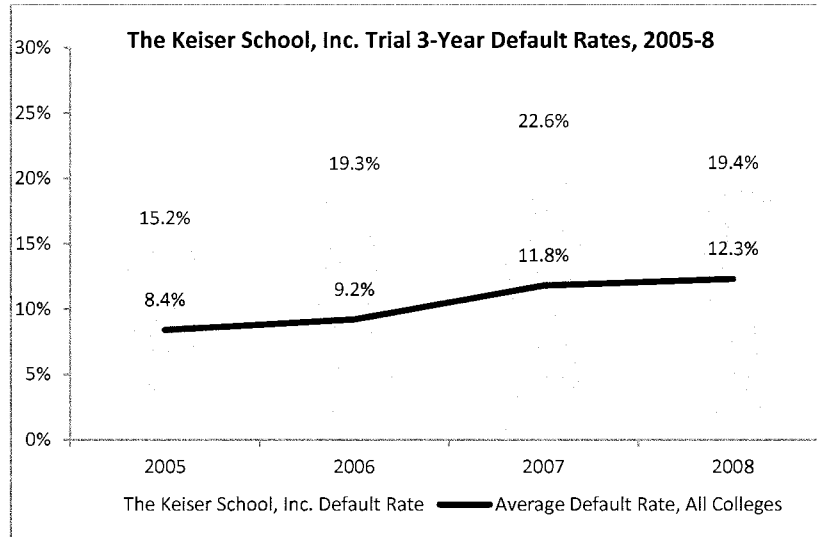
<sup>2365</sup> Id.

<sup>2366</sup> Id.

<sup>2367</sup> 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. This change represents a 32.6 percent increase over 4 years.<sup>2368</sup> 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.<sup>2369</sup>



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.<sup>2370</sup> Keiser has engaged in default management with the goal of maintaining a cohort default level of less than 13 percent.<sup>2371</sup> 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.

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

<sup>2368</sup> 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.

<sup>2369</sup> 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%.

<sup>2370</sup> Keiser, *Keiser University-Student Relationship Management Program* (KU 0000011683, at KU 0000011685).

<sup>2371</sup> Keiser, *Default version, Default Management-Phase 1, 2008 Cohort, Training Manual* (KU 0000011687 at KU0000011689).

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.<sup>2372</sup>

Keiser spent \$3,201 per student on instruction in 2009, compared to \$2,305 on marketing and \$2,640 on profit.<sup>2373</sup> 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

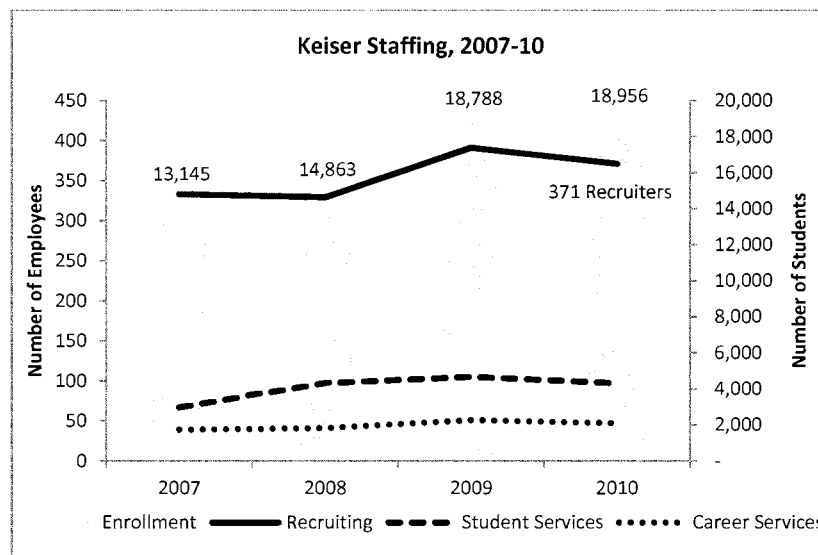
<sup>2372</sup> Keiser like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement. This clause severely limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group. See, e.g., KU 000027205.

<sup>2373</sup> 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 University of Florida, \$3,217 at Broward College, and \$11,064 at Nova Southeastern University.<sup>2374</sup>

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.<sup>2375</sup> 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.<sup>2376</sup>

### 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

<sup>2374</sup> 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.

<sup>2375</sup> 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.

<sup>2376</sup> Id.

services employees, and 97 student services employees.<sup>2377</sup> 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 regarding financial aid" and "unfair or deceptive practices regarding recruiting, enrollment, placement, etc."<sup>2378</sup> This investigation is ongoing.

### **Conclusion**

Like many others 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.

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<sup>2377</sup> Id. See Appendix 7 and Appendix 24.

<sup>2378</sup> 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=0,110> (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.<sup>2379</sup> 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

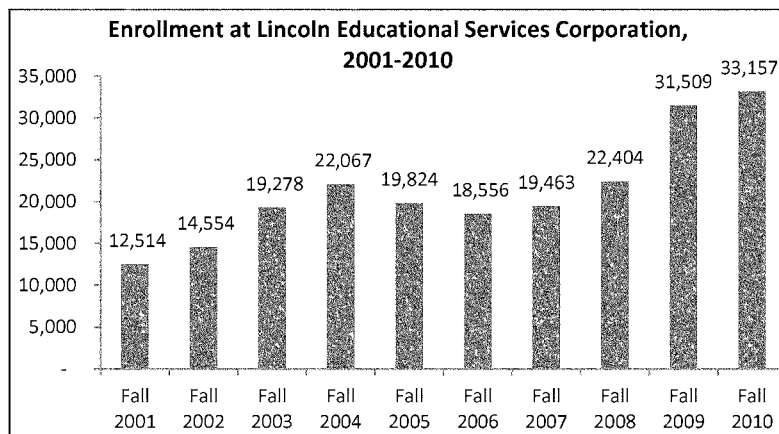
Lincoln campuses are primarily accredited through two national accreditors: the Accrediting Commission of Career Schools and Colleges (ACCSC) and the Accrediting Council for Independent Colleges and Schools (ACICS). Mr. Francis Giglio, Lincoln’s Director of Compliance and Regulatory Services, plays a 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.

<sup>2379</sup> A list of campuses can be found at: <http://www.lincolnedu.com/campus-program-locator> (accessed April 30, 2012).

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.<sup>2380</sup> Although the two firms have since 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, 33,157 students were enrolled at Lincoln.<sup>2381</sup>  
Enrollment almost tripled since the company was purchased by the private

<sup>2380</sup> 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](http://articles.marketwatch.com/2005-06-23/news/30750491_1_ipo-price-shares-turbulence) (accessed June 25, 2012).

<sup>2381</sup> 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

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 online and degree programs.<sup>2382</sup> 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."<sup>2383</sup> Lincoln's growth in enrollment led to growth in revenue, nearly doubling from \$328 million in 2007 to \$639 million in 2010.<sup>2384</sup>

### 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.<sup>2385</sup> 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.<sup>2386</sup>

In 2010, Lincoln reported 82.7 percent of revenue from title IV Federal financial aid programs.<sup>2387</sup> However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education

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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.

<sup>2382</sup> Lincoln Educational Services at Signal Hill Corp Education Conference. November, 17 2011; See also, Lincoln, 2010, Q1 Investor Call, Lincoln, 2011, Q1 Investor Call.

<sup>2383</sup> Lincoln, March 7, 2012, Q4 Investor Call.

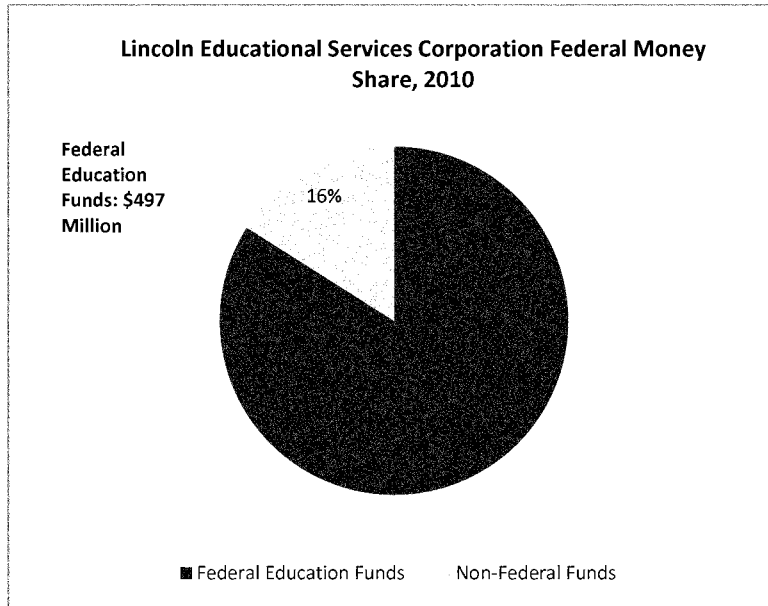
<sup>2384</sup> Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

<sup>2385</sup> "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.

<sup>2386</sup> 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.

<sup>2387</sup> Id.

programs.<sup>2388</sup> 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.<sup>2389</sup> With these funds included, 84 percent of Lincoln's total revenue was comprised of Federal education funds.<sup>2390</sup>



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.<sup>2391</sup> Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over

<sup>2388</sup> 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.

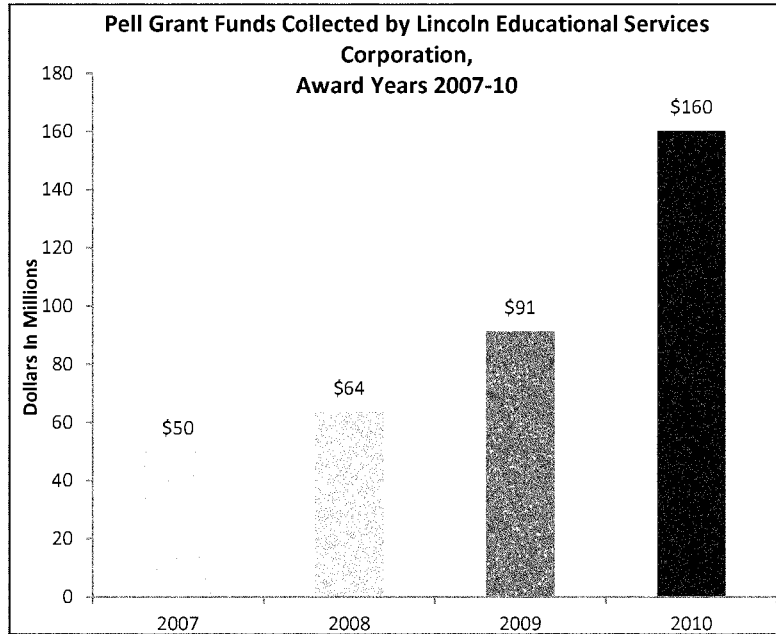
<sup>2389</sup> Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs 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.

<sup>2390</sup> "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.

<sup>2391</sup> 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, 2000-1 and 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.



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.



Lincoln tripled the amount of Pell grant funds it collected, from \$49.9 million in 2007 to \$160.3 million in 2010.<sup>2392</sup>

### Spending

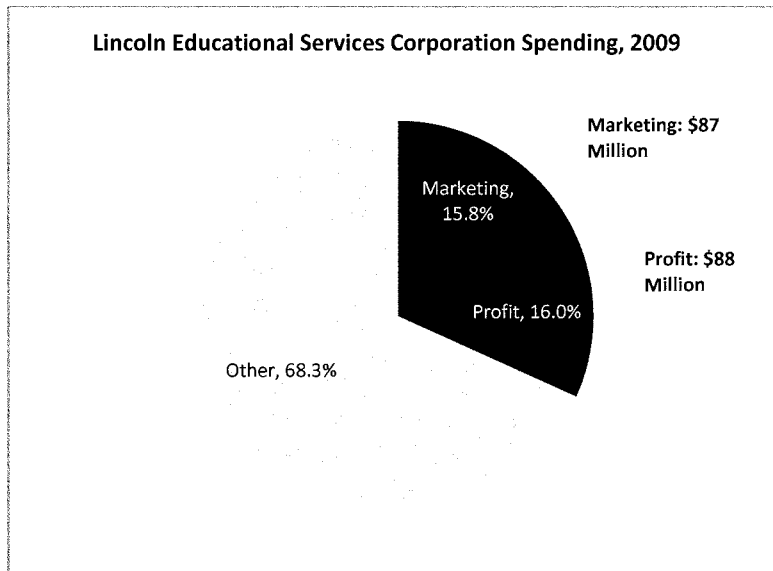
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.<sup>2393</sup> During the same period, the companies spent 23 percent of revenue on

<sup>2392</sup> 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.

<sup>2393</sup> 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.

marketing and recruiting (\$3.7 billion) and 19.7 percent on profit (\$3.2 billion).<sup>2394</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.

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.<sup>2395</sup>



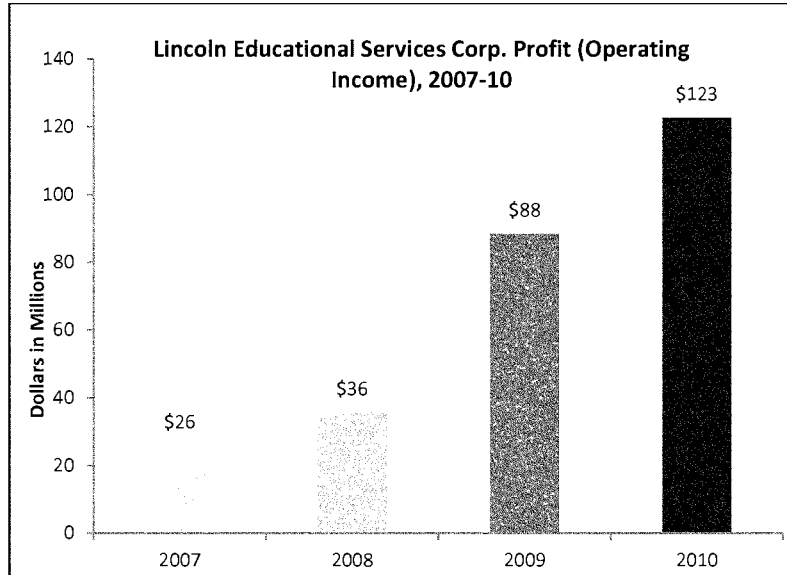
Lincoln devoted a total of \$175 million to marketing, recruiting and profit in fiscal year 2009.<sup>2396</sup> The amount of profit Lincoln has generated has risen rapidly since the company's IPO, more than quadrupling from \$25.9 million in 2007 to \$122.6 million in 2010.<sup>2397</sup>

<sup>2394</sup> 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.

<sup>2395</sup> Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

<sup>2396</sup> Id. The "other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.

<sup>2397</sup> 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.<sup>2398</sup> 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.<sup>2399</sup>

The chief executive officers of the large publicly traded, for-profit education companies took home, on average, \$7.3 million in fiscal year 2009.<sup>2400</sup> 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.

<sup>2398</sup> 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.

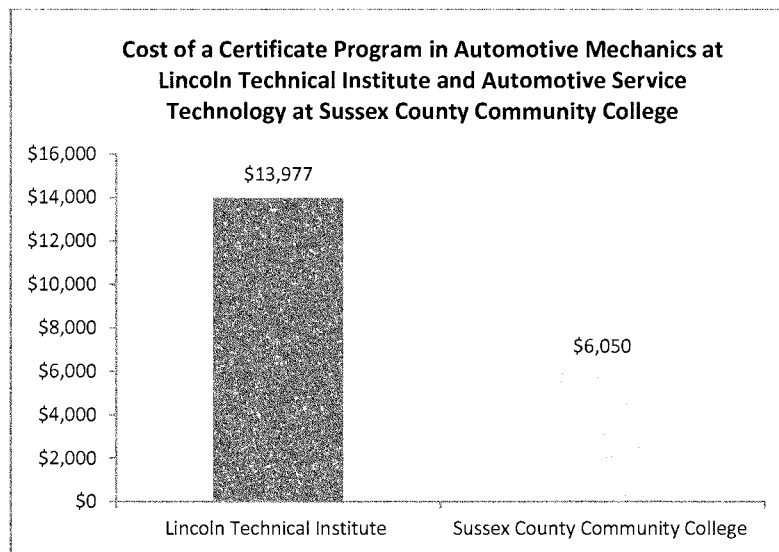
<sup>2399</sup> *Id.*

<sup>2400</sup> 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
<b>Total</b> <sup>2401</sup>		\$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.<sup>2402</sup> The same program at Sussex County Community College in Sussex, NJ costs \$6,050.<sup>2403</sup>



<sup>2401</sup> 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.

<sup>2402</sup> See Appendix 14; see also, Lincoln Education, *Student Outcomes Disclosures*, [http://www.lincolnedu.com/download/consumer/Union\\_Student-Disclosure.pdf](http://www.lincolnedu.com/download/consumer/Union_Student-Disclosure.pdf) (accessed June 25, 2012).

<sup>2403</sup> 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.<sup>2404</sup>

The company gives each campus a tuition target increase between 3 and 4 percent every year.<sup>2405</sup> 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.<sup>2406</sup> 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.<sup>2407</sup> 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.<sup>2408</sup>

## 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.”<sup>2409</sup> The company’s manual admonishes, “All web leads must be contacted 5 times

<sup>2404</sup> 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.

<sup>2405</sup> Lincoln Educational Services, *Response to an Inquiry Regarding Tuition Increases* (LESC0000145).

<sup>2406</sup> Lincoln, 2011, Q2 Investor Call.

<sup>2407</sup> Id.

<sup>2408</sup> Lincoln, 2011, Q2 Investor Call.

<sup>2409</sup> Lincoln, *Website Lead Procedures* (LINC0109028).

within the first 2 days.”<sup>2410</sup> 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.<sup>2411</sup>

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.<sup>2412</sup> They included: free application and registration, credit for military experience, special refund policies, 10 percent-plus tuition reduction program, no out-of-pocket expense program and a military spouse program.<sup>2413</sup>

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.<sup>2414</sup>

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.”<sup>2415</sup> 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.<sup>2416</sup>

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.<sup>2417</sup> This clause severely limits the ability of

<sup>2410</sup> Id.

<sup>2411</sup> Lincoln Internal Presentation, *How to Keep Reps Productive in Q4-2006* (LINC0121064, at LINC0121065).

<sup>2412</sup> Lincoln Internal Presentation, *Military Road Map: Results of Assessment Process* (LINC0001436, at LINC0001438).

<sup>2413</sup> Id., at LINC0001483

<sup>2414</sup> Lincoln, *PJP Trip Locations* (LINC0130351).

<sup>2415</sup> Email from Better Business Bureau, January 19, 2008 (LINC0000130, at LINC0000135).

<sup>2416</sup> 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.

<sup>2417</sup> Lincoln, Enrollment, LESC0002053, at LESC0002054.

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.<sup>2418</sup>

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.

### 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.<sup>2419</sup> 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

<sup>2418</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 25, 2012).

<sup>2419</sup> 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.

2008-9, or 4,306 students, withdrew by mid-2010. This is the second highest withdrawal rate of any company examined by the committee.<sup>2420</sup>

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.<sup>2421</sup>

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.<sup>2422</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>2423</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>2424</sup> The consequence of this higher rate is that almost half of all

<sup>2420</sup> 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.

<sup>2421</sup> Direct Loan default rates, 34 CFR 668.183(c).

<sup>2422</sup> 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.

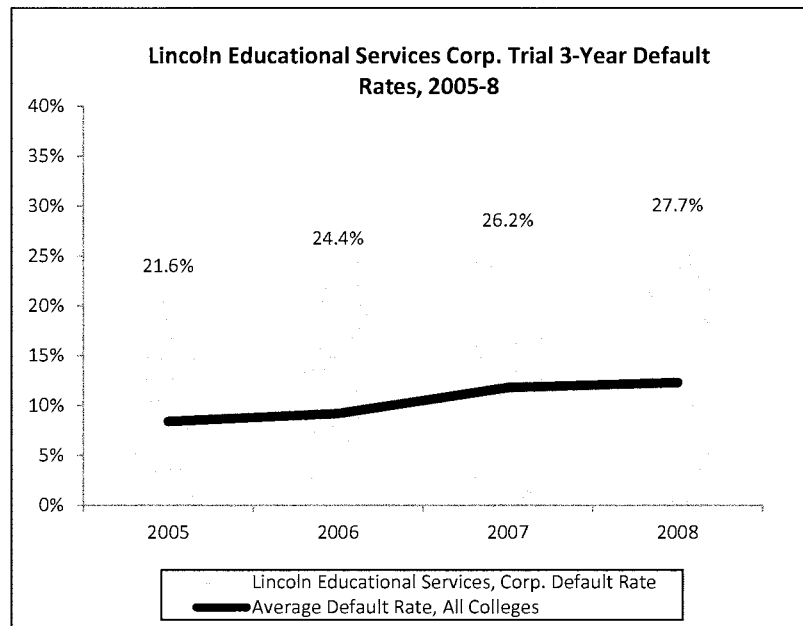
<sup>2423</sup> Id.

<sup>2424</sup> Id.



student loans defaults nationwide are held by students who attended for-profit colleges.<sup>2425</sup>

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.<sup>2426</sup> 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).

<sup>2425</sup> Id.

<sup>2426</sup> 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.<sup>2427</sup> 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.<sup>2428</sup> 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.<sup>2429</sup>

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

<sup>2427</sup> Lincoln Technical Institute, *Cohort Default Management Services Agreement*, February 25, 2009 (LESC0001959, at LESC0001968).

<sup>2428</sup> 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.

<sup>2429</sup> 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.

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.<sup>2430</sup> 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.<sup>2431</sup>

Complaints from Lincoln's faculty reflect concerns with the academic quality. One Lincoln instructor stated:

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!<sup>2432</sup>

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."<sup>2433</sup>

Students also raised quality concerns.<sup>2434</sup> 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

<sup>2430</sup> 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.

<sup>2431</sup> Id.

<sup>2432</sup> 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.

<sup>2433</sup> Id.

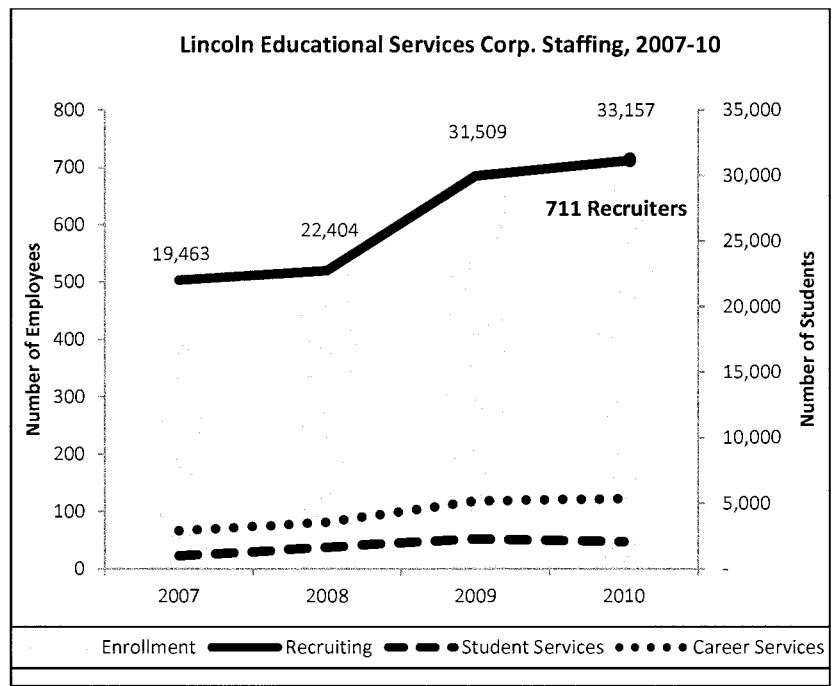
<sup>2434</sup> See also, Letter from Accrediting Council for Independent Colleges and Schools, December 12, 2007 (LINC0000087, at LINC0000088) ("I came to this school to get an education and instead I have wasted 7 months of my life.") (The New Jersey Office of the Attorney General closed its investigation 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).

loss of federal funding... My federal aid was wasted on something that I cannot even consider an education.<sup>2435</sup>

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.<sup>2436</sup>

**Staffing**



While for-profit education companies employed large numbers of recruiters to enroll new students, the same companies frequently employ far less

<sup>2435</sup> 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.

<sup>2436</sup> Email from Better Business Bureau, January 19, 2008 (LINC0000130, at LINC0000135).

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.<sup>2437</sup> 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 she never emailed me any job leads. My federal aid was wasted on something that I cannot even consider an education.<sup>2438</sup>

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.<sup>2439</sup> 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.<sup>2440</sup>

<sup>2437</sup> 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.

<sup>2438</sup> 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.

<sup>2439</sup> Lincoln Internal Memorandum, no date (LINC0088022, at LINC0088023).

<sup>2440</sup> *Id.*, at LINC0088024.

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.<sup>2441</sup>

### 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.”<sup>2442</sup> The company could avoid the 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.<sup>2443</sup>

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

<sup>2441</sup> Email from Stephen Buchenot, *FW: Grand Prairie Investigation*, June 4, 2010 (LINC0088022).

<sup>2442</sup> *Consolidations of OPEID*: (LINC0001399, at LINC0001400). Note: Internal memorandum with no title or date.

<sup>2443</sup> This requires the blessing of the Department of Education, the college’s accrediting agency, and the State regulator, which usually grant these shifts.

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.”

<sup>2444</sup> 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.

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<sup>2444</sup> 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.<sup>2445</sup>

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.<sup>2446</sup>

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.<sup>2447</sup>

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

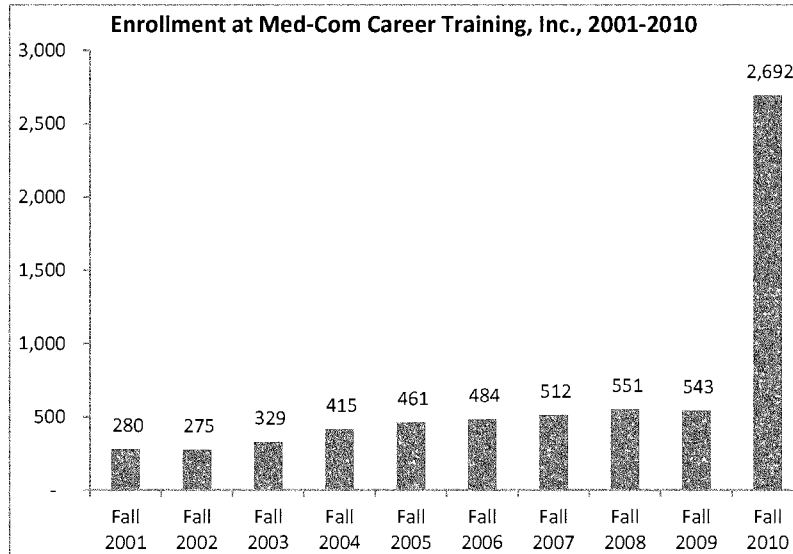
<sup>2445</sup> Elizabeth, NJ and Newark, NJ. Drake College of Business, Programs of Study, <http://www.drakecollege.edu/academic/programs-of-study> (accessed July 8, 2012).

<sup>2446</sup> 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](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).

<sup>2447</sup> See Drake College of Business, Organizational Charts and Structure, (HELP-DCB-000004 and HELP-DCB-000005).



enrolled in fall 2010.<sup>2448</sup> 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.<sup>2449</sup> This growth was largely due to opening a second campus in Newark, NJ.



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.<sup>2450</sup> 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

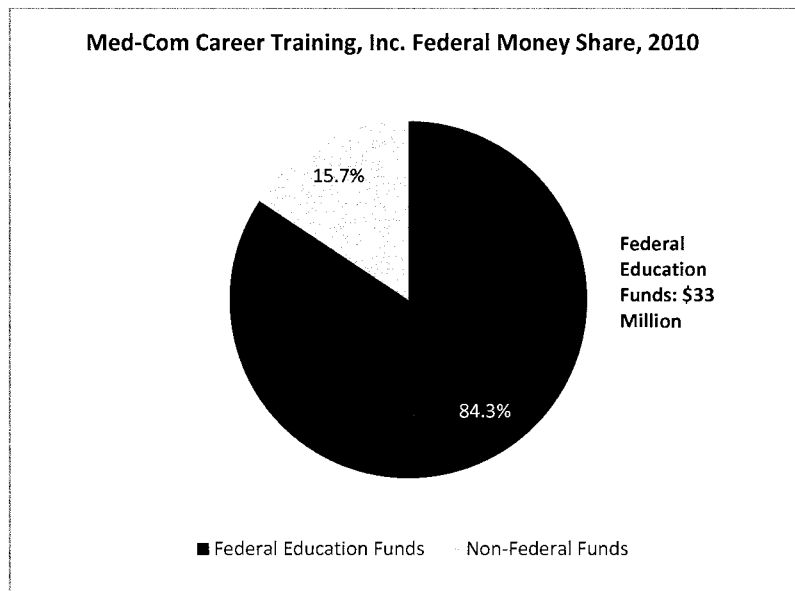
<sup>2448</sup> Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7.

<sup>2449</sup> 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.

<sup>2450</sup> 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.

increased from 12.2 to 24.8 percent and from \$5.4 to \$32.2 billion.<sup>2451</sup> 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.<sup>2452</sup>

In 2010, Drake reported 84.3 percent of revenue from title IV Federal financial aid programs.<sup>2453</sup> 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.<sup>2454</sup>



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source

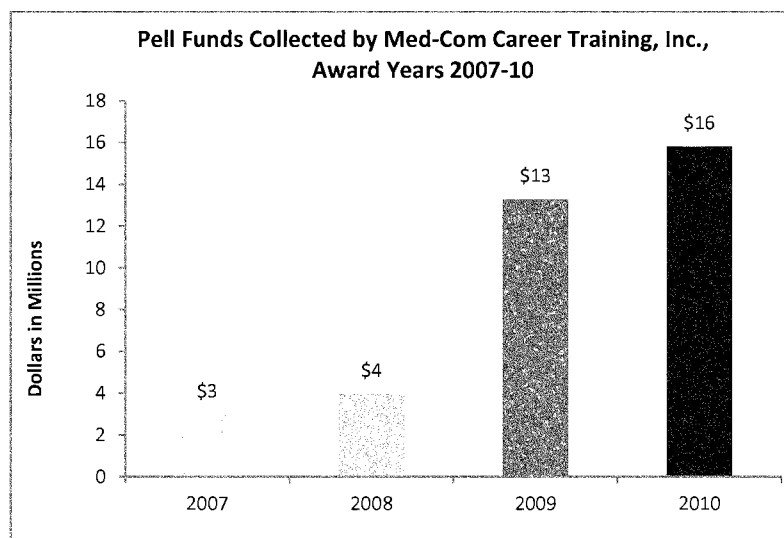
<sup>2451</sup> “Federal financial aid funds” as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 USC §1070 et seq. Senate 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.

<sup>2452</sup> 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.

<sup>2453</sup> Id.

<sup>2454</sup> 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.

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.<sup>2455</sup> 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.



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.<sup>2456</sup> 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.<sup>2457</sup>

<sup>2455</sup> 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*, 2000-01 and 2009-10, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.

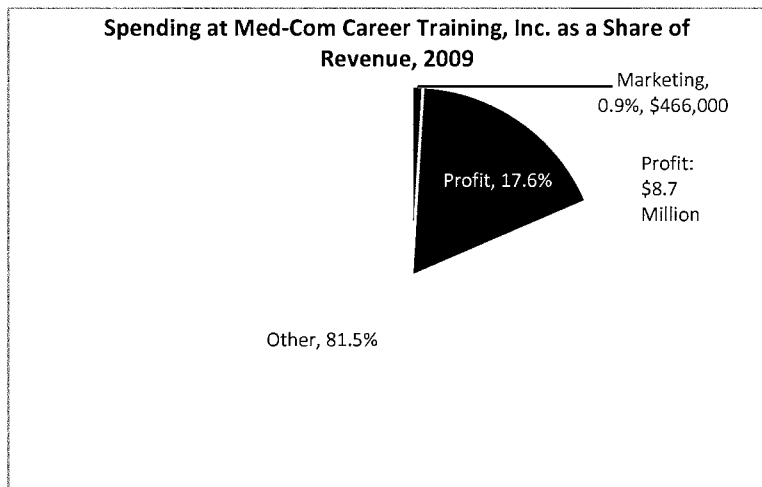
<sup>2456</sup> Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>. See Appendix 13.

<sup>2457</sup> IPEDS, *Data Feedback Report*, 2011.

## 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.<sup>2458</sup> 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).<sup>2459</sup>

In 2009, Drake allocated 0.9 percent, or \$465,816, to marketing and recruiting and 17.6 percent, or about \$9 million, to profit.<sup>2460</sup> Out of its profit, Drake distributed \$4.3 million to its small group of shareholders.<sup>2461</sup> In addition, Drake devoted \$9.8 million to unclassified “consulting fees,” an additional 20 percent of revenue.<sup>2462</sup>



<sup>2458</sup> 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.

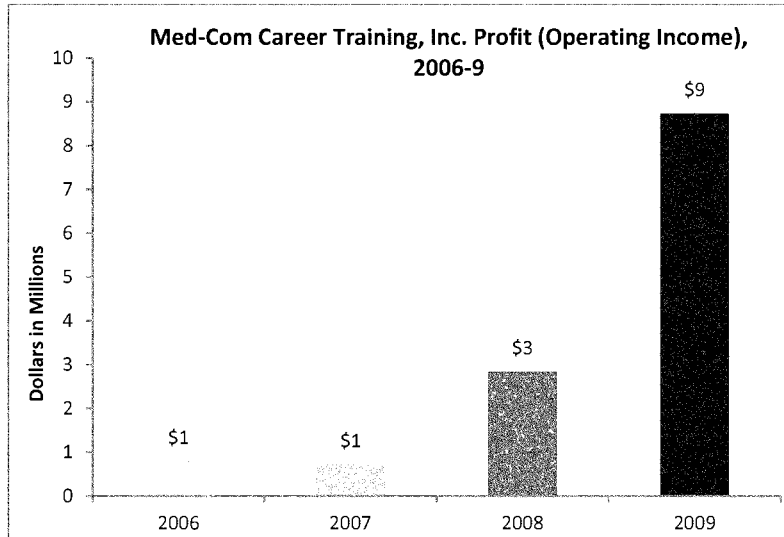
<sup>2459</sup> Senate HELP Committee staff analysis of fiscal year 2009 financial statements and information provided to the committee by each company pursuant to the committee document request of August 5, 2010. Profit is based on operating income. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19. “Other” category includes administration, instruction, executive compensation, faculty salaries, student services, facilities, maintenance and bad debt expenses.

<sup>2460</sup> Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

<sup>2461</sup> Id.

<sup>2462</sup> Harvey Glick, CPA, *Med-Com Career Training, Inc. Audited Financial Statements*, December 31, 2009 (HELP-DCB\_000006) [unredacted version on file with committee].

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.<sup>2463</sup> 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.<sup>2464</sup>



#### Executive Compensation

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

#### **Tuition and Other Academic Charges**

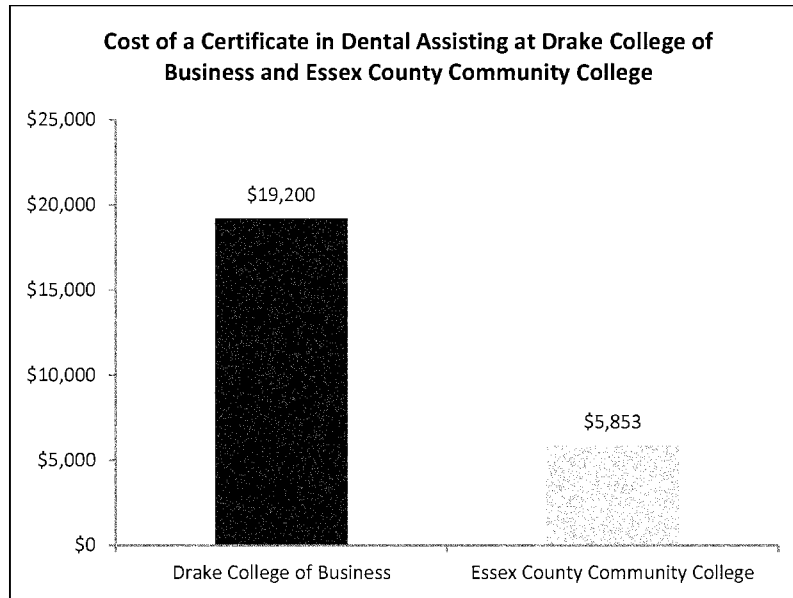
Compared to its public colleges offering the same programs, the price of tuition is more expensive at Drake. A Certificate in Dental Assisting at Drake costs \$19,200,<sup>2465</sup> whereas the same Certificate at Newark's Essex County College costs \$5,853.<sup>2466</sup>

<sup>2463</sup> *Med-Com Career Training, Inc. Audited Financial Statements, 2006-9* [on file with committee]. See Appendix 18.

<sup>2464</sup> *Id.*

<sup>2465</sup> 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.

<sup>2466</sup> 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.<sup>2467</sup> 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

<sup>2467</sup> Drake College of Business, *Program Costs for Each Program*, January 1, 2010 (DCB-US-SEN-00000579, at DCB-US-SEN-00000580-82).

tactics.<sup>2468</sup> 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 estimated that 3/4ths of the students enrolled at Drake were receiving the stipend.<sup>2469</sup> 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.”<sup>2470</sup>

Drake suspended its homeless recruiting efforts after questions were raised in 2010 after the publication of the *BusinessWeek* article.<sup>2471</sup> 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.<sup>2472</sup> 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.<sup>2473</sup> 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.<sup>2474</sup>

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.<sup>2475</sup> 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.”<sup>2476</sup> 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.

<sup>2468</sup> Daniel Golden, “The Homeless at College,” *Business Week*, April 30, 2010 [http://www.businessweek.com/magazine/content/10\\_19/b4177064219731.htm](http://www.businessweek.com/magazine/content/10_19/b4177064219731.htm) (Accessed June 21, 2012).

<sup>2469</sup> Id.

<sup>2470</sup> Harvey Glick, CPA, *Med-Com Career Training, Inc. Audited Financial Statements*, December 31, 2009 (HELP-DCB\_000006) [unredacted version on file with committee].

<sup>2471</sup> 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](http://www.nj.com/news/index.ssf/2010/05/drake_college_to_stop_recruiti.html) (accessed June 21, 2012).

<sup>2472</sup> Id.; ACICS Correspondence, August 11, 2010 (DCB-US-SEN-00004161).

<sup>2473</sup> Drake College of Business, *Promissory Installment Note*, (DCB-US-SEN-00000626, at DCB-US-SEN-00000638).

<sup>2474</sup> Id., at DCB-US-SEN-00000642.

<sup>2475</sup> ACICS Correspondence, August 11, 2010 (DCB-US-SEN-00004161).

<sup>2476</sup> Id.

## 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.<sup>2477</sup>

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.

### 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.<sup>2478</sup> 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.<sup>2479</sup>

### 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.<sup>2480</sup>

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.<sup>2481</sup> In

<sup>2477</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 22, 2012).

<sup>2478</sup> Senate HELP Committee staff analysis. See Appendix 15.

<sup>2479</sup> IPEDS, *2010 Graduation Rate*.

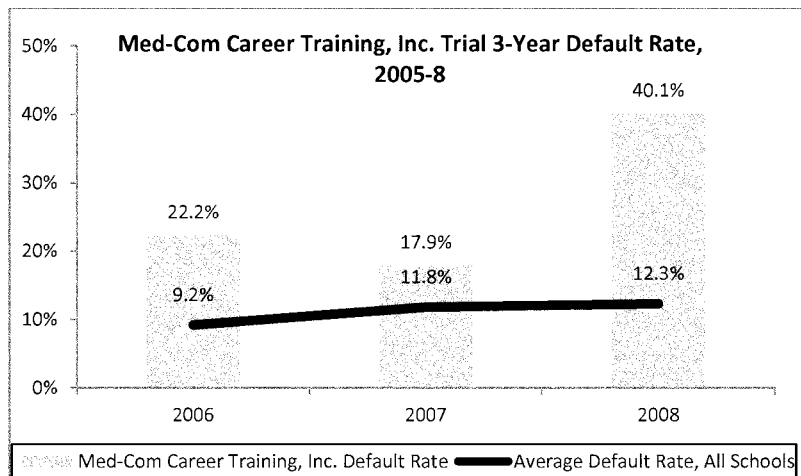
<sup>2480</sup> Direct Loan Default Rates, 34 CFR 668.183(c).

<sup>2481</sup> 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.



contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>2482</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>2483</sup> 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.<sup>2484</sup>

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.<sup>2485</sup> This change represents a 32.6 percent increase over 4 years.<sup>2486</sup> 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.<sup>2487</sup> 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.



<sup>2482</sup> Id.

<sup>2483</sup> Id.

<sup>2484</sup> Id.

<sup>2485</sup> 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.

<sup>2486</sup> Id.

<sup>2487</sup> 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.<sup>2488</sup> 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.<sup>2489</sup>

Drake spent \$186 on marketing and \$3,488 on profit per student in 2009.<sup>2490</sup> 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.<sup>2491</sup> That means each career counselor was responsible for 245 students and each student services

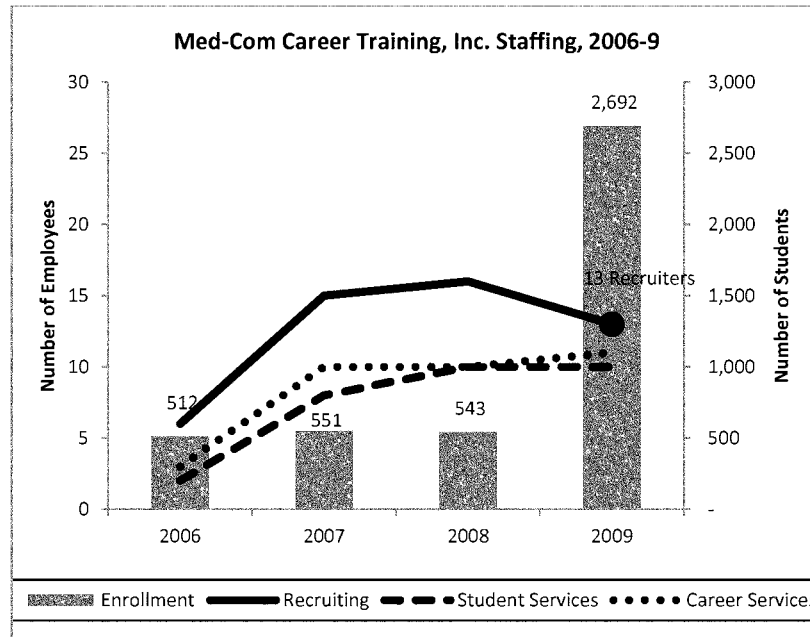
<sup>2488</sup> Senate HELP Committee staff analysis. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students."

<sup>2489</sup> 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.

<sup>2490</sup> 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.

<sup>2491</sup> 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.

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 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 than 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.<sup>2492</sup> 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.<sup>2493</sup>

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.<sup>2494</sup> Fifty-three percent of NAU students attend completely online, up from 47 percent in 2011, and another 17 percent take some classes online.<sup>2495</sup>

<sup>2492</sup> National American University, 2008, *New Admissions Representative Training Manual* (NAU0014515, at NAU0014516).

<sup>2493</sup> National American University Holdings, Inc. Form 10-K for period ending 5/31/2011.

<sup>2494</sup> National American University Public Presentation, April 2012, Conference Call Presentation, available at [http://www.national.edu/sites/default/files/files/NAUH\\_Q3%20FY2012.pdf](http://www.national.edu/sites/default/files/files/NAUH_Q3%20FY2012.pdf). (accessed June 18, 2012).

<sup>2495</sup> 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).

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).<sup>2496</sup> It was originally accredited by HLC in 1985.

Dr. Ronald L. Shape is chief executive officer of National American University Holdings, Inc.<sup>2497</sup> Dr. Jerry L. Gallentine, who previously served as president of several Midwestern colleges, serves as president of the company.<sup>2498</sup> 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.<sup>2499</sup> NAU generates nearly all of National American University Holdings, Inc.’s revenue, totaling 98.7 percent in 2011.<sup>2500</sup> The rest of the holding company’s revenue is derived from selling multi-family residential real estate in South Dakota.<sup>2501</sup>

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.<sup>2502</sup> Five new campuses are pending regulatory approval from the Higher Learning Commission, and the company has announced two more campus openings in 2013.

<sup>2496</sup> See National American University “Accreditations, Approvals & Affiliations,” <http://www.national.edu/accreditations-approvals-affiliations> (accessed July 12, 2012).

<sup>2497</sup> See National American University, “Management,” <http://www.national.edu/management> (accessed July 12, 2012).

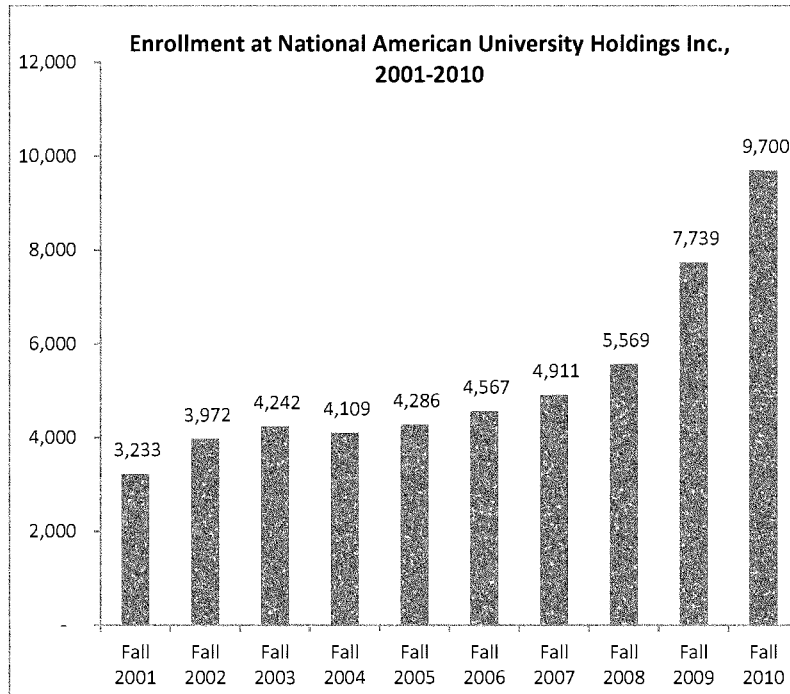
<sup>2498</sup> See National American University, “Management,” <http://www.national.edu/management> (accessed July 12, 2012).

<sup>2499</sup> “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).

<sup>2500</sup> National American University Holdings, Inc. Form 10-K for period ending 5/31/11.

<sup>2501</sup> “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).

<sup>2502</sup> 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).



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.<sup>2503</sup> This growth in enrollment was driven by students enrolling online and also led to growth in revenue.<sup>2504</sup> Since its initial public offering in November 2009, revenue at NAU has grown by more than 70 percent.<sup>2505</sup>

<sup>2503</sup> 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 drop in revenue and profit at some companies.

<sup>2504</sup> Online enrollment grew at the rate of 26 percent in the same period.

<sup>2505</sup> 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.

## 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.<sup>2506</sup> 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.<sup>2507</sup>

In 2010, NAU reported 76.1 percent of revenue from title IV Federal financial aid programs.<sup>2508</sup> 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).<sup>2509</sup> 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.<sup>2510</sup> 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.<sup>2511</sup>

<sup>2506</sup> "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.

<sup>2507</sup> 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.

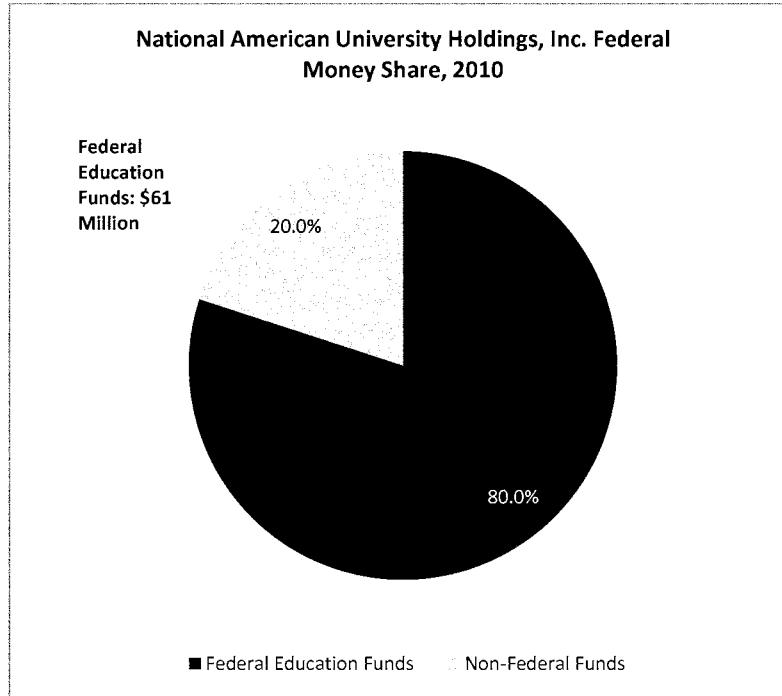
<sup>2508</sup> Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>2509</sup> 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.

<sup>2510</sup> 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.

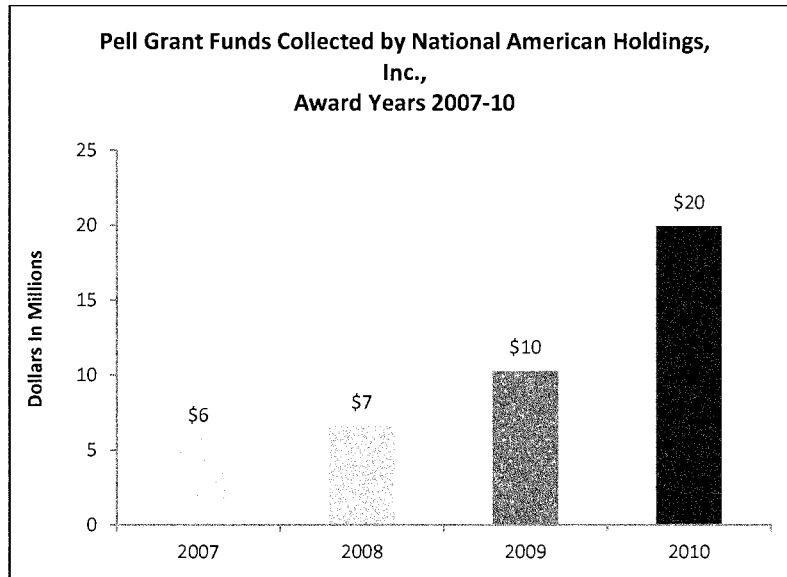
<sup>2511</sup> "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.





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.<sup>2512</sup> 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.

<sup>2512</sup> 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, 2000-1 and 2009-10*, <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.<sup>2513</sup>

### Spending

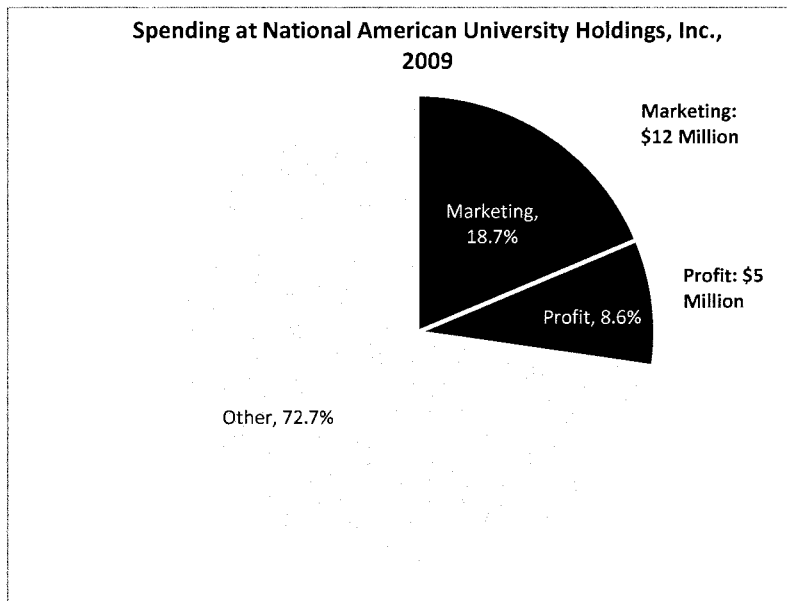
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.<sup>2514</sup> 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

<sup>2513</sup> 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

<sup>2514</sup> 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).<sup>2515</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.<sup>2516</sup>

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.<sup>2517</sup>



NAU devoted a total of \$17.1 million to marketing, recruiting and profit in fiscal year 2009.<sup>2518</sup> 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.<sup>2519</sup>

<sup>2515</sup> 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.

<sup>2516</sup> Id.

<sup>2517</sup> Id.

<sup>2518</sup> "Other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.

<sup>2519</sup> 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.<sup>2520</sup> 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.<sup>2521</sup> CEO Ronald L. Shape earned \$990,361.<sup>2522</sup>

<sup>2520</sup> 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.

<sup>2521</sup> "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).

<sup>2522</sup> 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
Michaëlle Holland	Regional President for the South and Southeast Regions	\$692,807
Robert D. Buckingham	Executive Chairman of the Board	\$3,127,120
<b>Total</b>		\$5,964,710 <sup>2523</sup>

NAU compensation packages are well below the average for publicly traded, for-profit education companies.<sup>2524</sup>

### 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,<sup>2525</sup> whereas the same degree at the University of South Dakota costs \$35,216.<sup>2526</sup>

An Associate's degree in Business Administration at NAU costs \$28,769 on campus and \$30,257 online.<sup>2527</sup> 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.<sup>2528</sup>

<sup>2523</sup> 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.

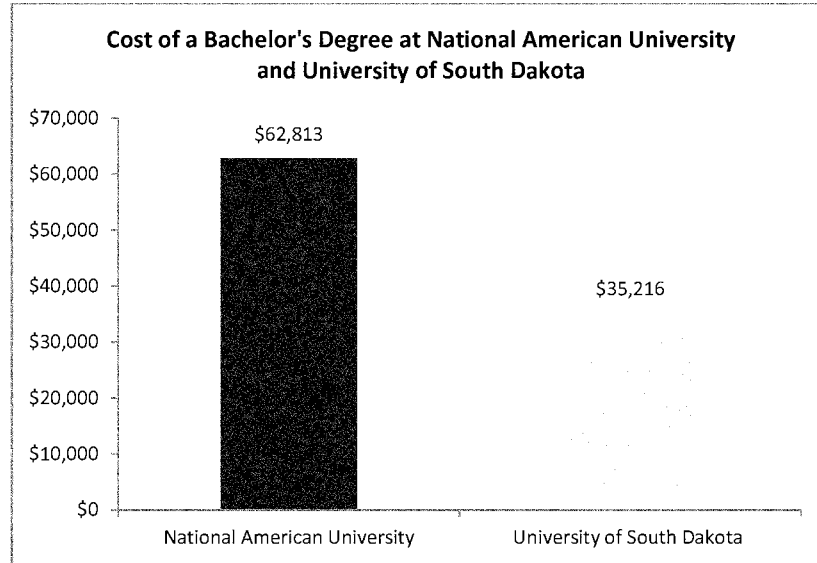
<sup>2524</sup> The chief executive officers of the large publicly traded for-profit education companies took home, on average, \$7.3 million in fiscal year 2009.

<sup>2525</sup> 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.

<sup>2526</sup> See Appendix 14; see also, University of South Dakota, *University of South Dakota*, <http://www.usd.edu/> (accessed July 12, 2012).

<sup>2527</sup> 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.

<sup>2528</sup> 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.<sup>2529</sup>

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.<sup>2530</sup> 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

<sup>2529</sup> 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.

<sup>2530</sup> National American University Internal Email, October 2007, re: *Mid Year Adjustments* (NAU0013678).

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 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.<sup>2531</sup>

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."<sup>2532</sup> 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...<sup>2533</sup>

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."<sup>2534</sup> 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.<sup>2535</sup>

<sup>2531</sup> National American University Internal Email, October 2007, *re: RE: Mid Year Adjustments* (NAU0013825).

<sup>2532</sup> National American University Internal Email, October 2007, *re: RE: Mid Year Adjustments* (NAU0013834).

<sup>2533</sup> National American University Internal Email, December 2008, *re: RE:* (NAU0013713, at NAU0013716).

<sup>2534</sup> National American University Internal Email, January 2008, *re: FW: Tuition Increase Recommendations* (NAU0013551, at NAU0013556).

<sup>2535</sup> National American University Internal Email, October 2007, *re: Mid Year Adjustments* (NAU0014003, at NAU0014004).

## 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.<sup>2536</sup>

One of NAU's recruiting handbooks produced to the committee instructed recruiters check for leads "at a **minimum** every 15 minutes [emphasis in original]." <sup>2537</sup> 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.<sup>2538</sup> 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.<sup>2539</sup> A training manual for new admissions representatives stated that representatives were "expected to devote a minimum of four hours per day to telephone contact work (setting appointments, follow-up, etc.)." <sup>2540</sup>

Once NAU recruiters made a phone call, they were instructed to "create a sense of urgency and initiate the follow-up." <sup>2541</sup> 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." <sup>2542</sup> Recruiters were also instructed to "counter at least 5 objections." <sup>2543</sup> If cost was the objection, recruiters should respond with, "We are talking about an investment in your future, not a cost." <sup>2544</sup> Recruiters were also instructed not to give out complete

<sup>2536</sup> National American University, August 2010, *Admissions Code of Conduct*, (NAU0021252). See also Appendix 6.

<sup>2537</sup> National American University, National American University Online Admissions Coordinator Manual (NAU0014290, at NAU0014450).

<sup>2538</sup> *Id.* at NAU0014353-54).

<sup>2539</sup> *Id.*

<sup>2540</sup> National American University, 2008, New Admissions Representative Training Manual (NAU0014515, at NAU 0014520) (emphasis in original).

<sup>2541</sup> National American University, National American University Online Admissions Coordinator Manual (NAU0014290, at NAU0014341).

<sup>2542</sup> *Id.* at NAU0014345).

<sup>2543</sup> *Id.*

<sup>2544</sup> National American University, 2008, New Admissions Representative Training Manual (NAU0014515, at NAU 0014520).



program costs and instead give only a credit hour rate.<sup>2545</sup> 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.”<sup>2546</sup>

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.”<sup>2547</sup> 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].<sup>2548</sup>

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.”<sup>2549</sup>

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.”<sup>2550</sup> “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.”<sup>2551</sup> The training manual for new admissions representatives noted, “It is important to remember that every business must include good customer service!”<sup>2552</sup> The university suggested finding additional leads at places such as “Hair Salons,” “Ethnic Celebrations or

<sup>2545</sup> Id., at NAU0014539.

<sup>2546</sup> Id., at NAU0014535.

<sup>2547</sup> National American University, National American University Online Admissions Coordinator Manual (NAU0014290, at NAU0014336).

<sup>2548</sup> National American University, 2008, New Admissions Representative Training Manual (NAU0014515, at NAU 0014528).

<sup>2549</sup> Id. at NAU0014538).

<sup>2550</sup> Id.

<sup>2551</sup> Id. at NAU0014538.

<sup>2552</sup> Id.

Centers,” and “Wal-Mart, Target, Kmart, etc.—any stores that may have people that need to get an education.”<sup>2553</sup>

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.”<sup>2554</sup>

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.<sup>2555</sup> 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.<sup>2556</sup> 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.<sup>2557</sup>

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, take out loans, hundreds of thousands of

<sup>2553</sup> Id. at NAU0014590.

<sup>2554</sup> National American University Internal Email, December 2008, re: *WI FA Refund approvals* (NAU0039976, at NAU0039979).

<sup>2555</sup> National American University, May 2009, Student Letter of Complaint (NAU0020222).

<sup>2556</sup> Id. NAU states that the student never contacted the University again, BBB closed the file and the student’s account was paid in full.

<sup>2557</sup> National American University External Correspondence, June 2009, re: [redacted] (NAU0020229).

students are leaving for-profit colleges with debt but no diploma or degree each year.<sup>2558</sup>

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.<sup>2559</sup> These withdrawn students were enrolled a median of two and a half months.<sup>2560</sup> 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.<sup>2561</sup> 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.

<sup>2558</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 12, 2012).

<sup>2559</sup> 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.

<sup>2560</sup> *Id.*

<sup>2561</sup> 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 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.

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.<sup>2562</sup>

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.<sup>2563</sup> In contrast, 1 in 11 students at public and non-profit schools defaulted within the same period.<sup>2564</sup> Students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions and 47 percent.<sup>2565</sup> Almost half of all student loans currently in default are held by students who attended for-profit colleges.<sup>2566</sup>

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.<sup>2567</sup> This change

<sup>2562</sup> Direct Loan Default Rates, 34 CFR § 668.183(c).

<sup>2563</sup> 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.

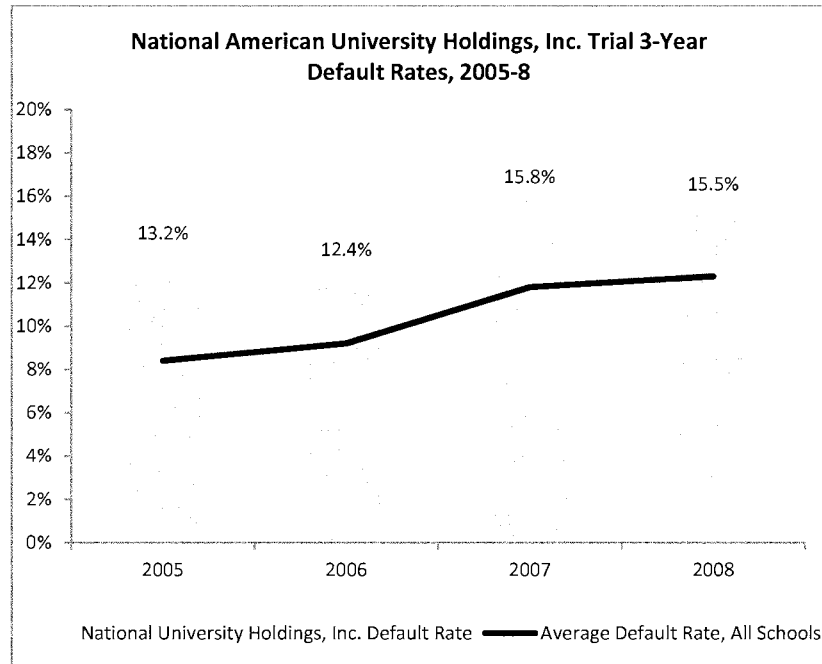
<sup>2564</sup> Id.

<sup>2565</sup> Id.

<sup>2566</sup> Id.

<sup>2567</sup> 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

represents a 32.6 percent increase over 4 years.<sup>2568</sup> 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.<sup>2569</sup> NAU's most recent default rate is below the average 22.6 percent rate of the 30 schools studied by the committee.



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."<sup>2570</sup> 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."<sup>2571</sup>

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.

<sup>2568</sup> Id.

<sup>2569</sup> Id.

<sup>2570</sup> National American University Internal Email, January 2008, re: *RE: Alert* (NAU0014695, at NAU0014696).

<sup>2571</sup> National American University Internal Email, January 2008, re: *RE: Alert* (NAU0014695).

### 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.<sup>2572</sup> 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 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.<sup>2573</sup>

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.<sup>2574</sup> NAU is one such company; over 96 percent of its faculty is part-time.<sup>2575</sup> In 2009, NAU employed 730 part-time faculty and 26 full-time faculty.<sup>2576</sup>

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."<sup>2577</sup> 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

<sup>2572</sup> 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.

<sup>2573</sup> 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.

<sup>2574</sup> 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.

<sup>2575</sup> Id.

<sup>2576</sup> Id.

<sup>2577</sup> National American University External Correspondence, January 2009, *Letter of Complaint From a Student* (NAU0020215).

school's normal add/drop period.<sup>2578</sup> 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].<sup>2579</sup>

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.<sup>2580</sup> Another student did not receive books for a class until the week of final exams.<sup>2581</sup> NAU still made the student pay for the class.<sup>2582</sup>

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.

## 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.<sup>2583</sup> 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.

<sup>2578</sup> Id.

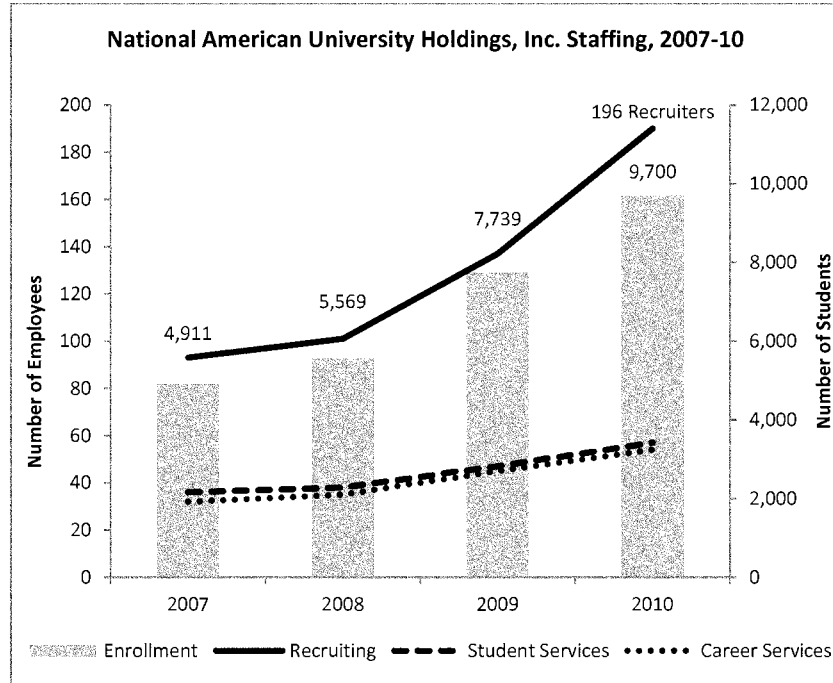
<sup>2579</sup> National American University Internal Email, February 2009, *re: RE: [redacted]* (NAU0019375, at NAU0019382).

<sup>2580</sup> National American University Correspondence, December 2007, *Letter of Complaint from a Student* (NAU0020161).

<sup>2581</sup> 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.

<sup>2582</sup> National American University, April 2007, *Letter from Collections Manager to Former Student* (NAU0020155).

<sup>2583</sup> 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.



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.<sup>2584</sup> 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 type of tutelage or any extra help by the teachers."<sup>2585</sup> 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.<sup>2586</sup>

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.

<sup>2584</sup> 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.

<sup>2585</sup> Id.

<sup>2586</sup> National American University, *Student Manual* (NAU0019525, at NAU0019530).



## 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.”<sup>2587</sup> 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.<sup>2588</sup> 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.<sup>2589</sup> NAU also helps students find private loans through the FASTChoice program but does not receive any fees in connection with these loans.<sup>2590</sup>

## Conclusion

Students attending National American University have significantly better rates of retention than other companies of comparable size. As the most

<sup>2587</sup> National American University, June 2010, *President’s Cabinet Meeting Minutes* (NAU0013189).

<sup>2588</sup> National American University, *Response to Document Request No. 27: Description and Explanation* (NAU0014713\_0001).

<sup>2589</sup> National American University, *Institutional Loan Rate & Fees* (NAU0018527).

<sup>2590</sup> National American University, *Response to Document Request No. 27: Description and Explanation* (NAU0014713\_0001).

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 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.<sup>2591</sup> Rasmussen internal documents estimate that approximately 55 percent of students are enrolled online.<sup>2592</sup> 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.<sup>2593</sup>

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.<sup>2594</sup> Rasmussen is an example of how private equity involvement has influenced a formerly family-owned school.

<sup>2591</sup> For list of campuses see <http://www.rasmussen.edu/locations/> (accessed May 12, 2012).

<sup>2592</sup> Rasmussen Internal Presentation, *Rasmussen Overview* (RAS000016400, at RAS000016417).

<sup>2593</sup> Rasmussen Internal Presentation, 2012, *Rasmussen College Vision 2012* (RAS00021447, at RAS000021454).

<sup>2594</sup> 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.

In 2003, Rasmussen was acquired by a company named Collegis after Collegis sold off their higher education IT business.<sup>2595</sup> A private equity firm, the Frontenac Company, made the initial investment to acquire Collegis from its founder and was invested in Rasmussen until 2008.<sup>2596</sup> 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.<sup>2597</sup> Robert King “entities” own more than a quarter of Rasmussen.<sup>2598</sup> 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.<sup>2599</sup>

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.<sup>2600</sup>

<sup>2595</sup> Rasmussen Internal Presentation, *Rasmussen Overview* (RAS00016400, at RAS00016403).

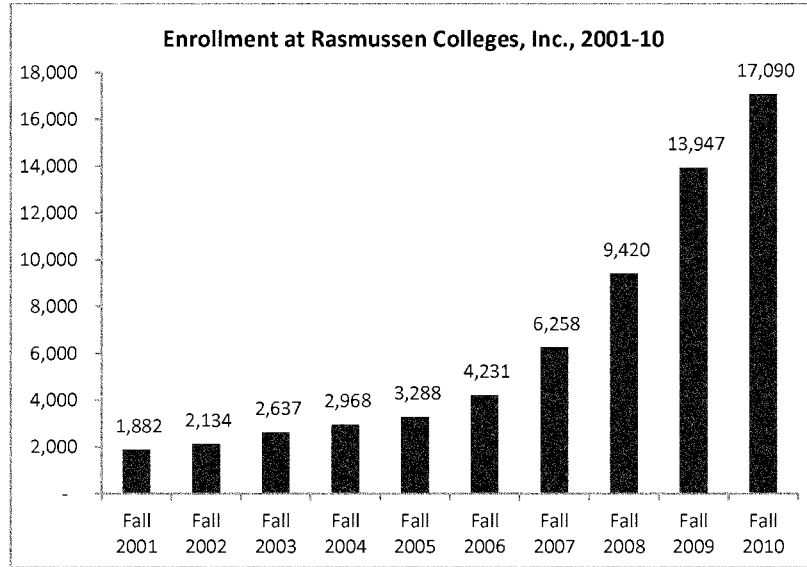
<sup>2596</sup> <http://www.frontenac.com/previousinvestments.aspx?cid=9&selectionId=1>

<sup>2597</sup> <http://www.frontenac.com/previousinvestments.aspx?cid=9&selectionId=1>

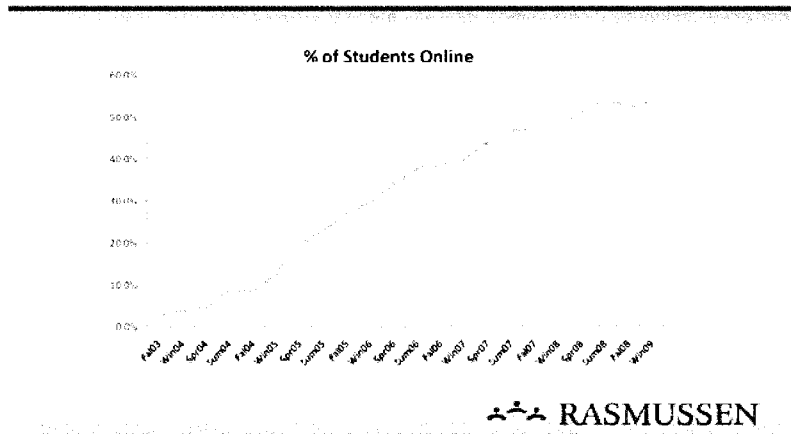
<sup>2598</sup> Rasmussen Internal Presentation, *Rasmussen Overview* (RAS000016400, at RAS00016445). (On file with committee.)

<sup>2599</sup> <http://www.frontenac.com/previousinvestments.aspx?cid=9&selectionId=1>.

<sup>2600</sup> Rasmussen Internal Presentation, *Rasmussen Overview* (RAS000016400, at RAS00016445). (On file with committee.)



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.<sup>2601</sup> The percentage of students attending online has also increased fairly rapidly since 2003.



<sup>2601</sup> 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.<sup>2602</sup>

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."<sup>2603</sup>

The company's strategy for achieving this goal includes the following:<sup>2604</sup>

- 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.<sup>2605</sup> 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.<sup>2606</sup> 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.<sup>2607</sup>

<sup>2602</sup> 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.

<sup>2603</sup> Rasmussen Internal Presentation, *Rasmussen Overview* (RAS000016400, at RAS00016402).

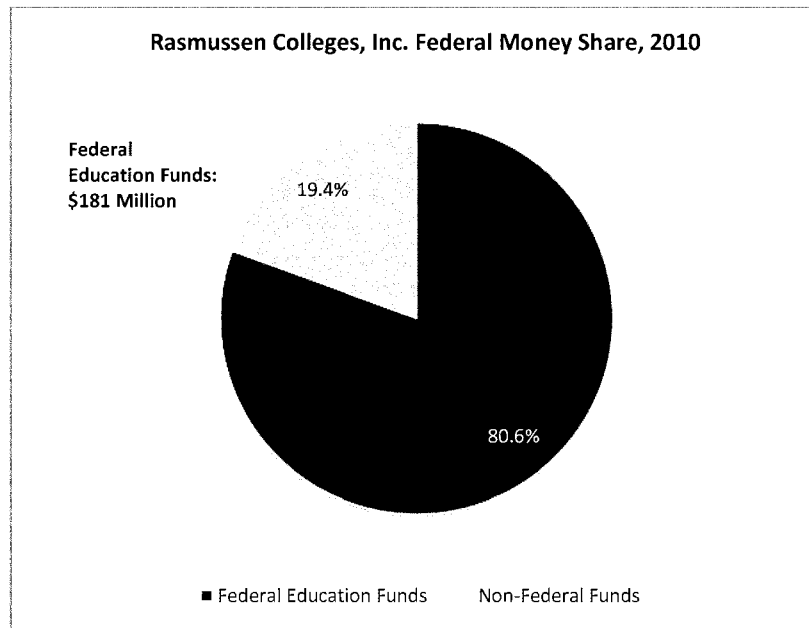
<sup>2604</sup> Id. at RAS00016407

<sup>2605</sup> "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.

<sup>2606</sup> 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.

<sup>2607</sup> 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, Rasmussen reported 78.8 percent of revenue from title IV Federal financial aid programs.<sup>2608</sup> However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education programs.<sup>2609</sup> 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.<sup>2610</sup> With these funds included, 80.6 percent of Rasmussen's total revenue was comprised of Federal education funds.<sup>2611</sup>



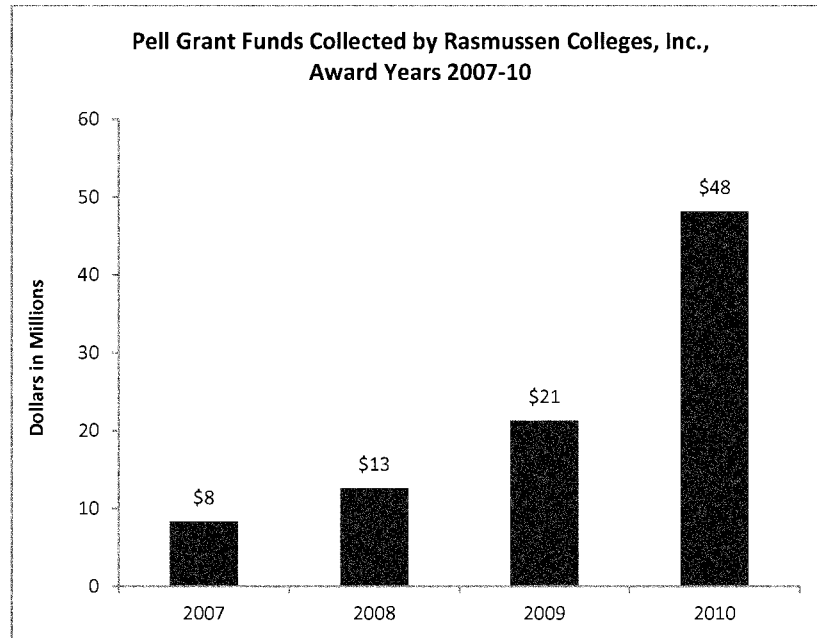
<sup>2608</sup> Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>2609</sup> 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.

<sup>2610</sup> 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.

<sup>2611</sup> "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.<sup>2612</sup> 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.



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.<sup>2613</sup>

<sup>2612</sup> 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>.

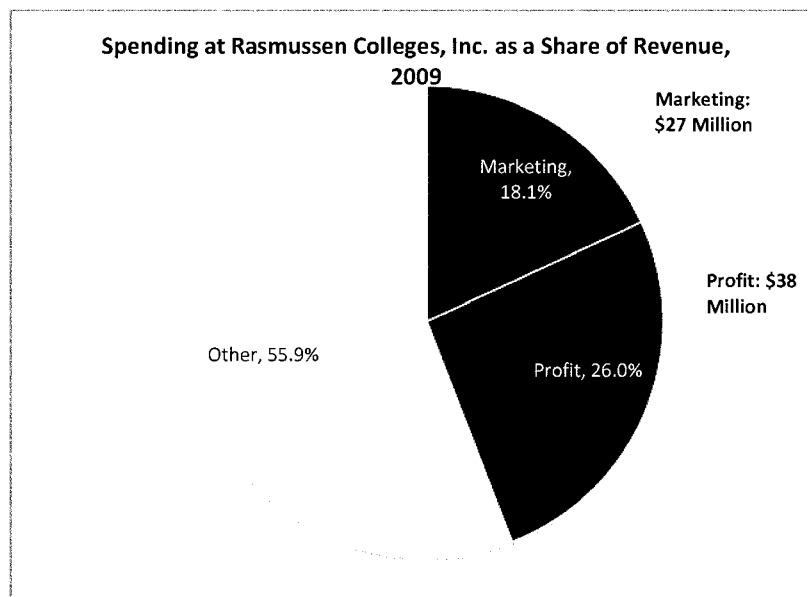
<sup>2613</sup> Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>. See Appendix 13.



## Spending

While 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.<sup>2614</sup> 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).<sup>2615</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.

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.<sup>2616</sup>

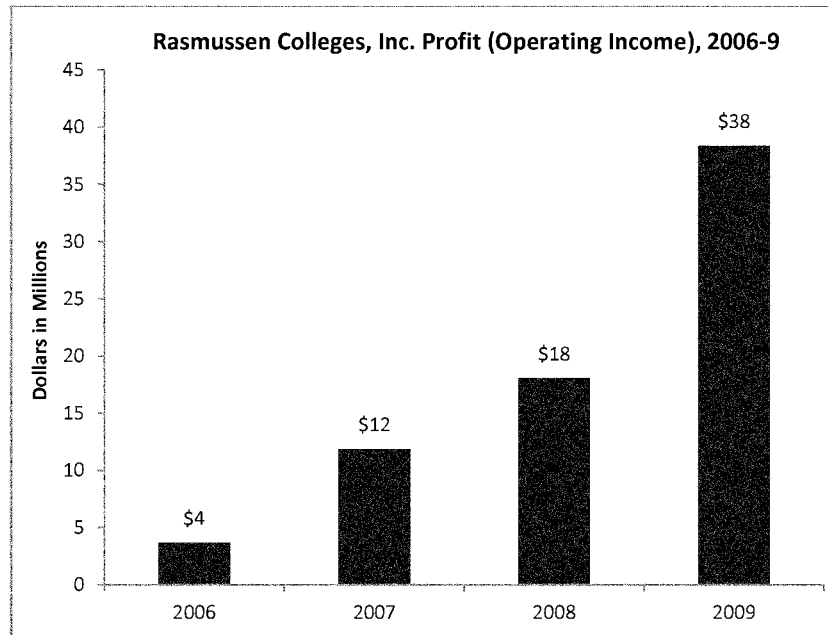


<sup>2614</sup> Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

<sup>2615</sup> 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.

<sup>2616</sup> Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

Rasmussen's profit has grown rapidly, from \$4 million in 2006 to \$38 million in 2009.<sup>2617</sup>



### Executive Compensation

As a private-held company, Rasmussen is not obligated to release executive compensation figures.

### **Tuition and Other Academic Charges**

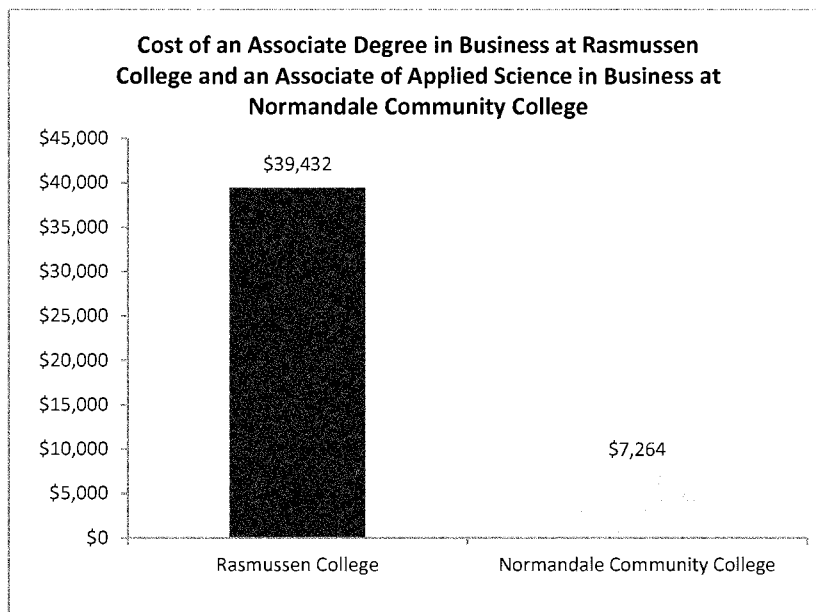
Compared to public colleges offering the same programs, the price of tuition is higher at Rasmussen. An Associate degree in Business Management with Administration at Rasmussen's Minnesota campus costs \$39,432.<sup>2618</sup> The same degree from Normandale Community College costs \$7,264.<sup>2619</sup> A Bachelor's degree in Business Management from Rasmussen College costs

<sup>2617</sup> Senate HELP Committee staff analysis. See Appendix 18.

<sup>2618</sup> See Appendix 14; see also, Rasmussen College, School of Business, <http://www.rasmussen.edu/student-investment-disclosure/minnesota/> (accessed July 12, 2012).

<sup>2619</sup> See Appendix 14; see also, Normandale Community College, *Normandale Community College*, <http://www.normandale.edu/> (accessed July 12, 2012).

\$68,668.<sup>2620</sup> The University of Minnesota costs \$56,240 for a Bachelor's in Business.<sup>2621</sup>



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.<sup>2622</sup>

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.<sup>2623</sup> The new pricing structure led to average tuition increases of between 7 percent and 23 percent.<sup>2624</sup>

<sup>2620</sup> See Appendix 14; see also, Rasmussen College, School of Business, <http://www.rasmussen.edu/student-investment-disclosure/minnesota/> (accessed July 12, 2012).

<sup>2621</sup> See Appendix 14; see also, University of Minnesota, University of Minnesota, <http://www1.umn.edu/twincities/index.html> (accessed July 12, 2012).

<sup>2622</sup> 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.

<sup>2623</sup> Rasmussen Internal Pricing, April 2009, *2010 Pricing* (RAS00003172, at RAS00003173).

<sup>2624</sup> *Id.*

## 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 degree of education, the best time to call, desired area of study, degree of interest, and planned start date.<sup>2625</sup> 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.<sup>2626</sup> 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.<sup>2627</sup> One 2010 order was for a contract price of 100 leads per month at \$40/lead for Rasmussen Online.<sup>2628</sup> 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.<sup>2629</sup> Lead prices in insertion orders submitted to the HELP Committee indicate Rasmussen pays up to \$75/lead.<sup>2630</sup>

Rasmussen like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.<sup>2631</sup> 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.

<sup>2625</sup> 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, at RAS00003267); Rasmussen, Lead Generation Insertion Order (RAS00003309, at RAS00003309-10).

<sup>2626</sup> Rasmussen, Terms Addendum to Agreement between Deltak edu, Inc. And Affiliate Crew, Inc. (RAS00003266, at RAS00003272).

<sup>2627</sup> Rasmussen, January 2008, Completed ClassesUSA: Client Insertion Order (RAS00003344).

<sup>2628</sup> Rasmussen, Completed Lead Generation Insertion Order (RAS00003309).

<sup>2629</sup> Rasmussen, March 2009, Completed All Star Directories Insertion Order (RAS00003280).

<sup>2630</sup> Rasmussen, May 2010, Education Dynamics Prospecting Services Advertising Agreement (RAS00003443).

<sup>2631</sup> Rasmussen, *Rasmussen College Enrollment Agreement* (RAS00004438).

## 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.<sup>2632</sup>

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.<sup>2633</sup> These withdrawn students were enrolled a median of 5 months.<sup>2634</sup> 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.<sup>2635</sup> 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.<sup>2636</sup>

<sup>2632</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf)

<sup>2633</sup> 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.

<sup>2634</sup> 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).

<sup>2635</sup> 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.

<sup>2636</sup> 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 or who do

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 with no 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.<sup>2637</sup>

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.<sup>2638</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>2639</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>2640</sup> 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.<sup>2641</sup>

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.<sup>2642</sup> This change represents a 32.6 percent increase over 4 years.<sup>2643</sup> Rasmussen was one of only four schools whose 3-year default rate dropped from 2005 to 2008.

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attend part-time 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.

<sup>2637</sup> Direct Loan default rates, 34 CFR 668.183(c).

<sup>2638</sup> 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.

<sup>2639</sup> Id.

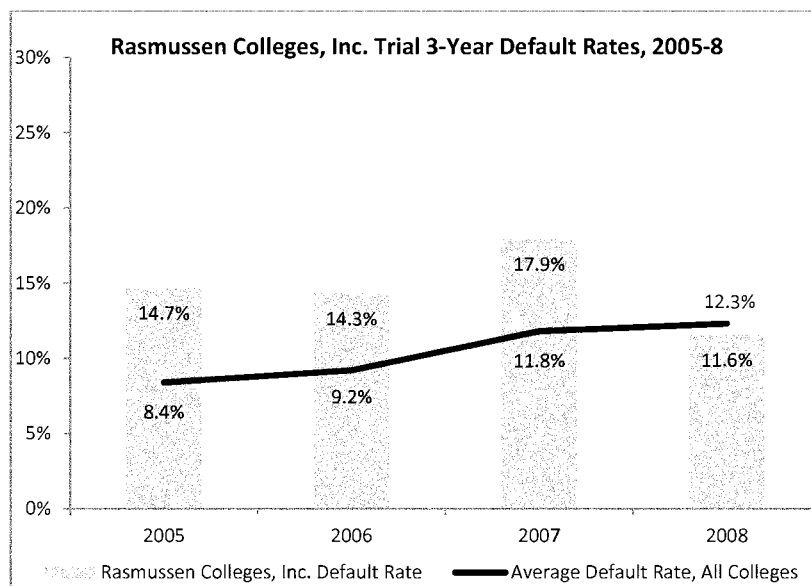
<sup>2640</sup> Id.

<sup>2641</sup> Id.

<sup>2642</sup> 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.

<sup>2643</sup> Id.

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).<sup>2644</sup>

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.<sup>2645</sup> 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. According to internal company emails GRC did a poor job when they were first hired by Rasmussen and cut its fees in half for its service.<sup>2646</sup>

<sup>2644</sup> Rasmussen, January 2010, *Default Rates. A three year look* (RAS00004360).

<sup>2645</sup> Rasmussen, January 2010, *Default Rates. A three year look* (RAS00004360).

<sup>2646</sup> Rasmussen Internal Email, February 2008, re: *RE: CCA Cohort Default Rate* (RAS00024382).

After March 2008 Rasmussen decided to centralize default management.<sup>2647</sup> This centralization of default management included engaging with private investigators for skip tracing and signature gathering.<sup>2648</sup> 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.<sup>2649</sup> 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.<sup>2650</sup> The amount that privately held companies the committee examined spend on instruction ranges from \$1,118 to \$6,389 per student per year.<sup>2651</sup> 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.<sup>2652</sup>

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

<sup>2647</sup> Rasmussen Internal Email, January 2010, *Default Rates, A three year look* (RAS00004360).

<sup>2648</sup> *Id.*

<sup>2649</sup> Rasmussen Internal Presentation, Default Management Department (RAS00004301, at RAS00004314).

<sup>2650</sup> 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.

<sup>2651</sup> *Id.* Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

<sup>2652</sup> 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.



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 important ... Funding institutional research and government relations means other things will not be funded.<sup>2653</sup>

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.<sup>2654</sup> In 2010, Rasmussen employed 265 full-time and 1,214 part-time faculty.<sup>2655</sup> Thus, more than 80 percent of Rasmussen's faculty was employed on a part-time basis.<sup>2656</sup> 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,

<sup>2653</sup> Rasmussen Internal Presentation, June 2010, Operating in the New World (RAS00038658, at RAS00038684, RAS00038688).

<sup>2654</sup> 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.

<sup>2655</sup> *Id.*

<sup>2656</sup> *Id.*

the GAO agent submitted answers to an assignment copied directly from the Bureau of Labor Statistics' Web site.<sup>2657</sup> 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.<sup>2658</sup>

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.<sup>2659</sup>

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."<sup>2660</sup>

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.<sup>2661</sup> That means each

<sup>2657</sup> GAO Investigation Documentation, *The Gross Domestic Product* (HQ-4600695).

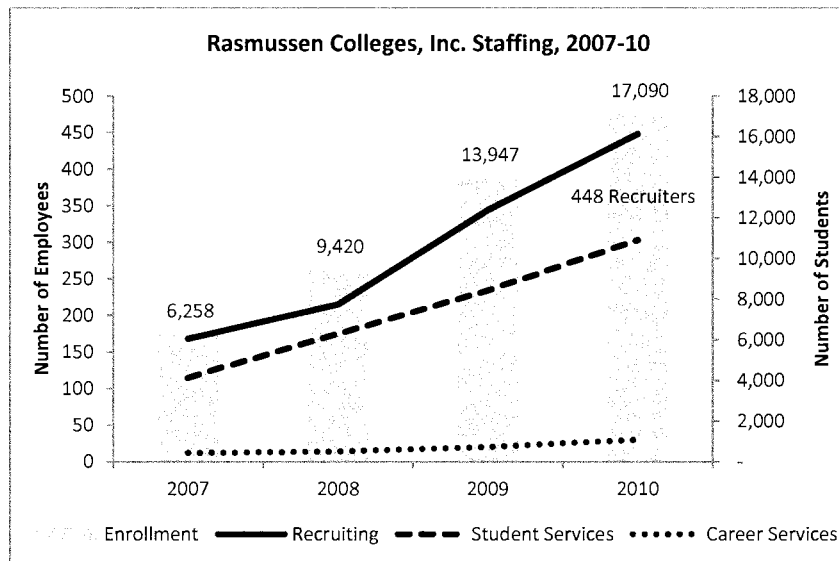
<sup>2658</sup> GAO Investigation Documentation, January 2011, *Record of Analysis: Rasmussen IB Email 3* (HQ-4610903).

<sup>2659</sup> 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>.

<sup>2660</sup> Rasmussen Internal Email, August 2010, re: *FW: My Opinion* (RAS00046545).

<sup>2661</sup> 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.

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.



### 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.<sup>2662</sup>

### 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

<sup>2662</sup> 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.

in price and the increase in Pell and loans, our 90/10 would increase to 101.2%.”<sup>2663</sup> The memo discussed five potential options for fiscal year 2008:<sup>2664</sup>

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.<sup>2665</sup>

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.<sup>2666</sup> The ECASLA exception allowed Rasmussen to drop their 90/10 for their Florida campuses from an estimated 86 percent to an estimated 75 percent.<sup>2667</sup>

#### Gainful Employment<sup>2668</sup>

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

<sup>2663</sup> Rasmussen Internal Correspondence, May 2008, re: *Student Financial Services* (RAS00011756).

<sup>2664</sup> 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 Rasmussen, 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.

<sup>2665</sup> Id. See also Rasmussen Internal Email, January 2009, re: *our 3 Fla. campuses?* (RAS00011144).

<sup>2666</sup> 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).

<sup>2667</sup> Rasmussen Internal Email, August 2008, re: *RE: HEA Reauthorized!* (RAS00010941).

<sup>2668</sup> 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/judgeordersgainful.pdf> (accessed July 6, 2012).

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%.”

**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.”<sup>2669</sup>

## 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

<sup>2669</sup> Rasmussen Internal Email, February 2010, re: *RF: Requested Docs* (RAS00021237).

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.

## 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.<sup>2670</sup>

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.<sup>2671</sup> Robert S. Silberman became chief executive officer of Strayer in 2000 as part of the New Mountain investment and continues in that role.<sup>2672</sup>

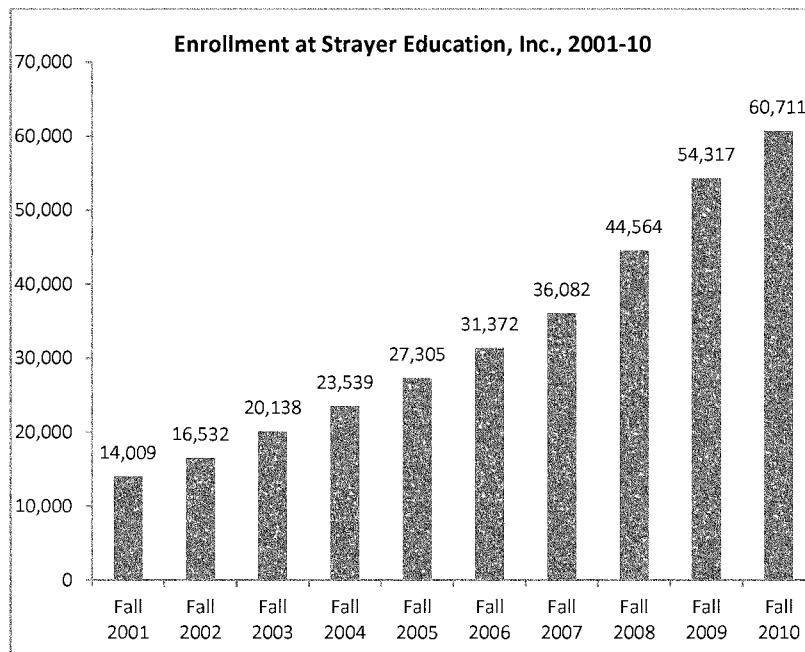
<sup>2670</sup> Strayer Education, Inc., *Strayer Education, Inc. Reports First Quarter 2012 Revenues and Earnings; and Spring 2012 Enrollments*, March 31, 2012 <http://www.strayereducation.com/releasedetail.cfm?ReleaseID=667552> (accessed June 25, 2012).

<sup>2671</sup> 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](http://www.newmountaincapital.com/portfolio_companies.php?lv=strayer_desc) (accessed June 25, 2012).

<sup>2672</sup> 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

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.<sup>2673</sup>



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.<sup>2674</sup>

Pearson Inc.), Jeffery W. Taylor (Senior VP, U.S. Government Policy and Investor Relations, Pearson plc), and Darrell R. Tukua (Retired Partner, KPMG LLP).

<sup>2673</sup> 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. 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.

<sup>2674</sup> 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.<sup>2675</sup> 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.<sup>2676</sup>

In 2010, Strayer reported 77.7 percent of revenue from title IV Federal financial aid programs.<sup>2677</sup> However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.<sup>2678</sup> 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.<sup>2679</sup> With these funds included, 84.9 percent of Strayer's total revenue was comprised of Federal education funds.<sup>2680</sup>

<sup>2675</sup> "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.

<sup>2676</sup> 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.

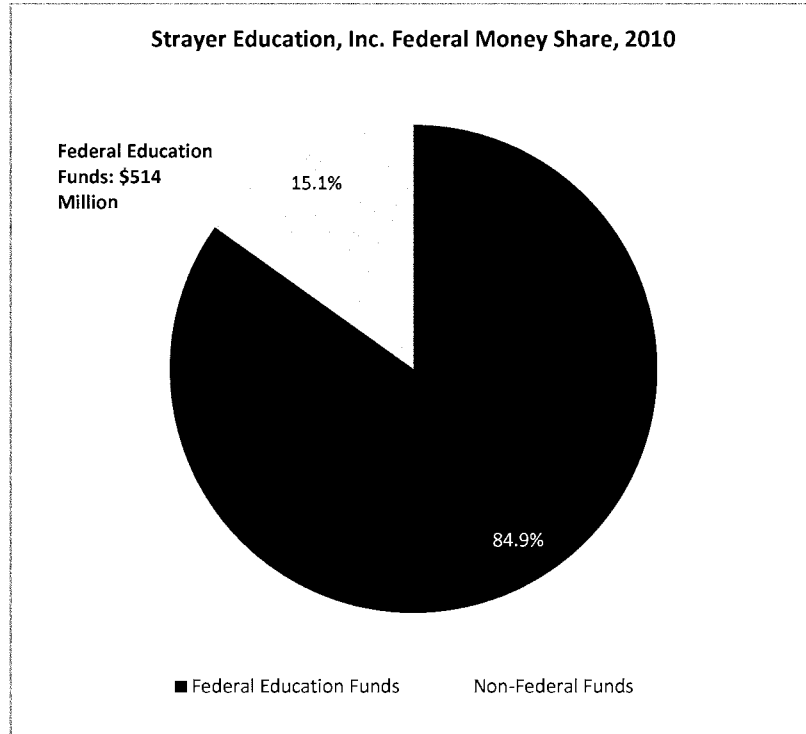
<sup>2677</sup> Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>2678</sup> 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.

<sup>2679</sup> 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.

<sup>2680</sup> "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.

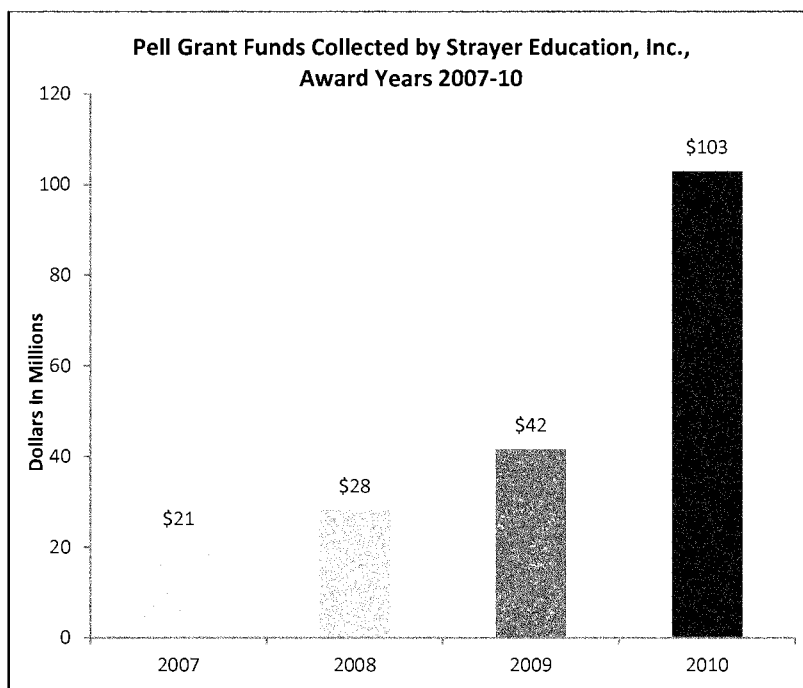
The 25 percent of Strayer students who receive tuition help from their employers or associations are also a critical source of non-Federal financial aid revenue.<sup>2681</sup> Corporate partners include Verizon Wireless, Lowe's, Carquest, the FBI National Academy of Training, Nestle USA, ADP, USAA, CISCO Corporation, and the BIC Corporation.<sup>2682</sup> 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

<sup>2681</sup> Q2 2011 Earnings Call

<sup>2682</sup> See Q3 2009 Earnings Call, Q4 2009 Earnings Call, Q1 2010 Earnings Call, and Q2 2011 Earnings Call

25 percent.<sup>2683</sup> 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.



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.<sup>2684</sup>

## Spending

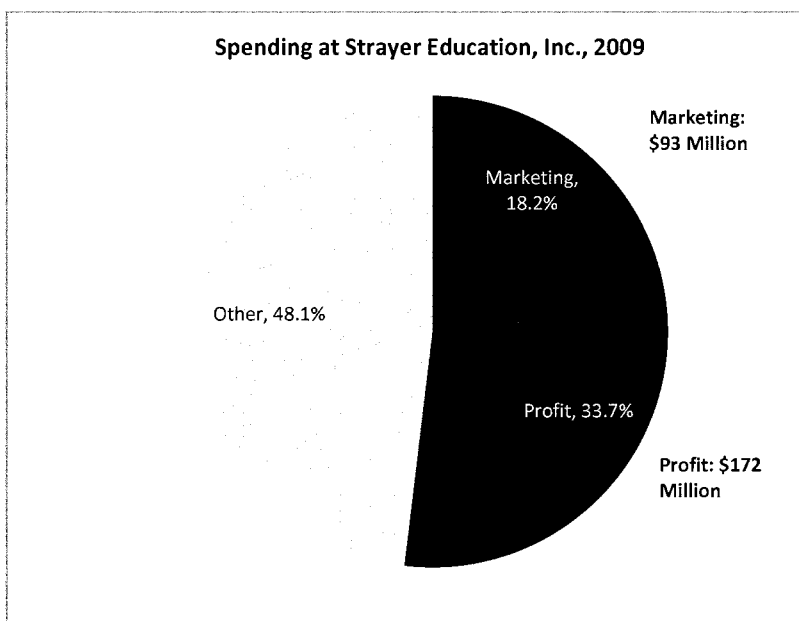
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct

<sup>2683</sup> 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*, 2000-1 and 2009-10, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.

<sup>2684</sup> 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.

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.<sup>2685</sup> 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).<sup>2686</sup>

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.

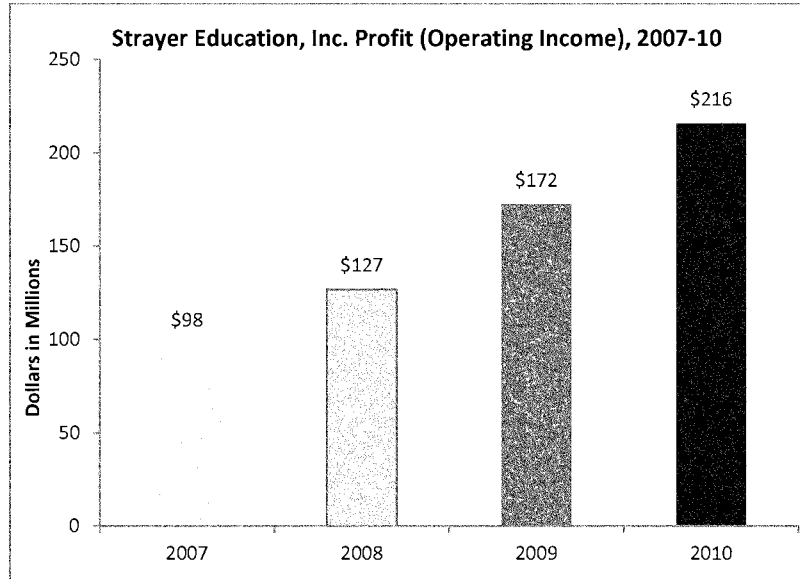


In 2009, Strayer devoted a total of \$265.6 million to marketing, recruiting and profit. The amount of profit Strayer generated also rose rapidly, more than doubling from \$98 million in 2006 to \$216 million in 2010.<sup>2687</sup>

<sup>2685</sup> 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.

<sup>2686</sup> 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.

<sup>2687</sup> 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.<sup>2688</sup> The chief executive officers of the large publicly traded, for-profit education companies took home, on average, \$7.3 million in fiscal year 2009.<sup>2689</sup>

<sup>2688</sup> 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.

<sup>2689</sup> 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
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
<b>Total</b> <sup>2690</sup>		\$54,523,911	\$6,002,985

In 2009, Strayer CEO Robert S. Silberman received \$41.5 million in compensation, the highest compensation received by any industry executive that year.<sup>2691</sup> 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,<sup>2692</sup> while a Bachelor's degree in Business Administration costs \$51,912 at the University of Virginia.<sup>2693</sup> Similarly, an Associate's degree in Business Management cost \$36,500 at Strayer,<sup>2694</sup> but \$9,587 at Northern Virginia Community College.<sup>2695</sup>

<sup>2690</sup> 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.

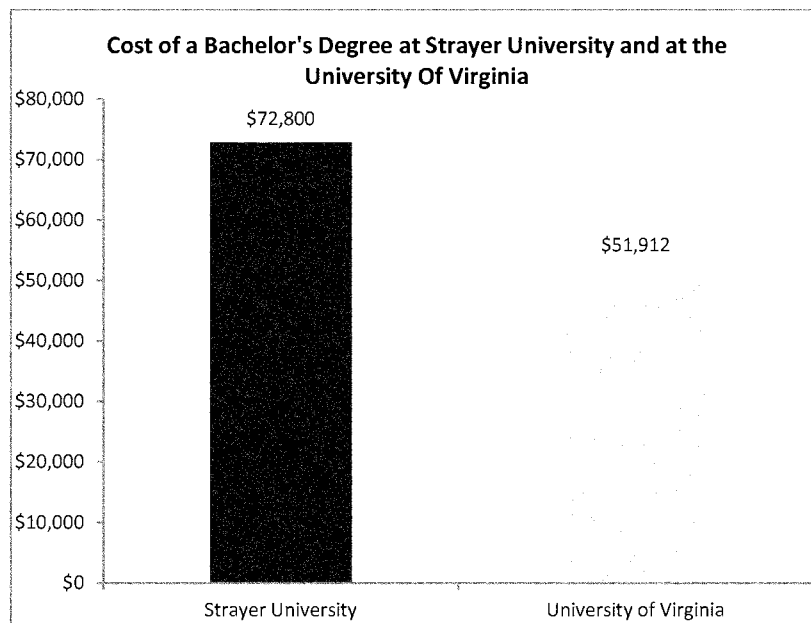
<sup>2691</sup> Id.

<sup>2692</sup> See Appendix 14; see also, Strayer University, *Bachelor of Business Administration*, <http://www.strayer.edu/academic-programs-list#node-162> (accessed July 12, 2012).

<sup>2693</sup> See Appendix 14; see also, University of Virginia, University of Virginia, <http://www.virginia.edu/> (accessed July 12, 2012).

<sup>2694</sup> See Appendix 14; see also, Strayer University, *Degree Program List*, <http://www.strayer.edu/academic-programs-list> (accessed July 12, 2012).

<sup>2695</sup> 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.<sup>2696</sup>

Over the last 11 years it has been standard practice for Strayer to increase tuition 5 percent each year.<sup>2697</sup>

## 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

<sup>2696</sup> 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.

<sup>2697</sup> 2009 Q3 Earnings Call; 2011 Q2 Earnings Call.

students are leaving for-profit colleges with debt but no diploma or degree each year.<sup>2698</sup>

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.<sup>2699</sup> 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.

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<sup>2698</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 25, 2012).

<sup>2699</sup> 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.



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 <sup>2700</sup>	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.

#### 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.<sup>2701</sup>

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.<sup>2702</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>2703</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>2704</sup> 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.<sup>2705</sup>

<sup>2700</sup> 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.

<sup>2701</sup> Direct Loan default rates, 34 CFR § 668.183(c).

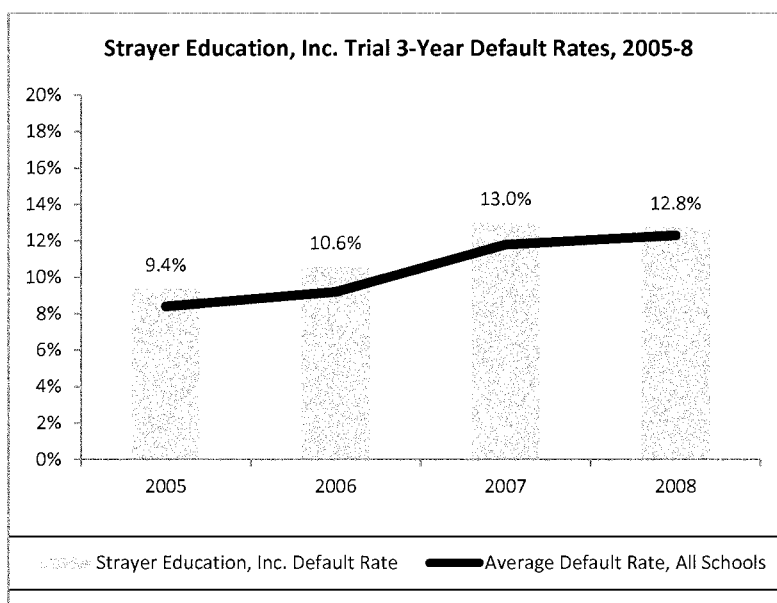
<sup>2702</sup> Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, <http://federalstudentaid.ed.gov/datacenter/cohort.html>. Default rates calculated by cumulating number of students entered into repayment and default by sector.

<sup>2703</sup> Id.

<sup>2704</sup> Id.

<sup>2705</sup> 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.<sup>2706</sup> This change represents a 32.6 percent increase over 4 years.<sup>2707</sup> 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.



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.<sup>2708</sup> These documents present three main options for preventing student default: deferment, forbearance and income-based

<sup>2706</sup> 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.

<sup>2707</sup> Department of Education 3-year cohort default rate, for students entering repayment in fiscal years 2005, 2006, 2007 and 2008.

<sup>2708</sup> Email from Strayer University Director of Student Financial Services, January 13, 2010 (SC-HELP-015284, at SC-HELP-015273).

repayment.<sup>2709</sup> 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.”<sup>2710</sup>

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.<sup>2711</sup> 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.

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.<sup>2712</sup> 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.<sup>2713</sup>

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.<sup>2714</sup> Strayer is one such

<sup>2709</sup> Id. at SC-HELP- 015284

<sup>2710</sup> Id.

<sup>2711</sup> In 2009, 24.6 percent were put into deferment and 56.3 percent were put into forbearance.

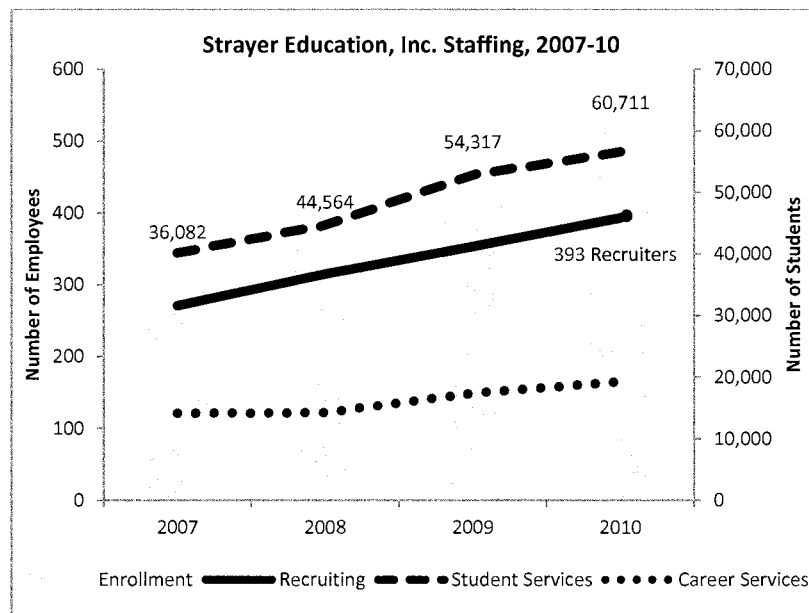
<sup>2712</sup> Senate HELP Committee staff analysis. See Appendix 21. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of “general academic instruction, occupational and vocational 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.”

<sup>2713</sup> Senate HELP Committee staff analysis. See Appendix 23.

<sup>2714</sup> 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.

company with 83 percent of its faculty employed part-time.<sup>2715</sup> In 2010, the company employed 423 full-time and 2,048 part-time faculty.<sup>2716</sup>

### 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.<sup>2717</sup> 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.

<sup>2715</sup> Id.

<sup>2716</sup> Id. At Strayer a full-time faculty member teaches 12 courses per year, Q3 2009 Earnings Call.

<sup>2717</sup> Id. See Appendix 7 and Appendix 24.

**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 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.<sup>2718</sup> TUI operates exclusively online and has no campus.<sup>2719</sup> The company offers Bachelor’s, Master’s and Doctoral degrees in the fields of business administration, education, health sciences, and information systems.<sup>2720</sup> TUI is regionally accredited by the Western Association of Schools and Colleges (WASC).<sup>2721</sup>

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.<sup>2722</sup> Dr. Yoram Neumann was the founder of the online branch of Tuoro College that was purchased.<sup>2723</sup> 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.<sup>2724</sup> The current president and chief executive officer (CEO) of the company is Nolan A. Miura.<sup>2725</sup>

<sup>2718</sup> Trident University Web site, *History of Trident University*, 2011 <http://www.trident.edu/why-tui/history-of-tui/> (accessed September 28, 2011).

<sup>2719</sup> Trident University Web site, *The Trident Difference*, 2011 <http://www.trident.edu/why-tui/the-trident-difference/> (accessed September 28, 2011).

<sup>2720</sup> Trident University Web site, *Academic Colleges*, 2011 <http://www.trident.edu/academics/colleges/> (accessed September 28, 2011).

<sup>2721</sup> Trident University Web site, *Accreditation*, 2011 <http://www.trident.edu/university-information/academic-affairs/accreditation-2/> (accessed September 28, 2011).

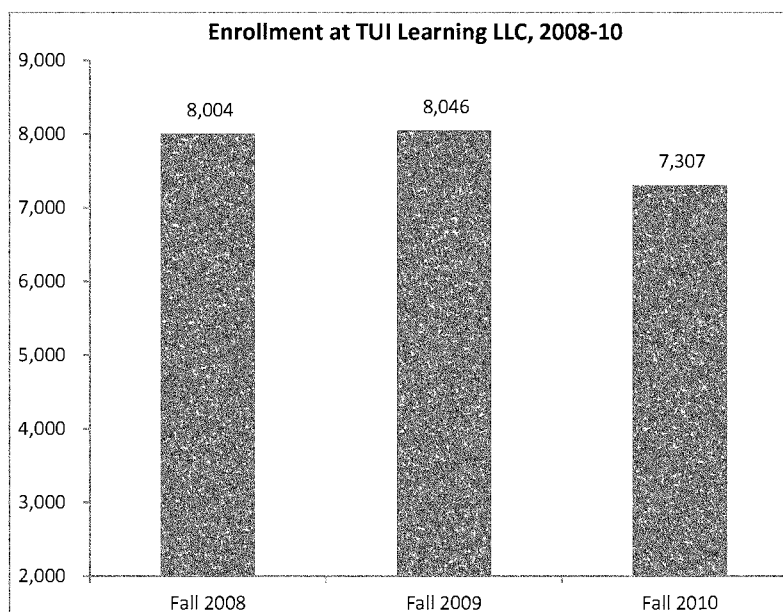
<sup>2722</sup> Trident University Web site, *History of Trident University*, 2011 <http://www.trident.edu/why-tui/history-of-tui/> (accessed September 28, 2011).

<sup>2723</sup> Tuoro College Website, *Tuoro College Sells Online Institution to Summit Partners*, November 5, 2007 <http://www.touro.edu/media/pr/releases/PR-ONLINEINSTITUTION.ASP> (accessed September 28, 2011).

<sup>2724</sup> TUI University, *TUI UNIVERSITY AND ITS HISTORY*, 2010 (TUI-SEN 00384).

<sup>2725</sup> Trident University, *August 2011 University Catalog*, August 2011 <http://www.trident.edu/files/TUI-Catalog-August-2011.pdf> (accessed September 28, 2011).

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.<sup>2726</sup> According to the company, 80 percent of its enrollment consists of military personnel and veterans.<sup>2727</sup>



However, revenue at TUI grew sharply between 2008 and 2009, from just \$25,000 in 2008 to \$48.6 million in 2009.<sup>2728</sup>

### 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

<sup>2726</sup> 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.

<sup>2727</sup> Trident University, *History of Trident University*, 2011 <http://www.trident.edu/why-tui/history-of-tui/> (accessed September 28, 2011).

<sup>2728</sup> 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.

increased from 12.2 to 24.8 percent and from \$5.4 to \$32.2 billion.<sup>2729</sup> 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.<sup>2730</sup>

In 2010, TUI reported 12.2 percent of revenue from title IV Federal financial aid programs.<sup>2731</sup> 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 bill funds accounted for approximately 64.3 percent of TUI's revenue, or \$36.3 million.<sup>2732</sup> With these funds included, 76.6 percent of TUI's total revenue was comprised of Federal education funds.<sup>2733</sup>

<sup>2729</sup> 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.

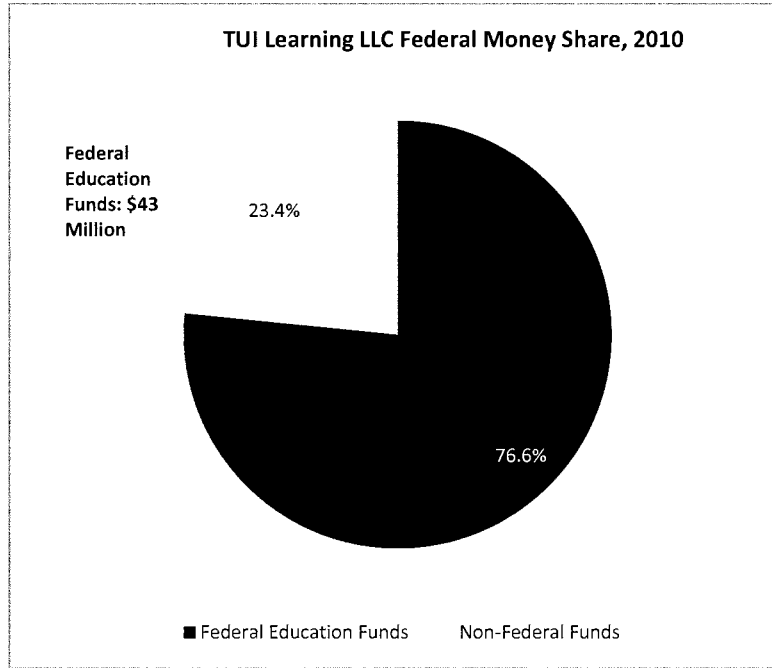
<sup>2730</sup> Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>2731</sup> 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.

<sup>2732</sup> 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.

<sup>2733</sup> "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.<sup>2734</sup> 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).<sup>2735</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.

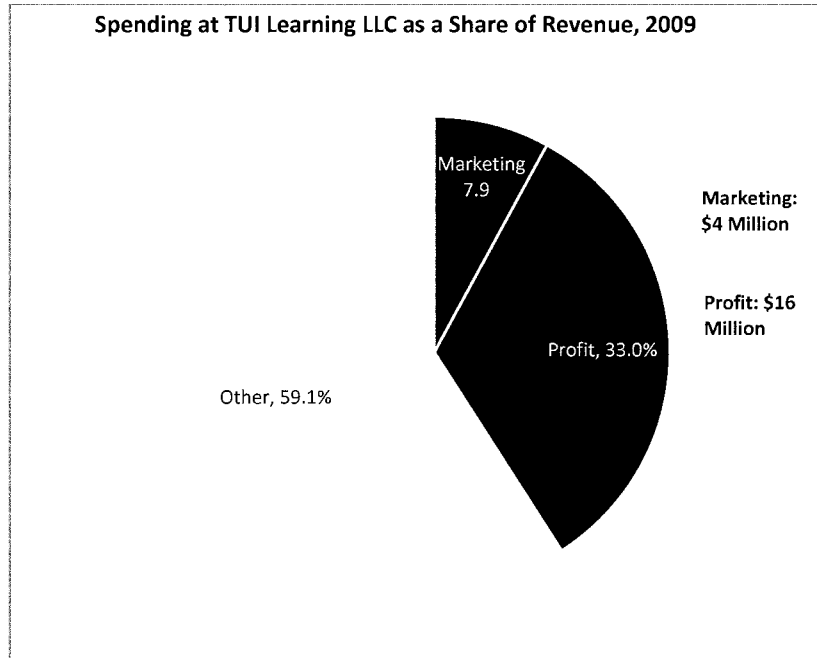
In 2009, TUI allocated 7.9 percent of its revenue, or \$3.9 million, to marketing and recruiting and 33 percent, or \$16 million, to profit.<sup>2736</sup> The

<sup>2734</sup> 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.

<sup>2735</sup> 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.

<sup>2736</sup> Id. On average, the 30 for-profit schools examined spent 22.4 percent of revenue on marketing and 19.4 percent on profit.

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.<sup>2737</sup> 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.

#### Executive Compensation

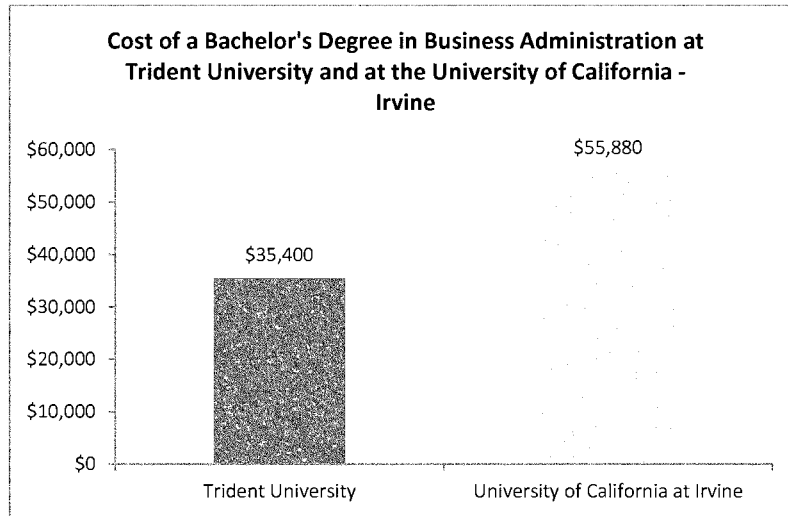
As a privately held company, TUI is not obligated to release executive compensation figures.

#### **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 Business Administration at

<sup>2737</sup> "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, and other expenditures.

TUI costs \$35,400.<sup>2738</sup> The same degree at University of California-Irvine costs \$55,880.<sup>2739</sup>



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.<sup>2740</sup>

### 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.<sup>2741</sup>

<sup>2738</sup> 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/](http://www.trident.edu/academics/gainful-employment-disclosures/disclosure_bsba/) (accessed June 25, 2012).

<sup>2739</sup> See Appendix 14. San Diego State University, *San Diego State University*, <http://www.sa.sdsu.edu> (accessed June 25, 2012).

<sup>2740</sup> Trident University Web site, *Military Discount Program*, 2010 <http://www.trident.edu/tuition-fees/military-discount-program/> (accessed October 7, 2010).

<sup>2741</sup> 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](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.<sup>2742</sup> TUI’s withdrawal rate is slightly lower than the Bachelor’s program sector-wide rate of 54.3 percent for the 30 schools examined.<sup>2743</sup> Nonetheless, the majority of TUI’s student population, most of whom are veterans or service members, left without degrees.

<b>Status of Students Enrolled in TUI Learning LLC in 2008-9, as of 2010</b>						
<b>Degree Level</b>	<b>Enrollment</b>	<b>Percent Completed</b>	<b>Percent Still Enrolled</b>	<b>Percent With-drawn</b>	<b>Number With-drawn</b>	<b>Median Days</b>
Bachelor’s Degree	3,483	21.9%	26.8%	51.3%	1,786	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.

<sup>2742</sup> 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.

<sup>2743</sup> 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

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.

### **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.<sup>2744</sup> 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.<sup>2745</sup> 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.<sup>2746</sup>

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.<sup>2747</sup>

<sup>2744</sup> 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.

<sup>2745</sup> Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

<sup>2746</sup> 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.

<sup>2747</sup> 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.

In 2010, 74 percent of TUI's faculty was employed part-time, with 69 full-time and 200 part-time faculty.<sup>2748</sup>

### 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.<sup>2749</sup>

### Accreditation Difficulties

In 2011, WASC called on TUI to show cause why its accreditation should not be terminated on March 30, 2012.<sup>2750</sup> 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.<sup>2751</sup>

The Order followed a March 2010 warning letter, expressing concern about TUI's Capacity and Preparatory Review (CPR) report,<sup>2752</sup> a key report in WASC's accreditation review process.<sup>2753</sup> 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."<sup>2754</sup>

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

<sup>2748</sup> Id.

<sup>2749</sup> Id. See Appendix 7 and Appendix 24. TUI did not provide data on the number of career services and placement staff it employed.

<sup>2750</sup> Western Association of Schools and Colleges, Trident University International, <http://www.wascsenior.org/node/409> (accessed May 12, 2012).

<sup>2751</sup> Id.

<sup>2752</sup> Id.

<sup>2753</sup> 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](http://www.wascsenior.org/findit/files/forms/Handbook_of_Accreditation.pdf) (accessed September 29, 2011).

<sup>2754</sup> Letter from Western Association of Schools and Colleges, March 9, 2010 (TUI-SEN 00481).

should address those standards “with analysis of evidence rather than the conclusory approach present in the CPR report [sic].”<sup>2755</sup>

The EER was rescheduled for the spring of 2011.<sup>2756</sup> On February 24, 2012, WASC lifted the order to show cause and placed the school on probation.<sup>2757</sup>

### **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.

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<sup>2755</sup> Id. at (TUI-SEN 00482

<sup>2756</sup> Id.

<sup>2757</sup> 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).

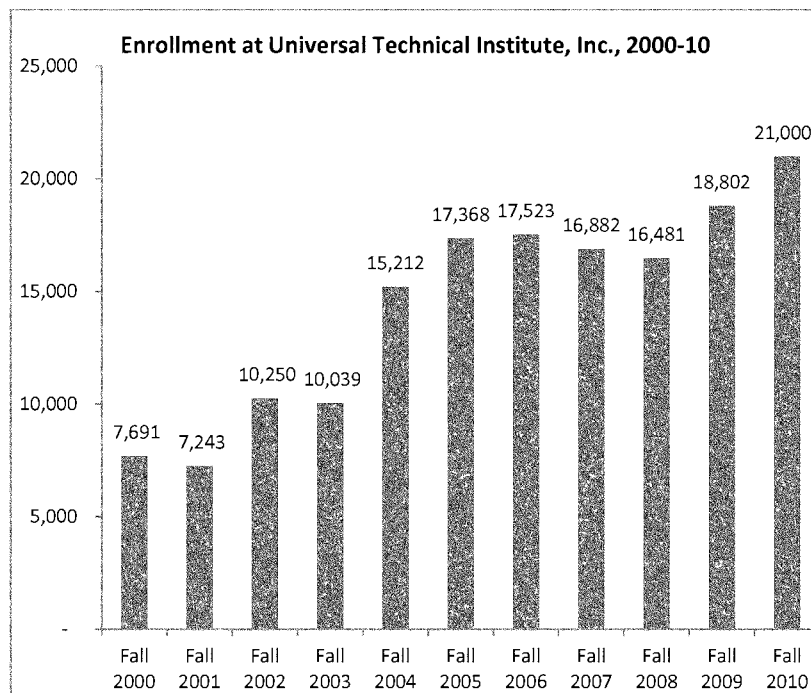
Founded in 1965, UTI went public in December 2003. The current chief executive officer of UTI is Kimberly J. McWaters, who also serves as a director of Penske Automotive Group, Inc.<sup>2758</sup>

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.<sup>2759</sup>

<sup>2758</sup> 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.

<sup>2759</sup> 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.<sup>2760</sup>

### Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs.<sup>2761</sup> 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.<sup>2762</sup> Together,

<sup>2760</sup> 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.

<sup>2761</sup> "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.

<sup>2762</sup> 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.

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.<sup>2763</sup>

In 2010, UTI reported 72.5 percent of revenue from title IV Federal financial aid programs.<sup>2764</sup> 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).<sup>2765</sup> 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.<sup>2766</sup> 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.<sup>2767</sup>

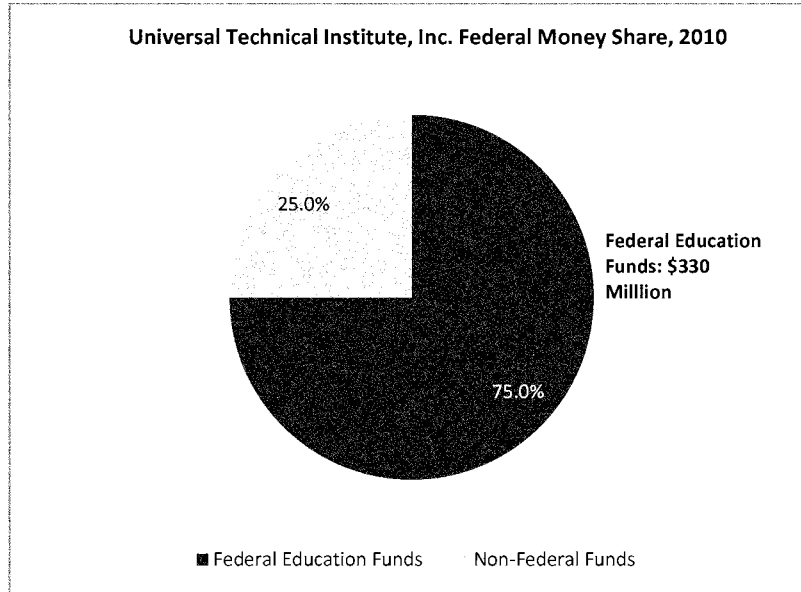
<sup>2763</sup> Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 15, 2011. See Appendix 9.

<sup>2764</sup> 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.

<sup>2765</sup> 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.

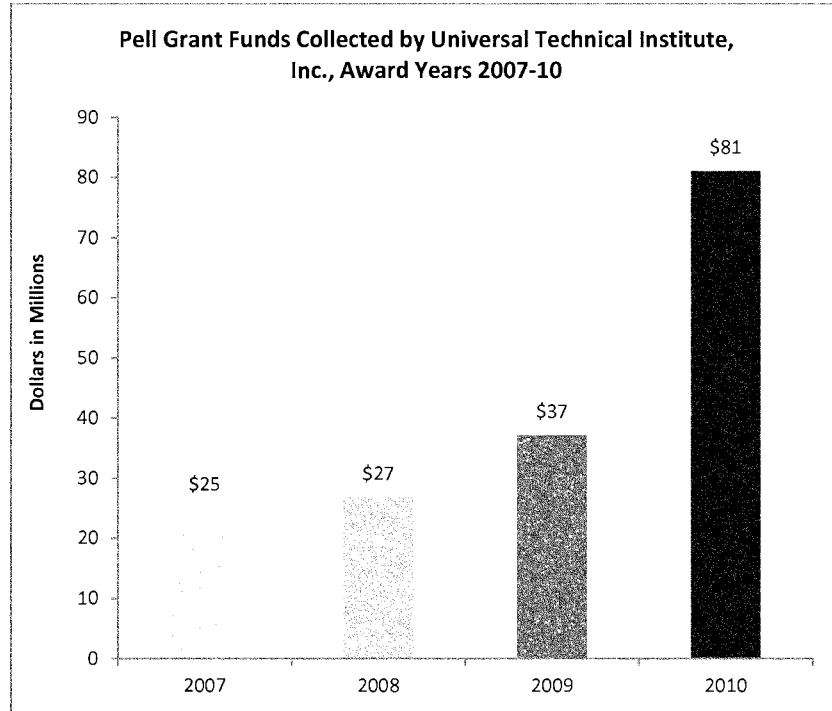
<sup>2766</sup> Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs 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.

<sup>2767</sup> "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.<sup>2768</sup> 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.

<sup>2768</sup> 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, 2000-1 and 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.



UTI more than tripled the amount of Pell grant funds received from \$25.1 million in 2007 to \$81 million in 2010.<sup>2769</sup>

### Spending

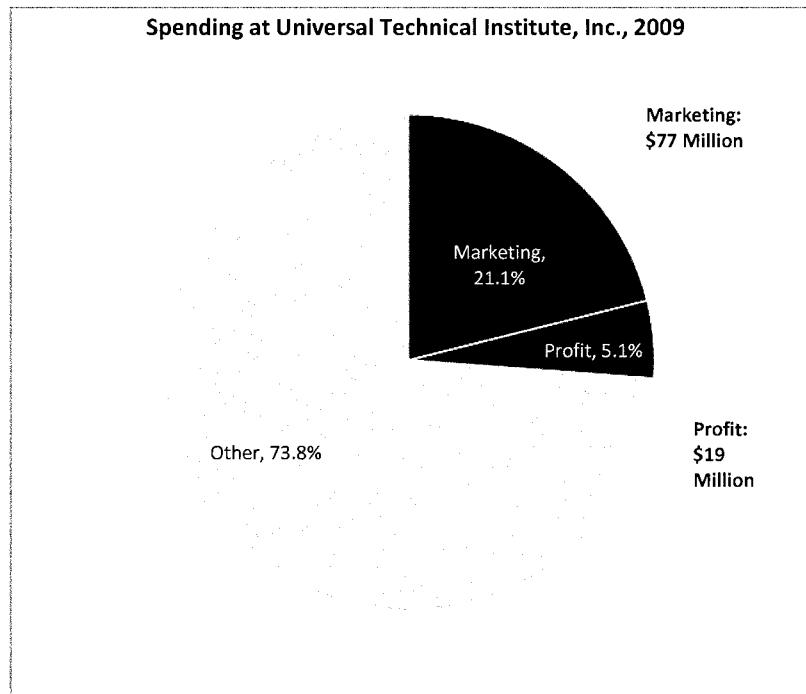
While Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.<sup>2770</sup> 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

<sup>2769</sup> 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.

<sup>2770</sup> 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).<sup>2771</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.<sup>2772</sup>

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.<sup>2773</sup>



UTI devoted a total of \$95.9 million to marketing, recruiting and profit in fiscal year 2009.<sup>2774</sup> The amount of profit UTI generated has increased rapidly, growing from \$23.7 million in 2007 to \$46.6 million in 2010.<sup>2775</sup>

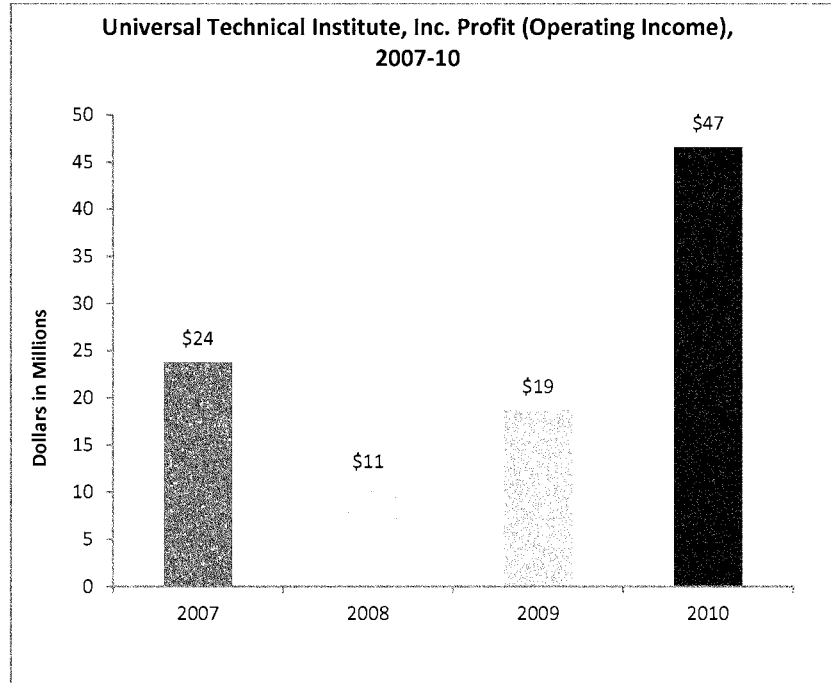
<sup>2771</sup> Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings and information provided to the committee by the company pursuant to the committee document request of August 5, 2010. Profit is based on operating income reported in SEC filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.

<sup>2772</sup> Id.

<sup>2773</sup> 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.

<sup>2774</sup> Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.

<sup>2775</sup> 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.<sup>2776</sup> 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.<sup>2777</sup>

<sup>2776</sup> 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.

<sup>2777</sup> Id.

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 <sup>2778</sup>		\$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.<sup>2779</sup> 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.

### Tuition and Other Academic Charges

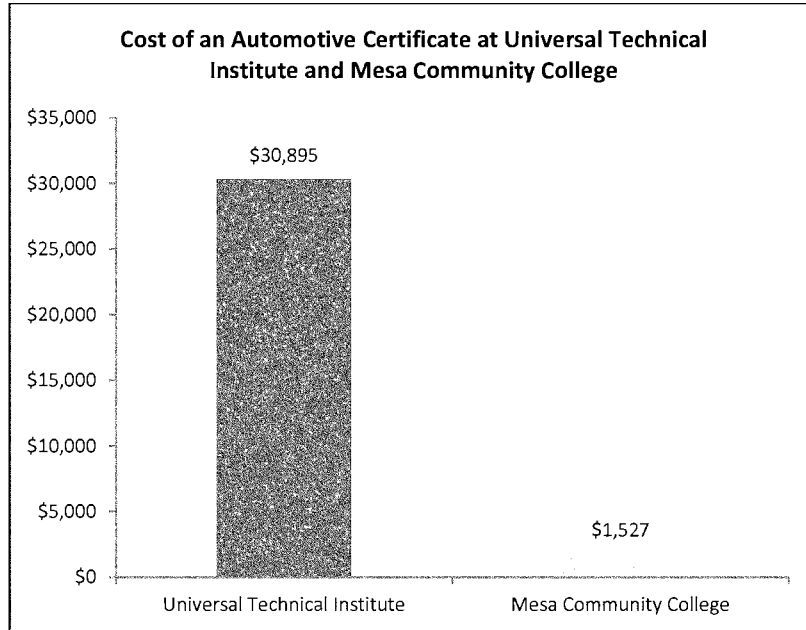
Compared to public colleges offering the same programs, the price of tuition is significantly higher at UTI. For example, a Certificate in Automotive Technology at UTI's Arizona campus costs on average \$30,895,<sup>2780</sup> while a Certificate in Automotive Performance at Mesa Community College in Phoenix, AZ, costs \$1,527.<sup>2781</sup> The same Certificate costs almost 20 times more at UTI than it does at the public college.

<sup>2778</sup> 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.

<sup>2779</sup> 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.

<sup>2780</sup> See Appendix 14; see also Universal Technical Institute, *UTI Program Disclosures*, [http://cdn.uti.edu/disclosure/Program\\_Disclosure.pdf](http://cdn.uti.edu/disclosure/Program_Disclosure.pdf) (accessed July 12, 2012).

<sup>2781</sup> See Appendix 14; see also Mesa Community College, *Mesa Community College*, <http://www.mesacc.edu/> (accessed July 12, 2012).



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.<sup>2782</sup>

### 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

<sup>2782</sup> 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.



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...<sup>2783</sup>

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!<sup>2784</sup>

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 but does not wish to take the Ford class. We are now being told that dropping this course

<sup>2783</sup> 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.").

<sup>2784</sup> 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").

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] can change the prices if you make changes to your courses. I feel this is very misleading.<sup>2785</sup>

## 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.<sup>2786</sup>

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.<sup>2787</sup> While UTI’s Certificate withdrawal rate of 36.6 percent is slightly better than

<sup>2785</sup> 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).

<sup>2786</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf)

<sup>2787</sup> 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.

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.<sup>2788</sup>

Overall, UTI students withdraw at a much lower rate than the 54.1 percent average among the 30 companies examined.

Status of Students Enrolled in Universal Technical Institute, Inc. in 2008-9, as of 2010						
Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent With-drawn	Number With-drawn	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.<sup>2789</sup>

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.<sup>2790</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>2791</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>2792</sup> The consequence of this higher rate is that almost half of all

<sup>2788</sup> 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.

<sup>2789</sup> Direct Loan Default Rates, 34 CFR § 668.183(c).

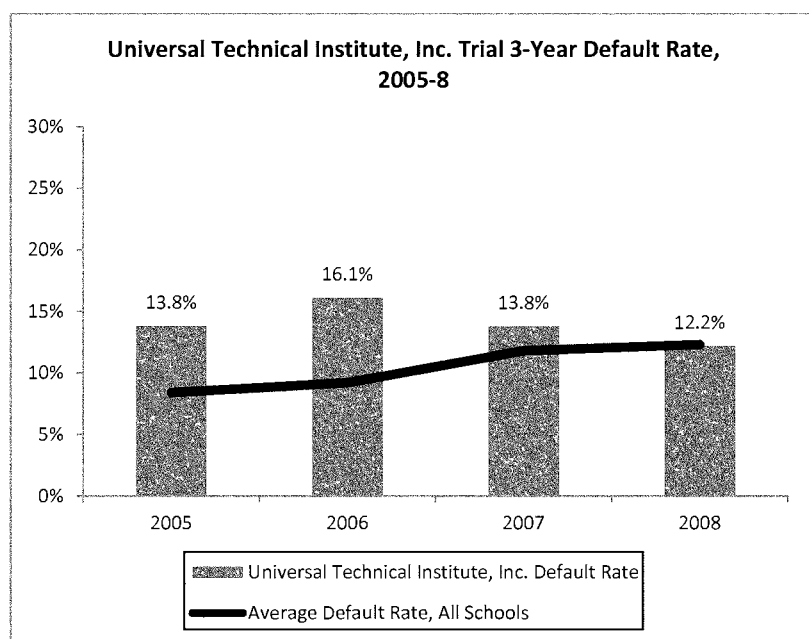
<sup>2790</sup> Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, <http://federalstudentaid.ed.gov/datacenter/cohort.html>. Default rates calculated by cumulating number of students entered into repayment and default by sector.

<sup>2791</sup> Id.

<sup>2792</sup> Id.

student loans defaults nationwide are held by students who attended for-profit colleges.<sup>2793</sup>

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.<sup>2794</sup> This change represents a 32.6 percent increase over 4 years.<sup>2795</sup> 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.



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."<sup>2796</sup> These training documents go on to outline "Items to cover with every borrower"; deferment eligibility and forbearance are covered

<sup>2793</sup> Id.

<sup>2794</sup> 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.

<sup>2795</sup> Id.

<sup>2796</sup> Universal Technical Institute, *Default Prevention New Employee Training Plan* (UTI-C-016309, at UTI-C-016311).

most prominently as “options to explore with every borrower with repayment difficulty.”<sup>2797</sup> 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.<sup>2798</sup> The amount that publicly traded, for-profit companies spend on instruction ranges from \$892 to \$3,969 per student per year.<sup>2799</sup> 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.<sup>2800</sup>

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.<sup>2801</sup> In contrast, UTI employs an almost exclusively full-time faculty, with 1,046 full-time and 3 part-

<sup>2797</sup> Id.

<sup>2798</sup> 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.

<sup>2799</sup> Id.

<sup>2800</sup> 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.

<sup>2801</sup> 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.

time faculty in 2010.<sup>2802</sup> 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!!!!<sup>2803</sup>

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.<sup>2804</sup>

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 instructional and educational quality of their respective programs at UTI.<sup>2805</sup> While student

<sup>2802</sup> Id.

<sup>2803</sup> Universal Technical Institute Internal Email, August 2008, re: *FW: (UTI-C-000491, at UTI-C-000492)*.

<sup>2804</sup> Universal Technical Institute External Correspondence, September 2009, *Letter of Complaint From Universal Technical Institute Employees (UTI-C-000494, at -000495)*.

<sup>2805</sup> 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

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.<sup>2806</sup>

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...<sup>2807</sup>

### 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.<sup>2808</sup> 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.

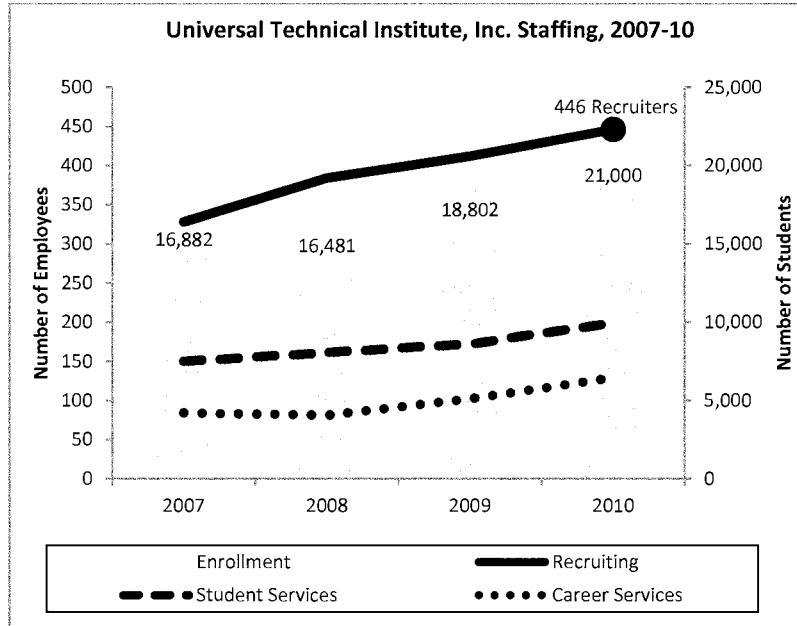
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rather than just collecting the financial aid monies." See also Universal Technical Institute, October 2007, Completed Complaint/Incident Resolution Form (UTI-C-001040).

<sup>2806</sup> Universal Technical Institute Internal Email, December 2009, re: *RE: Complaint Letter – Norwood* (UTI-C-000567, at UTI-C-000577).

<sup>2807</sup> Universal Technical Institute Internal Email, June 2010, re: *Student Complaint* (UTI-C-000847, at UTI-C-000850).

<sup>2808</sup> 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.<sup>2809</sup> 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 came 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

<sup>2809</sup> 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).



apart from the rest. But in my experience here, I didn't see that.<sup>2810</sup>

### 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 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.”<sup>2811</sup>

### **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.

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<sup>2810</sup> Universal Technical Institute, October 2009, *Completed Customer Call Sheet Operations Form* (UTI-C-000604, at UTI-C-000608).

<sup>2811</sup> 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.<sup>2812</sup>

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.<sup>2813</sup> TA Associates purchased Vatterott from Wellspring Capital Management, another private equity firm, in 2009.<sup>2814</sup> Wellspring had owned Vatterott since 2003.<sup>2815</sup>

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.<sup>2816</sup> It offers these programs through three main brands: Vatterott Colleges, L’Ecole Culinaire, and the Court Reporting Institute.<sup>2817</sup>

<sup>2812</sup> Vatterott College, *Course Catalog Memphis Campus* (VAT-02-05-00070 at VAT-02-05-00080).

<sup>2813</sup> TA Associates, *Investments Current Portfolio Companies*, 2012 [www.ta.com/investments/port\\_active.asp](http://www.ta.com/investments/port_active.asp) (accessed June 25, 2012).

<sup>2814</sup> 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).

<sup>2815</sup> Vatterott College, *Course Catalog Memphis Campus* (VAT-02-05-00070 at VAT-02-05-00080).

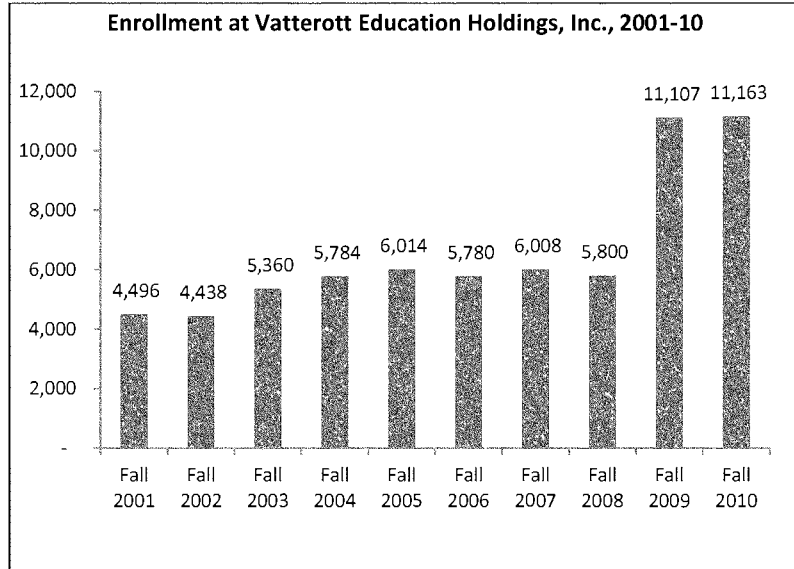
<sup>2816</sup> Vatterott Education Centers, Inc., *Programs*, 2012 <http://www.vatterott.edu/programs.asp> (accessed June 12, 2012). (Vatterott also offers a limited number of bachelor’s degree programs.)

<sup>2817</sup> Vatterott campuses are located in: Illinois, Iowa, Kansas, Missouri, Nebraska, Ohio, Oklahoma, Tennessee, Texas and Virginia.

Vatterott is nationally accredited by the Accrediting Commission of Career Schools and Colleges.<sup>2818</sup>

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 University.<sup>2819</sup> 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.<sup>2820</sup>

In the fall of 2010, Vatterott enrolled 11,163 students.<sup>2821</sup> Enrollment nearly doubled since the company's acquisition by private equity firm TA, growing from 5,800 students in the fall of 2008.<sup>2822</sup>



<sup>2818</sup> 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).

<sup>2819</sup> "Executive Profile: Pam Bell," *Bloomberg Businessweek*, <http://investing.businessweek.com/research/stocks/private/person.asp?personId=9778146> (accessed June 25, 2012).

<sup>2820</sup> TA Associates, *Our Team: C. Kevin Landry*, [http://www.ta.com/team/team\\_boston.asp?ID=42](http://www.ta.com/team/team_boston.asp?ID=42) (accessed June 25, 2012).

<sup>2821</sup> 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.

<sup>2822</sup> 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 4 years, Vatterott's revenue has increased, growing from \$94.8 million in 2006 to \$141.1 million in 2009.<sup>2823</sup>

## 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.<sup>2824</sup> 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.<sup>2825</sup>

In 2010, Vatterott reported 86.9 percent of revenue from title IV Federal financial aid programs.<sup>2826</sup> However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education programs.<sup>2827</sup> 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.<sup>2828</sup> With these funds included, 88.1 percent of Vatterott's total revenue was comprised of Federal education funds.<sup>2829</sup>

<sup>2823</sup> 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.

<sup>2824</sup> "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.

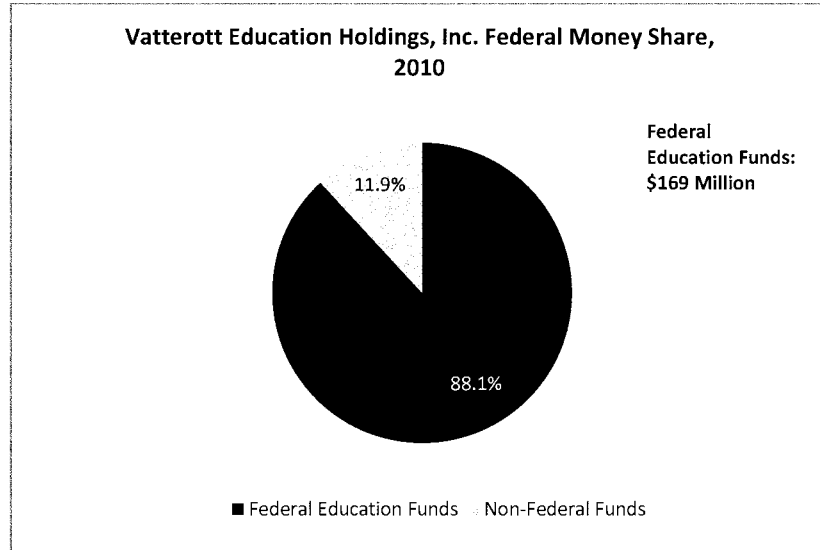
<sup>2825</sup> Senate HELP committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>2826</sup> Id.

<sup>2827</sup> 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.

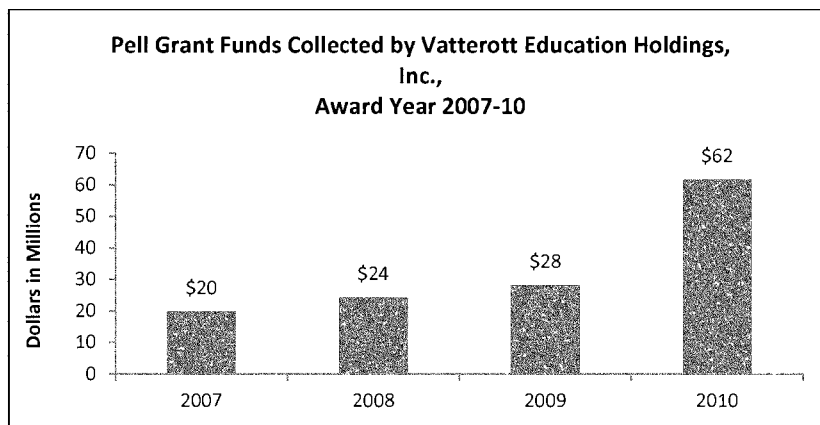
<sup>2828</sup> Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; Post-9/11 GI Bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs 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.

<sup>2829</sup> "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.<sup>2830</sup> 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.

<sup>2830</sup> 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*, 2000-1 and 2009-10, <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.<sup>2831</sup>

### Spending

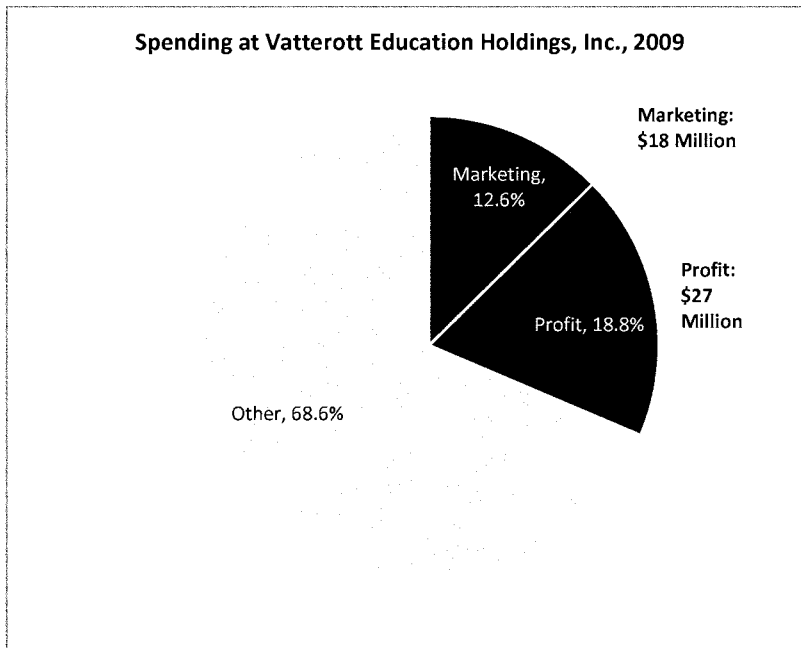
While Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.<sup>2832</sup> 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).<sup>2833</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.

<sup>2831</sup> 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*, 2000-1 and 2009-10, <http://federalstudentaid.ed.gov/datacenter/programmatic.html> (accessed July 12, 2012). See Appendix 13.

<sup>2832</sup> 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.

<sup>2833</sup> 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.

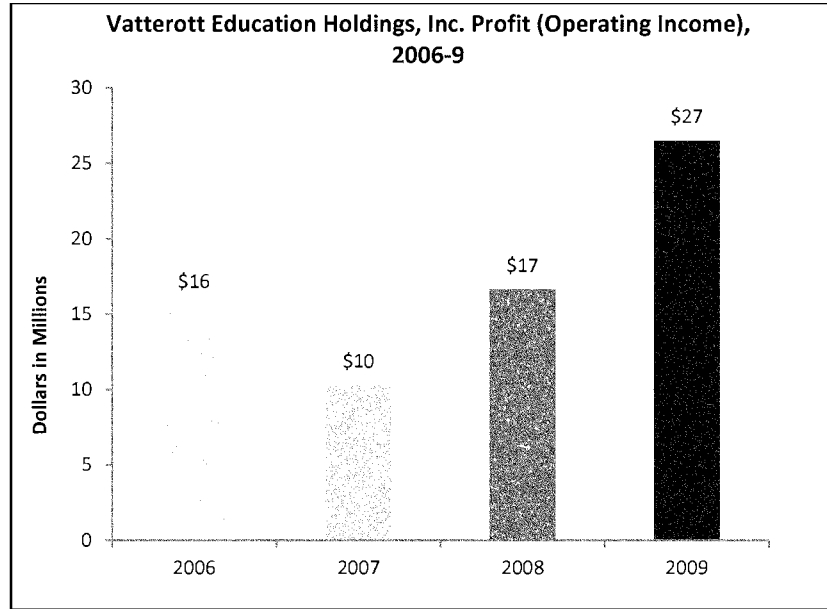
In 2009, Vatterott allocated 12.6 percent of its revenue, or \$17.8 million, to marketing and recruiting and 18.8 percent, or \$26.5 million, to profit.<sup>2834</sup>



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.<sup>2835</sup>

<sup>2834</sup> 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.

<sup>2835</sup> Senate HELP Committee staff analysis. See Appendix 18.



### Executive Compensation

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

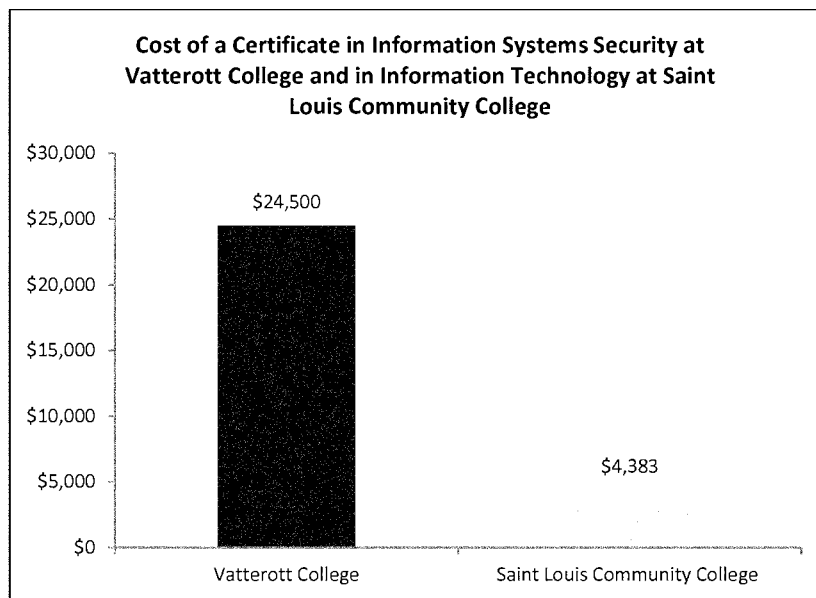
### Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Vatterott. A Diploma in Information Systems Security costs \$24,500.<sup>2836</sup> A similar degree at Saint Louis Community College costs \$4,383.<sup>2837</sup>

<sup>2836</sup> 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](http://www.vatterott.edu/sunset_hills/aos/business-management-courses.asp) (accessed July 7, 2012).

<sup>2837</sup> See Appendix 14; see also, Saint Louis Community College, Saint Louis Community College, <http://www.stlcc.edu/> (accessed July 7, 2012).





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.<sup>2838</sup>

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 are instructed to respond, "Our tuition is relative to other career colleges in the area," sidestepping the question.<sup>2839</sup>

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..."<sup>2840</sup> Such miscommunications often meant that

<sup>2838</sup> 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.

<sup>2839</sup> Vatterott Educational Holdings, Inc., *Vatterott Admissions Techniques: Overcoming Objections*, (VAT-02-30-02862).

<sup>2840</sup> Vatterott Internal Email, *FW: TUITION UPDATES 2010-DIV I*, August 9, 2010 (VAT-02-11-00221).

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.”<sup>2841</sup> 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.”<sup>2842</sup> 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. . . .”<sup>2843</sup>

Vatterott’s tuition increases were also partly driven by prices charged by competitors.<sup>2844</sup> 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]<sup>2845</sup>

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.”<sup>2846</sup>

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.”<sup>2847</sup>

<sup>2841</sup> Vatterott Internal Email, *Concerning re: Catalog and new prices*, December 4, 2009 (VAT-02-11-00312).

<sup>2842</sup> Vatterott Internal Email, *RE: State Tuition Increase Acceptance*, May 14, 2010 (VAT-02-11-00411).

<sup>2843</sup> Vatterott Internal Email, *FW: Tuition Release*, January 8, 2009 (VAT-02-11-00644).

<sup>2844</sup> 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?”).

<sup>2845</sup> Vatterott Internal Email, *Various Policy & Procedures*, August 26, 2006 (VAT-02-11-00571).

<sup>2846</sup> Vatterott Internal Email, *RE: Tuition Increases*, July 06, 2006 (VAT-02-11-00475).

<sup>2847</sup> 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.”<sup>2848</sup> One the first day, recruiters must use a “blitz technique,” in which they call until they get a live person.<sup>2849</sup> In general, recruiters must make 50 calls per day.<sup>2850</sup> An admissions coordinator performance review lists the first 3 criteria as “Phone Calls,” “Enrollment Quotas,” and “Starts.”<sup>2851</sup> Written warnings and performance improvement plans require unsatisfactory employees to meet quotas for phone calls, appointments, and enrollments.<sup>2852</sup>

Vatterott also encourages competition among its recruiters. Executives send out weekly emails rewarding admissions “superstars” for the most enrollments that week.<sup>2853</sup> The recruiter with the most enrollments for the week at the Quincy, IL campus gets a special parking space.<sup>2854</sup> In 2008, the “Vatterott Derby” pitted campuses against each other based on the number of weekly calls, contacts, and interviews.<sup>2855</sup> 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..... hehehehhehe (other than changing people’s lives of course...) :) [sic].”<sup>2856</sup>

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:

<sup>2848</sup> Vatterott College, *Internet Leads: How to increase internet lead conversations*, (VAT-02-30-02504, at 02507).

<sup>2849</sup> Vatterott College, *How to Effectively Work Internet Leads*, July 1, 2005 (VAT-02-30-00217, at VAT-02-30-00221).

<sup>2850</sup> Vatterott Educational Centers, Inc., *Admissions Training: Back to the Basics*, (VAT-02-14-03304, VAT-02-14-03316).

<sup>2851</sup> Vatterott College, *Admissions Coordinator Performance Review*, September 28, 2004 (VAT-02-15-00151).

<sup>2852</sup> 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.

<sup>2853</sup> Vatterott Internal Email, *Weekly Rankings May 30.xls*, June 02, 2008 (VAT-02-30-07746).

<sup>2854</sup> Vatterott Internal Email, *Admissions Parking Spot*, September 23, 2009 (VAT-02-30-00086).

<sup>2855</sup> 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).

<sup>2856</sup> Vatterott Internal Email, *FW: admissions-report (2).xls*, July 8, 2008 (VAT-02-30-02789).

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.<sup>2857</sup>

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.”<sup>2858</sup>

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.

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.<sup>2859</sup> The presentation asks, “Who are our students?” The response includes the following: “Welfare Mom w/ Kids,” “Pregnant Ladies,” “Recent Incarceration,” and “Drug Rehabilitation.”<sup>2860</sup> 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.”<sup>2861</sup> 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!”<sup>2862</sup> The presentation continues, “These Students Are The Reason We’re in Business!”<sup>2863</sup>

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

<sup>2857</sup> Student Complaint, October 8, 2007 (VAT-02-05-01317).

<sup>2858</sup> Texas Workforce Commission, *Student Complaint Record*, July 11, 2008 (VAT-02-05-00456, at VAT-02-05-00457).

<sup>2859</sup> Vatterott Educational Centers, Inc., *DDC Training: Vatterott-Nation*, March 6, 2007 (VAT-02-14-03904).

<sup>2860</sup> *Id.* at VAT-02-14-03913.

<sup>2861</sup> *Id.* at VAT-02-14-03914.

<sup>2862</sup> *Id.* at VAT-02-14-03915.

<sup>2863</sup> *Id.* at VAT-02-14-03916.

admissions and financial aid departments eventually pled guilty.<sup>2864</sup> Vatterott has also given at least one presentation aimed at preventing similar practices.<sup>2865</sup>

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.<sup>2866</sup> 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.<sup>2867</sup>

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 Vatterott are not achieving their educational and career goals.

### 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.<sup>2868</sup> 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

<sup>2864</sup> Vatterott Colleges, “Admissions Coordinator Training” (VAT-02-14-02021 at VAT-02-14-02028).

<sup>2865</sup> Id. at 02-14-02024.

<sup>2866</sup> 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).

<sup>2867</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 14, 2012).

<sup>2868</sup> 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.

higher than the sector-wide Certificate withdrawal rate of 38 percent.<sup>2869</sup> 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.<sup>2870</sup>

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.<sup>2871</sup>

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.<sup>2872</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>2873</sup> On the whole, students who attended for-profit schools default at nearly 3 times the rate of students who attended other types of institutions.<sup>2874</sup>

<sup>2869</sup> 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.

<sup>2870</sup> Id. The Bachelor's degree program rate included too few students to provide a meaningful comparison.

<sup>2871</sup> Direct Loan Default Rates, 34 C.F.R. § 668.183(c).

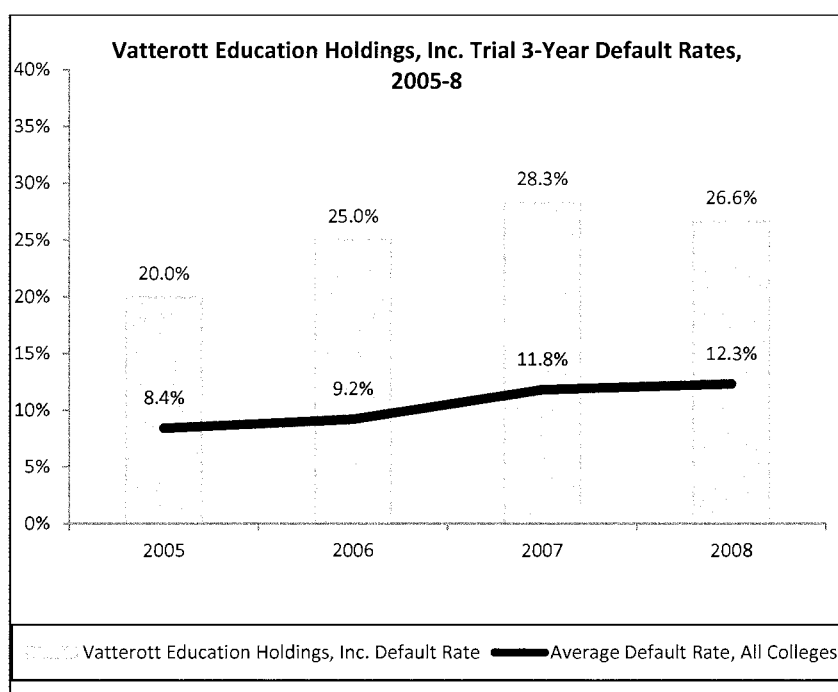
<sup>2872</sup> Senate HELP committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, <http://federalstudentaid.ed.gov/datacenter/cohort.html> (accessed July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default by sector.

<sup>2873</sup> Id.

<sup>2874</sup> Id.

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.<sup>2875</sup>

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.<sup>2876</sup> 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

<sup>2875</sup> Id.

<sup>2876</sup> 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.

“delinquency counseling fee” of \$10 per month per delinquent borrower.<sup>2877</sup> 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.<sup>2878</sup> Between January 2006 and September 2010, Vatterott paid Horizon and WISS a combined \$637,523.<sup>2879</sup>

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.<sup>2880</sup> 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.<sup>2881</sup> 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.<sup>2882</sup>

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

<sup>2877</sup> 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).

<sup>2878</sup> Vatterott Educational Centers, Inc., *Participation Agreement*, December 21, 2000 (VAT-02-21-00030).

<sup>2879</sup> 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).

<sup>2880</sup> *Id.*

<sup>2881</sup> 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.

<sup>2882</sup> 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.



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.<sup>2883</sup> 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.<sup>2884</sup>

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...."<sup>2885</sup> Another student wrote, "during the two months that I have been enrolled at the North Park campus, I have had no instruction on anything."<sup>2886</sup> Still another said, "We had unqualified instructors, a poorly organized & weak curriculum, [and] labs that were poorly equipped."<sup>2887</sup>

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."<sup>2888</sup> 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..."<sup>2889</sup> 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.<sup>2890</sup> 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."<sup>2891</sup>

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.

<sup>2883</sup> 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.

<sup>2884</sup> Id.

<sup>2885</sup> Letter, November 17, 2009 (VAT-02-05-01888).

<sup>2886</sup> Letter to Pamela Bell, May 5, 2008 (VAT-02-05-00675, at VAT-02-05-00677).

<sup>2887</sup> Letter to Better Business Bureau, March 3, 2006 (VAT-02-05-00215, at VAT-02-05-00225).

<sup>2888</sup> Id. at VAT-02-05-00221.

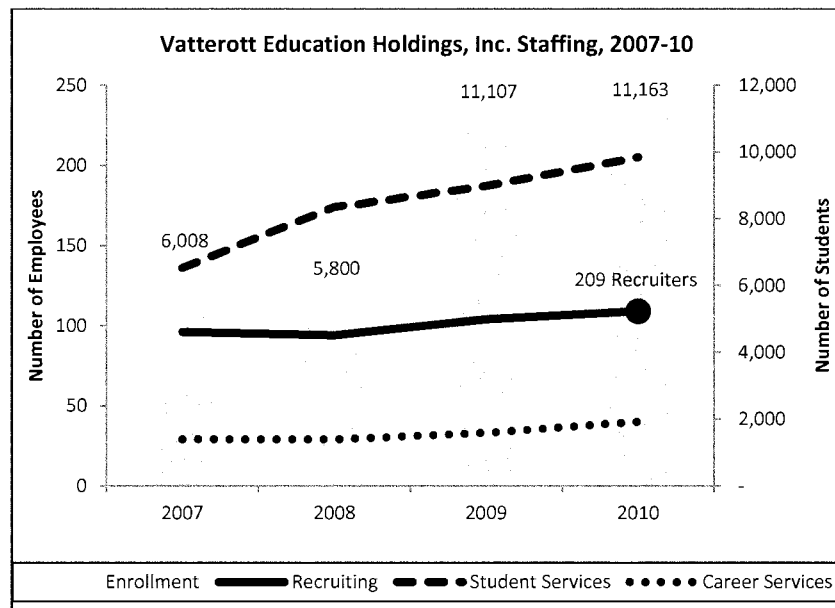
<sup>2889</sup> Id.

<sup>2890</sup> Id. VAT-02-05-00225.

<sup>2891</sup> Id. at VAT-02-05-00216.

## 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.<sup>2892</sup>



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.<sup>2893</sup>

<sup>2892</sup> 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.

<sup>2893</sup> Vatterott Educational Centers, Inc., *Summary of current Debt Management Plan* (VAT-02-20-00005, at VAT-02-20-00006-9).

## 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.<sup>2894</sup> 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 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."<sup>2895</sup>

Vatterott's 90/10 ratio in 2008 was so bad that executives completely shut off title IV disbursements to 3 campuses in October.<sup>2896</sup> 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."<sup>2897</sup>

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.<sup>2898</sup> 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

<sup>2894</sup> See, generally, Email from Leean Edwards, *90-10 to Campus Directors*, April 28, 2010 (VAT-02-09-00023).

<sup>2895</sup> Email from Vatterott College Corporate Office, *RE: Students to review*, November 21, 2008 (VAT-02-33-00017).

<sup>2896</sup> Email from Lois Madsen, *90-10 at 020693*, October 10, 2008 (VAT-02-09-00039).

<sup>2897</sup> Email from Vatterott Educational Centers, Inc., *Latoya Hawkins account card.pdf*, October 06, 2009 (VAT-02-09-00907).

<sup>2898</sup> Email from Lois Madsen, *FW: 90-10 Calculations*, December 23, 2009 (VAT-02-09-00596).

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.<sup>2899</sup>

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.”<sup>2900</sup> 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.”<sup>2901</sup> 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.”<sup>2902</sup>

Vatterott also takes advantage of military funds to manage its 90/10 ratio.<sup>2903</sup> 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.<sup>2904</sup> Corporate officials especially pushed for Workforce Investment Act and Trade Adjustment Assistance funds, with one employee calling it a possible “90/10

<sup>2899</sup> Email from Dennis Beavers, *RE: TUITION INCREASE*, May 10, 2007 (VAT-02-11-00071).

<sup>2900</sup> Email from Vatterott Educational Centers, Inc., *Various Policy & Procedures*, August 26, 2006 (VAT-02-11-00571).

<sup>2901</sup> Email from Dennis Beavers, *Important Information! Salon Restaurant Budget to Actual Report Feb 2010 and April Budget*, March 18, 2010 (VAT-02-09-00883).

<sup>2902</sup> Email from Vatterott College Campus Director, *90/10 and Cosmo*, September 27, 2008 (VAT-02-09-02537).

<sup>2903</sup> See, generally, Email from Vatterott Educational Centers, Inc., *RE: GI Bill ENROLLMENT*, August 17, 2010 (VAT-02-09-00033).

<sup>2904</sup> See, e.g., Email from Vatterott Educational Centers, Inc., *FW: Agency Fund Sources*, July 7, 2010 (VAT-02-09-00027).

bonanza for us.”<sup>2905</sup> 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.<sup>2906</sup>

Vatterott also attempted to address its 90/10 concerns by selling uncollected student debt to consumer debt purchasers.<sup>2907</sup> 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.<sup>2908</sup>

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.”<sup>2909</sup>

## 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.

<sup>2905</sup> Internal Email, *RE: Trade Adjustment Assistance*, January 26, 2010 (VAT-02-09-00918).

<sup>2906</sup> Email from Vatterott Educational Centers, Inc., *90/10 to Campus Directors*, April 28, 2010 (VAT-02-09-00023).

<sup>2907</sup> 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).

<sup>2908</sup> *Id.*

<sup>2909</sup> 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**

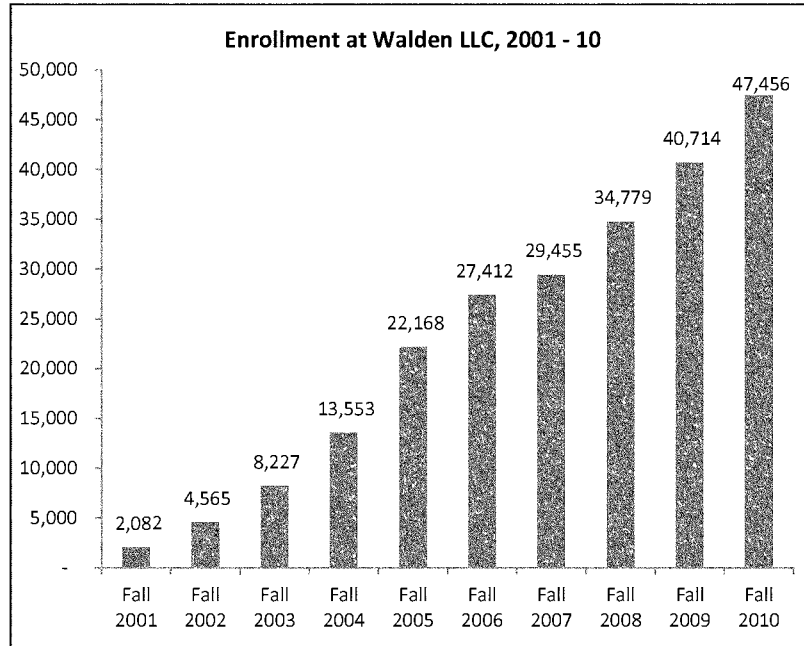
Walden LLC ("Walden") is a privately held, for-profit education company headquartered in Minneapolis, MN. Founded in Florida in 1970 by Bernie and Rita Turner, Walden originally awarded Doctoral degrees in school administration. After being licensed by Minnesota in 1979, Walden moved its headquarters 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.<sup>2910</sup> 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.

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<sup>2910</sup> 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).

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.



Walden has grown significantly over the last decade, with enrollment increasing by more than 2,000 percent since 2001.<sup>2911</sup> 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.<sup>2912</sup>

#### Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the

<sup>2911</sup> 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.

<sup>2912</sup> 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.



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.<sup>2913</sup> 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.<sup>2914</sup>

In 2010, Walden reported 76.4 percent of revenue from Federal financial aid programs.<sup>2915</sup> However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.<sup>2916</sup> 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.<sup>2917</sup> With these funds included, an estimated 77.8 percent of Walden's total revenue was comprised of Federal education funds.<sup>2918</sup>

<sup>2913</sup> 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.

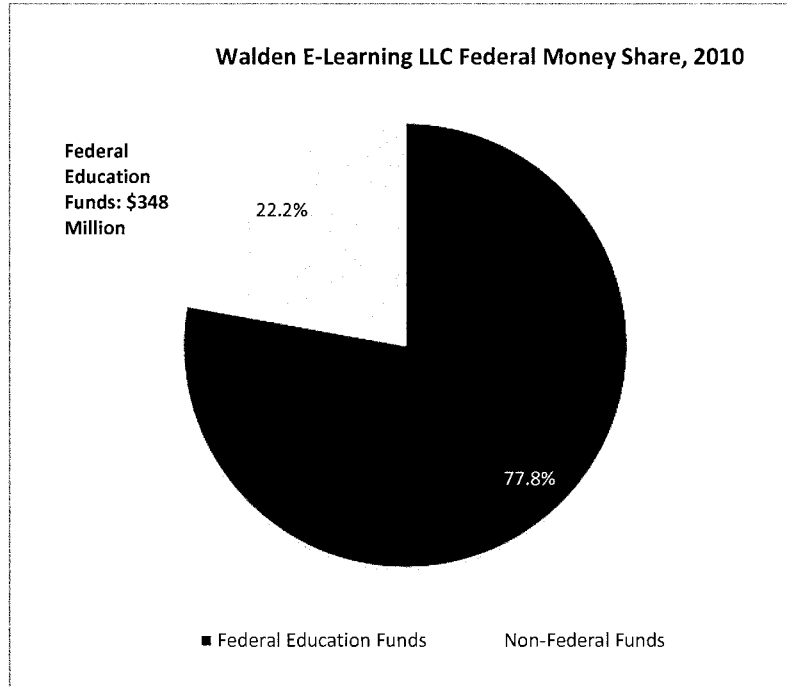
<sup>2914</sup> Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>2915</sup> *Id.*

<sup>2916</sup> 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.

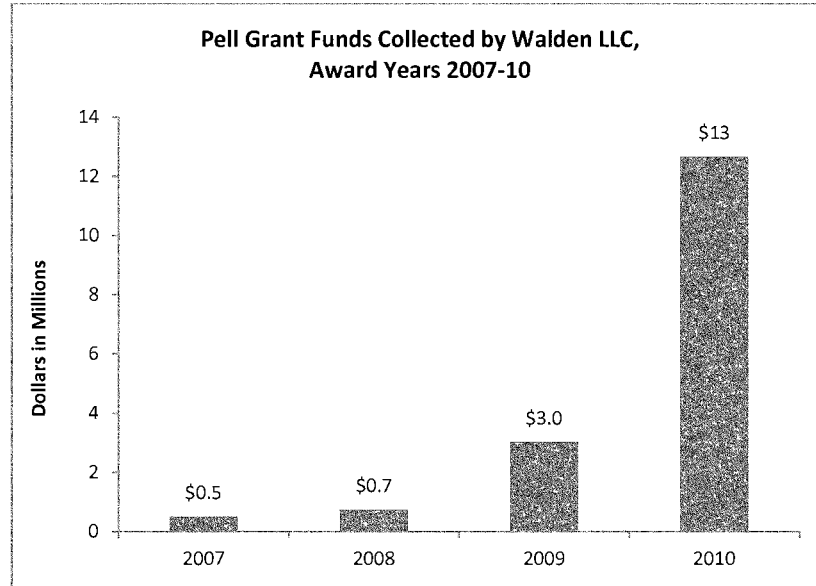
<sup>2917</sup> Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the Committee from the Senate Committee on Veterans' Affairs 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.

<sup>2918</sup> "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 the total Pell program that for-profit colleges collected increased from 14 to 25 percent.<sup>2919</sup> 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.

<sup>2919</sup> 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, 2000-1 and 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>



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.<sup>2920</sup>

### Spending

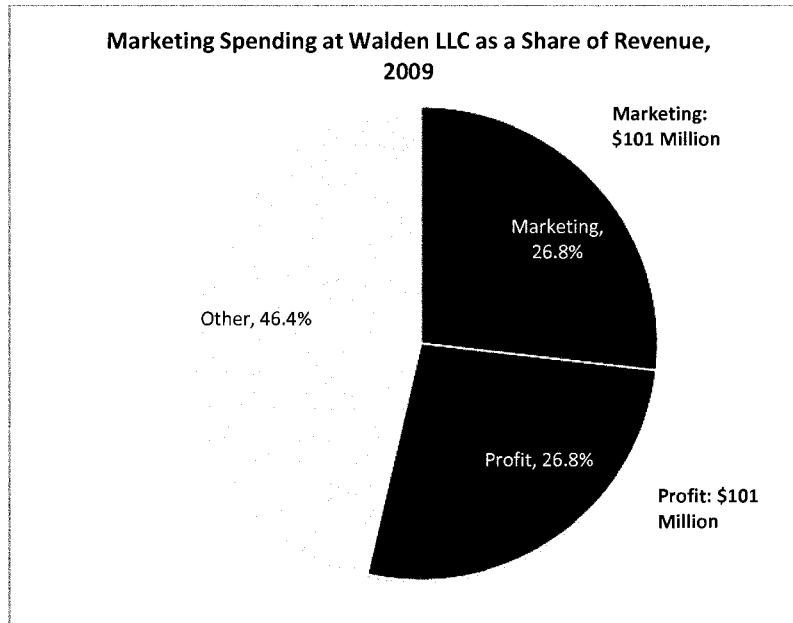
While Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.<sup>2921</sup> 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).<sup>2922</sup>

<sup>2920</sup> 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/programmatics.html>. See Appendix 13.

<sup>2921</sup> 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.

<sup>2922</sup> 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

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.<sup>2923</sup> The percentage of revenue Walden allocates to both marketing and profit exceeds the for-profit sector average.<sup>2924</sup> On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.<sup>2925</sup>



In 2009, Walden devoted 58 percent of its total revenue, or \$202 million, to marketing, recruiting and profit.<sup>2926</sup> 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.<sup>2927</sup>

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recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.

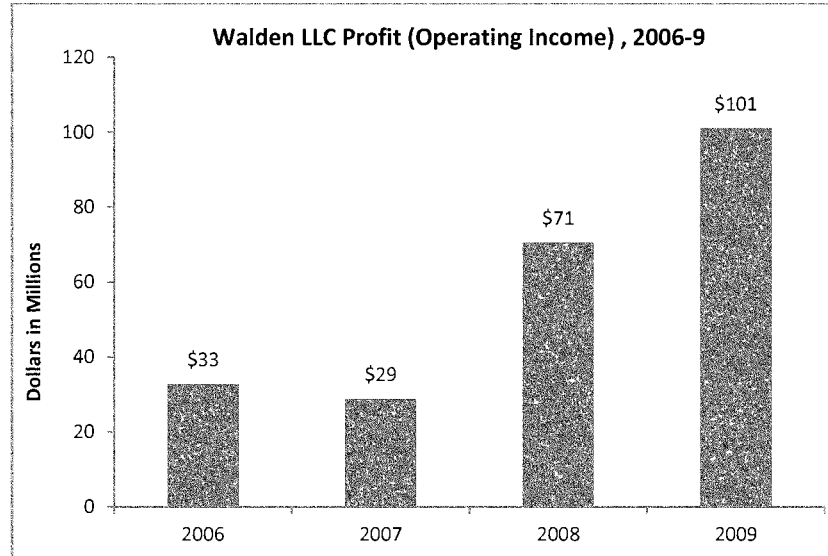
<sup>2923</sup> Id.

<sup>2924</sup> 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.

<sup>2925</sup> Senate HELP Committee staff analysis. See Appendix 19.

<sup>2926</sup> Id. The "other" category includes administration, instruction, faculty salaries, executive compensation, student services, facilities, maintenance and other expenditures.

<sup>2927</sup> 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**

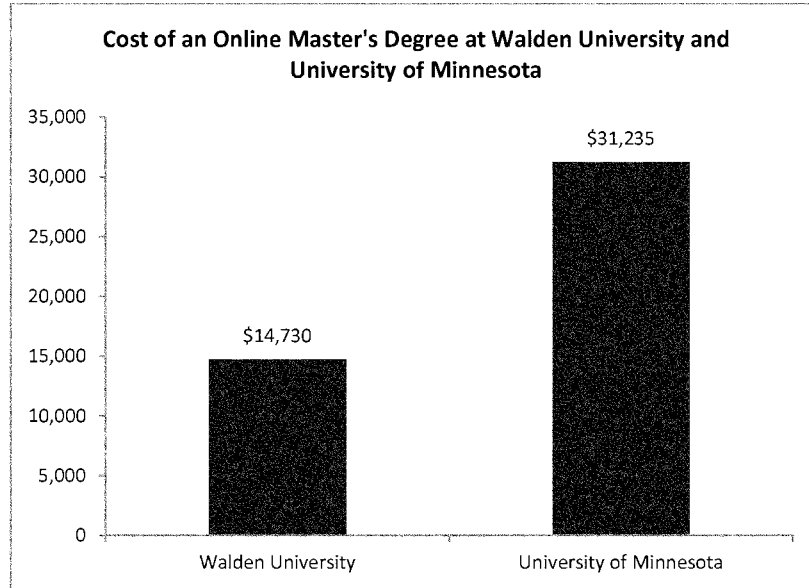
Unlike many of the for-profit colleges the committee examined, when compared to its online public and non-profit counterparts, Walden is competitively priced. A Master's in Education at Walden University costs \$14,730.<sup>2928</sup> The same online degree at University of Minnesota costs \$31,235.<sup>2929</sup> An online Bachelor of Science in Business Administration degree at Walden University costs \$56,800.<sup>2930</sup> The same degree at the University of Minnesota costs \$56,240.<sup>2931</sup>

<sup>2928</sup> 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.

<sup>2929</sup> See Appendix 14; See also, University of Minnesota, *University of Minnesota*, <http://onestop.umn.edu/> (accessed June 22, 2012).

<sup>2930</sup> See Appendix 14; See also, University of Minnesota, *University of Minnesota*, <http://onestop.umn.edu/> (accessed June 22, 2012).

<sup>2931</sup> Id.



From 2009–11, Walden spent an average of \$9,824 to train veterans eligible for post-9/11 GI bill benefits, compared to an average of \$4,642 per veteran spent by public colleges.<sup>2932</sup> 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 objections prospective students have.<sup>2933</sup> The objections covered

<sup>2932</sup> 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.

<sup>2933</sup> 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].

include cost, time to completion, time commitment, third party concerns, credibility, school support services, lack of face-to-face instruction, and other school shopping.<sup>2934</sup>

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.”<sup>2935</sup> 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.”<sup>2936</sup> 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.<sup>2937</sup> Other internal emails announce and discuss additional employee contests and recognition events.<sup>2938</sup>

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.<sup>2939</sup> 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.<sup>2940</sup>

<sup>2934</sup> Id. at WALDEN-HELP-0006443.

<sup>2935</sup> 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.

<sup>2936</sup> Walden University, *Re: Talk Time Initiative*, July 1, 2008 (WALDEN-HELP-0039869 at WALDEN-HELP-0039871).

<sup>2937</sup> Id. See also Walden E-Learning LLC, *Talk Time Initiative*, (WALDEN-HELP-0037558). [NOTE: Internal training document, no date].

<sup>2938</sup> 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].

<sup>2939</sup> Walden E-Learning LLC, *Enrollment Advisor Scorecard*, Q3 2007 (WALDEN-HELP-0037400).

<sup>2940</sup> Id., at WALDEN-HELP-0037432.

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.<sup>2941</sup>

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.<sup>2942</sup>

## 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.<sup>2943</sup>

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.<sup>2944</sup> Students

<sup>2941</sup> Id., at WALDEN-HELP-0037428.

<sup>2942</sup> Walden University. *Demonstrating Accountability, Transparency, and Assessment (DATA) project, Time Commitment Expectations*, <http://www.waldenu.edu/About-Us/33560.htm> (accessed July 9, 2012).

<sup>2943</sup> 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](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 22, 2012).

<sup>2944</sup> 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



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.<sup>2945</sup> These students also withdrew within a median of 3 months.<sup>2946</sup> Compared to the sector-wide Bachelor's withdrawal rate of 54.3, fewer students withdrew from Walden.<sup>2947</sup>

**Status of Students Enrolled in Walden E-Learning LLC in 2008-9, as of 2010**

Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent With-drawn	Number With-drawn	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.

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.<sup>2948</sup> 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."<sup>2949</sup> To address these concerns, in December 2010 Walden instituted a conditional admission policy for undergraduate students, the Adequate Academic Progress policy.<sup>2950</sup> The AAP requires that students adequately complete assignments for

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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.

<sup>2945</sup> Id.

<sup>2946</sup> Id.

<sup>2947</sup> 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.

<sup>2948</sup> Letter from Walden University chief executive officer Jonathan Kaplan to committee staff, June 19, 2012.

<sup>2949</sup> Walden University, *Re: CDR*, July 17, 2010 (WALDEN-HELP-0040024 at WALDEN-HELP-0040025).

<sup>2950</sup> Letter from Walden University chief executive officer Jonathan Kaplan to committee staff, June 19, 2012.

the first 3 weeks of class, or the student is automatically withdrawn without any tuition obligation.<sup>2951</sup>

#### 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.<sup>2952</sup>

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.<sup>2953</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>2954</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>2955</sup> 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.<sup>2956</sup> This change represents a 32.6 percent increase over 4 years.<sup>2957</sup> 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.<sup>2958</sup>

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<sup>2951</sup> Id.

<sup>2952</sup> 34 CFR § 668.183(c).

<sup>2953</sup> 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.

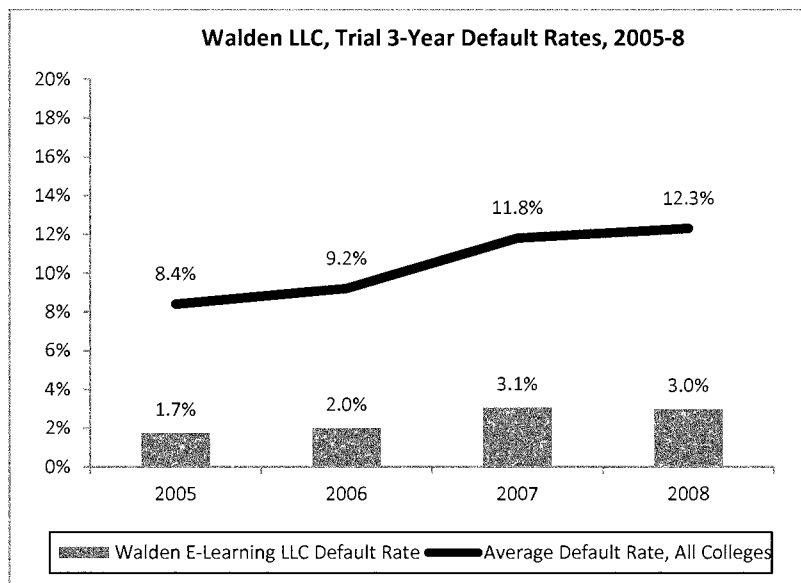
<sup>2954</sup> Id.

<sup>2955</sup> Id.

<sup>2956</sup> 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.

<sup>2957</sup> Id.

<sup>2958</sup> 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.<sup>2959</sup>

### 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.<sup>2960</sup> 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

<sup>2959</sup> Walden University, *Fw: FY 2007 Official Cohort Default Rate*, September 15, 2009 (WALDEN-HELP-0040057).

<sup>2960</sup> 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.

held companies spent ranges from \$1,118 to \$6,389 per student per year.<sup>2961</sup> By comparison, public and non-profit schools, generally spend a higher amount per student on instruction. 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.<sup>2962</sup>

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.<sup>2963</sup> Walden, however, has more than 90 percent of its faculty employed part-time.<sup>2964</sup> In 2009, Walden employed 153 full-time and 1,848 part-time faculty.<sup>2965</sup>

## 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.<sup>2966</sup> That means each career counselor was responsible for 13,572 students and each student services staffer was responsible for 87

<sup>2961</sup> Id. Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

<sup>2962</sup> 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.

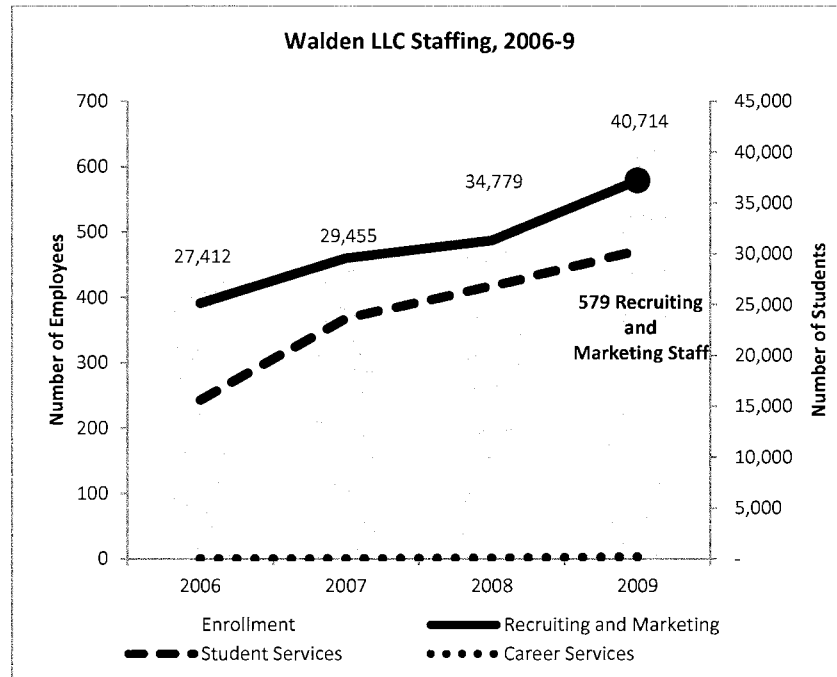
<sup>2963</sup> Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

<sup>2964</sup> Id.

<sup>2965</sup> Id.

<sup>2966</sup> Id. See Appendix 7 and Appendix 24.

students. Meanwhile, the company employed one recruiter for every 71 students.



## 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.

**Minority Committee Staff Views**

**Frank J. Macchiarola**  
Republican Staff Director

**Nicholas C. Geale**  
Oversight & Investigations Director

**Beth B. Buehlmann**  
Education Policy Director

**Christopher Eyster**  
Education Counsel

Over the past 2 years, a significant amount of the Health, Education, Labor, and Pensions Committee's activity has been focused on an investigation of for-profit institutions of higher education. This investigation has raised a number of questions about the for-profit sector that deserve the attention of this committee. However, the majority's refusal to work in the committee's bipartisan tradition and the biased conduct throughout this process have raised substantial doubt about the accuracy of the information contained in the report titled, "For-Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success" (Majority Staff Report).

The HELP Committee has a long history of bipartisanship and collaboration, which has allowed for the input of all committee members and ensured the legitimacy of its work. This practice has been integral to making this committee one of the most productive in Congress, and has produced a body of legislation that regularly earns the overwhelming support of the Senate. As such, there is little doubt that the committee could have conducted a robust and objective investigation had the majority pursued these proceedings in a bipartisan manner.

It is indisputable that significant problems exist at some for-profit institutions of higher education. Students must have accurate and unbiased information, and should not be pressured into making decisions they are not prepared to make. In fact, the aggressive recruiting practices, possible violations of statutory restrictions on incentive compensation, and the misrepresentation of student outcomes by some for-profit institutions that have been identified are real problems that deserve to be investigated in an objective process. With a fair, reasonable and competent process there is little question that the committee could have addressed these issues and enacted meaningful changes to the law where necessary that would benefit all students.

However, from the outset, the majority did not seek bipartisan input or support in this investigation. It ignored repeated requests by the Ranking Member to expand the scope of the investigation to include all institutions of higher education that serve the other 90 percent of postsecondary students who do not attend for-profit schools but face similar challenges. Furthermore, the majority ignored a request from Senators Enzi and Alexander asking that the committee hold bipartisan hearings on the Department of Education's program integrity regulations, which would have addressed many of the concerns raised during the investigation. While the minority recognizes the majority's right to set the committee's agenda, the failure to seek bipartisan collaboration and gain broad support has undermined the credibility of findings contained in the Majority Staff Report. The following are examples of the investigative actions that suggest a pattern of abuse that has led a number of observers to question the majority's motives and objectivity.

**I. This investigation was developed, in part, by relying on the input of an investor with a financial interest in the demise of the for-profit sector.**

On June 24, 2010, the committee heard the testimony of Steve Eisman, a hedge-fund manager most notable for betting against subprime mortgages during the U.S. housing crisis. Mr. Eisman is not a higher education expert, and stated in his testimony that he had a financial interest in the for-profit sector. However, he refused to explain the extent of his investments when asked in questions for the record by Senator Coburn. In a July 1, 2010 letter to the committee, Citizens for Responsibility and Ethics in Washington (CREW) explained, "To our knowledge, Mr. Eisman has no expertise in education policy; he holds no degrees, has no experience, and no background on the education policies at issue. Mr. Eisman's only experience is that he works for a hedge fund that is betting millions of dollars on stock prices falling in the for-profit education industry. His financial conflicts of interest could not be more blatant, yet they were not disclosed in advance of his testimony. Even more troubling is Mr. Eisman's use of the congressional hearing and the committee as a vehicle to advance his own economic interests by dragging down stock prices of publicly traded companies." Notwithstanding Mr. Eisman's lack of qualifications to comment on education policy, it is troubling that the majority would allow any witness to testify without requiring a full disclosure of such clear conflicts of interest.



**II. The findings of this investigation include discredited Government Accountability Office (GAO) testimony.**

On August 4, 2010, Gregory Kutz, former-Managing Director of the GAO's Forensics Audits and Special Investigations Division, testified to the committee about the findings of an undercover investigation of recruiting practices at 15 for-profit institutions of higher education. Mr. Kutz's testimony disclosed troubling practices, which are described in part in the Majority Staff Report. However, the GAO substantially revised and reissued Mr. Kutz's testimony on November 30, 2010, making over 50 changes to 12 pages of the original testimony. Many of the changes revealed that the GAO investigators omitted or misrepresented material facts, which undermined the severity of the allegations made in Mr. Kutz's original written testimony. In fact, concerns about the process that resulted in these errors led the GAO to reorganize its Forensics Audits and Special Investigations Division and reassign Mr. Kutz.

The individual examples cited in the Majority Staff Report were not among those included in the revisions. However, the extent of the revisions elsewhere in Mr. Kutz's testimony has cast significant doubt on the overall accuracy and objectivity of the investigation. Moreover, dismissing the severity of these concerns, while only highlighting select portions that were not revised, ignores the high standards Congress places on the GAO to provide objective and factually accurate reports to inform its work. Therefore, any reliance on Mr. Kutz's testimony not only weakens the findings of the Majority Staff Report, it raises questions about the legitimacy of any legislative activity the committee develops as a result of the report.

**III. Majority committee staff directly participated in the drafting of witness testimony before the committee.**

On August 4, 2010, the committee heard the testimony of Joshua Pruyn, a former employee of Westwood College. Mr. Pruyn testified to the committee about alleged aggressive recruiting practices he participated in while employed by Westwood College. However, the veracity of Mr. Pruyn's testimony is undermined by documents showing that he received assistance from members of the majority committee staff and staff from The Institute for College Access and Success (TICAS), a public interest group that testified in two other HELP hearings on this subject. On July 21, 2011, the *Daily Caller* produced e-mails in which majority staff drafted answers for Mr. Pruyn to provide to the committee if asked about his ties to a law firm suing Westwood College. On July 26, 2011, the *Daily Caller* produced excerpts of additional e-mails that showed Mr. Pruyn's written testimony had been edited by members of the

majority staff, as well as by staff from TICAS. Furthermore, Westwood subsequently submitted documentation to the committee contradicting parts of Mr. Pruyn's testimony. In order for the committee's work to be viewed as valid, committee members must be assured that witnesses provide testimony to the committee that is truthful and in their own words.

**IV. The majority has mischaracterized facts and may have harmed the committee's ability to conduct future investigations.**

Andrew Clark, CEO of Bridgepoint Education declined an invitation to testify at the committee's March 10, 2011 hearing titled, "Bridgepoint Education, Inc.: A Case Study in For-Profit Education and Oversight." In correspondence to the majority staff, Mr. Clark expressed concerns about testifying before the completion of an ongoing audit process by the Department of Education. However, in a March 1, 2011 response on committee letterhead, the then-majority staff director stated that "you should be aware that it will be made clear at the hearing that your failure to appear is based on nothing other than your own apparent unwillingness to testify regarding how a company that receives over 86 percent of its revenues from the Federal Government saw a 1-year increase in profit from \$81 to \$216 million, but also has student withdrawal rates of at least 65 to 75 percent." As has been previously stated, witness testimony must be truthful to ensure the soundness of the committee's work. The majority staff's hostile letter indicating that the Chairman would mischaracterize Mr. Clark's stated reasons for not appearing is not only a demonstration of a willingness to prejudice a potential witness' testimony, it also raises questions about the majority's desire to provide committee members with all of the facts.

Additionally, the investigation has cited documents out of context to suggest improper motivations or embarrass institutions and their management. On two separate occasions, the majority cited an unsolicited proposal prepared by a third-party consultant who was seeking to be hired by one for-profit school. The proposal, which discussed the recruitment of veterans and military service members, had been voluntarily provided to the committee by the school, but was never implemented by the school. Nevertheless, the majority staff relied on the document twice to inaccurately suggest that the school had implemented aspects of the proposal, despite being cautioned by the minority staff to confirm the accuracy and context of the document.

Finally, some schools have indicated that their proprietary and sensitive business information was not treated with the expectation of confidentiality under which it was voluntarily provided to the committee. Many schools in their cover letters providing documents to the committee said they understood or

requested that certain information not be disclosed to the public or third parties. Although the majority asserts that no assurances were given regarding the confidentiality of documents, a number of law firms representing these institutions have indicated in writing to the majority that such assurances were indeed made. And, while the majority did offer consultations with the schools for this report, a significant amount of information was released previously without any such consultations, and many concerns about confidential information were ignored for this report as well. Accordingly, the majority's selective mischaracterization of information and disclosure of confidential and proprietary information has the potential to do lasting harm to the committee's ability to conduct effective investigations in the future.

**V. The majority has refused repeated requests to provide context by examining similar problems at public and private non-profit institutions of higher education.**

Many of the issues identified by the investigation are a part of a much larger problem that is not limited to for-profit institutions of higher education. Across all sectors of higher education, average student debt has increased to \$25,250, fewer than half of all graduates have found work within 12 months of graduating, and nearly 40 percent of recent graduates are working in jobs that do not require a college degree. The urgency of these problems has been discussed at length in the press as well as in a number of academic studies, including a May 12, 2012 *New York Times* article titled, "A Generation Hobbled by the Soaring Cost of College." Much of that article focuses on the debt students have incurred as a result of soaring tuition at public and non-profit institutions, including students who recently graduated with debts of \$65,000, \$80,000 and \$120,000. Indeed, the article points out that, "With more than \$1 trillion in student loans outstanding in this country, crippling debt is no longer confined to dropouts from for-profit colleges or graduate students who owe on many years of education, some of the overextended debtors in years past." Moreover, the article indicates that many public and non-profit institutions, like some of the for-profit institutions the investigation has highlighted, are aggressively recruiting students, irrespective of their financial situations.

By failing to examine similar problems at public and non-profit institutions, which serve 90 percent of all postsecondary students, committee members have been given no perspective to judge which problems are limited to the for-profit sector and which exist throughout all institutions of higher education. Without that perspective, the committee simply does not have a meaningful record upon which it can legislate constructive solutions that benefit all students.

In conclusion, it is clear that significant problems exist within the for-profit sector. The majority rightfully decided to examine questions of student indebtedness, the role of accreditation and recruiting practices in institutions of higher education. However, the decision to limit this examination to the for-profit sector alone has resulted in an incomplete record upon which to judge the challenges faced by today's students. Moreover, the partisan nature with which the majority has chosen to carry out this investigation has resulted in numerous examples of malpractice that have plagued this inquiry. These examples are troubling under any circumstance, but when viewed cumulatively, they demonstrate a disturbing pattern of abuse that has damaged the credibility of the committee. For these reasons, the overall accuracy and validity of the information contained in the Majority Staff Report is in doubt and should not be used as the basis for any legislative action by the committee.

The minority members of the committee remain willing to work with the majority to develop an objective process to meaningfully reform the Federal Government's commitment to higher education. But if that process is to be successful, the committee must be willing to act in a way that leaves no doubt about the legitimacy of the process.

### **Appendix 1: Definitions**

**90/10 rule:** Established in Title IV of the Higher Education Act of 1965, requires for-profit institutions to derive at least 10 percent of revenue from non-title IV funds. For the purposes of 90/10, neither Department of Defense nor Department of Veterans Affairs educational benefits are counted as Federal financial aid on the “90” side. Institutions that violate 90/10 for 2 consecutive years lose their Federal aid eligibility for at least 2 years.

**Accreditation:** A process of academic review conducted by non-government agencies and used to scrutinize colleges, universities, and programs for quality assurance and quality improvement.

- **Institutional accreditation:** The Department of Education requires that institutions of higher education be accredited in order to access title IV funds. There are two types of accrediting agencies: national and regional.
  - **National accreditation:** The accreditation of a postsecondary institution by national accrediting agencies, which evaluate only nontraditional institutions and is not based on geography. National accreditors, oversee the accreditation of 3,933 institutions, 70 percent of which are non-degree granting. Approximately 90 percent of the schools accredited by national accreditors are for-profit institutions.
  - **Regional accreditation:** The accreditation of a postsecondary institution by a regional accrediting agencies, which evaluate all types of institutions in a specific region. Eight regional accrediting commissions currently operate in six regions throughout the United States. Regional accreditors are responsible for accrediting 3,040 institutions, 96 percent of which are degree-granting, non-profit or public colleges and universities. Regional accreditation is considered more rigorous than national accreditation.
- **Programmatic accreditation:** Certification that a specific degree or certificate program meet standards expected within a particular field or profession and means that students who graduate from the program are eligible for licensing in a trade, or eligible to take the relevant licensing exam. Generally provided by trade organizations in a given occupation.

**Certificate program:** A non-degree postsecondary program below the Associate level that is generally in a technical or vocational field. For purposes of the report, the term Certificate is interchangeable with the term Diploma and does not include any post-baccalaureate Certificates.

**Cohort default rate:** Proportion of an institution's former student borrowers who entered repayment on a Federal student loan during the relevant cohort year who defaulted before the end of the next government fiscal year following the cohort year. The government fiscal year begins on October 1. Therefore, for example, a student who leaves school in August 2010 would enter repayment after the 6 month grace period in February, 2011. This student would be included in the school's fiscal year 2011 cohort default rate. If the student defaults any time before the start of fiscal year 2013 on October 1, 2012, then the student would be counted as a "defaulter" under the current 2-year window. Under the 3-year window (trial until 2014), if the student defaults any time before October 1, 2013, the student would be counted as a "defaulter." Under the Direct Loan program, default is defined as 360 days of delinquency. The Higher Education Act provides that institutions of higher education that participate in title IV, whether public, non-profit, or for-profit, lose access to Federal aid money if more than 25 percent of students default on student loans within 2 years of entering repayment. In 2014 colleges will be required to demonstrate that no more than 30 percent of students default on Federal student loans within 3 years of entering repayment on their loans.

**Direct Loan Program:** The lending program which provides title IV student loans directly from the Federal Government to borrowers, rather than through a third-party lender as under the Federal Family Education Loan (FFEL) Program. Since July 1, 2010, all title IV loans have been issued through the Direct Loan Program.

**Default Management:** Activities, techniques, and tools used by schools to reduce student loan defaults.

**Department of Education Graduation Rate:** Data collected on the number of students entering an institution as full-time, first-time, degree/certificate-seeking undergraduate students in a particular year who complete their program within 150 percent of normal time to completion.

**Department of Education Retention Rate:** A measure of the rate at which students persist in their educational program at an institution, expressed as a percentage. For 4-year institutions, this is the percentage of first-time Bachelor's (or equivalent) degree-seeking undergraduates from the previous fall who are again enrolled in the current fall. For all other institutions this is the percentage of first-time degree/certificate-seeking students from the previous

fall who either re-enrolled or successfully completed their program by the current fall.

**ECASLA:** Ensuring Continued Access to Student Loans Act of 2008, which provided a \$2,000 increase in guaranteed title IV loan limits. For-profit education companies were allowed to exclude this \$2,000 from the 90/10 calculation for fiscal years 2009 and 2010.

**Federal Pell Grant Program:** Title IV need-based grant awarded to lower-income undergraduate students to assist with the cost of attendance.

**Federal Stafford Loan:** A Federal student loan program, authorized by title IV of the Higher Education Act of 1965, for undergraduate and graduate students who are attending college at least half-time.

**For-profit institution:** Model of postsecondary education delivery that is privately funded and operated as a for-profit company.

**Gainful Employment:** Finalized in June 2011, a new regulation that, for the first time, defined colleges' obligation to "provide gainful employment in a recognized occupation." The rule requires that each program at for-profit colleges, as well as vocational programs offered by public and non-profit colleges, demonstrate that 35 percent of their student-borrowers are repaying their student loans, *or* the ratio of their typical graduate's debt to their total income is below 12 percent, *or* the ratio of their typical graduate's debt discretionary income is below 30 percent. A program that fails to meet all three of the performance measures for any 3 out of the most recently completed 4 fiscal years would lose eligibility to participate in title IV programs. 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.

**Incentive Compensation:** Paying commissions, bonuses, or other incentive payments to individuals based on their success in enrolling students or securing financial aid for them. In 1992, Congress banned institutions that participate in Federal student aid programs from engaging in such practices. In 2002, the Department of Education issued regulations (commonly known as "safe harbors") that allowed for 12 activities or payment arrangements that institutions could use without violating the ban against incentive compensation. As of July 1, 2011, these safe harbors have been eliminated.

**Institutional Loan:** Private student loan financed by the student's postsecondary institution. For institutional loans made to students from July 1, 2008 until July 1, 2012, schools are permitted to count 50 percent of the loan

amount at the time the loan is made towards the “10” side of the 90/10 calculation.

**IPEDS:** Integrated Postsecondary Education Data System; a system of interrelated surveys conducted annually by the U.S. Department’s National Center for Education Statistics (NCES). IPEDS gathers information from every college, university, and technical and vocational institution that participates in the Federal student financial aid programs. The Higher Education Act of 1965, as amended, requires that institutions that participate in Federal student aid programs report data on enrollments, program completions, graduation rates, faculty and staff, finances, institutional prices, and student Financial aid.

**MyCAA:** Military Spouse Career Advancement Accounts; enables spouses of low-ranking servicemembers to access tuition assistance benefits, up to \$2,000 per year with an overall cap of \$4,000 over 3 years. Benefits are limited to programs that lead to Associate degrees, Certificates and licensures.

**OPEID:** Office of Postsecondary Education ID; identification number used by the U.S. Department of Education to identify institutions. Typically an OPEID number corresponds to one campus. But because of the consolidation, combinations, and growth in the for-profit sector, one corporate entity may have one number for many campuses.

**Post-9/11 GI bill:** Post-9/11 Veterans Educational Assistance Act of 2009; provides education benefits to servicemembers, veterans, and their families. The post-9/11 GI bill pays veterans’ tuition and fees directly to a postsecondary institution, up to \$17,500 per academic year, in addition to a housing allowance and book and supply stipend. The bill also created a uniform method to pass on, or share, educational benefits with spouses and children.

**Private, non-profit institution:** Model of postsecondary education delivery that is privately funded and operated on a non-profit basis.

**Public institution:** Model of postsecondary education delivery that is funded by, and operated as a government entity.

**Proprietary institution:** Model of postsecondary education delivery that is privately funded and operated as a for-profit company. Used synonymously with for-profit institution.

**Repayment Rate:** Measures the proportion Federal student loans borrowed by students to finance the costs of attending gainful employment programs that student borrowers have either repaid in full or on which borrowers have made principal payments during the most recent fiscal year.



**Student loan default:** Failure to repay a title IV student loan after extended delinquency; Under the Direct Loan program, defaults occurs after 360 days of delinquency. Under the prior Federal Family Education Loan (FFEL) program, default occurred on the date that a guarantee agency paid a claim of default, which could be between 270 and 360 days or more delinquent.

**Student loan deferment:** An agreement between a loan holder and borrower of a title IV student loan to temporarily suspend payments. Deferment must be granted by the loan holder in certain circumstances and is limited to following situations: pursuing at least half-time study at an eligible school, in a graduate fellowship program approved by the U.S. Department of Education, in a rehabilitation training program, for individuals with disabilities approved by the U.S. Department of Education, active duty military service, actively seeking but unable to find full-time employment, or experiencing economic hardship. The unemployment and economic hardship deferments are available for up to 36 months; a student must re-apply periodically. During the deferment no interest accrues on subsidized loans. Interest continues to accrue on non-subsidized loans, and the interest is added to the principal at the end of the deferment period.

**Student loan forbearance:** An agreement between a loan holder and borrower of a title IV student loan to temporarily suspend payments. Forbearance can be mandatory or discretionary depending on the circumstances of the student borrower. The loan holder may grant a forbearance up to 12 months at a time. During the forbearance period, interest continues to accrue on all loans, and the interest is added to the principal at the end of the forbearance. Crucially, a forbearance can be granted verbally over the phone as long as the loan holder sends the borrower confirmation of the terms of the forbearance within 30 days.

**Title IV:** Title IV of the Higher Education Act of 1965, which makes available federally funded student aid to eligible postsecondary students in the form of Federal government-guaranteed student loans and grants.

**Tuition Assistance (TA):** Education benefit offered to active duty armed forces personnel. The tuition assistance program provides a benefit of \$250 per semester credit hour (\$166 per quarter credit hour), capped at \$4,500 per year.

**Withdrawal:** Students who left a program before completion, not including students who transferred to another postsecondary institution. For purposes of HELP Committee retention data, for-profit education companies used different internal definitions of whether students were considered withdrawn, varying from 10 to 90 days from the date of last attendance.

## **Appendix 2: The Committee Investigation**

Between June 24, 2010 and July 21, 2011, the committee held a total of six hearings, issued a comprehensive document request to 30 companies operating for-profit colleges, and issued three reports of the Chairman.

### **Emerging Risk? An Overview of the Federal Investment in For-Profit Education**

On June 24, 2010, the committee held its first hearing on for-profit colleges, “Emerging Risk? An Overview of the Federal Investment in For-Profit Education.” At the hearing, the Chairman also released an accompanying report “Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education,” which provided an overview of the for-profit sector including growth of enrollment, share of financial aid, student debt, student turn-over, and profit. The report found that, in 2008, the for-profit sector enrolled less than 10 percent of all higher education students, but received 23 percent of title IV funds, despite representing 44 percent of student loan defaults. The following witnesses testified at the hearing:

#### Panel I:

- Kathleen Tighe, Inspector General, U.S. Department of Education.

#### Panel II:

- Yasmine Issa, Former Sanford Brown Institute Student;
- Margaret Reiter, Former Supervising Deputy Attorney General, Office of the Attorney General, California Department of Justice;
- Sharon Thomas Parrott, Senior Vice President, Government and Regulatory Affairs, DeVry, Inc.; and
- Steven Eisman, Portfolio Manager, FrontPoint Financial Services Fund, LP..

Department of Education Inspector General Tighe provided testimony that despite the for-profit sector constituting approximately 10 percent of students, for-profit institutions make up 70 percent of the Office of the Inspector General’s criminal fraud caseload, which is determined by the number of incoming complaints. She listed recurring issues in the sector, which included

falsified enrollment, attendance and high school graduation (or equivalent) eligibility, refund violations, and 90/10 miscalculations.

Yasmine Issa provided testimony regarding her inability to find a job after completing a sonography program at Career Education Corporation-owned Sanford Brown Institute. She had chosen to enroll in order to support her twin daughters following a divorce. While she paid \$32,000 to attend, leaving her with \$20,000 in debt, it was not until after completing the program that she learned that the program was not accredited by the American Registry for Diagnostic Medical Sonographers. Because the program was not accredited, Ms. Issa was ineligible to sit for the licensing exam required by all local employers. Ms. Issa also testified that she later learned she could have attended an accredited program at a local community college for approximately one-third of the price.

Margaret Reiter, a retired consumer fraud prosecutor for the California Attorney General's Office, testified regarding a 2007 investigation by the Attorney General's Office into Corinthian Colleges Inc.'s recruiting and placement statistics. The investigation demonstrated falsified and inflated placement statistics at six branches of the company, including inflated employment rates and salaries. Ms. Reiter stated that in her long experience with consumer fraud cases, the for-profit college industry has among the "most persistent, egregious, and widespread of any" she had ever seen.

Sharon Thomas Parrott, the longtime head of government affairs for DeVry University, testified that the sector provides needed capacity unmet by public schools, particularly for non-traditional students. She noted that in order to meet President Obama's goal of having a graduation rate of 60 percent by 2020, the country will need to produce an additional 8.2 million graduates, and for-profit schools will play a key role in that through their innovative models such as partnerships with public secondary schools, and programs focusing on unmet workforce needs. She also noted DeVry's strong job placement program, and the lack of available data about for-profit students as a result of the Department of Education policy of tracking only first-time full-time students.

Investment manager Steven Eisman gave testimony regarding disconcerting similarities between the for-profit education sector and the subprime mortgage industry. Mr. Eisman went on to note parallels between rating agencies paid by Wall Street, for what was ultimately discovered to be overly optimistic ratings on subprime mortgage bonds, and the accrediting bodies, membership organizations dominated by for-profit executives, for overly optimistic quality assessments ensuring access to Federal financial aid.<sup>2967</sup>

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<sup>2967</sup> Following Mr. Eisman's testimony at the hearing, the committee received a letter from Citizens for Responsibility and Ethics in Washington (CREW) questioning the appropriateness of calling an individual with a

### **For-Profit Schools: The Student Recruitment Experience**

On August 4, 2010, the committee convened its second hearing on for-profit colleges, exploring the deceptive and misleading recruiting practices used at various for-profit colleges throughout the country.

The following witnesses testified at the hearing:

- Gregory Kutz, Managing Director, Office of Forensic Audits and Special Investigations, U.S. Government Accountability Office;
- David Hawkins, Director of Public Policy and Research, National Association for College Admission Counseling (NACAC);
- Joshua Pruyn, former Admissions Representative, Alta College, Inc.; and
- Michale McComis, Executive Director, Accrediting Commission of Career Schools and Colleges (ACCSC).

Gregory Kutz delivered the findings of an undercover investigation conducted by the non-partisan Government Accountability Office's (GAO) Forensic Audit and Special Investigation Unit. The findings showed that at each of the 15 for-profit campuses visited by undercover GAO agents in May and June 2010, enrollment advisors and financial aid representatives engaged in misleading and deceptive tactics. He also testified that at four campuses, staff engaged in potentially fraudulent conduct. In addition to providing the GAO's report on the investigation, Mr. Kutz also showed a 12-minute video tape of excerpts of some of the deceptive and misleading tactics documented by the agents, as well as some appropriate tactics documented. Mr. Kutz' written testimony was a GAO report, *Undercover Testing Finds Colleges Encouraged Fraud and Engaged in Deceptive and Questionable Marketing Practices*. The report was subsequently revised on November 30, 2010 (see Appendix 5).

David Hawkins testified on behalf of the National Association of College Admission Counseling, an association of high school and college admissions counselors. He testified regarding the standards required for membership in the organization that include fixed salary compensation and limiting the information asymmetry between the institution and student. He highlighted regulatory loopholes in the Department of Education's oversight of incentive compensation, and cited several articles documenting practice in the for-profit sector of tying compensation to the number of students enrolled.

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financial interest in lowering stock prices as a witness. At the time he was invited, Mr. Eisman had publicly disclosed that he was "short" the for-profit sector in a public speech. He was asked again at the hearing if he had a financial interest in the sector and forthrightly acknowledged that he did, in a forum where any bias or motive that compromised his research and opinions could have been raised. Mr. Eisman was unusually knowledgeable about the for-profit sector and provided insightful testimony that helped the committee to better understand the incentives that drive for-profit colleges and the impacts those incentives, particularly the need to demonstrate continuing enrollment growth, have on students.

Joshua Pruyin testified about his experience as an enrollment advisor at Alta-owned Westwood College Online division, headquartered in Denver, CO. He testified regarding his training in hard-sell sales tactics, including uncovering a student's insecurities and motivations for seeking higher education, and company enforced enrollment quotas including the use of incentives such as paid-time off and gift cards. Mr. Pruyin stated that it was commonplace for enrollment advisors to misrepresent the cost of attendance, and explained the numerous times that recruiters were required to contact potential students.

Michale McComis testified on behalf of ACCSC, a national accrediting agency that accredits many campuses within the for-profit college industry, including several companies that had been included in the GAO testimony. Mr. McComis explained the role of accrediting agencies in certifying the quality of a given school or program, thereby granting the schools eligibility for Federal title IV funds. Mr. McComis also outlined ACCSC's more than 50 outcome-based recruiting standards.

### **The Federal Investment in For-Profit Education: Are Students Succeeding?**

The committee held its third hearing on September 30, 2010. The hearing, "The Federal Investment in For-Profit Education: Are Students Succeeding?" examined the debt and drop-out rates of students in the sector. Concurrent to the hearing, the Chairman issued a report titled, "The Return on the Federal Investment in For-Profit Education: Debt Without a Diploma."

The report discussed the analysis of data from 16 for-profit schools and found that 57 percent of students who entered school between July 2008 and June 2009 had withdrawn by fall of 2010. For these students, median attendance was approximately 20 weeks. A student who attended for that length of time would pay approximately \$8,800 to \$11,000 in tuition with no Certificate or degree for his or her efforts. Despite these dismal student outcomes, the report also documented the tremendous Federal resources flowing to the schools.

The following witnesses testified at the hearing:

- Lauren Asher, President, The Institute for College Access and Success;
- Dr. Arnold Mitchem, President, Council for Opportunity in Education;
- Danielle Johnson, Kaplan University Student; and
- Kathleen Bittel, former EDMC employee.

Ms. Asher testified that students attending for-profit institutions borrow at a much higher rate than students at other types of schools; 96 percent of undergraduates attending for-profit 2-year colleges in 2007-8 took out student loans, compared to only 13 percent of undergraduates at comparable public colleges. She noted that at for-profit institutions, the average debt of Associate degree recipients was \$19,700, while comparable graduates at public and non-profit colleges had an average debt of only \$10,950.

Dr. Mitchem testified on behalf of the Council for Opportunity in Education, a coalition of colleges, administrators, counselors, and teachers committed to providing college opportunities for low-income and first-generation college students. He testified that low-income students are not adequately protected from what he characterized as the “unscrupulous and abusive practices” within the for-profit sector. Not only do for-profit schools target low-income students, Mitchem testified, but disadvantaged individuals often have difficulty distinguishing between the value of a particular program and the value of “college” when both are “endorsed” by the Federal Government. He went on to say that low-income students are unaware of the range of educational opportunities available to them—including lower-priced but otherwise comparable programs at community colleges and other institutions—and thus more vulnerable to the aggressive recruiting tactics of many for-profit institutions.

Danielle Johnson, a resident of the Meskwaki settlement in Tama, IA, testified that she enrolled in a vocational nursing program at a Kaplan campus in Cedar Rapids, IA, based on the representations that she would be able to perform the clinical portion of her coursework on the settlement, something that proved not to be true. She provided testimony regarding the quality of the program and the difficulties she encountered in receiving her transcript when she tried to transfer to a local community college after having accumulated \$10,000 of debt in only a few months.

Kathleen Bittel, a former recruiter and placement counselor for the Art Institute online, owned by EDMC, provided testimony regarding the quotas that placement counselors faced and the tactics employed by her coworkers to meet those quotas including encouraging graduates to become self-employed. She testified that she was one of only nine career service advisors for the thousands of students enrolled in the online program, and testified that a student could not gain access to a placement counselor until it was time for that student to be considered in the placement statistics mandated by the school’s accreditor.

**Benefitting Whom? For-Profit Education Companies and the Growth of Military Educational Benefits**

On December 8, 2010, the Chairman released a third report, “Benefitting Whom? For-Profit Education Companies and the Growth of Military Educational Benefits” that examined the use of military education benefits at for-profit institutions. The report analyzed data provided by the individual schools, as well as data from the Department of Veterans Affairs, showing a sharp increase in for-profit college revenues from military benefits. From 2009 to 2010 alone, revenue from military benefits to 20 for profit companies increased 211 percent.

The committee’s analysis of documents provided by the companies also revealed that for-profit institutions were targeting military servicemembers, veterans, and their families in part to bypass the 90/10 rule. Because of a loophole in the 90/10 rule, military benefits are not counted as Federal revenues, but instead are counted on the “10” side of the formula. As a result, for every servicemember or veteran enrolled, schools can effectively enroll another nine traditional students.

**Bridgepoint Education, Inc.: A Case Study in For-Profit Education and Oversight**

On March 10, 2011, the committee held its fourth hearing, a case study of Bridgepoint Education, Inc. and a review of how well the triad of State, Federal, and accreditor oversight worked with regard to a large publicly traded for-profit education company. The hearing examined key elements of the for-profit education model, the regulatory environment in which it operates, and the implications for students and taxpayers.

The following witnesses testified at the hearing:

Panel I:

- Kathleen S. Tighe, Inspector General, U.S. Department of Education (Department).

Panel II:

- Sylvia Manning, President, The Higher Learning Commission (HLC);
- Arlie Willems, Retired, Iowa Department of Education; and

- Jose Cruz, Vice President for Higher Education Policy and Practice, The Education Trust.

Bridgepoint CEO Andrew Clark declined an invitation to appear at the hearing citing the recently completed audit report of the Department of Education Inspector General and the penalty phase that would be conducted by the Department of Education. The Department of Education had no concerns with him appearing.

Inspector General Tighe, in her second appearance before the committee, testified regarding the findings of her office's January 2011 audit of Bridgepoint's Ashford University. The audit report made five separate findings regarding Iowa-based Ashford University including that the company improperly held funds due to students, improperly classified students on leaves of absence, improperly calculated students' dates of attendance and refunds due to the Department, and failed to show that compensation for recruiters was not based solely on the number of students they enrolled. Ms. Tighe testified that the OIG found that Bridgepoint did not properly calculate the amount of funds it was required to return to the Federal Government for 38 of the 85 students included in the audit sample.

Sylvia Manning testified on behalf of the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC), which is the regional accreditor of Bridgepoint's two colleges, Ashford University and University of the Rockies, as well as most public and non-profit colleges and universities in the region. Dr. Manning testified that regional accreditation provides real value within accreditors' assigned role of assuring academic quality, but asserted that all oversight of institutions' financial and administrative integrity rest with the Department of Education. She conceded that accreditors were ill-prepared for the entrance of multi-State corporate providers of higher education as well as the advent of online education, and that HLC has undertaken many changes in procedures as a result.

Arlie Willems testified regarding the decision of the Iowa Department of Education not to approve Ashford University's online teaching program. The review determined that the school did not meet the requirements for Iowa approval and would thus, not be able to offer students Iowa teachers licenses. However, she testified, Ashford simply created a partnership with an Arizona community college Rio Salado which grants students enrolled in online programs Arizona licensure. Ms. Willems explained that this does not guarantee the license will be accepted by the student's State and that she had been contacted by students from multiple States who had been misled about this.

Dr. Jose Cruz testified that for-profit institutions target underserved communities for enrollment, yet produce low success rates at high cost. The



problem, he stated, is not one of lax regulation, but of an oversight structure ill-suited to respond to rapid growth within the for-profit sector. He went on to call for Federal and State Governments, as well as accreditors, to better define standards to enforce longstanding regulations safeguarding students and taxpayer dollars, and to reexamine funding incentives that encourage spending on marketing and recruitment over student instruction and support, as well as accreditors' apparent willingness to accept the institutions' ability to game the accreditation process as proof of academic quality.

### **Drowning in Debt: Financial Outcomes of Students at For-Profit Colleges**

On June 7, 2011, the committee held a hearing exploring the debt incurred by students at for-profit colleges.

The following witnesses testified at the hearing:

#### Panel I:

- Sandy Baum, Independent Higher Education Analyst and Consultant;
- Wade Henderson, President and Chief Executive Officer, Leadership Conference on Civil and Human Rights;
- Eric Schmitt, Former Kaplan University Student; and
- Pauline Abernathy, Vice President, The Institute for College Access & Success.

#### Panel II:

- The Honorable Martha Kanter, Under Secretary, U.S. Department of Education.

Ms. Baum testified that for-profit college students are graduating with substantially more debt than their public and private, non-profit school counterparts. Sixty percent of for-profit college graduates graduated with over \$30,000 in debt, while only 12 percent of public school graduates graduated with that much debt. Most for-profit college Associate degree students, 98 percent, graduate with debt, while only 1 out of every 3 public school associate degree students graduated with debt. She testified that even when borrowing statistics are controlled for race and income, for-profit college students borrow and default more.

Mr. Henderson drew parallels between the for-profit college industry and subprime mortgage lending. He also challenged the for-profit school

industry's position that they offer access to underserved low-income and minority students stating: "access to college and career education isn't just about enrollment, it isn't just about being able to say that you are giving racial minorities and women and low-income people an opportunity to reach their dreams, you have to actually provide the necessary skills and training that you propose to deliver."

Eric Schmitt, a graduate of Kaplan University in Cedar Falls, IA, testified that after receiving an Associate's degree and subsequently a Bachelor's degree in paralegal studies from the school he was unable to find a job in the field. He owes \$45,000 in debt and continues to look for work as a paralegal. He also testified that the campus president encouraged him to consider Kaplan's law school, only to learn much later that the school would not qualify him to sit for the bar exam in Iowa, nor in any State except California. He now owes \$45,000 in student loans, and is unable to find work in the legal field.

Ms. Abernathy testified about how the for-profit college sector's high lending levels effect different groups. She said that low-income, African-American, and Hispanic students attending for-profit colleges are three times more likely to borrow to attend school than their counterparts at other schools, and four times more likely to borrow from private lenders. Working adults attending for-profit colleges are almost five times more likely to borrow to attend school than their counterparts at other schools, and six times more likely to borrow from private lenders.

Ms. Kanter, appearing on behalf of Secretary of Education Arne Duncan who was unavailable for personal reasons, testified regarding the newly finalized gainful employment rule. She testified that the gainful employment regulation would require that debt loads not dramatically exceed expert-recommended levels and emphasized that the new regulation will do nothing to limit educational opportunities for students, but will instead ensure students enroll in programs with higher graduation rates and lower default rates.

### **Improving For-Profit Higher Education: A Roundtable Discussion of Policy Solutions**

The sixth and final committee hearing was held on July 21, 2011, as a roundtable of sector leaders and higher education stakeholders to discuss policy solutions. Participating in the discussion were:

Panel I:

- Michael Barr, Economics Professor at the University of Michigan Law School;
- Hayes Batson, President and CEO of Regency Beauty Institute;
- Jose Cruz, Vice President for Higher Education Policy and Practice at The Higher Education Trust;
- Daniel Hamburger; President and CEO of DeVry, Inc.;
- Barmak Nassirian, Associate Executive Director of the American Association of Collegiate Registrars & Admissions Officers;
- Holly Petraeus, Director of the Office of Servicemember Affairs of the Consumer Financial Protection Bureau; and
- Robert Shireman, Chief Consultant of California Competes.

Panelists agreed that there are serious problems in the sector. They also agreed on the need for more transparency and for better tracking and reporting of student outcomes. Additionally, panelists agreed that outcomes should serve as thresholds to financial aid eligibility although they agreed that setting the proper parameters posed serious challenges.

Michael Barr, a professor at University of Michigan Law School and a senior fellow at the Center for American Progress and the Brookings Institution, appeared as an expert on consumer protection issues and financial regulation. He appeared to help lead the discussion on the challenges facing low-income borrowers.

Hayes Batson, President and CEO of Regency Beauty Institute, appeared to discuss challenges faced by the for-profit sector and to propose potential solutions based on his experience as the leader of a for-profit educational company. In particular, he testified about the measures his schools use to monitor and assess student success. He emphasized that Regency Beauty Institute focuses on promoting attendance because they are aware that just getting to class is one of the biggest challenges for many of their students, who may have childcare issues, transportation issues or other health issues standing in the way of their success. They also focus on completion, licensure, and placement.

Dr. Jose Cruz, Vice President for Higher Education Policy and Practice at the Education Trust. He is a former vice president of the University of Puerto Rico System, where he was responsible for admissions, financial aid and student life programs. He appeared to talk about challenges faced by low-income and minority students and propose solutions Congress should consider to make sure they receive high-quality educational opportunities. Dr. Cruz explained how the rapid growth and success of the sector is not aligned with good outcomes for students. He opined that in order to be truly successful, the for-profit sector

should respond to what the country needs in order to remain economically competitive by taking care of students that have traditionally been underserved.

Daniel Hamburger, President and CEO of DeVry, Inc., appeared to discuss how we can work together to maximize student achievement and meet workforce needs. His written testimony focused on developing a policy framework that will cultivate graduate success from his perspective as a leader of an international higher education corporation. His testimony at the roundtable focused on what a “successful” for-profit college looks like. He identified three measures of success: student success, adoption of best practices and “giving back” to the community. According to Hamburger, the five characteristics of student success are: student learning, graduation, achievement of career or educational objectives, licensure where applicable, and loan repayment. The “best practice” he identified related to disclosure of information to students. Lastly, Mr. Hamburger identified partnering with high schools so that high school students could take courses from DeVry for credit as an example of “giving back.” His testimony emphasized that there is a lack of effective Federal oversight.

Barmak Nassirian, associate executive director of the American Association of Collegiate Registrars and Admissions Officers, is an expert on the higher education system of accountability known as the “triad”— accreditation, State authorization, and Federal oversight. He appeared to discuss how Congress should improve the oversight of that triad. He spoke at length about the “triad’s” ineffectiveness at providing meaningful regulation, and emphasized the need for stronger, stricter regulation to protect students. He compared the current system of regulations to an “honor system,” and called for a stricter system, which he compared to a building code, that would employ highly specific standards, attentive oversight and harsh punishment.

Hollister Petraeus, director of the Office of Servicemember Affairs at the Consumer Financial Protection Bureau, Previously, Mrs. Petraeus served as director of the Better Bureau’s Military Line program, a partnership with the Department of Defense Financial Readiness Campaign. Based on her advocacy for military families, Mrs. Petraeus offered her perspective on for-profit colleges and discussed ways that Congress can ensure military personnel and their families receive high-quality educational opportunities. Ms. Petraeus described how the aid available to veterans and members of the military have made them targets for aggressive recruitment. “So unfortunately, I think military folks at this point are seen like a dollar sign wearing a uniform for many recruiters in the for-profit model.” She emphasized the need for easy to understand disclosures about program quality to help military students choose quality programs when they are seeking to use their benefits.

Bob Shireman, formerly Deputy Undersecretary at the U.S. Department of Education, started a group called California Competes, which will promote public support for higher education. As Deputy Undersecretary, Mr. Shireman led efforts to reform the Federal student loan system, strengthen consumer protections and draw attention to college completion. Mr. Shireman will offer his perspective as an expert on higher education costs and financing. Mr. Shireman acknowledged that there is real potential for the for-profit education sector to be responsive to both the needs of students and industry. However, there is need for indicators of student success that can be used in regulation. Further, there is a significant issue of disclosure.

### **Appendix 3 – Methodology**

In order to reach the figures contained in this report, committee staff compiled numerous data sets, performed various calculations, and in some cases made estimates based on the best available data. This appendix is designed to provide a clear explanation regarding how particular analyses and calculations were performed.

#### **OPEID Numbers Controlled by Each of 30 Companies Examined, FY 2010 (Appendix 8)**

Data, including the amount of title IV revenues received pursuant to the Higher Education Act, and various military benefits, is presented throughout the report on a per-company basis. Most of this information is reported by the companies to the Department of Education by individual Office of Postsecondary Education ID number (OPEID number). OPEID numbers are traditionally identifiers for individual campuses, but can also contain multiple campuses or branches.

In order to reach a total amount for each company, amounts reported by each OPEID controlled by each company were totaled. While the OPEIDs under an individual company's control changed somewhat over the years examined, most calculations are based on the OPEIDs controlled by the companies in fiscal year 2010. These OPEIDs are listed in Appendix 8 and were compiled from data provided by the Department of Education in October and November 2011.

#### **Enrollment 2001-2010 (Appendix 7)**

Enrollment information is reported to the Department of Education by unit identifiers (unit IDs) and made available through the Integrated Postsecondary Education Database System (IPEDS). Unit IDs can include information about a single campus, or can include multiple campuses.

Additionally, publicly traded companies typically include new student enrollment and total student enrollment figures in annual and quarterly reporting to the Securities and Exchange Commission (SEC).<sup>2968</sup>

The yearly enrollment totals that appear in the report for privately held companies are equal to the fall enrollment for all unit IDs controlled by the company as reported to IPEDS.

The yearly enrollment totals that appear in the report for companies that were publicly traded during the entire 2001-10 period and that reliably disclosed enrollment figures in SEC filings is the total company enrollment reported for the quarter ending in August or September for each year in which the company reported information to the SEC. IPEDS data was used in the same manner as above for companies that did not reliably disclose enrollment figures in SEC filings.

For companies that issued an Initial Public Offering and became publicly traded between 2001 and 2010 the yearly enrollment totals for companies that appear in the report are collected from IPEDS in the same manner as above up to the date the company began reporting to the SEC. SEC total enrollment figures for the quarter ending in August or September for each year in which the company reported information to the SEC are used for yearly enrollment totals in years following.

### **Pell Grant Funds Collected (Appendix 13)**

The amount of Pell grant funds collected by each company was calculated by examining the Department of Education's Title IV Programmatic Volume Reports by School and totaling the "Award Year Cumulative Activity" figure for all institutions/OPEIDs controlled by the company for student aid award years (July 1-June 30) 2007 through 2010. These figures are adjusted by the Department of Education to factor in funds returned in cases in which students withdraw or lose eligibility during an award period. Over time, the Department revises the figures slightly to account for additional returns .

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<sup>2968</sup> Not all publicly traded companies release this information every quarter and every year. Committee staff used SEC enrollment figures where available.

**Reported 90/10, Fiscal Year 2006-2010 (Appendix 9)**

The Department of Education requires that for-profit colleges provide audited financial statements that document compliance with the requirement that no more than 90 percent of the revenues of the company come from Federal financial aid funds. The financial statements provide the amount of Federal financial aid funds (the 90/10 numerator) and the total revenues received (the 90/10 denominator). Because 90/10 calculations must follow cash basis accounting, the revenues reported may differ from other financial statements of the company, which may use different accounting standards. Consolidated company-wide 90/10 ratios were calculated by aggregating the 90/10 numerators and denominators reported to the Department of Education across all institutions/OPEIDs controlled by the company in each fiscal year for the 29 companies that participate in title IV.<sup>2969</sup> A weighted average was then used to measure the growth in Federal financial aid funds collected over 5 years.

**Share of Federal Dollars (Appendix 10)**

The overall amount and share of Federal funds collected by each for-profit education company was calculated by totaling the Federal funds collected from the categories described below. The amount of revenue used was the total amount reported to the Department of Education as the 90/10 denominator in fiscal year 2010. For each company, 90/10 numerators and denominators were aggregated across all institutions/OPEIDs controlled by each company in fiscal year 2010, to provide the total revenues and the total Federal financial aid funds received pursuant to Title IV of the Higher Education Act.

Federal Financial Aid

The amount of Federal financial aid funds collected pursuant to Title IV of the Higher Education Act was calculated, as in Appendix 9, by aggregating the total Federal financial aid funds received, including but not limited to Stafford loans, Pell grants, and PLUS loans, across all institutions/OPEIDs controlled by the company in fiscal year 2010 (the 90/10 numerator).

Military Education Benefits

The Department of Veterans Affairs provided a list of post-9/11 GI bill program funds disbursed to each school during the 1-year period from August 1,

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<sup>2969</sup> Henley Putnam LLC does not currently participate in title IV and is not included. For fiscal year 2010, all data was provided by the Department Education. For previous years, companies produced financial statements to the committee.



2009 – July 31, 2010 and the nearly 2-year period from August 1, 2009–June 15, 2011. The total amount of funds collected was aggregated across all schools owned by each company for each program year.

In order to calculate an estimated amount of benefits received in each company's 2010 fiscal year, committee staff calculated the average amount of benefits collected per month for each program year and then totaled the number of months from each program year that occurred during each company's fiscal year 2010.

The Department of Defense provided a list of Tuition Assistance (TA) and My Career Advancement Accounts (MyCAA) program funds disbursed by school during the Federal fiscal years 2009, 2010, and 2011 (October 1–September 30). The total amount of DOD education funds collected was aggregated across all schools owned by each company for each benefit program.

Committee staff estimated the amount collected during each company's fiscal year 2010 by calculating an average amount of benefits collected per month each Federal fiscal year and then adding up the number of months from each fiscal year that occurred during each company's fiscal year 2010.

#### ECASLA Exemption

In fiscal year 2010, pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA), for-profit education companies were allowed to temporarily discount up to \$2,000 per Stafford loan for purposes of reporting revenues received pursuant to the 90/10 rule. The result of the exemption is that the actual amount of Federal financial aid funds collected is understated for companies that took advantage of the exemption. Five of the 30 companies declined to deduct ECASLA funds from their reported title IV revenues, and the amount listed is zero. For 11 of the 30 for-profit education companies, committee staff was able to estimate the amount of this exemption based on documents provided to the committee. Because of limitations regarding the information provided, no reliable estimate of ECASLA funds was calculated for the remaining 13 companies; therefore the amount of student aid dollars that appears in the report is lower than the actual amount collected.

Because of the limitations explained above, the chart and the text that appear in the report that provide information on the share of revenues received from both Federal financial aid funds and from other Federal funds are *estimates* and do not provide the exact amount of Federal revenues received.

**Post 9-11 GI Bill Disbursements to 30 Companies Examined and Cumulative Data (Appendix 11)**

The Department of Veteran Affairs provided a list of post-9/11 GI bill program funds disbursed by school during the period August 1, 2009 – July 31, 2010 and the period August 1, 2009-June 15, 2011. The total amount of post-9/11 GI bill funds collected by each company was aggregated across all schools owned by each company for each program year. The total amount of post-9/11 GI bill funds collected by public institutions includes all campuses of each state's university system.

Committee staff calculated the number and share of veterans trained and dollars disbursed by sector and the top ten recipients across all sectors.

**Tuition Assistance and MyCAA Disbursements to 30 Companies and Cumulative Data Fiscal Years 2009 and 2010 (Appendix 12)**

The Department of Defense (DOD) provided a list of Tuition Assistance (TA) and My Career Advancement Accounts (MyCAA) program funds disbursed by school the during Federal fiscal years 2009, 2010 and 2011 (October 1–September 30). The total amount of DOD education funds collected by each company was aggregated across all schools owned by each company for each of the two programs. The total amount of DOD education funds collected by public institutions includes all campuses of each state's university system.

Committee staff calculated the number and share of veterans trained and dollars disbursed by sector and the top 10 recipients across all sectors from the data provided.

**Comparison of Cost of Attendance (Appendix 14)**

The committee developed cost comparisons primarily from tuition and fees information posted on colleges' Web sites. Tuition was selected for Associate, Bachelor's, Certificate, and Master's degrees and programs depending on the program of emphasis for each company.

Comparison institutions for Associate and Certificate degrees were selected by identifying a program at a community college close to the for-profit education companies' corporate headquarters and matching it to a similar program offered by the for-profit college. Comparison institutions for Bachelor's and Master's degrees were selected by identifying a program at the

flagship public university in the state of the for-profit education companies' corporate headquarters. In two instances, the branch of the public university system closest to the headquarters was used.<sup>2970</sup>

Generally, the committee compared Bachelor's degrees in business. However, in the case of Education Management Corporation, because of the size and importance of the Art Institutes brand, both a business program (Argosy) and a Fashion and Retail Management program (Art Institutes) were measured. At the Associate degree level, a program in business was selected as the comparison program. If business was not offered, alternative programs selected were information technology or paralegal studies. At the Certificate and diploma level, programs in allied health, automotive repair, or accounting were selected depending on the programs offered by the for-profit college.

Cost at the for-profit colleges was determined by reviewing gainful employment disclosure information, multiplied by the number of years required to complete the degree assuming the student registers for the maximum number of credits. Cost at the 4-year public university was determined by reviewing the institution's yearly cost of attendance page for the most current year available, and multiplying that amount by 4 years. If specific charges for business programs were listed, they were included. Cost at community colleges for certificate programs was determined by reviewing gainful employment disclosure information. Cost at community colleges for Associate degree programs was calculated by multiplying the number of credits required by the cost per credit. The cost of books and fees was included in cost calculations wherever available including for all programs that provided gainful employment disclosures and most public community colleges and universities. The cost of books and fees was generally not available for Bachelor's and Master's degree programs offered by for-profit colleges, but was included where available.

The committee staff then calculated the average price for each degree level for the programs in Appendix I4 at for-profit colleges, community colleges, and public universities to obtain estimates of the average price difference for the same degree at different type of colleges.

### **Retention and Withdrawal (Appendix 15)**

The committee document request of August 5, 2010 asked each company to provide a set of data that tracked each student based on an anonymous unique identifier and provided the student's date of enrollment, date

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<sup>2970</sup> Henley Putnam LLC and TUI Learning LLC.

of completion, last date of attendance, or an indication that the student was still enrolled. It stated:

For the period July 1, 2008 to June 30, 2010, for each school operated by the Company, provide the following information: A list of each student (identified by randomized numbers) who was enrolled on July 1, 2007 or who enrolled between July 1, 2007 and June 30, 2009 together with the student's date of enrollment, and date of completion or graduation, or date of last attendance in class or date of estimated completion or graduation. Please also provide the type of degree being pursued (certificate, associate's, bachelor's, graduate). Please provide this information in a spreadsheet format compatible with Microsoft Excel 2007. [Committee staff later clarified that the "period" in the first sentence should have been July 1, 2007 to June, 30, 2010.]

This information was used to create a 1-year cohort of student retention data. For every student who enrolled in a school operated by 28 companies between July 1, 2008 and June 30, 2009, the committee analyzed whether the student had completed, was continuing or had withdrawn as of mid-2010. One company, Chancellor University, failed to produce information that would allow the committee to accurately analyze the number of students that withdrew from Chancellor. Another company, Med-Com Career Training, Inc./Drake College of Business, provided information that was not useable due to data integrity issues. Because it is only a 1 year cohort, very few students enrolled in a degree program would be expected to complete, and these numbers are not particularly relevant to the staff analysis. Companies were allowed to define what period of time determined when a student had withdrawn, and these time frames varied from 10 to 90 days. Committee staff was also able to perform comparative analysis for online and on-campus withdrawal rates for 11 companies.

The dataset provides a clear look at how many students who enrolled in 2008-9 had withdrawn without completing a degree or diploma by mid-2010. It additionally provides the median time period in which students who withdrew were enrolled. The for-profit model allows for students to re-enroll, and some students who are classified in the committee staff analysis as withdrawn likely returned. Although several schools were offered the opportunity to share this information, only one school provided that data.<sup>2971</sup>

<sup>2971</sup> The Keiser School, Inc. 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. Keiser additionally notes that 888 of the withdrawn students later re-enrolled.

Four companies had a significant enough share of students enrolled in graduate programs that committee staff also calculated graduate student outcomes for those schools. These calculations are not included in the overall withdrawal analysis. The committee also did not include student outcomes for any degree program with less than 500 students enrolled.<sup>2972</sup>

### **Revenue, Profit, Marketing, Fiscal Year 2009 (Appendix 19)**

The amount of money spent on “marketing” includes all funds spent on marketing and advertising, recruiting, and admissions, including salaries of marketing and recruiting employees. In 2009, among the 30 companies examined, eight publicly traded companies and 14 privately held companies list an amount that includes both marketing and recruiting in the statement of income included in financial reports. Where available, this figure was used. The remaining eight companies reported a figure spent on marketing and on recruiting to the committee in response to question one of the second tranche of the document request of August 5, 2010. (See Appendix 4.) Appendix 19 indicates both the source and the amount of funds included in the committee staff calculation of marketing and recruiting.<sup>2973</sup>

### **Revenue, Expenses, and Profit (Operating Income) Fiscal Years 2006-10 (Appendix 18)**

The report includes a chart detailing the annual amount and increase in profit for each of the publicly traded companies between 2007 and 2010, and for each of the privately held companies between 2006 and 2009. As noted, profit denotes operating income before taxes, depreciation, or amortization are subtracted. Unlike public colleges or non-profit colleges, for-profit colleges are tax paying entities. Revenue, expenses, and profit numbers for 14 of the publicly traded companies are taken from SEC filings. Revenue, expenses, and profit numbers for Kaplan Higher Education Corporation, and 13 privately held companies are taken from company financial statements provided to the committee. Amounts for ECPI Colleges, Inc. and Herzing, Inc. have not been included due to the closely held nature of the companies. TUI Learning LLC and Chancellor University System LLC were not in existence for all years.

<sup>2972</sup> One exception is Henley Putnam LLC. Outcomes for less than 500 students were included because their only program contained less than 500 students.

<sup>2973</sup> Prior to fiscal year 2011, Strayer Education, Inc. reported one line item “marketing and admissions” in SEC reports to describe this category; In 2011 the company changed the reported line item to “marketing” and “admissions advisory.” As a result of this new category, the figure reported in 2011 for 2009 is \$15 million lower than the figure reported in 2009. The committee used the figure reported in 2009.

### **Executive Compensation (Appendix 17)**

All for-profit college executive compensation figures are taken from company SEC filings. On an annual basis, publicly traded companies are required to disclose information concerning the amount and type of compensation paid to its chief executive officer, chief financial officer, and the three other most highly compensated executive officers. This served as the source of 2009 and 2010 executive compensation information for 13 of the 15 publicly traded companies. For National American University, executive compensation figures are only available for 2010, as the company was not listed on a major stock exchange in 2009. No executive compensation figures are provided for privately held companies or Kaplan Higher Education Corporation, which is owned by the Washington Post Company, and does not disclose compensation for its Kaplan executives.

All figures regarding public university and non-profit college executive compensation are taken from *Chronicle of Higher Education* reports. The public university selected was the branch of the flagship university in the state closest to the corresponding company's headquarters.<sup>2974</sup>

### **Per Student Spending on Instruction (Appendix 21)**

Each institution of higher education annually reports the amount spent on instruction to the Department of Education. The information reported primarily consists of funds spent on faculty and is defined by the Department of Education as:

A functional expense category that includes expenses of the colleges, schools, departments, and other instructional divisions of the institution and expenses for departmental research and public service that are not separately budgeted. Includes general academic instruction, occupational and vocational instruction, community education, preparatory and adult basic education, and regular, special, and extension sessions. Also includes expenses for both credit and non-credit activities. Excludes expenses for academic administration where the primary function is administration (e.g., academic deans). Information technology expenses related to instructional activities if the institution separately budgets and expenses information technology resources are included (otherwise these expenses are included in academic support).

<sup>2974</sup> For NAU's comparison school, the committee used South Dakota State instead of the University of South Dakota which was not included in the *Chronicle of Higher Education* listing.

Institutions include actual or allocated costs for operation and maintenance of plant, interest, and depreciation.

IPEDS makes this information available by dividing the total spending on instruction (as reported by the institution) by the number of 12-month full-time equivalent students enrolled. IPEDS then reports this information for institutions of higher education by Unit ID. Unit IDs can include information about a single campus, or can include multiple campuses.

To generate the spending per student for each company, the total spending on instruction and the 12-month full-time equivalent enrollment for 2009 were aggregated across all Unit IDs operated by each company and a weighted average of spending per student was calculated.

Med-Com Career Training, Inc. was not included because of because the amount of total instructional spending reported to IPEDS was equal to all expenses listed on its financial statements and was deemed erroneous. Henley Putnam LLC does not currently participate in title IV and is not required to report information to the Department of Education. 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 30 companies examined, this report uses the IPEDS full-time equivalent for the enrollment figure. The \$700 figure previously reported continues to be accurate.

#### **Per Student Spending on Marketing, Recruiting, and Admissions (Appendix 22)**

To generate a comparable figure for per student spending on marketing and recruiting for each company for fiscal year 2009, committee staff took the marketing and recruiting total sourced in Appendix 19 and divided that amount by the 12-month full-time equivalent enrollment for 2009 aggregated across all Unit IDs operated by each company.

#### **Per Student Spending on Profit (Appendix 20)**

To generate a comparable figure for amounts dedicated to profit on a per-student basis for each company for fiscal year 2009, committee staff took

the reported operating income sourced in Appendix 18 and divided that amount by the 2009 12-month full-time equivalent enrollment aggregated across all Unit IDs operated by each company.

Per student spending on profit could not be calculated for Anthem Education Group, Henley Putnam LLC, or Chancellor University System LLC because none of the three companies were profitable in 2009.

### **Instruction Costs per Student at Comparison Institutions (Appendix 23)**

For each company, the report provides a comparison of the amount spent on instruction at other types of institutions offering comparable programs in the state of the company headquarters. Each institution of higher education annually reports the amount spent on instruction to the Department of Education. The information reported primarily consists of funds spent on faculty and is defined by the Department of Education (see above Appendix 21).

Instruction costs per student at each comparison institutions were calculated by aggregating the total spending on instruction and the 12-month full-time equivalent enrollment for 2009 across all Unit IDs operated by each institution and a weighted average of spending per student was calculated.

The comparison community college is a community college close to the company headquarters that offers similar programs. The comparison public university is the flagship public university in the state of the company headquarters (and in two instances in California is the branch of the flagship located closest to the headquarters). The private non-profit university is the largest non-profit by enrollment in the state of the company's headquarters.

### **Employee Distribution by Company (Appendix 24)**

The report contains information regarding the number of staff employed by each company in various capacities. The information includes the number of full-time and part-time faculty, staff responsible for recruiting and enrolling students, student services staff, and career services staff. All data was provided by the companies pursuant to the document request of August 5, 2010 in response to question two of the second tranche of the request.<sup>2975</sup> The question asked that each company provide the total number of staff employed in a number of categories. These categories included: teaching, recruiting and admissions, financial aid assistance, career services, and placement, marketing

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<sup>2975</sup> See Appendix 4.



and admissions, and student services. For each category, companies were asked to indicate how many people were full-time and how many were part-time or contract employees. This information appears in charts that demonstrate the number of recruiters, student service staff and career student staff and the enrollment in each fiscal year 2006-10 for each company that provided information.

The report also makes comparisons regarding how many employees are employed in recruiting, career services and student services on a per student basis. Those numbers are calculated by dividing the number of employees in each category in fiscal year 2010 by the fall enrollment total (IPEDS or SEC) for 2010.

The following companies did not provide information for all years: Walden and American Career Colleges, Inc. did not provide data for 2010, Bridgepoint Education, Inc. and TUI Learning LLC did not provide data for 2006, Chancellor University System LLC and Career Education Corporation provided information only for 2009, and Apollo Group, Inc., Anthem Education Group, and TUI Learning LLC did not provide information for some categories (financial aid and marketing and advertising).

### **Cohort Default Rate (Appendix 16)**

For each of the years 2005 through 2008, the Department of Education reports, by OPEID, the number of student borrowers and number of students who default within 3 years of entering loan repayment. Loan repayment generally starts after the end of the 6 month “grace period” after graduating or withdrawing from an institution. These rates were released in preparation for the change from a default rate monitoring window of 2 years to 3 years in 2014, and are trial rates. In 2008, companies were provided the opportunity to make corrections and corrected rates were issued.

Committee staff calculated a 3-year cohort default rate for each company by aggregating the total number of borrowers and defaulters for all OPEIDs controlled by the company for each cohort year from 2005 through 2008.<sup>2976</sup>

Companies which became eligible for title IV during the period and for which data was not available for all 3 years include American Public Education, Inc. (2005 and 2006); TUI Learning LLC, Chancellor University System LLC (2005-7), and Henley Putnam LLC which does not participate in title IV and for which no data is available.

<sup>2976</sup> The data was derived from trial 3-year cohort default rates released by the Department of Education.

## **Appendix 4: The Committee Document Request and Compliance**

On August 5, 2010, the committee issued a comprehensive document request to 30 different companies operating for-profit colleges. In order to achieve a cross-section of the for-profit sector, as well as capture the colleges that enroll most students in the sector, the committee asked 30 companies for information: all 15 publicly traded companies for information plus 15 additional privately held companies based on regional distribution, variation in size and ownership. Together, the 30 companies selected enroll approximately 70 percent of all students at for-profit colleges.

The document request generally sought information for a 5-year period beginning with the companies' fiscal year 2006 and continuing through the date of production in 2010. The request was divided into two parts. The first part asked companies to produce high-level financial information, student enrollment data, and company governance information. The second part of the request sought documents on a wide array of topics. For some topics that the committee deemed particularly important the request sought email communications.

The information requested in the second part included: how the company spent its funds, the number of employees that worked in different jobs within the company, some limited information on accreditation, the amount and types of Federal revenues received by the company, and complaints filed by students. The request also sought information on each company's profits and 90/10 revenues. It sought information on the cost of tuition and fees of each program offered and cost increases. The request asked for information about recruiting students, including lead generators, scripts and training manuals provided to recruiters, and information about recruiter compensation, as well as whether the company had recruited at homeless shelters and veterans facilities. Information on debt and debt management was also requested, including contracts with outside entities to manage delinquent students and the shift to a 3-year cohort default rate. Companies were also asked to provide information regarding institutional loan programs including the size of those programs and interest charged, as well as the reserve rates or expected rate of default.

Companies that had bricks and mortar campuses also received a request for documents specific to one or two campuses (depending on enrollment) that sought information including email communications regarding recruiting, accreditation, cost, 90/10 compliance, default rates, and job placement. Companies operating largely online did not receive these additional campus-based requests.

In general, response to the first part of the production was comprehensive on the part of each of the companies. The companies exhibited varying levels of compliance with the second half of the committee's request. Some schools withheld information on specific topics like tuition (Corinthian) or 90/10 (Keiser), while others declined to meaningfully respond to any topic (American Career College).

Among the large publicly traded for-profit education companies Kaplan, ITT, and EDMC largely complied with all aspects of the document request. Kaplan provided the most extensive and comprehensive response of any company, reflecting a general commitment to openness and to change that continued through the course of the investigation. EDMC, DeVry, and Apollo similarly demonstrated a willingness to be responsive throughout the investigation. Among the smaller companies, Concorde, Rasmussen, and Vatterott provided thorough information.

Companies that generally failed to provide adequate information and failed to fully respond to additional inquiries include Corinthian, Career Education Corporation, Keiser, and Strayer. American Career College (ACC), Drake, and Chancellor University failed to provide any meaningful information for most items in the request. ACC produced 44 documents in total, far below the compliance level of other schools. For the schools that provided complaints, these complaints helped to identify areas of concern. While student complaints may not be representative of the experience of the majority of students, they do provide an important window into academic and financial concerns that some students face.

<b>Provided significant records of student complaints</b>	<b>Provided spreadsheet summary of complaints</b>	<b>Provided no Complaints</b>
Anthem Herzing ITT Kaplan Vatterott UTI Bridgepoint Capella NAU Walden Apollo <sup>2977</sup> Lincoln	Westwood Strayer Corinthian CEC Grand Canyon	Drake DeVry Rasmussen ACC EDMC TUI

Some companies failed to produce requested email communications while other companies failed to provide information on default management or

<sup>2977</sup> 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.

lead generators and lead generation contracts. Most companies failed to provide any significant information on actual job placements for graduating students.

Overall however, the committee commends the sector for the time, care, and expense that went into the responsive material provided.

Below are the document requests that the committee sent to each company.

HELP Committee Document Request of August 5, 2010 (Campus Based):

**The following information is due to the Health, Education, Labor, and Pensions Committee no later than August 26, 2010.**

*For the period commencing with the beginning of Company's fiscal year 2006 through present, from documents located at the headquarters of the Company or the headquarters of an individual school operated by the Company, or held in the custody and control of any individual employed at the headquarters level of the corporate entity or the executive management level of individual schools owned and operated by the Company including College, please produce the following:*

1. A document listing the name and title of each executive and director, past and present, of the Company including, but not limited to, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, President, Provost, all members of the Board of Directors or Board of Trustees, and the president, manager or administrator of each school and each campus and branch campus. Please also provide the name and title of each person responsible for the following functions at each school operated by the Company: admissions, recruiting, advertising, sales, other promotional marketing, financial aid, registration and student records, career services and placement, student advising, financial management, legal compliance, student debt management, academics, faculty hiring and administration and advising, educational curriculum, facilities, quality control, and human resources. Please provide this information as a list along with an organizational structure chart.
2. All audited or unaudited financial statements held in the custody and control of the Company, or audit firm employed by the Company, including any notes and definitions attached to or accompanying the statements, as well as audit work papers or desk files and the audit plan and audit risk assessment.

3. All agendas, reports, minutes, presentations and financial statements provided to, or produced by, the Board of Directors or Board of Trustees.
4. A document listing, on an annual basis for each school operated by the Company, the amount of revenue generated from each of the following categories after required refunds: Pell Grants, Stafford Loans (separated by subsidized and unsubsidized), PLUS Loans (separated by parent and graduate loans), Perkins Loans, Federal Work Study, Federal Supplemental Educational Opportunity Grants, Academic Competitiveness Grants, Teach Grants, SMART Grants, Federal veterans' education benefits, Department of Defense tuition assistance benefits, Workforce Investment Act Grants, vocational rehabilitation funds, private loans, institutional loans, State loans (separated by state and loan type), State grants, student paid tuition, employer paid tuition and any and all other sources of revenue. Please provide this information in a spreadsheet format compatible with Microsoft Excel 2007.
5. For the period July 1, 2007 to June 30, 2010, please provide a document for each year beginning July 1 and ending June 30 that includes the following information. For each school operated by the Company: the total number of students enrolled as of July 1, separated by program and campus and whether the students attended online, in-person or a combination of online and in-person classes ("hybrid"); the number of new students enrolled each month between July 1 and June 30 (separated by program and campus and whether the students attended online, in-person or hybrid), the total number of students completing each program between July 1 and June 30 by attaining a sufficient number of credits to receive a certificate or an associate's, bachelor's or graduate degree, and the total number of students who departed the school, either by formally withdrawing or by ceasing to attend class between July 1 and June 30 of each covered year by program and type of enrollment. Please provide this information in a spreadsheet format compatible with Microsoft Excel 2007. A suggested format appears below.

	Number of new students who enroll each month												Total enrolled as of Jun. 30	Number no longer attending, for reasons other than program completion.	Number completed or graduated Jul.-Jun.	Total new enrolled Jul.-Jun.
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.				
Students Enrolled as of July 1																
<b>School # 1</b>																
<b>Atlanta Campus</b>																
Program #1 (e.g. Medical Technician)																
Online																
In-person																
Hybrid																
Program #2																
Online																
In-person																
Hybrid																

- For the period July 1, 2008 to June 30, 2010, for each school operated by the Company, provide the following information: A list of each student (identified by randomized numbers) who was enrolled on July 1, 2007 or who enrolled between July 1, 2007 and June 30, 2009 together with the student's date of enrollment, and date of completion or graduation, or date of last attendance in class or date of estimated completion or graduation. Please also provide the type of degree being pursued (certificate, associate's, bachelor's, graduate). Please provide this information in a spreadsheet format compatible with Microsoft Excel 2007. A suggested format appears below.

ID	Campus	Date of Enrollment	Completed or Graduated?	Date of Completion or Graduation	Date of Last Attendance	Estimated Date of Completion or Graduation (if still enrolled)	Type of degree or certificate
67321	Columbus, OH	3/1/06	N			8/1/10	BA
43672	Pensacola, FL	10/1/07	Y	12/1/09			AAS
54311	Los Angeles, CA	10/1/08	N		2/1/09		AA

**The following information is due to the Health, Education, Labor and Pensions Committee no later than September 16, 2010.**

*For the period commencing with the beginning of Company's fiscal year 2006 through present, from documents located at the headquarters of the Company or the headquarters of an individual school operated by the Company, or held in the custody and control of any individual employed at the headquarters level of the corporate entity or the executive management level of individual schools owned and operated by the Company including College and College, please produce the following:*

1. A document listing, on an annual basis by school, the amount spent on each of the following: advertising on television, radio, print, Internet and billboard; direct mail; telemarketing; all other marketing and promotional spending not including admissions representatives' compensation; admissions representatives and managers' compensation including salaries, benefits, bonuses and awards; all other admissions spending; faculty compensation; executive compensation; all other employee compensation; financial aid administration; educational facilities (purchase, lease, maintenance and improvements); other real estate holdings; property equipment (including computer hardware and software, courseware, classroom and instructional materials, furniture, fixtures, equipment and vehicles); online curriculum development; other curriculum development; curriculum quality control; all other instructional expenses; litigation expenses; all other legal fees; corporate debt interest payments; and private distributions to shareholders. Please provide this information in a spreadsheet format compatible with Microsoft Excel 2007.
2. A document listing, on an annual basis by school and including the Company's corporate offices, the total number of personnel employed in any capacity, including as a consultant or contractor, in each of the

following categories: teaching, recruiting and admissions, financial aid assistance, career services and placement, other marketing or advertising functions, other student services, curriculum development and quality control. For each category, please indicate how many people are full-time and how many are part-time or contract employees.

3. A document listing by campus the date of each initial review, periodic review and any other type of inquiry or visit by any national or regional accrediting agency, as well as the name and title of the Company employee or employees responsible for overseeing the review or inquiry.
4. A document listing on an annual basis the number of students receiving aid from each of the following programs or categories: Pell Grants, Stafford Loans (separated by subsidized and unsubsidized), PLUS Loans (separated by parent and graduate loans), Perkins Loans, Federal Work Study, Federal Supplemental Educational Opportunity Grants, Academic Competitiveness Grants, Teach Grants, SMART grants, Federal veterans' education benefits, Department of Defense education benefits, Workforce Investment Act Grants, vocational rehabilitation funds, private loans, institutional loans, state based loans and state grants.
5. Documents concerning complaints by students and former students made to any school operated by the Company that relate to admissions and enrollment, teaching, equipment, tuition or program cost, financial aid, loans and debt, job placement and career services and school administration including, but not limited to, policies, plans, practices and procedures for reviewing and resolving complaints.

#### Revenues

6. A document listing the operating profits (revenues minus costs before taxes and depreciation) of the Company on an annual basis.
7. All policies, plans, practices or procedures for tracking and recording revenues in accordance with the 90/10 revenue limitation.
8. A document listing the annual 90/10 revenue for each campus of each school operated by the Company.



9. All documents, including all e-mail communications, concerning the possibility, likelihood or risk that any school, campus or branch campus operated by the Company is approaching or could exceed the 90% threshold for Title IV dollars, or concerning plans or efforts to lower the 90/10 revenue ratio at any school, campus or branch campus operated by the Company.

#### Tuition and Program Information

10. A document listing, for each school operated by the Company, the current credit hour cost, total program cost or tuition and the number of credit hours required for each degree and certificate program offered as of January 1, 2010. To the extent that credit hour or program costs or tuition for the same program differ by student, by campus or by online and in-person enrollment, provide the cost of each. To the extent that credit hour cost, program cost or tuition has increased since the beginning of the Company's fiscal year 2006, please provide each increase together with the date and amount of the increase for each program, including any differences in cost by type of student, campus, or online/in-person instruction.
11. All documents, including e-mail communications, concerning tuition increases in any program, including any increase in credit hour cost or number of credit hours required to complete each program.
12. All policies, plans, practices and procedures concerning any required student payments, not including funds received from title IV, to a school operated by the Company including the amount and frequency of any such payment.

#### Recruiting and Enrollment

13. For the period January 1, 2009 to present, documents concerning lead generator agents including, but not limited to, agreements with such agents and documents concerning the number of contacts such agents generated.
14. All manuals, presentations, scripts and handouts used in the process of training and supervising employees responsible for recruiting and admissions.

15. All documents concerning performance and compensation of employees involved in recruiting, enrolling or admitting new students including, but not limited to, the ways employees' performances are monitored, tracked, and recorded; as well as documents concerning termination, demotion, performance reviews, evaluations and self-evaluations, and prizes, trips, cash bonuses or other performance-based awards.
16. All policies, plans, practices and procedures for enrolling, tracking attendance and withdrawing students from on-campus and online courses and programs, including but not limited to, responsibility of admissions staff for tracking students after enrollment, student retention bonuses, processes or procedures when a student fails to attend one or more class sessions or submit assigned coursework, policies or process for enrolling any student in a class, course or module when the student failed to complete a previous class, course or module, and policies, practices and procedures to ensure attendance and participation and prevent cheating or other manipulation by students, teachers or administrators. No individual attendance records are included in this request.
17. All documents, including all e-mail communications, concerning recruiting in or near Department of Defense or Veterans Affairs rehabilitation facilities, wounded warrior transition units, homeless shelters, welfare and unemployment offices, or substance abuse and treatment facilities.

#### Loans and Defaults

18. All manuals, presentations, scripts and other handouts used in the process of training and supervising employees responsible for financial aid and debt and default management.
19. All policies, plans, practices and procedures concerning refund payments made to the Department of Education for Pell Grant and Stafford Loans upon a student failing to attend class or formally withdrawing from a program.
20. All policies, plans, practices and procedures concerning student loan default rates and compliance with cohort default rate limits for Title IV eligibility, including efforts to manage cohort default rates through deferment, forbearance and any other means.

21. Documents listing the name, contact information, a description of the services provided, the dollar amount paid to any debt management or default consultants or other entity, including loan servicing and guarantee agencies, retained or employed for the purpose of working with former students of schools operated by the Company to manage student debt including providing advice on forbearance, deferment and income contingent repayment plans, together with any contracts or other agreements with such entity or consultants.
22. All documents, including e-mail communications, concerning the change from a two to three-year cohort default measurement period, as well as documents, including e-mail communications, concerning the number, percentage or increase of delinquent or defaulted Federal student loans.
23. All documents concerning any payments or payoff of Title IV loans by the Company where the Federal loan was replaced by any institutional or private loans.

Institutional Loans:

24. Documents concerning any lending program utilized, designed, created, put into place or operated by the Company (“institutional lending program”) including, but not limited to, all documents concerning underwriting criteria developed, created, used or approved by the Company; reserves held by the Company in anticipation of possible defaults; and one copy of each version of any documents provided to students in connection with any institutional lending program including, but not limited to, supplemental financing agreements, promissory notes, and interest rate disclosures.
25. All contracts, agreements, memoranda of understanding or other written arrangements between the Company and any private lender or loan servicer related to any institutional lending program.
26. A document listing, for each institutional lending program, on a quarterly basis the number of loans originated, origination fees, total principal, average loan amount per student borrower, average interest rate, lowest interest rate, highest interest rate, 90-day delinquency rate, 120-day delinquency rate, 180-day delinquency rate, loan default rate, the number of student borrowers who stopped attending class or formally withdrew, the number of student borrowers who graduated and the number of loans

purchased or owned by the Company. Please provide this information in a spreadsheet format compatible with Microsoft Excel 2007.

27. All documents concerning any analysis, review, examination or audit of any institutional lending program, whether performed by the Company or any other person or entity, including, but not limited to, any analysis, review, examination or audit of the value of such loans and forecasts of the default potential of such loans.

*With regard to documents and e-mail communications held at the Campus, Location campus of College owned by Company, or in the custody and control of individuals employed at the Campus, for the period commencing with the beginning of the Company's fiscal year 2006 through present, please produce the following:*

28. A document listing the name, current address and telephone number for each current and former president, dean or head administrator of the campus as well as the person or persons in charge of each of the following functions: admissions or recruiting, student records, financial aid, career planning and placement, academics and instruction, curriculum development, facilities, quality control, marketing and promotion, human resources, and student debt tracking and management.
29. One copy of each and every version of the student enrollment package including the enrollment agreement, financial aid and loan disclosures for Federal, private and institutional loans, any documents with statements regarding placement and employment and any documents regarding students' financial obligation outside available Federal aid. This request does not include any individual student enrollment information.
30. For the period July 1, 2007 to July 1, 2009, all documents, including e-mail communications, concerning supervision, monitoring and performance of employees responsible for recruiting and admissions, including, but not limited to, documents, including e-mail communications, concerning the number of applications, starts, and retention achieved by any employee and any contests, prizes, trips, cash bonuses, gift certificates or other performance-based awards.
31. All documents, including all e-mail communications, concerning or prepared in response to or in preparation for the initial review, periodic review or any other type of inquiry or visit by any national or regional institutional accrediting agency, including all communications with any

person affiliated with an accrediting agency.

32. All documents, including e-mail communications, concerning increases in tuition, program, or cost of credit hour cost.
33. All documents, including e-mail communications, concerning calculation of and compliance with the 90/10 Title IV revenue restriction including, but not limited to, documents concerning when and how Title IV revenue is earned and recorded for accounting purposes, and all documents and e-mail communications concerning the campus's 90/10 ratio.
34. All documents, including e-mail communications, concerning student attendance and refund of Title IV funds, including, but not limited to, policies or process for enrolling any student in a class, course or module after the failed to complete any prior course, class or module.
35. All documents, including e-mail communications, concerning any payments or payoff, other than refunds of Title IV loans by the school including, but not limited to, any replacement or substitution of Title IV loans by institutional or private loans.
36. All documents, including e-mail communications, concerning loan default rates including any efforts made to help or advise students to obtain deferment or forbearance and any assignment of authority allowing the Company, or any outside debt and default management consultant or entity, to enter any student's loans into forbearance or deferment.
37. All documents concerning placement, employment and salary information of former students or alumnae provided to any national or regional accrediting agency.
38. For the period January 1, 2008 to present, one copy of all versions of written materials and disclosures provided to prospective students concerning placement, employment or salary information of former students or alumnae.
39. All policies, plans, practices and procedures concerning tracking and recording job placement and employment rates and salary information including, but not limited to, documents concerning how students employed at the same job the student had before, during and after attendance are counted in placement rates.

HELP Committee Document Request of August 5, 2010 (Online):

**The following information is due to the Health, Education, Labor and Pensions Committee no later than August 26, 2010.**

*For the period commencing with the beginning of Company's ("the Company") fiscal year 2006 through present, from documents located at the headquarters of the Company, or held in the custody and control of any individual employed at the headquarters level of Company, please produce the following:*

1. A document listing the name and title of each executive and director, past and present, of the Company including, but not limited to, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, President, Provost, all members of the Board of Directors or Board of Trustees. Please also provide the name and title of each person responsible for the following functions: admissions, recruiting, advertising, sales, other promotional marketing, financial aid, registration and student records, career services and placement, student advising, financial management, legal compliance, student debt management, academics, faculty hiring and administration and advising, educational curriculum, facilities, quality control, and human resources. Please provide this information as a list along with an organizational structure chart.
2. All audited or unaudited financial statements held in the custody and control of the Company, or audit firm employed by the Company, including any notes and definitions attached to or accompanying the statements, as well as audit work papers or desk files and the audit plan and audit risk assessment.
3. All agendas, reports, minutes, presentations and financial statements provided to, or produced by, the Board of Directors or Board of Trustees.
4. A document listing, on an annual basis for each school operated by the Company, the amount of revenue generated from each of the following categories after required refunds: Pell Grants, Stafford Loans (separated by subsidized and unsubsidized), PLUS Loans (separated by parent and graduate loans), Perkins Loans, Federal Work Study, Federal Supplemental Educational Opportunity Grants, Academic Competitiveness Grants, Teach Grants, SMART Grants, Federal veterans' education benefits, Department of Defense tuition assistance benefits, Workforce Investment Act Grants, vocational rehabilitation funds, private loans, institutional loans, state loans (separated by state and loan type), state grants, student paid tuition, employer paid tuition and any and all other sources of revenue. Please provide this information in a spreadsheet format compatible with Microsoft Excel 2007.

5. For the period July 1, 2007 to June 30, 2010, please provide a document for each year beginning July 1 and ending June 30 that includes the following information. For each school operated by the Company: the total number of students enrolled as of July 1, separated by program; the number of new students enrolled each month between July 1 and June 30; the total number of students completing each program between July 1 and June 30 by attaining a sufficient number of credits to receive a certificate or an associate's, bachelor's or graduate degree, and the total number of students who departed the school, either by formally withdrawing or by ceasing to attend class between July 1 and June 30 of each covered year by program and type of enrollment. Please provide this information in a spreadsheet format compatible with Microsoft Excel 2007. A suggested format appears below.

	Students Enrolled as of July 1	Number of new students who enroll each month												Total new enrolled Jul.-Jun.	Number completed or graduated Jul.-Jun.	Number no longer attending, for reasons other than program completion.	Total enrolled as of Jun. 30	
		Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.					
Program #1 (e.g. Medical Technician)																		
Program #2																		

6. For the period July 1, 2008 to June 30, 2010, for each school operated by the Company, provide the following information: A list of each student (identified by randomized numbers) who was enrolled on July 1, 2007 or who enrolled between July 1, 2007 and June 30, 2009 together with the student's date of enrollment, and date of completion or graduation, or date of last attendance in class or date of estimated completion or graduation. Please also provide the type of degree being pursued (certificate, associate's, bachelor's, graduate). Please provide this information in a spreadsheet format compatible with Microsoft Excel 2007. A suggested format appears below.

ID	Date of Enrollment	Completed or Graduated?	Date of Completion or Graduation	Date of Last Attendance	Estimated Date of Completion or Graduation (if still enrolled)	Type of degree or certificate
67321	3/1/06	N			8/1/10	BA
43672	10/1/07	Y	12/1/09			AAS
54311	10/1/08	N		2/1/09		AA

**The following information is due to the Health, Education, Labor, and Pensions Committee no later than September 16, 2010.**

*For the period commencing with the beginning of Company (“the Company”) fiscal year 2006 through present, from documents located at the headquarters of the Company, or held in the custody and control of any individual employed at the headquarters level of Company, please produce the following:*

1. A document listing, on an annual basis by school, the amount spent on each of the following: advertising on television, radio, print, Internet and billboard; direct mail; telemarketing; all other marketing and promotional spending not including admissions representatives’ compensation; admissions representatives and managers’ compensation including salaries, benefits, bonuses and awards; all other admissions spending; faculty compensation; executive compensation; all other employee compensation; financial aid administration; educational facilities (purchase, lease, maintenance and improvements); other real estate holdings; property equipment (including computer hardware and software, courseware, classroom and instructional materials, furniture, fixtures, equipment and vehicles); online curriculum development; other curriculum development; curriculum quality control; all other instructional expenses; litigation expenses; all other legal fees; corporate debt interest payments; and private distributions to shareholders. Please provide this information in a spreadsheet format compatible with Microsoft Excel 2007.
2. A document listing, on an annual basis by school and including the Company’s corporate offices, the total number of personnel employed in any capacity, including as a consultant or contractor, in each of the following categories: teaching, recruiting and admissions, financial aid assistance, career services and placement, other marketing or advertising functions, other student services, curriculum development and quality control. For each category, please indicate how many people are full-time and how many are part-time or contract employees.
3. A document listing the date of each initial review, periodic review and any other type of inquiry or visit by any national or regional accrediting agency, as well as the name and title of the Company employee or employees



responsible for overseeing the review or inquiry.

4. All documents, including all e-mail communications, concerning or prepared in response to or in preparation for the initial review, periodic review or any other type of inquiry or visit by any national or regional institutional accrediting agency, including all communications with any person affiliated with an accrediting agency.
5. A document listing on an annual basis the number of students receiving aid from each of the following programs or categories: Pell Grants, Stafford Loans (separated by subsidized and unsubsidized), PLUS Loans (separated by parent and graduate loans), Perkins Loans, Federal Work Study, Federal Supplemental Educational Opportunity Grants, Academic Competitiveness Grants, Teach Grants, SMART grants, Federal veterans' education benefits, Department of Defense education benefits, Workforce Investment Act Grants, vocational rehabilitation funds, private loans, institutional loans, state based loans and state grants.
6. Documents concerning complaints by students and former students made to any school operated by the Company that relate to admissions and enrollment, teaching, equipment, tuition or program cost, financial aid, loans and debt, job placement and career services and school administration including, but not limited to, policies, plans, practices and procedures for reviewing and resolving complaints.
7. All policies, plans, practices and procedures concerning tracking and recording job placement and employment rates and salary information including, but not limited to, documents concerning how students employed at the same job the student had before, during and after attendance are counted in placement rates.

#### Revenues

8. A document listing the operating profits (revenues minus costs before taxes and depreciation) of the Company on an annual basis.
9. A document listing the annual 90/10 revenue of each school operated by the Company.
10. All documents, including e-mail communications, concerning calculation of and compliance with the 90/10 Title IV revenue restriction including, but not limited to, documents concerning when and how Title IV revenue is earned and recorded for accounting purposes.

11. All documents, including all e-mail communications, concerning the possibility, likelihood or risk that any school operated by the Company is approaching or could exceed the 90% threshold for Title IV dollars, or concerning plans or efforts to lower the 90/10 revenue ratio at any school operated by the Company.

Tuition and Program Information

12. A document listing, for each school operated by the Company, the current credit hour cost, total program cost or tuition and the number of credit hours required for each degree and certificate program offered as of January 1, 2010. To the extent that credit hour or program costs or tuition for the same program differ by student, provide the cost of each. To the extent that credit hour cost, program cost or tuition has increased since the beginning of the Company's fiscal year 2006, please provide each increase together with the date and amount of the increase for each program, including any differences in cost by type or location of a student.
13. All documents, including e-mail communications, concerning tuition increases in any program, including any increase in credit hour cost or number of credit hours required to complete each program.
14. All policies, plans, practices and procedures concerning any required student payments, not including funds received from Title IV, to a school operated by the Company including the amount and frequency of any such payment.

Recruiting and Enrollment

15. For the period January 1, 2009 to present, documents concerning lead generator agents including, but not limited to, agreements with such agents and documents concerning the number of contacts such agents generated.
16. All manuals, presentations, scripts and handouts used in the process of training and supervising employees responsible for recruiting and admissions.
17. For the period July 1, 2007 to July 1, 2009, all documents, including e-mail communications, concerning supervision, monitoring, compensation and performance of employees responsible for recruiting and admissions, including, but not limited to, documents, including e-mail communications, concerning the number of applications, starts, and retention achieved by any employee and any contests, prizes, trips, cash bonuses, gift certificates or other performance-based awards.

18. All policies, plans, practices and procedures for enrolling, tracking attendance and withdrawing students from online courses and programs, including but not limited to, responsibility of admissions staff for tracking students after enrollment, student retention bonuses, processes or procedures when a student fails to attend one or more class sessions or submit assigned coursework, policies or process for enrolling any student in a class, course or module when the student failed to complete a previous class, course or module, and policies, practices and procedures to ensure attendance and participation and prevent cheating or other manipulation by students, teachers or administrators. No individual attendance records are included in this request.
19. All documents, including e-mail communications, concerning student attendance and refund of Title IV funds, including, but not limited to, policies or process for enrolling any student in a class, course or module after the failed to complete any prior course, class or module.
20. All documents, including all e-mail communications, concerning recruiting in or near Department of Defense or Veterans Affairs rehabilitation facilities, wounded warrior transition units, homeless shelters, welfare and unemployment offices, or substance abuse and treatment facilities.
21. One copy of each and every version of the student enrollment package including the enrollment agreement, financial aid and loan disclosures for Federal, private and institutional loans, any documents with statements regarding placement and employment and any documents regarding students' financial obligation outside available Federal aid. This request does not include any individual student enrollment information.
22. All documents concerning placement, employment and salary information of former students or alumnae provided to any national or regional accrediting agency.
23. For the period January 1, 2008 to present, one copy of all versions of written materials and disclosures provided to prospective students concerning placement, employment or salary information of former students or alumnae.

#### Loans and Defaults

24. All manuals, presentations, scripts and other handouts used in the process of training and supervising employees responsible for financial aid and debt and default management.

25. All policies, plans, practices and procedures concerning refund payments made to the Department of Education for Pell Grant and Stafford Loans upon a student failing to attend class or formally withdrawing from a program.
26. All documents, including e-mail communications, concerning loan default rates including any efforts made to help or advise students to obtain deferment or forbearance and any assignment of authority allowing the Company, or any outside debt and default management consultant or entity, to enter any student's loans into forbearance or deferment.
27. Documents listing the name, contact information, a description of the services provided, the dollar amount paid to any debt management or default consultants or other entity, including loan servicing and guarantee agencies, retained or employed for the purpose of working with former students of schools operated by the Company to manage student debt including providing advice on forbearance, deferment and income contingent repayment plans, together with any contracts or other agreements with such entity or consultants.
28. All documents, including e-mail communications, concerning the change from a two to three-year cohort default measurement period, as well as documents, including e-mail communications, concerning the number, percentage or increase of delinquent or defaulted Federal student loans.
29. All documents, including e-mail communications, concerning any payments or payoff, other than refunds of Title IV loans by the school including, but not limited to, any replacement or substitution of Title IV loans by institutional or private loans.

Institutional Loans:

30. Documents concerning any lending program utilized, designed, created, put into place or operated by the Company ("institutional lending program") including, but not limited to, all documents concerning underwriting criteria developed, created, used or approved by the Company; reserves held by the Company in anticipation of possible defaults; and one copy of each version of any documents provided to students in connection with any institutional lending program including, but not limited to, supplemental financing agreements, promissory notes, and interest rate disclosures.

31. All contracts, agreements, memoranda of understanding or other written arrangements between the Company and any private lender or loan servicer related to any institutional lending program.
32. A document listing, for each institutional lending program, on a quarterly basis the number of loans originated, origination fees, total principal, average loan amount per student borrower, average interest rate, lowest interest rate, highest interest rate, 90-day delinquency rate, 120-day delinquency rate, 180-day delinquency rate, loan default rate, the number of student borrowers who stopped attending class or formally withdrew, the number of student borrowers who graduated and the number of loans purchased or owned by the Company. Please provide this information in a spreadsheet format compatible with Microsoft Excel 2007.
33. All documents concerning any analysis, review, examination or audit of any institutional lending program, whether performed by the Company or any other person or entity, including, but not limited to, any analysis, review, examination or audit of the value of such loans and forecasts of the default potential of such loans.

Document Request Definitions and Instructions

- A. "Company" means Company and shall include any of the directors, members, trustees, officers, employees, agents and representatives thereof, including attorneys, and each of its schools, campuses, parent companies, subsidiaries, affiliates and predecessors.
- B. "All" means "any and all" and the word "any" means "any and all."
- C. "And" and "or" shall be construed conjunctively or disjunctively as necessary to make the request or definition inclusive rather than exclusive. The singular shall be construed to include the plural and the plural to include the singular.
- D. "School" means an entity that is owned and operated by the Company for the purpose of providing education leading to a degree or certificate and that may or may not operate multiple campuses or branch campuses. For example, Saturn College, Saturn Technical, and the Smith Academy of Music would be considered schools of Saturn, Inc.
- E. "Placement" means any student or former student seeking employment as well as any effort by the Company or program put in place by the company to aid students seeking employment.

- F. "Concerning" means relating to, referring to, describing, reflecting, evidencing or constituting.
- G. "Communicate" or "communication" means every manner or means of disclosure, transfer or exchange, and every disclosure, transfer or exchange of ideas or information, whether orally, by document, or electronically, or whether face-to-face, by telephone, mail, personal delivery, electronic transmission or otherwise.
- H. "Document" shall include all original written, typed, printed, pictorial, reproduced, recorded or other material bearing representations or symbols of any sort, as well as any copies that differ in any way from the original, in respondent's or respondent's auditor's actual or constructive possession, custody, care or control, including without limitation, all writings, account letters, account recommendations, appointment books, books, books of accounts, calendars, CD-ROMs, charts, computer files, computer printouts, contracts, cost sheets, data compilation from which information can be obtained or can be translated through detection devices into reasonably usable form, diaries, drafts, drawings, faxes, graphs, hotel charges, invoices, ledgers, magnetic discs, magnetic strips, magnetic tape, memoranda, microfiche, microfilm, minutes, notes, optical characters, papers, photographs, punched cards, punched paper tapes, receipts, recognition characters, reports, sound tapes or recordings, statements, statistical records, stenographer notebooks, studies, telegraphs, time sheets or logs, video tapes or recordings, vouchers, weigh tickets, working papers, or any other tangible thing. **"Document" does not include electronic mail, or e-mail, communication.**
- I. "E-mail communications" shall include all written and typed communications and attachments transmitted and stored electronically in respondent's actual or constructive possession, custody, care or control, including without limitation all iterations that differ in any way from the original.
- J. "Title IV" means Title IV of the Higher Education Act of 1965, as amended.
- K. Each request for production of documents shall be deemed continuing so as to require prompt supplemental responses if further documents called for are obtained or discovered after the time of responding to this request.
- L. Please ensure that no education records containing personally identifiable student information are provided in violation of 20 U.S.C. 1232g. Do not produce any individual student's personal information, including name, date

of birth, contact information or social security number.

- M. If any documents, or parts of documents, called for by this request are withheld for any reason, a list shall be furnished setting forth as to each such document -the following information: (a) the nature of the document, *e.g.*, letter, memorandum, electronic mail communication, etc.; (b) the name, address, occupation, title and business affiliation of each person who prepared, received, viewed and has or has had possession, custody or control of the document; (c) the date of the document; (d) a description of the subject matter of the document; (e) a statement of the basis upon which the privilege or work product claim is made; and (f) the paragraph(s) of this request that call for the production of the document.
- N. Responsive documents shall be produced as they have been kept in the ordinary course of business or shall be organized and labeled to correspond with the enumerated items in this request. If with respect to any category there are no responsive documents, so state in writing.
- O. If any documents, or parts of documents, called for by this request have been destroyed, discarded, or otherwise disposed of, a list shall be furnished setting forth as to each document the following information: (a) the nature of the document, *e.g.*, letter, memorandum, telegram, etc.; (b) the name, address, occupation, title and business affiliation of each person who prepared, received, viewed and has or has had possession, custody or control of the document; (c) the date of the document; (d) a description of the subject matter of the document; (e) the date of destruction or other disposition; (f) a statement of the reasons for destruction or other disposition; (g) the name, address, occupation, title and business affiliation of each person who authorized destruction or other disposition; (h) the name, address, occupation, title and business affiliation of each person who destroyed or disposed of the document; and (i) the paragraph(s) of this request which call for the production of the document.
- P. Production is waived for any document that is freely available through public files or records accessible through the Internet, if you identify the document and the source from which the document can be downloaded without cost.
- Q. If any document was, but no longer is, in your possession, custody or control, identify the document and explain the circumstances by which it ceased to be in your possession, custody or control.

- R. Documents shall be produced as delimited text with images and native files in accordance with the attached data delivery standards.
- S. Documents produced on paper (those from paper files that you choose to produce as such) shall not contain any permanent fasteners (e.g. staples), but shall be separated based on the divisions between documents as it is maintained in the custodian's files by non-permanent fasteners (e.g. paper clips, binder clips, rubber bands) or a non-white slip sheet.



**Appendix 5: The Undercover General Accountability Office**  
**Recruiting Investigation, Report and Corrections**

On April 27, 2010, Chairman Harkin requested that the Forensic Audits and Special Investigations of the non-partisan Government Accountability Office (GAO) examine the recruiting practices at selected for-profit colleges in order to “determine whether fraudulent or deceptive practices are being employed in the recruiting or enrollment of students.”<sup>2978</sup> Between May and early-July 2011, staff of the Forensic Audits and Special Investigations (FSI) made 2 separate undercover visits to 15 for-profit college campuses selected by the GAO. Audio of the undercover recordings was subsequently produced to the committee and are publicly available on the committee Web site.<sup>2979</sup> Audio excerpts of several of the visits are referenced and transcribed in the accompanying final report.

Just prior to the completion of the undercover visits in July 2011, committee majority staff was briefed by FSI staff on the work to-date. Committee staff asked GAO if they could have a report on the findings prepared in time for an early August hearing. GAO staff indicated that they could. In late July 2011, in advance of the hearing, both majority and minority staff were briefed on the findings of the undercover work and had an opportunity to view the not yet final video.

On August 4, 2010 the committee held a hearing titled “For-Profit Schools: The Student Recruitment Experience.” The witnesses included Gregory Kutz, the managing director of the Office of Forensic Audits and Special Investigations. Mr. Kutz presented the findings of the GAO undercover investigation that documented, on audio and video recordings, deceptive and misleading conduct by recruiters at each of the 15 for-profit college campuses visited by GAO agents in May and June 2010.<sup>2980</sup> In addition to his written testimony—a GAO report that consisted of an 18-page summary and a 9-page appendix detailing the visits—Mr. Kutz also showed videotaped excerpts of some of the deceptive and misleading tactics documented by the agents.<sup>2981</sup> The undercover tapes that the testimony was based upon documented how widespread the use of misleading and deceptive recruiting tactics had become at for-profit colleges.

<sup>2978</sup> April 27, 2010 letter to GAO Comptroller Gene Dodaro.

<sup>2979</sup> To review undercover audio tapes: <http://harkin.senate.gov/help/gao.cfm>.

<sup>2980</sup> Undercover Testing Finds Colleges Encouraged Fraud and Engaged in Deceptive and Questionable Marketing Practices, August 4, 2011, revised October 31, 2011 <http://www.gao.gov/products/GAO-12-150>.

<sup>2981</sup> <http://www.gao.gov/products/GAO-10-948T>.

At the time of the hearing, the Chairman requested that GAO provide him with the work papers produced in the course of its investigation and preparation of the report, including the full video of each of the two visits by undercover GAO agents to the 15 for-profit campuses, so that he could make them available to the public.<sup>2982</sup> Committee staff also told representatives of the schools visited by the GAO that, in the interests of ensuring maximum transparency, the committee would make the tapes available to each school when they were received.

In late October 2010, after repeated inquiries from committee staff about when the audio and video recordings would be available, officials from GAO indicated to the committee that, in the process of preparing the tapes for distribution to the committee, discrepancies had been found between the tapes and the written report, and that the agency expected to issue an errata correcting these errors.<sup>2983</sup>

On November 30, 2010, the GAO issued the errata making corrections to the original report presented at the hearing.<sup>2984</sup> The errata, one of eight issued by GAO in fiscal year 2011, contained two small changes to the text of the report and approximately 30 additional changes to the appendix.<sup>2985</sup> While the majority of the changes were not particularly consequential, some of the changes helped to better illustrate the deceptive conduct uncovered by GAO in its investigation, additional changes added context that should have been included in the original presentation and report.<sup>2986</sup>

Because the undercover tapes and the GAO findings so clearly demonstrated serious improprieties at multiple for-profit colleges, representatives of various for-profit schools and related industry organizations seized upon the corrections in an attempt to discredit the underlying GAO investigation. In December 2011, as a result of inquiries by the staff of the House Committee on Oversight and Government Reform, GAO initiated an internal investigation into how the GAO's presentation at the August 4, 2010 HELP Committee hearing was prepared.<sup>2987</sup> According to GAO officials, the internal investigation specifically examined and concluded that no congressional pressure was brought regarding the contents or preparation of the report. Despite claims made in some online publications, committee staff played no role

<sup>2982</sup> Letter from Chairman Harkin to Gene Dodaro Aug 4, 2011.

<sup>2983</sup> In a subsequent internal GAO investigation it became clear that errors occurred in the report because the report had not been cross referenced against the original undercover tapes, but only against the agent's written reports of the visits.

<sup>2984</sup> Undercover Testing Finds Colleges Encouraged Fraud and Engaged in Deceptive and Questionable Marketing Practices, August 4, 2011, revised October 31, 2011 <http://www.gao.gov/products/GAO-12-150>.

<sup>2985</sup> Undercover Testing Finds Colleges Encouraged Fraud and Engaged in Deceptive and Questionable Marketing Practices, Red-lined version, August 4, 2011, revised October 31, 2011.

<sup>2986</sup> Id.

<sup>2987</sup> February 7, 2011 Memorandum to General Counsel Lynn Gibson on Inspection of GAO's Investigation (on file with committee).

in either the undercover investigation or in the preparation of the GAO report.<sup>2988</sup>

In a further response to the concerns of the House Committee on Oversight and Government Reform, GAO has since taken steps to restructure the Forensic Audits and Special Investigations Unit, including management changes and the appointment of a new director. While considerable controversy was generated regarding the GAO report, the undercover recordings provide clear evidence of the misleading or deceptive tactics used by for-profit college recruiters at each of the 15 for-profit colleges visited.<sup>2989</sup>

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<sup>2988</sup> On May 17, 2011, a conservative online news outlet published an article citing a leaked internal GAO document that discussed how GAO's internal Quality and Continuous Improvement Unit had requested changes to the For-Profit Recruiting report including documenting whether the recruiters at each campus stated the accreditation and graduation rate, and that this late in the process request had apparently led to some of the errors. See HELP Committee Press Release "Daily Caller Shoots Self in Foot with 'Smoking Gun'", May 18, 2011.

<sup>2989</sup> Audio Recording: Undercover Recording of Visits by GAO Agents to For-Profit Schools, available at <http://harkin.senate.gov/help/gao.cfm> (accessed June 14, 2012).

**Appendix 6: Responses of Companies**

Prior to the release of this report, committee staff met with representatives of each company and shared the documents that are referenced in this report, as well as student outcomes results and the types of information that would appear in the charts in the individual company profiles.

At that time committee staff invited companies to provide an optional written response to be included in the report to provide additional context about the company and the documents. Included in this Appendix are responses received from the following 21 companies.

Alta Colleges, Inc.  
American Career College, Inc.  
Apollo Group, Inc.  
Bridgepoint Education, Inc.  
Capella Education Company  
Concorde Career Colleges, Inc.  
DeVry, Inc.  
ECPI Colleges, Inc.  
Education Management Corporation  
Grand Canyon Education, Inc.  
Henley Putnam University  
Herzing, Inc.  
ITT Educational Services, Inc.  
Kaplan Higher Education Corporation  
Keiser School, Inc.  
Lincoln Educational Services Corporation  
National American University Holdings, Inc.  
Rasmussen Colleges, Inc.  
Strayer Education, Inc.  
Trident University, Inc.  
Universal Technical Institute, Inc.



July 9, 2012

**Via Hand Delivery**

The Honorable Tom Harkin  
 Chairman, Senate Committee on  
 Health, Education, Labor, and Pensions  
 SD-428 Dirksen Senate Office Building  
 Washington, DC 20510

Dear Chairman Harkin:

Alta Colleges, Inc. submits this statement for inclusion in the upcoming report by your staff regarding for-profit colleges in the United States. For-profit colleges, such as Alta's Westwood College and Redstone College,<sup>1</sup> provide millions of Americans with the valuable opportunity to further their educations and advance their careers – opportunities that would not otherwise have existed due to cost, convenience, location or existing personal/professional obligations. The role of higher education institutions such as these cannot be understated. They provide the skilled workforce and critical job growth opportunities necessary to strengthen our economy today.

We appreciate the opportunity to submit this statement, as well as the time provided by your staff on June 26 to allow us to review at your office the Westwood documents you plan to cite in the upcoming staff report. As we are sure you are aware, no customary interviews or briefings took place during this investigation to allow us to answer questions or present additional information and context for the documents we produced to your staff. Nor have we had the opportunity to review or provide comments on the soon to be released staff report. Notwithstanding these concerns, we welcome this opportunity to provide more information about Westwood to you and your staff.<sup>2</sup> Westwood has a longstanding practice of investing time and money into our program management ensuring we not only comply with relevant federal laws and regulations, but in fact exceed those requirements in many instances. The record is clear. Westwood began refining its operations well before changes in the law required it of the industry. We did this because it was the right thing to do for our students. Indeed, we would hope that this too is reflected in the forthcoming staff report.

**Background.** The Committee requested thousands of documents from Westwood, and from Westwood's voluminous response, the staff has selected approximately 35 documents for use in its report. While we have no way of knowing how the report will rely on these documents, or excerpted words and phrases contained within them, we do know that the selected documents paint an incomplete and skewed picture. Many of the documents used in the staff report as a

<sup>1</sup> Alta, Westwood, and Redstone are referred to collectively throughout this statement as "Westwood."

<sup>2</sup> Also absent from the Committee's hearings were witnesses representative of the many satisfied graduates or committed employees of for-profit colleges, including Westwood.

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basis for staff conclusions<sup>3</sup> about Westwood are outdated (dating back to 2005), lack context and current information, and focus on only a narrow view of select and unrepresentative practices. In fact, Westwood has significant concern that the staff has engaged in “reverse engineering” – creating a report that contains a negative conclusion about for-profit schools, and then selecting documents, words or phrases that supposedly support those conclusions.

Given its size and geographic scope, Westwood also believes that it has received disproportionate negative attention during the Committee’s investigation. We recognize that this attention may have been primarily driven by a law firm that filed five non-meritorious lawsuits against Westwood from May 2009-August 2010, initiated many negative stories, and instigated other government inquiries against Westwood. Staff also informed Westwood that its report would cite and rely upon information from an ex-Westwood employee, Joshua Pruy, who provided what is now known to be demonstrably false testimony to the Committee.<sup>4</sup> In fact, documents obtained by the Daily Caller demonstrate that Pruy made material misstatements in his testimony – false testimony that was a cornerstone of the Majority’s August 4, 2010 hearing.<sup>5</sup> Westwood provided your staff the documents, call logs and recordings disproving portions of Pruy’s testimony, but the staff were and remain unwilling to acknowledge this fact or repudiate Pruy’s false testimony.

In addition, staff plans to include in the report charts and graphs on completion rates, which they developed based on their own numerical analyses of extremely complicated data. We are very concerned about any conclusions based on such analyses because the use of any completion statistic in isolation is inherently flawed by the differences in the demographic conditions of the students (among other factors). For example, the U.S. Department of Education’s own study indicated that non-traditional students were significantly less likely to complete their education than traditional students.<sup>6</sup> Nontraditional students were defined as students with multiple risk factors indicated below:

- Delayed enrollment after high school graduation
- Lacking a high school diploma
- Enrolling on a part-time basis
- Financially independent
- Working full-time while enrolled
- Having children younger than age 19, and
- Being a single parent.

<sup>3</sup> Without the opportunity to read the staff report or even the portions relevant to Westwood in advance of its release, we can only be speculative in this regard.

<sup>4</sup> See Correspondence from Mark Paoletta to Chairman Harkin and Ranking Member Enzi, dated December 17, 2010.

<sup>5</sup> See <http://dailycaller.com/2011/08/04/star-harkin-witness-testimony-under-fire/> (Aug. 8, 2011).

<sup>6</sup> See Susan Choy, U.S. Department of Education, National Center for Education Statistics, *Nontraditional Undergraduates*, NCES 2002-012, Washington, DC: 2002.

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The mix of traditional and non-traditional students varies widely by institution and failure to identify these differences eliminates any comparability of completion statistics. Because we were not afforded the opportunity to review the methodology for staff's numerical conclusions in the report, we cannot respond fully in advance of reviewing the report. However, after you release the report, we will submit a subsequent letter to the Committee further explaining these important points and correcting and clarifying factual errors.

Moreover, the staff report is incomplete and as such, inaccurate. It fails to recognize the continuous and proactive improvements made by Westwood throughout its growth as an educational institution dedicated to compliance, including its efforts in the last two years, which fall outside the period of time covered by the staff's document request. Westwood has taken proactive steps to modify, improve and enhance its admissions process, student disclosures and financial aid process throughout the time period covered by this investigation (2005-2010) and continues to do so today. In the last several years, Westwood has implemented structural changes, numerous policies, and significant initiatives designed to improve the quality and quantity of the information provided to prospective students, and to help ensure compliance with applicable laws, regulations, accreditation standards, and Westwood policies. All of these improvements were initiated by Westwood management and have one common theme – to provide a quality education and help students make informed decisions about attending Westwood. Westwood's primary aim is to enroll committed and informed students for two critical reasons. First, it believes strongly in the education it provides to students and the value of this education in today's job market. Second, Westwood's success as both an educational institution and a business depends upon students remaining enrolled, completing their programs, and becoming gainfully employed.

The staff report should be informed by a broader discussion of Westwood's past and current efforts to implement compliance programs, employee training, and business practices that provide prospective students with complete and accurate information about Westwood. Westwood has gone above and beyond the requirements of federal and state law to better serve its students and hold itself to the highest standards. We delineate below several of the significant and meaningful changes, undertaken at our own accord, that have made Westwood an even stronger institution today:

**Enhanced Compliance Supervision and Function.** In 2006, Westwood reorganized and refined its legal and compliance department to enhance further its existing programs. The Westwood Law and Compliance Organization and its Chief Legal and Compliance Officer, in collaboration with Westwood's central administration leaders and campus presidents, oversees compliance with accrediting standards and all applicable laws, regulations, and rules. Due to its geographical dispersion, Westwood has significant oversight by regulatory agencies. Westwood campuses are located in six states and have accountability to seven state boards (with two jurisdictional boards in Texas), as well as its accrediting body and the United States Department of Education.

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The Compliance Department is responsible for completing campus compliance audits, overseeing the College's third party mystery shopping program, monitoring the Westwood employee ethics hotline and student complaint hotline, and conducting investigations on any allegations of violations of the Westwood Business Code of Conduct and Ethics. In addition, the Compliance Department provides regular consultation and training on ethical and compliance issues. Westwood spends \$85,000 per year on its system-wide compliance training programs.

**Improved Admissions Practices.** Westwood continually scrutinizes its admissions practices and materials to ensure that all prospective students receive clear and complete information to assist in their college choice. In addition, all admissions employees receive extensive training. Many of the admissions materials and training documents relied upon by your staff in drafting their report have not been used for several years and, thus, present an outdated and inaccurate picture of admissions practices at Westwood today. For example, several of the admissions training and compensation<sup>7</sup> documents identified by staff are no longer in effect today and date back to as early as 2006. Moreover, the staff appears in some cases to have chosen older admissions documents for inclusion in the report even where Westwood produced updated information.

It is important to note that Westwood had under development or in place prior to 2010 many of the improvements now in place today, including:

- Code of Conduct and Admissions Representative Agreement;
- The "College U" admissions presentation;
- Enrollment Agreement, Catalog and website;
- Loan repayment counseling and the Financial Aid Portal;
- Extensive training for admissions representatives; and
- Centralized financial aid processing.

While operating a compliant organization and seeking to enroll informed students are central to Westwood's mission, institutions of higher education generally do not need to provide proof of such practices. Westwood provides the detailed information below to the Committee to correct allegations of predatory practices generally leveled at the for-profit sector during the Committee's investigation.

***Code of Conduct and Admissions Representative Agreement.*** Westwood has a Code of Business Conduct and Ethics that is strictly enforced, and a comprehensive Admissions Policy and Procedures Manual that provides very detailed instruction for admissions

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<sup>7</sup> The Westwood compensation and recognition policies that apparently will be referenced in the staff report complied with the then existing "Safe Harbor" rules promulgated by the Department of Education. **Westwood revised its compensation plan in September 2010 to move all admissions employees to straight salary and eliminate incentive compensation. This change occurred some nine months before the Department of Education's promulgation of new rules eliminating the "Safe Harbors" and prescribing new compensation rules for admission and financial aid employees.**



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representatives. Westwood requires all new employees to complete training on the Code of Business Conduct and Ethics. As part of the hiring process, all new admissions representatives also receive Westwood's Admissions Guidelines. This seven-page document sets forth very specific responsibilities and ethical standards for admissions employees, which each admissions employee must read and sign. Equally important, Westwood uses this document to manage and oversee admissions representatives and the admissions process to ensure full compliance and the highest standards of conduct.

***The "College U" Admissions Presentation.*** For a number of years, Westwood used a standard PowerPoint admissions presentation to ensure that Westwood admissions personnel had available materials that contained accurate statements about the College and its personnel, training, services, and accreditation status. Westwood regularly updated this presentation and provided revised versions to Westwood admissions representatives.

In 2009 Westwood began implementing a major overhaul to the presentation and began rolling out the new presentation in June 2010. Admissions representatives who introduce prospective students to Westwood's programs and services now use a revamped web-based presentation. This new presentation, called "College U," cost \$170,000 in external costs to develop. It automatically customizes by campus and program, depending on student interest, and provides students with the most current information on, among other things, the programs available, costs of attendance, employment outcomes, and other factors that prospective students ultimately consider in deciding whether to enroll at Westwood.

All admissions employees received initial training on the new presentation in June 2010. Westwood employees immediately began using the new presentation. Use of College U was required starting in August 2010. At ground campuses, the admissions representative and prospective student view the presentation on a computer monitor. Prospective online students, who deal with admissions representatives by phone, must be at a computer monitor during the presentation so they can see the College U presentation via Adobe Connect. The web-based nature of the presentation allows for centralized control over modifications, ensuring that prospective students get the most accurate and up-to-date information about Westwood. In addition, the presentation has links to the Westwood website, catalog, and other disclosures that can be opened and reviewed with the prospective student to illustrate points during the presentation and respond to questions. College U also contains an extensive Coaching Guide that assists the admissions representative in responding to questions and contains required language on key disclosures.

***Enrollment Agreement, Catalog and Website.*** Westwood provides full disclosure about Westwood, its accreditation and programs, and the obligations of Westwood and students prior to enrollment. Westwood puts clear disclosures in writing and specifically draws each prospective student's attention to these important disclosures.

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In early 2010, Westwood completely revamped the organization and presentation of the Enrollment Agreement executed by each prospective student. Improvements included changing the font size and placing the tuition information above the signature line on a separate page. Westwood designed the enhancements to the Enrollment Agreement to continue its efforts to present prospective students with clear, written disclosures and to draw each prospective student's attention to these important points. The disclosures include information on student obligations, the academic catalog, accreditation, credit transfer, costs and fees associated with attendance, and other pertinent topics.

Admissions representatives also provide Performance Fact Sheets to prospective students, which include information on graduation and employment outcomes. In addition, each prospective student receives a copy of the Westwood Catalog, which repeats and then amplifies the Enrollment Agreement disclosures initiated by the student. The catalog also provides information on Westwood's accreditation and regulatory bodies. Students meet with financial aid officers as well to discuss the projected cost of tuition, fees, and books. The student's financial obligations are also explained in detail during the financial aid process.

Finally, Westwood provides a wealth of information for students, prospective students, and parents on its website, [www.westwood.edu](http://www.westwood.edu). One-click from the home page, you can find:

- Program information;
- Tuition by program and campus presented both on a per term and total program cost basis;
- Academic Catalogs;
- Graduate employment and starting salary information by campus;
- All disclosures mandated by the United States Department of Education; and,
- Frequently asked questions including information on accreditation and transfer of credit.

Westwood believes that its website is best-in-class in terms of completeness and transparency. Given the clarity and completeness of these disclosures, prospective students, current students and parents have available to them information on all relevant aspects of enrollment and attendance at Westwood.

***Loan Repayment and the Financial Aid Portal.*** In our brief review of the documents identified by staff for use in the report, it appears that staff will focus on the subject of default rates. As with the other topics in the report, loan repayment and financial aid cannot be viewed in isolation. It is important to understand the regulatory framework and economic conditions at the time, as well as the proactive, positive steps Westwood has taken and continues to take to advise students about their financial aid obligations and the tools available to them to manage repayment of their student loans.

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By way of background, pursuant to the Higher Education Opportunity Act, the Department of Education established in April 2008 a new 3-year cohort default rate measure. Previously, all cohort default rates were measured for two years. Despite the additional one year of measurement, the threshold for default rate compliance rose only 5 percent, from 25% to 30%. The first cohort measured under the three-year rule is referred to as the 2009 cohort and it consists of students who entered repayment for the period from October 1, 2008 through September 30, 2009. Under the three-year rule, their defaults were measured through September 30, 2011. Notably, this period coincided with one of the worst job markets in the United States in modern history and that situation directly impacted students. The rules, however, contained no allowances for the very real economic situation facing students in this country and held schools to measures that were set in a period of strong employment and economic growth. Accordingly, schools including Westwood recognized the critical need to actively reach out to students about their options to avoid default. Westwood did so to assist its students, meeting a particularly acute need in challenging economic times.

As part of its continued improvements and assistance to students, Westwood also launched its student financial aid portal in 2009. Developed at a cost of more than \$1 million, Westwood provides the student financial aid portal to assist students with the process of applying for financial aid and to ensure that students received complete and accurate information on their financial aid obligations. The portal ensures that all students receive consistent and compliant explanations as well as important disclosures, including entrance counseling.

**Extensive Training.** All Westwood admissions representatives participate in a five-day new hire training program. Learning is assessed after training through a variety of measures including written, electronic, and response card assessments, as well as live proficiency and observation. In addition, Directors of Admissions observe all admissions representatives on a consistent basis and monitor a variety of interactions to ensure the accuracy of the information presented and compliance with Westwood's policies. Admissions representatives also complete a compliance review twice per year to ensure understanding and application of key learning in ethics, integrity, and general compliance.

**Centralized Financial Aid Processing.** In late 2007, Westwood established the Student Finance Operations Center, a centralized financial aid processing center for all 17 of its campuses. By centralizing financial aid certification, disbursement and return of Title IV functions Westwood was able to ensure consistency in all areas of the financial aid process, create subject matter experts in each key process area, and improve the level of training and development for all people processing financial aid. Westwood completed the migration of campuses to this center in December 2010 and included a start-up investment of \$3 million. The implementation of the center has resulted in a significant improvement in student customer service and compliance with the Title IV regulations, as reflected in the Westwood campuses annual SFA audits.

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**Additional Training and Compliance Initiatives.** Westwood took immediate steps described below in response to the HELP Committee's August 4, 2010 hearing as part of its extensive efforts to continually enhance its existing training and compliance programs. It is important, however, to note initially that Westwood has significant concerns about the staff's continued reliance on the erroneous and discredited Government Accountability Office (GAO) investigation and testimony at the August 4 hearing. In an unprecedented action, GAO ultimately had to reissue its testimony to correct its numerous misstatements about for-profit schools, including Westwood. As Ranking Member Enzi has described the reissued testimony -- "[O]ver 50 changes were made to 12 pages of the original testimony. The majority consist of word changes, new or revised facts, and additional information about statements made by school officials. These changes appear to undermine many of the allegations made in Mr. Kutz's [GAO's] testimony, and suggest that information was either intentionally or recklessly omitted and/or misrepresented."<sup>8</sup> Inexplicably, staff continues to cite and rely on this discredited GAO investigation and testimony.

Not only has this testimony been shown to contain numerous misstatements and errors, but the Department of Education's Office of the Inspector General (IG) conducted a thorough investigation of Westwood following the GAO's report and found no evidence of misconduct. The IG's Office closed its investigation with no charges or grounds for further inquiry.

***Internal Investigation.*** Within days of the August 4 hearing, the Westwood College Board of Trustees retained two law firms, Hogan Lovells, one of the largest and most respected law firms in the United States, and Steese, Evan & Frankel, a Denver-based law firm with a national reputation in investigations, to conduct a system-wide independent investigation. This internal investigation cost Westwood \$750,000. Among other efforts, Westwood also implemented the training, compliance, and admissions policies and programs described below.

***System-Wide Training.*** In August and September 2010, Westwood conducted six, two-day regional training sessions for its financial aid, admissions, and student services staff. Over 1,100 employees attended the training, which focused, among other things, on the ethical conduct Westwood expects of its employees, the new admissions presentation, and a reaffirmation of the roles of admissions and financial aid representatives with respect to admissions and financial aid questions and process. The training created a strong focus on compliance in the student finance and admissions areas and set clear expectations of each department's role in the student recruitment process. The training costs exceeded \$350,000.

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<sup>8</sup> See Correspondence from the Hon. Michael Enzi to the Hon. Gene Dodaro (Dec. 7, 2010).

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**Compliance Initiatives.** In late 2010, Westwood contracted with a third party to conduct periodic mystery shopping of its admissions personnel, both in person at campuses and over the telephone. The annual cost of the mystery shopping program exceeds \$200,000. Westwood uses information learned through ongoing mystery shopping to conduct additional training, modify the manner in which it presents information, and provide the basis for disciplinary actions, if necessary.

Starting with the January 2012 term, Westwood rolled out a new compliance work plan for its campuses. Under development since early 2011, the compliance work plan requires Campus Presidents and Academic Deans to perform certain tasks on a term by term basis, such as review of graduate employment files, and sign attestations that the outcomes are consistent with accreditation and regulatory requirements, as well as Westwood policies. The Compliance Department will conduct periodic audits of these attestations.

**Admissions Materials and Compensation.** Westwood accelerated required implementation of the College U admissions presentation, mandating its use starting in August 2010 system-wide. As described above, this presentation provides extensive and detailed information for prospective students, which provides complete transparency and helps students make fully informed decisions about their education.

Westwood also eliminated incentive compensation for admissions employees in September 2010 and moved all of those employees to straight salary. **It is important to note that Westwood made this change nine months before the Department of Education's promulgation of new rules that eliminated the former "Safe Harbors" and prescribed new compensation rules for admission and financial aid employees.**

**2009 Review of Westwood by the Higher Learning Commission.** Until voluntarily withdrawing in November 2010, Westwood held candidate status with the Higher Learning Commission of the North Central Commission of Colleges and Schools ("HLC"). The report of the May 4-June 10, 2009 Comprehensive Evaluation Team for Initial Accreditation bears on the issues examined in the staff report with respect to the accuracy, openness, and completeness of Westwood's admissions practices and processes.

After an extensive review of each Westwood campus, its central administrative offices, thousands of documents and interviews with staff and students, the HLC accreditation team concluded that Westwood's admissions practices met the HLC's stringent accreditation requirements. With respect to the issues of integrity and accuracy of information, the accreditation team's report specifically noted the following evidence demonstrating that Westwood satisfied the HLC accreditation standards:

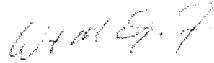
- "Tuition and fees are published on the web and as a hard copy addendum to the catalog."

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- “The team’s review of the institution’s advertising and marketing materials confirmed the accuracy and fairness in their statements and process.”
- “These [enrollment] agreements provide great clarity to students on their acceptance to the college, their area of study at the time of acceptance, the required curriculum, their charges for the term, and estimated charges for the entire program. The agreement and its use was strong evidence of Westwood College’s interest and ability to deal fairly and honestly with its constituents.”
- Westwood “... fairly and accurately informs students, prospective students and the public with up-to-date information about admissions, credit transfer, costs, refunds, financial aid and accreditation status of the organization and programs.”
- “Students, including those students who were interviewed on a phone conference, reported that they were comfortable with the ways in which Westwood College approached them during the admissions process and kept them informed of their financial responsibilities.”

In sum, throughout its growth as a leading educational institution in this country, Westwood has invested many millions of dollars to improve the student’s experience, foster an environment of continuous improvement and ensure its compliance with applicable laws, regulations and rules. Unfortunately, it appears that these well-documented efforts will not be reflected in the staff report. Notwithstanding staffs’ omission of these facts, it is important to consider these significant improvements and investments in evaluating the staff report and making informed and balanced conclusions about Westwood. For more information about Westwood and its current policies and procedures, please visit [www.westwood.edu](http://www.westwood.edu).

Sincerely,



William M. Ojile, Jr.  
Senior Vice President  
Chief Legal & Compliance Officer

cc: The Honorable Michael B. Enzi, Ranking Member

Elizabeth Stein  
 Chief Investigative Counsel  
 U.S. Senate Committee on Health, Education, Labor and Pensions  
 428 Senate Dirksen Office Building  
 Washington, DC 20510



June 27, 2012

RE: American Career College (ACC) Policy Response Letter – Appendix to Proposed “College Profile” Report

Dear Ms. Stein,

We appreciate the opportunity provided to review the data compiled by Committee staff for the proposed “College Profile” report resulting from American Career College’s response to Senator Harkin’s inquiry into the for-profit education sector. As discussed during our meeting on June 19, 2012, this letter will serve as ACC’s response to the proposed “College Profile” report and will be included in the report’s Appendix as part of the public record.

As we stated during the Senator’s inquiry process, American Career College fully supports accountability in all sectors of higher education. We believe that students who wish to pursue post-secondary training should have access to information that leads to an informed decision, regardless of whether s/he chooses a traditional four-year public college, a private university, a community college or a career training institution. However, we also believe that private colleges and universities should have the ability to protect information that it considers proprietary, confidential or trade secret.

During ACC’s meeting with you and your staff to review the information that Senator Harkin proposes to make public, it became clear that information that ACC provided, which was very clearly marked and identified as confidential, non-public information, is intended for publication. Moreover, during the inquiry process, ACC representatives were assured that the confidentiality of these documents would be protected. We consider this proposed publication to be a violation of ACC’s privacy. Further, its apparent use is counter to the stated intent of this inquiry, wherein it was indicated that the sources of the data and information would not be identified but rather would be presented in the aggregate. For a school like American Career College, which is a privately held organization, the release of private financial information is a major concern. We respectfully suggest that the responsible method would be to present information about the sector as a whole without releasing private data of the schools that responded to the inquiry. We urge Senator Harkin to honor the assurances of privacy made by his staff to ACC and we ask that the Senator not release even a redacted version of our private financial information as that information is confidential.

Included below is a response to the proposed “College Profile” as well we additional color and updated information for inclusion in the report.

**AMERICAN CAREER COLLEGE HISTORY**

As we are sure Senator Harkin will recall from our original submissions in response to his inquiry, American Career College has been a privately held, one owner institution since 1978. The College’s mission, since that time, has been to offer high quality, hands-on training programs to prepare members of its community for careers in the health care field. ACC began with one program in a tiny building in Los Angeles with fewer than 20 students, and has grown to a three campus system offering 10 certificate and associate degree programs in health care fields from Optical Dispensing and Vocational Nursing, to Respiratory Therapy and Health Information Technology. ACC’s singular focus on student success has not changed in 34 years and has resulted in more than 35,000 graduates trained for a new career during that time.

**RECOGNITION FROM THE COMMUNITY**

Along the way, ACC has received recognition from local employers for its well-prepared graduates, and special commendations from the Veteran's Administration for its strong collaboration in training vocational nurses to work in the Department of Veterans Affairs, Greater Los Angeles Health Care System. (That letter is attached here as Exhibit A.)

Also in 2012, all three ACC campuses were ranked in the top 100 institutions for success in earned certificates for short-term programs by *Community College Week* for the number of certificate program graduates ACC help its students to achieve in 2011. (The chart from *CCWeek* is attached as Exhibit B).

**GENERAL EDUCATION DEVELOPMENT (GED) PREPARATION PROGRAM**

More than 10 years ago, ACC began offering a free General Education Development (GED) Preparation Program for its students, in an effort to assist those entering ACC without a high school diploma to earn GED while working towards their diploma or certificate with ACC. Earning a GED has proven to be a great motivator for our students, many of whom had been unsuccessful in previous academic endeavors. It is also a great advantage for graduates entering the job market. Since its inception, ACC's GED program has helped more than 1,000 students prepare for and pass the GED exam. This year, with the federal budget cuts essentially forestalling any non-high school graduate's opportunity for higher education with the removal of the ATB option from the Title IV programs, ACC has expanded its free GED preparation program, making it available to anyone in the local community who qualifies, rather than just those who have enrolled at ACC. The College has invested substantially in this free community service program to ensure its success.

**CONSISTENT COMPLIANCE**

ACC has an extensive history of compliance with the High Education Act as enacted by Congress, and the regulations in support of the Act as implemented and executed by the United States Department of Education. ACC boasts very low cohort default rates and a solid 90/10 ratio, as well as exceptional investments in instruction, learning equipment, facilities and student services, far outpacing expenditures on marketing and admissions.

In further evidence of American Career College's commitment to student preparedness and success, with the Department of Education's release of the "informational" Gainful Employment "metrics" data on June 22, 2012, all programs at American Career College passed.

We believe ACC is an example of what education, whether for-profit or non-profit, should look like, and we continue to have concerns about the often one-sided portrayal of the entire for-profit education sector being presented by Senator Harkin.

**RESPONSE TO PROFILE DATA**

As we do not have the advantage of reviewing the "College Profile" data specific to ACC prior to publication, the information provided herein is responsive to what we assume will be included in the "Profile".

**STUDENT OUTCOMES**

The student outcomes chart was the only document ACC was able to review that actually included the data for publication. The layout of this chart is misleading. Looking only at the "Complete" column, it would appear that a relatively low percentage of ACC degree students graduated, when in fact, based on the time period measured, many of the students enrolled would not have graduated yet, and would remain enrolled. If the "Complete" column and the "Still Enrolled" are combined, it becomes clear that ACC's students have a very high rate of success – the Associate Degree programs, which are all longer than one year, had a completion rate, within the year, of 26.3% but a retention rate of 67.2%, and the Certificate programs had a completion rate, within the year, of 69.6% and a retention rate of 73.4%. The retention rate in both instances is well over the national average.

ACC's completion rate for the cohort (all new students) which began classes in calendar year 2008, and graduated within 150% of the published program length (which is the standard measure across higher education) is 71.6%. ACC's rate far



exceeds that of LA City College (which the Committee is planning to use for comparison purposes on cost) which reported a 15.26% completion rate for the 2008 cohort. For ACC, “completion” is truly a measure of program graduation, where the “completion” rate of LA City College is actually a measure of both “transfer-ready” students and those who have actually graduated from a terminal diploma or degree program, ready to enter the workforce. If you remove the “transfer ready” and count only those who have completed a terminal certificate or degree program, the completion rate would be significantly less. (Sourced at: <http://srk.cccco.edu/741/08index.htm>.) Our focus is on student success, and has been for over 34 years. ACC is proud of that outstanding record.

**COHORT DEFAULT RATES (CDR)**

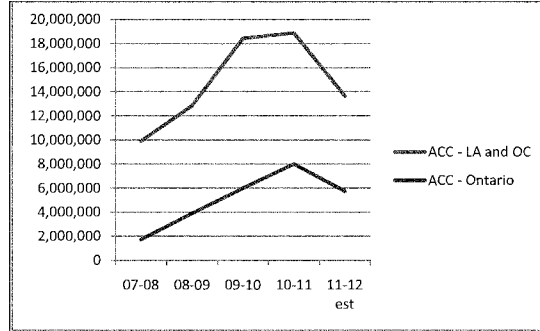
The chart provided for review did not include ACC's information, and the staff indicated it would be a weighted average of both the ACC – Los Angeles and Anaheim campuses' OPEID and that of ACC-Ontario. It is certainly worthwhile to preface further information on this topic by stating that the chart the Senator plans to present, once again, is misleading. The regulation that extended ACC's responsibility for managing student default to a third year was published in 2010 and will not be effective until this year (2012). The fact that this “Profile” intends to focus on cohorts of students for which ACC had no information or accountability (pre-2008) is troubling, and unfairly reflects on the institutions which were not accountable to, or in most cases, even aware of, the rate beyond what the Department mandated and published.

To give a clearer and fairer representation, ACC has included (as Exhibit C), for reference, CDR summary information, as well as separate OPEID charts (one for Los Angeles and Orange County, the other for Ontario) showing both the two-year CDR (which has been the benchmark and basis for regulation for over 10 years, and was only recently changed to expand into the third year) and the three-year rates, including the draft three-year rate for 2009, which shows marked improvement over the data for 2008.

As is reflected, ACC has consistently maintained stellar two-year default rates, and beginning with those students entering repayment in 2009, the first cohort for which ACC had the data and actively worked with the students through financial literacy programs and default avoidance counseling, the three-year rate is similarly solid.

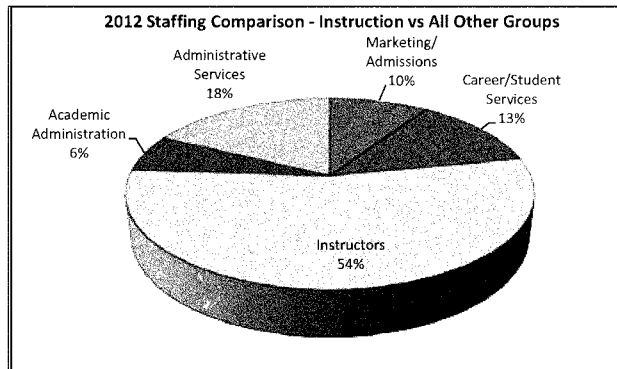
**PELL GRANT**

The Pell grant growth chart that the Senator proposes for publication reflects a period of growth for ACC over the years 2007 to 2009, which included moving its Inland Empire location in 2008 from a small campus location in Norco, with a total student capacity of about 600 students, to an expansive new space in Ontario. In the 18 months following the move, the campus size more than doubled as the College was able to offer more programs and service additional students. Additionally, during that time, the regulations governing Pell grants were changed to allow year-round funding, so students enrolled in programs with continuous scheduling were eligible for more Pell than had previously been the case. Also, with the economy entering recession during that period, there were more potential students entering training, looking for new career opportunities in a period of high unemployment and questionable career options. The Pell grants have since gone down with the removal of year-round Pell, and with the economic recovery, as is reflected in the chart that follows.



**STAFFING LEVELS**

Since mid 2011, ACC has reorganized its staffing model to better balance between the enrollment services and support, and the student services and career services support. While ACC has always invested heavily in instructional and instructional support staff, the new model is more heavily weighted to career and student services (at 13% of the staff) than to recruiting/admissions (at 10%). (See chart below.) This has allowed ACC to expand its career services options to serve as both a recruiting tool for local employers, and also to provide in-depth services to graduates, including conducting mock interviews, one-on-one counseling on appropriate interview attire, tone and professionalism, job search techniques, resume writing and updating, as well as setting interview appointments and working with employers to help the graduate get the job. Additionally, the career services department hosts quarterly job fairs where local employers attend to provide information about their job openings and meet with students and graduates. Attached is a chart to show the current breakdown of ACC employees, showing admissions/enrollment staff, student and career services staff, instructional staff, and all other ACC staff.



**SPENDING AND PROFITABILITY**

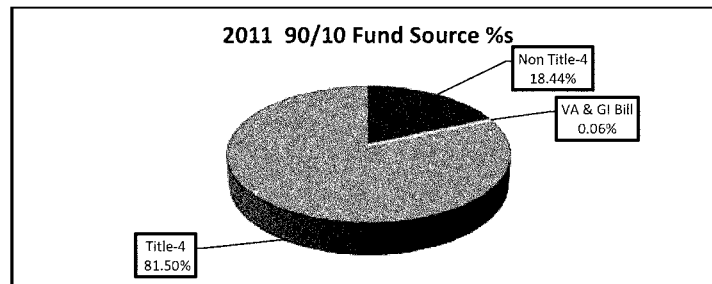
As a percentage of revenue, ACC spends a relatively small amount on marketing and recruiting, only about 11%. This is a testament to ACC's success with its current students and graduates who are often the source of referrals to ACC, a rate which generally tops 40% of ACC's enrollments. ACC invests far more heavily in instructional services, instructional equipment and facilities and support services than it does on any other area.

The percentage of profit and the profit growth from 2007 to 2009 are, again, somewhat misleading. As a sole-proprietorship, ACC has only one owner who is responsible for all the College's corporate tax, which is paid from those profits, as well as his own personal income tax, which is a further reduction in that profit number. As the owner of ACC for 34 years, the owner also carries the sole risk, and has done well in years the schools have done well, and has carried the burden in years of struggle. Due to the downturn in the economy in 2009, and the marked increase in those re-entering training programs, enrollment was up and the College did well. This year, as the economy has recovered and fewer people sought out training, the profit will go down substantially. It is also worth noting that the owner of ACC reinvests much of the profits he actually earns back into the College through acquisition of campus real estate, leasehold improvements and other projects to improve the student experience at ACC.

It is also worth noting that in 2009 ACC won a settlement for theft of trade secrets and violation of fiduciary duty perpetrated by a former employee. That settlement, which was an extraordinary, non-recurring event, in the amount of \$5 million, is reflected in the 2009 financial information and accounts for almost 30% of the net income for that year. Those funds have been used to support ACC's various philanthropic endeavors in the local community, including assisting organizations like ThinkTogether and KidWorks, which support after-school programs for young people in underserved communities; local health care foundations such as those through the Children's Hospital of Orange County; and the provision of dental and medical equipment to be used on a mobile dental/health care bus that visits homeless shelters throughout Los Angeles, Orange and San Bernardino counties.

**FUNDING SOURCES**

Although ACC is an approved education provider by the Veteran's Administration, it has very few veteran students and thus a minimal amount of funds coming from the Department of Defense or other federal sources. As stated earlier, ACC has also sought to be a partner to the local VA and we have worked hard to maintain a great relationship with that organization, and to provide them only highly trained individuals for employment in their facilities. Although we do not know exactly what the chart proposed by the Senator will show, we believe that it will track closely with our 90/10 ratio, which reflects funds received from the US Department of Education federal student aid program (Title IV) and those funds received from other sources. A chart reflecting our 2011 90/10 ratio, as well as the funds received from the Department of Defense programs, is below.



**TUITION AND FEES COMPARISON**

Based on conversation with staff, ACC expects that a chart will be included in the "Profile" which reflects a cost comparison between the Medical Assisting diploma program at the ACC-Los Angeles campus, and a similar program offered through Los Angeles City College.

In discussing price (tuition and fees) comparisons between types of institutions, we urge the Senator to make the important distinction between the cost of providing the education/training and the price charged to the student. In order to get a true comparison, the Senator must consider a number of factors beyond just the tuition and fees covered by the student, and those federal student aid dollars for which that student might be eligible and which the student chooses to use at ACC. Any chart used for this comparison should be characterized as a "price" comparison and not a "cost" comparison.

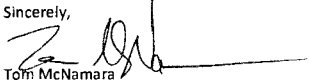
It is true that the California Community College System offers very affordably priced tuition to students, in fact, the lowest tuition of any community college system in the nation. (Source: California Legislative Analysts' Office, *The 2012-13 Budget: Analysis of the Governor's Higher Education Proposal*, published February 8, 2012.) What the Senator's proposed tuition and fee chart doesn't reflect is how much that program costs to offer, and how that program at a community college is being subsidized by the state and the California tax-payer, subsidies which ACC does not receive.

The only federal funds ACC receives are those that its students CHOOSE to apply to their education with ACC. ACC has no endowment or major donors (other than the owner), and ACC offers high quality programs at state of the art campuses in areas of study where educational programs can be quite expensive to run. The cost of an ACC program is covered entirely by student tuition; in the California Community College System, student tuition charges account for only 20% of the cost to provide the program. (Source: *Ibid.*) However, the cost to offer the program is similar at each institution.

When you add the convenience of ACC's programs, the fact that a student can generally enroll AND COMPLETE a program within a year, where s/he might spend two or three times as long trying to get through a community college program where course offerings are limited and budgets constantly being cut, the "cost" looks much different. While many students will choose to complete their training at a community college in order to save money, many others will choose to invest more initially in order to complete training more quickly and enter the workforce sooner. ACC encourages prospective students to investigate their options, even if it means choosing to attend elsewhere. The "opportunity cost" for being out-of-work while in school for an extended period of time may be much greater than the price differential between a private sector institution and a highly subsidized community college.

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As Senator Harkin continues his push for policy change that broadens transparency and accountability in for-profit education, we hope that he will also recognize that accountability is needed across all of higher education, not just in one sector. For-profit education providers offer opportunities for a better future to millions of Americans every year, many after years of academic failure and seemingly insurmountable struggles to succeed in a traditional college environment while balancing family, a job and other responsibilities. We welcome accountability. We welcome transparency. We just ask that the Senator not forget the non-traditional students, the adult learners, and all the other successful career-training graduates who have benefited and changed their lives by attending private sector colleges and universities.

Sincerely,  
  
Tom McNamara  
President  
American Career College

Cc: Senator Mike Enzi, Ranking Member, U.S. Senate Committee on Health, Education, Labor and Pensions



DEPARTMENT OF VETERANS AFFAIRS  
Greater Los Angeles Healthcare System  
11301 Wilshire Boulevard  
Los Angeles, CA 90073

February 3, 2011

In Reply Refer To: 691/118E

American Career College  
Rita Totten, Executive Director  
4021 Rosewood Avenue  
Los Angeles, CA 90004

Dear Ms. Totten:

We would like to acknowledge our long lasting partnership with American Career College. Your educational institution has been provided excellent clinical faculty supervision for students. Your students are very professional and provide compassionate care to our Veterans. In 2004-6 we hired a large group of your students for a New Horizons program. It is impressive that of these 37 we hired, over 50% of them now have obtained their RN degree and 2 have BSN and 2 have MSN degrees. These applicants stood out in their professional behavior and preparation for their interviews. We were impressed by their quality, competence, commitment to service, and their contributions to GLA.

You graduate competent healthcare professionals. We have had an outstanding partnership with your school. Please accept my compliments for the supportive role that your school has played in providing care to our Veterans. Your institution has demonstrated quality healthcare education.

Sincerely,

Sharon Valente, PhD., APRN, BC, Associate Chief Nurse, Research/Education

Bakersfield Ambulatory  
Care Center  
1801 Westwind Dr.  
Bakersfield, CA 93301  
661-632-1800

Los Angeles Ambulatory  
Care Center  
351 E. Temple St.  
Los Angeles, CA 90012  
213-253-2677

Santa Barbara  
Ambulatory  
Care Center  
4440 Calle Real  
Santa Barbara, CA  
93110  
805-683-1491

Sepulveda Ambulatory  
Care Center and Nursing  
Home  
16111 Plummer St.  
North Hills, CA 91343  
(818)891-7711

West Los Angeles  
Healthcare Center  
11301 Wilshire Blvd.  
Los Angeles, CA 90073  
(310)478-3711

TOP 100 ASSOCIATE DEGREE PRODUCERS | 2012

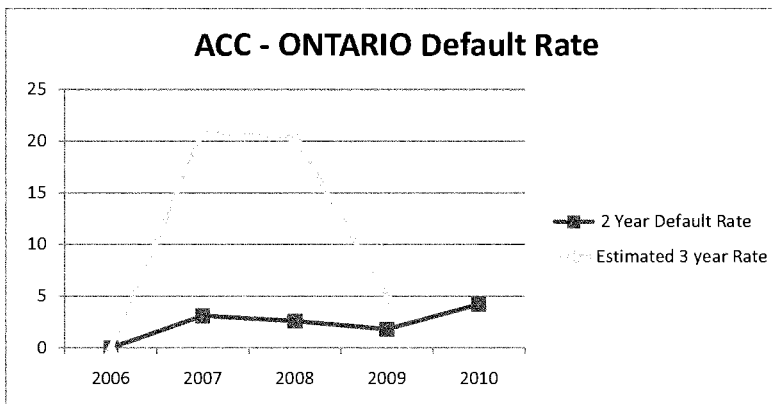
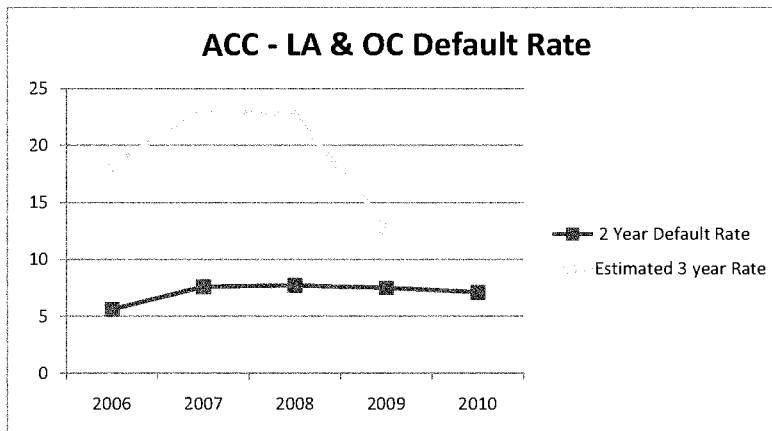
<1-YEAR CERTIFICATES: ALL DISCIPLINES

RANK	SCHOOL	TOTAL ASSOCIATE	WHITE		UNKNOWN		ASIAN AMERICAN		HISPANIC	
			NO.	PERCENT	NO.	PERCENT	NO.	PERCENT	NO.	PERCENT
1	San Jose State Univ.	1323	542	41%	1	0%	43	3%	103	8%
2	San Diego State Univ.	1121	398	35%	1	0%	26	2%	37	3%
3	San Diego State Univ. - San Marcos	872	353	40%	1	0%	17	2%	31	4%
4	San Diego State Univ. - Escondido	778	318	41%	1	0%	27	3%	38	5%
5	San Diego State Univ. - San Marcos	777	318	41%	1	0%	27	3%	38	5%
6	San Diego State Univ. - Escondido	777	318	41%	1	0%	27	3%	38	5%
7	San Diego State Univ. - San Marcos	777	318	41%	1	0%	27	3%	38	5%
8	San Diego State Univ. - Escondido	777	318	41%	1	0%	27	3%	38	5%
9	San Diego State Univ. - San Marcos	777	318	41%	1	0%	27	3%	38	5%
10	San Diego State Univ. - Escondido	777	318	41%	1	0%	27	3%	38	5%

Source: Community College Statewide 2012. Department of Education

AMERICAN CAREER COLLEGE COHORT DEFAULT RATE INFORMATION

		Cohort Year	2 Year Default Rate	Estimated 3 year Rate
<b>ACC - LA and OC</b>	Draft	2010	7.1	
	Official	2009	7.5	12.9
	Official	2008	7.7	22.7
	Official	2007	7.6	23.1
	Official	2006	5.6	18.3
<b>ACC-ONTARIO</b>	Draft	2010	4.2	
	Official	2009	1.8	5
	Official	2008	2.6	20.4
	Official	2007	3.1	20.9
	Official	2006	0	0





July 2, 2012

The Honorable Tom Harkin, Chairman  
United States Senate Committee on Health, Education, Labor, and Pensions  
428 Dirksen Senate Office Building  
Washington, DC 20510-6300

Re: Forthcoming Chairman's Report

Dear Chairman Harkin:

I write today in regard to your forthcoming report. I am unable to comment as to the substance and conclusions of your report, as no one from Apollo Group or University of Phoenix was provided access to the report itself. Rather, we were provided access to isolated pieces of information reportedly relied on by your staff in preparing the report, such as examples of presentation charts and roughly a dozen documents, a number of which date from 2007-08, that we provided to your staff. The processes used by your staff in compiling and preparing the report have additional material weaknesses that have been documented by others. I would like to take the opportunity afforded by your staff to share with you an accurate and more comprehensive view of the Apollo Group's and University of Phoenix's longstanding and exceptional efforts to advance student success, protect taxpayer interests and ensure educational opportunities are expanded.

I hope that the details and context provided below will enhance the understanding of your staff and others who may read your report regarding University of Phoenix's unique and important role in educating adult and non-traditional learners, creating and sustaining innovation in higher education, and confronting the educational and workforce challenges that this nation must address. Specifically, this letter will address: (1) the historical role that the University of Phoenix has played in educating adult and non-traditional learners and bringing



innovation to higher education; (2) the enhancements that University of Phoenix has on its own initiative implemented in recent years to its enrollment procedures that are designed to ensure that only those students who are ready to undertake the significant responsibilities of pursuing a higher degree at University of Phoenix enroll; (3) impressive student outcomes at the University of Phoenix; and (4) the unique and important role that the University of Phoenix and its innovative approaches can and should play in confronting this nation's educational and workforce challenges.

### **Introduction**

Thirty-eight years ago, Apollo Group was founded in response to the increasing shift in higher education demographics from a student population dominated by youth to one in which now approximately half the students are adults and a majority work full-time. The University of Phoenix, a wholly owned subsidiary of Apollo Group, is now the largest private university in North America, with nearly 350,000 currently enrolled students, more than 700,000 alumni and 30,000 plus faculty instructors.

Since its inception, the University of Phoenix has based its mission on serving the underserved of higher education; as a result, we currently boast a highly diverse student population. Eighteen percent of our students are African American, compared to a national average of only 12 percent. Additionally, female students make up two-thirds of the total enrollment at the University of Phoenix, compared to just over half of the overall enrollment in colleges and universities nationwide. To serve our diverse student body, we offer a wide range of programs, degrees, locations, and service offerings to meet the wide ranging needs of our student population. The University of Phoenix currently offers associate's, bachelor's, master's, and doctoral degree programs from campuses and learning centers across the U.S. In fact, according to a recent study based on graduation data collected by the U.S. Department of Education (*Diverse: Issues in Higher Education*), University of Phoenix awarded the most bachelor's degrees to minorities in the 2010-11 academic year of any university in the country.

Since 1978, University of Phoenix has been regionally accredited by the Higher Learning Commission and is a member of the North Central Association of Colleges and Schools. Additionally, the University's Business, Education, Nursing and Counseling (in select locations) programs, comprising the majority of the University's student population, are programmatically accredited by nationally and internationally recognized accreditation associations.

**Higher Education at a Crossroads**

Today, with knowledge and expertise as the backbone of our information-based economy, the reality is more than 60 percent of jobs require advanced skills training or education. Not surprisingly, it is expected that the fastest growing jobs in the coming decade will require a college level degree or higher. As a result, more Americans than ever need a college degree and are seeking access to higher education in order to remain competitive, to advance in their careers, increase their opportunities and improve the lots of their families. However, despite the shift in educational and professional requirements for jobs over the years, currently only 35 percent of American workers over the age of 25 have achieved a four-year degree. There are approximately 132 million Americans in the U.S. labor force over the age of 25, of whom over 80 million do not have a bachelor's degree -- 50 million of those have never started college and more than 30 million never completed their degree. Partially as a result of these shortcomings within our educational system, the U.S. recently lost its number one competitive ranking in the world, according to the World Economic Forum's Global Competitiveness Report. Providing access to a quality higher education and promoting college retention and completion are cornerstones of Apollo Group's and University of Phoenix's commitment to the country and the students we serve.

Recognizing this significant problem, the Obama Administration last year outlined three important goals for the U.S. higher education system. These goals are critical to the country regaining its standing as a leader in education and remaining competitive in an increasingly global economy.

The President's goals include:

- For every American to receive at least one year of higher education or job training;
- To regain the highest graduation rate among developed countries by 2020, and;
- To encourage and promote lifelong learning.

Apollo Group and all of its educational subsidiaries, including University of Phoenix, believe we have a shared responsibility with the Administration, our colleagues in the higher education community and the current and future American students to achieve these goals and we are devoting significant resources to do so. As a transformative and innovative leader in the education industry over the past 38 years, we continue to aggressively invest and innovate to develop the means necessary to help more students and their families realize the American Dream.

While Apollo Group and University of Phoenix are applying our energy, experience and resources to help achieve the nation's goals, there remain some dissenting voices that claim the proprietary education sector should be excluded from being part of the solution. Despite this, it is impossible to ignore that this sector plays an increasingly critical role in the education ecosystem of the United States. Indeed, without the assistance of the proprietary education sector, the President's goals are all but impossible to achieve given the current institutional capacity and fiscal crisis faced by federal and state governments.

Further emphasizing this idea is the recent statement of the U.S. Secretary of Education, Arne Duncan, who said:

*"Let me be crystal clear: for-profit institutions play a vital role in training young people and adults for jobs. They are critical to helping America meet the President's 2020 goal. They are helping us meet the explosive demand for skills that public institutions cannot always meet."*

We are confident that the over 90,000 working learner students who have graduated from University of Phoenix over the past year alone, with degrees in business, education, nursing,

technology and other critically important fields, would further lend their voices to the chorus stating that the University of Phoenix provides valuable education to those who desire it the most. However, our graduates were not given a voice in this report.

**Our Historical & Continued Commitment to Improving Higher Education**

Throughout our history we have been guided by a singular vision to provide education to those underserved by the traditional higher educational establishment. Our founder, Dr. John Sperling, believed that education was the only utilitarian means by which individuals could proactively improve their socio-economic situation. The University of Phoenix and Apollo Group's approach to providing high quality, affordable education to those who desire it the most -- those willing to put in the time and effort to be educated -- is the foundation for all of the long list of innovations that we have developed over the years.

In fact, many of the techniques first pioneered by University of Phoenix are now considered best practice by the larger educational community in general, including the use of online and blended-modality instructional approaches, the use of e-books, the reliance on faculty practitioners with both advanced degrees and industry specific experience to provide practical learning to students and our utilization of small learning teams to promote learning among classmates -- all provided at an affordable price.

***Flexible, Student-Centered Model***

Throughout our history, the University of Phoenix has pioneered learning pedagogies to meet the unique demands of working learners. In the early days, this meant providing students the ability to take night courses in locations close to their place of work; a revolutionary concept in the late 1970's and early 1980's. As the University grew, it found new ways to serve by providing students with flexible scheduling, a choice of online or on-ground campus-based classrooms and the ability to take a class load that fits their life schedule -- whether that be one course at a time, or engaging in just in time learning by utilizing a skill obtained in class during the evenings that can be immediately applied to work the following day.

As we evolve to meet the needs of today's student, we understand that the one-size-fits-all model of traditional higher education is poorly suited for the needs of today's working learner. Our wide range of academic offerings — certificate programs, associate's, bachelor's, master's and doctoral degree programs — allow students, with the help of an advisor focused entirely on their needs, to choose a degree program or series of courses that's right for their career goals and academic preparation.

Based on the wide range of learners who we serve, the University of Phoenix offers degree programs acutely relevant to today's workforce, with courses taught by instructors who have professional experience in their respective fields of instruction. Each course curriculum is faculty developed and centrally coordinated to ensure consistent learning outcomes and academic rigor across our modalities and pedagogies. At the conclusion of each class, students are assessed on outcomes and competencies that are aligned to academic norms, industry standards, and nationally recognized results to ensure a practical and rigorous academic experience.

Our student centric model in place today is further highlighted by the small class sizes we utilize. In a University with nearly 350,000 students, the average class size is about 15 students. This student centric approach makes it possible for students to receive valuable one-on-one attention from instructors, while also sharing knowledge and experiences with their classmates, all of which enhances the academic experience. The faculty to student ratio at University of Phoenix also highlights our ability to apply rigorous academic standards at scale in an effective and efficient manner.

Because working learners are balancing competing demands on their time, we provide each student high levels of logistical and personal support. As soon as students enroll with University of Phoenix, they are connected with a dedicated graduation team that stays with the student every step of the way until graduation. The graduation teams consist of: an enrollment advisor who serves as the student's initial contact; a financial advisor who helps the student find a payment plan that encourages only responsible and necessary borrowing; and an academic advisor who serves as a guide to help the student choose their academic

program to make sure they take the appropriate classes needed for graduation and to meet the student's educational objectives. The graduation team works proactively with each student to answer questions and make sure he or she is on track academically.

To continue our tradition to innovate new student centric learning capabilities, we are investing hundreds of millions of dollars into the development of the next-generation of learners by developing a world-class adaptive learning platform designed for the classroom of tomorrow. PhoenixConnect, the first stage of the online learning platform was released in October of 2010 and was developed with the intent of empowering students to extend their network beyond their small 15-person classes and connect with students and faculty across the entire university, regardless of which program they take or in which country or time zone they are located. Additional aspects of the next-generation learning platform will be announced and rolled out to students and faculty over the course of the next year. Taken together, all of these enhancements will only continue to strengthen the University's commitment to provide a student centric learning environment enabled by technology and innovation.

#### ***Faculty Practitioners***

University of Phoenix has more than 30,000 esteemed faculty members. Since the beginning, they have been the key to the success of University of Phoenix and, more importantly, to the success of our students. As one of our doctoral student's research concluded: "One of the key predictors of students' academic success or failure was the quality of their relationships with faculty."

Two key differentiating factors of our faculty model has been the use of faculty practitioners to teach our courses and our small class sizes. Pioneered over 30 years ago, this continues to be the cornerstone of providing a relevant, engaging educational experience to our students. Our faculty are required to hold a Masters or Doctoral degree, do not rely on teaching assistants; they lead their classes with interactive tasks that have direct relevance to their students workplace and directly support learning outcomes.

As with all universities, our faculty is integral to building curriculum that is tied to learning outcomes which are built on their experience as practitioners in their field of work and study. Since our faculty focus on providing our working learners with skills necessary to be competitive in today's workplace, the measurements used to gauge student learning outcomes are appropriately tied to verifiable learning assessments.

While our faculty practitioner model has proven to have been extremely successful in enabling student learning outcomes, which we highlight in the following Academic Quality section, we continue to enhance our faculty support. For instance, the University of Phoenix Faculty Research Grant Program provides grants of \$1,000, \$5,000 and \$10,000 to those faculty engaged in independent research projects. As with most university grants, proposals are evaluated on the basis of methodological rigor, potential for scholarly contribution and practical research merit. The program provides a strong incentive for faculty who wish to enhance their careers while teaching with University of Phoenix and encourages our faculty to be active members of the broader academic community.

Our faculty practitioner model at the University of Phoenix enables our diverse student population to achieve their one and only shared goal: to pursue their life aspirations through higher education complete with recognized academic rigor.

#### *Academic Quality*

The University of Phoenix is proud of its innovative role in the higher education industry, and our heritage in helping to pioneer higher education tailored to the unique needs of the working learner.

In addition to our pursuit of innovation in the classroom experience, we have also focused on providing an objective and transparent assessment of our academic outcomes. Each year the University of Phoenix releases comprehensive data in an Academic Annual Report that shows student achievement and academic progression. The report, unique among institutions of higher education, highlights our commitment to transparency, constant innovation and continuous efforts to improve the learning experience through advanced technology. In short,

it is a vital tool for determining where both our students are having success and where we have room for improvement as an institution of higher learning.

Ultimately, the long term success of the University is based on the value of the education we deliver to our students; in this way, their success is our success. We work to further strengthen this symbiotic relationship by publishing our institutional outcomes so students can make informed decisions about where to invest in their education. We believe this is a key aspect of being a responsible educator in today's society, which is why we publish an academic annual report.

Following are additional criteria that the University of Phoenix was evaluated against in the most recent Academic Annual Report. In general, findings were grouped by key measures of success common to all higher education institutions.

*Academic Proficiency and Progress* – The University received the Showcase in Excellence Award from the Arizona Quality Alliance (AQA) in 2010 – which is based on the Baldrige award for process excellence - in recognition of the University's commitment to the development of quality academics through the Academic Program Development Process. Additionally, University of Phoenix freshmen performed comparably on items related to the Humanities and Social Sciences to freshmen students at other institutions, according to the ETS Proficiency Profile (EPP) to measure students' academic proficiency and progress. (The EPP was previously known as the Measure of Academic Proficiency and Progress — or MAPP — assessment.)

*Completion Rates* -- Like all accredited colleges and universities, our degree completion rate is assessed by the federal government's Integrated Postsecondary Education Data System (IPEDS), although the system does a poor job of assessing the nation's non-traditional students who comprise the majority of the University's student body by eliminating many from the calculation despite their achievement and success. (This is because IPEDS only considers "first-time" college students who complete their entire college program at the same institution.) Given that many University of Phoenix students enter the University with transfer



credits from other institutions, we use the University Completion Rate, which takes into account the entire University student body to more accurately measure our completion rate. The rate is defined as the percentage of students who completed at least three credits and went on to be degree-complete within 150 percent of normal degree completion time.

University of Phoenix completion rates for associate degrees is 34 and 23 percent for those students graduating in four years and 36 percent for students who graduate in four years. For bachelor's degrees, the University's completion rate is 34 percent for those students who graduate in six years and 36 percent for students who take more than six years to complete. In 2009, at the graduate level, University of Phoenix completion rate is 55 percent for students who graduate in three years and 63 percent for students who require more than three years to complete degree requirements.

*Student Salary Increase* – Since many of our students are employed full-time while enrolled in classes, many students view salary increases at their current employer as a key success metric in determining the value of their education. Internal research has shown that our students' average annual salaries for the time they are enrolled in their program of study increase at higher rates than the overall national average salary increase for the same time period. Students enrolled in University of Phoenix bachelor's degree programs in 2010 earned an average salary increase of 6.8 percent during their time of enrollment, compared to the national average of 2.9 percent. At the master's level, students earned an average increase of 6.5 percent during enrollment compared to a national average of 2.9 percent during the same time period.

*Diversity* – As the nation's leading producer of Bachelor's degrees for minorities, our student body is significantly more diverse than those found at traditional universities. Close to half of our enrollment consists of students from racial or ethnic communities who are traditionally underrepresented within institutions of higher education.

*Information Literacy* -- Using the Standardized Assessment of Information Literacy Skills (SAILS) methodology, University of Phoenix freshmen scored as well as or better than

freshman students at other institutions in half of the eight areas measured; in the four remaining areas, performance among the two groups is comparable except on the Documenting Sources skill set. Seniors also compared favorably to students at similar institutions in six out of the eight categories.

*Student Satisfaction Surveys* -- University of Phoenix student satisfaction surveys over the last year showed that students rated all categories (e.g., faculty effectiveness, curriculum effectiveness, academic services, financial aid services) high -- at approximately 90 percent or better. End-of-program surveys indicate that students felt their experience at the University was a positive one and rated all services and categories (e.g., enrollment counseling, academic advising, financial aid services, quality of instruction, availability of faculty, learning teams, library/learning resources) well above average. The University also uses an external measure of student satisfaction, the National Survey of Student Engagement (NSSE). In nine of the ten categories, our students rated the University's support and instruction higher than the national average response rating.

We view these findings in two important ways. First, we believe that these findings highlight the academic successes of our students in achieving their learning goals. Additionally, we believe that these published findings provide us with important insights in where and how best to continually improve the academic product provided to our students. We take these findings seriously and will continue to develop innovative approaches to further support the improvement of the academic outcomes of our students.

#### ***Encouraging Responsible Student Borrowing***

A student's financial outcomes are just as important as his or her educational outcomes and we have steadily worked to expand the tools and information provided to students to help them make responsible borrowing decisions. The results of our efforts are evident in the fact that although no school may restrict a student's ability to borrow up to the federally set Title IV limits, total student debt levels at University of Phoenix are within national averages when compared to both public and independent private four-year colleges and universities.

As part of this effort, the University is committed to ensuring financial literacy of our students and encouraging students to take on only so much debt as is reasonably necessary for their education. To this end, we provide a series of tools including University Orientation, online loan calculators and common-sense guides to help students better understand the direct and indirect costs of their education, enabling them to make better informed financial decisions. Because our mission is to serve the underserved, the cost of the majority of our degree granting programs allow for responsible federal borrowing decisions, ensuring an affordable education, regardless of individual economic status.

***Encouraging Preparedness for Classroom Rigors***

University Orientation, a three-week, non-credit-bearing, free orientation course generally required of prospective students who have had less than one year of college experience, is an example of continued innovation in helping students balance their financial obligations with their educational goals. The program is designed to help students understand the commitment necessary to complete a college degree at University of Phoenix. The curriculum emphasizes the need for time management, computer skills, and responsible borrowing, and prepares students for what they can expect in their coursework — whether in our online classrooms or at our on-the-ground facilities.

University Orientation gives prospective students— before they make any financial commitments or incur any costs - critical insights into the realities of undertaking a university degree program. The program familiarizes students with the college classroom and the post-secondary academic environment, re-emphasizes the time and skills required to succeed at University of Phoenix, and outlines the tools and resources available to all University of Phoenix students — including our vast online library, writing and math skills centers, and dozens of other academic workshops. As part of the orientation, prospective students are also provided the facts behind paying for college and what students should expect if they choose to apply for financial aid.

Over the past two years, roughly one in five prospective students who participated in University Orientation elected not to pursue their desired degree program — solely because of

what they learned during the three-week University Orientation course and weighing what they learned against their professional and family obligations. In short, University Orientation allowed them to experience first-hand that college was different than what they expected and not feasible at that time in their lives.

***Compliance as a Fundamental Tenet of Our Culture***

In addition, the University has spent more than \$100 million enhancing our compliance systems – including large, state of the art investments in digital call monitoring which enables us to have a robust student protection program in place as part of our routine compliance activities. Practically, that means we are both randomly and routinely spot-checking our own advisors to ensure full compliance with our high standards. This translates into our advisors giving students the best and most accurate information, and helps focus them on, actively counseling students to avoid unnecessary debt.

These proactive steps taken to increase transparency and protect students can serve as a model for all institutions of higher education. Clearly, all students, regardless of the institutions they choose, should be afforded the same fundamental protections and safeguards just as all institutions, regardless of their governance structure or tax status, should be held to same high ethical standards.

**Enabling the Success of University of Phoenix Students**

The University's flexible, student-centric model, faculty practitioners, solid academic quality, and encouragement of responsible borrowing habits, were made with our founder's central vision in mind: to provide access to high quality education for those students underserved by the traditional higher education community. This vision is unchanged. Our innovative approach to education has assisted working learners meet their personal and professional goals in the intensely competitive global environment. We believe that the ambitious goals of the Obama Administration cannot be reached without an understanding of who the next generation of students is and what systems need to be in place to adequately serve them.

*The Next Generation of American Students – Working Learners*

The next generation of American students is already here – they are what we call working learners. Today, students who attend school while working or raising a family make up nearly 73 percent of America’s student body, according to the National Center for Education Statistics. This number has increased by more than 20 percent in just the last five years. As a result, working learners also represent a growing demographic within our national workforce, today comprising 75 million Americans, or 60 percent of the workforce.

These working learners face many barriers in the traditional higher education system that often deter them from pursuing and completing degree programs. These non-traditional students often have full time jobs. They are parents, spouses, caregivers, and active members of the military. As adults, with a myriad of responsibilities and demands on their time, working learners require an innovative education model that emphasizes flexibility, support and practicality but that remains uncompromising on high quality.

Statistics show that working learners are often first-generation students. They often come from low-income backgrounds. These students are often unable to depend on friends and families for guidance on how to apply for, enroll in and succeed in higher education. Many working learners are also returning to school after being absent from the academic environment for long periods of time and, similarly, have a difficult time navigating the college-entrance process on their own.

In fact, working learners often turn away from higher education because of the rigid — and oftentimes inflexible — scheduling and class formats required by traditional colleges and universities. They are often already juggling full-time jobs and family responsibilities and cannot – nor be expected to - fit a traditional course load into their daily lives because of these competing demands. Working learners need a schedule that allows them to complete coursework around their full-time responsibilities, maximize the amount of time spent with their families and minimize the amount of money spent on childcare and other services when in class.

Furthermore, research suggests that only one-third of today's high school seniors are prepared for higher education. According to the U.S. Department of Education, working learners face even greater challenges to college success because of the very traits that characterize them as non-traditional students. Many attended public, urban or poor-quality secondary schools that simply fell short of preparing them for college; they require remediation or other special preparation before they are ready for college-level academics. Additionally, many working learners are not aware of their options to prepare for college academically.

***Addressing Shortages in Critical Occupations***

Going forward, the University of Phoenix is strongly positioned to help the country address the shortages America faces in critically important and high-need disciplines. For example, the University's College of Nursing, which recently achieved 10-year programmatic accreditation from the Commission of Collegiate Nursing Education (CCNE), and plans to expand its offering by adding Bachelor and Master in Science of Nursing programs to help individuals gain the skills necessary to successfully enter the rapidly growing nursing profession.

To support this growing need, we have built innovative Nursing Center Simulation Labs in Arizona, Colorado, Hawaii and California, where nursing students experience hands on learning in a real-life hospital environment. Students learn real-life lessons from the atmosphere of the realistic simulations and the substantial teaching and discovery process that follows.

**Current Challenges to Achieving the President's Goals**

As with any goal worth obtaining, the path to achieve the President's objective is not easy to see nor simple to navigate. Simply put, the country faces key challenges to achieve the President's educational goals.

***The Incremental Investment Necessary to Achieve the President's 2020 Vision***

In order to meet just one of President Obama's national education goals—ensuring that every American receives one year of college—we estimate it would require the “traditional”

education system to provide new access to more than 50 million first-time students, hire and train 500,000 new faculty members, create 1-2 million additional classes, and build the equivalent of thousands of new colleges and universities. These are simply impossible realities given the current fiscal situation the nation and states find themselves in today.

Additionally, in order to meet President Obama's national graduation goals, it would require an *additional 13.1 million* college graduates (including five million community college graduates) by 2020 according to the National Center for Higher Education Management Systems. To that end, we estimate that utilizing public institutions alone would cost the taxpayers *more than \$800 billion* over the next ten years to educate the additional 13.1 million graduates necessary to meet President Obama's goal of America once again having the highest graduation rate among developed countries by 2020.

Achieving this feat would not only be monumental and daunting in itself, but to do so at a time when traditional schools' resources are under pressure makes the task a near impossibility. Thirty-nine states have cut funding to public colleges and universities in the past year alone and schools are being forced to cut faculty positions and student capacity just to remain viable.

Given these realities, the University of Phoenix and other accredited, degree-granting proprietary institutions play a critical role in the future of education by providing access to students who, if left to the means of traditional education, would never even get a chance to pursue a university education.

Throughout our history, we have invested continually to realize our founder's vision to provide education to those underserved by the traditional higher educational establishment. We continue to believe in that vision and in the idea that education is, and will continue to be, the only utilitarian, pragmatic means by which individuals can proactively improve their socio-economic means. This vision has provided the University of Phoenix and Apollo Group with the mandate to innovate and always take the steps necessary to ensure a world-class experience for each of our students.

We believe that what is right to do from the student's perspective is what's right to do from a long-term business perspective. These two perspectives are not incongruent – in fact, they are closely aligned. We as an institution cannot succeed unless we continue to pursue robust academic rigor and impressive, dedicated graduates. We are driven to innovate. We look forward to working with all of the stakeholders in the higher education eco-system to drive improvements and new alternatives in order to provide our students with access to the education they desire and deserve.

The Apollo Group and the University of Phoenix share the resolve to ensure that American students receive a quality education without unreasonable debt along with sound prospects for gainful employment. We share your belief that institutions engage in appropriate enrollment practices. We share your resolution that service members, veterans and their families must be treated with respect and empowered to achieve their higher education goals. All these beliefs are pillars of our institution and have been for the last 38 years.

As the President and Congress have repeatedly recognized, private sector postsecondary institutions play a vital role in American education and in the American economy more broadly. President Obama declared that “dropping out of high schools is no longer an option,” and the Department has noted, “[t]his goal cannot be achieved without a healthy and productive for-profit sector of higher education.” With this in mind, it is better to try and find ways to lift the quality of education for all students rather than the vilification of the one sector of higher education.

University of Phoenix has done more to enable and enhance the student experience through technology, adaptive learning, flexible scheduling and on-line learning than any other educational institution in the world. There are numerous examples of our commitment to remaining at the forefront of educational innovation. Some of the recent examples include:



Carnegie Learning

Apollo Group acquired Carnegie Learning to advance the adaptive learning model and to improve math curricula around a state of the art learning platform. This system is designed to enhance the student experience with and outcomes in math and improve learning retention.

Education 2 Careers (E2C)

The Education 2 Careers initiative that we launched along with the expansion of our workforce solutions initiative over the last year shows our constant focus on not just high quality learning outcomes but also linking education to a job and career path. Featured organizations include Learning Care Group, Sodexo, Verizon, the McGraw-Hill Companies and others.

ReadyMinds

ReadyMinds is being used to accelerate delivery of career services to University of Phoenix students. Founded in 1998, ReadyMinds is a pioneer in career counseling services. The company leverages a network of certified counselors that provide career assistance.

Phoenix Lecture Series

The University of Phoenix has taken an innovative approach to providing a flexible student centric approach to providing access to a high quality academic experience for all of our diverse students. Of course none of this would be possible without the dedication and expertise of our valued faculty and instructors. This includes the Phoenix Lecture Series. Students can watch videos recorded by such notable business names as Gary Hamel, Nicholas Negroponte and Clayton Christensen.


For many who have attended school as a full time, first time, on campus student without a full time job or a family to care for, the approach of University of Phoenix is hard to comprehend and often times, it leads to misperceptions. People who care about educating students for the jobs of today and tomorrow should give far less weight to isolated documents and incomplete narrative and instead engage in a broad and open conversation with those, such as University of Phoenix, who have proven through decades of educational commitment and innovation to be important and unique components of any solution to today's higher education challenges.

Thank you for the opportunity to share this information about our history, our commitment to students, our practices and outcomes, and our goals at University of Phoenix and Apollo Group.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark Brenner', with a long horizontal flourish extending to the right.

Mark Brenner  
Senior Vice President, External Affairs  
Apollo Group, Inc.

  
Bridgepoint Education's Comments on Report  
On For-Profit Universities

Bridgepoint Education, Inc.'s Ashford University, a major provider of online education with an on-campus institution in Iowa, would like to thank the Committee for its thorough review of the for-profit education model to ensure its value to students. We share this commitment to quality student outcomes and hope that we have been able to share some best practices in this process.

Ashford University programs are rigorous and well thought of by its students. It serves a population that likely would not obtain a higher education but for the accessible programming it provides. Ashford University graduates a higher proportion of at-risk students than do most other colleges and universities, whether nonprofit or for-profit; and does so at a lower cost than most colleges and universities. The result is less ongoing debt than the average student coming out of college. Bachelor-level alumni reported that 91% were employed when surveyed. Its cohort default rate on federal aid for all students is substantially below the allowable limits.

Ashford University continues to refine admissions, attendance and educational practices, so as to provide more effective and efficient services while also refining ways to assure the rigors of a college education are made clear to students from the beginning. Indeed, many of the practices we have adopted – from orienting new students to requiring perfect attendance in the first few weeks of classes to setting a minimum age for students to assure their seriousness – can serve as models for any university.

**Ashford University students:** Ashford University students are financially independent and more than 70% work while they are taking courses; 65% are age 30 or older. More than 70% of Ashford University students are women – many of them single mothers – and just shy of half are minorities. Most are first generation college students.

The United States Department of Education has repeatedly recognized specific risk factors associated with a student's inability to obtain a degree or other postsecondary credential. Such factors include financial independence, part-time attendance, delayed enrollment, full-time work, dependents, and single parenthood, matching our students. Ashford University is bringing this population an educational opportunity previously unimaginable for a better long-term quality of life.

**Ashford University results:** Ashford University's completion rate for those enrolled in bachelor's degree programs is higher than the average of more than 600 for-profit universities and is comparable to or better than that for students who fit our demographic characteristics regardless of whether they are in nonprofit or for-profit colleges. This combines with a program that most graduates believe prepares them very well for the workplace and increases their earnings power.

In November 2010, Ashford University invited graduates to participate in an alumni survey. In August 2011, Ashford University administered the same survey to all alumni who graduated since the 2010 administration and to those who did not respond in 2010. Ninety-one percent of responding Ashford University alumni whose highest degree from the University was a Bachelor's reported that they were employed in a full-time or part-time position as of the survey date. In the surveys, 92% of respondents rated their overall satisfaction with Ashford University as "very satisfied" or "satisfied," with 62% choosing "very satisfied."

The surveys showed 95% of alumni would recommend Ashford University to others, while 97% reported their satisfaction. Eighty-seven percent said that earning their degree from Ashford University gave them the confidence to pursue new job opportunities; 91% agreed that earning their Ashford University degree was worth the time required; and 92% of those who previously attended a traditional institution felt that Ashford University's educational quality is the same as, or higher than, a traditional college or university.

Bachelor's degree graduates responding to our 2011 survey reported salaries averaged 11.6% higher than their salaries at matriculation; for graduate degree recipients, the average increase was 11.0%. Especially in these difficult economic times, we believe such salary increases demonstrate the value that our postsecondary degrees can deliver to working adult students.

In the past we have been disappointed with the rate of completion of our associate's program. With no external requirement, we reviewed our AA programs, and determined that many younger people were not yet ready for the intense career orientation of such programs; since April 2010, we have required that students be at least 22 to enter Associate programs; our initial results show that continuing enrollment and graduation is higher than the numbers that the Committee references from earlier years. We will continue to look for ways to improve program structure to the benefit of the student.

**Ashford University student feedback:** The student course evaluations chosen by the Committee for inclusion in its report provide a resounding testimonial to our students' view of our courses and faculty. These evaluations overwhelmingly speak to the skills and caring of the professors and the rigor of our programs. Eighty-five percent of respondents to end of course surveys for our online courses during the 2010 and 2011 academic years rated the quality of their instructor as either high or very high. Eighty-four percent strongly agree or agree that the course material will be valuable after graduation.

As a threshold, our programs have always complied with Department of Education requirements for measuring academic progress.

But holding ourselves to the highest standard, we have not been satisfied to only meet federal requirements. Over the years, Ashford University has implemented programs to test student readiness and dedication at the outset. They include an orientation program for new students and our minimum age requirement. We have mandated that students in the first five weeks of classes must have *perfect* attendance in order to go on, so as to determine as early as possible whether those students have the initiative. We do not know of any nonprofit university that has these requirements.

**Ashford University recruitment:** Ashford University's efforts to inform potential students about the value of an Ashford University degree comply with all federal and state recruitment laws.

And our mission extends beyond complying with the law. Our nation's educators, economists and policymakers agree on one issue perhaps more than any other that faces our country – that both the individual and the nation benefit from post-secondary education. The messages that our counselors have been trained to deliver are those that allay the concerns of potential students who are not familiar with a post-secondary education and do not have a community that has already engaged in post-secondary education. Our materials urge students to attend post-secondary education, and alleviate the standard ambivalence about whether they have enough time, whether it is worth the cost, and their fears about pursuing a degree.

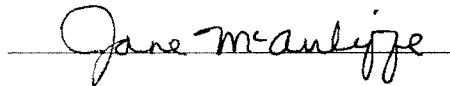
The first page of Ashford University's messaging for its admissions counselors states: "Rules to Remember ...

- Never pressure a student or PUSH them into applying to AU but instead, inspire them to take the next step ... and,
- Never manufacture urgency."

**Ashford University cost:** The total tuition for a BA degree from Ashford University is \$42,240, a fraction of the cost of many traditional universities and far below the average cost at public universities. Upon graduation, the average Ashford University online undergraduate student has an average loan balance of \$14,504, also less than the average college graduate loan balance of over \$25,000. Ashford University tries to keep its costs within the amount of federal grants and loans that students can obtain, so as to minimize the amount that a student would need to borrow from private lenders.

The cost to the taxpayer of an Ashford University education is far less than this amount would suggest – public universities, which educate the great majority of students attending nonprofits, obtain huge subsidies from state taxpayers, who pay no extra funds for an Ashford University education.

**Summary:** Bridgepoint Education and Ashford University are proud of the results Ashford University has obtained for its students – their satisfaction with the education they have received, their graduation rates, and the economic value of an Ashford University degree. We are always striving to provide a still better education and to better assure that prospective students are ready for the rigors of an Ashford University education.

A handwritten signature in black ink, reading "Jane McAuliffe", is written over a horizontal line. The signature is cursive and fluid.



CAPPELLA UNIVERSITY

June 26, 2012

Ms. Beth Stein  
 Chief Investigative Counsel  
 US Senate Committee on Health, Education, Labor and Pensions  
 428 Senate Dirksen Office Building  
 Washington, DC 20510

Dear Ms. Stein:

I am writing as a follow-up to Ms. Amy Ronneberg's and my meeting with you and other HELP Committee staff on Tuesday, June 19. As we expressed at the meeting, we sincerely appreciate the opportunity to provide further input on this matter.

As we discussed in our meeting, Capella University does not look like most other higher education institutions, regardless of sector. We serve working adult learners (ages 24 and above) primarily seeking graduate degrees, all in an on-line setting utilizing a competency-based curriculum. Most of our learners are pursuing degrees in spite of the fact they exhibit three or more of the "risk factors" identified by the Department of Education, and many of those learners are the first members of their families to pursue higher education. According to graduate survey information, 56% of Capella graduates come from families in which neither parent has completed a college degree (see Attachment I, based on Eduventures data).

Capella has over the years demonstrated a responsible, high quality approach to higher education. We have worked closely with the Department of Education: on the 50% Rules Demonstration Program from 1998 to 2005; more recently, on initiatives to combat fraud in online education, providing significant input over the past several years to the Office of Inspector General and to our Case Team; and on numerous other subjects during Capella's now twenty years of existence. Our cohort default rates are extremely low and compare favorably even to schools in traditional non-profit higher education. Further in that regard, institutional gainful employment data recently released by the Department of Education confirms that Capella's graduates use their degrees to earn very respectable incomes, which in turn help them to repay loans upon which they may have relied to finance their educations.

In short, we believe that we've over the years demonstrated a strong commitment to our learners, while at the same time developing and zealously guarding a strong compliance culture within our institution, including compliance – in both letter and spirit – with Title IV program requirements. It is our hope that Senator Harkin's final report will highlight

this reality, as well as the importance of educating the population of working adult learners we serve, who are vital to American competitiveness and who rely on institutions like Capella to provide much needed access.

When we met with you and your colleagues, Ms. Stein, we discussed the topic of redaction. I don't believe that we have significant concerns in that regard, but let me play back to you here my understandings, just so we are certain that we are on the same page. My understanding is that you will redact all names of employees below the executive level. I also understand that you will redact all learner names. Therefore, I will not waste your time identifying in this letter each such employee or learner name.

We also discussed the topic of competitively-sensitive information. My primary concern in that regard was what you intended to do with our Investor Q&A Background deck that we conspicuously labeled "Confidential & Private." You informed me that you intended only to refer to one page from that deck: Bates numbered page CAPELLA-0106292 dealing with marketing matters (specifically enrollment and lead sources). With the understanding that you will not be referring to other pages from Investor Q&A Background deck, we do not object to you using the information on Bates numbered page CAPELLA-0106292 and we do not require redaction of any information on that page. As a point of clarification, the "enrollments" being discussed on that page are total enrollments and not new enrollments.

Those are Capella's comments related to redaction and competitive concerns. During our meeting, you also stated that we could provide context for the nine Capella-specific documents that you asked us to review and for the slides that we understand will be created to compare and contrast Capella's performance, across a number of metrics, to the "average" performance of Capella and the other 29 proprietary schools for which you've collected data. (Note: Technically, you may have provided us 10 documents, but since the Bates numbering sequence that you provided to us classified as one document a letter from the Higher Learning Commission to Capella and the underlying complaint letter from the learner, I'll follow your lead and classify those two documents as one.)

I should add here that I'm including with this letter (collectively Attachment 2) the Capella-specific slides that Ms. Ronneberg prepared following our meeting. We'd be grateful if HELP Committee staff would review our work to make sure that our slides are consistent with the Capella-specific slides that I believe you've already prepared. Allow me to now provide that additional context, beginning with the slides that you reviewed with us.

#### **Slide Depicting Student Outcomes**

As you noted during our discussions, Capella is primarily a graduate institution and, therefore, programmatic comparisons between Capella and many of the other institutions from which you collected data are difficult. At the Bachelor's level, which constituted about 18% of our learners during the applicable measurement period, our "withdrawal" rate was 60.3%. To state the obvious, we want to reduce that withdrawal rate, and



reducing the withdrawal rate has been a significant area of focus for Capella; as we studied our learner success metrics and identified increased withdrawal rates, we took action.

As I'm sure Committee staff is aware based on the work it has done, withdrawal rates have been higher in online programs than in on-ground and "blended" programs, so Capella (as an entirely on-line institution) has been facing headwinds in that regard. On the positive side, however, the online environment is a data-rich environment and over the past two years we launched a persistence initiative that encompasses all parts of the organization. In simple terms, the persistence initiative involves applying sophisticated analytics to the data-rich environment to develop methodologies (including pre-enrollment assessments as ultimate predictors of program success) to help learners persist more effectively to degree completion. Our 2012 budget for this persistence work is \$7.3 Million. That work has produced positive results to-date – including enhancements in our ability to provide personalized support and program planning that we believe will increase learner success – and we fully expect that, in the months and years ahead, our withdrawal rates will decline not only at the Bachelor's level, but at all degree levels.

In terms of context, there are a couple other points to consider. As noted in my introductory comments above, Capella's enrollment reflects a significant number of learners facing three or more of the Department of Education's risk factors; the higher the risk, the greater the challenge to get to the promised land of degree completion. We are proud of the learners we serve, and neither we nor our learners are making excuses, but reality is that populations of learners facing larger numbers of risk factors do not persist as well as populations not facing those same risk factors.

Finally, as Ms. Ronneberg and I mentioned during our meeting last week, we use Capella First Course (the required first course in a learner's program) as an intensive opportunity for both institution and learner to assess fit in a real life environment. We are an institution that prides itself on providing access. To that end, if learners qualify for admission to Capella (based on criteria that include past grade point average and age), we allow those learners to enter our programs. Following admission into our programs, learners enter the rigorous First Course experience; we lose a number of learners during First Course, especially at the undergraduate level. And frankly, many of those learners are lost not because of anything Capella did or did not do, but rather because the learners themselves conclude that, for myriad reasons (including other life challenges and priorities), continuing education is not right for them at the present time. When we lose those learners, our withdrawal statistics trend higher than we would otherwise prefer, but we nonetheless feel that the correct result has been achieved: learners leave the program having attempted continuing higher education, but before they accumulate significant debt.

#### **Slide Depicting Marketing Spend, Profit and Other**

It's difficult to know whether the slide depicting marketing spend is "apples to apples." For example, Capella allocates significant overhead expense to certain line items in the

profit and loss statement, such as marketing. Also, Capella includes in its "marketing" expense the salaries of enrollment counselors and similarly situated employees. So although our "marketing expense" is above the average of the 30 institutions from which you collected data, we suspect that, in light of differences in how institutions classify and account for their various expenses, the picture may well be distorted. At a minimum, I would think Senator Harkin would acknowledge this fact in his report, probably by asterisking the applicable slides.

Perhaps most important in the marketing area, in spite of Capella's required level of marketing spend, our tuition is similar to many quality public and non-profit schools. At the end of the day, we take very seriously our mandate to deliver quality results at competitive tuition rates.

From a contextual standpoint, consider that Capella is a completely on-line university. As such, true marketing spend is in part the functional equivalent of capital investment by campus-based schools in creating student and employer awareness of those schools' programs. Investment by campus-based schools in their campuses and facilities is without question intended to market those schools. Right here in Minnesota, many private liberal arts institutions bemoan the fact that one well endowed institution is winning the student recruiting wars in large part because that institution is able to invest so heavily in ultra-modern, aesthetically-appealing campus and facilities.

Moreover, Capella is, as elsewhere, different in many respects from the other 29 schools to which we are being compared. Most significantly, marketing to Capella's niche professional graduate markets is inherently more expensive than marketing to much larger Associate's, Bachelor's and trade school markets. To effectively convey our message to the learners we serve, we must stretch our resources across wide professional, geographic, demographic and technology dimensions. Further to the resource point, Capella is much smaller from a revenue standpoint than many other proprietary institutions and, therefore, we are disadvantaged when compared to those other institutions on a "percentage of revenue spent on marketing" basis; in terms of real dollars spent on marketing, our spend levels are significantly lower than the spend levels of the larger institutions.

I should also note that the "other" spend category is over half of Capella's total spend. And in the "other" area, Capella spends significant dollars on academic matters. For example, based on 2009 data, we spent 16% of total spend on faculty compensation. Of significant note, we also spent 16% of total spend on student support services, including salaries for 119 academic advisors whose primary role is to work directly with learners to assist learners in putting together degree completion plans, answering questions about the online learner environment at Capella, advocating for learners both in the course room and elsewhere throughout Capella, and generally doing whatever needs to be done to assist learners in the pursuit of the academic goals.

**Slide Depicting 2007 – 2010 Staffing Levels**

On the topic of staffing levels, you'll note that, in marked contrast to the 30-school slide, our staffing levels for student service functions exceed our staffing levels for recruiters. As I've already noted, Capella is and always has been committed to learner success, and I believe the staffing level analysis tells a good story about Capella in that regard.

I understand from our discussions at our meeting last week, Ms. Stein, that Senator Harkin and HELP Committee staff are also focused on staffing levels in career services functions. As we explained at the meeting, our learners have never needed a large career services staff at Capella, and here are some facts to back up that point.

First and foremost, I think it's useful to look at our story through the eyes of our learners, the vast majority of whom are employed at the time they matriculate at Capella. Of note in the regard, career conversations with our learners happen across the entire learner lifecycle, beginning with the recruitment process where our enrollment services advisors utilize numerous tools designed to facilitate career conversations with incoming learners. Career content is embedded directly into many of our courses. For example, there is an assignment in one of our counseling courses that requires learners to do an informational interview with someone in the field; we provide materials and resources to facilitate that conversation. Additionally, academic advisors (who are classified as support services rather than career services in the slide) incorporate career conversations into their ongoing work with learners; again, tools, training and materials are provided to facilitate an outstanding experience in that regard.

As to our career center itself, I've included with this letter an attachment (Attachment 3) that describes ways in which we interact with learners on career-related subjects. Many of those interactions are automated and therefore reduce the career service headcount numbers. As you'll see from the attachment, our learners are extremely satisfied with their career service interactions.

We also track metrics related to those graduating from our programs. The Department of Education recently released gainful employment data to institutions. In Capella's case, the data showed that our graduates are gainfully employed in professions in which they earn significant incomes, thereby positioning them to repay their Title IV loans. I'm attaching to this letter a table (Attachment 4, based on data provided by the Department of Education) that shows income data for graduates from our various programs and specializations.

Finally, as we explained in our meeting last week, we serve adult learners, the vast majority of whom are employed in their chosen fields prior to coming to Capella. In the main, they attend Capella to get the advanced degree that qualifies them for advancement with their current employer. As to outcomes achieved by our learners, attached to this letter is a slide (Attachment 5, based on Eduventures data) depicting the career progression of Capella graduates from enrollment through five years after degree

completion. Of particular relevance, thirty percent of respondents were employed in higher level managerial or executive positions at the time of enrollment; that number increases to fifty-five percent five years after the respondents completed their programs.

In summary on this point, from the perspective of our learners, we are doing a lot right in the career services area. Department of Education gainful employment data certainly confirms that our learners are succeeding in their careers. To be sure, our approach in this area is not people intensive, but I do believe we are demonstrating strong outcomes and I would hope that context would make its way into Senator Harkin's report.

#### **Slide(s) Depicting Program Cost**

As I mentioned, we've included program cost slides that we put together for Capella based on what we believe you are trying to show in the report. Candidly, the program cost area is the area in which we were probably least sure of the assumptions used for the slides that will be included in Senator Harkin's report. To that end, we'd greatly appreciate it if you would please review the program cost slides (one for each of our schools) that we've included and get back to us if you need clarification or additional context.

You will note from a total program cost perspective that Capella's programs compare favorably even to in-state tuition at the University of Minnesota, an institution that receives significant taxpayer funding. This favorability results largely from the fact that many of our adult learners enter Capella with significant credit for prior learning and, therefore, cost to degree tends to be lower.

#### **Commentary on Nine Documents Provided to Us for Review**

As noted above, you provided us with nine documents to review. I've already commented on redaction and confidentiality issues, so all that remains is some brief contextual commentary on the six documents that contain learner complaints.

I think it's important from a context standpoint to note that, from a population of now over 36,000 learners, our production to you of over 2,000,000 documents contained only 151 learner complaints, and those complaints were spread out over an almost five year time period from January 1, 2006 through August 2010. Senate HELP Committee staff in turn pulled six documents that contained learner complaints. Even if we assume that all of those complaints were valid as written, the rate at which learners complain is extremely low, and some contextual commentary in Senator Harkin's report around that point would be useful, I believe.

Additionally, although we certainly respect the rights of our learners to be heard on issues of concern to them, I have to say in Capella's defense that we simply do not agree with certain statements made in those complaints. And if those statements were, for example, presented in Senator Harkin's report out of context to support a premise that Capella's course offerings or services were fundamentally flawed in one or more areas, such an

approach would, in my opinion, at best leave readers of the report misinformed vis-a-vis the totality of Capella's work, and at worst leave readers seriously misled on that subject.

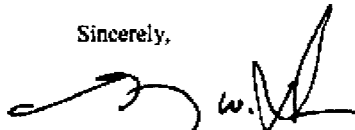
Upon our return to Minneapolis, I asked our customer care group to go back and review each of the six cases and to provide me additional context by talking to people who were directly involved in handling each matter and by capturing the impressions of those directly involved. I've attached to this letter (collectively, Attachment 6) those case histories as pulled together by our customer care group. In the cases we reviewed, there is clear evidence that Capella went above and beyond for learners.

Finally, with respect to learner complaints, I recall that we provided to you with our 2010 data submissions a number of unsolicited learner testimonials praising work done by Capella and its staff. Those testimonials far outnumber the complaints that we receive, another contextual fact that would be nice to see in Senator Harkin's report.

I'll close, Ms. Stein, by again thanking you for the opportunity you gave us to review and comment on documents in advance of Senator Harkin releasing his report. In that spirit, I'd again ask that, if you have any questions about this letter or the materials that we've provided in conjunction with this letter, you or others on HELP Committee staff would reach out to us to further discuss.

I think the record makes clear Senator Harkin's agenda with respect to the proprietary higher education sector and he's certainly entitled to pursue his agenda. Capella's "ask" is that, at a minimum, the report forthcoming from Senator Harkin include proper context to leave readers in a position to judge for themselves the merits of unique institutions like Capella. From a degree standpoint, we frankly look much more like the institution to which we are being compared in the degree cost area (e.g. the University of Minnesota), than we look like other schools in the proprietary higher education space. We hope that Senator Harkin's final report acknowledges this reality and the importance of the learner population we serve.

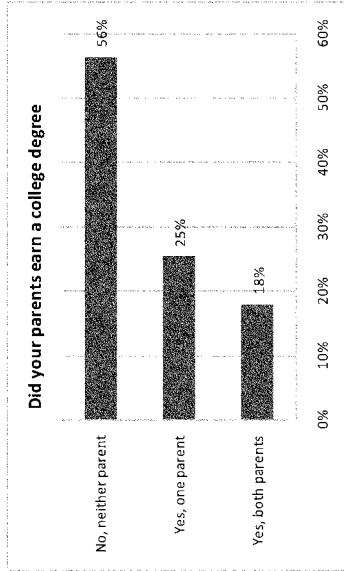
Sincerely,



Gregory W. Thom  
Senior Vice President & General Counsel

cc: Mr. Kevin Gilligan, CEO  
Ms. Amy Ronneberg, Vice President Learner Services

# Majority of Capella graduates are first generation graduates

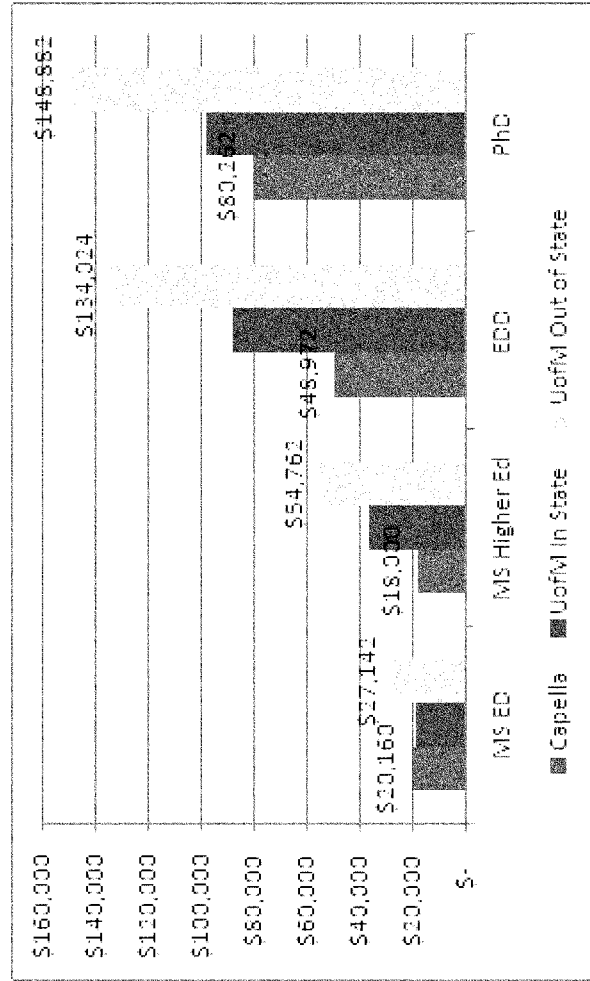


56% of Capella graduates' parents did not have any college degree.

- Survey Title: Eduventure Alumni Survey
- Data Collected: September 2010
- Total Sample: 18,212 (All historical alumni from 1997 – 2010 to-date)
- Total Submits: 2,416
- Response Rate: 13.26% (vs. 4 - 8% for other)
- Margin of Error: +/- 1.87%

## **HELP Committee Chart Comparison**

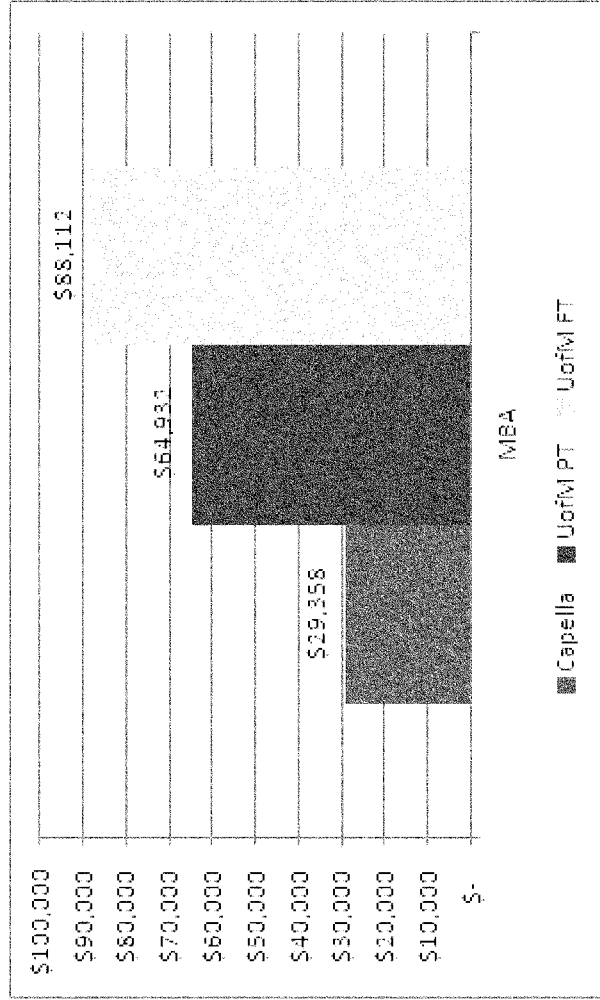
# Capella vs State Total Program Costs- School of Education



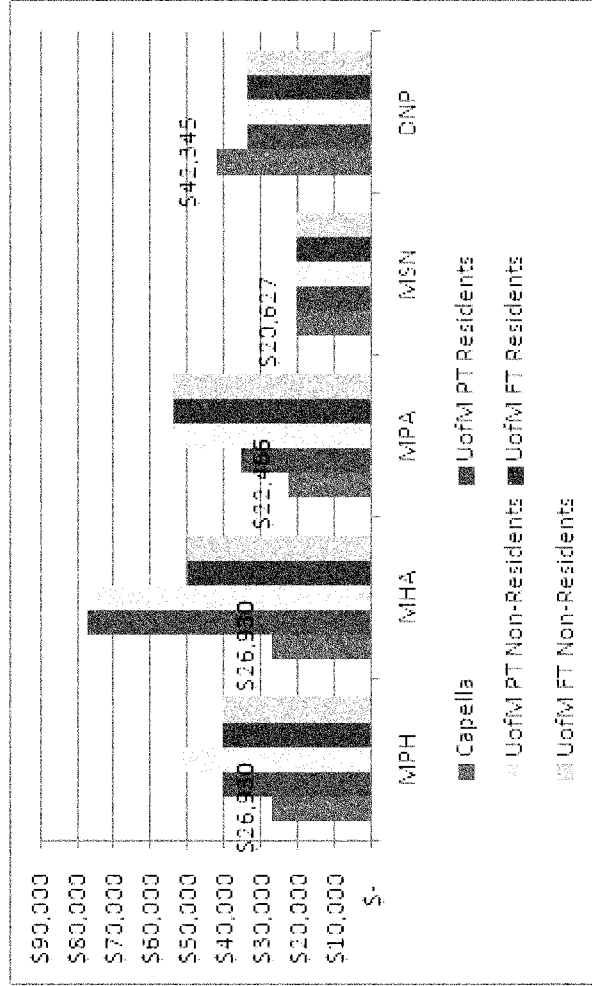
A6-53



# Capella vs State Total Program Costs- MBA

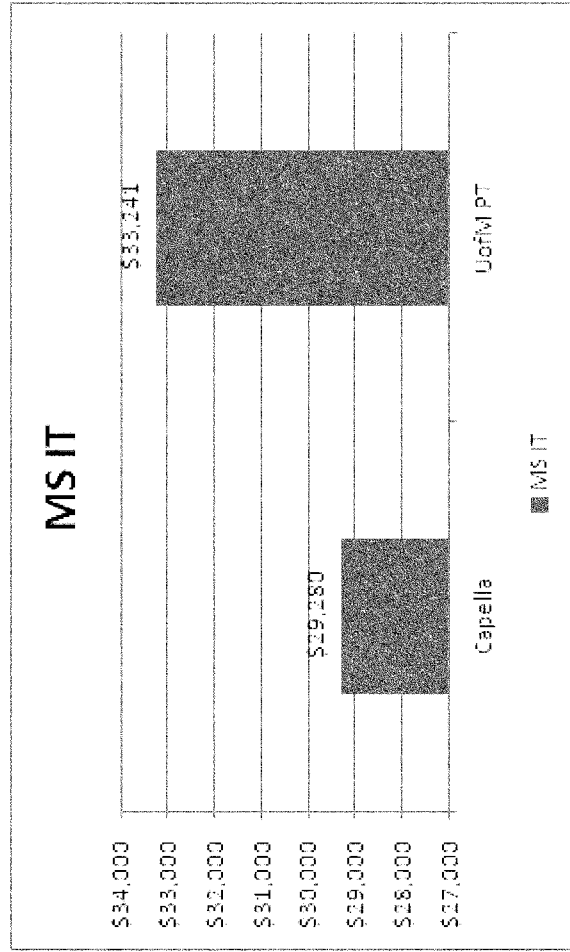


# Capella vs State Total Program Costs- Public Service Leadership

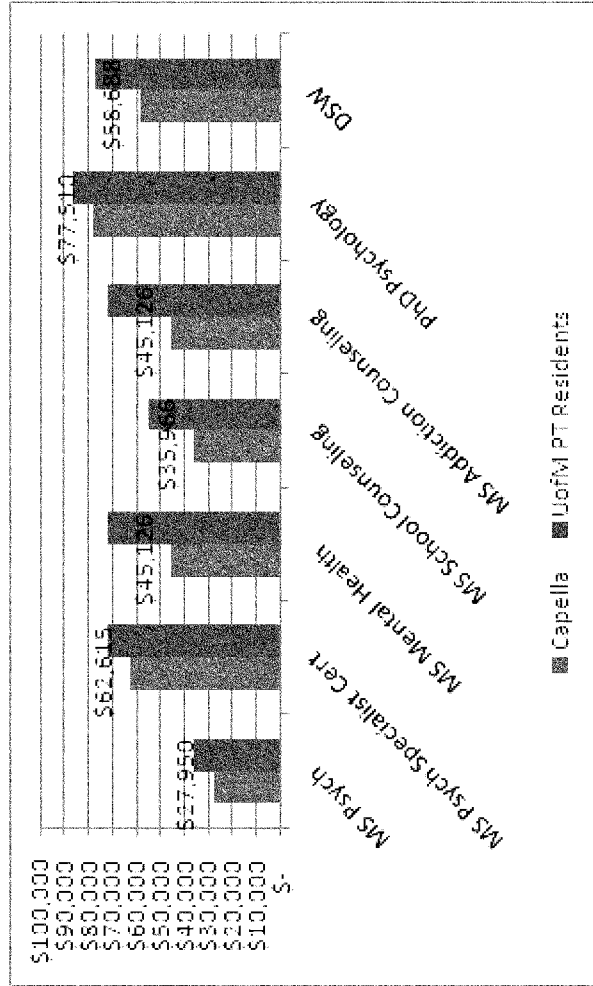


A6-55

Capella vs State Total Program Costs- IT

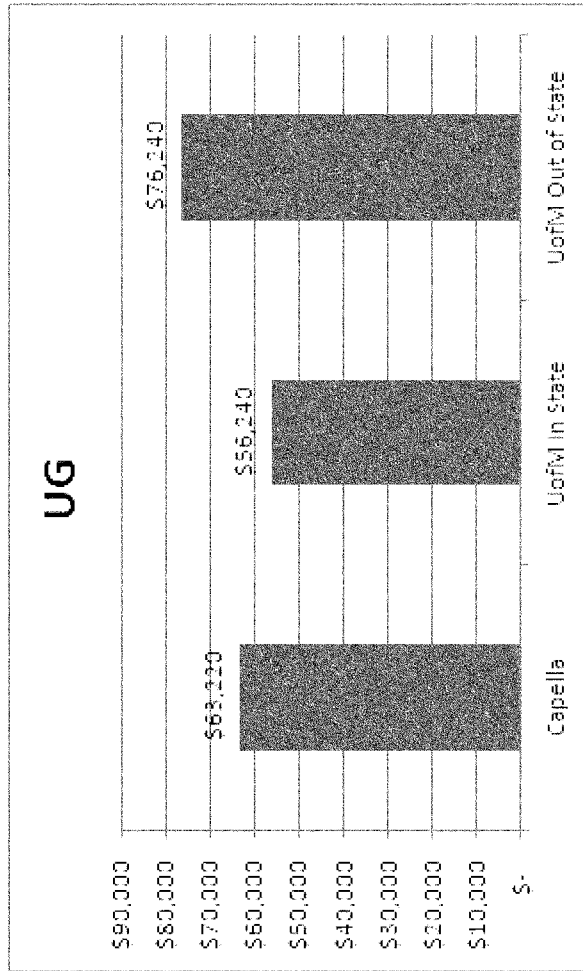


**Capella vs State Total Program Costs- School of Behavioral Science**

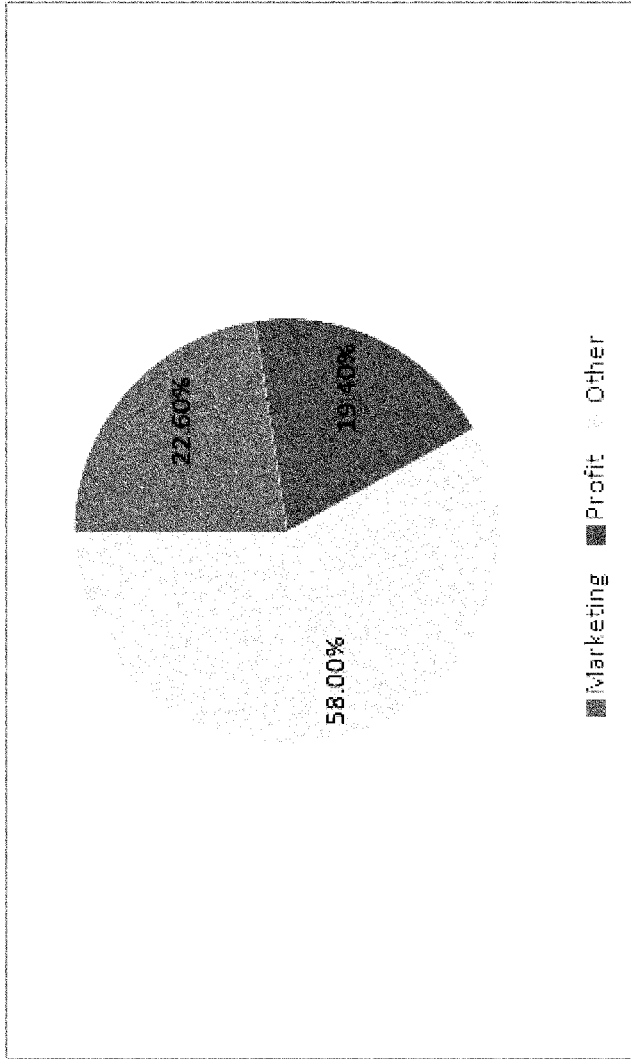


A6-57

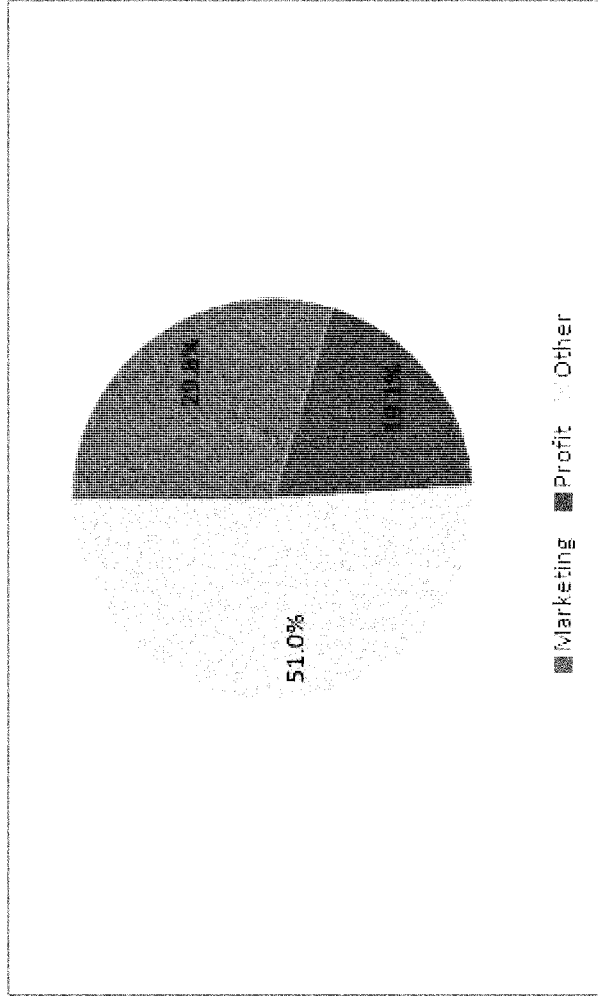
# Capella vs State Total Program Costs- UG



# 2009 For Profit Spending

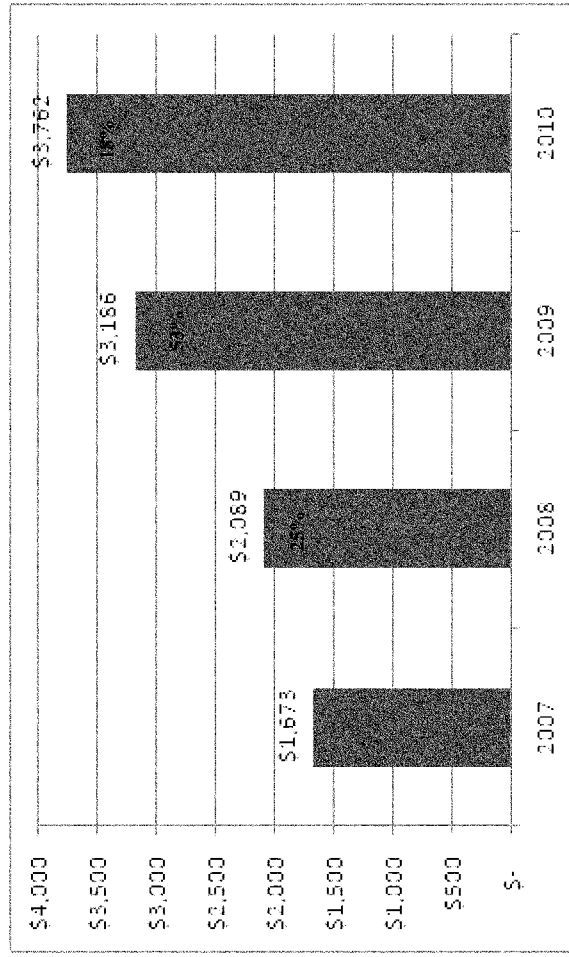


# Capella 2009 Spending



A6-60

## 2007-2010 For-Profit – Profits (in millions)

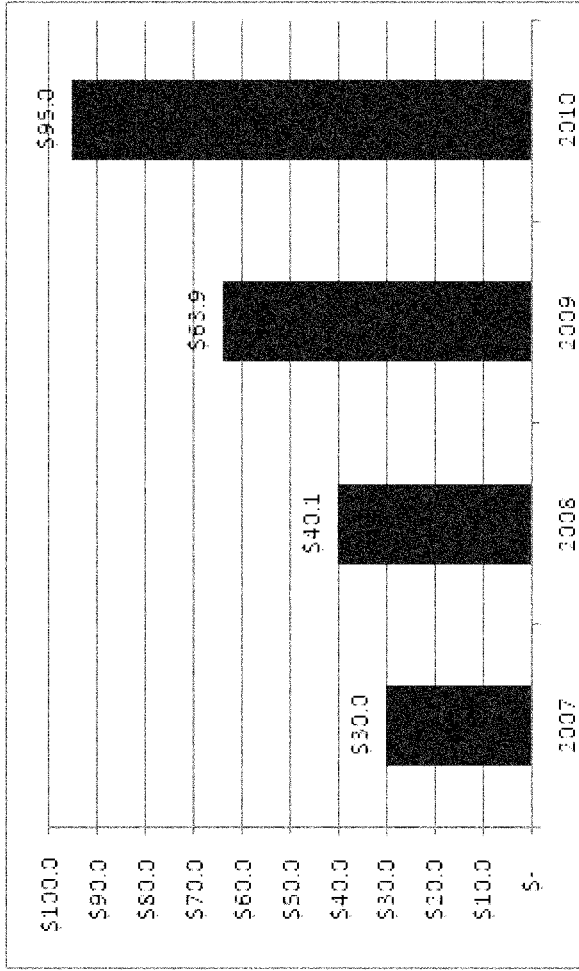


% represents YOY growth %

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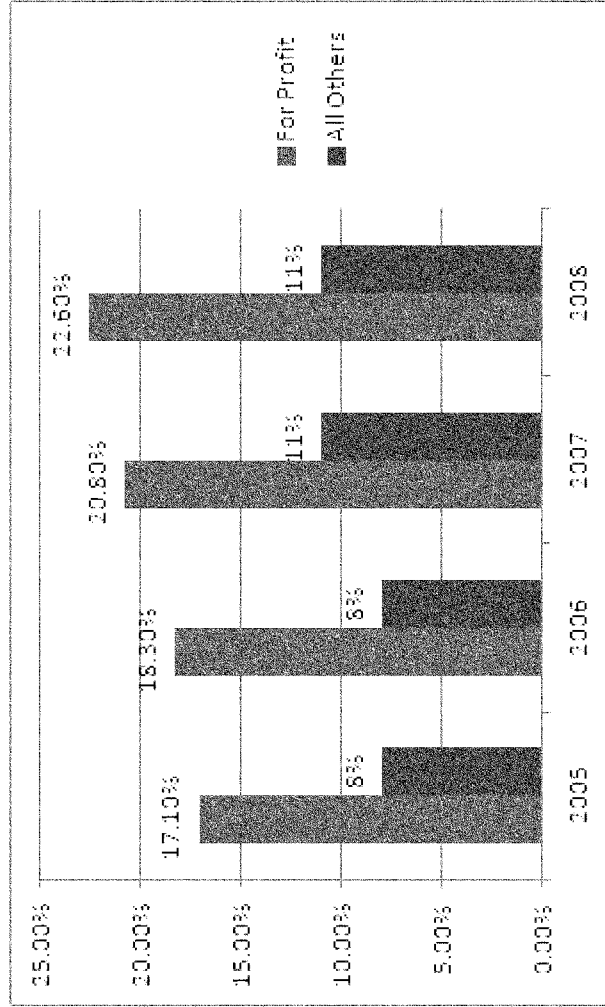
# Capella 2007-2010 – Profits (in millions)



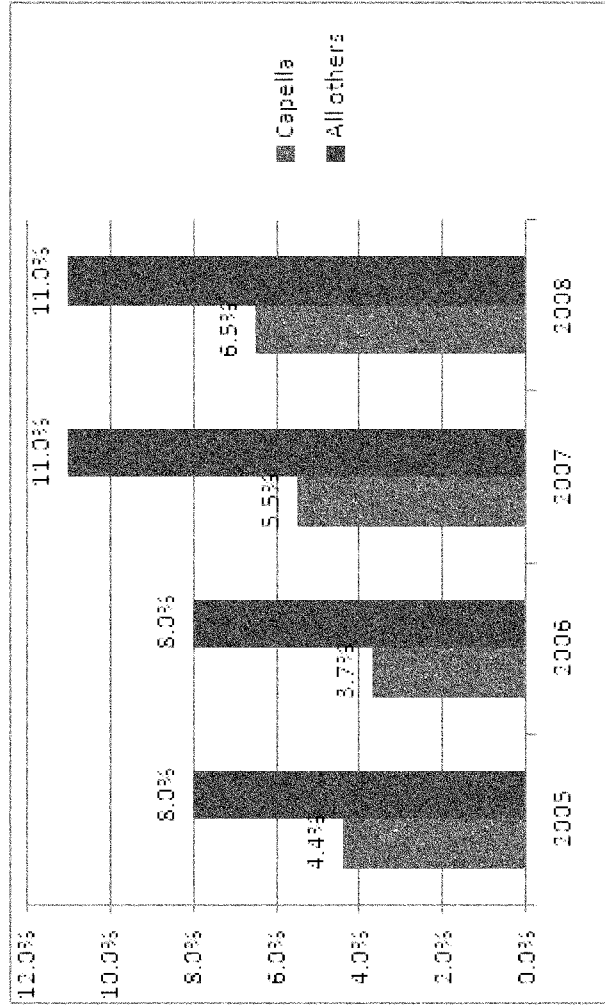
% represents YOY growth %

**CAPELLA EDUCATION**  
COMPANY

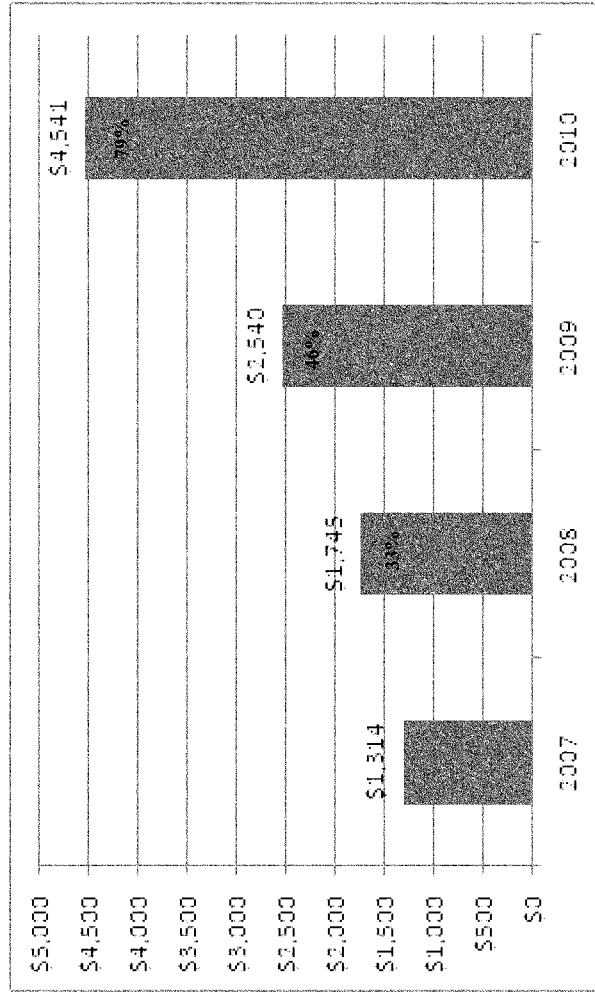
# Average 3 year Cohort Default Rate 2005-2008



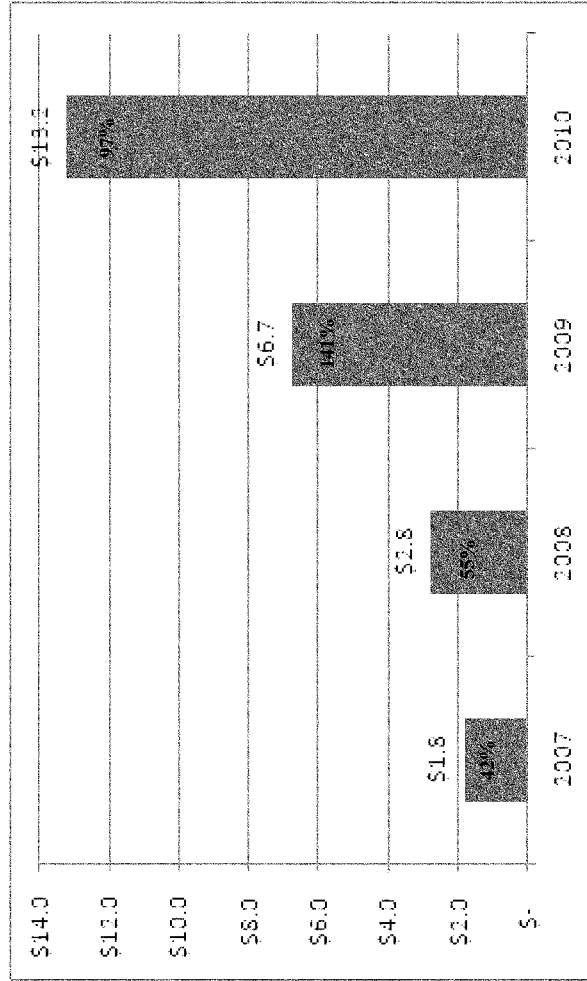
**Capella- Average 3 year Cohort Default Rate 2005-2008  
Against All Others (not just For- Profits)**



# Pell Grants Funded 2007-2010 (in millions)

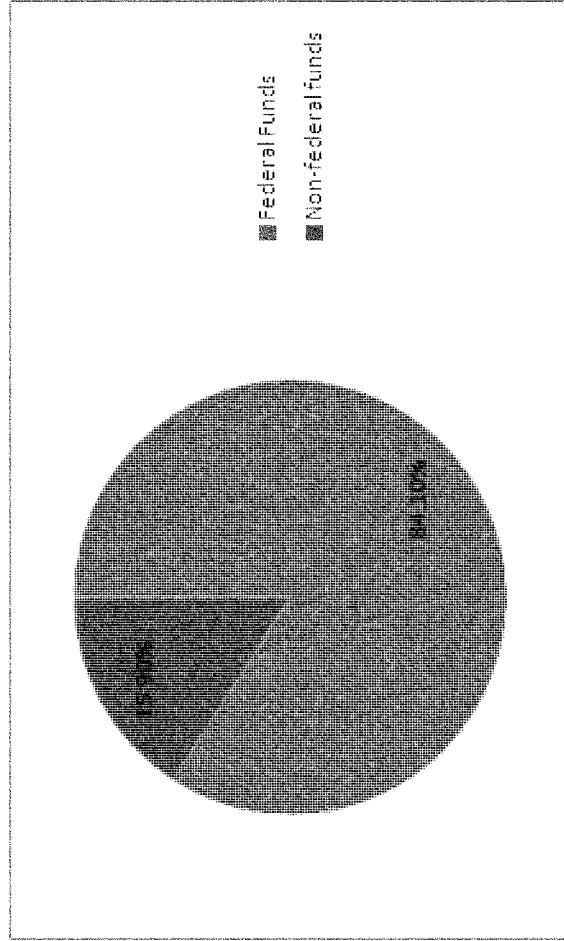


# Capella-Pell Grants Funded 2007-2010 (in millions)

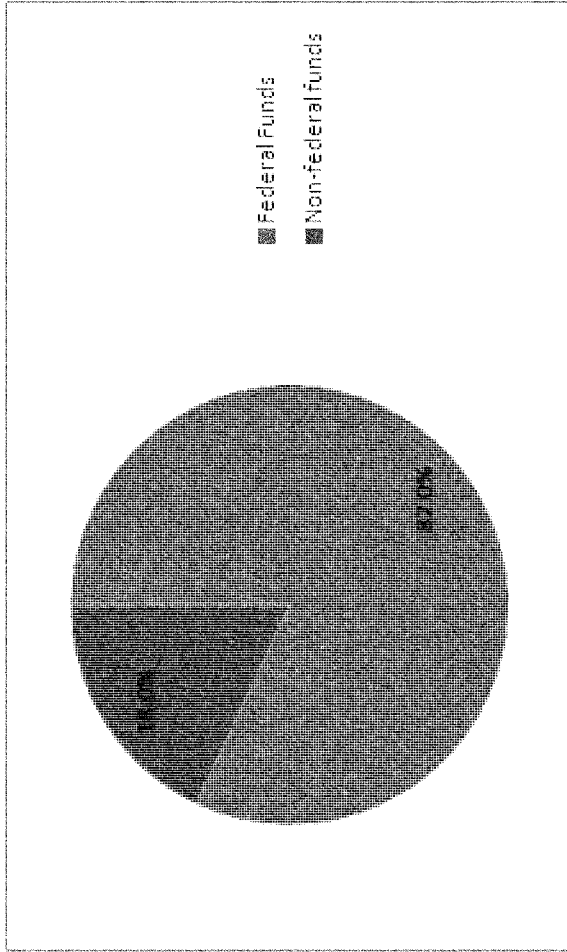


A6-66

# Share of Federal Money Collected 2010



# Capella-Share of Federal Money Collected 2010

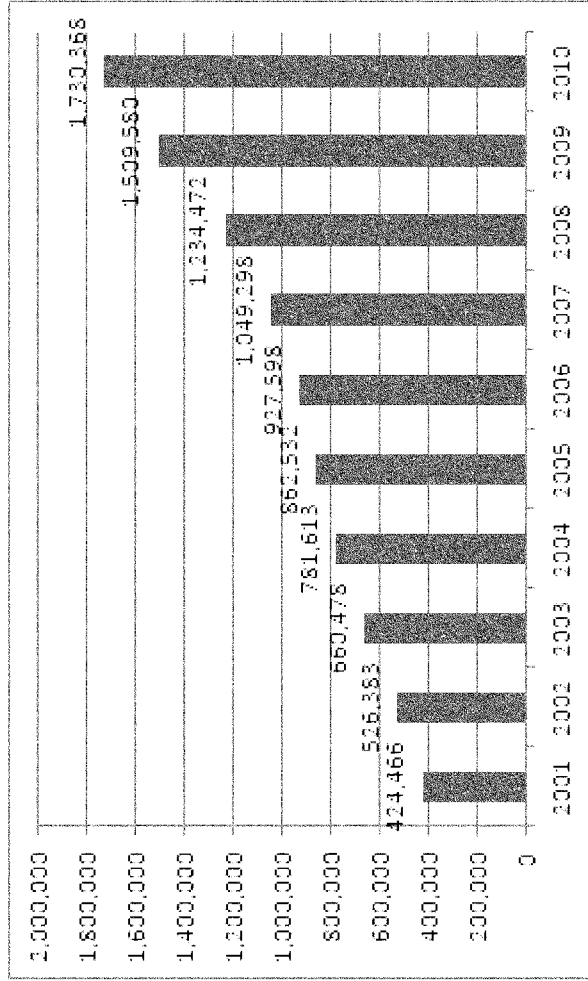


Note: this includes all Federal VA and DoD TA \$s as Federal Funds

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# 2001-2010 Fall Enrollment

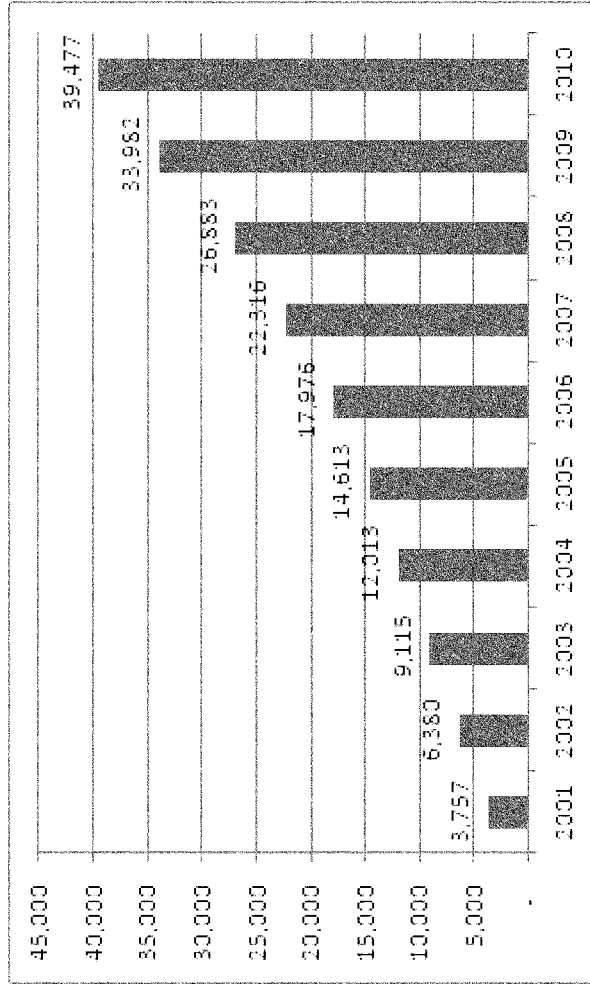


308% growth from 2001 to 2010

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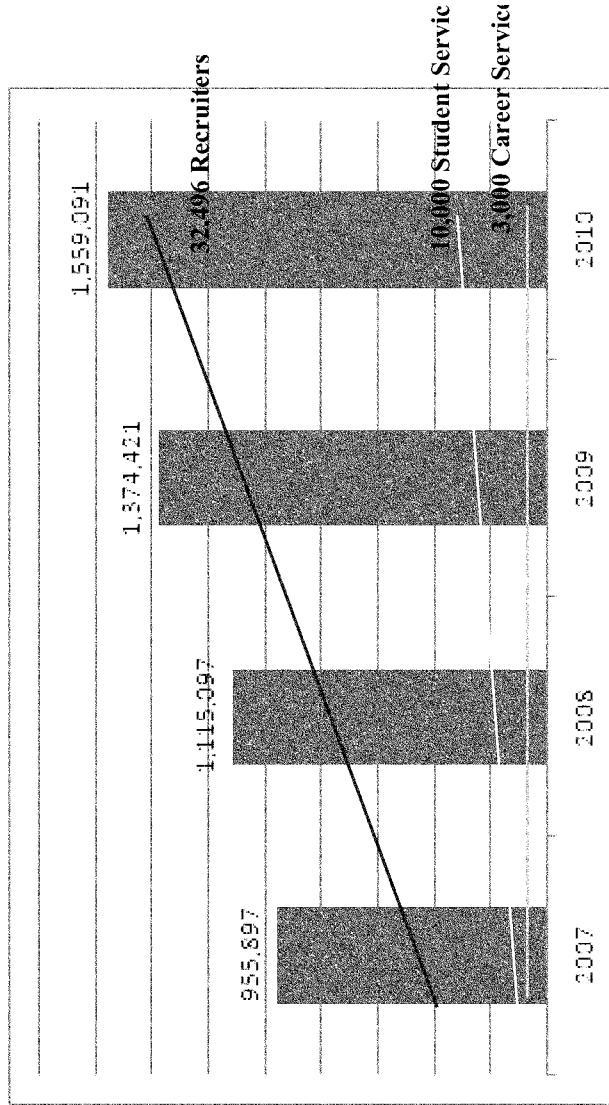
# Capella 2001-2010 Year End Enrollment



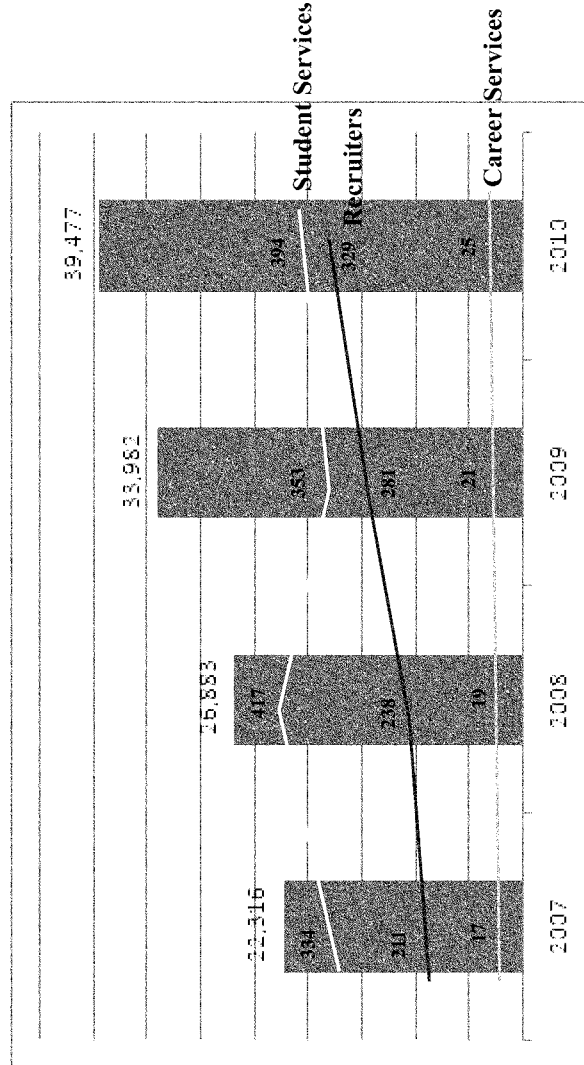
951% growth from 2001 to 2010

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# Staffing Levels 2007-2010 vs Enrollment



# Capella-Staffing Levels 2007-2010 vs Enrollment





## Career Center

Career conversations happen all across the learner lifecycle at Capella, starting with Enrollment Services where they use many tools and resources we have provided to them to assist with conversations regarding career. Career content has been embedded into many courses across all degree programs and specializations. For example, there is an assignment in a counseling course for learners to do an informational interview with someone in the field; we provided materials and resources for the course. Academic Advisors incorporate career conversations in their work with learners and have been trained about all of the resources and materials available to learners. They also know when to refer to a career counselor if the conversation goes beyond their scope of expertise.

Following are some ways learners interact with the Career Center:

- **Webinars** (synchronous using VOIP with two Career Center staff facilitating). In 2011, we offered 94 webinars on a variety of career topics with 1,626 attendees. 91% of participants said they were very satisfied/satisfied with the webinar.
- **Website** (Career Center on iGuide). We offer a very in-depth website available 24/7 to learners and alumni. In 2011, we have 45,800 view of the homepage with a monthly average of 2,352 unique visitors.
- **Satisfaction Survey Results:** In 2011, we had the following results to our satisfaction survey (after a 1:1 interaction with a career counselor)

### Post Interaction Experience Survey Results

- 90% strongly agree/agree: satisfied with the quality of interaction with staff
  - 86% strongly agree/agree: satisfied with the time it took to receive service
  - 84% strongly agree/agree: satisfied with the quality of the resources available
- **Career Seminars** (monthly week-long career courses offered in the Capella courseroom, facilitated by a career counselor and/or Academic Advisor). 996 registered participants in the Career Exploration and Planning course in 2011; 343 in Career Management and Job Search Strategies.
  - **Job Postings to website.** We posted 115 jobs to our CC website in 2011, and sent out over 16,400 targeted emails to learners and alumni about open positions as requested by employers.
  - **LinkedIn Networking Group.** We manage the Capella University Career & Networking Connection LinkedIn group with over 8,000 members.
  - **1:1 appointments:** Learners and alumni always have the option of interacting with a career counselor. Most learners work with counselors via phone appointment but some choose to interact via email. The most common topics/services we provide: Resume Review, Degree/Specialization Selection, Job Search Strategies, and Career Planning.

The majority of our current learners are currently working while going to school. Their career needs are a bit different than the typical undergraduate learner. Our learners are often looking to move ahead in their current career (from teacher to administrator, from case manager to counselor, from IT associate to Manager of an IT department). Other learners are in school to make a career change. For example, they may be in accounts payable and want to make a shift into working for a non-profit. We help them with their strategy for shifting into a new profession.

## Capella Graduate Salary Information

from Department of Education's Gainful Employment Report June 2012

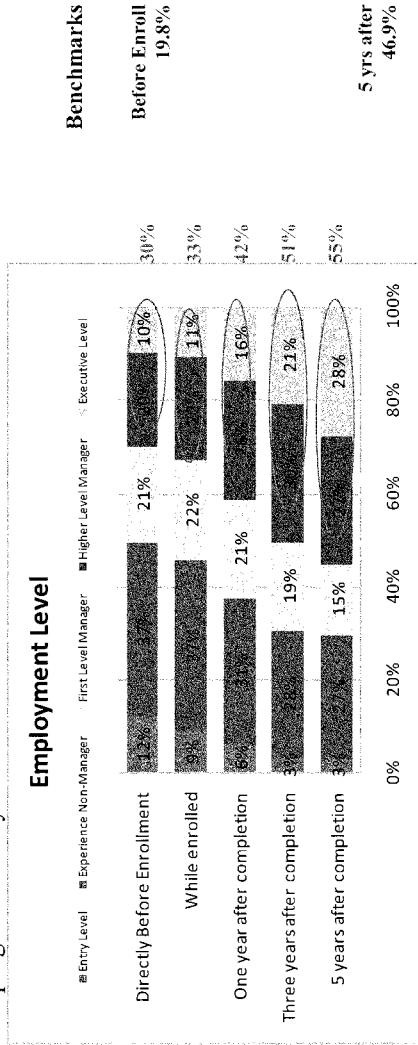
CIP Code	CIP Program Name	Credential Level	Debt to Earnings -- SSA Salary Data
110103	Information Technology.	3	\$77,821
110103	Information Technology.	5	\$85,566
110901	Computer Systems Networking and Telecommunications.	5	\$90,159
111002	System, Networking, and LAN/WAN Management/Manager.	3	\$74,454
111003	Computer and Information Systems Security/Information Assurance.	5	\$96,615
111099	Computer/Information Technology Services Administration and Management, Other.	5	\$100,767
130101	Education, General.	5	\$52,676
130101	Education, General.	6	\$78,150
130301	Curriculum and Instruction.	5	\$54,624
130401	Educational Leadership and Administration, General.	5	\$59,348
130401	Educational Leadership and Administration, General.	6	\$80,418
130406	Higher Education/Higher Education Administration.	5	\$61,555
130406	Higher Education/Higher Education Administration.	6	\$87,533
130409	Secondary School Administration/Principalship.	6	\$86,783
130501	Educational/Instructional Technology.	5	\$69,707
130501	Educational/Instructional Technology.	6	\$98,745
131201	Adult and Continuing Education and Teaching.	5	\$62,142
131201	Adult and Continuing Education and Teaching.	6	\$92,491
131206	Teacher Education, Multiple Levels.	6	\$83,778
190707	Family and Community Services.	5	\$38,032
420101	Psychology, General.	5	\$45,654
420101	Psychology, General.	6	\$71,660
422803	Counseling Psychology.	5	\$38,363
422804	Industrial and Organizational Psychology.	5	\$53,130

422804	Industrial and Organizational Psychology.	6	\$66,760
422806	Educational Psychology.	5	\$41,567
422806	Educational Psychology.	6	\$65,545
430104	Criminal Justice/Safety Studies.	5	\$45,601
440000	Human Services, General.	5	\$40,632
440000	Human Services, General.	6	\$84,917
440701	Social Work.	5	\$39,420
449999	Public Administration and Social Service Professions, Other.	5	\$40,057
510701	Health/Health Care Administration/Management.	5	\$83,039
511508	Mental Health Counseling/Counselor.	5	\$42,113
520101	Business/Commerce, General.	6	\$97,513
520101	Business/Commerce, General.	5	\$104,191
520201	Business Administration and Management, General.	3	\$65,347
520201	Business Administration and Management, General.	5	\$85,615
520201	Business Administration and Management, General.	6	\$118,335
520206	Non-Profit/Public/Organizational Management.	5	\$41,199
520801	Finance, General.	5	\$95,459
521001	Human Resources Management/Personnel Administration, General.	5	\$58,601
521001	Human Resources Management/Personnel Administration, General.	3	\$73,923
521206	Information Resources Management.	6	\$108,399
521401	Marketing/Marketing Management, General.	5	\$72,382

For Capella programs with at least 30 graduates, using the higher of the mean or median data, as provided by the U.S. Department of Education's Gainful Employment data released June 2012.

# Employment Levels for all cohorts

- Graduates show a nice progression of career advancement/mobility after they have completed their program of study.



- Survey Title: Eduventure Alumni Survey
- Data Collected: September 2010
- Total Sample: 18,212 (All historical alumni from 1997 – 2010 to-date)
- Total Submits: 2,416
- Response Rate: 13.26% (vs. 4 - 8% for other)
- Margin of Error: +/- 1.87%

Redacted by Senate HELP  
committee

Program: Adult Education  
Complaint Type: BBB  
Date of complaint: 10/07/07  
Date of Capella response: 10/24/07  
Date of learner rebuttal: 2/04/08  
Date of Capella response: 2/14/08

**Issue:**

- Learner stated that she did not have course access to her fall 2007 dissertation course, OM9997. The learner had a previous balance from a prior quarter which blocked her course access. Also, she stated that she had received poor service from her mentor and committee members during previous quarters. Learner stated that her mentor and committee would not speak with her nor provide feedback regarding her dissertation.

**Resolution:**

- Capella made an exception and credited the learner's previous balance of \$3,529.00 and drafted an academic plan. The academic plan provided learner with a way to improve their academic needs she had faced with the dissertation. Weekly meetings were scheduled with her mentor, advisor, and school of education leadership to assist the learner with successfully completing their degree.

**Additional Context:**

- In fall 2008, it was determined that the learner was unable to make adequate academic progress stipulated by the school. She had sporadic responses with her mentor or advisor. Therefore, the school offered her the option of a Master's degree based on the work she had already completed at the PhD level. The learner elected to take that option and graduated with a Master's Degree in Adult Education in spring 2009.
- All faculty, including mentors, complete faculty development courses associated with their role. A four-week course is required of all graduate faculty in the school who will mentor learners in the comprehensive and/or dissertation process. Each school uses materials for training that relate specifically to the program, the materials include a dissertation manual, faculty mentoring guide, and rubrics for assessing the learner progress and milestone points through their dissertation process.



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**Program:** Human Resource Management

**Complaint Type:** BBB

**Date of complaint:** 11/30/2007

**Date of Capella response:** 12/17/2007

**Issue:**

- Learner had been registered for BUS4046 in summer 2006. The learner claimed that she was not aware of the registration nor did she participate in the course.

**Resolution:**

- We verified that the learner did not participate in the course. Based on this information, we credited the tuition charge of \$1,740.00 and approved a late course withdrawal replacing the F on her transcript with a W.
- Learner responded to the BBB on 12/18/07 stating that they were satisfied with the business response.

**Additional Context:**

- In January 2010, Capella instituted the Course Enrollment Policy 2.02.02 section x. Learners are dropped from a course for failing to satisfy the requirement for the initial course participation and are refunded 100 percent of the course tuition.

Redacted by Senate HELP  
committee

Program: Human Services General  
Complaint Type: BBB  
Date of complaint: 1/29/2007  
Date of Capella response: 2/13/2007

**Issue:**

- Learner was registered for HS9985-C during Winter Quarter 2007 which ran from January through March 2007. The learner claims she was enrolled in the course for 4 days but was only partially refunded after withdrawing. She indicated the course did not require any work or course expectations, that it was basically a “limbo” course to take her financial aid, and she would like to be refunded her tuition in full.

**Resolution:**

**History and Action Taken:**

- The learner had registered for the Comprehensive Exam (broken down into exam I and II) the previous quarter, Fall Quarter 2006 which ran from October through December 2006. Learner successfully completed HS9984 Comp Exam I on 10/26/2006 and moved into the Comp Exam II phase.
- 10/26/2006 – Learner registered for HS9985 Comp Exam II
- 12/8/2006 – Learner notified she did not pass the comprehensive written exam. She did not meet the passing standards. Informed she had the opportunity to rewrite the answers, deadline by midnight at 12/22/2006. If she did not rewrite her answers or did not meet the rewrite deadline, she would fail the comp exam and be disenrolled from the university.
- 12/21/2006 – Learner emailed advisor were no extenuating circumstances over why she did not pass the exam. Acknowledged she knew her questions were not thorough. Understood needed to submit what she had by the deadline or would be disenrolled. Advisor informed learner not to register for upcoming Winter 2007 Quarter. If re-write not approved, would have to appeal status with the school. If appeal denied she would not be allowed to continue and would be disenrolled
- 12/22/2006 – Learner submitted Comp Exam re-write on deadline.
- 1/10/2007 – While awaiting the results of her Comp Exam re-write, learner requested to be registered for the Winter Quarter 2007 (against what advisor previously recommended). Learner was registered for HS9985-C, continuation of the Comprehensive Exam II.
- 1/12/2007 – Learner notified did not pass re-write for Comp Exam II. Learners only have one opportunity to re-write the Comp Exam. Only option is to appeal to have the decision reversed. Learner appealed. Note: Per tuition refund schedule, this date was the last day to withdraw from Winter Quarter 2007 at 100% tuition refund.
- 1/18/2007 – Advisor clarified if passed comps would transition into HS9996, would not be charged twice for the quarter.
- 01/19/2007 – Learner advised best to withdraw from HS9985-C while awaiting the outcome of her appeal. This was the 12<sup>th</sup> calendar day of the course, not 4<sup>th</sup> as learner indicated in complaint. Per Capella’s tuition refund schedule, learner eligible for and received 75% tuition refund. Advisor informed request to credit remaining 25% tuition submitted due to the circumstances.

- 01/26/2007 –Informed Comps Exam appeal was denied, learner later dismissed
- 01/29/2007 – Request for tuition credit still under review
- 2/5/2007 – The tuition credit for 25% charge approved and applied against balance. Learner received 100% tuition refund, zero balance on account.

**Additional Context:**

- We process registrations this way because completion of milestones in the comps and diss phase do not always align with the beginning and end dates of the quarter, learners move in and out of the milestones at various times. In this case, HS9985-C in Winter 2007 would have been a bridging course to HS9996, had the learner successfully completed the Comp Exam II, she would have a final conference call and could have transitioned into HS9996 the same quarter (no additional charge) rather than have to sit out until the next quarter.
- In this case, learner was advised not to register for the –C course and to wait for the results of her re-write, however learner requested to register because she didn't want a delay and have to sit out a quarter if re-write was approved.
- 25% tuition credit was submitted but not processed yet when learner filed complaint with the BBB. Issue was with the timing of the credit, not that Capella did anything erroneously.
- 5/16/2007 - Learner followed up wanting to pursue opportunity for review of her doctoral work to substitute for a Master's degree in Human Services General. Though well after deadline presented to her, Capella allowed learner to pursue the Master's opportunity.
- 5/25/2007 –As a good faith gesture, Capella waived the Master's commencement fee.
- 6/2007 – A Course and Credit evaluation was completed for the learner for the Master's option, all requirements met, Master's degree approved.
- 6/30/2007 – Degree conferred, Master's Human Services General

Redacted by Senate HELP committee

Program: Human Services General  
 Complaint Type: HLC  
 Date of complaint: 8/9/2007  
 Date complaint actually received: 8/27/2007  
 Date of Capella response: 9/18/2007

**Issue:**

- Learner's central allegation is that Capella's academic support system, particularly the behavior of its mentors, contributed to her inability as a student to continue to make reasonable academic progress. HLC asked that Capella discuss how it identifies mentors, monitors how well they work with students and assess how effective such mentors are in facilitating students' progress in completing their learning plans. They asked that Capella include any relevant faculty policies, institutional protocols or other documents that support our position. And to comment on learner's particular circumstances.

**Background/History:**

- Winter 2003 through Summer 2005– Learner enrolled in SoHS PhD program and progressed to the proposal stage of the dissertation, HS9997.
- Fall Quarter 2005 – Fall Quarter 2006 – Learner continued in HS9997 for four quarters. After this point, learners must appeal to continue due to the lack of progress.
- 11/6/ 2006 – Learner wrote a letter to her Faculty Chair regarding concerns with her mentor. Also had issued a complaint to the president and SoHS.
- 11/9/2006 – Letter from school sent to learner acknowledging her mentor concerns and that it would be investigated and reviewed by the Dean. However, learner had used harsh and disrespectful language in her email communication to the Faculty Chair. She was informed that she may be in violation of the university Learner Code of Conduct and was being referred to the Academic Standards Committee for further review. Details of the next steps were provided in the letter.
- 11/10/2006 – Learner acknowledged letter and agreed with the warning.
- 11/15/2006 – During Fall Quarter 2006 learner requested to immediately withdraw from Capella University, it was processed effectively. Due to learner withdrawing, the Learner Code of Conduct review was not pursued but was noted in her record.

**Resolution:**

- All faculty, including mentors, complete faculty development courses associated with their role. A four-week course is required of all graduate faculty in the school who will mentor learners in the comprehensive and/or dissertation process. Each school uses materials for training that

relate specifically to the program, the materials include a dissertation manual, faculty mentoring guide, and rubrics for assessing the learner progress and milestone points through their dissertation process. All of the learner's assigned mentors successfully completed the above training and development.

- Learner's claims about unsupportive mentors were found to be unsubstantiated. While the mentors' performance did not raise concern or a need for coaching, the school took the learner's concerns and best interest into consideration and re-assigned mentors on her behalf.
- The learner was still unable to move forward and make progress on her proposal, and requested immediate withdrawal from the institution (11/15/2006).

**Additional Context:**

- 9/24/2007- Shortly after complaint with HLC was filed, former learner inquired about returning to Capella. She was sent an email informing that per University policy 2.01.01 Admissions, the step to re-enroll at Capella would first begin with submitting an application for admission.
- 12/12/2007 – Former learner re-applied, after HLC complaint. Per an agreement with Legal and approval from the assistant Dean of SoHS, learner allowed to return beginning Winter Quarter 2008. An exception was granted to allow her to enroll back into her original catalog. As outlined in a conference call that day, mentor and committee were assigned and per policy learner would need to appeal the continuation (-C) of 9997
- 12/19/2007 – A Learning agreement was sent to learner, she signed and returned to Capella on 12/27. The agreement, *Dissertation Completion Success Plan* was devised to assist learner in successfully completing and avoiding any further delays in her dissertation. The agreement gave the learner until the end of Summer Quarter 2008 to complete her dissertation proposal.
- 12/20/2007 – Learner was registered for HS9997-C beginning January 7, 2008
- 1/2/2008 – Learner's appeal for 5<sup>th</sup> attempt of 9997-C approved by the Assistant Dean on basis of established Learning Agreement on file.
- Learner enrolled in Winter and Spring Quarter 2008. During these two quarters, learner did not meet the terms of the Learner Agreement. The mentor went above and beyond expectations of him in the agreement with multiple contacts by phone and email. At the end of April and again in May learner expressed frustration to the detailed feedback she was receiving for her proposal and stopped responding to the mentor. She indicated that she was overwhelmed with work and that it may not be the time for her to be in a doctoral program. She also was not participating in required weekly journal entries.
- 7/8/2008 – Learner emailed her advisor that she did not wish to enroll in the Summer 2008, felt she was wasting her money, wasn't making progress and alleges the mentor wasn't following through on the Learner Agreement. This was unsubstantiated.
- 8/7/2008 – Learner requested immediate withdrawal (2<sup>nd</sup> withdrawal) from the university, it was processed effectively.

Redacted by Senate HELP committee

School: N/A  
 Program: N/A  
 Complaint Type: BBB  
 Date of complaint: 8/31/2007  
 Date of Capella response: 9/07/2007

**Issue:**

- Prospect's (not a learner with the university) wife issued a BBB complaint stating that Capella representatives contacted both her and her husband several times. The contacts continued even after both her and her husband stated that they were not interested in pursuing a degree.

**Resolution:**

- Capella used to acquire leads/prospects from aggregators. If a lead/prospect was interested and wanted further information regarding universities, they would submit their contact information to the aggregator who in turn would forward it to universities for follow up. Once Capella received information from the aggregator, we would initiate an outbound call campaign.
- History:
  - 7/10/07 Inquiry received from aggregator
  - 7/10/07 – Outbound contact – message left
  - 7/11/07 – Outbound contact – no message left
  - 7/12/07 – Contact made, prospect expressed interest in the program and requested further information. Email sent.
  - 7/25/07 – Outbound follow up contact – no message left
  - 8/03/07 – Outbound contact – no message left
  - 10/03/07 – Prospects phone number had been removed from Capella records. Marked as not interested in a program.
  - No record/history of contacting the prospects wife.

**Additional Context:**

- Prospect had been contacted a total of 5 times. On the third contact, the prospect expressed interest in a program. Capella sent an email and advised the prospect that they will contact him with further information. Capella made two more attempts and had been informed that the prospect was not interested. The Prospects phone number had been removed from his record and his account had been closed. There is no record of Capella contacting his wife. The prospect had filled out a shared lead interest with an aggregator. That means his information may be sent to numerous universities for follow up. Capella did not sell or provide prospect information to other institutions.

Redacted by Senate HELP committee

Program: Professional Studies in Education

Complaint Type: HLC

Date of complaint: 12/20/2006 – HLC did not request a formal response.

Date of Capella response: N/A

Issue:

- Learner had failed her comprehensive examination rewrite on 7/31/06. She expressed concerns that her comprehensive examination committee were not experts in her particular area of study. Learner was disenrolled from the university on 11/29/06 for comprehensive exam failure and failure to appeal.

Resolution:

- 8/02/06 – learner was sent a follow up email from her mentor, David Rothstein. The email provided detail on the appeal process and the option to receive a Master’s Degree if the learner decided that they did not want to appeal. The learner was also informed by school leadership and customer care of these options. The learner did not appeal and elected not to pursue the Master’s Degree Option.
- 11/29/06 – the learner was disenrolled from the university. A letter had been sent that day to the learner from the Dean of the School of Education.

Additional Context:

- All faculty, including mentors, complete faculty development courses associated with their role. A four-week course is required of all graduate faculty in the school who will mentor learners in the comprehensive and/or dissertation process. Each school uses materials for training that relate specifically to the program, the materials include a dissertation manual, faculty mentoring guide, and rubrics for assessing the learner progress and milestone points through their dissertation process.
- 
- School leadership determined that the learner had a good comprehensive examination committee. Committee members were Redacted by Senate HELP committee

The learner failed 2 out of the 4 comprehensive examination questions. The reasons for failure were that they did not site scholarly literature, excessive APA errors, references not listed, and informal writing. 8/08/06 - School leadership and Customer Care facilitated conference call providing further detail regarding the comprehensive examination failure and appeal process. The learner never submitted an appeal. However, because of the circumstance and that she had been withdrawn from her comprehensive examination due to the failure; Capella credited her 7 weeks’ worth of tuition (\$2,041.20) of the 10 week course.

**Statement of Concorde Career Colleges on Documents Released by Senate Committee  
on Health, Education, Labor and Pensions**

Concorde Career Colleges, Inc. (Concorde) is providing context to several of the documents produced by Concorde and included in Chairman Harkin's report on career colleges. Taken out of context, or without additional information, the documents listed below may provide an inaccurate perception of events or current policies of Concorde. Concorde was not provided an opportunity to review Chairman Harkin's report in advance of its release, therefore it is providing context or an explanation based solely on the documents and not on any actual report language. Further, as it has not had access to the report, Concorde is unable to comment on any specific assertions about Concorde or its policies and practices made in the report.

**Document CCC000052355:**

The statements in this document, a script for use in contacting students who are delinquent on loans, reflect a prior policy of Concorde. Concorde representatives currently are instructed to discuss working out a payment plan to address student loans.

**Document CCC000060626:**

This form of letter is no longer used by Concorde in its default management activities.

**Document CCC000098707:**

The subject of this 2006 e-mail exchange reflects a prior practice on the part of some Concorde schools of obtaining a portion of a student's tuition payment in cash from the student, as opposed to federal loans or grants. Concorde ended this practice altogether in November 2008, and the exchange in this e-mail does not reflect Concorde's current policies.

**Document CCC000105156:**

The e-mail indicates that Concorde staff recognized that it would not be appropriate for recruitment activities to be initiated at unemployment or welfare agencies. Concorde looked into the facts as set forth in the e-mail and ultimately determined that *non-recruiting* staff was meeting with Workforce Investment Agencies, which had offices co-located with unemployment or welfare agencies. These non-recruiting staff members never had any interaction with prospective students. At the time of the e-mail, Concorde reinforced with these non-recruiting staff members the prohibition against recruiting students at welfare and unemployment offices and, going forward, instructed them not to leave brochures or other materials with any staff of unemployment or welfare agencies.

**Document CCC000105786:**

This 2010 e-mail correspondence regarding the withholding of information from students on the amount of loans for which they were eligible has never reflected the policy of Concorde. The relevant staff member was informed of that policy at the time. Concorde informs all prospective



students of the maximum loan amounts during their introductory meeting with Financial Aid personnel and these amounts are also published in the company's Consumer Information Guide, which is provided to prospective students.

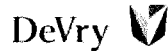
**Document CCC000106391:**

The originator of this e-mail posed a question to a financial aid director in an attempt to determine when the school could implement federal changes made to a formula for determining the amount of grant funds allowed to be used in specific programs. The change would provide students in the eligible programs with a greater percentage of Pell grant funding, as opposed to federal loans. The financial aid employee's reply appears to have misunderstood the initial question. The financial aid employee incorrectly states that the originator of the e-mail chain said, "It will not affect 90/10 because we will replace grant with loan." In fact, with respect to replacing grants with loans, that is exactly the opposite of what the originator of the e-mail stated, and what the school did. It was not and is not Concorde's practice to decrease Pell eligibility and replace the funds with non-federal loans. Concorde recalculated the Pell eligibility for students affected by this change and made appropriate adjustments.

While Concorde cannot be sure what the financial aid employee who wrote the original e-mail meant, it has explained to the Committee that, prior to 2008, selected schools had encouraged students to pay ten percent of costs directly, independent of federal funding. That practice was discontinued Concorde-wide in November 2008 and was already being phased out at the time of the e-mail in May 2008. In addition, while the financial aid employee indicates that there were Title IV compliance audit findings, that was not the case. Concorde has not had audit findings on this issue in the last four years.

**CCC000107536:**

This September 2008 e-mail correspondence addresses a policy on institutional loan interest that is no longer practiced within Concorde. This policy was eliminated in November 2008.



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June 27, 2012

The Honorable Tom Harkin  
 Chairman, Committee on Health, Education, Labor and Pensions  
 428 Dirksen Senate Office Building  
 Washington, D.C. 20510

Dear Chairman Harkin:

On behalf of DeVry Inc., its family of educational institutions, the students they now serve, and the hundreds of thousands of graduates whose lives they have helped to improve, thank you for the opportunity to comment on the Committee's anticipated report. We also appreciated the opportunity to participate—via testimony, public comment, and both formal and informal conversations—throughout your review of private-sector education. Your Committee staff has been especially responsive and helpful throughout.

The Committee's report is the culmination of a two-year process that involved extensive time and resource commitments from DeVry and its institutions. The 13 documents that we have been told will be released with the final report were part of a 7,600-document submission by DeVry on August 26, 2010, in response to 39 questions from you on a broad array of topics. In addition to this response, DeVry also participated in several public forums. I first gave testimony before this Committee on June 24, 2010; DeVry's President and CEO, Daniel Hamburger, appeared before this Committee on July 21, 2011. Both Mr. Hamburger and I also appeared publicly before regional forums hosted by Senator Durbin that, while not a part of this Committee's official duties, were certainly influenced by its actions.

DeVry's extensive participation in this process underscores our commitment to transparency and to the benefit that fair-minded, fact-based discussions can have for higher education. While we certainly do not agree with all of the findings and public pronouncements of the HELP Committee over the past two years, or with many of what we understand will be the findings of this report, we felt it to be our duty and privilege to participate in the process, even during its most heated moments.

The process itself was too narrowly focused in its best moments; in its worst, it was inflammatory and misleading. While the private sector makes up only 12% of all higher education, it seemed to take up 100% of the Committee's time and resources. Issues such as graduation rates, student debt, tuition, compensation, pricing and recruiting practices can only be examined fairly in the context of all of higher education and the varied populations served by each institution.

And while we appreciate the kind words that you, other members of the Committee, and staff have had for DeVry and its leadership role in the sector, there is no doubt that efforts over the past two years by this Committee to vilify private-sector "bad actors" have also damaged the good actors.



DeVry University was founded in 1931 and has a long history of providing quality, career-focused education. But our 250,000+ alumni, especially the most recent graduates, have been unnecessarily stigmatized and economically disadvantaged as a result of a coordinated effort to tarnish a subsection of post-secondary education. For their sake, I sincerely wish to move beyond the heated rhetoric of the past and move toward outcomes-based solutions for higher education, calmly considered and broadly applied.

The following represents DeVry's response to concerns that we expect will be raised in the report based solely on the anticipated release of 13 documents.

#### **Response to Report and Release of Documents**

##### **Executive Compensation**

DeVry's compensation philosophy serves the essential purpose of our organization, which is to empower our students to achieve their educational and career goals. Our students come first and their success drives everything we do. DeVry has additional obligations to our other stakeholders, including the employers of our graduates, our employees, our shareholders and taxpayers who enable most of our students to attend the institutions of their choice. But our first obligation is to our students, and our shareholders understand this. They know that only by focusing on serving our students, and on delivering value over the long term, will we ensure our economic viability.

The only way to achieve positive economic outcomes is through positive student outcomes. Our operating philosophy is that quality leads to growth. In other words, our focus on academic quality leads to strong student outcomes, which in turn leads to growth in enrollments, which generates the resources that we invest back into academic quality. This philosophy is a critical component of the individual performance goals of our senior executives. In fact, it is their first individual performance goal: achieve high-quality academic outcomes.

The seriousness with which we take student outcomes can be demonstrated in a variety of ways, and I would like to highlight several examples from our DeVry institutions:

- Becker Professional Education: All 19 of the 2010 Elijah Watt Sells awardees (those with the highest scores nationally on the Uniform CPA Exam) were Becker graduates. 98 of the top 100 accounting firms partner with Becker.
- Chamberlain College of Nursing: In the first quarter of 2012, Chamberlain's bachelor's degree nursing graduates achieved a first-time pass rate on the National Council Licensure Exam (NCLEX) of 94.8%, significantly exceeding the national average of 91.2% for all nursing schools.
- DeVry Brasil: Faculdade Ruy Barbosa is, for the second year in a row, the top-rated law and business school in Salvador and in the top 50 across all of Brazil.
- DeVry University: Since 1975, DeVry University has maintained a commitment to provide all of its students with lifelong career services. During this span, more than 90% of its graduates who are eligible for and seeking employment have been employed in their field of study within six months of graduation. DeVry University graduates from the last 5 years have worked at 96 of the Fortune 100 companies.



- DeVry University's Advantage Academy: This dual-degree program allows students to work toward earning an associate degree while still in high school, at no cost to students or their families. The DeVry University Chicago Advantage Academy has a cumulative 92% high school graduation rate, compared to 58% for all of Chicago Public Schools.
- DeVry: The U.S. Olympic Committee recently named DeVry as an official education provider. DeVry institutions are providing educational opportunities to U.S. Olympic and Paralympic athletes and training hopefuls through 2016.

DeVry's Compensation Committee, guided by external compensation experts and established practices, sets compensation to be competitive in the marketplace and takes into account the compensation practices of DeVry's peers in services, revenue, employees and geographic breadth. That compensation includes salary as well as short- and long-term performance-based equity compensation. The overall approach is quite similar to that which many nonprofit organizations are required to follow, but differs in that it includes equity-based compensation as a component. Equity-based compensation, which is driven by the value of DeVry stock, is 100% at risk in that there is no guarantee that any value will ever be realized by the recipient, although accounting and SEC rules require this compensation to be disclosed in terms of its estimated potential value.

Compensation information is publicly available and transparent. DeVry, as a publicly held organization, is required by the SEC to provide compensation information on its four most highly compensated executives. Information about DeVry's compensation philosophy and program are included in an annual proxy statement, which is filed with the SEC and publicly available. Our proxy statement includes a detailed report from our board of directors' Compensation Committee. All members of DeVry's Compensation Committee are independent under SEC and NYSE standards, and our board is chaired by Dr. Harold Shapiro, president emeritus of Princeton University.

Dr. Shapiro brings a unique perspective to critical policy issues surrounding the future of U.S. higher education. In addition to serving as chairman of a private-sector higher education board and as president of an independent university, he also has served as president of a public-sector institution, the University of Michigan. Dr. Shapiro has stated his strong belief in maintaining a robust, diverse higher education sector with the ability to meet the educational and career needs of all students, and consequently the need to maintain a regulatory framework that encourages this diversity.

#### **Tuition Pricing**

Tuition pricing is critical to private-sector institutions like DeVry because, unlike public-sector and independent universities, we receive no taxpayer subsidies. We do make a profit, or what in the nonprofit world is called "operating surplus." Indeed, it is required by the Department of Education that all institutions realize a positive net income in order to remain eligible for Title IV funding.

We also pay taxes (more than \$152 million in FY2011) and need to take that into consideration when determining our pricing. There are those who argue that Title IV funding is a form of government subsidy and/or that private-sector institutions could not exist without this source of revenue. It is only fair to point out that very few U.S. institutions of higher education could survive without Title IV, and also to note that this funding goes directly to the student, not to the college or university. Students vote with their feet.



We also do not have tax-exempt endowment contributions with which to purchase buildings or make capital improvements. New faculty, new buildings, new high-tech simulation labs to help our students succeed—all are funded by our operating surplus. These investments are also part of the process of determining tuition.

We approach this process with the utmost seriousness. Without taxpayer subsidies and nonprofit exemptions from paying taxes, our institutional livelihood is entirely dependent on the amount of revenue we receive to maintain our institutional mission. I believe that the documents to be released by the Committee show the comprehensiveness of our process and include recommendations for pricing increases and structures that ultimately were rejected. Our wide-ranging considerations include affordability, academic quality, the need for reinvestment and the competitive marketplace.

The “Net Promoter-Tuition Pricing” document from our Chamberlain College of Nursing (document DEVR0036668) is a good example of the discipline with which we approach pricing. We use our Net Promoter Score student-satisfaction measurement to look first and foremost at the student experience and how we can improve it. Market research showed that nursing students are very conscious of return on investment and know that a nursing degree will pay off during the course of a career in ways that other degrees will not. And while the research showed that there is certainly room to increase tuition, the analysis clearly shows that increased revenues should be used to improve students’ clinical experience.

That is at the core of all our pricing decisions: provide a quality student experience, with good return on their investment of time and resources, at a price that allows us to make the capital investments to grow and remain competitive.

#### **Default Management**

DeVry has a long history of providing services to students to limit defaults. This includes the development of practices embraced by the Federal Family Education Loan (FFEL) industry prior to the credit crisis, including grace-period outreach and pre-repayment verification of addresses and telephone numbers. Over the last 15 to 20 years, we have contracted with a number of servicers to provide additional repayment counseling during grace and pre-default periods. These services have evolved as the industry and the participants have evolved. With the loss of FFEL lenders and guarantee agencies, the burden of financial education and delinquency intervention has shifted to schools. The financial structure of our servicing agreements gives the servicers incentives to move students into active repayment, and removes incentives for forbearances—unlike the Department of Education’s current arrangements, which compensate servicers equally for collection or forbearance. In fact, we are using some of the same servicers to improve the performance of the Department’s contracted services.

However, we have always realized that our best and most successful approach to default management is to graduate our students. While DeVry University’s two-year cohort default rate (CDR) is currently 14.2%, the CDR for graduates is less than 3%, even in this difficult economy. This statistic is a testament to the quality of the education our students receive and to the value employers place on our graduates. It is also the reason we invest so many resources in student support services. Our students, many of whom are the first in their families to attend college, frequently have



multiple risk factors for not graduating, so we make a significant effort to provide the support services they need to graduate. These include student success coaches who focus on the student's critical first year; Student Central, a one-stop shop for student academic and financial services; 24/7 counseling for students and their families; and career services to help students find employment quickly. As we explore multiple approaches to helping those who are having financial difficulties, we know that the most productive way for us to prevent default is for us to help our students earn their degrees and get started quickly in their chosen careers.

#### **Recruiting Practices**

DeVry offers students an outstanding value proposition and a proven track record. We are proud of the quality of our career-focused programs and will match them against the offerings of any other institution—public-sector, private-sector or independent. PayScale.com compiles a yearly analysis of the 30-year return on investment (ROI) for graduates of U.S. colleges and universities. DeVry ranked 213 out of 1,248 schools in 30-year ROI for its graduates, ahead of schools like Emory University (231), Pennsylvania State University (244) and Northwestern University (264). DeVry's 30-year graduate ROI is higher than those of nine schools among the top 50 in *U.S. News & World Report's* 2012 National University Rankings.

In order to compete with institutions of that caliber, we need to get our message out every day. Colleges and universities compete to attract students; this is a strength of our system, not a weakness. And competition is critical to reaching and educating a broader, more diverse student population.

DeVry students have historically been considered "non-traditional." That means they are typically minority, first in their families to go to college, single mothers or recent immigrants. Some are newly graduated from high school, many are older career-changers. Our students tend not to fit the historical stereotype of incoming college freshmen: newly graduated from high school having spent their formative academic years focused on preparing to attend college, being encouraged to pursue higher education and being supported in that effort.

Some of our students may not have had the most successful high school experience, or were not encouraged by their schools or their families to consider higher education. Many of them (about 40%) tried other colleges or institutions before coming to DeVry; most are in their late twenties or older and have low incomes (60% are Pell Grant recipients).

We know from our 80 years of experience that, because of these factors, some of our students lack the confidence of the typical college entrant. We also know that their ability to succeed has less to do with high school grades or test scores than it does with their willingness to commit to the necessary time and effort.

Recruiting non-traditional students differs from recruiting traditional students who have been told their entire lives that they will be going to college. For a traditional student, the question is not "will I go to college?" but rather "where will I go to college?" For non-traditional students, it is often a conversation about overcoming "objections," or "barriers" to their own success.

Not only do non-traditional students often need to be convinced they have the skills and determination to go to college, but they also often need more support services to



make it happen. They may not be aware of the return on investment of a college degree; they may not have been exposed to the financing options available to them. They may be surprised to learn that institutions like DeVry have the online and onsite resources to meet their needs for flexible scheduling, or that their military or work experience can count toward college credit. They may not know that a university like DeVry is set up to help them succeed.

The nation will not regain its place as the world leader in college attainment by educating only the "easy" students—those who have been on a college-bound path most of their lives. We will achieve President Obama's goal of educating more Americans only by reaching out to those who have been told they cannot go to college, telling them that they can, convincing them that they should, and helping them take the first steps. Then we must give them the guidance and support they need to complete their studies, graduate and begin their careers. The days when recruiting college students meant accepting a few while turning many away are, for the most part, over. We must bring more students into the fold; that means empowering and convincing those who never thought they had a chance, as well as those who need a second chance.

#### **Moving Forward**

DeVry has proposed to you and to members of the Committee a policy framework comprised of two pillars: 1) metrics of outcomes, and 2) standards of best practice. Outcomes metrics include: Do students learn? Do they graduate? Did they gain employment? Did they repay their student loans? Standards of practice include full information disclosure to students and proper training for admissions advisors. We look forward to continuing our discussion with you as Congress prepares for reauthorization of the Higher Education Act.

Thank you for the opportunity to provide our perspective on the Committee's report. We may take issue with some of the findings and recommendations the Committee puts forward; we may endorse others given our belief in transparency and accountability across the board. In any event, we assure you that we are committed to expressing our views respectfully and in the spirit of improving the entire higher-education system so that it truly serves the best interests of students, their families and our country.

Sincerely,

Sharon Thomas Parrott  
Senior Vice President  
External Relations & Global Responsibility  
Chief Regulatory Compliance Officer



June 29, 2012

The Honorable Tom Harkin  
 Chairman  
 Committee on Health, Education, Labor, and Pensions  
 United States Senate  
 428 Dirksen Senate Office Building  
 Washington, DC 20510-6300

Re: ECPI University/HELP Committee Report  
 Comments on ECPI Information

Dear Senator Harkin:

The purpose of this letter is to provide the Senate Committee on Health, Education, Labor and Pensions with information placing into context various documents and items of information received by the Committee from ECPI University (ECPI) that we understand may be released with the Committee's pending report on private sector colleges (the Report). It is our understanding that this letter will be included in the Report.

ECPI is extremely proud of what we accomplish every day for our students. We have been providing essential postsecondary occupational education to multiple communities in Virginia and the Carolinas for forty-six years. Over those decades, tens of thousands of students have graduated from our programs and found quality employment in business, government, and the health professions. We have an outstanding reputation within the military community in the Hampton Roads region where our institution was founded and in every community that we serve. The overwhelming majority of ECPI's students attend school on campus, in our classrooms, although distance learning courses are also available. Our outstanding reputation has been earned over a period of decades – one student at a time. ECPI works very hard to provide hands-on skills education and we are dedicated to our mission of serving students and helping them transition into rewarding careers.

Before we present our substantive comments we wish to make note of the following:

First, it is our understanding that the report will cover the period from 2006 to 2010. Those years were marked by an economy that sent multitudes of Americans back to school for retraining and career enhancement, by significant increases in federal aid available to students (including substantially increased Pell Grants and loan limits), by



The Honorable Tom Harkin  
June 29, 2012  
Page 2

extraordinary increases in the number of veterans seeking career skills training, and by accompanying dramatic increases in the amount of educational benefits available to those veterans. These and other generic factors coalesced during the timeframe under examination in the Report, and the fact that they caused significant increases in the number of students and in the aid available to them comes as no surprise.

Accordingly, to the extent that the Report will focus upon increases in the number of students and in federal student aid, any such increases are attributable to generalized economic, demographic, and public policy conditions. These generalized conditions caused the demand for postsecondary education – especially career skills training – to grow and to peak during the years covered by the Report. Such growth – which occurred at many schools in all sectors of higher education – was by no means attributable to or controlled by ECPI.

It is our understanding that the Report will focus only on for-profit colleges. The Committee should have also examined public and private nonprofit colleges. These other sectors of higher education experienced similar growth trends. Furthermore, a comparative analysis by the Committee of student success among the various sectors, including graduation rates and employment rates, would facilitate a more meaningful evaluation of the issues to be covered by the Report and would reveal the best options for students.

Second, please note that the only purpose of this letter is to comment upon specific documents and categories of information that we have been told would be released with the Report. This letter does not attempt to respond to the Report before it has been shared or issued, and it should not be treated or construed as ECPI's response to the Report or to any component. Similarly, this letter does not attempt to comment on the accuracy of the Report. After all, we have not been provided a draft of the Report in its entirety. Obviously we cannot respond to a report that we have not seen. ECPI respectfully reserves its right to comment upon the Report and any ancillary matters after we have seen it.

The Honorable Tom Harkin  
June 29, 2012  
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Comments on Specific Categories of Information and Documents

1. Retention Data

It is our understanding that the Report will include retention data calculated by the Committee based upon a July 1 – June 30 timeframe and utilizing a formula and definition developed by the Committee. Because that timeframe is much longer than ECPI's or any college's academic year, we are concerned whether such a methodology can fairly or accurately capture and attribute our student outcomes or provide a fair comparison to other institutions of higher education. To at least provide some context for the analysis, we urge the Committee to perform its outcome analysis on all sectors of higher education. As was detailed in my correspondence to you of January 5, 2011, ECPI's student outcomes compare favorably to other Hampton Roads institutions from other sectors of higher education. Out of fairness, and to appropriately inform the public, the Committee should perform its outcomes analysis across-the-board rather than singling out private sector colleges.

2. Marketing

In discussions with Committee staff, we were told that the Report may include percentage data on marketing expenditures such as advertising. However, it is our understanding that employee salaries constitute a significant component of the marketing expenditure figures being relied upon by the Committee. Salaries are readily distinguishable from advertising costs and other straight marketing expenses. We urge the Committee to take steps to ensure accurate labeling and characterization of any information pertaining to marketing expenses.

3. Self-monitoring report.

We are informed by staff that it intends to release excerpts from a self-monitoring report that was developed more than two years ago as part of the peer review process with our accreditor, the Commission on Colleges of the Southern Association of Colleges and Schools. ECPI clarified and resolved the matters discussed in that self-monitoring report to the satisfaction of its accreditor, and the matter is no longer active or pending.

4. Student complaints

We are informed by staff that it intends to release copies of various communications pertaining to complaints from students. Those issues were resolved expeditiously to the satisfaction of the students involved at that time. Although ECPI actively encourages its students to air any grievances and to provide feedback, complaints are unusual. When we do receive complaints, we work hard to address them to the satisfaction of our students

The Honorable Tom Harkin  
June 29, 2012  
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expeditiously, as was done in these instances. The materials to be released are not representative or indicative of the student experience at ECPI. Our students are generally satisfied with our programs as indicated by Spring 2012 surveys showing 94 percent of all students would recommend ECPI University. In fact, many of the prospective new students that approach ECPI do so on the basis of references and recommendations from current students and graduates.

This concludes our comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark Dreyfus', with a large, sweeping flourish extending to the right.

Mark Dreyfus  
President

950

JONES DAY

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July 12, 2012

Ms. Elizabeth Stein  
Committee on Health, Education, Labor and Pensions  
Dirksen Senate Office Building  
Suite 428  
Washington, D.C. 20510

Re: Education Management Corporation

Dear Ms. Stein:

We are counsel to the Education Management Corporation (EDMC). Based upon your emails and our discussions, it is our understanding that the Senate Health, Education, Labor and Pensions Committee is preparing its final report concerning the investigation of what have been referred to as "for-profit colleges." You have also indicated that as part of that report, a number of documents produced by each company will be made public.

We accepted your invitation to meet with you and review certain documents produced by EDMC beginning in 2010, which the Committee contemplates using in the report. In my letter dated June 12, 2012, and in subsequent emails, we raised issues concerning various documents and information you had indicated might be used in the report. Pursuant to our discussion on July 10, 2012, and in related emails, we believe we have reached agreement on the Committee's inclusion of certain identified EDMC documents and information to be used in the report.

Unfortunately, we have not been provided with a draft copy of the report or told how EDMC's documents or information concerning EDMC would be used in the report, what conclusions would be drawn from them, or which documents will actually be produced as part of the report. Therefore, it is impossible for us at this juncture to respond to any assertions made or conclusions reached in the report with respect to these documents.

Based upon our discussion, it is our understanding that the main purpose of the report is to assist the Committee in considering legislative and regulatory changes. And, though the investigation was not specifically designed to determine legal or regulatory compliance, it is our understanding that no legal or regulatory violations were identified with EDMC's conduct during the investigation. To the extent that the report seeks to suggest that any such legal or regulatory violations have occurred, EDMC objects to the inclusion of any such suggestion. Neither the information requests nor follow-up discussions with your office have focused on investigating whether any such violations ever existed. Moreover, to the extent that any of EDMC's documents or other information is being used to suggest or imply that any such conduct

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JONES DAY

Ms. Elizabeth Stein  
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occurred, EDMC has not been given the opportunity to respond to or otherwise challenge those findings. Should the Committee's final report draft contain any such findings, we would request that EDMC be notified immediately so that we may discuss those issues with you prior to the report being issued.

To the extent that the investigation and report draw any conclusions concerning the legal or regulatory framework governing the operation of proprietary higher-education institutions, EDMC believes that the Committee should carefully consider the great value institutions like EDMC bring to education in America.

Title IV of the 1965 Higher Education Act was designed to put a college degree within reach of individuals who otherwise could not afford to go to college. Proprietary institutions that provide quality higher-education opportunities to millions of students who are underserved by "traditional" higher education play a critical role in this effort. However, policy reforms addressing academic quality and student overborrowing for "nontraditional," or "at-risk," students must apply equally to all of our country's colleges and universities—public, nonprofit, and proprietary alike—and must uniformly address the critical issues of accessibility, affordability, transparency, and accountability. At the same time, they must allow our country's educational institutions to quickly respond to a rapidly changing world. The economic future of our country depends on it.

Given the stated purpose of the report, we respectfully request that the Committee reconsider its position and provide EDMC with an opportunity to review and respond to the assertions made and conclusions reached in the report with respect to EDMC and the proprietary sector generally.

Very truly yours,



Antonio F. Dias  
Counsel for Education Management  
Corporation

Enclosures

cc: The Honorable Michael Enzi, Ranking Member (Attention: Investigative Counsel)

WA1-3079157v1



## GRAND CANYON UNIVERSITY

3300 West Camelback Road | Phoenix, Arizona 85017 | 602.589.2360 | Toll Free 800.800.0776 | www.gcu.edu

June 26, 2012

The Honorable Tom Harkin, Chairman  
Senate Committee on Health, Education, Labor and Pensions  
United States Senate  
731 Hart Senate Office Building  
Washington, DC 20510-6300  
Cc: Honorable Mike Enzi

Dear Chairman Harkin:

The focus of the Senate Committee on Health, Education, Labor and Pensions on proprietary educational institutions affords an opportunity for Grand Canyon University to tell its remarkable story, one that demonstrates how an investment-funded model can work to the benefit of students and taxpayers alike.

Grand Canyon provides a high-quality, low-cost, private education to both traditional and working-adult students, and its metrics compare favorably with public and private universities across the country. Students at Grand Canyon's 110-acre campus in Phoenix, Arizona pay an average of \$8,000 per year in tuition — about two-thirds less than most private universities, and lower than many public universities. In fact, tuition for students on the campus of Grand Canyon has not increased since 2009, and tuition for online students is among the lowest of all private universities that offer online education.

Academic programs have been added in growth fields such as sports business to already-robust curricula in arts and sciences, business, doctoral studies, teacher education, fine arts, nursing and theology. The two largest programs, in teacher education and nursing, represent two of the country's fastest-growing job areas. Approximately 98 percent of nursing graduates achieved a passing score on the state boards last year (95 percent over the past three years). Meanwhile, the average GPA of an incoming undergraduate student on Grand Canyon's traditional campus has risen to 3.4.

Taxpayers have shared in the university's success: For 2011, the average taxpayer burden for a student at Grand Canyon — when considering defaults on student loans, Pell and other grants received, and federal and state taxes paid — was approximately \$969, whereas state universities cost taxpayers in excess of \$10,000 per student, according to Arizona Board of Regents financial-aid data.

Grand Canyon is reinvesting its after-tax profits in improvements to the student experience. It is currently undergoing a \$313 million renovation and expansion of its campus. A record 7,000-plus students are expected in the fall of 2012. The university has constructed four residence halls since the spring of 2010, in addition to state-of-the-art buildings for its College of Education

Grand Canyon University

and College of Arts and Sciences, a Student Recreation Center, a food court and bowling alley, and a 5,000-seat arena for sports events and concerts. This spring, Grand Canyon, which supports 21 NCAA men's and women's sports, won the Learfield Sports Directors' Cup for Division II, a measure of all-sports excellence. In addition, Grand Canyon's award-winning theater program regularly performs sold-out shows at the 300-seat theater on campus.

With an online enrollment of approximately 40,000 students, Grand Canyon has been on the cutting edge of distance learning, which has exploded over the past decade in the United States through online programs offered by proprietary, public and private universities. In 2003, only 12 percent of undergraduate students took online courses; by 2009, that number had risen to 29 percent. A New York Times editorial on May 4, 2012, stated that "American institutes of higher education will embrace online education as a tool to transmit inexpensive and global knowledge."

The movement is well under way at traditional universities. For example, Liberty University has nearly 70,000 online students to complement its on-campus enrollment of 12,000. The University of South Alabama has seen a 55 percent increase in online enrollment in the past year. Arizona State University projects 30,000 online students by the year 2020. The American Graduation Initiative, an effort to create the world's best-educated and most competitive workforce by 2020, depends greatly on the access, affordability, flexibility and innovation delivered by quality online education. A new online learning system developed by Grand Canyon, called LoudCloud, signifies a major investment by the university, and full-time online faculty are another point of differentiation.

Grand Canyon, which was founded in 1949 by Southern Baptists but is now an interdenominational Christian institution, looks for ways to live out its mission in Arizona and beyond. When a devastating tornado struck Joplin, Mo., last year, Grand Canyon spearheaded a Phoenix-wide drive for clothing and supplies — and then drove boxes of donations directly to several Midwestern families in need. Two enormously successful road races held on campus in the past year raised \$70,000 for a children's cancer charity. Ongoing efforts with the disabled community and the homeless are representative of Grand Canyon's steadfast commitment to those less fortunate.

The university welcomes the community at large onto its campus for a variety of programs and events throughout the year. An annual Fall Festival in October draws more than 5,000 people, and a popular gift drive helps brighten the Christmas season for needy local families. Grand Canyon also goes out into its multicultural surrounding neighborhoods, rolling up its sleeves in programs that it initiated years ago. And this summer, student mission teams traveled to India, Rwanda, Malawi, Thailand, Costa Rica and Fiji.

Clearly, this is the picture of a successful institution that has never wavered in helping students find their purpose in a variety of ways. In your careful examination of the proprietary sector in higher education, we submit Grand Canyon University as an example of how an investment-funded model is designed to work: as a benefit to all.

Sincerely,



Brian Mueller  
Chief Executive Officer  
Grand Canyon University

**Statement of Henley-Putnam University on Charts Released by the Senate Committee  
on Health, Education, Labor and Pensions**

Due to the programs Henley-Putnam University offers, it has drawn students primarily from various branches of the U.S. military as well as from corporations, law enforcement and governmental agencies including the Secret Service, FBI, CIA, and others. Due to their positions, many of Henley-Putnam's active duty military students require leaves of absence (LOA) when transitioning to overseas duty, and in many cases when in active combat situations. The percentage of enrolled students on LOA can range from 25 percent to 40 percent at any time, which increases the time it takes to complete a degree. However, currently the time to completion at Henley-Putnam in years is 3.53, 3.45, and 3.75 for its Bachelor's, Master's and Doctoral degrees, respectively.

The chart entitled "Status of Students Enrolled in Henley-Putnam University in 2008-2009, as of 2010" shows enrollments from 2008-2009 with graduation status from 2010, which means a student would only have been matriculating for one to three years. This is normally not enough time to complete a Bachelor's degree. In addition, Henley-Putnam received accreditation in 2007, which accounts for the low enrollments in 2006 and 2007.





**HERZING  
UNIVERSITY**

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July 9, 2012

The Honorable Tom Harkin  
Chairman  
United States Senate Committee on Health, Education, Labor, and Pensions  
428 Dirksen Senate Office Building  
Washington, DC 20510-6300

Re: Policy Response to Upcoming Report

Dear Chairman Harkin:

Thank you for the opportunity to present the views of Herzing University relating to the report to be issued by the majority staff of the Committee on Health, Education, Labor and Pensions. While we appreciate having been given the opportunity to review the documents provided voluntarily by Herzing University that the majority staff plans to include in its report, this response was prepared without having had the opportunity to see the actual report. As a result, it is likely that there will be additional areas of disagreement as to interpretation of information or policy recommendations.

Herzing University was founded by military veteran Henry Herzing and his wife Suzanne, a former high school English teacher, in 1965. The institution has remained in family ownership over its 47-year history. Henry Herzing graduated from Northwestern University with a B.S. degree in Electrical Engineering and obtained a Master Degree in Electrical Engineering while serving as Senior Missile Test Officer for the U.S. Navy at White Sands Missile Range. After some experience in the engineering field, he decided to found a school to train adults in emerging computer technology.

By focusing on career-relevant education and a high level of student support, the Herzing system grew over the decades, adding locations in the US and Canada and expanding program options to suit student and employer demand. Herzing University (formerly Herzing College) was nationally accredited until 2004 when its regional accreditation process was successfully completed; the University is now accredited by the Higher Learning Commission and is a member of the North Central Association.

The Herzing system currently consists of twelve campuses in eight U.S. states, an online division, and four campuses (under Herzing College) in Canada. Herzing University (U.S.) offers diploma, associate, bachelor and master degree programs in technology, business, health care, public safety, and design to over 5,000 students. The vast majority of these students are adult learners with prior college experience. Over 80% of these students are over 24 years-old, over 50% are over 30, and almost 20% are over 40. Two-thirds of entering students have already attended another post-secondary institution, i.e. are "transfer students". Herzing has tens of thousands of graduates and has been committed to supporting their employment success by offering classes and one-on-one support from 29 full-time Career Development staff. This equates to approximately one Career Development staff member to every 100 graduates in 2012. The Career Development staff provides support to students in job-searching, resume-writing and interviewing skills. Herzing University has a long history of high graduate employment rates and other success outcomes; see below for recent examples.

Herzing University is proud of its accomplishments and the success of its students. Among those are the following:

- Despite a challenging economy, over 80% of Herzing December 2011 graduates who were available for employment were employed in their field of study within 6 months of their graduation.
- Herzing University works hard to maintain affordable tuition for its students. Four Herzing University campus locations were on the Department of Education's published list of private, for-profit, 4 year or above institutions with the lowest tuition charges for 2010-2011. (See <http://collegecost.ed.gov/catc/Default.aspx#>.) In some cities Herzing University tuition is comparable to the tuition charged at state universities (e.g. Madison, WI), although the public colleges and universities receive billions of dollars in tax subsidies while Herzing University receives no such subsidies and pays real estate taxes, sales taxes, and income taxes.
- Herzing University's most recent official cohort default rate was less than the national average for all post-secondary institutions. The 2009 2-year cohort default rate for Herzing was 8.6%, compared to the national average of 8.8%. Herzing University's consolidated 2-year cohort default rate has consistently been under 10%. Its draft 2009 3-year cohort default rate was 13.4%, which is under the 15% threshold for disbursement benefits.
- Nursing student graduates from Herzing University had a pass rate for the NCLEX-2011 of 92.4%. The national average was 88%. (See [https://www.ncsbn.org/Table\\_of\\_Pass\\_Rates\\_2011.pdf](https://www.ncsbn.org/Table_of_Pass_Rates_2011.pdf)).
- The Herzing University/Madison Young Business Leaders delegation to the national 2012 Phi Beta Lambda (PBL) conference won more national awards than any other Wisconsin college or university, including the University of Wisconsin-Madison.

In light of current budget realities, Herzing University appreciates the concern with taxpayer investment and the federal government's need to analyze return on its investment in student-based aid programs. Before responding to specific documents that are included in the report relative to Herzing University, we have two general concerns about how this inquiry was handled by the majority staff of the Committee.

First, we believe that focusing this Committee's efforts entirely on private sector educational institutions is both poor public policy and a missed opportunity to begin preparation for the reauthorization of the Higher Education Act. All educational institutions eligible for student aid programs should be held equally accountable for quality outcomes and their total cost of delivery, and examining data from one sector without an equivalent inquiry into other sectors provides meaningless data without any appropriate context. Therefore the report is of questionable value in that only one portion of the educational landscape (those institutions receiving the lowest net amount of total taxpayer dollars and serving the most high-risk population of students) is being reviewed, while those receiving billions of dollars in direct subsidies (public institutions) or those highly selective institutions which receive billions of dollars in indirect subsidies through avoidance of taxes (non-profits) are not being reviewed for cost or effectiveness.

Second, we understand that Herzing University was selected for this inquiry as an example of medium-sized family-held institutions. We have complied fully with the inquiry, which has cost our institution over \$200,000 in IT fees, staff time, and professional service fees. We voluntarily released 5 years of internal documentation, including confidential internal correspondence with our Board of Directors, internal and external email correspondence, and financial and budgetary data with the understanding that this would be background information for a summary report and would not be made public. We believe the decision to include school-specific information and documents in the report is inappropriate and serves no public policy purpose. We understand the need to investigate and draw general

conclusions, but compromising the confidential information and potentially damaging the competitive standing and goodwill of a private institution is unnecessary and may make companies reluctant to comply voluntarily with Senate investigations in the future.

As noted above, Herzing University has not been permitted to see the report or the specific chapter on our institution prior to writing this response. The majority staff did provide an opportunity to review generic versions of the charts and the specific Herzing University documents to be released, and we are basing our response on that information. Based on those documents, we would like to make the following points:

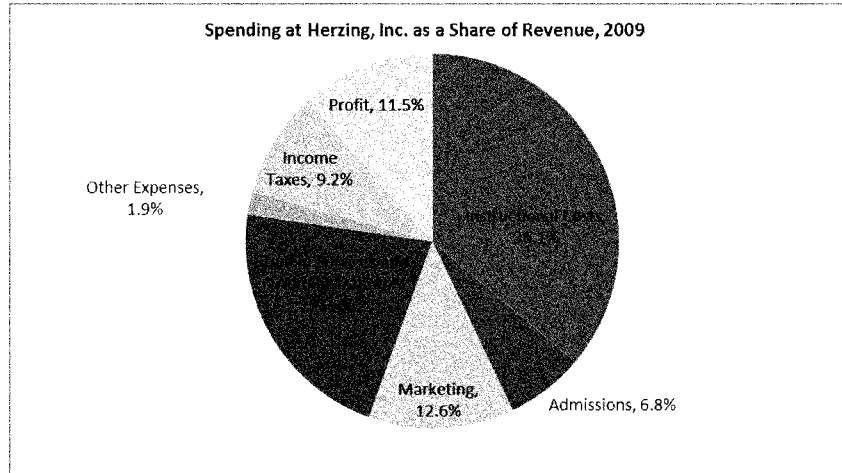
1. **Tuition:** Comparing private sector tuition to public sector tuition shows expense to an individual but not the total cost to society, i.e. taxpayers. Public sector institutions are more expensive overall in terms of their total cost of delivery and their costs to taxpayers. Due to their high taxpayer subsidies, less cost is passed on to the individual student in the form of tuition, but much more cost is borne by the taxpayers at the federal and state levels. Private sector schools receive no direct subsidies and therefore must cover all costs of delivery through tuition. For example, the tuition paid by the student will be \$1,532 to \$2,610 for the 2012 – 2013 academic year at the Milwaukee Area Technical College (variation depending on credit levels and programs, see [www.matc.edu](http://www.matc.edu)); however, the average cost of educating one full-time equivalent student in the Technical Division of the Wisconsin Technical College System in 2010-2011 was \$18,313, and in some locations it was as high as \$28,000. (See: [http://www.wtcsystem.edu/reports/data/cost\\_alloc/pdf/div\\_technical.pdf](http://www.wtcsystem.edu/reports/data/cost_alloc/pdf/div_technical.pdf)). Herzing University (Madison, WI) delivers similar programs for \$11,400 including textbooks/eBooks. It is a policy decision to have taxpayers rather than the student pay the great preponderance of the cost of the technical colleges in Wisconsin. While the technical education cost for the student at one of the public technical colleges in Wisconsin is less than at Herzing, it is only because of a direct taxpayer subsidy averaging approximately \$16,000 per student, or almost \$5,000 more than the total cost of tuition and books at Herzing.

Despite the lack of subsidies for our students, four of our campuses made the Department of Education's list for being in the lowest 10% of private, for-profit, 4 year and above college tuition. In addition, our Madison campus tuition (listed above as \$11,400 for two full-time semesters) is about the same cost as the UW-Wisconsin's new 2013 tuition level, which does not include the cost of books.

(See <http://www.jsonline.com/news/education/uwmadison-tuition-would-top-10000-if-increase-okd-kj5lae6-156998885.html> and <http://www.jsonline.com/news/education/uw-system-regents-approve-a-55-tuition-hike-cl5mqh4-157857585.html>.)

2. **"Profit" and Expenditures:** The report includes charts purporting to show the "profit" earned by the companies that provided information. The percentage designated as "profit" for Herzing University in the report is actually pre-tax operating income and does not reflect that approximately 40% of this amount goes back to the government (local, state, and federal) in income taxes. In addition, Herzing pays over \$500,000 annually in real estate and sales taxes which are included under expenses, which are not incurred by public or non-profit institutions.

See the below chart for a more accurate breakdown of profit and expenditures for Herzing University for fiscal year 2009.



The year 2009 yielded an unusually high margin due to the surge in adults returning to school after the recession. A considerable investment is made annually in capital expenditure, representing almost 50% of net income. Reviewing a 10-year period yields a more accurate representation of general profitability and reinvestment levels, which are as follows:

2001-2010 Profit Margin (Pre- and Post-Tax) and Reinvestment:

- Average Operating Income for this 10-year period was 11.8% (prior to shareholders covering the majority of taxes due to Subchapter S corporate structure).
- Average Net Income was 7.3% (this conservatively assumes a 38% tax rate for all federal and state taxes born by the shareholders; the institution must distribute money to the shareholders to cover these taxes).
- Annual investment equal to almost 50% (48.8%) of Net Income was reinvested in the University in the form of capital expenditures, such as new computer labs, facility expansion, simulation labs for nursing, library resources, etc.

The Department of Education has specific financial responsibility metrics that institutions are expected to meet, and Herzing University is proud that in most years since adoption we have received the highest score possible of 3.0 on those metrics. In order to achieve that highest score, it is necessary to have a net income ratio of at least 6%, which requires a net income before taxes of at least 10%. Our 10-year net income average is just above that recommended threshold. Our accreditors also expect that we are running a sustainable and fiscally responsible educational institution. Our financial health is reviewed by our accreditors each year as part of the annual institutional data update and our audited financial statements are reviewed each time they do an on-site visit. It is in everyone's interest (the public, students, etc.) that educational institutions are fiscally sound.

3. Completion/Withdrawal of Students: The chart provided in the report is misleading in several respects. The "Completion" column may create the impression that Herzing University has a very low graduation rate. However, it is important to note that the timeframe reviewed is 1-2 years of a student being in school, and this is too short a timeframe for almost any of the students to complete a 2-year associate or 3-4 year bachelor degree program. The fact that 4% of our bachelor degree students completed a degree in less than 2 years demonstrates that a number of students entered the university with previously earned transfer credits. Student retention and completion is important, and we are continually exploring new and innovative ways to retain students and to support their achievement of their educational credential. However, it is important to note that adult learners are more mobile and change schools more often than traditional students; 2/3 of our students are transfer students.

In addition, the students served by Herzing typically have multiple risk factors that increase the tendency to "stop out" (interrupt their studies), transfer, or drop out. Providing similar data for institutions in other sectors could help put these data into context. Community colleges, which average approximately a 25% completion rate on their 2-year programs, complain of the same unfair comparisons on completion, as they serve a similar older, mobile population. They ask that the number of their students who "transfer out" be considered in their completion rate. The graduation rate for first-time, full-time students who began their studies in fall 2008 was only 13% at Milwaukee Area Technical College, and only 40% for students beginning their studies in 2005 at the University of Wisconsin-Milwaukee. This compares to a graduation rate for Herzing University-Madison of 59% for the fall 2005 cohort.

The statistics included here also unfairly reflect on Herzing University's innovative 3 semesters per year system which helps students complete their degrees more quickly. Herzing considers the summer term a regular semester and is required to withdraw students who wish to take the summer off and re-enter them for the fall semester. Students taking the summer off at nearly any public or non-profit university would still be considered active. We have a considerable percentage of our students (about 10% of withdrawals) that take time off and re-enter later, and this model is not counting as completers those student withdrawals who re-enter and complete beyond the period tracked.

4. "90/10 Rule": The "90-10" rule states that an institution cannot receive more than 90% of its revenue from Title IV federal student aid programs; the regulation only applies to private sector institutions. Although this regulation is often considered a proxy for "quality", this rule in reality has no relation to an institution's quality. Evidence of this is the fact that Herzing's individual locations in different cities and states vary greatly in 90/10 rates although they operate under the same standards and culture, have the same entrance requirements, and have instruction from similarly credentialed and experienced faculty in similar facilities with similar resources. The differences among these locations that affect 90/10 are the following:
- a. How aid-eligible the student body at that given location is (i.e. what their socio-economic level is). The educational institution has no control over how aid-eligible its students are or how much students borrow; the Department of Education requires institutions give students all the aid they are eligible for, even if it exceeds the institution's tuition level. Thus lowering tuition cannot help (in fact only hurts) an institution's 90/10 ratio.

- b. Whether students are eligible for a state grant in the given state; the Akron campus 90/10 ratio was in the 70's until the state grant was eliminated for its students, causing the 90/10 rate to rise when there was no other change at the campus.
- c. What programs are offered at the campus; ironically, low-cost programs will lead to a 90/10 problem because students will be eligible for enough aid to cover most or all of the costs. Higher cost programs such as nursing programs cannot be covered fully through federal financial aid and therefore help decrease an institution's 90/10 rates.

In a time of concern about educational costs and the desire to motivate institutions to lower tuition, 90/10 practically necessitates tuition increases for an institution to remain viable. As such, it has hurt students, institutions and taxpayers. The single best remedy for tuition cost would be to eliminate 90/10 and allow institutions fair purview and control over student borrowing. Being held accountable for the outcomes of student loan default and potentially for debt to income ratios without any control over student borrowing is a misalignment of accountability and control.

5. Student Satisfaction and Complaint Resolution: Herzing University had approximately 20,000 new students start classes with us over the five-year period examined here. Considering the institution's size, one would expect a certain number of student complaints to be made. We believe that we have had only a minimal number of formal complaints due to Herzing's student-focused culture and the open-door policy of its staff and faculty. It is unclear what the policy point is here of sharing a handful of specific complaints; is this to imply there are no student complaints at the public and non-profit institutions? Certainly not every student at every institution is "happy" with each instructor and the grades they receive, nor are all students at other institutions in agreement with annual tuition increases. Key is that an institution demonstrates student focus, addresses concerns promptly, and has a culture of continuous improvement.

As for process, Herzing has procedures for addressing formal complaints, including appropriate appeal procedures. Campus leadership is required to respond to and address each formal student complaint. If the student is not satisfied with the response from the Campus leadership, each student has the opportunity to escalate the complaint to the Vice President of Operations and ultimately the University President. If the student is still not satisfied, he or she can ask for an Appeal Board of three faculty or staff not involved in the complaint to review the issue. Its decision is binding on the University.

The University also has a Quality Assurance Guarantee that states that a student can repeat any class in which he or she received a "C" or better. Therefore a student who attended and put in the requisite effort in a class, but felt he or she did not learn what he or she expected, can repeat the class at no charge under this policy.

The complaints highlighted in the report mainly address increases in student tuition. A thorough annual review is performed by the Home Office Leadership team as to what would be an appropriate tuition adjustment. The Leadership team reviews total projected costs for the coming year, including all of the additional expected compliance costs, and then decides if there is any adjustment necessary to the student tuition. Every attempt is made to first reduce the cost of delivery while maintaining a student-centric experience. Included in the cost of attendance are also academic services like tutoring and employment search assistance. Each campus maintains Career Development staff that help the students write resumes, learn job

search strategies, and offer opportunities to practice their networking and interviewing skills. Job leads are posted, and in many cases, e-mailed to the students, and students can set up appointments for individual assistance.

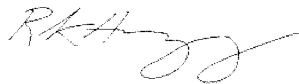
Not included in the report are our overall student satisfaction rates and the many positive student stories from Herzing alumni about how their student experience and learning at Herzing changed their lives. Herzing measures student satisfaction by asking students "would you recommend Herzing University to your family or friends", and for fall 2011- spring 2012, on average 88.7% of our students answered "Yes." Comments from these surveys are reviewed and action items for improvement are created in annual plans accordingly.

**Conclusion:**

Herzing appreciates the concern with value for taxpayer investment and would welcome an across-the-board, results-oriented approach to reviewing government investment in education. A comprehensive study would compare all institutions across higher education. Unfortunately, this report only looks at examples from the private sector, which represents 12% of the students in higher education, while providing no total taxpayer cost or educational outcome comparison with public and non-profit institutions that represent 88% of students and the vast majority of taxpayer investment. Thus the data has limited to no context and does not provide any answers to the key policy questions related to return on taxpayer investment, accessibility for students to higher education, and affordability of higher education.

Herzing is proud of its long history of serving students by changing their lives through education and invites anyone to visit one of our campuses and talk to our students about their learning experience. Until meaningful and fair comparisons are established to compare like institutions (those similar in student body make-up), institutions serving primarily adult learners and those with more risk-factors will not be fairly reviewed for their contribution to individuals or society. Herzing would applaud a fair study of all higher education institutions, normed for like student populations, to compare cost effectiveness and educational outcomes. The goal of such a study should be less to expose specific institutions but rather to identify best practices that could be adopted by other institutions to raise quality and efficiency across all of higher education in the service of all students.

Sincerely,



Renee Herzing  
President

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June 28, 2012

The Honorable Tom Harkin  
 Chairman  
 United States Senate Committee on Health, Education, Labor, and Pensions  
 428 Dirksen Senate Office Building  
 Washington, D.C. 20510-6300

Re: Charts and Documents Identified for Possible Inclusion in HELP Committee Report

Dear Chairman Harkin:

ITT Educational Services, Inc. ("ITT" or "the School"), met with majority staff of the Health, Education, Labor, and Pensions Committee ("Committee") on June 13, 2012, to review charts and documents that the School understands you intend to include in your forthcoming committee print ("the Report"). At that meeting, ITT raised concerns about a number of those charts and documents. ITT explained that the Report should not include many of the charts and documents because they contain proprietary, business-sensitive, and personally identifiable information.

This letter elaborates on the concerns ITT raised to majority staff of the Committee ("majority staff") on June 13, 2012. It explains which charts and documents identified for inclusion in the Report should be redacted or not included in the Report. Each of the documents for which the School requests redactions or exclusion from the Report was marked "Confidential" when produced and submitted with a request that it not be disclosed beyond the Committee or made public. The School asks that you, as Chairman of the Committee, take seriously the responsibility to protect the confidentiality of these business documents, especially where, as here, they were produced voluntarily to the Committee.

The School further asks that, in the spirit of transparency, this letter be included in the Report.

#### Identified Charts

ITT objects to the inclusion in the Report of the draft charts that majority staff shared on June 13, 2012. These charts seriously distort the data produced to the Committee.

The improper use of produced data is particularly apparent in the charts majority staff have drafted to show purported student outcomes, profits, and tuition costs at the School. These charts are troublingly inaccurate and misleading, and they disregard clear warnings about the limitations on the use of data that ITT voluntarily produced to the Committee. The Report should not include the charts.

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Chart: Outcomes of Students at ITT Educational Services

The draft chart showing the "Outcomes of Students at ITT Educational Services" (the "Outcomes Chart") is fundamentally flawed. It improperly analyzes data produced by the School and uses a methodology not recognized by accreditors to reach conclusions that misrepresent the completion and withdrawal rates of students at the School.

We understand from majority staff that they compiled the Outcomes Chart using data that the School produced in response to Request 6 of the first tranche of the Committee's August 5, 2010, document request. That request sought the voluntary production of:

[A] list of each student (identified by randomized numbers) who was enrolled on July 1, 2007 or who enrolled between July 1, 2007 and June 30, 2009 together with the student's date of enrollment, and date of completion or graduation, or date of last attendance in class or date of estimated completion or graduation. Please also provide the type of degree being pursued (certificate, associate's, bachelor's, graduate).

Letter from the Hon. Tom Harkin to Kevin Modany, at 2-3 (Aug. 5, 2010). We understand that majority staff extracted out a subset of this data reflecting all students who enrolled in the School from July 1, 2008-June 30, 2009. We further understand that majority staff then reconfigured that data set to look at "where the students were" as of May 2010. This time-limited, student-tracking approach generated the purported "completion" and "withdrawal" numbers listed in the Outcomes Chart. Those numbers, however, are misleading.

The completion and withdrawal numbers in the Outcomes Chart are misleading for at least three reasons. First, as we explained in our August 26, 2010, transmittal letter, the data requested and used by majority staff to generate the numbers "cannot be used to determine the percentage of students enrolled at ITT who either graduate or withdraw and do not ultimately complete a program." Letter from Michael D. Bopp to the Hon. Tom Harkin, at 4 (Aug. 26, 2010) ("Transmittal Letter"). A reason for this, as we explained, is that "a student who enrolls more than once at an ITT school" or "who transfers from one school to another" "may appear on more than one line" of the produced data. *Id.* at 4-5. These limitations in the data requested by the Committee make it impossible to calculate completion or withdrawal rates in the manner purported in the Outcomes Chart.

Second, the completion and withdrawal numbers in the Outcomes Chart are flawed because majority staff calculated them on the basis of an arbitrary and biased time frame. The majority staff's decision to assess the completion and retention rates of July 1, 2008-June 30, 2009 enrollees only up to May 2010 lacks a reasoned justification. No academic accreditor uses such a limited time frame for making completion or retention assessments.

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Moreover, measuring the progress of the School's students in such a strict linear fashion does not account for the School's unique student demographics. Because ITT serves students who often opt for nontraditional academic schedules, it simply cannot be assumed, as the majority staff does, that all students begin, continue, or complete their studies in a limited, traditional time frame. Additionally, the majority staff's numbers are skewed by their scrutiny of a time frame plucked from the very heart of the recent economic downturn. The slow economy negatively affected many of the School's students and their families, making it harder for those students to pursue or complete academic programs. As a result, the withdrawal rate at the School—and most other educational institutions—increased some during that time frame.

Third, the majority staff also inflates the School's withdrawal numbers in the Outcomes Chart by counting against it the many students who suspend their studies on account of military duties, medical developments, or other societal requirements. By comparison, the Accrediting Council for Independent Colleges and Schools ("ACICS") does not count these students in its withdrawal calculations because it recognizes that such withdrawals are beyond the control of educational institutions. This is especially true for ITT, which serves a number of military personnel and students with family commitments. These students should not be characterized as "drop outs" simply because they are compelled to leave the School to fulfill important prior obligations.

For these reasons, the School objects to the inclusion of the Outcomes Chart in the Report. The Outcomes Chart is grossly misleading, and it should not be characterized or publicized as a fair measurement of student outcomes at ITT.

Chart: Profit at Publicly Traded For-Profit Education Companies, 2007–2010

ITT also objects to the inclusion in the Report of any chart based on the draft "Profit at Publicly Traded For-Profit Education Companies" chart shared by majority staff on June 13, 2012. As shown to the School, this chart is deeply flawed and misleading. Although the chart states that it shows "profit" at private sector schools, it actually shows only "operating profit," which is the amount a company earns after deducting its expenses, but *before paying its taxes*. As the Committee itself has noted, private sector schools pay a great deal in taxes. Last year alone, the School paid approximately \$196.4 million in income taxes. This fact is not represented in the draft "profit" chart.

Chart: Tuition and Fees at For-Profit College X and Public College Y (Same Degree)

ITT objects as well to the "Tuition and Fees at For-Profit College X and Public College Y" chart described by majority staff on June 13, 2012. Although we have not seen this chart with specific data for the School, we object to its planned comparison of tuitions

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and fees for a certain degree program at the School with those of a comparable program at a public institution. Such a comparison is misleading.

The comparison is misleading because it fails to account for the substantial taxpayer subsidy received by public institutions. Public institutions are able to charge less in tuition and fees because taxpayers foot a large portion of the bill through direct subsidies and indirect subsidies (e.g., public institutions do not pay taxes). Failing to account for these subsidies presents a misleading picture that incorrectly implies that public institutions are running similar programs on substantially less money. The Report accordingly should not include the "Tuition and Fees" comparison chart.

**Identified Documents**

As requested by majority staff, ITT details below its objections and proposed redactions to the documents identified for inclusion in the Report.

*Document 1* (ITT-00002264–ITT-00002276): This document is a contract for services between the General Revenue Corporation ("GRC") and the School for cohort default prevention services. The Report should not include this document. The detailed contract information in this document represents core confidential business information. The information in Parts III–VI on pages ITT-00002266–ITT-00002274 is clearly business-sensitive and proprietary, and its public disclosure will cause the School and GRC harm. The document also includes employee information on pages ITT-00002275 and ITT-00002276, and it is filled with references to the School and GRC that should not be publicly disclosed. With regard to employee information, the School understands that the Report will name only CEOs, and that supporting documents attached to the Report will exclude the names of all employees with a job title below Vice President. While the School appreciates the redaction of some employee names, the decision not to redact the names of Vice Presidents and more senior executives is unjustified. The Report should disclose only the names of employees who are listed in the School's public filings. This approach would prevent unnecessary disclosures of employee information without affecting the substance of the Report.

*Document 2* (ITT-00002277–ITT-00002280): This document is the second amendment to a cohort default management services agreement between the School and GRC. The Report should not include this document. Every page of this document contains significant business-sensitive, confidential, and personally identifiable information. If released, this information would cause harm to the School and GRC, revealing to competitors proprietary information developed at significant cost. If the Report discusses aspects of this document, it should cite to the document for support, rather than including any part of the document as a publicly disclosed attachment.

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*Document 3* (ITT-00002281-ITT-00002282): This document is the first amendment to a cohort default management services agreement between the School and GRC. The Report should not include this document. Like Document 2, this document contains a significant amount of business-sensitive, proprietary, and employee information. The release of this information would cause the School and GRC harm. If the Report discusses aspects of this document, it should cite to the document for support, rather than including any part of the document as a publicly disclosed attachment.

*Document 4* (ITT-00002284-ITT-00002299): This document is a cohort default management services agreement between the School and GRC. The Report should not include this document. The School objects to the inclusion of the document for the same reasons stated in its objection to the possible inclusion of Document 1. Each page of the document contains extremely sensitive business information, the release of which would cause the School and GRC substantial harm. The document also shows employee information on page ITT-00002298. If the Report discusses aspects of this document, it should cite to the document for support, rather than including any part of the document as a publicly disclosed attachment.

*Document 5* (ITT-00002316-ITT-00002338): This document is a series of charts produced by GRC that summarizes data related to the School's cohort default management solutions. The Report should not include this document. The document includes business-sensitive and proprietary information. It describes in detail the data underlying the School's unique approach to helping students avoid delinquency or default on their loans, as the Obama Administration has encouraged for all students facing challenges in repaying their educational loans and as is required, in some instances, by the Department of Education. See 34 C.F.R. § 668(N), App. A. The School developed this approach through a process of significant trial and investment, and its public disclosure would give an unfair advantage to the School's competitors who have not made similar investments in default prevention. The document also is easily misinterpreted. The numbers shown in the columns of the first table on page ITT-00002316, for instance, could be misread as weekly or monthly figures, when they in fact show yearly figures. Additionally, the document contains a number of handwritten notes and potentially personally identifiable information on pages ITT-00002328, ITT-00002329, ITT-00002331, ITT-00002333, ITT-00002334, and ITT-00002335. If the Report discusses aspects of this document, it should cite to the document for support, rather than including any part of the document as a publicly disclosed attachment.

*Document 6* (ITT-00003045-ITT-00003049): This document is the application form for the Champagne Scholarship offered to the School's students. The Scholarship is offered through the Champagne Scholarship Fund, a 501(c)(3) entity that is unaffiliated with the School. The School does not object generally to the inclusion of this document in the Report. The School's acceptance of the inclusion of this document in the Report, however, is

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premised on its understanding that the document will be used as an example of the School's efforts to help make its educational programs more affordable for deserving students. The School is concerned by the suggestion of majority staff that the Champagne Scholarship is in some way a "90/10 strategy." There is absolutely no basis for this suggestion. As explained in the document, the Champagne Scholarship is a merit-based award intended to "encourage higher education for working adults" by awarding \$3,000 each calendar year to recipients selected on the basis of a seven-part application that includes a significant written component and two letters of recommendation. ITT is proud of the Champagne Scholarship and the many remarkable students who benefit from it.

*Document 7* (ITT-00003876-ITT-00003879): This document is the record of a student complaint submitted and resolved in 2006. The Report should not include this document. As we explained to majority staff, it is misleading and unfair to present only selected student complaints. Like the complaints for any educational institution, complaints regarding the School often unfairly portray the quality of educational offerings and are not representative of typical student experiences. These problems are exacerbated when the complaints are presented out of context—as they have been in past speeches and reports related to the investigation of private sector schools. See, e.g., Statement of Hon. Tom Harkin, *For-Profit Education Companies*, 157 Cong. Rec. S3153-S3160 (May 19, 2011). The problems with including selected complaints in the Report also are not cured simply by including as accompanying documents the School's responses to those complaints. As discussed with majority staff, complaints are advocacy pieces. They present emotional and strongly worded arguments intended to draw a reaction. The School's responses to complaints, by contrast, are clinical documents, written to address student concerns succinctly without advocating on behalf of the School's position. As a result, the responses usually do not fully review the School's position and views on issues underlying complaints. In this document, moreover, the official "Resolution Summary" and "Resolution Narrative" in the Complaint Report are not even shown. The document thus truly offers only one side of the story. Additionally, as a general matter, student complaints and School responses are laden with student and employee information. This information should not be publicly disclosed. Every page of this document, for example, contains student and employee information that could cause significant harm to the referenced student and employees if disclosed. Lastly, it is simply unfair to include in the Report any complaints submitted voluntarily by the School when many other schools declined outright to share any student complaints with the Committee. Including selected complaints about the School essentially would punish the School for cooperating in good faith with the Committee. This result would unjustly harm the School and possibly undermine the Committee's ability to conduct future investigations. The Report accordingly should not include this document or other student complaints voluntarily produced by the School.

*Document 8* (ITT-00004186-ITT-0004219): This document is the record of a student complaint submitted and resolved in 2006. The Report should not include this document.

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For the reasons discussed in the School's objection to Document 7, it would be unfair and misleading to suggest that this document is representative of student experiences at the School. Additionally, nearly every page of this document contains student and/or employee information, including student names and personal data on pages ITT-00004186, ITT-00004190, and ITT-00004191. The Report should not disclose this information.

*Document 9* (ITT-00004287-ITT-00004298): This document is the record of a student complaint submitted and resolved in 2006. The Report should not include this document. For the reasons discussed in the School's objection to Document 7, it would be unfair and misleading to suggest that this document is representative of student experiences at the School. Every page of this document also contains employee information that should not be made public.

*Document 10* (ITT-00004357-ITT-00004367): This document is the record of a student complaint submitted and resolved in 2006. The Report should not include this document. For the reasons discussed in the School's objection to Document 7, it would be unfair and misleading to suggest that this document is representative of student experiences at the School. Additionally, nearly every page of this document also contains employee information, and page ITT-00004361 contains business-sensitive information. The Report should not disclose this information.

*Document 11* (ITT-00004629-ITT-00004630): This document is the record of a student complaint submitted and resolved in 2006. The Report should not include this document. For the reasons discussed in the School's objection to Document 7, it would be unfair and misleading to suggest that this document is representative of student experiences at the School. Page ITT-00004629 of this document also contains employee information that should not be made public.

*Document 12* (ITT-00004639-ITT-00004640): This document is an enrollment agreement executed in 2002. The Report should not include this document. Although every student is entitled to receive a copy an enrollment agreement at the time he or she enrolls at the School, the School objects to the inclusion of this document in the Report because it is a decade old and does not reflect all of the terms or policies stated in the current enrollment agreement used by the School. The document also has been reduced in size to fit a smaller page, making the type size misleadingly small and not representative of the true type size. It thus would be misleading to include the document in the Report.

*Document 13* (ITT-00005047-ITT-00005066): This document is the record of a student complaint submitted and resolved in 2006. The Report should not include this document. For the reasons discussed in the School's objection to Document 7, it would be unfair and misleading to suggest that this document is representative of student experiences at the School. Additionally, nearly every page of this document contains student and/or

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employee information, including a student name on page ITT-00005059. The Report should not disclose this information, which would cause harm to the mentioned student and employees if released to the public.

*Document 14* (ITT-00005085–ITT-00005094): This document is the record of a student complaint submitted and resolved in 2007. The Report should not include this document. For the reasons discussed in the School's objection to Document 7, it would be unfair and misleading to suggest that this document is representative of student experiences at the School. Furthermore, every page of this document contains student and/or employee names and information that should not be made public.

*Document 15* (ITT-00005144–ITT-00005151): This document is the record of a student complaint submitted to, and resolved with, the Better Business Bureau in 2007. The Report should not include this document. For the reasons discussed in the School's objection to Document 7, it would be unfair and misleading to suggest that this document is representative of student experiences at the School. Every page of this document also contains employee names and information that should not be disclosed to the public.

*Document 16* (ITT-00005216–ITT-00005221): This document contains the records of two student complaints submitted and resolved in 2007. Pages ITT-00005216–ITT-00005218 and ITT-00005221 show the record of a resolved complaint of one student, and pages ITT-00005219–ITT-00005220 show the complaint of another student's parent. This second complaint is not accompanied by any response issued by the School and presents a charged and one-sided version of the facts underlying that complaint. Because the record of this second complaint is incomplete, and for all the reasons discussed in the School's objection to the inclusion of Document 7, the Report should not include this document. It would be misleading to suggest that the parental complaint shown in the document is representative of student experiences at the School, and it would be extremely unfair to include that complaint without at least the accompanying School response. The Report also should not include this document because every page of it includes student and employee names and contact information. This information should not be disclosed beyond the Committee.

*Document 17* (ITT-00006208–ITT-00006211): This document is the record of a student complaint submitted and resolved in 2007. The Report should not include this document. For the reasons discussed in the School's objection to the inclusion of Document 7, it would be unfair and misleading to suggest that this document is representative of student experiences at the School. Page ITT-00006209 of this document also contains employee information that should not be made public.

*Document 18* (ITT-00006239–ITT-00006242): This document shows a "student complaint summary" noting the resolution of a student complaint and a series of emails

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between School employees discussing that resolution. The document does not contain or discuss the underlying student complaint. The School does not object generally to the inclusion of this document in the Report. If the Report includes the document, however, the School asks for the redaction of the personally identifiable information on each page of the document, especially the student name and identification number on pages ITT-00006240 and ITT-00006242.

*Document 19* (ITT-00007386–ITT-00007398): This document is the record of a student complaint submitted and resolved in 2008. The Report should not include this document. Although the document contains numerous favorable student statements about the School and the efforts of its employees, it still should not be included in the Report for the reasons discussed in the School's objection to the inclusion of Document 7. In particular, the few critical statements in the student's initial complaint—all of which were resolved to the student's satisfaction without necessitating a formal response from the School—attract disproportionate attention and are not representative of student experiences at the School. Moreover, every page of the document contains student and employee identifying information, including a student name on page ITT-00007387. This information should not be made public.

*Document 20* (ITT-00007682–ITT-00007746): This document is the record of a student and parental complaint submitted and resolved in 2009. Although you previously referenced certain parts of this document in a speech on the Senate floor, *see* Statement of Hon. Tom Harkin, *For-Profit Education Companies*, 157 Cong. Rec. S3153–S3160 (May 19, 2011), no part of this document should be included in the Report. For the reasons discussed in the School's objection to the inclusion of Document 7, it would be unfair and misleading to suggest that the complaint contained in this document reflects a typical experience of students at the School. Indeed, as shown in the letter of the Ohio State Board of Career Colleges and Schools and the School's response, the complaint was unfounded and the student experience described therein was contrary to the experience of 155 similarly situated students. *See* ITT-00007708–ITT-00007713. Moreover, the document contains business-sensitive information at pages ITT-00007683–ITT-00007702, ITT-00007724–ITT-00007731, and ITT-00007736–ITT-00007743, including an outdated enrollment agreement that should not be disclosed for the reasons explained in the School's objection to the inclusion of Document 12. The document also shows student and employee names and personal information on nearly every page. It is for these reasons that the School marked the document "Confidential" and requested that it not be released beyond the Committee.

*Document 21* (ITT-00007716–ITT-00007746): This document is a subset of the pages discussing the student and parental complaint included in Document 20. For the reasons stated in the School's opposition to the inclusion of Document 20, the Report should not include this document.



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*Document 22* (ITT-00008037-ITT-00008044): This document is the record of a student complaint submitted and resolved in 2008. The Report should not include this document. For the reasons discussed in the School's objection to the inclusion of Document 7, it would be unfair and misleading to suggest that this document is representative of student experiences at the School. Pages ITT-00008037-ITT-00008038 and ITT-00008040-ITT-00008043 of this document also contain employee names and identifying information that the Report should not disclose to the public.

*Document 23* (ITT-00009376-ITT-00009387): This document is the record of a student complaint submitted and resolved in 2009. The Report should not include this document. For the reasons discussed in the School's objection to the inclusion of Document 7, it would be unfair and misleading to suggest that this document is representative of student experiences at the School. The document also contains an outdated enrollment agreement at pages ITT-00009379-ITT-00009380 that should not be disclosed for the reasons explained in the School's objection to the inclusion of Document 12. Additionally, nearly every page of the document contains employee information that should not be released. If made public, this information would cause harm to the identified employees.

*Document 24* (ITT-00009637-ITT-00009784): This document is the record of student complaints filed by two students in 2010. The lengthy document includes papers submitted to the Better Business Bureau, correspondence between School employees and the complaining students, accreditation and credit-transfer information, enrollment agreements, student credentials and transcripts, student standardized testing scores, student medical records, student financial information, and student coursework. The Report should not include this document. First, the parts of the document containing the filed complaints and School responses should not be included in the Report for the reasons discussed in the School's objection to the inclusion of Document 7. Second, the outdated enrollment agreements in the document should not be included for the reasons explained in the School's objection to the inclusion of Document 12. Third, the many parts of the document containing student and employee information should not be disclosed to the public because doing so would cause the identified students and employees great harm. This is especially true for the personal student information shown on pages ITT-00009724-ITT-00009737 and ITT-00009753-ITT-00009784. It is for all these reasons that the School marked the document "Confidential" and requested that it not be released beyond the Committee.

*Document 25* (ITT-00009785-ITT-00009787): This document is the record of a student complaint submitted to, and resolved with, the Better Business Bureau in 2007. The Report should not include this document. For the reasons discussed in the School's objection to the inclusion of Document 7, it would be unfair and misleading to suggest that this document is representative of student experiences at the School. Page ITT-00009787 of the

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document also contains a student and employee name that should not be disclosed to the public.

*Document 26* (ITT-00010049): This document depicts a so-called "pain funnel," a marketing tool developed and marketed by the Sandler Sales Institute. The document bears Sandler's trademark and does not mention the School. The Report should not include this document. The document is not attributable to the School and does not reflect School policy. Indeed, the School vigorously condemns the "hard-sell" recruiting policies represented in the document.

Although this document is not attributable to the School, it previously was referenced and released to the public in your floor statement of February 7, 2011. See Statement of Hon. Tom Harkin, *For-Profit Colleges and Universities*, 157 Cong. Rec. S600 (Feb. 7, 2011). That floor statement linked the document and others to the School, stating that "in their training, ITT went beyond rhetoric and created what they called a 'pain funnel.'" 157 Cong. Rec. at S601. The clear implication of this statement was that the "pain funnel" represented ITT corporate policy and was a recruiting tool approved through official ITT channels. But that simply is not the case. As we made clear in a February 10, 2011, letter: "ITT agrees that it is inappropriate to use high pressure sales techniques to recruit students. The conduct suggested by the documents referenced in your statement was not sanctioned by ITT and does not reflect ITT's standards." Letter from Michael D. Bopp to the Hon. Tom Harkin, at 1 (Feb. 10, 2011). In a contemporaneously issued press release, ITT reiterated this point, writing:

The training documents referenced by Senator Harkin do not in any way reflect our company's core principles. . . . The conduct suggested in those documents is completely unacceptable and contrary to the standards that we set, and we sincerely regret if any recruitment activities were conducted in that manner. We do not in any way condone recruitment practices, such as the ones referenced in the documents, that involve high-pressure sales tactics.

ITT Technical Institute Statement Regarding Senator Harkin's Characterization of Standard Practices, at 1 (Feb. 10, 2011; 3:38 p.m. EST). In its press release, ITT also emphasized that the use of the "pain funnel" was the work of rogue individuals and that it was not an approved corporate recruiting method:

Those documents were not authorized for use in accordance with the company's practices and procedures and were utilized by ITT Technical Institute personnel outside of their company authority. . . . We hold our employees to very high standards. We require that all materials used to communicate with prospective students and other customers be reviewed

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and approved by company executives. None of the documents cited by Senator Harkin were approved under this process.

*Id.* Furthermore, ITT noted in its press release that it was fundamentally unfair to judge the conduct of ITT and the actions of its thousands of employees by the acts of a few misguided individuals:

We sincerely regret any suggested use of high-pressure sales tactics by individual employees that occurred. Such conduct is contrary to the standards and principles followed by the ITT Technical Institute, and does not represent the efforts of our more than 10,000 employees at 130 ITT Technical Institute campuses across the US, who work day in and day out to improve the lives of our students. Our employees are dedicated to helping students succeed in their pursuit of a high-quality postsecondary education and are committed to doing so while adhering to company policies that are intended to foster student success and comply with all applicable laws and regulations.

*Id.* These remarks are all still valid.

Moreover, as promised in the letter of February 10, 2011, the School investigated the origin of the document and engaged in an extensive effort to ensure that no ITT employee, at any level, ever again employs the type of high-pressure tactics suggested in the document. See Letter from Michael D. Bopp to the Hon. Tom Harkin, at 1 (Feb. 10, 2011). The investigation determined that a campus-level Director of Recruitment brought the document with him after he was hired from another institution and that a Regional Director of Recruitment distributed the document to other campuses. Neither Director was employed by the School at the time it determined this information. If they had been, they would have been terminated promptly. Concurrent with the investigation, the School also pulled from distribution all training materials from all of its campuses for review by School management and the School's Internal Audit division. Only those materials that were approved by School management and Internal Audit were subsequently reissued. The School also implemented a policy requiring management approval of all new training materials.

To review, the Report should not include this document because the document: (1) is not an ITT document, but rather was created by Sandler Sales Institute, and thus cannot be attributed to ITT; (2) was not approved for use in recruiting by ITT management, and was used only by few individuals at the campus level; and (3) ITT has consistently condemned the sort of hard-sell recruiting tactics reflected in the document and has implemented policies to ensure they are never used again. Including the document in the Report as representative of ITT recruiting materials would disserve the thousands of hardworking School employees

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who diligently utilize only the School's approved admissions and training materials and who comport themselves to the letter of the School's code of conduct.

*Document 27* (ITT-00010050): This document is entitled "ITT Technical Institute Questionnaire." As with Document 26, this document was referenced in your February 7, 2011, floor statement. *See* 157 Cong. Rec. at S601. Despite this prior reference, the Report should not include this document. For the reasons discussed in the School's objection to the inclusion of Document 26, it would be improper for the Report to attribute the document to the School or to suggest that it was ever endorsed by ITT management. The document was never approved by ITT and contains inappropriate hard-sell tactics that ITT does not utilize. Rather, the document was created and used only for a short period of time by a few individuals at a single campus. These individuals acted outside of their authority and faced disciplinary actions where appropriate.

*Document 28* (ITT-00011550–ITT-00011555): This document is entitled "Phone Objections," and appears to be a list of common objections from perspective students paired with possible responses. The Report should not include this document. Like Document 26 and Document 27, this document reflects unapproved training material used at one campus of the School. The document was removed from use through the review and approval process discussed in the School's objection to the inclusion of Document 26. It thus would be misleading and improper to include the document in the Report or associate it with the School.

*Document 29* (ITT-00014590–ITT-00014591): This document is a series of points entitled "Ways to combat 'drops' in Marketing during the class building period." The Report should not include this document. This document is another example of recruiting materials not authorized by ITT management or used widely at ITT's campuses. Accordingly, for the reasons discussed in the School's objections to the inclusion of Document 26 and Document 27, it would be improper and incorrect for the Report to attribute this document to the School. As with Document 27, this document appears to be an unauthorized set of training materials utilized by a single campus. The School does not now, and never did, approve these materials and regrets their use. Including the document in the Report thus would be misleading and unfair to the School.

*Document 30* (ITT-00015566–ITT-00015569): This document is an undated and unlabeled outline entitled "Phoning Techniques." The outline contains blank spaces filled in with handwritten comments. The Report should not include this document. The School objects to the inclusion of this document in the Report as fundamentally misleading for the reasons discussed in its objections to the inclusion of Document 26 and Document 27. The document was created and used by only a few campus-level employees and should not be

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attributed to the School. The document was never approved by the School, and the School condemns the hard-sell tactics contemplated in the document.

*Document 31* (ITT-00016826-ITT-00016830): This document is a training transcript for School admissions employees. The Report should not include this document. As we discussed with majority staff, the document contains significant proprietary information. The School invests a considerable amount of time and money in the creation of its official training materials, subjecting training materials to multiple levels of review for quality and compliance. This document contains specific and unique responses to the concerns of prospective students that the School has developed over time. The release of these responses to the School's competitors would place it at a competitive disadvantage.

*Document 32* (ITT-00020084-ITT-00020088): This document is another training transcript for School admissions employees. It specifically provides approaches for addressing common concerns of prospective students. The Report should not include this document. The training approaches described in the document contain proprietary and business-sensitive information that should not be made public for the reasons discussed in the School's objection to the inclusion of Document 31.

*Document 33* (ITT-00022941): This document appears to be the notes of an individual recruiter at an individual campus entitled "Plan for hitting start goals." The Report should not include this document. The document appears to be a summary created by an individual admissions representative following a weekly performance review. The School encourages all Directors of Recruitment to hold weekly meetings with admissions representatives to discuss their performance and identify possible areas of improvement. As one would expect, areas of possible improvement vary significantly between representatives and for any individual representatives over the course of time. It therefore would be misleading to attribute the details of one summary of one representative's weekly performance review to the School. At the same time, the weekly performance review program through which the document was created is a unique program, developed by the School through a process of trial and investment. The document thus reflects a proprietary program and should not be released to the School's competitors.

*Document 34* (ITT-00023885): This document is an employee counseling form dated November 9, 2009, provided to an admission representative at ITT's Seattle campus. The Report should not include this document. Taken in isolation, the document has a tendency to mislead, and, moreover, in ITT's view, the document is irrelevant. A specific counseling form for an employee at a single campus is just that: an isolated snapshot in time of the performance of one of thousands of ITT employees. The individual employee's counseling form also will necessarily contain variances in evaluation reflecting the unique aspects of the employee's performance and the discretion given to campus managers to implement

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performance standards. Its relevance to education policy is uncertain. Moreover, in looking to those performance standards, the Committee should be mindful of the fact that those standards are not a metric rubric to be applied with rigidity. They rather are to be applied with discretion and adjustment to varying factual scenarios. In addition, the document contains employee information that should not be released to the public. For these reasons, the Report should not include this document.

*Document 35* (ITT-00023887–ITT-00023888): This document is a “Letter of Concern” dated April 24, 2007. For the reasons discussed in the School’s objection to the inclusion of Document 34, the Report should not include this document.

*Document 36* (ITT-00023893–ITT-00023912): This document is a collection of presentations regarding recruiting techniques given at an individual campus. The School understands that the Report likely will make reference to the “pain” remarks in this document. See ITT-00023912–ITT-00023913. The Report, however, should not include this document. Including the document in the Report, and attributing it to the School, would have a misleading result. As with Document 26 and Document 27, this document is not, and was never, approved by the School, and the School condemns the hard-sell tactics discussed in it. Also like Document 26 and Document 27, this document appears to stem from a few individuals who vastly exceeded their authority, acting in complete violation of ITT’s code of conduct. Additionally, the Report should not include the document because it contains various employees’ information.

*Document 37* (ITT-00025676–ITT-00025678): This document is an admissions document focused on addressing the concerns of prospective students. The Report should not include this document. As with Document 31, this document contains proprietary and business-sensitive information pertaining to the School’s admissions-training program. As we discussed with majority staff, the School has developed the program through a process of significant trial and investment, and its disclosure to the School’s competitors would cause the School substantial harm. Moreover, to the extent this document is marked for possible inclusion in the Report under the theory that it references hard-sell tactics, the School respectfully suggests that such a reading of the document misapprehends it. To be sure, the word “fear” is used in the document, see ITT-00025678, but it is used in the context of helping students overcome their fears and better their lives. This usage is not something to condemn.

*Document 38* (ITT-00025689–ITT-00028553): This document shows the analysis of a campus-level Director of Recruitment and performance data for various admissions employees at the Director’s campus. This document was referenced in your February 7, 2011, floor statement. See 157 Cong. Rec. at S601. Despite this reference, the Report should not include this document. Like Document 26, this document contains various suggested tactics to increase enrollment, including deplorable hard-sell tactics. Again, for

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the reasons discussed in the School's objection to the inclusion of Document 26, the School objects to the inclusion of this document because it is not representative of the School's policies or procedures. Rather, the document is another example of inappropriate actions by isolated individuals. At the time the document came to the School's attention, the campus-level Director who wrote the analysis and compiled the data in the document already had been terminated by the School. Had he still been employed by School, he would have been promptly terminated the moment this document came to the attention of ITT management. As a separate point, the Report should not include the document because it contains a number of employee names. These names should not be made public.

*Document 39* (ITT-00028362-ITT-00028400): This document shows a presentation entitled "Increasing Your Scheduled to Conduct Ratio or 'Setting Appointments That Show.'" The Report should not include this document for the reasons discussed in the School's objection to the inclusion of Document 26 and Document 27. This document is not an official ITT document, and it contains hard-sell recruiting tactics that ITT rejects. Inclusion of this document in the Report would be misleading.

*Document 40* (ITT-00028551-ITT-00028553): This document shows an email between School employees regarding certain campus-level admissions developments. The document commends the campus's admission teams' success in scheduling admissions appointments for prospective students. ITT does not object generally to the inclusion of this document in the Report. ITT's acceptance of the inclusion of this document in the Report, however, is premised on its understanding that the Report will not seek to present this document as promoting hard-sell recruiting tactics. This document does not in any way implicate hard-sell tactics—tactics which ITT does not employ and indeed condemns. There is nothing improper about celebrating success in scheduling appointments for prospective students to visit a campus in person, to obtain information about the campus's education offerings, and to obtain a first-hand perspective on whether the campus and program are right for them. If Report includes this document, ITT requests that the names of the employees contained in the document be redacted.

*Document 41* (ITT-00036911-ITT-00036913): This document is an informal written agenda for a department meeting of a "Criminal Justice and Composition" program at an individual campus. ITT does not object generally to the inclusion of this document in the Report, provided that this document is placed in the appropriate context. It is an informal document which reflects the conduct of a single ITT campus and cannot be attributed to ITT. ITT also requests that the employee name on page ITT-00036913 be redacted.

*Document 42* (ITT-00041048-ITT-00041053): This document is an unexecuted and incomplete draft "2008 Performance Planning and Evaluation Form" for a Director of Recruitment at an individual School campus. The Report should not include this document for three reasons. First, the document contains proprietary and business-sensitive

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information that, if released, would cause ITT competitive harm. ITT takes great pride in providing its employees with meaningful review and consistent feedback calculated to allow them to expand their professional skillsets. In a large organization, these structural tools are highly effective in increasing efficiencies when properly deployed and calibrated, and accordingly, an effective set of employee management protocols are quite valuable. ITT spends a great deal of time, money, and effort in developing effective performance metrics and feedback mechanisms. Releasing these performance metrics and associated feedback mechanisms therefore would place ITT at a competitive disadvantage. Second, the document is very much in draft form. It is unexecuted and appears to contain entire sections that are totally incomplete. See ITT-00041051-ITT-00041052. The individual performance metrics discussed in the document also may well be draft metrics, subject to revision. It thus would be misleading to make general use of the document as an example of School policy. Third, the document contains the names of employees. These names should not be released.

*Document 43* (ITT-00052133-ITT-00052136): This document shows a presentation regarding the selection of financial aid assistants ("FAAs") to help various individual campuses of the School contact students who have outstanding accounts receivable balances. The School also uses a similar employee selection and assignment program to lend help to campuses that are short-handed in other areas, such as career services and registration. The Report should not include this document. The volunteer FAA assignment program described in the document is a unique program developed by the School through a process of trial and investment. Its public disclosure accordingly would give an unfair advantage to the School's competitors who have not developed a similar program. The document also contains a number of employee names and contact information. Any discussion of the document in the Report thus only should cite to the document for support, rather than including any part of it as a publicly disclosed attachment.

*Document 44* (ITT-00052388-ITT-00052396): This document shows a presentation about the state of ITT's current scholarship programs. ITT does not object generally to the inclusion of this document in the Report. ITT's acceptance of the inclusion of this document in the Report, however, is premised on its understanding that the document will be used as an example of ITT's efforts to assist students who have served our country or who are exceptionally needy in paying for the cost of their education. ITT is alarmed by troubling language used by majority staff to suggest that ITT's scholarship programs are mere mechanisms to avoid 90/10 restrictions. As we explained to majority staff, this suggestion is erroneous as a normative matter and borders on the offensive. ITT takes great pride in educating military personnel and veterans and in assisting them in transitioning back into civilian life. Similarly, the fact that ITT offers limited scholarships to the most disadvantaged students is laudable. ITT is working to ensure that every member of our society can receive an education. Both President Obama and Secretary Duncan have repeatedly emphasized this important goal. ITT should be commended for this program, not condemned.



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*Document 45* (ITT-00056795–ITT-00056801): This document appears to be a “2008 Performance Planning and Evaluation Form” for a Director of Finance at a single ITT campus. The Report should not include this document. The document contains business-sensitive information and, for the reasons explained in the School’s objection to the inclusion of Document 42, its release will cause ITT competitive harm. ITT also objects to the release of this document on the grounds that, taken in isolation, the document is misleading. The performance evaluation contains a discretionary adjustment whereby the employee is given a higher rating than is justified by the performance metrics designed for her position. The reviewing official justifies the adjustment by explaining that the employee took over the Finance Department two months after her predecessor was terminated for violating company policy and that the employee made great progress in reforming the department. ITT is concerned that these comments will mislead if taken out of context and portrayed as representative of ITT nationally. Like any large institution, ITT is forced to confront the occasional bad actor, and that is all this document indicates—that there was apparent misconduct at a single ITT campus. Indeed, the key aspect of this document regarding ITT’s corporate culture is that ITT as a company does not hesitate to take aggressive action—including termination of employees—to ensure that employees comply with ITT’s rigorous Code of Ethical Conduct. If the Report includes this document, the names of the employees contained in the document should be redacted.

*Document 46* (ITT-00060529–ITT-00060531): This document is an announcement of the Champagne Scholarship Fund. ITT does not object generally to the inclusion of this document in the Report. ITT’s acceptance of the inclusion of this document in the Report, however, is premised on its understanding that the document will be used as an example of ITT’s efforts to assist exceptionally needy students in paying for the cost of their education. As discussed in the School’s remarks regarding Document 6 and Document 44, ITT is proud of the benefits provided to students through the Champagne Scholarship, and it objects to any suggestion that the Scholarship is merely a vehicle for avoiding 90/10 restrictions.

*Document 47* (ITT-00060718–ITT-00060745): This document shows a September 29, 2009, presentation entitled “Q3 Financial Aid Update.” The presentation sets out a variety of details regarding all aspects of ITT’s financial aid and scholarship programs. The Report should not include this document. ITT takes great pride in its systems for effectively managing financial aid, and for ensuring that its students and prospective students are fully aware of all the financial aid programs potentially available to them. These systems were developed over time and at great expense to the School. Accordingly, they are proprietary. Because the document contains intricate details of these systems, its release to the School’s competitors would place the School at a competitive disadvantage. Any discussion of the document in the Report thus only should cite to the document for support, rather than including any part of it as a publicly disclosed attachment.

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*Document 48* (ITT-00064242): This document contains a chart entitled "How many Phone Calls is Good," that contains various suggested time allocations for admissions representatives. The Report should not include this document. The document was not created or approved by School management, and its association with any School employee is unclear. It thus would be misleading and improper to attribute the document to the School or draw inferences from it about School policies.

*Document 49* (ITT-00065475-ITT-00065477): This document is a section of the ITT Procedure Manual entitled "Career Services Graduate Employment Definitions CS-2." The document sets forth in detail ITT's policies and procedures to track the in-field and related field employment of ITT alumni. The Report should not include this document. The School objects to the release of this document because it contains proprietary, business-sensitive information, the release of which would cause ITT competitive harm. This document is a portion of the ITT Procedure Manual in which the School sets out procedures on all relevant topics. ITT spent significant amounts of time and money developing these materials, which were produced to the Committee under an express claim of confidentiality. ITT invested substantial resources developing these "Graduate Employment Definitions" and their release would cause the school significant competitive harm. For these reasons, the Report should not include this document. Any discussion of the document in the Report only should cite to the document for support, rather than including any part of it as a publicly disclosed attachment.

*Document 50* (ITT-00065349-00065503): This document appears to be a set of frequently asked questions regarding "Employment Classification." The Report should not include this document. As discussed in its objection to the inclusion of Document 49, ITT expends considerable resources in formulating these training materials and policies. Accordingly, ITT objects to the release of the document on the grounds it contains business-sensitive information, which, if released, would cause ITT competitive harm. Any discussion of the document in the Report only should cite to the document for support, rather than including any part of it as a publicly disclosed attachment.

*Document 51* (ITT-00080730): This document is in internal email between a campus-level official and the ITT headquarters Regulatory Affairs Manager. The document moots and evaluates a proposed mechanism (above and beyond accreditor requirements) to convey tuition increases to students. Ultimately, this mechanism was not adopted. The Report should not include this document. The School strongly objects to the release of this document as it contains sensitive corporate-level internal deliberative material. This material is business-sensitive because, if it was disclosed, it would give competitors insight into ITT's strategic thinking on methods for conveying tuition increases to students. It bears emphasis that—in a show of extraordinary cooperation—ITT voluntarily produced this document and other internal deliberative materials to meet the Committee's apparent need for information. The School did so under an express claim of confidentiality, and with every expectation that

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the Committee would work with ITT to meet the Committee's legitimate needs for information while ensuring that ITT's sensitive internal deliberations were not made public. ITT is disappointed that its confidentiality designations have been ignored. The disregard for ITT's claims of confidentiality may have profound implications for the future willingness of parties to voluntarily produce sensitive internal deliberations to the Committee. For these reasons, the Report should not include this document. Any discussion of the document in the Report only should cite to the document for support, rather than including any part of it as a publicly disclosed attachment.

*Document 52* (ITT-00080791-ITT-00080792): This document is a "Private Education Loan Application and Solicitation Disclosure" for a private education loan from Library Bank. This document is not an ITT document and has no direct relationship to the School. Accordingly, ITT objects to any attribution of the document to ITT.

*Document 53* (ITT-00119308-ITT-00119312): This document is an internal ITT accounting spreadsheet. The Report should not include this document. The School objects to the inclusion of this document because it contains highly confidential and business-sensitive accounting and performance-related information. For the reasons discussed in the School's objection to the inclusion of Document 51, the inclusion of this document in the Report would be highly inappropriate.

*Documents 54* (ITT-00123921-ITT-00123922): This document is an email forwarding Document 55, ITT's "2010 Military Marketing Plan." Both of these documents discuss ITT's efforts to recruit military students in 2010. The Report should not include this document. The document contains business-sensitive information that, if released, would cause ITT competitive harm. The School invests a considerable amount of time and money in its unique marketing program. ITT voluntarily produced its internal marketing materials under an express request for confidentiality and with the understanding that the Committee's need for information would be balanced against causing ITT competitive harm. The fact that these materials are not current marketing plans is of no account. The School, like most companies, builds its marketing plans off of prior year plans, and therefore the 2010 marketing plan provides considerable insight into ITT's current marketing plan. This document accordingly should not be included in the Report. Additionally, the document contains employee information that should not be made public. If the Report discusses aspects of this document, it only should cite to the document for support, rather than including any part of the document as a publicly disclosed attachment.

*Document 55* (ITT-00123927-ITT-00123933): The Report should not include this document for the reasons discussed in the School's objection to the inclusion of Document 54.

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*Documents 56* (ITT-00124630-ITT-00124631): This email and attached documents reflects the administrator of the Little Rock campus informing ITT headquarters that an ACICS visit report cited the campus for ethical lapses. The Report should not include this document. As indicated in the document, the conduct of the campus administrator cited in the ACICS report was antithetical to the standards of conduct expected of School employees, especially campus administrators. Indeed, as shown in the document, the administrator tendered his resignation as soon as the ACICS report was published and before the School could take disciplinary action of its own. It accordingly would be misleading to include this document in the Report or suggest that the conduct of the administrator reflects practices or policies of the School. Additionally, the document contains employee names and information that should not be disclosed to the public.

*Document 57* (ITT-00124632-ITT-00124638): This email and attached documents reflects the administrator of the Little Rock campus informing ITT headquarters that an ACICS visit report cited the campus for ethical lapses. The Report should not include this document for the reasons discussed in the School's objection to the inclusion of Document 56.

*Document 58* (ITT-00124829-ITT-00124830): This email and attached documents reflects the administrator of the Little Rock campus informing ITT headquarters that an ACICS visit report cited the campus for ethical lapses. The Report should not include this document for the reasons discussed in the School's objection to the inclusion of Document 56.

*Document 59* (ITT-00133682-ITT-00133699): This document shows a presentation prepared for the ITT Board of Directors and presents forward-looking options to deal with the Department of Education's harmful "gainful employment" regulations. The Report should not include this document. The document is filled with highly sensitive, forward-looking, proprietary information. Releasing this information would place ITT at a profound competitive disadvantage. Again, it bears emphasis that ITT took the extraordinary step of voluntarily producing this document with the hope that the Committee would protect the School's sensitive, forward-looking information. Unlike other companies, ITT has produced a great deal of sensitive internal information and has done so in good faith. ITT should be rewarded for its level of cooperation, not harmed. For these reasons, the Report should not include this document.

*Document 60* (ITT-00139934-ITT-00139935): This document is an internal email between high-ranking ITT executive officers, including the then-CEO Rene Champagne. The email contains a discussion regarding the setting of future tuition rates, and also contains internal analysis of an ITT earnings call. The Report should not include this document. ITT objects to the release of this document, which contains sensitive, forward-looking deliberations at the highest levels of the School, and which, if released, would cause ITT

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lasting harm. Internal, forward-looking discussions of strategy among ITT's highest-ranking officials are some of the most sensitive internal documents. Their release would provide a competitor with insight into ITT's future strategic plans, allowing that competitor to obtain a substantial advantage over ITT going forward. Again, it bears emphasis that ITT took the extraordinary step of voluntarily producing internal deliberations among ITT's highest-ranking executives with the hope that the Committee would protect ITT's sensitive forward-looking information. For these reasons, and the reasons discussed in the School's objections to the inclusion of Document 51 and Document 59, public release of this document would be manifestly improper.

*Document 61* (ITT-00140384): This document is an email between ITT employees discussing potential opportunities for expanding the number of military personnel educated at ITT. The Report should not include this document. This document contains business-sensitive information, and its release would harm ITT's competitive position as explained in its objections to the inclusion of Document 60. The School also is concerned based on the prior report, *Benefiting Whom? Far-Profit Education Companies and the Growth of Military Educational Benefits*, that the Report will misconstrue this document to support the narrative that ITT and other schools are aggressively recruiting military students for 90/10 purposes. As discussed in the School's objection to the inclusion of Document 44, ITT takes great pride in educating veterans and military personnel.

*Document 62* (ITT-00144035-ITT-00144040): This document is a "Military Recruitment Proposal" which is clearly denominated a "draft" document. The Report should not include this document. ITT also objects to the release of this document for the reasons stated in its objections to the inclusion in the Report of Document 54, Document 55, and Document 61.

*Document 63* (ITT-00144495-ITT-00144497): This document is an internal email among ITT corporate-level officials discussing common reasons for students to drop out and possible solutions. The Report should not include this document. ITT objects to the release of this document on the ground that it contains business-sensitive information, which, as explained in its objection to the inclusion of Document 60, would harm the School if released.

*Document 64* (ITT-00144499-ITT-00144500): This document shows an email between School employees regarding aspects of the School's effort to inform members of the military about its educational offerings. The Report should not include this document. The document contains forward-looking, business-sensitive, and proprietary information regarding the School's planned approach to reaching military members. The School developed this approach at significant cost, and its release to the School's competitors would cause the School significant harm. Additionally, the document contains a number of employee names and contact information. If the Report discusses aspects of this document,

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it should cite to the document for support, rather than including any part of the document as a publicly disclosed attachment.

*Document 65* (ITT-00146556-ITT-001465559): This document is a summary of transaction details for the Program for Education and Knowledge Access ("PEAKS"). The Report should not include this document. The document contains highly sensitive business and propriety information, the release of which would cause substantial harm to the School. The document specifically shows information regarding projected business arrangements and revenue figures, "loan performance scenarios," and default-rate "assumptions." Because of the inclusion of this extremely sensitive and forward-looking information, the School marked this document "Confidential for Internal Discussions Only." Additionally, the School objects to any suggestion that this document or any aspect of the PEAKS program reflects an "institutional lending program." As explained in a letter sent February 22, 2011, and reiterated to majority staff on June 13, 2012: "[A]n 'institutional lending program' is generally defined as a program in which the school is *itself* the lender or directly guarantees the loan. . . . ITT does not provide, through the PEAKS Program or any other program, interest-bearing loans to students from its own funds. As with almost every other educational institution, ITT has a variety of third-party lenders to which it refers students for their educational needs." Letter from Michael Bopp to Elizabeth Stein, at 1 (February 22, 2011) (emphasis in original). The PEAKS program thus is not an institutional lending program. For these reasons, the Report should not include or reference this document. The School produced the document in an unredacted form with trust that the Committee would treat the document as confidential and guard against its release. That trust should be rewarded, not breached by the release or reference of this document in the Report.

*Document 66* (ITT-00146861-ITT-00146863): This document shows a series of emails between School employees regarding changes in the Federal Family Education Loan ("FFEL") program and the School's monitoring and management of its cohort default rates ("CDR"). The Report should not include this document. The document contains forward-looking and business-sensitive information regarding anticipated CDRs related to the operation of the FFEL program. The release of this information to the School's competitors would cause harm to the School. The document also contains employee names and contact information that should not be made public. If the Report discusses aspects of this document, it should cite to the document for support, rather than including any part of the document as a publicly disclosed attachment.

*Document 67* (ITT-00147688-ITT-00147689): This document shows an email from a Deutsche Bank employee to a School employee regarding the PEAKS program. For the reasons discussed in the School's objection to Document 65, among others, the Report should not include this document. The document contains especially sensitive business information regarding assumptions about the projected operation of the PEAKS program under a range of factors. The School would be seriously harmed by the release of this

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speculative, but critically confidential information. The Report accordingly should not include or reference this document.

*Document 68 (ITT-00152244-ITT-00152245):* This document shows a series of emails between School employees regarding the selection of financial aid coordinators ("FACs") to help various individual campuses of the School contact students who have outstanding accounts receivable balances. The School also uses a similar employee selection and assignment program to lend help to campuses that are short-handed in other areas, such as career services and registration. The Report should not include this document. The volunteer FAC assignment program described in the document is a unique program developed by the School through a process of significant trial and investment. Its public disclosure accordingly would give an unfair advantage to the School's competitors who have not developed a similar program. The document also contains a number of employee names and contact information. If the Report discusses aspects of this document, it thus only should cite to the document for support, rather than including any part of the document as a publicly disclosed attachment.

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Please feel free to have your staff contact me in connection with this letter.

Sincerely,



Michael D. Bopp

cc: The Honorable Michael B. Enzi  
Ranking Member  
U.S. Senate Committee on Health, Education, Labor, and Pensions

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EXHIBIT A

A6-133





ANDREW S. ROSEN  
Chairman and CEO

May 26, 2011

The Honorable Tom Harkin  
Chairman  
Committee on Health, Education, Labor,  
and Pensions  
U.S. Senate  
Hart Senate Office Building  
Washington, D.C. 20510

Dear Chairman Harkin:

I am writing to set forth Kaplan, Inc.'s perspective on the issues raised in your remarks on the Senate floor last Thursday, May 18, and in hearings this past year before the Senate Committee on Health, Education, Labor, and Pensions. I request that this response be inserted in the Congressional Record.

If I may paraphrase what I see as the overall theme of your remarks, it is this: that many for-profit schools care only about profits and use high-pressure tactics to induce unsuspecting students to sign up for programs of dubious value that leave them with mountains of debt, to the detriment of the students and the taxpayer alike. I write to assure you that this is not true of Kaplan. In particular, as explained below:

- Kaplan has taken dramatic steps to demonstrate its commitment to students above profit—by, among other things, allowing students to withdraw after an initial 4 or 5 weeks (or, if they are unlikely to succeed, requiring them to withdraw) without incurring any tuition obligation or debt.
- Kaplan has achieved extraordinary results for its students. We graduate the high-risk students we serve at twice the rate of public and non-profit institutions, and at a fraction of the cost to the taxpayer. Our graduates find jobs in their chosen field and are overwhelmingly satisfied with their education.
- Kaplan students are not defaulting at excessively high rates relative to their demographics or in excessively high dollar amounts. Indeed, students at for-profit colleges as a whole account for less than one quarter of the total defaulted

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debt—a significantly smaller share than either the public or non-profit sectors, and broadly in proportion to their percentage of borrowing.

These are some of the reasons why a healthy for-profit higher education sector is an essential element of the nation’s educational strategy—a point that I will briefly address at the outset.

**1. For-Profit Education Is an Essential Element of the Nation’s Educational Strategy.**

President Obama has set a goal of leading the world in the percentage of college graduates by 2020—we now rank #12.<sup>1</sup> As the Department of Education stated last year: “The President’s goal cannot be achieved without a healthy and productive higher education for-profit sector.” The public and private non-profit sectors alone cannot do the job. They do not have the capacity to serve all who must be served if the President’s vision is to become a reality. And so the for-profit sector is critical to the nation’s overall educational strategy.

Mr. Chairman, we agree with what you said in your Report of June 24, 2010:

For-profit schools are an important part of the mix of postsecondary institutions. They increase access to higher education by providing needed capacity as well as innovative options that can make it easier for students to complete their postsecondary education while managing work and family obligations.<sup>2</sup>

From time to time, there seems to be an undercurrent in the discussion about for-profit institutions that they have inherent conflicts that prevent them from playing a healthy and productive role in higher education. That is no more true of education, I submit, than it is of any other field. There is nothing wrong with relying upon free-market principles to create the necessary capacity—and the necessary innovation—to serve the non-traditional students whose needs are not met by the non-profit and public sectors. It has been suggested that for-profit institutions have an obligation to maximize profits at the expense of service to students. That is not the way we think at Kaplan. We are in the field of education for the long-term, and we are certain that establishing a reputation for quality education is more in our interest than merely pursuing short-term profits. Below I offer some evidence that we are succeeding, and that our students and taxpayers alike are well-served by our efforts.

<sup>1</sup> Organization for Economic Co-Operation and Development, *Education at a Glance 2010*, Table A1.3a, available at <http://dx.doi.org/10.1787/888932310092>.

<sup>2</sup> *Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For Profit Education*, U.S. Senate Health, Education, Labor and Pensions Committee (June 24, 2010), at 1.

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**2. Kaplan Does a Better Job of Graduating Non-Traditional Students than Public and Private Non-Profit Institutions—at a Fraction of the Cost to the Taxpayer.**

**a. Kaplan's Graduation Rate Is Twice the National Average for the Students It Serves.**

There has been a lot of discussion about the dropout rate and graduation rate at for-profit institutions. But what I have not heard is any mention of the fact that *nationwide, at all two and four-year institutions—public and private, for-profit and non-profit—fewer than half of college students graduate, and fewer than one-third graduate on a normal schedule.*<sup>3</sup> Those are the numbers for *all* students, including those at elite universities whose 90+ percent graduation rates significantly skew the average upwards. As shown below, among the non-traditional, high-risk students that Kaplan and many other for-profit institutions serve, the national graduation rate is even lower— far lower, in fact, than Kaplan's.

Kaplan serves non-traditional students who face many more obstacles than the typical college student. At Kaplan, almost 40 percent of our students are single parents, and over 75 percent come from low-income backgrounds. They are primarily adult learners, with an average age of more than 30 years. Three-quarters are women. Many work full-time or part-time. More than half have dependents. The Department of Education has identified seven “risk factors” that decrease the chance that a student will actually graduate from college. Nationwide, the average undergraduate has 1.5 of these seven risk factors; the average Kaplan undergraduate student arrives with four.

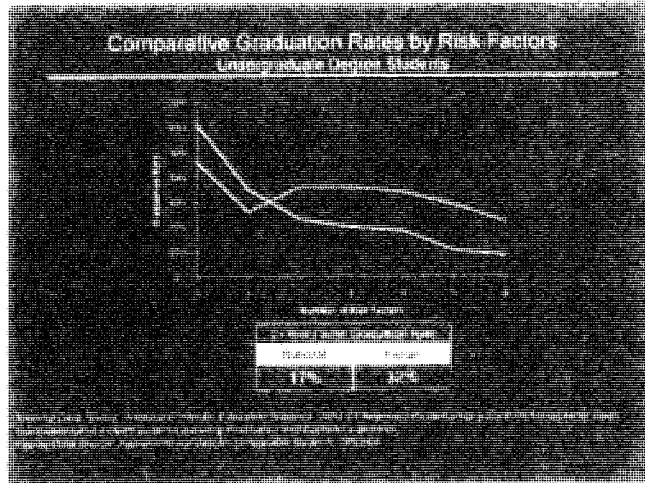
For-profit schools like Kaplan not only attract a higher percentage of these at-risk students; they do a superior job of graduating them. Below is a graph that compares the graduation rate of undergraduate degree students (Associate's and Bachelor's degrees) at Kaplan with the national average at all colleges and universities (public, non-profit, and for-profit).<sup>4</sup> It shows that *among undergraduate students with two or more risk factors—the kind of student that*

<sup>3</sup> Our analysis of data extracted from IPEDS Data Center indicates that the average graduation rate (using the standard measure of graduation within 150 percent of normal time) for all two and four-year institutions, weighted by enrollment, is 44 percent—25 percent at two-year institutions and 53 percent at four-year institutions. (<http://nces.ed.gov/ipeds/datacenter/login.aspx>). The Department of Education's most recent report indicates that 31 percent of students at two-year institutions and 57 percent of students at four-year institutions graduated within 150 percent of normal time, and that only 18 percent of students at two-year institutions and 36 percent of students at four-year institutions graduated on a normal schedule. That report does not provide a combined graduation rate for two and four-year institutions. See *Enrollment in Postsecondary Institutions, Fall 2009; Graduation Rates, 2003 & 2006 Cohorts; and Financial Statistics, Fiscal Year 2009* (NCES 2011-230), U.S. Department of Education, Table 10.

<sup>4</sup> The analyses reflected in the two graphs in the text are based on a 2003 student cohort interviewed at years one, three and six after college entry.

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*Kaplan serves— Kaplan students graduate at a rate that is almost two times the national average (32 percent at Kaplan versus a national average of 17 percent).*

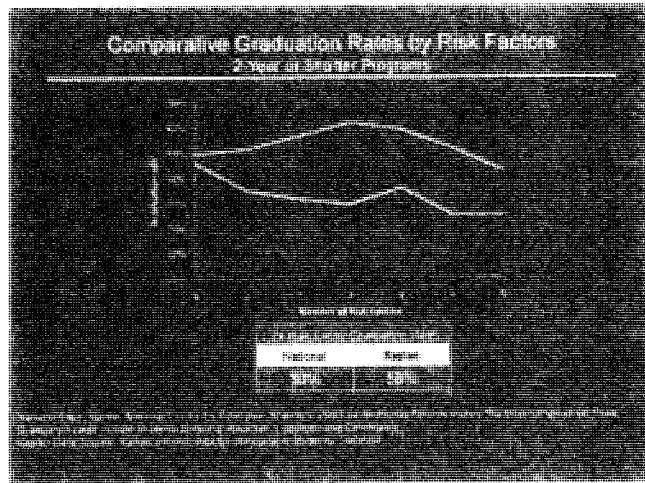


The story is the same among students in programs that are two-years long or shorter—students pursuing Associate’s degrees and certificates. Here again, as the next graph shows,<sup>5</sup> *students with two or more risk factors graduate from Kaplan at a rate that is almost two times the national average (58 percent at Kaplan versus 30 percent at public institutions).*<sup>5</sup>

<sup>5</sup> We included only public institutions in this comparison because independent non-profit institutions, for the most part, do not offer Associate’s degree and certificate programs.

<sup>6</sup> Other studies reach the same result. See Robert J. Shapiro and Nam D. Pham, Taxpayers’ Costs to Support Higher Education: A Comparison of Public, Private Not-for-Profit, and Private For-Profit Institutions, at 19 (showing substantially higher graduation rates at 2-year and less-than-2-year for-profit institutions); Roger Lytle, Roger Brinner and Chris Ross, *Parthenon Perspectives on Private Sector Post-Secondary Schools* (March 12, 2010), at 13 (showing significantly higher percentage earnings growth among graduates at 2-year and less-than-2-year proprietary schools).

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For-profit institutions are often compared to community colleges. We agree that many community colleges are doing an admirable job serving the same kind of non-traditional students whom we serve. The Obama Administration has singled out a number of community colleges in recent months for their extraordinary work, and we too salute those schools. But the graduation rates at some of the community colleges that the Administration has singled out are as low as two and four percent.

In short, the graduation problem is not one that is confined to the for-profit sector. In fact, as these graphs show, the graduation story at Kaplan is one of success, not one of failure. Last year, more than 43,000 individuals graduated from Kaplan Higher Education schools. And, just this past February, Kaplan University produced another 5,600 new graduates. If every student with two or more risk factors went to an institution with Kaplan's graduation rates, our country would have an additional 800,000 graduates per year, and we would be well on our way to achieving President Obama's goal of increasing the percentage of Americans with college credentials.

**b. For-Profit Institutions Cost the Taxpayer a Fraction of What Public and Non-Profit Institutions Cost**

It has been said that for-profit institutions are much more costly to the federal government than public institutions, when you consider the amount of defaulted debt owed by students who attend for-profit institutions. But for-profit institutions are far *less* costly to the

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taxpayers when *all* of the costs to the federal, state and local governments are considered. Community colleges and other public colleges and universities are heavily subsidized by state and local governments. Non-profit colleges and universities also receive government grants of various kinds. A recent study prepared by Robert J. Shapiro (Undersecretary of Commerce for Economic Affairs under President Clinton) and Nam D. Pham compared all of the government support, direct and indirect, provided to private sector for-profit colleges, public colleges, and private non-profit colleges. The study concluded that *over the course of a four-year program, public colleges receive six-and-a-half times as much money from the taxpayers on a per-pupil basis (\$15,540) as private sector (for-profit) institutions do (\$2,394). Even private non-profit colleges receive more taxpayer support on a per-pupil basis than for-profit colleges—in fact, almost three times as much (\$7,065 versus \$2,394).*<sup>7</sup>

In short, Kaplan graduates non-traditional students at twice the rate of the public and non-profit sectors, at a fraction of the cost to the taxpayers.

### **3. Kaplan Students Are Satisfied with the Education They Receive and the Outcomes They Achieve.**

Across the board, our students are achieving the learning outcomes they, and we, expect—and the vast majority are satisfied with the quality of the education they are receiving. Our surveys show that our students feel challenged and work harder than they expected they would have to work to meet faculty expectations. *More than 80 percent of Kaplan University graduates last year reported that they would refer others to Kaplan University.* More than 70 percent said that they have plans to seek additional education. Similarly, *more than 80 percent of students enrolled in our on-ground campuses reported this year that they would recommend Kaplan to a friend.*

We also know that we are helping our graduates advance in their careers. For Kaplan Higher Education students enrolled in our 70 on-ground campuses, *Kaplan had an overall average job placement rate of 74 percent in 2010 and 82 percent in 2009, despite a challenging economic environment.* These figures are no accident: we employ 292 career services staff at our campuses and online university. They provide resume review, job search assistance, interview preparation, career coaching, and career fairs with potential employers. At Kaplan University, where most students are not looking for new jobs, but are looking to advance in their existing careers, our surveys tell us that *75 percent of our graduates feel that their education at Kaplan prepared them “adequately,” “more than adequately,” or “exceptionally well” for their current job.*

<sup>7</sup> See Robert J. Shapiro and Nam D. Pham, *Taxpayers’ Costs to Support Higher Education: A Comparison of Public, Private Not-for-Profit, and Private For-Profit Institutions*, at 46. The study was paid for by Kaplan; the analysis was solely that of the authors.

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**4. Kaplan Students Are Not Defaulting at Excessively High Rates or in Excessively High Dollar Amounts.**

It should not be surprising that default rates at for-profit institutions are higher than at public institutions. Students at for-profit colleges have higher debt levels than students at public institutions, because the government directly subsidizes students at public institutions, without expecting repayment. Nor should it be surprising that default rates are higher at for-profit institutions than at independent non-profit institutions. All other things being equal, one would expect a higher default rate among the high-risk, relatively low-income population we serve. The Government Accountability Office has found that default rates are a function of student demographics, not quality of programs, stating in an August 2009 report that “[v]ariations in default rates across school sectors may reflect the characteristics of the students who attend the schools, according to academic research studies. . . . [T]here are multiple demographic characteristics of borrowers that correlate with higher default rates.”<sup>8</sup>

The two-year cohort default rate at Kaplan University is 17.5 percent, and the two-year cohort default rate at Kaplan Higher Education campuses ranges from 9.8 to 24.3 percent. These rates are similar to default rates at other institutions that serve significant percentages of low-income students. However, the two-year cohort default rate *for our graduates* is 3.1 percent at Kaplan University and 9.7 percent at the rest of Kaplan Higher Education. These are the students who get the full value of a Kaplan education and, accordingly, incur the most debt. They meet their loan obligations at a rate consistent with other, publicly funded, institutions. Furthermore, debt levels of those who leave school early, and who account for the vast majority of defaults, are relatively low. *In fact, the average debt among Kaplan non-graduates who default is \$4,400. The average debt of our graduates who default is less than twice that amount—\$7,700.* These are not insignificant amounts, but neither are these students burdened with “mountains of debt.”

Nor is the federal government exposed to large losses in its student loans. Even *defaulted* debt is not *unpaid* debt. According to the Office of Management and Budget, when you consider the interest payments on student loans, the Department of Education collects \$113 for every \$100 of *defaulted* debt.<sup>9</sup> In other words, even when a borrower goes into default, the government ends up collecting at least enough money to more than cover the principal amount owed.

<sup>8</sup> GAO Report GAO-09-600, *Proprietary Schools: Stronger Department of Education Oversight Needed to Help Ensure Only Eligible Students Receive Federal Student Aid*, at 19 (August 2009).

<sup>9</sup> This amount includes principal, interest, and fee collections and does not reflect deductions for collection costs that are billed to defaulted borrowers. See Office of Management and Budget, Federal Credit Supplement, Budget of the U.S. Government, President’s FY2012, Table 5 (Direct Loans: Assumptions Underlying the 2012 Subsidy Estimates).

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**5. Students at For-Profit Colleges Account for a Significantly Smaller Share of Defaulted Debt than Either the Public or Non-profit Sectors.**

According to Department of Education data, students attending for-profit institutions in 2008-09 accounted for approximately 20 percent of the students receiving financial aid that year. Students attending for-profit institutions received 23 percent of Federal student loan and grant dollars. And for-profit students accounted for 24 percent of the defaulted dollars.<sup>10</sup> The chart below compares the percentage of total dollars defaulted that is attributable to each of the three higher education sectors to the percentage of total dollars that entered repayment from the three sectors in 2009.

Sector	2009 % of Dollars Entering Repayment	2009 % of Dollars Defaulted
Public	46%	44%
Private	35%	32%
For-profit	18%	24%

As these figures show, for-profit college students do not account for the lion's share of dollars defaulted; they account for the smallest portion—in line with their share of the total loan dollars entering repayment. In fact, *the percentage of total defaulted dollars attributable to for-profit students (24 percent) mirrors almost exactly the percentage of total grant and loan dollars that is given to for-profit students (23 percent). And the for-profit students' share of defaulted dollars is only 6 percentage points higher than their share of loan dollars entering repayment—a difference that is easily explained by the demographic characteristics of students attending for-profit schools.*<sup>11</sup>

<sup>10</sup> U.S. Department of Education 2009 "GE-Data-Model."

<sup>11</sup> In past remarks, you have stated that: "Proprietary colleges account for only 10 percent of students enrolled in higher education, but those students receive 23 percent of Federal student loans and grants, and account for 44 percent of defaults." Statement of Senator Tom Harkin (D-IA), September 30, 2010. The 10 percent figure, however, understates the percentage of students enrolled in proprietary schools. It is based on the number of degree seeking students at a single point in time, rather than the total number of students who attend college annually. It fails to include students in vocational certificate programs and students who stop and start their studies in the course of the year. The 23 percent figure is actually the percentage of federal financial aid dollars that goes to proprietary school students, not the percentage of the total number of loans and grants, and the 44 percent figure is the percentage of the number, not the dollar amount, of student defaults attributable to the proprietary sector.



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#### 6. Kaplan Has Taken Dramatic Steps To Address the Committee's Concerns.

None of this is to suggest that at Kaplan we are content with the current picture. We believe that we can do better on every front. We have recently taken dramatic steps that we are convinced will reduce student debt and default rates, increase graduation rates, and protect students against the kinds of practices that have been the subject of attention by the Committee.

The best way we could think of to address all of the concerns that have been raised is to offer all students a free "trial" period during which they—and we at Kaplan—can decide whether Kaplan is right for them. If the student leaves at the end of that period, she owes us nothing—and the government pays us nothing. We call this program the Kaplan Commitment.

The Kaplan Commitment builds upon an important observation: most of our dropouts occur relatively early in the process. Even before the Kaplan Commitment was implemented, we spent a lot of time and effort in the early period identifying those students who cannot succeed. Most of those who drop out early have done so because we have determined that they cannot do the work that is required. The Kaplan Commitment allows those who cannot do the work—or who for any reason decide that our program is not for them—to leave *without paying any tuition or incurring any debt*.

With the Kaplan Commitment, students have a 4 or 5-week conditional acceptance period during which they are enrolled in actual classes in their programs. During this period, they can decide, without any financial risk, whether Kaplan is right for them—and Kaplan can conduct academic assessments to determine whether students are likely to succeed. Only those students who are progressing adequately are fully accepted into a program and charged tuition for the initial classes. What this means is that *not a penny of federal aid—in the form of grants or loans—is drawn for any student unless the student (a) successfully completes the first 4 or 5-weeks of the program and (b) decides to continue*.

We began implementing the Kaplan Commitment in November 2010, and our experience has been interesting: two-thirds of those who have left within the initial trial period have done so because we have determined that they are unlikely to succeed. As a result of the Kaplan Commitment, we expect that the graduation rate among those who incur any expense will increase—because a mutual decision will have been made after a trial period that the program is a good match for them. We also anticipate that this will reduce our students' default rate, because graduates are less likely to default.

The Kaplan Commitment should also alleviate concerns about overly aggressive recruitment practices (although, as explained below, we have taken other steps to make sure that the recruitment process conforms to best practices).<sup>12</sup> If a student feels that she made a mistake

<sup>12</sup> At various times, you have quoted from a document produced by Kaplan to the Committee that spoke of raising "fear, uncertainty, doubt" about competitors' offerings and another document that referred to

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by enrolling—either because of misunderstandings or perceived pressure during the admissions process, or because she does not feel that she can handle the work, or for any other reason—she can simply withdraw at any time during the initial period without incurring any debt at all.

The Kaplan Commitment will be costly, but we believe that it will make our company stronger in the long run—because it will enable us to better serve the at-risk population that looks to us for educational opportunities. We want to be a recognized leader in education. And that long-term goal is, we assure you, far more important to us than short-term profits.

Even before implementing the Kaplan Commitment, Kaplan took steps to tighten its admission standards and ensure that students who are admitted have a chance to succeed. In 2009, Kaplan Higher Education stopped enrolling “Ability To Benefit” students—that is, students who lack a high school diploma or its equivalent. Since 2008, all Kaplan Higher Education campuses have required all incoming students to take an entrance exam (Wonderlic Scholastic Level Exam) to gauge their academic capability and their ability to complete their studies successfully. In 2008, Kaplan University adopted a new assessment system to evaluate prospective students. The Academic Readiness Assessment measures a student’s likelihood of completing college coursework without the need for foundational coursework. Some students are denied admission, some are required to take a specific set of foundational coursework, and others move directly to college-level studies. Combined with the Kaplan Commitment, these actions are aimed at enhancing the likelihood that students who incur tuition obligations are able to succeed in their programs of study and find jobs in their chosen fields.

The Kaplan Commitment comes on top of the commitment we have made to provide full disclosure, up front, of all expected costs, graduation rates, and loan and funding options and responsibilities. We also have a system for verifying that all newly enrolled students have received complete and accurate information regarding their enrollment decision. With full disclosure of the relevant facts up front, and the free trial period provided by the Kaplan Commitment, there should be no one who can say that she incurred financial obligations because of misrepresentation or undue pressure.

## **7. Conclusion**

At Kaplan we serve students who face more than their share of challenges. But with the solid foundation that we have built over the last decade—and the additional measures we have taken in recent months—we fully expect to achieve results that will continue to outpace institutions serving a similar student population. In fact, we expect that we will be able to

uncovering prospective students’ “pain.” These documents were developed by a third-party vendor, were not officially sanctioned, and had very limited circulation within Kaplan before they were removed from use when subjected to review by Kaplan officials in the central office. They do not reflect Kaplan’s approach to recruiting.

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achieve results that compare favorably with those of institutions that serve a much more traditional student population.

I am consistently moved at our graduation exercises by the pride and sense of accomplishment that I see in our students' faces. Frequently the voices of celebration in the audience are those of our graduates' children, who look upon their parents as role models for the proposition that hard work and study really matter. Our graduates – often from limited means – have taken their place as important contributors to the American story.

Mr. Chairman, your staff got a glimpse of what a Kaplan degree means to our students when they visited our campus in Des Moines, Iowa last October. They came upon a woman crying in the library. The woman, who was retiring from the Army, explained that she had just seen the Associate's degree that she was about to receive, and for which she had worked so hard. Her tears, it turns out, were tears of joy. This student is typical of the tens of thousands of Kaplan students who received their degrees last year.

As your Committee continues its work, I hope that there will be more recognition of the contributions that Kaplan and other for-profit higher education institutions have made in the past, and of the significant measures that we have taken to ensure that in the future our programs reflect the aspirations of your Committee and serve the interests of our students and the taxpayers alike.

Sincerely,



Andrew S. Rosen

cc: The Honorable Richard Durbin  
The Honorable Michael Enzi



**STATEMENT SUBMITTED BY KAPLAN, INC.**

Kaplan appreciates the opportunity to submit a statement to be included with the Majority report being issued by the HELP Committee. Because we have not been given an opportunity to review the report itself, however, we are not in a position to respond to it. We are only able to provide a comment on Kaplan's experience with the Committee, and to register our concerns as to certain supplementary materials that we understand will accompany the report.

From the beginning of this Committee's inquiry into the proprietary higher education sector, Kaplan has been a model of cooperation. Kaplan has made itself available to respond to the Committee's every request for documents and information, and our leaders have offered to appear before the Committee to discuss the key issues facing higher education today. Under these circumstances, we are understandably disappointed at the limited manner in which our participation has been utilized, and in the impression that these proceedings, and the final report, have been carefully managed to support a general narrative about the higher education sector without due regard for the specific facts about Kaplan.

**KAPLAN'S PRIOR SUBMISSION ON CRUCIAL POLICY ISSUES**

Over a year ago, Kaplan sent Senator Harkin a letter (dated May 26, 2011) from Andy Rosen, our Chairman and CEO. Mr. Rosen's letter provided key information on the critical policy issues facing this Committee, including the achievements of Kaplan students and the facts about the relatively low measures of student indebtedness at Kaplan, as well as data about the innovative benefits that Kaplan has introduced to its students, such as the Kaplan Commitment.

Kaplan requested that the letter be made a part of the record in connection with the Committee's proceedings. The letter contains important facts and policy considerations for the Committee -- elements that may well be absent from the Majority report, but are crucial for a productive understanding of the higher education sector.

Accordingly, we now renew our request for that letter to be added to the record, and have attached a copy of the letter as Exhibit A to this statement. The letter, along with this statement, also will be made publicly available at a Kaplan website.

**FLAWED CHARTS  
PERTAINING TO KAPLAN**

It is Kaplan's understanding that the Majority report will be accompanied by charts and graphs purporting to summarize data about the companies that provided information to the Committee. Kaplan has not been consulted regarding any such materials pertaining to our schools.

We are concerned that the charts created by the Committee will be based on inaccurate data or have been selectively crafted to support a narrative -- presumably, that proprietary schools invariably provide poor student outcomes at a disproportionate cost relative to traditional, publicly-subsidized schools -- that is simply not accurate when applied to Kaplan. Errors and misstatements of this nature could have been avoided by engaging with Kaplan when these materials were created.

This is particularly troubling because at every turn, Kaplan has endeavored to assist the Committee and has provided the information requested of us, in the specific ways and formats requested by the Committee. It should not be difficult to generate accurate charts and a fitting narrative based on that information. However, these charts fall well short of that standard.

We do not know on which sources the Committee relied to create the charts that pertain to Kaplan, or how the Committee arranged the data from those sources; but the charts do *not* tell an accurate story about Kaplan's students or a Kaplan education. For example:

**Chart regarding Net Income**

As an initial matter, the Committee created a chart to illustrate the net income ("profit") of Kaplan Higher Education Corporation from 2006 to 2009. *This chart materially overstates the net income of the company during that time, by an average of more than 40% per year.*

Kaplan provided its audited financial statements to the Committee. Those audited financial statements demonstrate that the actual net income of Kaplan Higher Education Corporation for each year was far less than the amounts included in the chart:

<u>Audited Financial Statements</u>		<u>Committee Chart</u>
2006	\$53 million	\$75 million (overstatement: 41.5%)
2007	\$71 million	\$84 million (overstatement: 18.3%)
2008	\$84 million	\$126 million (overstatement: 50.0%)
2009	\$134 million	\$212 million (overstatement: 58.2%)

It appears that these errors in the Committee's chart were caused by treating operating income as "profit." However, as the audited financial statements expressly show, operating income, as that term is commonly used in business accounting, does not include significant expenses such as interest or taxes. This is particularly noteworthy because, unlike publicly-subsidized institutions, Kaplan pays taxes. This chart fundamentally misstates the company's "profit."

**Chart regarding Relative Value**

The Committee also created a chart to compare the cost of degrees from Kaplan University and from publicly-subsidized state schools (the University of Iowa and Eastern Iowa Community College). The chart fosters the impression that a Kaplan University degree invariably costs more. That is not the case.

The chart selectively chooses to compare the cost of the most expensive 4-year degrees offered by Kaplan University (\$66,417) with an average cost of a 4-year degree from the publicly-subsidized school (\$43,816).<sup>1</sup> That is misleading. It is further misleading that the chart takes no account of the Advanced Start degree program and other programs offered by Kaplan University, in which students who have earned credits at other nationally or regionally accredited institutions -- a meaningful segment of our student population -- can receive credit for their prior learning and significantly lower the cost of completing their 4-year degree. For example, the Advanced Start degree programs at Kaplan University cost approximately \$36,000, a comparison that would be distinctly in favor of Kaplan University but is absent from the chart.<sup>2</sup>

More fundamentally, comparing the tuition costs of proprietary schools with publicly-subsidized schools is a misleading exercise to the extent it ignores the true cost to the taxpayer for each student attending the institutions. Publicly-subsidized schools, such as community colleges and state universities, receive federal support, state appropriations and other funds, in addition to the tuition they charge; they are also exempted from paying taxes. On the other hand, "for-profit" schools rely almost exclusively on tuition to fund their operations, and they pay state and federal taxes. When the full economic picture is considered -- as opposed to just a top-line comparison of tuition prices -- the total cost to the taxpayer is significantly less for a Kaplan University education than for an equivalent program at a community college or public university.<sup>3</sup>

<sup>1</sup> <http://www.uiowa.edu/admissions/undergrad/costs/cstimate-costs.htm>

<sup>2</sup> <http://davenport.kaplanuniversity.edu/pages/tuition.aspx>

<sup>3</sup> See, e.g., R.J. Shapiro and N.D. Pham, "Taxpayers' Costs to Support Higher Education: A Comparison of Public, Private, Not-For-Profit, and Private For-Profit Institutions" (Sonecon, Washington, DC, 2010).

**Charts regarding Student Outcomes**

Finally, the Committee created three charts to summarize outcomes of students who enroll at Kaplan schools. No one from the Committee asked for our assistance in analyzing the data underlying these charts, or explained to us how these charts were formulated. This is ill-advised for two principal reasons:

- First, because there was no universal standard set of definitions and rules that all schools followed in providing this data regarding student progress and outcomes, the data is inherently different from school to school, and apples-to-apples comparisons are impossible in the absence of imposing such a series of uniform definitions. For example, Kaplan applies stringent standards to its own student records that treat students not attending class as “drops” or “withdrawals,” even if they are on an approved leave of absence or if they soon re-enroll (as often occurs); however, other schools may not consider a student “dropped” or “withdrawn” until and unless the student does not return to school for an extended period of time. This makes Kaplan outcomes appear less favorable than other schools, even though the underlying data is actually more favorable at Kaplan.
- Second, without a thorough understanding of these specific definitions and database codes utilized by each school, it would be impossible to create a uniform set of principles that treated each school fairly and accounted for the different ways of tracking and submitting this data.

*Accordingly, our review of these charts indicates that they significantly understate the performance of Kaplan students, both for on-campus and online students.*

Additionally, it is important to note that these charts indicate they are based on outdated data (2009) and therefore do not come close to accurately representing student outcomes at Kaplan schools today. *In particular, these charts do not reflect the positive impact that the Kaplan Commitment has had on student outcomes.*

Kaplan introduced the Kaplan Commitment nearly two years ago (in November 2010). By allowing newly-enrolled students to experience our college-level learning environment for up to five weeks without obligation and without incurring any tuition costs, the Kaplan Commitment greatly benefits our students and our schools: students who find that Kaplan is not a good fit for them, or who are unlikely to succeed, have the opportunity to leave without taking on debt; while the students who choose to remain are far more likely to complete their programs of study and ultimately enter the workforce with a college degree.

Of course, the federal government and taxpayers benefit as well, because the students who leave during the Kaplan Commitment trial period do not require financial aid.

This highlights a fundamental problem inherent in the Committee's report: it is based largely on information about the higher education sector as it existed years ago, not as it exists today.

This is particularly true about Kaplan, because of the Kaplan Commitment and many other initiatives we have implemented to improve the student experience and student outcomes. We implemented these changes because we believe it was the right thing to do; not because we had to comply with regulations, and certainly not because we wished to become more profitable: the Kaplan Commitment alone has meant that we voluntarily declined to charge students for millions of dollars in tuition for which they otherwise would have paid.

#### **DOCUMENTS PERTAINING TO KAPLAN**

When this inquiry began two years ago, Kaplan pledged our willingness to assist the Committee. Kaplan endeavored at every turn to be a respectful and helpful participant in the process. Again, it is disappointing that the Committee apparently has chosen to include in its report a tiny fraction of the documents provided by Kaplan, and to use those materials to portray Kaplan in an inaccurate and unflattering manner.

Kaplan believes strongly that the education sector -- just like any other sector overseen by Congress -- has room to improve, and should always strive to improve. Kaplan in particular, by launching the Kaplan Commitment and other innovations, has changed the game. We are continually creating the most engaging, supportive student experience possible, to produce graduates with the skills our economy needs. The documents collected here by the Committee (many of which are several years old) do not reflect any of that. Many of these documents are expressly labeled as draft discussions of concepts that were never implemented; others refer to events or activities that have not been used for years, or were prepared by third-party vendors and utilized on an isolated basis, if at all; others were unapproved and contrary to Kaplan's policies; and few, if any, of these materials depict current practices at Kaplan, such as the Kaplan Commitment.

There is a compelling story to tell about the Kaplan education of today. These documents do not even attempt to do so.

#### **Documents regarding Student Loan Default Rates**

Kaplan intends for all of our students to complete their programs, find good jobs, and repay any student loans they obtained to finance their education. We also recognize that many students withdraw before graduation, and may face a struggle to repay their student loans.

This is why Kaplan has default management personnel, who are tasked with assisting our current and former students to avoid default on their student loans. This is also why Kaplan provides financial literacy classes to our students, and counsels them to consider carefully the



consequences of accepting all of the student loans they may be eligible to receive from the federal government. We consistently advise our students to take out the least possible amount of financial aid they need to complete their programs of study. After all, federal student loans are a significant commitment that may take years to repay, and are not dischargeable under federal bankruptcy law.

Under these circumstances, it is unremarkable that Kaplan has a default management department, and that these employees counsel students to help them avoid default. This counseling can include making the students aware of their rights under the federal student loan programs, such as the right to seek a temporary forbearance of loan repayments in certain situations. Kaplan did not create those rules, and it is misleading to suggest that assisting students to follow those rules and avoid defaulting on their loans is in some way improper.

#### **Documents regarding the 90:10 Rule**

Federal regulations require Kaplan schools to obtain no more than 90% of their annual revenue from tuition paid for by federal financial aid. The student populations served by Kaplan schools are heavily dependent upon federal financial aid -- much more so, for example, than are students who attend traditional, publicly-subsidized state schools. Accordingly, to follow these federal regulations, Kaplan must: (a) carefully monitor its schools' revenue throughout the year to ensure that they do not exceed the 90:10 threshold; and (b) explore options by which our students and their families can contribute to their tuition without relying on federal financial aid. Schools ought not be faulted for striving to comply with the federal regulations that govern their operations.

#### **Documents regarding Student Complaints**

Kaplan's goal is for all of our students to have a positive experience at our schools while successfully completing their programs of study. No interest would be served by a disaffected or poorly-served student population. This is why each Kaplan school has procedures in place (clearly set forth in the school catalog) by which students can raise any concerns and have them resolved. We also have student-relations teams, as well as a dedicated financial aid ombudsman's office, to help students who may need additional assistance.

If the intent of this group of documents is to imply that Kaplan schools are beset by student complaints, that intent is misplaced. These documents represent a few instances of dissatisfied students, but no institution serving tens of thousands of students annually could be free of isolated instances of negative commentary. It is noteworthy that almost half of these documents date back to 2006; only a few are from the several years since, during which time Kaplan substantially increased the number of employees providing student services. Relative to the size of our student population, we have had few student complaints, and our people and procedures work to resolve those issues quickly and in a manner satisfactory to the student.

This is certainly the case for the handful of complaints included by the Committee. In each instance, the Kaplan school reached out to the student and sought to address the student's concerns. Wherever reasonably possible, they succeeded; although, as the more recent items demonstrate, there are some sources of anxiety -- namely, the recession-racked economy -- that our student relations teams have been unable to resolve on their own.

#### **Documents regarding Admissions**

Kaplan introduced the Kaplan Commitment in November 2010. By providing students with several weeks to take real classes and determine whether or not a Kaplan school is the right choice for them -- without incurring any tuition obligation -- the Kaplan Commitment fundamentally altered the admissions model for our schools.

This is not to suggest that the prior admissions model was either perfect or inadequate. We believe that the culture at Kaplan always has embraced the highest ethical standards, but that has not prevented every possible mistake. When the original (August 2010) GAO report included footage of a Kaplan admissions representative making irresponsible statements to a prospective student, we acknowledged that our control structure should have prevented it -- in fact, the employee in question had been separated from the company weeks before we were even aware of the GAO report -- and we resolved to do better. Since then, we have developed more robust ways to monitor and quality-check our admissions process consistently, though the Kaplan Commitment focuses that process on finding the right students to succeed long-term at our schools, not just on increasing the numbers of enrollments.

With the Kaplan Commitment, any student who enrolls but later has second thoughts, or discovers that the work is too challenging, can leave during the trial period without incurring any debt. The Kaplan Commitment is a unique benefit to our students and to federal taxpayers. It also underscores that the old, pre-Kaplan Commitment materials collected by the Committee have no relevance to the way that student admissions are conducted at Kaplan schools today.

#### **Documents regarding Military Enrollments**

Kaplan has been consistently recognized for providing innovative, convenient and valuable programs of study to students in the armed forces and their families. We are proud of the achievements of our military students and alumni. Kaplan is committed to delivering the best possible experience to this important group of students, regardless of how their tuitions are counted.

**KEISER UNIVERSITY***Office of The Chancellor*

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 Suite 180  
 Ft. Lauderdale, Florida 33309  
 Telephone: 954-776-4476  
 Fax: 954-229-1816

**RESPONSE TO US SENATE HELP COMMITTEE – BETH STEIN, CHIEF INVESTIGATIVE COUNSEL**  
 (To: [Beth\\_Stein@help.senate.gov](mailto:Beth_Stein@help.senate.gov) Copy: [Kia\\_Hamadanchv@help.senate.gov](mailto:Kia_Hamadanchv@help.senate.gov))

VIA ELECTRONIC AND FEDERAL EXPRESS OVERNIGHT MAIL

June 29, 2012

Committee on Health, Education, Labor and Pensions  
 Attn: Ms. Beth Stein, Chief Investigative Counsel  
 428 Senate Dirksen Office Building  
 Washington, D.C. 20510

Re: Keiser University Data

Dear Ms. Stein:

It was a pleasure meeting you and your staff earlier this week. We appreciate the opportunity to provide clarification and additional information regarding data provided to the U.S. Senate HELP Committee to be released pursuant to discussions at the June 26, 2012 meeting in Washington, D.C.

**I Table: Outcomes of Students at The Keiser School, Inc.**

A. The draft outcomes table shared by your office depicts Keiser University's withdrawal rate for the period July 1, 2008 - June 30, 2009 at 65.0% for Associate degree programs, 57.2% for Bachelor degree programs, and 63.7% combined. The following should also be considered: Students who changed majors or changed campuses were assigned new identifiers reflecting their new programs or new campuses. These students were identified with a Last Date of Attendance (LDA) during the reporting period but did not constitute withdrawals as they were continuing students under new identifiers. Also, many withdrawn students re-entered following June 30, 2009, including those on wait lists, whereby the University withdrew students awaiting entry into their program core, and those who were withdrawn due to changes in full-time status, although they returned to continue their degree. By considering an 18-month period following June 30, 2009, and adjusting the data for returning students and students with new identifiers, the following revised rates reflect the actual withdrawal rates of students within the original cohort (please see attached supporting data):

Associate degrees: 43.1%  
 Bachelor degrees: 41.9%  
 All Undergraduate degrees: 42.9%

B. As discussed at the June 26, 2012 meeting, please combine data from the "Students Complete" and "Students Enrolled" columns, as well as the columns that reflect the percentages for this data.

**2. Chart: Average 3-Year Default Rates, 2005-2008**

Please note that Keiser University's published 2009 3-Year Draft Cohort Default Rate (CDR) is 20.3%. The University's 2009 3-Year Revised CDR based on accepted challenges is 19.9% (1,123 defaults/5,617 students). The University's 2010 3-Year Projected CDR is 17.45%.

Thank you for the opportunity to clarify these matters. We hope this information will assist your office with its interpretation of Keiser University data.

Sincerely,



William Ritchie, Ph.D.  
Vice Chancellor of Academic Affairs  
Keiser University  
1900 W. Commercial Blvd., Suite 180  
Ft. Lauderdale, FL 33309  
Tel: (954) 776-4476  
writchie@keiseruniversity.edu

**Attachment**

Copy: Mr. Kia Hamadanchy, Counsel, U.S. Senate HELP Committee  
Dr. Arthur Keiser, Chancellor, Keiser University  
Mr. Peter F. Crocitto, Jr., Executive Vice Chancellor, Keiser University  
Mr. James Waldman, Counsel, Keiser University



June 27, 2012

VIA E-MAIL ONLY

Senator Tom Harkin  
 Chairman, Committee on Health, Education, Labor, and Pensions  
 428 Senate Dirksen Office Building  
 Washington, DC 20510

Dear Senator Harkin:

Nearly two years have passed since I received your initial letter requesting information and documents from Lincoln Educational Services Corporation on behalf of the Senate Committee on Health, Education, Labor, and Pensions. I remember visiting the HELP Committee's website shortly after receiving that letter and reading the Committee's mission: "the evolving global economy and the need for a highly skilled workforce create new challenges for American workers. The HELP Committee is ensuring our country's workforce is prepared to meet the challenges of the 21st Century through a lifetime of learning for our citizens."

The HELP Committee and Lincoln could not be more aligned.

Since 1946, Lincoln has been a leading provider of vocational training by preparing our students to meet the needs necessary to address our country's skills gap. We applaud the efforts of the HELP Committee in fulfilling its mission of preparing our country's workforce to meet the challenges of a new century through a lifetime of learning. We believe that this should be the mission for all institutions of higher learning . . . from vocational schools and community colleges to liberal arts colleges and graduate schools.

We appreciate the opportunity to have this letter included in the HELP Committee's report on the postsecondary sector. As you know, we were not provided the opportunity to review a copy of the final report prior to its publication, making it impossible to comment on its contents. With that said, I thought it would be helpful to discuss how Lincoln continues to make a positive contribution to this country's workforce as well as the challenges facing higher education today.

Lincoln opened its first school in Newark, New Jersey in 1946 to train veterans returning from World War II in the skilled trades. Today, we continue to offer these programs as they afford students with an opportunity for a challenging and rewarding career. As you know, there will always be a need for automotive technicians, welders and medical assistants, to name but a few. These are jobs that many take for granted but also jobs that require a tremendous amount of training in order to be successful. Job training that has been incorrectly referred to as inferior to traditional liberal arts universities and community colleges and has been vilified by some because it is being offered by "for profit" institutions instead of "traditional" colleges and universities. This is a great disservice, not only to the millions of students who have graduated from vocational and technical schools across this great country, but also to the hard-working and dedicated faculty and staff of these institutions who have worked around the clock to ensure that our students are prepared to meet the challenges of the 21st Century.

Senator Tom Harkin  
June 27, 2012  
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Lincoln has provided postsecondary training to hundreds of thousands of men and women over the last 65 years. Some of our students first attended traditional colleges prior to enrolling at Lincoln. Others were initially pointed toward a local community college by their high school guidance counselors. Neither route is surprising since most people incorrectly assume that the path to success must run through "traditional" postsecondary institutions.

But if the mission is to ensure that our country's workforce is prepared to meet the challenges of the 21st Century, we are going to need to continue to produce men and women with expertise in skilled trades. Students have recognized Lincoln's institutions as a top choice to learn hands-on skills. They do not care whether an institution is considered "traditional" or "for-profit." They want a quality education that leads to a career.

Our students immediately see the efforts of our faculty and staff to make them a part of the Lincoln community. We have a pre-orientation process to acclimate students to our institutions. During their enrollment, our student services, education and financial aid personnel assist with answering any questions and addressing any concerns that may arise. Throughout their time at Lincoln, our career services personnel are educating students about job opportunities and assisting them with finding gainful employment upon graduation. If there is any dissatisfaction with the quality of their education, or in any facet of time spent at Lincoln, each student is provided with multiple avenues to voice their concerns.

Nearly 80% of our students enroll in programs that can be completed in less than one year. Our faculty work alongside our students in order to provide them with the real-world experience necessary to become an active participant in our country's highly skilled workforce. In addition, many of the programs offered at our campuses require students to complete an externship or clinical component prior to graduation. This externship component is a critical portion of the curriculum that allows students to use the skills learned in the classroom in a real-life setting.

We believe that providing a quality education at an affordable cost that leads to gainful employment for its graduates should be the standard by which all institutions are measured. Unfortunately, many postsecondary institutions, both "traditional" and "for-profit" are having trouble passing this test during a challenging economic climate.

For example, the American Bar Association last week released job outcome data for law school graduates from the class of 2011. Slightly more than half (55%) found full-time, long-term jobs that require bar passage nine months after they graduated. This comes less than a week after the National Association for Law Placement reported that only two-thirds of new graduates landed any type of job requiring their law degree. According to the nonprofit group Law School Transparency, the national underemployment rate for the Class of 2011 is 26.4%.

Yet the costs to attend law school are increasing at an alarming rate. Law School Transparency reported that the debt law students stand to incur for the class of 2015 will be \$210,796. For the class of 2016, the amount increases to \$216,406. These projections assume students will rely on federal loans to pay the full cost of tuition and living expenses. These estimates also account for interest, tuition increases and inflation.

With student placement rates decreasing and only 55% of graduates gainfully employed in their chosen profession, one would assume that law schools would be reducing their class sizes to improve outcomes. Yet, according to the Chicago Tribune, many law schools cannot trim their class sizes because they

Senator Tom Harkin  
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 Page 3

cannot afford to lose tuition revenue. "Schools have fixed costs, such as faculty and staff salaries, that cannot easily be reduced," says the March 23, 2012 article. "Costs went up during the boom times of the last decade as [law] schools added programs and professors to be more competitive."

We know that law schools are certainly not alone. Outcomes are decreasing for students attending traditional universities, vocational and technical schools, community colleges and graduate schools across the United States, while tuition and fees and student debt have skyrocketed. And, just like law schools, these institutions have fixed costs that cannot easily be reduced.

We also know that these challenges are not limited to vocational and/or technical schools. Nor are they limited to "for-profit" institutions. These issues are systemic throughout higher education. Yet it is our understanding that the report will focus only on for-profit institutions and not traditional colleges and universities. This narrow focus has the potential of hurting hundreds of thousands of graduates who are about to enter or who are currently in the workforce. Graduates who take great pride in their school and credit their success, in part, to the education they received along the way.

Can Lincoln improve its outcomes? Absolutely. We strive to improve our results every single day. Just like law schools, community colleges and liberal arts colleges, there is a constant struggle between providing quality, affordable education for our students, with the understanding that this education should lead to gainful employment in their chosen field of study upon graduation. We take great pride in the success stories of our graduates and continue to invest in new programs and facilities in order to help our students reach their full potential.

We expect our institutions to exceed the standards for compliance with oversight agencies at the local, state and federal level, as well as our accrediting agencies, and we take great pride in our results. These efforts were best exemplified in 2011 when four of our institutions underwent Title IV, HEA Program Reviews conducted by the U.S. Department of Education. These rigorous audits were performed by the Department of Education in order to ensure federal student aid is appropriately disbursed to those eligible students based on federal regulations. It should be noted that none of the four institutions received a final determination with any financial liabilities.

Graduates of vocational and technical schools are truly skilled in their field and should be applauded for their contributions to our economy. Our graduates prove each and every day that technical training does lead to successful and rewarding careers.

On behalf of Lincoln's 3,500 employees and our hundreds of thousands of graduates, I want to thank the members of the HELP Committee for the opportunity to share our thoughts today. We have been educating students for over 65 years and will continue to do our part to ensure our graduates fulfill the HELP Committee's mission.

Sincerely,



Shaun E. McAlmont  
 President and Chief Executive Officer

cc: Senator Michael B. Enzi, Ranking Member, HELP Committee



# NATIONAL AMERICAN UNIVERSITY

CENTRAL ADMINISTRATION

## LOCATIONS

**COLORADO**  
Centennial  
Colorado Springs  
Colorado Springs South  
Denver

**KANSAS**  
Overland Park  
Wichita  
Wichita West

**MINNESOTA**  
Bloomington  
Brooklyn Center  
Burnsville  
Minnetonka  
Roseville

**MISSOURI**  
Independence  
Lee's Summit  
Weldon Spring  
Zionsville  
(Kansas City)

**NEBRASKA**  
Bellevue

**NEW MEXICO**  
Albuquerque  
Rio Rancho

**OKLAHOMA**  
Tulsa

**SOUTH DAKOTA**  
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(Rapid City)  
Distance Learning  
(Rapid City)  
Ellsworth  
Rapid City  
Sioux Falls  
Watertown

**TEXAS**  
Allen  
Austin  
Levellille  
Mesquite  
South Austin

June 28, 2012

Ms. Elizabeth M. Stein  
Chief Investigative Counsel  
U.S. Senate Committee on Health, Education, Labor & Pensions  
428 Senate Dirksen Office Building  
Washington, DC 20510

Re: National American University

Dear Ms. Stein:

Thank you for meeting with representatives of National American University (NAU) on June 20, 2012. We thought it was a productive meeting and appreciated learning about the status of the report concerning proprietary post-secondary institutions which the U.S. Senate Health, Education, Labor and Pension (HELP) Committee is expected to release in the near future.

NAU also appreciates your invitation to submit information which we would like to have included in the appendix to the upcoming report. NAU accepts the Committee's invitation and presents below information regarding four topics likely to be covered in the report.

**Student Outcomes:** All the proprietary institutions were asked to provide data about their student populations, including data on enrollment, withdrawals and graduations. NAU complied with this request as best it was able given the shortness of time allowed and the fact that NAU did not always have data retrievable in the format requested. Because of this, NAU cautioned the Committee about potential pitfalls in using the data provided. Additionally, NAU provided supplemental data that avoided the data-retrieval challenges.

Fortunately, and most importantly, the supplemental data provides an accurate picture of student academic progress at NAU. The data followed all degree-seeking students from the date they first entered NAU (e.g., Fall Quarter 2002, 2003, 2004, etc.) and documented their status as a student at NAU as of August 1, 2010. This allowed NAU to determine which students were still enrolled, which had dropped out and which had graduated. The data was then used to calculate the graduation rate for each Fall Quarter cohort, yielding the following results by year:

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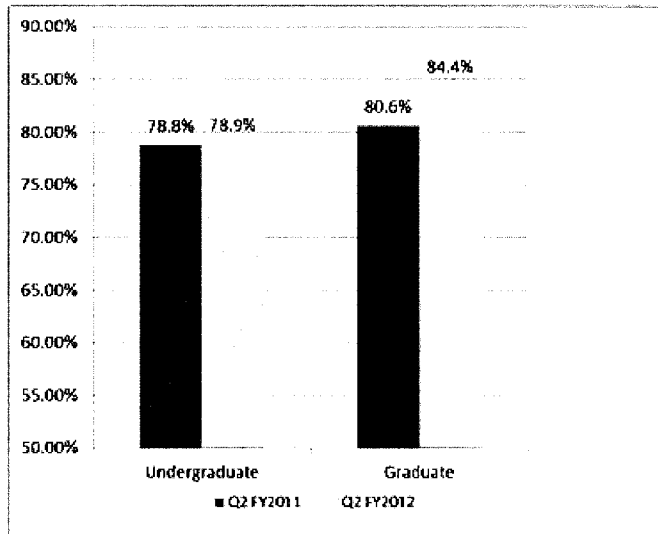
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Year	Total Students	# Students Graduated	% Graduated
2002	1153	536	46.5%
2003	1101	429	39.0%
2004	1026	295	28.8%
2005	1047	245	23.4%
2006	1117	180	16.1%
2007	1073	112	10.4%

In submitting these results, NAU pointed out that a graduation rate of 46.5% is highly favorable given that this rate does not account for students still enrolled at NAU as of August 1, 2010 or students who transferred to another institution and have either graduated from that institution or are still students working toward graduation.

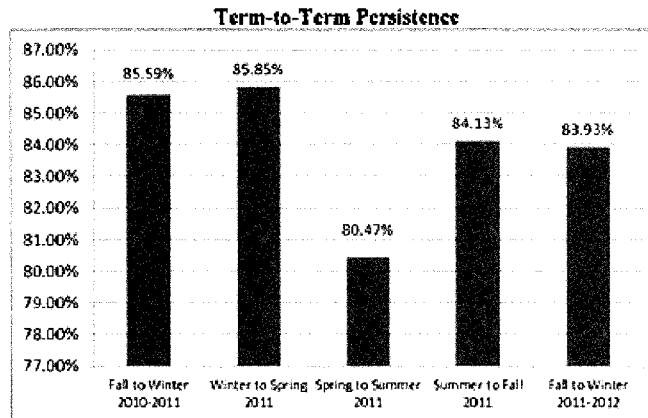
NAU's high course completion and term-to-term persistence rates are consistent with its favorable graduation rate. As shown in the graph below, NAU's undergraduates successfully complete nearly 80% of the courses they begin. The percentage for graduate students is in excess of 80%.

Successful Course Completion



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Similarly, a high percentage of NAU students continue some level of course work from one term to the next. As shown in the chart below, NAU students have a term-to-term persistency rate in the mid-80's, with the exception of the Spring-to-Summer rate which is slightly in excess of 80%.



The above charts and graphs demonstrate a high level of commitment and academic achievement on the part of NAU students. This is quite remarkable given the many challenges faced by NAU's students, the majority of whom are raising a family and/or working full-time. NAU hopes that the Committee will publicly recognize and applaud this accomplishment. NAU believes that our non-traditional student population deserves no less.

**Student Recruiting Practices:** With respect to NAU's recruiting practices, NAU wishes to have the Committee aware of the important role played by NAU's Admissions Representatives and by NAU's Admissions Code of Conduct.

NAU submitted documentation showing the wide-ranging job responsibilities of its Admissions Representatives. Their duties include enrolling potential students, facilitating an appraisal of the academic capabilities of degree-seeking applicants; assisting applicants with registration for foundational coursework if the pre-enrollment appraisal shows that a prospective student is in need of remedial instruction; assisting new students through the enrollment application process; and serving as the liaison between newly enrolled students and the University, until the student has been assigned a learner services representative or other academic advisor. Often, the Admissions Representatives maintain contact with the students they help enroll throughout their academic career at NAU.

In carrying out their duties, NAU's Admissions Representatives adhere to the principles and standards in the University's Admissions Code of Conduct. The Code of Conduct was officially

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adopted by the University in August 2010 after extensive internal review over many months. It is modeled after the Statement of Professional Ethics and Practice developed by the American Association of Collegiate Registrars and Admissions Officers. All admissions staff must sign the Code and, by doing so, agree to provide "prospective students and their families with accurate interpretations of University admissions criteria, transfer credit policies, cost and educational offerings." Moreover, throughout the admissions process and, then, when providing assistance to enrolled students, admissions staff must follow the ethical principles found in the Admissions Code of Conduct. This means dispensing "complete, accurate, understandable, and truthful information at all times."

**Student Tuition:** Limiting tuition increases should be a top priority of every post-secondary institution, whether a non-profit or for-profit institution. It certainly is NAU's goal, and with good results. For example, during the period between 2008 and 2009, NAU held its annual tuition increases to 3.7%. During this same period, average college tuition increased nationally 4% and 5%.

To achieve these positive results, the University's tuition-setting process takes into account many cost factors. They range from curriculum-related expenses, instructional costs, student service expenditures, staff compensation, and capital and operational investments, all of which are incurred to achieve higher levels of student satisfaction and achievement. Input on these and other factors are sought from mid-level management (and others) throughout NAU when a tuition increase is under consideration.

This process generates comments and recommendations, which often appear in email chains, touching on all these factors. Wide-ranging responses are to be expected – and desired. In considering such comments, two points must be kept in mind. First, the responses are mid-level management comments; NAU's Board of Governor's determines whether there will be a tuition increase and, if so, how much. Second, as documented in NAU's narrative to the Committee in September 2010 and as again noted above, NAU's tuition increases have been very reasonable, resulting in NAU having a tuition that compares favorably with other competitive schools.

Finally, some attention has been given to the University's August 2008 decision to offer a 4.5 credit format in many of its programs. As explained in NAU's 2010 narrative to the Committee, this change occurred after a lengthy and deliberative process by the University, which found that students would benefit from the additional course hours and time spent in class, as well as making it easier to transfer credits from the University to other institutions that operate on a semester system. As a result of this change, the University did not raise tuition for Winter Quarter 2008 or Spring Quarter 2009, increased the number of Academic Excellence Scholarships that it awarded and allowed currently enrolled students the opportunity to remain in the 4.0 credit hour format.

**Revenue Growth and Profit Margin:** To the extent NAU's profit margin is discussed in the upcoming report, it is important for the Committee to recognize that the margin varies quite widely from year-to-year. This is largely due to annual variations in the level of capital and operational investments. In those years when NAU makes an extraordinary investment, the margin is low. These investments are typically made to improve or expand curriculum, improve

Ms. Elizabeth M. Stein  
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June 28, 2012

or expand student services and, more generally, to improve the quality of each student's academic experience at NAU.

For example, between 2006 and 2008, the University opened new campuses in a number of states and also invested heavily in programmatic expansion of its Nursing and Allied Health programs. Accordingly, NAU's profit margin was at a relatively low level during these years. But these investments also paved the way for a larger, more academically robust institution, resulting in a much higher profit margin in 2009 and 2010. Finally, the Committee should be aware that NAU again made significant capital and operational investments in FY2011. While NAU believes these investments will ultimately result in greater academic effectiveness and better service to its non-traditional student population, the immediate result was a reduction in NAU's FY2011 profit margin, which was substantially less in FY 2011 than in FY's 2009 and 2010.

NAU again thanks the Committee for the opportunity to offer explanatory information and expresses its willingness to provide further information, if the Committee so desires.

Thank you.

Sincerely,



Dr. Samuel D. Kerr  
Provost

SDK:amb



June 27, 2012

The Honorable Tom Harkin  
 Chairman  
 Committee on Health, Education, Labor and Pensions  
 United States Senate  
 428 Senate Dirksen Office Building  
 Washington, DC 20510

Dear Chairman Harkin:

The Committee on Health, Education, Labor and Pensions, which you Chair, has compiled a profile of our private College based on the documents we voluntarily submitted to the Committee in the summer of 2010. While narrowly focused on one sector of higher education—the private sector—the fact remains that postsecondary education is a heterogeneous industry with “good” and “bad” actors in all sectors. Given the singular focus of this Committee on private-sector education, and while ignoring problems or concerns more broadly in all of higher education, we thought it would be helpful to provide an update and policy response to the Committee’s Final Report on how Rasmussen College has continued to change and evolve in the two years since the document request. We have begun a number of initiatives to further our commitment to students and to be good stewards of the federal taxpayer money given to our students.

Rasmussen College has been a part of the higher education community for over 100 years, and much has changed since our founding in 1900 as a business college in downtown St. Paul. While our footprint and scale may have grown nationally, our College has remained decidedly “local.” My grandfather first purchased the College in 1945, and the continuum of family ownership exists today as I assumed Presidency of the College in 1997. We received outside personal investors to help launch the College’s nascent online operation in 2003, but our Board and management still remains committed to the founding ideals of Walter Rasmussen and my grandfather and father. Our long-term shareholder base additionally enables our College to make investment decisions to ensure student success for the next generation.

*Working to improve student success*

As you know, there is a tension between providing maximum access to students and driving higher rates of graduation. Since the College’s founding in 1900, our mission was to have an open enrollment policy, i.e. anyone with a high school degree (or equivalent, as we never accepted “ability-to-benefit” students) could enroll. This policy provided broad access to students so they would have the opportunity to attain a regionally accredited degree at Rasmussen College. Starting in the summer of 2009, we began to experience declines in the rate at which students were persisting from one quarter to the next. This timing directly correlated with the expansion of the Pell program and a weak labor market driven by the credit crisis. The College saw significant enrollment growth.

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**PHONE:** 952-899-3900

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A6-162

The Honorable Tom Harkin  
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Unfortunately, many of the students who entered into the institution were uncommitted, driven by funding advantages and a poor economy, and our “open enrollment” process did not provide a screen of those students. A large number of these students struggled to perform in the classroom. We only allow students one quarter of poor academic performance before they go on academic warning. As a result, the number of students forced out—and dropping out—of our institution increased to an unacceptable level.

To help ensure we were enrolling committed students with a good likelihood of being successful, our College began moving to a qualified enrollment process in the fall of 2010. Implementing such a change across all twenty-two of our campuses took a year and was completed in the summer of 2011. We are denying access to roughly 20% of students who historically would have entered the institution, and to date, over 4,500 students who wanted to enter Rasmussen College have been denied (to put this in context, our overall enrollment is approximately 15,000). While our changed admissions policy may have negative implications for access, it was the right decision for us, the taxpayers, and the students to only allow admission to those students who had a greater likelihood of success and could achieve the goal of graduation. Over the last three quarters, we have seen a significant improvement in the rate at which students are progressing from one quarter to the next and a material improvement in the numbers of students persisting at the institution, providing some early validation on this strategy.

The core of our qualified enrollment approach is a College Experience Course, which is required of applicants to ensure that prospective students fully understand their obligations as students and can sample what it is like to attend Rasmussen College. Throughout this course, students gain knowledge and confidence about navigating online coursework, career opportunities within a chosen field, financial responsibility, as well as the skills, habits, and commitments needed for a regionally accredited institution. In addition to denying students through our pre-enrollment module, we also expanded background checks (more than a sign-off) on students to cover more than 60% of our programs to ensure that there is nothing in a student’s personal history that would prevent him or her from getting a job in a chosen field of study. Additionally, students must have all of their financial aid paperwork complete so there is no uncertainty on how they will be funding their education. Finally, we instituted a cutoff based on testing for remedial needs where a student is denied admission because we judge the need for remediation coming out of the K-12 system to be too severe. The remediation needs of our incoming students remain a critical issue, and we encourage you to look at ways that our K-12 system and higher education system can collaborate to help ensure more high school graduates are college-ready.

Along with this change in admissions standards, we have made changes in our curriculum to increase student success. Our entire curriculum was redesigned to provide milestones of success for students through the introduction of “stackable credentials” where students take a defined sequence of courses to earn a certificate, diploma, and associate’s degree during their pursuit of a bachelor’s degree. Each student builds a “My Degree Plan” to have visibility on the courses they will be taking and when they will hit these milestones, which in turn builds confidence. This new curriculum was built in fall 2010/spring 2011, approved by the various regulatory bodies in 2011, and then implemented in January 2012. Interestingly, many students who had left the institution have come back to continue their pursuit of a Rasmussen College credential under this model. Our biggest challenge remains the

The Honorable Tom Harkin  
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first quarter as our adult students struggle with the transition into college. We have reviewed and modified our courses with the highest withdrawal/failure rates and are piloting a new personalized approach to remediation this summer. Finally, we have rolled out a standard business process around student success featuring same-day reach-out by faculty when a student does not attend class and standardized risk profiling of students upon enrollment.

*Working to establish positive return for educational investment*

Along with these strategies to improve persistence, we have been working to ensure a good return on our students' educational investments and reduce student debt levels. Last year, we reduced our price per credit in selected programs by up to 20%. For the 2011-2012 academic year, we did not increase tuition and increased scholarships for students based on success and for public service employees. We would like to reduce our tuition more, but are limited in our flexibility by the 90/10 rule. For your reference, the restrictions on access and price reductions have resulted in a significant decline in the College's profit margins with our after-tax margin now at under 10%.

To reduce the aggregate cost of the program where the price per credit was not changed, we have attempted to shorten the path to a better job by introducing more certificates and diplomas. For example, we have historically offered a medical assisting associate's degree. The medical assisting entry-level job can be obtained with a medical assisting diploma, which is roughly 25% less costly than the associate's degree. We now have a medical assisting diploma so that students can become a medical assistant at a lower price with less debt. Of course, the tradeoff in this move is that general education is missing from the curriculum, which our employer communities continue to tell us is a valuable component for them.

We also want to emphasize the lack of public subsidies as it relates to our tuition levels. Since we do not receive operating revenue from our states and local taxpayers, the comparison of tuition between our College and that of a publicly subsidized community college is misleading. Many studies have shown that the total cost to the taxpayer is far less for privately capitalized institutions than publicly subsidized institutions so the difference in tuition simply represents a difference in funding models and how much of the expense is being paid for by taxpayers.

Around the area of student debt, in addition to lowering prices, we have also emphasized financial literacy throughout pre-enrollment and enrollment. Our College Experience Course contains a financial literacy module and quizzes on understanding student loans separate from, and in addition to, entrance counseling. In 2011, we introduced new documents in the enrollment process to provide students with a clear understanding of the total cost of the degree and the debt they would incur. We have continued to improve this process, and students must sign a one-page financial worksheet in plain language that shows the expected program cost, debt, and monthly repayment amount, similar to the "Know Before You Owe" document that your team has promoted. As you know, we are legally required to give students all debt to which they are entitled. Since we do not lend to students ourselves, we are thus limited in our ability to control the debt since the limits are set by Congress. We have been accepted as an "experimental site" through the Department of Education to test a new approach to financial aid which would allow us to limit the debt given to the student. We would strongly encourage you to sponsor legislation which would allow schools to make judgments on what

The Honorable Tom Harkin  
Page 4  
June 27, 2012

loans to give a student if you want the schools to be responsible for the rate at which students pay back the debt.

As an institution of higher education, Rasmussen College is committed to continual improvement. We are not perfect but are striving to be better. We want to achieve higher rates of student success and reduce the cost of degree attainment. At the same time, however, we want to stay consistent with our mission of providing access to students who may not have historically pursued a college degree or who have unsuccessfully tried another type of institution. More than ever in today's labor market with the shift in our economy to one focused on knowledge and services, the earnings capacity of an individual is driven by his or her skills. As a country, we need more students to receive postsecondary education with a focus on careers. Rasmussen College stands ready to continue working with you to make this happen.

Sincerely,



Kristi Waite  
President





**TRIDENT  
UNIVERSITY**  
INTERNATIONAL

5757 Plaza Drive, Suite 100, Cypress, CA 90630  
(800) 375-9878

June 29, 2012

The Honorable Tom Harkin  
Chairman  
Committee on Health, Education, Labor and Pensions  
United States Senate  
428 Dirksen Senate Office Building  
Washington, DC 20510

Re: Response to Report on For-Profit Education Institutions

Dear Chairman Harkin:

Trident University International (TUI), formerly TUI University, submits this letter in response to various issues we understand may be raised in your forthcoming public report regarding for-profit education institutions. TUI appreciates the opportunity to submit this letter and your agreement to include it as part of the report. However, along with the other colleges and universities that cooperated with your investigation, we unfortunately have not been given an opportunity to review the report in its entirety or even the text of sections that relate to TUI in advance of submitting this response. Had we been given an opportunity to do so, our response may have been more fulsome in some areas, and perhaps even agree with some of your findings and conclusions.

TUI appreciates the countless hours and resources expended by the Committee's Majority staff in reviewing the hundreds of thousands of pages produced by some 30 colleges and universities during the investigation. The challenges associated with such an undertaking -- particularly gaining a clear understanding of student data given the nature of the data and unique make-up of students attending for-profit institutions -- cannot be overstated. We also are concerned that the staff has not obtained up-to-date information on TUI's student enrollments, and may not have addressed other activities at the institutions to properly contextualize the findings in the report. Below we address two issues specific to TUI which we believe merit more detailed explanation.

**TUI's Withdraw Rate**

Your report apparently will include a chart specific to TUI entitled "Outcomes of Students at TUI Learning LLC." On this chart, you state that the percentage of Bachelor's students "withdrawn" from TUI during a three-year period is 51.3 percent. Upon reviewing this chart, it appears that the number of withdrawn students has been combined with the number of students on defer status to arrive at a disproportionately high withdraw rate for the university.

[www.trident.edu](http://www.trident.edu)

Accordingly, the information as presented is misleading and inaccurate. Proper analysis of student enrollment and withdraw data demands a deeper level of analysis requiring distinction between students who formally withdraw and those who merely cease to attend without the intent to withdraw. This distinction is critical and warrants some clarification.

Students at TUI are placed on defer status when they pause their enrollment in subsequent sessions. This however, does not reflect that the student has formally withdrawn or permanently dropped out of the University. As you are aware, TUI serves primarily a military student population. By the nature of their military service, students at TUI have inconsistent enrollment patterns, stopping and returning based on their deployment circumstances. As we have explained previously, a student may pause their enrollment in one session and return during another session, with the cycle repeating until a degree is obtained. TUI accommodates this pattern of enrollment to better serve our military student population and to honor our obligations under the Memorandum of Understanding with the Department of Defense Voluntary Education Partnership and commitment to the various branches of the armed services. In light of these facts, we believe it would be more accurate to state that our true withdraw rate for the period in question was actually 8.8 percent.

#### **Accreditation**

Relative to TUI's accreditation status, following two site visits, TUI was placed on public sanction in July 2011, and required to 'show cause' why its accreditation should not be terminated as of March 2012. The action by the Western Association of Schools and Colleges (WASC) reflected the findings that TUI had not: 1) verified that each student had met General Education (GE) requirements for the baccalaureate prior to conferral of the degree; 2) identified the scope of the problem rapidly and accurately; and 3) informed WASC of the problem.

Since July 2011, TUI has taken unprecedented immediate and long-term actions, the type and scale of which confirms TUI's recognition of the scope and seriousness of the issues raised by the Commission. As a result, following the special site visit in November 2011, the WASC Commission commended TUI for "...responding swiftly and resolutely to the Show Cause sanction and for assuming full responsibility for recognizing the shortcomings of past conduct." In its March 2012 Action Letter, the WASC Commission also removed TUI from 'Show Cause' status, imposed probation for one year, and required another special visit for the fall of 2012. The purpose of the follow-up visit will be to confirm the continuing improvements implemented by TUI and to bring to closure the Educational Effectiveness Review phase of the reaccreditation cycle. TUI is confident that the fall 2012 visit will be very positive, resulting in reaccreditation and in removal of all sanctions.

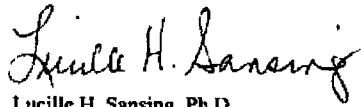
\*\*\*\*\*

Thank you for the opportunity to address issues affecting TUI that may be raised in your forthcoming report. TUI expended significant time and resources to respond to the Majority's requests for documents and information in order to cooperate with your investigation. We nonetheless felt compelled to provide this response to ensure that the record will be complete

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with respect to TUI, its history, mission and record of serving the educational needs of our students, including the men and women of our active-duty armed services.

Sincerely,

A handwritten signature in cursive script that reads "Lucille H. Sansing". The signature is written in black ink and is positioned above the printed name and title.

Lucille H. Sansing, Ph.D.  
President and CEO

cc: The Honorable Michael B. Enzi, Ranking Member

**STATEMENT OF UTI REGARDING DOCUMENTS RELEASED BY COMMITTEE**

Universal Technical Institute, Inc. ("UTI") submits the following comments and requests that they be included in the Committee's Report to provide context concerning the documents that the Committee intends to release concerning UTI.

The Committee intends to make public as part of its report, approximately two dozen individual student complaints and several miscellaneous documents, in an apparent attempt to discredit UTI's admissions practices and raise questions about the quality of its educational programs. The Committee has made no effort to put these complaints and documents in context, by making clear, for instance that many of the individual complaints were resolved by UTI, or found lacking in merit, or that all schools, public and private sector, regularly receive complaints.

Specifically, the individual student complaints concerning UTI that the Committee intends to release include a number of complaints as far back as 2006 and 2007 that are isolated and stale. These few individual complaints are not at all indicative of the experiences of the vast majority of UTI students. Several of the complaints that the Committee intends to release were resolved with UTI taking some specific action to respond to the issues raised by the complaining students. In other cases, the complaints were referred to the Better Business Bureau which found that UTI had engaged in good faith attempts to resolve the consumer's complaint. Several of the complaints are anonymous and extremely vague. Others contain wholly unsupported allegations. At least one of the complaints is entirely incomprehensible. The complaint, made by a cosigner on a loan made to a UTI student states that the student should have received "Fannie Mac" loans and grants to cover the entire cost of attendance. Finally, other complaints touch on topics that do not appear to have any relevance to the Committee's investigation. Indeed, one complaint takes issue with the quality of the food truck at a UTI location. Even when one views the jumbled and out of context complaints that the Committee intends to publish, it is very clear from the documents that UTI has a well-established process to investigate consumer complaints and take corrective action if warranted. Indeed, several of the individual complaints were sent to UTI's Chief Executive Officer, who personally followed up to see that the issues raised in the complaints were fully looked into and addressed.

Fundamentally, it is unfair and misleading for the Committee to publish these scattered and long-dated individual complaints without providing context. For example, the complaints are dated from 2005 through 2010. During that period, more than 100,000 students attended UTI. It is hardly surprising that a tiny handful of students during that period raised some issues with UTI. The vast majority of students who attended UTI from 2005 through 2010 were very satisfied with the training that they obtained. Over the 2005-2010 period, UTI has received numerous letters and comments from students praising the quality of training that they received at UTI. Other students and former students have credited their career success to the training they received at UTI. In addition, numerous employers have recognized the high quality of a UTI education. Indeed, the success of our graduates has afforded UTI the opportunity to partner with many leading original equipment manufacturers (OEM) in the auto, diesel, motorcycle and marine industries, significantly enhance the learning opportunities for our students and expanding their career options.

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UTI is proud of its demonstrated record of student success. For the most recent report period, 85% of our graduates have secured employment in their chosen field. Furthermore, for the same report period our consolidated student completion rate was 65%, which compares favorably with student outcomes of other providers from comparable educational training programs. The publication of scattered individual student complaints which for the most part are entirely unsupported is therefore extremely misleading in view of UTI's demonstrated record of success in training and placing students. We appreciate the opportunity to include this rebuttal in the record.

## Appendix 7: Fall Enrollment, 2001-10

## Integrated Postsecondary Education Data System Enrollment

Privately Held Companies	Fall 2001	Fall 2002	Fall 2003	Fall 2004	Fall 2005
Alta Colleges, Inc.	4,273	6,095	8,146	10,966	14,854
American Career College, Inc.	1,292	1,666	1,778	2,009	2,107
Anthem Education Group	9,768	9,893	10,266	15,212	18,433
Chancellor Education LLC	1,177	1,175	1,033	1,004	1,023
Concorde Career Colleges, Inc.	6,812	8,064	6,501	6,212	6,937
ECPI Colleges, Inc.	4,834	4,846	4,866	5,978	6,566
Education America, Inc.	8,014	6,169	6,916	9,441	9,225
Henley Putnam LLC	~	~	~	~	~
Herzing, Inc.	2,285	2,747	2,290	2,483	2,695
Med-Com Career Training, Inc.	280	275	329	415	461
Rasmussen Colleges, Inc.	1,882	2,134	2,637	2,968	3,288
The Keiser School, Inc.	3,692	4,484	5,463	6,551	7,857
TUI Learning LLC					
Vatterott Educational Centers, Inc.	4,496	4,438	5,360	5,784	6,014
Walden E-Learning LLC	2,082	4,565	8,227	13,553	22,168

Privately Held Companies	Fall 2006	Fall 2007	Fall 2008	Fall 2009	Fall 2010
Alta Colleges, Inc.	14,119	14,191	18,322	15,479	19,190
American Career College, Inc.	2,450	2,693	3,979	4,687	4,761
Anthem Education Group	21,696	21,120	14,783	11,869	12,792
Chancellor Education LLC	942	570	422	515	739
Concorde Career Colleges, Inc.	6,559	7,572	8,196	8,873	7,952
ECPI Colleges, Inc.	8,350	9,375	9,522	12,849	13,119
Education America, Inc.	10,775	9,723	9,491	10,686	10,018
Henley Putnam LLC	~	~	~	~	~
Herzing, Inc.	3,157	3,888	4,220	6,578	8,253
Med-Com Career Training, Inc.	484	512	551	543	2,692
Rasmussen Colleges, Inc.	4,231	6,258	9,420	13,947	17,090
The Keiser School, Inc.	10,380	13,145	14,863	18,788	18,956
TUI Learning LLC			8004	8046	7,307
Vatterott Educational Centers, Inc.	5,780	6,008	5,800	11,107	11,163
Walden E-Learning LLC	27,412	29,455	34,779	40,714	47,456

~ data not available

\* data not available for year

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## Appendix 7: Fall Enrollment, 2001-10

## Integrated Postsecondary Education Data System Enrollment

<b>Publicly Traded Companies</b>	<b>Fall 2001</b>	<b>Fall 2002</b>	<b>Fall 2003</b>	<b>Fall 2004</b>	<b>Fall 2005</b>
American Public Education, Inc.	~	~	~	~	~
Apollo Group, Inc.	101,388	130,846	170,146	235,418	292,812
Bridgepoint Education, Inc.	479	553	609	611	968
Capella Education Company	3,759	5,804	9,574	12,599	13,907
Career Education Corporation	38,162	44,278	55,067	80,247	98,005
Corinthian Colleges, Inc.	53,699	62,842	76,525	78,523	75,916
DeVry, Inc.	36,605	56,122	55,903	58,056	52,991
Education Management Corporation	42,603	48,865	56,158	61,856	69,103
Grand Canyon Education, Inc.	4,113	3,973	3,091	4,491	7,969
ITT Educational Services, Inc.	32,500	35,821	40,668	47,391	45,801
Kaplan Higher Education Corporation	25,445	29,172	37,785	42,483	52,935
Lincoln Educational Services Corporation	12,514	14,554	19,278	22,067	25,529
National American University Holdings, Inc.	3,233	3,972	4,242	4,109	4,286
Strayer Education, Inc.	14,009	16,456	20,138	23,667	27,309
Universal Technical Institute, Inc.	7,243	10,250	10,039	19,632	22,840
<b>Publicly Traded Companies</b>	<b>Fall 2006</b>	<b>Fall 2007</b>	<b>Fall 2008</b>	<b>Fall 2009</b>	<b>Fall 2010</b>
American Public Education, Inc.	~	14,769	21,729	31,331	39,296
Apollo Group, Inc.	294,757	330,155	395,361	376,746	406,963
Bridgepoint Education, Inc.	4,002	10,714	25,746	47,677	64,585
Capella Education Company	17,203	21,773	25,245	31,998	39,457
Career Education Corporation	94,073	97,469	106,113	109,674	127,041
Corinthian Colleges, Inc.	76,890	37,816	86,089	119,133	132,229
DeVry, Inc.	55,974	63,333	78,544	97,430	128,676
Education Management Corporation	77,118	90,272	101,843	129,642	152,786
Grand Canyon Education, Inc.	10,297	13,415	22,025	34,205	37,440
ITT Educational Services, Inc.	49,264	54,289	61,897	78,427	86,824
Kaplan Higher Education Corporation	63,025	71,915	90,206	120,479	129,070
Lincoln Educational Services Corp.	22,894	22,947	26,643	39,754	42,198
National American University	4,567	4,911	5,569	7,739	9,700
Strayer Education, Inc.	30,654	35,754	45,491	54,325	58,916
Universal Technical Institute, Inc.	23,076	22,139	17,348	28,153	26,396

~ data not available

\* data not available for year

## Appendix 7: Fall Enrollment, 2001-10

## Securities and Exchange Commission Reported Enrollment

Publicly Traded Companies	Fall 2001	Fall 2002	Fall 2003	Fall 2004	Fall 2005
American Public Education, Inc.	*	*	*	*	*
Apollo Group, Inc.	124,800	157,800	200,100	238,400	271,400
Bridgepoint Education, Inc.	*	*	*	*	*
Capella Education Company	*	*	*	*	*
Career Education Corporation	41,100	50,400	79,500	97,300	107,300
Corinthian Colleges, Inc.	28,372	39,347	57,580	70,500	68,262
DeVry, Inc.	*	*	*	*	*
Education Management Corporation	38,047	43,784	58,828	66,179	72,500
Grand Canyon Education, Inc.	*	*	*	*	*
ITT Educational Services, Inc.	31,815	33,799	36,974	42,183	44,331
Kaplan Higher Education Corporation	*	*	*	*	66,400
Lincoln Educational Services Corporation	*	*	*	*	19,824
National American University Holdings, Inc.	*	*	*	*	*
Strayer Education, Inc.	14,009	16,532	20,138	23,539	27,305
Universal Technical Institute, Inc.	*	*	*	15,212	17,368

Publicly Traded Companies	Fall 2006	Fall 2007	Fall 2008	Fall 2009	Fall 2010
American Public Education, Inc.	15,500	26,900	41,100	59,300	77,700
Apollo Group, Inc.	282,300	313,700	362,100	443,000	470,800
Bridgepoint Education, Inc.	*	*	30,574	54,894	77,179
Capella Education Company	16,374	20,268	24,063	30,738	38,634
Career Education Corporation	89,400	100,500	98,400	102,100	118,205
Corinthian Colleges, Inc.	67,143	67,445	74,265	93,493	113,818
DeVry, Inc.	*	*	*	*	130,375
Education Management Corporation	80,300	95,900	110,800	136,000	158,300
Grand Canyon Education, Inc.	*	*	22,000	34,200	42,300
ITT Educational Services, Inc.	48,155	53,675	61,556	79,208	88,004
Kaplan Higher Education Corporation	69,800	81,600	99,700	103,849	112,141
Lincoln Educational Services Corp.	18,556	19,463	22,404	31,509	33,157
National American University	*	*	*	6,059	8,255
Strayer Education, Inc.	31,372	36,082	44,564	54,317	60,711
Universal Technical Institute, Inc.	17,523	16,882	16,481	18,802	21,000

~ data not available

\* data not available for year



**Appendix 8: OPEID Numbers Controlled by Each of the 30  
Companies Examined, Fiscal Year 2010**

Company Name	OPEID Numbers
Alta Colleges, Inc.	007297 007548 011626 023139 030727 030792
American Career Colleges, Inc.	022418 039713
American Public Education, Inc.	038193
Anthem Education Group	008441 010851 022392 022631 030764 034264
Apollo Group, Inc.	020988 021715
Bridgepoint Education, Inc.	001881 035453
Capella Education Company	032673
Career Education Corporation	001123 007351 007481 007844 009420 009795 010148 011647 012877 020552 020757 021136 021160 021603 022023 022052 022202 023522 025693

Company Name	OPEID Numbers
	026149 026150 026164 026167 030068 030226 030314 032103
Chancellor University System LLC	003043
Concorde Career Colleges, Inc.	007607 007930 008071 008537 008871 008887 020896 021571 021727 022751 023616 035423
Corinthian Colleges, Inc.	009157 009267 001499 001534 023186 025931 004494 004503 004507 004811 007091 007190 007234 007234 007477 007606 008090 008093 008146 008532 009077 009079 009828 010356 011024

Company Name	OPEID Numbers
	011107 011109 011121 011123 011510 011858 012061 012873 021004 021218 021875 022375 022506 022613 022950 022985 023001 023462 025931 025933 025998 026062 026175 030032 030340 030723 031954
DeVry, Inc.	006385 009748 010727 020754 021006 022180 030425
ECPI Colleges, Inc.	010198 025354 030927
Education America, Inc.	005203 007586 007777 026055 030121 030265 033943
Education Management Corporation	021799 009270

Company Name	OPEID Numbers
	007236 023276 031254 021105 020789 025396 010195 021171 030846 025256 008350 040513 007470 007819 022913 037405 025578 010248 005127 004583 009451 006755 026162 012584 008878 007486 013039 010832
Grand Canyon Education Inc.	001074
Henley Putnam LLC	N/A
Herzing, Inc.	009621
ITT Educational Services, Inc.	004731 007329 030718
Kaplan Higher Education Corporation	004586 004729 004910 007436 007488 007491 007781 009292 009466 009777 010410 011005

Company Name	OPEID Numbers
	011574 020520 020712 020836 020917 021676 022018 022898 023063 023122 023262 023519 025391 025490 025654 025829 025919 030432 030445 031158 032723
Keiser School, Inc. (The)	031239 021519 035533
Lincoln Educational Services Corporation	031239 035533 035553 035554 037464
Med-Com Career Training, Inc.	022239
National American University Holdings, Inc.	007303 007440 007506 007547 007759 007832 007936 007938 008353 009407 010316 012128 012461 022288 022808 022910

Company Name	OPEID Numbers
	031963 032323 033163 033903
Rasmussen Colleges, Inc.	008694
Strayer Education, Inc.	001459
TUI Learning LLC	041279
Universal Technical Institute, Inc.	008221 021005 023620
Vatterott Education Centers, Inc.	008221 021005 023620
Walden E-Learning LLC	025997 020693 026092 007501 021192

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Appendix 9: Funds Reported Pursuant to 90/10 Rule by Company

Fiscal Year 2006

Company	Numerator	Denominator	Ratio
Alta Colleges, Inc.	\$164,106,000.00	\$223,446,000.00	73.44%
American Career College, Inc.	\$29,316,807.00	\$37,096,599.00	79.03%
American Public Education, Inc.	\$268,694.00	\$33,351,072.00	0.81%
Anthem Education Group	\$146,604,149.00	\$181,020,842.00	80.99%
Apollo Group, Inc.	\$1,530,227,000.00	\$2,234,139,000.00	68.49%
Bridgepoint Education, Inc.	\$19,007,086.00	\$23,796,823.00	79.87%
Capella Education Company	\$126,426,000.00	\$177,722,000.00	71.14%
Career Education Corporation	\$1,104,465,117.00	\$1,774,126,937.00	62.25%
Chancellor University System LLC	~	~	~
Concorde Career Colleges, Inc.	\$22,133,763.00	\$29,252,726.00	75.66%
Corinthian Colleges, Inc.	\$617,526,286.00	\$819,840,470.00	75.32%
DeVry, Inc.	\$514,616,000.00	\$772,760,000.00	66.59%
ECPI Colleges, Inc.	\$59,174,910.10	\$75,156,388.35	78.74%
Education Management Corporation	\$685,732,119.53	\$1,055,535,763.09	64.97%
Grand Canyon Education, Inc.	\$49,414,631.51	\$68,539,912.00	72.10%
Henley Putnam LLC	*	*	*
Herzing, Inc.	\$32,614,639.00	\$40,253,682.00	81.02%
ITT Educational Services, Inc.	\$437,841,000.00	\$773,299,000.00	56.62%
Kaplan Higher Education Corporation	\$586,374,588.00	\$724,487,581.00	80.94%
The Keiser School, Inc.	\$93,554,306.00	\$128,516,254.00	72.80%
Lincoln Educational Services Corporation	\$224,439,063.00	\$280,305,800.00	80.07%
Med-Com Career Training, Inc.	\$3,239,217.00	\$3,737,664.00	86.66%
National American University Holdings, Inc	\$22,917,296.40	\$37,005,996.11	61.93%
Rasmussen Colleges, Inc.	\$34,532,739.00	\$51,167,572.00	67.49%
Education America, Inc.	\$118,990,000.00	\$143,249,000.00	83.07%
Strayer Education, Inc.	\$232,858,567.00	\$322,205,547.00	72.27%
TUI Learning LLC			
Universal Technical Institute, Inc.	\$241,176,026.00	\$331,309,077.00	72.79%
Vatterott Education Centers, Inc.	\$81,085,702.00	\$97,229,240.00	83.40%
Walden E-Learning LLC	\$131,073,000.00	\$188,634,000.00	69.49%
Weighted Average	\$7,309,714,706.54	\$10,627,184,945.55	68.78%

## Appendix 9: Funds Reported Pursuant to 90/10 Rule by Company

Fiscal Year 2007

Company	Numerator	Denominator	Ratio
Alta Colleges, Inc.	\$186,339,000.00	\$259,443,000.00	71.82%
American Career College, Inc.	\$32,956,275.00	\$42,399,630.00	77.73%
American Public Education, Inc.	\$7,781,221.00	\$56,069,442.00	13.88%
Anthem Education Group	\$163,405,338.00	\$204,482,291.00	79.91%
Apollo Group, Inc.	\$1,773,621,000.00	\$2,453,419,000.00	72.29%
Bridgepoint Education, Inc.	\$59,731,849.00	\$71,179,203.00	83.92%
Capella Education Company	\$165,788,000.00	\$222,853,000.00	74.39%
Career Education Corporation	\$1,041,154,517.00	\$1,641,011,179.00	74.39%
Chancellor University System LLC	~	~	~
Concorde Career Colleges, Inc.	\$77,728,976.00	\$105,124,831.00	73.94%
Corinthian Colleges, Inc.	\$599,533,783.00	\$796,940,213.00	75.23%
DeVry, Inc.	\$578,531,000.00	\$845,297,000.00	68.44%
ECPI Colleges, Inc.	\$79,588,974.90	\$103,046,170.54	77.24%
Education Management Corporation	\$742,646,129.24	\$1,211,740,747.20	61.29%
Grand Canyon Education, Inc.	\$69,695,978.00	\$94,215,892.00	73.97%
Henley Putnam LLC	*	*	*
Herzing, Inc.	\$41,403,551.00	\$50,152,489.00	82.56%
ITT Educational Services, Inc.	\$519,655,000.00	\$852,567,000.00	60.95%
Kaplan Higher Education Corporation	\$748,506,213.00	\$909,761,256.00	82.28%
The Keiser School, Inc.	\$108,604,491.00	\$148,518,055.00	73.13%
Lincoln Educational Services Corporation	\$225,015,813.00	\$281,534,342.00	79.92%
Med-Com Career Training, Inc.	\$4,183,684.00	\$4,802,922.00	87.11%
National American University Holdings, Inc	\$26,144,192.64	\$41,565,323.38	62.90%
Rasmussen Colleges, Inc.	\$47,381,806.00	\$70,308,540.00	67.39%
Education America, Inc.	\$98,631,000.00	\$125,286,000.00	78.72%
Strayer Education, Inc.	\$205,695,931.00	\$287,313,465.00	71.59%
TUI Learning LLC			
Universal Technical Institute, Inc.	\$225,696,934.00	\$330,644,024.00	68.26%
Vatterott Education Centers, Inc.	\$86,730,544.00	\$100,628,784.00	86.19%
Walden E-Learning LLC	\$154,383,000.00	\$202,249,000.00	76.33%
Weighted Average	\$7,884,195,200.78	\$11,253,109,799.12	70.06%



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Appendix 9: Funds Reported Pursuant to 90/10 Rule by Company

Fiscal Year 2008

Company	Numerator	Denominator	Ratio
Alta Colleges, Inc.	\$225,607,000.00	\$283,883,000.00	79.47%
American Career College, Inc.	\$51,963,292.00	\$63,613,476.00	81.69%
American Public Education, Inc.	\$17,972,827.00	\$92,597,309.00	19.41%
Anthem Education Group	\$131,955,135.00	\$159,192,675.00	82.89%
Apollo Group, Inc.	\$2,271,850,000.00	\$2,878,265,000.00	78.93%
Bridgepoint Education, Inc.	\$167,781,000.00	\$193,545,000.00	86.69%
Capella Education Company	\$200,912,000.00	\$267,492,000.00	75.11%
Career Education Corporation	\$1,043,477,693.00	\$1,483,506,042.00	70.34%
Chancellor University System LLC	~	~	~
Concorde Career Colleges, Inc.	\$103,333,673.00	\$124,837,520.00	82.77%
Corinthian Colleges, Inc.	\$706,980,539.00	\$872,888,295.00	80.99%
DeVry, Inc.	\$645,116,000.00	\$1,003,087,000.00	64.31%
ECPI Colleges, Inc.	\$96,555,918.59	\$117,371,636.29	82.27%
Education Management Corporation	\$1,022,897,217.00	\$1,582,935,440.00	64.62%
Grand Canyon Education, Inc.	\$119,528,402.00	\$152,141,480.00	78.56%
Henley Putnam LLC	*	*	*
Herzing, Inc.	\$44,515,240.00	\$52,995,396.00	84.00%
ITT Educational Services, Inc.	\$657,517,000.00	\$915,461,000.00	71.82%
Kaplan Higher Education Corporation	\$904,435,052.00	\$1,070,904,739.00	84.46%
The Keiser School, Inc.	\$145,684,226.00	\$185,635,433.00	78.48%
Lincoln Educational Services Corporation	\$281,228,202.00	\$356,493,038.00	78.89%
Med-Com Career Training, Inc.	\$15,279,310.00	\$17,550,339.00	87.06%
National American University Holdings, Inc	\$30,016,816.71	\$44,371,113.77	67.65%
Rasmussen Colleges, Inc.	\$72,263,176.00	\$101,257,341.00	71.37%
Education America, Inc.	\$95,108,000.00	\$108,785,000.00	87.43%
Strayer Education, Inc.	\$280,093,219.00	\$361,753,429.00	77.43%
TUI Learning LLC	\$3,769,771.00	\$34,244,000.00	11.01%
Universal Technical Institute, Inc.	\$219,944,630.00	\$306,648,137.00	71.73%
Vatterott Education Centers, Inc.	\$87,356,802.00	\$103,792,721.00	84.16%
Walden LLC	\$209,433,000.00	\$311,650,000.00	67.20%
Weighted Average	\$9,626,968,141.30	\$12,963,014,560.06	74.26%

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Appendix 9: Funds Reported Pursuant to 90/10 Rule by Company

Fiscal Year 2009

Company	Numerator	Denominator	Ratio
Alta Colleges, Inc.	\$271,295,000.00	\$335,808,000.00	80.79%
American Career College, Inc.	\$60,271,103.00	\$75,633,936.00	79.69%
American Public Education, Inc.	\$28,888,032.00	\$133,673,035.00	21.61%
Anthem Education Group	\$102,725,971.00	\$126,338,210.00	81.31%
Apollo Group, Inc.	\$3,118,965,000.00	\$3,647,710,000.00	85.50%
Bridgepoint Education, Inc.	\$329,492,397.00	\$385,623,580.00	85.44%
Capella Education Company	\$256,577,000.00	\$328,458,000.00	78.12%
Career Education Corporation	\$1,311,409,382.00	\$1,663,528,814.00	78.83%
Chancellor University System LLC	\$1,099,424.00	\$1,818,482.00	60.46%
Concorde Career Colleges, Inc.	\$119,546,013.00	\$142,558,161.00	83.86%
Corinthian Colleges, Inc.	\$1,004,672,678.00	\$1,235,838,220.00	81.29%
DeVry, Inc.	\$936,741,000.00	\$1,220,720,000.00	76.74%
ECPI Colleges, Inc.	\$120,570,095.19	\$149,873,794.08	80.45%
Education Management Corporation	\$1,333,937,408.00	\$1,910,504,611.00	69.82%
Grand Canyon Education, Inc.	\$205,143,272.00	\$248,597,760.00	82.52%
Henley Putnam LLC	*	*	*
Herzing, Inc.	\$64,471,501.00	\$75,833,389.00	85.02%
ITT Educational Services, Inc.	\$862,369,000.00	\$1,230,791,000.00	70.07%
Kaplan Higher Education Corporation	\$1,283,359,256.00	\$1,507,671,145.00	85.12%
The Keiser School, Inc.	\$190,229,656.00	\$245,642,314.00	77.44%
Lincoln Educational Services Corporation	\$396,363,354.00	\$492,334,560.00	80.51%
Med-Com Career Training, Inc.	\$38,419,309.00	\$44,363,347.00	86.60%
National American University Holdings, Inc.	\$39,877,405.45	\$55,733,844.86	71.55%
Rasmussen Colleges, Inc.	\$121,068,791.00	\$166,636,125.00	72.65%
Education America, Inc.	\$113,122,000.00	\$134,152,000.00	84.32%
Strayer Education, Inc.	\$379,298,332.00	\$488,843,440.00	77.59%
TUI Learning LLC	\$5,430,000.00	\$47,815,000.00	11.36%
Universal Technical Institute, Inc.	\$261,647,903.00	\$351,051,669.00	74.53%
Vatterott Education Centers, Inc.	\$110,001,552.00	\$126,008,942.00	87.30%
Walden E-Learning LLC	\$275,649,000.00	\$380,415,000.00	72.46%
Weighted Average	\$13,071,345,834.64	\$16,618,168,378.94	78.66%

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Appendix 9: Funds Reported Pursuant to 90/10 Rule by Company

Fiscal Year 2010

Company	Numerator	Denominator	Ratio
Alta Colleges, Inc.	\$320,614,000.00	\$382,187,000.00	83.89%
American Career College, Inc.	\$67,606,612.00	\$85,536,177.00	79.04%
American Public Education, Inc.	\$51,419,487.00	\$197,609,040.00	26.02%
Anthem Education Group	\$111,517,180.00	\$136,143,394.00	81.91%
Apollo Group, Inc.	\$3,648,296,000.00	\$4,278,086,000.00	85.28%
Bridgepoint Education, Inc.	\$496,603,656.00	\$583,848,631.00	85.06%
Capella Education Company	\$326,765,000.00	\$417,987,000.00	78.18%
Career Education Corporation	\$1,544,065,000.00	\$1,894,645,000.00	81.50%
Chancellor University System LLC	\$4,117,379.00	\$4,747,186.00	86.73%
Concorde Career Colleges, Inc.	\$141,734,297.00	\$170,252,158.00	83.25%
Corinthian Colleges, Inc.	\$1,416,124,643.00	\$1,729,333,660.00	81.89%
DeVry, Inc.	\$1,194,880,996.00	\$1,542,222,148.00	77.48%
ECPI Colleges, Inc.	\$153,532,606.00	\$205,983,058.00	74.54%
Education America, Inc.	\$140,845,000.00	\$167,870,000.00	83.90%
Education Management Corporation	\$1,789,333,000.00	\$2,310,779,000.00	77.43%
Grand Canyon Education, Inc.	\$278,123,000.00	\$327,757,000.00	84.86%
Henley Putnam LLC	*	*	*
Herzing, Inc.	\$93,103,103.00	\$108,189,110.00	86.06%
ITT Educational Services, Inc.	\$1,048,946,000.00	\$1,726,330,000.00	60.76%
Kaplan Higher Education Corporation	\$1,460,427,211.00	\$1,700,337,448.00	85.89%
The Keiser School, Inc.	~	~	~
Lincoln Educational Services Corporation	\$489,423,407.00	\$591,577,476.00	82.73%
Med-Com Career Training, Inc.	\$32,639,741.00	\$38,699,606.00	84.34%
National American University Holdings, Inc.	\$58,250,000.00	\$76,545,809.00	76.10%
Rasmussen Colleges, Inc.	\$177,247,332.00	\$225,017,409.00	78.77%
Strayer Education, Inc.	\$470,689,110.00	\$605,558,887.00	77.73%
TUI Learning LLC	\$6,908,000.00	\$56,429,000.00	12.24%
Universal Technical Institute, Inc.	\$318,641,000.00	\$439,524,000.00	72.50%
Vatterott Education Centers, Inc.	\$166,985,553.00	\$192,044,581.00	86.95%
Walden E-Learning LLC	\$341,311,000.00	\$446,514,000.00	76.44%
Weighted Average	\$16,350,149,313.00	\$20,641,753,778.00	79.21%

Appendix 10: Estimated Federal Revenues, Fiscal Year 2010

Company	Revenue Reported (90/10 Denominator)	Title IV Funds Reported (90/10 Numerator)	Share Title IV Funds	Estimated Military Education Benefits	Share Military Funds	Estimated Total Federal Funds	Share of Federal Dollars	Estimated Non-Reported Title IV Funds (ECASLA)	Share ECASLA Funds
Alta Colleges, Inc.	\$382,187,000	\$320,614,000	83.9%	\$17,504,453	4.6%	\$388,118,453	88.5%	\$24,450,009	6.4%
American Career College, Inc.	\$85,536,177	\$67,606,612	79.0%	\$917,445	1.1%	\$88,524,057	80.1%	\$11,969,106	14.0%
American Public Education, Inc.	\$197,609,040	\$51,419,487	26.0%	\$101,564,703	51.4%	\$152,984,190	77.4%	\$0	0%
Anthem Education Group	\$136,143,394	\$111,517,180	81.9%	\$704,633	0.5%	\$112,221,813	82.4%	\$8,506,735	6.2%
Apollo Group, Inc.	\$4,278,086,000	\$3,648,296,000	85.3%	\$144,415,614	3.4%	\$3,792,711,614	88.7%	\$0	0%
Bridgepoint Education, Inc.	\$583,848,631	\$496,603,656	85.1%	\$50,360,885	8.6%	\$546,964,541	93.7%	\$0	0%
Capella Education Company	\$417,987,000	\$326,765,000	78.2%	\$11,051,641	2.6%	\$337,816,641	80.8%	\$6,522,922	1.6%
Career Education Corporation	\$1,894,645,000	\$1,544,085,000	81.5%	\$71,471,756	3.8%	\$1,615,536,756	85.3%	\$17,756,423	0.9%
Chancellor University System LLC	\$4,747,186	\$4,117,379	86.7%	\$32,342	0.7%	\$4,149,721	87.4%	\$0	0%
Concorde Career Colleges, Inc.	\$170,252,158	\$141,734,297	83.2%	\$4,127,155	2.4%	\$145,861,452	85.7%	\$0	0%
Corinthian Colleges, Inc.	\$1,729,333,660	\$1,416,124,643	81.9%	\$21,190,748	1.2%	\$1,437,315,391	83.1%	\$137,652,311	8.0%
DeVry, Inc.	\$1,542,222,148	\$1,194,880,996	77.5%	\$52,950,424	3.4%	\$1,247,831,420	80.9%	\$0	0%
ECPI Colleges, Inc.	\$205,983,058	\$153,532,606	74.5%	\$15,804,597	7.7%	\$169,337,203	82.2%	\$10,290,800	5.0%
Education America, Inc.	\$167,870,000	\$140,845,000	83.9%	\$3,364,205	2.0%	\$144,209,205	85.9%	\$10,457,697	6.2%
Education Management Corporation	\$2,310,779,000	\$1,789,333,000	77.4%	\$58,454,353	2.5%	\$1,847,787,353	80.0%	\$0	0%
Grand Canyon Education, Inc.	\$327,757,000	\$278,123,000	84.9%	\$7,295,659	2.2%	\$285,418,659	87.1%	\$0	0%
Henley Putnam LLC*	\$2,052,141	\$0	0%	\$1,193,681	57.9%	\$1,193,681	57.9%	\$0	0%
Herzing, Inc.	\$108,189,110	\$93,103,103	86.1%	\$1,458,586	1.3%	\$94,561,689	87.4%	\$0	0%
ITT Educational Services, Inc.	\$1,726,330,000	\$1,048,946,000	60.8%	\$87,779,328	5.1%	\$1,136,725,328	65.8%	\$0	0%
Kaplan Higher Education Corporation	\$1,700,337,448	\$1,460,427,211	85.9%	\$33,738,673	2.0%	\$1,494,165,884	87.9%	\$0	0%
Keiser School, Inc. (The)~	\$245,642,314	\$190,229,656	77.4%	\$2,894,374	1.2%	\$193,124,030	78.6%	\$20,749,905	8.4%
Lincoln Educational Services Corporation	\$591,577,476	\$489,423,407	82.7%	\$7,416,372	1.3%	\$496,839,779	84.0%	\$0	0%
Med-Com Career Training, Inc.	\$38,699,606	\$32,639,741	84.3%	\$0	0%	\$32,639,741	84.3%	\$0	0%
National American University Holdings, Inc.	\$76,545,809	\$58,250,000	76.1%	\$3,000,368	3.9%	\$61,250,368	80.0%	\$4,371,769	5.7%
Rasmussen Colleges, Inc.	\$225,017,409	\$177,247,332	78.8%	\$4,119,482	1.8%	\$181,366,814	80.6%	\$0	0%
Strayer Education, Inc.	\$605,558,887	\$470,689,110	77.7%	\$43,194,389	7.1%	\$513,883,499	84.9%	\$0	0%
TUI Learning LLC	\$56,429,000	\$6,908,000	12.2%	\$36,310,012	64.3%	\$43,218,012	76.6%	\$0	0%
Universal Technical Institute, Inc.	\$439,524,000	\$318,641,000	72.5%	\$10,918,391	2.5%	\$329,559,391	75.0%	\$16,327,259	3.7%
Vatterott Education Holdings, Inc.	\$192,044,581	\$166,985,553	87.0%	\$2,301,660	1.2%	\$169,287,213	88.1%	\$0	0%
Wallden LLC	\$446,514,000	\$341,311,000	76.4%	\$6,227,177	1.4%	\$347,538,177	77.8%	\$0	0%

\* No reliable estimate available  
 ~ Data listed is fiscal year 2009

**Appendix 11: Post 9-11 GI Bill Disbursements to 30 Companies Examined and Cumulative Data,  
8/1/2009-6/15/2011**

**Post 9-11 GI Bill Disbursements by Sector**

<b>2009-10 Data, by Sector</b>			
<b>Sector</b>	<b>Veteran's Trained</b>	<b>Amount Paid</b>	<b>Cost Per Veteran</b>
For-Profit	76,746	\$639,831,862	\$8,337
Private Non-Profit	49,470	\$416,022,759	\$8,410
Public	203,790	\$696,687,673	\$3,419
<b>TOTAL</b>	<b>253,260</b>	<b>\$1,112,710,432</b>	<b>\$4,394</b>

<b>2009-11 Data, by Sector</b>			
<b>Sector</b>	<b>Veteran's Trained</b>	<b>Amount Paid</b>	<b>Cost Per Veteran</b>
For-Profit	151,980	\$1,586,754,240	\$10,441
Private Non-Profit	95,006	\$1,005,996,363	\$10,589
Public	361,535	\$1,678,127,527	\$4,642
<b>TOTAL</b>	<b>608,521</b>	<b>\$4,270,878,130</b>	<b>\$7,018</b>

Appendix 11: Post 9-11 GI Bill Disbursements to 30 Companies Examined and Cumulative Data

Post 9-11 GI Bill Disbursements to 30 Companies, 8/1/2009 - 6/15/2011

Company	Veterans Trained	Amount Paid	Cost Per Veteran	HELP FY2010 Estimate
Alta Colleges, Inc.	1,894	\$34,762,408	\$18,354	\$17,309,337
American Career College, Inc.	119	\$1,867,246	\$15,691	\$917,445
American Public Education, Inc.	4,929	\$19,459,397	\$3,948	\$9,356,252
Anthem Education Group	178	\$1,820,121	\$10,225	\$633,661
Apollo Group, Inc.	29,336	\$209,994,159	\$7,158	\$81,579,300
Bridgepoint Education, Inc.	6,691	\$25,269,775	\$3,777	\$11,974,304
Capella Education Company	2,021	\$18,516,546	\$9,162	\$8,928,325
Career Education Corporation	10,045	\$129,658,355	\$12,908	\$63,721,760
Chancellor University System LLC	8	\$31,960	\$3,995	\$10,404
Concorde Career Colleges, Inc.	555	\$7,303,399	\$13,159	\$3,526,400
Corinthian Colleges, Inc.	4,676	\$60,250,796	\$12,885	\$19,871,801
DeVry, Inc.	14,056	\$143,572,825	\$10,214	\$43,900,796
ECPI Colleges, Inc.	3,153	\$9,130,786	\$12,411	\$14,274,364
Education America, Inc.	574	\$7,925,275	\$13,807	\$3,161,658
Education Management Corporation	11,197	\$173,323,551	\$15,479	\$55,441,884
Grand Canyon Education, Inc.	1,788	\$10,400,521	\$5,817	\$5,000,939
Henley Putnam LLC	186	\$913,647	\$4,912	\$438,222
Herzing, Inc.	278	\$2,695,197	\$9,695	\$1,270,487
ITT Educational Services, Inc.	11,856	\$178,337,243	\$15,042	\$87,499,062
Kaplan Higher Education Corporation	4,840	\$43,949,681	\$9,081	\$21,191,895
Lincoln Educational Services Corporation	921	\$15,028,353	\$16,317	\$7,389,250
Med-Com Career Training, Inc.	0	\$0	\$0	\$0
National American University Holdings, Inc.	521	\$3,510,984	\$6,739	\$1,365,542
Rasmussen Colleges, Inc.	681	\$8,599,722	\$12,628	\$3,861,770
Strayer Education, Inc.	9,453	\$80,211,305	\$8,485	\$38,689,958
The Kaiser School, Inc.	1,489	\$13,279,985	\$8,919	\$6,463,958
TUI Learning LLC	2,228	\$7,569,011	\$3,397	\$2,955,551
Universal Technical Institute, Inc.	1,092	\$24,861,617	\$22,767	\$10,875,476
Vatterott Education Centers, Inc.	309	\$4,731,278	\$15,312	\$2,295,848
Walden LLC	1,046	\$10,276,210	\$9,824	\$5,035,618

**Appendix 12: Tuition Assistance and Military Spouse Career Advancement Account (MyCAA)  
Disbursements to 30 Companies and Cumulative Data, Fiscal Years 2009 and 2010**

**Disbursements by Sector**

<b>MyCAA Disbursements by Sector, Fiscal Year 2010</b>			
<b>Sector</b>	<b>Number of Students</b>	<b>Total Disbursed</b>	<b>Cost Per Student</b>
<b>For-Profit</b>	35,953	\$118,356,858	\$3,292
<b>Private</b>	8,712	\$27,388,830	\$3,144
<b>Public</b>	32,394	\$66,710,724	\$2,059
<b>TOTAL</b>	77,059	\$212,456,411	\$2,757

<b>MyCAA Disbursements by Sector, Fiscal Year 2011</b>			
<b>Sector</b>	<b>Number of Students</b>	<b>Total Disbursed</b>	<b>Cost Per Student</b>
<b>For-Profit</b>	19,698	\$39,950,825	\$2,028
<b>Private</b>	2,784	\$4,326,018	\$1,554
<b>Public</b>	15,092	\$21,006,619	\$1,392
<b>TOTAL</b>	37,574	\$65,283,463	\$1,737

<b>Tuition Assistance Disbursements by Sector, Fiscal Year 2010</b>			
<b>Sector</b>	<b>Number of Students</b>	<b>Total Disbursed</b>	<b>Cost Per Student</b>
<b>For-Profit</b>	114,664	\$254,776,267	\$2,222
<b>Public</b>	64,391	\$119,870,457	\$1,862
<b>Private</b>	124,545	\$160,742,278	\$1,291
<b>TOTAL</b>	303,600	\$535,389,001	\$1,763.47

<b>Tuition Assistance Disbursements by Sector, Fiscal Year 2011</b>			
<b>Sector</b>	<b>Number of Students</b>	<b>Total Disbursed</b>	<b>Cost Per Student</b>
<b>For-Profit</b>	125,258	\$279,836,048	\$2,234
<b>Private</b>	62,141	\$119,404,306	\$1,922
<b>Public</b>	118,612	\$163,485,961	\$1,378
<b>TOTAL</b>	306,011	\$562,726,314	\$1,839

Appendix 12: Tuition Assistance and Military Spouse Career Advancement Account (MyCAA) Disbursements to 30 Companies and Cumulative Data, Fiscal Years 2009 and 2010

Disbursements to 30 Companies

Company	Tuition Assistance Funds		MyCAA Funds		2011	TA and MyCAA HELP FY2010 Estimate
	2009	2010	2009	2010		
Alta Colleges, Inc.	\$133,901	\$56,207	\$72,712	\$138,909	\$15,832	\$195,116
American Career College, Inc.	\$0	\$0	\$0	\$0	\$0	\$0
American Public Education, Inc.	\$72,789,346	\$85,583,916	\$1,491,100	\$4,642,942	\$645,714	\$92,208,451
Anthem Education Group	\$13,653	\$8,855	\$97,507,518	\$76,951	\$33,866	\$70,972
Apollo Group, Inc.	\$31,363,535	\$30,907,508	\$27,141,655	\$34,789,858	\$4,223,084	\$62,836,314
Bridgepoint Education, Inc.	\$13,193,310	\$26,666,190	\$39,509,974	\$10,981,182	\$1,094,233	\$38,386,581
Capella Education Company	\$965,265	\$903,938	\$734,104	\$1,648,169	\$102,837	\$2,123,315
Career Education Corporation	\$6,580,877	\$3,781,504	\$4,143,546	\$4,984,687	\$557,870	\$7,749,997
Chancellor University System LLC	\$1,500	\$28,750	\$0	\$0	\$0	\$21,938
Concorde Career Colleges, Inc.	\$9,667	\$8,000	\$242,023	\$735,333	\$170,019	\$600,755
Corinthian Colleges, Inc.	\$103,946	\$90,005	\$455,778	\$1,482,016	\$810,400	\$1,318,947
DeVry, Inc.	\$7,223,395	\$7,653,991	\$466,514	\$1,848,876	\$282,585	\$9,049,628
ECPI Colleges, Inc.	\$1,280,370	\$1,157,400	\$160,674	\$402,563	\$98,698	\$1,530,233
Education America, Inc.	\$4,667	\$0	\$0	\$234,090	\$88,102	\$202,547
Education Management Corporation	\$812,888	\$1,185,433	\$1,748,564	\$2,346,620	\$355,043	\$3,012,468
Grand Canyon Education, Inc.	\$563,323	\$1,213,806	\$1,578,400	\$328,317	\$91,555	\$2,294,720
Henley Putnam LLC	\$273,144	\$385,776	\$448,769	\$0	\$0	\$402,649
Herzing, Inc.	\$56,395	\$56,826	\$111,951	\$26,902	\$22,965	\$188,098
ITT Educational Services, Inc.	\$302,330	\$190,971	\$133,913	\$20,248	\$127,511	\$280,265
Kaplan Higher Education Corporation	\$3,635,338	\$7,231,437	\$6,626,531	\$2,154,041	\$1,929,135	\$12,546,778
Keiser School, Inc. (The)	\$55,365	\$49,375	\$76,987	\$96,906	\$77,972	\$365,549
Lincoln Educational Services Corporation	\$18,508	\$10,000	\$7,875	\$17,934	\$16,810	\$27,122
Med-Com Career Training, Inc.	\$0	\$0	\$0	\$0	\$0	\$0
National American University Holdings, Inc.	\$1,495,979	\$1,456,928	\$1,489,783	\$43,258	\$34,602	\$1,634,826
Rasmussen Colleges, Inc.	\$42,156	\$75,720	\$114,122	\$60,886	\$36,660	\$257,711
Strayer Education, Inc.	\$4,344,679	\$4,093,475	\$3,446,039	\$301,431	\$46,511	\$4,504,431
TUI Learning LLC	\$30,280,976	\$32,508,792	\$33,190,531	\$585,259	\$111,817	\$33,354,462
Universal Technical Institute, Inc.	\$48,960	\$20,088	\$14,163	\$22,827	\$6,888	\$42,915
Vatterott Education Centers, Inc.	\$10,500	\$6,250	\$4,500	\$1,173	\$0	\$5,812
Walden LLC	\$403,196	\$475,359	\$523,629	\$322,059	\$37,383	\$1,191,559



## Appendix 13: Pell Grant Disbursements, Award Year 2007-10

Company	AY 2010	AY 2009	AY 2008	AY 2007
Alta Colleges, Inc.	\$87,609,034	\$45,947,098	\$33,151,765	\$25,398,195
American Career College, Inc.	\$24,404,112	\$16,718,088	\$11,619,972	\$8,936,278
American Public Education, Inc.	\$14,196,995	\$4,783,244	\$2,254,191	\$667,907
Anthem Education Group	\$41,131,010	\$30,828,445	\$31,853,108	\$37,296,800
Apollo Group, Inc.	\$1,154,792,546	\$656,940,560	\$400,713,039	\$256,507,478
Bridgepoint Education, Inc.	\$171,377,230	\$79,080,626	\$31,209,006	\$8,970,260
Capella University	\$11,138,020	\$3,687,041	\$2,277,514	\$1,559,782
Career Education Corporation	\$407,938,658	\$218,723,220	\$184,219,684	\$152,750,572
Chancellor University	\$1,430,243	\$754,883	\$719,485	\$0
Concorde Career Colleges, Inc.	\$39,852,602	\$31,806,908	\$24,845,388	\$21,065,562
Corinthian Colleges, Inc.	\$509,310,282	\$324,636,143	\$220,163,207	\$170,231,061
DeVry, Inc.	\$267,510,405	\$142,721,776	\$103,443,202	\$82,332,703
Med-Com Career Training, Inc.	\$15,813,336	\$13,267,531	\$3,942,012	\$2,962,695
ECPI Colleges, Inc.	\$47,054,058	\$22,505,342	\$18,216,106	\$14,754,315
Education America, Inc.	\$54,853,665	\$36,821,804	\$28,624,254	\$31,308,455
Education Management Corporation	\$350,642,740	\$190,498,757	\$137,382,388	\$101,480,520
Grand Canyon Education, Inc.	\$45,691,098	\$18,647,714	\$6,726,328	\$2,273,748
Henley Putnam LLC	\$0	\$0	\$0	\$0
Herzing, Inc.	\$34,775,352	\$13,455,484	\$10,688,557	\$8,213,643
ITT Educational Services, Inc.	\$264,009,212	\$149,117,326	\$101,765,404	\$83,978,422
Kaplan Higher Education	\$440,025,712	\$268,420,624	\$201,027,369	\$151,023,579
Keiser School, Inc. (The)	\$69,145,627	\$36,779,506	\$26,857,689	\$22,211,607
Lincoln Educational Services Corporation	\$160,327,281	\$91,233,051	\$63,593,141	\$49,927,122
National American University Holdings, Inc.	\$19,931,824	\$10,252,979	\$6,591,045	\$5,730,501
Rasmussen, Inc.	\$48,201,192	\$21,292,837	\$12,601,550	\$8,311,331
Strayer Education, Inc.	\$102,922,077	\$41,584,535	\$28,215,308	\$21,041,669
TUI University	\$1,396,591	\$779,322	\$369,222	\$0
Universal Technical Institute, Inc.	\$81,044,463	\$37,134,168	\$26,792,824	\$25,083,475
Vatterott Education Holdings, Inc.	\$61,633,022	\$28,221,548	\$24,301,074	\$19,885,277
Walden LLC	\$12,672,783	\$3,032,396	\$747,113	\$505,712

Source: Department of Education, Title IV Program Volume Reports by School

**Appendix 14: Tuition and Fee Comparison**

<b>Alta Colleges, Inc. Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
Westwood College	Bachelor of Science in Business Administration	\$80,466	University of Colorado	Bachelor of Science in Business Administration	\$60,704
Westwood College	Associate of Applied Science in Information Technology	\$48,194	Community College of Denver	Associate of Applied Science in Information Technology	\$8,823
<b>American Career College, Inc. Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
American Career College	Medical Assistant Program	\$17,068	Orange Coast College	Certificate of Achievement in Medical Assisting: Clinical	\$2,046
<b>American Public Education, Inc. Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
American Public University	Bachelor of Science in Business Administration	\$30,350	West Virginia University	Bachelor's Degree in Business Administration	\$28,936
American Public University	Associate of Arts in Business Administration	\$15,250	Blue Ridge Community and Technical College	Associate of Applied Science Degree in Business	\$8,900

**Appendix 14: Tuition and Fee Comparison**

<b>Anthem Education Group Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
Anthem College	Medical Assistant Diploma Program	\$14,990	Phoenix College	Certificate Program in Medical Assisting	\$4,503
<b>Apollo Group, Inc. Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
University of Phoenix	Bachelor of Science in Business Associate of Arts with a Concentration in Foundations of Business	\$74,575	University of Arizona	Bachelor of Science in Business Administration	\$44,200
University of Phoenix	Bachelor of Science in Business	\$24,500	Phoenix College	Associate of Applied Science in General Business Bachelor's Degree (not specified)	\$4,087
University of Phoenix	Bachelor of Science in Business		Prescott College		\$142,716

**Appendix 14: Tuition and Fee Comparison**

<b>Bridgepoint Education, Inc. Cost Comparison</b>						
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>	
Ashford University	Bachelor of Arts in Business Administration	\$53,680	University of Iowa	Bachelor's Degree in Business Administration	\$43,816	
Ashford University	Associate of Arts in Business	\$30,574	Eastern Iowa Community College	Associate of Applied Science in Business Management	\$7,936	
<b>Capella Education Company Cost Comparison</b>						
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>	
Capella University	Bachelor of Science in Business Administration	\$57,290	University of Minnesota	Bachelor of Science in Business	\$56,240	
Capella University	Master of Science in Education	\$20,210	University of Minnesota	Master of Education	\$31,235	

**Appendix 14: Tuition and Fee Comparison**

<b>Career Education Corporation Cost Comparison</b>						
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>	
American InterContinental University	Bachelor's Degree in Business Administration	\$67,819	University of Illinois	Bachelor of Science in Business Administration	\$84,320	
American InterContinental University	Associate Degree in Business Administration and Management	\$30,659	College of DuPage	Associate of Applied Science in Management	\$8,704	
<b>Chancellor University System LLC Cost Comparison</b>						
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>	
Chancellor University	Bachelor of Science in Business Administration	\$47,000	Ohio State University	Bachelor of Science in Business Administration	\$38,844	
<b>Concorde Career Colleges, Inc. Cost Comparison</b>						
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>	
Concorde Career College	Diploma in Medical Office Administration	\$15,631	Johnson County Community College	Medical Administrative and Office Assistant Certificate Program	\$4,330	

**Appendix 14: Tuition and Fee Comparison**

<b>Corinthian Colleges, Inc. Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
Everest College	Associate of Science in Paralegal	\$41,149	Santa Ana College	Associate Degree in Paralegal Studies	\$2,392
Everest College	Medical Assistant Diploma Program	\$23,009	Orange Coast College	Certificate of Achievement in Medical Assisting: Clinical	\$3,682
<b>DeVry, Inc. Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
DeVry University	Bachelor of Science in Business Administration	\$75,184	University of Illinois	Bachelor of Science in Business Administration	\$84,320
DeVry University	Associate of Applied Science in Accounting	\$37,157	College of DuPage	Associate of Applied Science in Accounting	\$9,520
<b>ECPI Colleges, Inc. Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
ECPI University	Bachelor of Science in Business Administration	\$58,550	University of Virginia	Bachelor's Degree in Business Administration	\$51,912
ECPI University	Associate of Science in Computer and Information Science	\$36,650	Tidewater Community College	Associate of Applied Science in Information Systems Technology	\$10,232

**Appendix 14: Tuition and Fee Comparison**

<b>Education America, Inc. Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
Remington College	Medical Billing and Coding Certificate Program	\$15,995	Valencia Community College	Medical Information Coder/Biller Certificate	\$4,653
<b>Education Management Corporation Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
Art Institute of Pittsburgh	Bachelor of Science in Fashion and Retail Management	\$94,765	Penn State University	Bachelor's Degree in Business	\$64,892
Argosy University (Online)	Bachelor of Science in Business Administration	\$67,545	Penn State University	Bachelor's Degree in Business	\$64,892
Art Institute of Pittsburgh	Associate of Science in Web Design and Interactive Media	\$47,410	Community College of Allegheny County	Associate of Science in Graphic Communication	\$6,800
<b>Grand Canyon Education, Inc. Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
Grand Canyon University	Bachelor of Science in Business Administration	\$55,950	University of Arizona	Bachelor of Science in Business Administration	\$44,200

**Appendix 14: Tuition and Fee Comparison**

<b>Henley-Putnam University Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
Henley Putnam LLC	Bachelor of Science, Terrorism and Counterterrorism Studies	\$42,300	University of California at Santa Cruz	Bachelor of Arts in Business Management Economics	\$59,292
<b>Herzing, Inc. Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
Herzing University	Bachelor of Science in Business Management	\$57,000	University of Wisconsin	Bachelor's Degree in Business Administration	\$50,480
Herzing University	Diploma in Medical Assisting Services	\$22,800	Milwaukee Technical College	Medical Assisting Technical Diploma	\$5,459
<b>ITT Educational Services, Inc. Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
ITT Tech	Bachelor's Degree in Business Administration	\$93,624	Indiana University	Bachelor of Science in Business	\$43,528
ITT Tech	Associate of Applied Science Degree in Business Management	\$44,895	Ivy Tech Community College	Associate of Science in Business Administration	\$9,385



Appendix 14: Tuition and Fee Comparison

Kaplan Higher Education Corporation Cost Comparison						
For-Profit Institution	For-Profit Program Name	For-Profit Cost	Public Institution	Public Program Name	Public Cost	
Kaplan University	Bachelor of Science in Business Administration	\$66,417	University of Iowa	Bachelor's Degree in Business Administration	\$43,816	
Kaplan University	Associate of Applied Science in Business Administration	\$30,654	Eastern Iowa Community College	Associate of Applied Science in Business Management	\$7,936	
Lincoln Educational Services Corporation Cost Comparison						
For-Profit Institution	For-Profit Program Name	For-Profit Cost	Public Institution	Public Program Name	Public Cost	
Lincoln Technical Institute	Automotive Mechanics Diploma	\$13,977	Sussex County Community College	Automotive Service Technology Certificate	\$6,050	
Med-Com Career Training, Inc. Cost Comparison						
For-Profit Institution	For-Profit Program Name	For-Profit Cost	Public Institution	Public Program Name	Public Cost	
Drake School of Business	Diploma in Dental Assisting	\$19,200	Essex County Community College	Certificate in Dental Assisting	\$5,853	

Appendix 14: Tuition and Fee Comparison

National American University Holdings, Inc. Cost Comparison					
For-Profit Institution	For-Profit Program Name	For-Profit Cost	Public Institution	Public Program Name	Public Cost
National American University	Bachelor of Science in Business Administration	\$62,813	University of South Dakota	Bachelor's Degree in Business Administration	\$35,216
National American University	Associate of Applied Science in Business Administration	\$31,469	Western Dakota Tech.	Associate of Applied Science in Business Management and Marketing	\$16,480
Rasmussen Colleges, Inc. Cost Comparison					
For-Profit Institution	For-Profit Program Name	For-Profit Cost	Public Institution	Public Program Name	Public Cost
Rasmussen College	Bachelor's Degree in Business Management	\$68,668	University of Minnesota	Bachelor of Science in Business	\$56,240
Rasmussen College	Associate Degree in Business Management	\$39,432	Normandale Community College	Associate of Applied Science in Business	\$7,264

Appendix 14: Tuition and Fee Comparison

Strayer Education, Inc. Cost Comparison					
For-Profit Institution	For-Profit Program Name	For-Profit Cost	Public Institution	Public Program Name	Public Cost
Strayer University	Bachelor's Degree in Business Administration	\$72,800	University of Virginia	Bachelor's Degree in Business	\$51,912
Strayer University	Associate in Arts in Business Administration	\$36,500	Northern Virginia Community College	Associate of Science in Business Administration	\$9,587
The Keiser School, Inc. Cost Comparison					
For-Profit Institution	For-Profit Program Name	For-Profit Cost	Public Institution	Public Program Name	Public Cost
Keiser University	Bachelor of Arts in Business Administration	\$60,456	University of Florida	Bachelor of Science in Business Administration	\$29,000
Keiser University	Associate of Arts in Business Administration	\$30,328	Broward College	Associate in Science in Business Administration	\$6,650
TUI Learning LLC Cost Comparison					
For-Profit Institution	For-Profit Program Name	For-Profit Cost	Public Institution	Public Program Name	Public Cost
Trident International University	Bachelor of Science in Business Administration	\$35,400	University of California at Irvine	Bachelor of Arts in Business Administration	\$55,880

**Appendix 14: Tuition and Fee Comparison**

<b>Universal Technical Institute, Inc. Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
Universal Technical Institute	Certificate in Automotive Technology	\$30,895	Mesa Community College	Certificate in Automotive Performance	\$1,527
<b>Vatterott Education Holdings, Inc. Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
Vatterott College	Diploma in Information Systems Security	\$24,500	St. Louis Community College	Certificate of Proficiency in Information Technology	\$4,383
<b>Walden E-Learning LLC Cost Comparison</b>					
<b>For-Profit Institution</b>	<b>For-Profit Program Name</b>	<b>For-Profit Cost</b>	<b>Public Institution</b>	<b>Public Program Name</b>	<b>Public Cost</b>
Walden University	Bachelor of Science in Business Administration	\$56,800	University of Minnesota	Bachelor of Science in Business	\$56,240
Walden University	Master of Science in Education	\$14,730	University of Minnesota		\$31,235

Appendix 15: Retention and Withdrawal

Institution	Degree Type	Total Student Enrollment	Students Complete	Complete	Students Enrolled	Still Enrolled	Students Withdrawn	Withdrawn	Median Days Attended
Alta	Associate	2,541	431	17.0%	647	25.5%	1,463	57.6%	133
Alta	Bachelor's	10,923	40	0.4%	4,646	42.5%	6,237	57.1%	134
Alta	Certificate	1,107	607	54.8%	43	3.9%	457	41.3%	125
Alta	All	14,571	1,078	7.4%	5,336	36.6%	8,157	56.0%	133
American Career	Certificate	5,246	3,650	69.6%	200	3.8%	1,396	26.6%	100
American Public	Associate	4,859	137	2.8%	2,466	50.8%	2,256	46.4%	54
American Public	Bachelor's	14,800	340	2.3%	9,265	62.6%	5,195	35.1%	55
American Public	All	19,659	477	2.4%	11,731	59.7%	7,451	37.9%	55
Anthem	Associate	661	227	34.3%	146	22.1%	288	43.6%	116
Anthem	Certificate	10,383	6,617	63.7%	292	2.8%	3,474	33.5%	95
Anthem	All	11,044	6,844	62.0%	438	4.0%	3,762	34.1%	97
Apollo	Associate	177,368	8,395	4.7%	51,235	28.9%	117,738	66.4%	126
Apollo	Bachelor's	102,208	1,804	1.8%	49,004	47.9%	51,400	50.3%	115
Apollo	All	279,576	10,199	3.6%	100,239	35.9%	169,138	60.5%	123

Appendix 15: Retention and Withdrawal

Institution	Degree Type	Total Student Enrollment	Students Complete	Complete	Students Enrolled	Still Enrolled	Students Withdrawn	Withdrawn	Median Days Attended
Bridgepoint	Associate	7,931	94	1.2%	1,146	14.4%	6,691	84.4%	111
Bridgepoint	Bachelor's	40,866	2,411	5.9%	12,557	30.7%	25,898	63.4%	140
Bridgepoint	All	48,797	2,505	5.1%	13,703	28.1%	32,589	66.8%	134
Capella	Bachelor's	5,602	81	1.4%	2,143	38.3%	3,378	60.3%	N/A
Capella	Master's	11,867	418	3.5%	6,187	52.1%	5,262	44.3%	N/A
Capella	Doctorate	5,018	1	0.0%	2,910	58.0%	2,107	42.0%	N/A
Capella	All	22,487	500	2.2%	11,240	50.0%	10,747	47.8%	N/A
Career Ed. Corp.	Associate	54,553	13,505	24.8%	7,414	13.6%	33,634	61.7%	122
Career Ed. Corp.	Bachelor's	21,726	4,131	19.0%	6,438	29.6%	11,157	51.4%	143
Career Ed. Corp.	Certificate	21,114	11,812	55.9%	2,360	11.2%	6,942	32.9%	127
Career Ed. Corp.	All	97,393	29,448	30.2%	16,212	16.6%	51,733	53.1%	127
Concorde	Associate	1,100	528	48.0%	219	19.9%	353	32.1%	127
Concorde	Certificate	10,004	7,198	72.0%	146	1.5%	2,660	26.6%	57
Concorde	All	11,104	7,726	69.6%	365	3.3%	3,013	27.1%	65

Appendix 15: Retention and Withdrawal

Institution	Degree Type	Total Student Enrollment	Students Complete	Complete	Students Enrolled	Still Enrolled	Students Withdrawn	Withdrawn	Median Days Attended
Corinthian	Associate	44,436	3,080	6.9%	11,809	26.6%	29,547	66.5%	124
	Bachelor's	3,193	194	6.1%	1,110	34.8%	1,889	59.2%	138
	Certificate	83,291	47,144	56.6%	1,433	1.7%	34,714	41.7%	79
	All	130,920	50,418	38.5%	14,352	11.0%	66,150	50.5%	101
Devry	Associate	13,539	1,639	12.1%	4,542	33.5%	7,358	54.3%	112
	Bachelor's	41,177	2,844	6.9%	15,118	36.7%	23,215	56.4%	112
	Certificate	10,006	6,586	65.8%	198	2.0%	3,222	32.2%	96
	All	64,722	11,069	17.1%	19,858	30.7%	33,795	52.2%	110
ECPI	Associate	4,589	1,159	25.3%	1,275	27.8%	2,155	47.0%	175
	Bachelor's	1,409	39	2.8%	650	46.1%	720	51.1%	184
	Certificate	1,871	793	42.4%	315	16.8%	763	40.8%	171
	All	7,869	1,991	25.3%	2,240	28.5%	3,638	46.2%	176
Ed. Mgmt. Corp.	Associate	32,107	917	2.9%	10,746	33.5%	20,444	63.7%	162
	Bachelor's	38,133	231	0.6%	14,293	37.5%	23,609	61.9%	175
	Certificate	8,421	2,543	30.2%	1,091	13.0%	4,787	56.8%	141
	All	78,661	3,691	4.7%	26,130	33.2%	48,840	62.1%	166

Appendix 15: Retention and Withdrawal

Institution	Degree Type	Total Student Enrollment	Students Complete	Complete	Students Enrolled	Still Enrolled	Students Withdrawn	Withdrawn	Median Days Attended
Grand Canyon	Bachelor's	17,463	561	3.2%	6,690	38.3%	10,212	58.5%	125
Grand Canyon	Master's	9,960	1,217	12.2%	4,516	45.3%	4,227	42.4%	132
Grand Canyon	All	27,423	1,778	6.5%	11,206	40.9%	14,439	52.7%	127
Henley Putnam	Bachelor's	107	1	0.9%	57	53.3%	49	45.8%	263
Herzing	Associate	2,237	290	13.0%	769	34.4%	1,178	52.7%	149
Herzing	Bachelor's	841	38	4.5%	388	46.1%	415	49.3%	161
Herzing	Certificate	1,118	233	20.8%	298	26.7%	587	52.5%	150
Herzing	All	4,196	561	13.4%	1,455	34.7%	2,180	52.0%	151
ITT	Associates	56,557	2,818	5.0%	23,727	42.0%	30,012	53.1%	96
ITT	Bachelor's	8,364	504	6.0%	4,139	49.5%	3,721	44.5%	85
ITT	All	64,921	3,322	5.1%	27,866	42.9%	33,733	52.0%	95
Kaplan	Associate	33,324	4,159	12.5%	6,135	18.4%	23,030	69.1%	127
Kaplan	Bachelor's	31,354	1,163	3.7%	8,801	28.1%	21,390	68.2%	126
Kaplan	Certificate	38,079	25,040	65.8%	585	1.5%	12,454	32.7%	98
Kaplan	All	102,757	30,362	29.5%	15,521	15.1%	56,874	55.3%	120



Appendix 15: Retention and Withdrawal

Institution	Degree Type	Total Student Enrollment	Students Complete	Complete	Students Enrolled	Still Enrolled	Students Withdrawn	Withdrawn	Median Days Attended
Keiser	Associate	9,041	1,085	12.0%	2,079	23.0%	5,877	65.0%	212
	Bachelor's	1,856	39	2.1%	756	40.7%	1,061	57.2%	195
	All	10,897	1,124	10.3%	2,835	26.0%	6,938	63.7%	209
Lincoln	Associate	6,160	954	15.5%	900	14.6%	4,306	69.9%	129
	Certificate	25,466	12,079	47.4%	1,460	5.7%	11,927	46.8%	119
	All	31,626	13,033	41.2%	2,360	7.5%	16,233	51.3%	122
National American	Associate	2,214	14	0.6%	1,290	58.3%	910	41.1%	74
	Bachelor's	2,231	11	0.5%	1,331	59.7%	889	39.8%	70
	All	4,445	25	0.6%	2,621	59.0%	1,799	40.5%	72
Rasmussen	Associate	7,758	604	7.8%	2,267	29.2%	4,887	63.0%	164
	Bachelor's	1,865	54	2.9%	613	32.9%	1,198	64.2%	164
	All	9,623	658	6.8%	2,880	29.9%	6,085	63.2%	164
Ed. America	Associate	2,342	286	12.2%	742	31.7%	1,314	56.1%	152
	Certificate	7,977	5,163	64.7%	39	0.5%	2,775	34.8%	87
	All	10,319	5,449	52.8%	781	7.6%	4,089	39.6%	108

Appendix 15: Retention and Withdrawal

Institution	Degree Type	Total Student Enrollment	Students Complete	Complete	Students Enrolled	Still Enrolled	Students Withdrawn	Withdrawn	Median Days Attended
Strayer	Associate	6,683	902	13.5%	2,523	37.8%	3,258	48.8%	119
Strayer	Bachelor's	23,540	2,084	8.9%	13,421	57.0%	8,035	34.1%	189
Strayer	Master's	11,007	2,763	25.1%	6,279	57.0%	1,965	17.9%	210
Strayer	All	41,230	5,749	13.9%	22,223	53.9%	13,258	32.2%	175
TUI	Bachelor's	3,483	763	21.9%	934	26.8%	1,786	51.3%	N/A
UTI	Associate	1,776	950	53.5%	256	14.4%	570	32.1%	134
UTI	Certificate	16,343	7,924	48.5%	2,434	14.9%	5,985	36.6%	123
UTI	All	18,119	8,874	49.0%	2,690	14.8%	6,555	36.2%	124
Vatterott	Associate	3,041	1,194	39.3%	640	21.0%	1,207	39.7%	143
Vatterott	Certificate	6,366	2,679	42.1%	814	12.8%	2,873	45.1%	127
Vatterott	All	9,407	3,873	41.2%	1,454	15.5%	4,080	43.4%	127
Walden	Bachelor's	3,230	44	1.4%	1,527	47.3%	1,659	51.4%	91
Walden	Master's	11,770	1,697	14.4%	6,764	57.5%	3,309	28.1%	173
Walden	Doctoral	5,325	32	0.6%	3,185	59.8%	2,108	39.6%	174
Walden	All	20,325	1,773	8.7%	11,476	56.5%	7,076	34.8%	154

Appendix 15: Retention and Withdrawal

Institution	Degree Type	Total Student Enrollment	Students Complete	Complete	Students Enrolled	Still Enrolled	Students Withdrawn	Withdrawn	Median Days Attended
All	Associate	474,817	43,368	9.1%	132,973	28.0%	298,476	62.9%	126
All	Bachelor's	374,264	17,376	4.6%	153,824	41.1%	203,064	54.3%	131
All	Certificate	246,792	140,068	56.8%	11,708	4.7%	95,016	38.5%	100
Largest 5 schools by enrollment		651,272	104,825	16.1%	176,791	27.1%	369,656	56.8%	124
All	All	1,095,873	200,812	18.3%	298,505	27.2%	596,556	54.4%	124

Note: The Keiser School, Inc. 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. Keiser additionally notes that 888 of the withdrawn students later re-enrolled.

## Appendix 16: Trial 3-Year Cohort Default Rates by Company, Fiscal Years 2005-8

## Students Entering Repayment in Federal Fiscal Year 2005

Company	Number of Students Entered into Default	Number of Students Entered into Repayment	Default Rate
Alta Colleges, Inc.	1,704	7,017	24.3%
American Career College, Inc.	329	2,107	15.6%
American Public Education, Inc.	~	~	~
Anthem Education Group	2,290	10,690	21.4%
Apollo Group, Inc.	10,838	90,425	12.0%
Bridgepoint Education, Inc.	18	210	8.6%
Capella Education Company	225	5,056	4.5%
Career Education Corporation	13,896	66,256	21.0%
Chancellor University System LLC	~	~	~
Concorde Career Colleges, Inc.	1,348	7,646	17.6%
Corinthian Colleges, Inc.	14,822	64,640	22.9%
DeVry, Inc.	4,594	35,171	13.1%
ECPI Colleges, Inc.	702	3,562	19.7%
Education America, Inc.	1,892	9,932	19.0%
Education Management Corporation	3,824	32,678	11.7%
Grand Canyon Education, Inc.	41	1,358	3.0%
Henley Putnam LLC	*	*	*
Herzing, Inc.	236	1,975	11.9%
ITT Educational Services, Inc.	5,688	26,912	21.1%
Kaplan Higher Education Corporation	6,168	31,993	19.3%
Lincoln Educational Services Corporation	4,262	19,692	21.6%
Med-Com Career Training, Inc.	2	4	50.0%
National American University Holdings, Inc.	224	1,699	13.2%
Rasmussen Colleges, Inc.	272	1,853	14.7%
Strayer Education, Inc.	828	8,829	9.4%
The Keiser School, Inc.	704	4,645	15.2%
TUI Learning LLC	~	~	~
Universal Technical Institute, Inc.	1,696	12,281	13.8%
Vatterott Educational Centers, Inc.	813	4,071	20.0%
Walden LLC	55	3,159	1.7%
All 30 Colleges Examined	77,471	453,861	17.1%
All For-Profit Colleges	119,807	694,897	17.2%
All Non-Profit Colleges	39,623	942,490	4.2%
All Public Colleges	127,014	1,792,732	7.1%
All Colleges	286,444	3,430,119	8.4%

~ data not available for year

\* data not available

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## Appendix 16: Trial 3-Year Cohort Default Rates by Company, Fiscal Years 2005-8

## Students Entering Repayment in Federal Fiscal Year 2006

Company	Number of Students Entered into Default	Number of Students Entered into Repayment	Default Rate
Alta Colleges, Inc.	2,245	8,601	26.1%
American Career College, Inc.	377	2,061	18.3%
American Public Education, Inc.	~	~	~
Anthem Education Group	2,780	12,731	21.8%
Apollo Group, Inc.	18,883	124,586	15.2%
Bridgepoint Education, Inc.	25	441	5.7%
Capella Education Company	284	7,494	3.8%
Career Education Corporation	14,771	82,038	18.0%
Chancellor University System LLC	~	~	~
Concorde Career Colleges, Inc.	1,673	7,207	23.2%
Corinthian Colleges, Inc.	16,963	62,375	27.2%
DeVry, Inc.	5,209	37,862	13.8%
ECPI Colleges, Inc.	802	4,227	19.0%
Education America, Inc.	3,039	11,306	26.9%
Education Management Corporation	4,328	38,010	11.4%
Grand Canyon Education, Inc.	75	2,746	2.7%
Henley Putnam LLC	*	*	*
Herzing, Inc.	248	1,900	13.1%
ITT Educational Services, Inc.	6,333	30,944	20.5%
Kaplan Higher Education Corporation	10,201	42,774	23.8%
Lincoln Educational Services Corporation	5,610	22,978	24.4%
Med-Com Career Training, Inc.	14	63	22.2%
National American University Holdings, Inc.	276	2,220	12.4%
Rasmussen Colleges, Inc.	353	2,467	14.3%
Strayer Education, Inc.	1,196	11,307	10.6%
The Keiser School, Inc.	1,174	6,078	19.3%
TUI Learning LLC	~	~	~
Universal Technical Institute, Inc.	2,239	13,899	16.1%
Vatterott Educational Centers, Inc.	1,259	5,035	25.0%
Walden E-Learning LLC	141	7,037	2.0%
All 30 Colleges Examined	100,498	548,387	18.3%
All For-Profit Colleges	153,616	818,711	18.8%
All Non-Profit Colleges	47,303	1,050,759	4.5%
All Public Colleges	152,591	1,980,238	7.7%
All Colleges	353,510	3,849,708	9.2%

~ data not available for year

\* data not available

## Appendix 16: Trial 3-Year Cohort Default Rates by Company, Fiscal Years 2005-8

## Students Entering Repayment in Federal Fiscal Year 2007

Company	Number of Student Entered into Default	Number of Students Entered into Repayment	Default Rate
Alta Colleges, Inc.	2,154	8,524	25.3%
American Career College, Inc.	556	2,420	23.0%
American Public Education, Inc.	3	90	3.3%
Anthem Education Group	3,244	14,504	22.4%
Apollo Group, Inc.	22,773	128,290	17.8%
Bridgepoint Education, Inc.	245	1,423	17.2%
Capella Education Company	371	6,721	5.5%
Career Education Corporation	14,567	74,065	19.7%
Chancellor University System LLC	~	~	~
Concorde Career Colleges, Inc.	1,838	7,529	24.4%
Corinthian Colleges, Inc.	17,691	59,543	29.7%
DeVry, Inc.	5,650	34,882	16.2%
ECPI Colleges, Inc.	940	4,205	22.4%
Education America, Inc.	3,370	10,869	31.0%
Education Management Corporation	4,811	32,989	14.6%
Grand Canyon Education, Inc.	119	4,001	3.0%
Henley Putnam LLC	*	*	*
Herzing, Inc.	352	2,231	15.8%
ITT Educational Services, Inc.	6,738	27,955	24.1%
Kaplan Higher Education Corporation	13,385	46,855	28.6%
Lincoln Educational Services Corporation	5,294	20,201	26.2%
Med-Com Career Training, Inc.	15	84	17.9%
National American University Holdings, Inc.	364	2,304	15.8%
Rasmussen Colleges, Inc.	536	2,988	17.9%
Strayer Education, Inc.	1,388	10,673	13.0%
The Keiser School, Inc.	1,487	6,581	22.6%
TUI Learning LLC	~	~	~
Universal Technical Institute, Inc.	1,942	14,093	13.8%
Vatterott Educational Centers, Inc.	1,379	4,877	28.3%
Walden E-Learning LLC	187	6,129	3.1%
All 30 Colleges Examined	111,399	535,026	20.8%
All For-Profit Colleges	172,209	813,722	21.2%
All Non-Profit Colleges	50,789	776,626	6.5%
All Public Colleges	166,930	1,717,436	9.7%
All Colleges	389,928	3,307,784	11.8%

~ data not available for year

\* data not available

## Appendix 16: Trial 3-Year Cohort Default Rates by Company, Fiscal Years 2005-8

## Students Entering Repayment in Federal Fiscal Year 2008

Company	Number of Student Entered into Default	Number of Students Entered into Repayment	Default Rate
Alta Colleges, Inc.	2,127	8,938	23.8%
American Career College, Inc.	641	3,055	21.0%
American Public Education, Inc.	91	820	11.1%
Anthem Education Group	3,019	14,041	21.5%
Apollo Group, Inc.	29,416	140,686	20.9%
Bridgepoint Education, Inc.	807	4,069	19.8%
Capella Education Company	444	6,828	6.5%
Career Education Corporation	13,978	64,677	21.6%
Chancellor University System LLC	50	357	14.0%
Concorde Career Colleges, Inc.	1,501	7,315	20.5%
Corinthian Colleges, Inc.	23,623	65,485	36.1%
DeVry, Inc.	6,813	37,177	18.3%
ECPI Colleges, Inc.	1,201	5,186	23.2%
Education America, Inc.	2,377	9,072	26.2%
Education Management Corporation	6,533	40,948	16.0%
Grand Canyon Education, Inc.	343	4,640	7.4%
Henley Putnam LLC	*	*	*
Herzing, Inc.	381	2,403	15.9%
ITT Educational Services, Inc.	8,023	30,491	26.3%
Kaplan Higher Education Corporation	15,146	54,434	27.8%
Lincoln Educational Services Corporation	5,841	21,059	27.7%
Med-Com Career Training, Inc.	111	277	40.1%
National American University Holdings, Inc.	363	2,348	15.5%
Rasmussen Colleges, Inc.	182	1,573	11.6%
Strayer Education, Inc.	1,433	11,233	12.8%
The Keiser School, Inc.	1,278	6,585	19.4%
TUI Learning LLC	2	106	1.9%
Universal Technical Institute, Inc.	1,664	13,657	12.2%
Vatterott Educational Centers, Inc.	1,291	4,848	26.6%
Walden E-Learning LLC	220	7,413	3.0%
All 30 Colleges Examined	128,899	569,721	22.6%
All For-Profit Colleges	191,922	859,597	22.3%
All Foreign Colleges	270	7,576	3.6%
All Non-Profit Colleges	51,269	757,004	6.8%
All Public Colleges	166,571	1,715,377	9.7%
All Colleges	410,032	3,339,554	12.3%

~ data not available for year

\* data not available

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## Appendix 17: Executive Compensation

## Executive Compensation at Publicly Traded For-Profit Colleges

American Public Education, Inc. Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	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

Apollo Group, Inc. Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	Compensation
John G. Sperling	Founder and Chairman	\$8,617,597	\$6,963,239
Joseph L. D'Amico	President and COO	\$5,115,263	\$5,500,246
Brian L. Schwartz	Senior VP and CFO	\$2,345,379	\$2,369,601
William J. Pepicello	President, University of Phoenix	\$2,035,470	\$2,035,470
Charles B. Edelstein	Co-CEO	\$1,800,000	\$1,636,950
Gregory W. Cappelli	Co-CEO	\$1,659,712.00	\$1,659,712.00

Bridgepoint Education, Inc. Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	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	\$832,169.00

Capella Education Corporation Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	Compensation
J. Kevin Gilligan	Chief Executive Officer	\$3,848,253	\$2,347,197
Lois M. Martin	Former SVP and Chief Financial Officer	\$748,499	\$967,637
Stephen G. Shank	Former Chief Executive Officer	N/A	\$685,879
Sally B. Chial	Senior Vice President-Capella Experience	\$952,482	\$644,665
Michael J. Offerman	Chancellor	\$820,718	\$605,422
Gregory W. Thom	Vice President and Senior Counsel	N/A	\$564,332
Steve L. Polacek	SVP and Chief Financial Officer	\$557,862	N/A
Kyle M. Carpenter	SVP Strategic Business Development	\$895,249	N/A
Jason Van De Loo	Vice President-Marketing	\$742,362	N/A

Career Education Corporation Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	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



## Appendix 17: Executive Compensation

## Executive Compensation at Publicly Traded For-Profit Colleges

Corinthian Colleges, Inc. Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	Compensation
Jack Massimino	Executive Chairman	\$3,343,434	\$3,032,703
Peter Waller	Chief Executive Officer	\$1,984,619	\$4,463,882
Kenneth S. Ord	Executive Vice President and Chief Financial Officer	\$1,472,628	\$1,605,529
Beth Wilson	Executive Vice President	\$1,409,213	\$1,516,676
Matt Ouimet	President and Chief Operating Officer	\$1,406,812	\$2,021,538

DeVry, Inc. Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	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 Treasurer	\$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

## Appendix 17A

Education Management Corporation Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	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

Grand Canyon Education, Inc. Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	Compensation
Brian E. Mueller	CEO & Director	\$2,167,364	\$1,028,705
Dr. W. Stan Meyer	Executive VP	\$991,256	\$457,941
Daniel E. Bachus	CFO	\$981,058	\$415,161
Joseph N. Mildenhall	Chief Information Officer	\$705,313	\$720,968
Dr. Kathy Player	President	\$664,535	\$420,184
Christopher C. Richardson	General Counsel & Director	\$434,497	\$379,019
Brent D. Richardson	Executive Chairman	\$337,508	\$340,333

ITT Educational Services, Inc. Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	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

## Appendix 17: Executive Compensation

## Executive Compensation at Publicly Traded For-Profit Colleges

Lincoln Educational Services Corporation Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	Compensation
Shaun E. McAlmont	President and CEO	\$2,130,465	\$1,014,295
Scott M. Shaw	Executive VP and CAO	\$1,359,145	\$742,644
David F. Carney	Former Executive Chairman	\$1,333,693	\$1,088,218
Cesar Ribeiro	Senior VP, CFO, & Treasurer	\$1,123,906	\$735,923

National American University Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	Compensation
Ronald L. Shape	Chief Executive Officer and Chief Financial Officer	\$990,361	N/A
Jerry L. Gallentine	President	\$1,154,422	N/A
Michaëlle Holland	Regional President for the South and Southeast Regions	\$692,807	N/A
Robert D. Buckingham	Executive Chairman of the Board	\$3,127,120	N/A

Strayer Education, Inc. Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	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

Universal Technical Institute, Inc. Executive Compensation			
Executive Name	Executive Title	2009	2010
		Compensation	Compensation
Kimberley J. McWater	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	N/A

## Appendix 17: Executive Compensation

## Leaders at Comparison Public Institutions

Company	Comparison School	Executive	2009-10 Compensation
American Public Education, Inc.	West Virginia University	Clements, James P.	\$464,700
Apollo Group, Inc.	University of Arizona	Shelton, Robert N.	\$633,206
Bridgepoint Education, Inc.	University of Iowa	Mason, Sally K.	\$610,234
Capella Education Company	University of Minnesota-Twin Cities	Bruininks, Robert H.	\$646,097
Career Education Corporation	University of Illinois at Urbana-Champaign	Herman, Richard	\$137,850
Corinthian Colleges, Inc.	University of California at Irvine	Drake, Michael V.	\$382,980
DeVry, Inc.	University of Illinois at Urbana-Champaign	Herman, Richard	\$137,850
Education Management Corporation	Pennsylvania State University	Spanier, Graham B.	\$800,592
Grand Canyon Education, Inc.	University of Arizona	Shelton, Robert N.	\$633,206
JTT Educational Services, Inc.	Indiana University at Bloomington	Hanson, Karen	\$337,144
Lincoln Educational Services Corporation	Rutgers University at Newark	Diner, Steven J.	\$326,000
National American University Holdings, Inc.	South Dakota State University	Chicoine, David L.	\$340,642
Strayer Education, Inc.	University of Virginia	Casteen III, John T.	\$703,648
University Technical Institute, Inc.	University of Arizona	Robert N. Shelton	\$633,206

## Appendix 17: Executive Compensation

## Average Highest Paid Executives by Sector

Highest Paid Public University Executives, 2009-10		
Institution	Executive	Total Compensation
Ohio State University	Gee, E. Gordon	\$1,818,911
University of Washington	Emmert, Mark A.	\$905,004
University of Texas System	Cigarroga, Francisco G.	\$813,892
University of Central Florida	Hitt, John C.	\$800,703
Pennsylvania State University System	Spainer, Graham B.	\$800,592
<b>Average</b>		<b>\$1,027,820</b>

Highest Paid Non-Profit College Executives, 2009		
Institution	Executive	Total Compensation
Drexel University	Papadakis, Constantine N.	\$4,912,127
Johns Hopkins University	Brody, William R.	\$3,821,886
University of the Pacific	DeRosa, Donald V.	\$2,357,540
Northwestern University	Bienen, Henry S.	\$2,240,775
Vanderbilt University	Zeppos, Nicholas S.	\$1,890,274
<b>Average</b>		<b>\$3,044,520</b>

Highest Paid For-Profit Education Company Chief Executive Officers, FY 2009		
Company	Executive	Total Compensation
Strayer Education, Inc.	Silberman, Robert S.	\$41,489,800
Bridgepoint Education, Inc.	Clark, Andrew S.	\$20,532,304
Career Education Corporation	McCullough, Gary E.	\$4,923,791
ITT Educational Services, Inc.	Modany, Kevin M.	\$7,628,172
DeVry, Inc.	Hamburger, Daniel	\$6,387,081
<b>Average</b>		<b>\$16,192,230</b>

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## Appendix 18: Revenue, Expenses, and Profit (Operating Income), Fiscal Years 2006-10

## Fiscal Year 2006

Privately Held Companies	Revenue	Expenses	Operating Income
Alta Colleges, Inc.	\$268,632,000	\$261,060,000	\$7,572,000
American Career College, Inc.	\$37,120,801	\$34,301,387	\$2,819,414
Anthem Education Group	\$208,811,526	\$190,675,658	\$18,135,868
Concorde Career Colleges, Inc.	\$33,112,000	\$30,472,000	\$2,640,000
ECPI Colleges, Inc.	--	--	--
Education America, Inc.	\$138,762,000	\$122,128,000	\$16,634,000
Henley Putnam LLC	\$47,555	\$1,761,185	-\$1,713,630
Herzing, Inc.	--	--	--
Med-Com Career Training, Inc.	\$3,749,101	\$2,954,379	\$794,722
Rasmussen Colleges, Inc.	\$46,431,794	\$42,753,809	\$3,677,985
The Keiser School, Inc.	\$141,796,546	\$122,899,634	\$18,896,912
Vatterott Educational Centers, Inc.	\$94,788,580	\$79,204,918	\$15,583,662
Walden E-Learning LLC	\$190,665,000	\$157,893,000	\$32,772,000

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## Appendix 18: Revenue, Expenses, and Profit (Operating Income), Fiscal Years 2006-10

## Fiscal Year 2007

Publicly Traded Companies	Revenue	Expenses	Operating Income
American Public Education, Inc.	\$69,095,000	\$54,404,000	\$14,691,000
Apollo Group, Inc.	\$2,721,812,000	\$2,089,804,000	\$632,001,000
Bridgepoint Education, Inc.	\$85,709,000	\$81,726,000	\$3,983,000
Capella Education Company	\$226,236,000	\$196,286,000	\$29,950,000
Career Education Corporation	\$1,652,209,000	\$1,507,417,000	\$144,792,000
Corinthian Colleges, Inc.	\$909,904,000	\$888,903,000	\$21,001,000
DeVry, Inc.	\$933,473,000	\$831,186,000	\$102,287,000
Education Management Corporation	\$1,363,690,000	\$1,135,316,000	\$228,374,000
Grand Canyon Education, Inc.	\$99,326,000	\$94,981,000	\$4,345,000
ITT Educational Services, Inc.	\$869,508,000	\$626,416,000	\$243,092,000
Lincoln Educational Services Corp.	\$327,774,000	\$301,881,000	\$25,893,000
National American University			
Strayer Education, Inc.	\$318,012,000	\$220,455,000	\$97,557,000
Universal Technical Institute, Inc.	\$353,370,000	\$329,620,000	\$23,750,000

Privately Held Companies	Revenue	Expenses	Operating Income
Alta Colleges, Inc.	\$292,247,000	\$294,020,000	-\$1,773,000
American Career College, Inc.	\$43,439,594	\$39,099,291	\$4,340,303
Anthem Education Group	\$227,253,078	\$225,101,922	\$2,151,156
Concorde Career Colleges, Inc.	\$102,423,000	\$94,976,000	\$7,447,000
ECPI Colleges, Inc.	--	--	--
Education America, Inc.	\$119,721,000	\$105,219,000	\$14,502,000
Henley Putnam LLC	\$181,179	\$4,346,470	-\$4,165,291
Herzing, Inc.	--	--	--
Kaplan Higher Education Corp.~	\$950,090,958	\$848,600,754	\$101,490,204
Med-Com Career Training, Inc.	\$6,175,841	\$5,457,867	\$717,974
Rasmussen Colleges, Inc.	\$59,883,879	\$48,012,870	\$11,871,009
The Keiser School, Inc.	\$168,508,560	\$148,576,893	\$19,931,667
Vatterott Educational Centers, Inc.	\$102,373,489	\$92,105,924	\$10,267,565
Walden E-Learning LLC	\$246,941,000	\$218,076,000	\$28,865,000

~ While Kaplan is owned by the publicly traded Washington Post Company, the company does not always separate out financial figures for Kaplan in its SEC Filings. The figures for Kaplan in this Appendix are from financial statements produced by the company.

## Appendix 18: Revenue, Expenses, and Profit (Operating Income), Fiscal Years 2006-10

## Fiscal Year 2008

Publicly Traded Companies	Revenue	Expenses	Operating Income
American Public Education, Inc.	\$107,147,000	\$81,459,000	\$25,688,000
Apollo Group, Inc.	\$3,133,436,000	\$2,366,060,000	\$767,376,000
Bridgepoint Education, Inc.	\$218,290,000	\$184,870,000	\$33,420,000
Capella Education Company	\$272,295,000	\$232,193,000	\$40,102,000
Career Education Corporation	\$1,651,114,000	\$1,536,270,000	\$114,844,000
Corinthian Colleges, Inc.	\$1,059,738,000	\$1,015,755,000	\$43,983,000
DeVry, Inc.	\$1,091,833,000	\$929,498,000	\$162,335,000
Education Management Corporation	\$1,684,158,000	\$1,420,620,000	\$263,538,000
Grand Canyon Education, Inc.	\$161,309,000	\$148,512,000	\$12,797,000
ITT Educational Services, Inc.	\$1,015,333,000	\$689,868,000	\$325,465,000
Kaplan Higher Education Corp.	\$796,609,234	\$721,897,968	\$74,711,266
Lincoln Educational Services Corp.	\$376,907,000	\$341,332,000	\$35,575,000
National American University	\$49,457,000	\$49,422,000	\$35,000
Strayer Education, Inc.	\$396,275,000	\$269,424,000	\$126,851,000
Universal Technical Institute, Inc.	\$343,460,000	\$332,763,000	\$10,697,000
Privately Held Companies	Revenue	Expenses	Operating Income
Alta Colleges, Inc.	\$312,266,000.00	\$293,140,000.00	\$19,126,000.00
American Career College, Inc.	\$60,753,851.00	\$53,057,530.00	\$7,696,291.00
Anthem Education Group	\$187,768,546.00	\$188,631,137.00	-\$862,591.00
Concorde Career Colleges, Inc.	\$123,682,000.00	\$109,801,000.00	\$13,881,000.00
ECPI Colleges, Inc.	--	--	--
Education America, Inc.	\$111,494,000.00	\$112,287,000.00	-\$793,000.00
Henley Putnam LLC	\$1,026,335.00	\$5,245,989.00	-\$4,219,654.00
Herzing, Inc.	--	--	--
Med-Com Career Training, Inc.	\$13,636,056.00	\$10,798,382.00	\$2,837,674.00
Rasmussen Colleges, Inc.	\$91,507,387.00	\$73,445,874.00	\$18,061,513.00
The Keiser School, Inc.	\$205,327,991.00	\$174,363,741.00	\$30,964,250.00
TUI Learning LLC	\$25,060.00	\$19,402.00	\$5,658.00
Vatterott Educational Centers, Inc.	\$112,779,093.00	\$96,137,459.00	\$16,641,634.00
Walden E-Learning LLC	\$305,424,000.00	\$234,874,000.00	\$70,550,000.00

## Appendix 18: Revenue, Expenses, and Profit (Operating Income), Fiscal Years 2006-10

## Fiscal Year 2009

Publicly Traded Companies	Revenue	Expenses	Operating Income
American Public Education, Inc.	\$148,998,000	\$109,132,000	\$39,866,000
Apollo Group, Inc.	\$3,953,566,000	\$2,887,631,000	\$1,065,935,000
Bridgepoint Education, Inc.	\$454,324,000	\$372,594,000	\$81,730,000
Capella Education Company	\$334,643,000	\$270,721,000	\$63,922,000
Career Education Corporation	\$1,833,796,000	\$1,604,836,000	\$228,960,000
Corinthian Colleges, Inc.	\$1,300,675,000	\$1,181,282,000	\$119,393,000
DeVry, Inc.	\$1,461,453,000	\$1,226,620,000	\$234,833,000
Education Management Corporation	\$2,011,458,000	\$1,692,688,000	\$318,770,000
Grand Canyon Education, Inc.	\$261,902,000	\$215,330,000	\$46,572,000
ITT Educational Services, Inc.	\$1,319,194,000	\$830,402,000	\$488,792,000
Kaplan Higher Education Corp.	\$1,186,754,249	\$1,060,578,207	\$126,176,042
Lincoln Educational Services	\$552,536,000	\$464,218,000	\$88,318,000
National American University	\$62,584,000	\$57,180,000	\$5,404,000
Strayer Education, Inc.	\$511,961,000	\$339,607,000	\$172,354,000
Universal Technical Institute, Inc.	\$366,635,000	\$347,994,000	\$18,641,000
Privately Held Companies	Revenue	Expenses	Operating Income
Alta Colleges, Inc.	\$380,446,000	\$348,079,000	\$32,367,000
American Career College, Inc.	\$79,719,363	\$59,905,469	\$19,813,894
Anthem Education Group	\$140,832,170	\$144,863,118	-\$4,030,948
Chancellor University System LLC	\$2,948,809	\$9,806,890	-\$6,858,081
Concorde Career Colleges, Inc.	\$147,099,000	\$120,187,000	\$26,912,000
ECPI Colleges, Inc.	--	--	--
Education America, Inc.	\$136,395,000	\$127,814,000	\$8,581,000
Henley Putnam LLC	\$2,062,141	\$4,172,877	-\$2,110,736
Herzing, Inc.	--	--	--
Med-Com Career Training, Inc.	\$49,708,834	\$40,972,195	\$8,736,639
Rasmussen Colleges, Inc.	\$147,262,723	\$108,911,660	\$38,351,063
The Keiser School, Inc.	\$260,710,041	\$210,291,773	\$50,418,268
TUI Learning LLC	\$48,583,000	\$32,559,000	\$16,024,000
Vatterott Educational Centers Inc.	\$141,105,665	\$114,601,529	\$26,504,136
Walden LLC	\$376,964,000	\$275,924,000	\$101,040,000



## Appendix 18: Revenue, Expenses, and Profit (Operating Income), Fiscal Years 2006-10

## Fiscal Year 2010

Publicly Traded Companies	Revenue	Expenses	Operating Income
American Public Education, Inc.	\$198,174,000	\$148,152,000	\$50,022,000
Apollo Group, Inc.	\$4,925,819,000	\$3,915,095,000	\$1,010,724,000
Bridgepoint Education, Inc.	\$713,233,000	\$496,812,000	\$216,421,000
Capella Education Company	\$426,123,000	\$331,122,000	\$95,001,000
Career Education Corporation	\$2,124,236,000	\$1,877,843,000	\$246,393,000
Corinthian Colleges, Inc.	\$1,756,192,000	\$1,515,428,000	\$240,764,000
DeVry, Inc.	\$1,915,181,000	\$1,504,279,000	\$410,902,000
Education Management Corporation	\$2,508,521,000	\$2,089,711,000	\$418,810,000
Grand Canyon Education, Inc.	\$385,625,000	\$327,449,000	\$58,176,000
ITT Educational Services, Inc.	\$1,596,529,000	\$982,980,000	\$613,549,000
Kaplan Higher Education Corp.	\$1,573,681,062	\$1,361,600,548	\$212,080,514
Lincoln Educational Services Corporation	\$639,494,000	\$516,853,000	\$122,641,000
National American University Holdings, Inc.	\$89,796,000	\$73,171,000	\$16,625,000
Strayer Education, Inc.	\$636,732,000	\$420,961,000	\$215,771,000
Universal Technical Institute, Inc.	\$435,921,000	\$389,371,000	\$46,550,000

Appendix 19: Revenue, Profit (Operating Income), and Marketing, Fiscal Year 2009

Company	Total Spending On Marketing and Recruiting	Total Spending On Profit (Operating Income)	Total Revenue	Source for Marketing Figure
Alta Colleges, Inc.	\$110,763,000	\$2,367,000	\$380,446,000	Financial Statement
American Career College, Inc.	\$10,881,143	\$19,813,894	\$79,719,363	Financial Statement
American Public Education, Inc.	\$20,479,000	\$39,866,000	\$148,998,000	Financial Statement
Anthem Education Group	\$28,003,082	-\$4,030,948	\$140,832,170	Document Request
Apollo Group, Inc.	\$935,476,000	\$1,065,935,000	\$3,953,566,000	Financial Statement
Bridgepoint Education, Inc.	\$145,721,000	\$61,730,000	\$454,324,000	Financial Statement
Capella Education Company	\$99,632,000	\$63,922,000	\$334,643,000	Financial Statement
Career Education Corporation	\$477,907,000	\$222,604,000	\$1,836,635,000	Financial Statement
Chancellor University System LLC	\$1,958,140	-\$6,858,081	\$2,948,809	Financial Statement
Concorde Career Colleges, Inc.	\$19,484,000	\$26,912,000	\$147,099,000	Financial Statement
Corinthian Colleges, Inc.	\$284,728,000	\$119,265,000	\$1,307,825,000	Financial Statement
DeVry, Inc.	\$329,397,000	\$234,833,000	\$1,461,453,000	Document Request
ECPI Colleges, Inc.	—	—	—	Document Request
Education America, Inc.	\$32,030,000	-\$8,581,000	\$136,395,000	Financial Statement
Education Management Corporation	\$435,196,000	\$319,000,000	\$2,011,458,000	Document Request
Grand Canyon Education, Inc.	\$85,405,000	\$46,572,000	\$261,902,000	Financial Statement
Henley Putnam LLC	\$1,282,635	-\$2,110,736	\$2,062,141	Document Request
Herzing, Inc.	—	—	—	Financial Statement
ITT Educational Services, Inc.	\$251,752,810	\$488,792,000	\$1,319,194,000	Document Request
Kaplan Higher Education Corporation	\$372,686,946	\$212,080,514	\$1,573,681,062	Financial Statement
Lincoln Educational Services Corporation	\$87,095,989	\$88,318,000	\$552,536,000	Document Request
Med-Com Career Training, Inc.	\$465,816	\$8,736,639	\$49,708,834	Document Request
National American University Holdings, Inc.	\$11,676,448	\$5,404,000	\$62,584,000	Document Request
Rasmussen Colleges, Inc.	\$26,628,088	\$38,351,063	\$147,262,723	Financial Statement
Strayer Education, Inc.	\$93,336,000	\$172,354,000	\$511,961,000	Financial Statement
The Kaiser School, Inc.	\$44,031,342	\$50,418,268	\$260,710,041	Document Request
TUI Learning LLC	\$3,851,000	\$16,024,000	\$46,583,000	Financial Statement
Universal Technical Institute, Inc.	\$77,348,256	\$18,641,000	\$366,635,000	Document Request
Vatterott Educational Centers, Inc.	\$17,787,320	\$26,504,136	\$141,105,665	Financial Statement
Walden LLC	\$101,182,000	\$101,040,000	\$376,964,000	Document Request
15 Publicly Traded Companies	\$3,717,837,448	\$3,179,316,514	\$16,157,395,062	Not Applicable
30 Companies Examined	\$4,160,667,527	\$3,544,209,185	\$18,310,458,675	Not Applicable

## Appendix 20: Per Student Spending on Profit, Fiscal Year 2009

Company	12-Month FTE Enrollment	Total Spending On Profit	Spending Per Student On Profit
Alta Colleges, Inc.	11,902	\$32,367,000	\$2,719
American Career College, Inc.	5,018	\$19,813,894	\$3,949
American Public Education, Inc.	24,619	\$39,866,000	\$1,619
Anthem Education Group	23,508	no profit	
Apollo Group, Inc.	420,526	\$1,065,935,000	\$2,535
Bridgepoint Education, Inc.	55,961	\$81,730,000	\$1,460
Capella Education Company	21,955	\$63,922,000	\$2,912
Career Education Corporation	152,094	\$228,960,000	\$1,505
Chancellor University System LLC	342	no profit	
Concorde Career Colleges, Inc.	9,153	\$26,912,000	\$2,940
Corinthian Colleges, Inc.	119,575	\$119,393,000	\$998
DeVry, Inc.	81,248	\$234,833,000	\$2,890
ECPI Colleges, Inc.	--	--	\$2,271
Education America, Inc.	12,958	\$28,418,031	\$2,193
Education Management Corporation	104,669	\$318,770,000	\$3,046
Grand Canyon Education, Inc.	25,197	\$46,572,000	\$1,848
Henley Putnam LLC	no data	no profit	
Herzing, Inc.	--	--	\$2,864
ITT Educational Services, Inc.	79,771	\$488,792,000	\$6,127
Kaplan Higher Education Corporation	173,844	\$212,080,514	\$1,220
Lincoln Educational Services Corporation	42,919	88,318,000	\$2,058
Med-Com Career Training, Inc.	2,505	\$8,736,639	\$3,488
National American University Holdings, Inc.	4,897	\$5,404,000	\$1,104
Rasmussen Colleges, Inc.	4,253	\$38,351,063	\$9,017
Strayer Education, Inc.	38,128	\$172,354,000	\$4,520
The Keiser School, Inc.	19,099	\$50,418,268	\$2,640
TUI Learning LLC	7,795	\$16,024,000	\$2,056
Universal Technical Institute, Inc.	34,468	\$18,641,000	\$541
Vatterott Educational Centers, Inc.	13,244	\$26,504,136	\$2,001
Walden LLC	52,756	\$101,040,000	\$1,915

**Appendix 21: Integrated Postsecondary Education Data System Per Student Spending  
on Instruction, Fiscal Year 2009**

<b>Company</b>	<b>12-Month FTE Enrollment</b>	<b>Total Spending On Instruction</b>	<b>Spending Per Student On Instruction</b>
Alta Colleges, Inc.	11,902	\$76,040,458	\$6,389
American Career College, Inc.	5,018	\$22,355,093	\$4,455
American Public Education, Inc.	24,619	\$43,926,000	\$1,784
Anthem Education Group	23,508	\$87,745,123	\$3,733
Apollo Group, Inc.	420,526	\$374,899,997	\$892
Bridgepoint Education, Inc.	55,961	\$67,850,631	\$1,212
Capella Education Company	21,955	\$36,231,609	\$1,650
Career Education Corporation	152,094	\$231,266,102	\$1,521
Chancellor University System LLC	342	\$3,725,338	\$10,893
Concorde Career Colleges, Inc.	9,153	\$42,336,000	\$4,625
Corinthian Colleges, Inc.	119,575	\$474,626,355	\$3,969
DeVry, Inc.	81,248	\$242,872,556	\$2,989
ECPI Colleges, Inc.	--	--	\$3,852
Education America, Inc.	12,958	\$37,868,130	\$2,922
Education Management Corporation	104,669	\$362,178,291	\$3,460
Grand Canyon Education, Inc.	25,197	\$54,864,986	\$2,177
Henley Putnam LLC	*	*	*
Herzing, Inc.	--	--	\$3,822
ITT Educational Services, Inc.	79,771	\$226,449,254	\$2,839
Kaplan Higher Education Corporation	173,844	\$269,527,393	\$1,550
Lincoln Educational Services Corporation	42,919	\$141,101,258	\$3,288
Med-Com Career Training, Inc.	*	*	*
National American University Holdings, Inc.	4,897	\$8,869,345	\$1,811
Rasmussen Colleges, Inc.	4,253	\$20,416,875	\$4,801
Strayer Education, Inc.	38,128	\$50,657,281	\$1,329
The Keiser School, Inc.	19,099	\$61,129,159	\$3,201
TUI Learning LLC	7,795	\$8,712,000	\$1,118
Universal Technical Institute, Inc.	34,468	\$95,759,000	\$2,778
Vatterott Educational Centers, Inc.	13,244	\$31,843,055	\$2,404
Walden LLC	52,756	\$83,034,000	\$1,574

\* data not available

## Appendix 22: Per Student Spending on Marketing, Recruiting, and Admissions, Fiscal Year 2009

Company	12-Month FTE Enrollment	Total Spending On Marketing	Spending Per Student On Marketing
Alta Colleges, Inc.	11,902	\$110,763,000	\$9,306
American Career College, Inc.	5,018	\$10,881,143	\$2,168
American Public Education, Inc.	24,619	\$20,479,000	\$832
Anthem Education Group	23,508	\$28,003,802	\$1,191
Apollo Group, Inc.	420,526	\$935,476,000	\$2,225
Bridgepoint Education, Inc.	55,961	\$145,721,000	\$2,604
Capella Education Company	21,955	\$99,632,000	\$4,538
Career Education Corporation	152,094	\$477,907,000	\$3,142
Chancellor University System LLC	342	\$1,958,140	\$5,726
Concorde Career Colleges, Inc.	9,153	\$19,484,000	\$2,129
Corinthian Colleges, Inc.	119,575	\$294,728,000	\$2,465
DeVry, Inc.	81,248	\$329,397,000	\$4,054
ECPI Colleges, Inc.	--	--	\$1,303
Education America, Inc.	12,958	\$32,030,000	\$2,472
Education Management Corporation	104,669	\$435,196,000	\$4,158
Grand Canyon Education, Inc.	25,197	\$85,405,000	\$3,389
Henley Putnam LLC	*	\$1,282,635	
Herzing, Inc.	--	--	\$2,447
ITT Educational Services, Inc.	79,771	\$251,752,810	\$3,156
Kaplan Higher Education Corporation	173,844	\$372,686,946	\$2,144
Lincoln Educational Services Corporation	42,919	\$87,095,989	\$2,029
Med-Com Career Training, Inc.	2,505	\$465,816	\$186
National American University Holdings, Inc.	4,897	\$11,676,448	\$2,384
Rasmussen Colleges, Inc.	4,253	\$26,628,088	\$6,261
Strayer Education, Inc.	38,128	\$93,336,000	\$2,448
The Keiser School, Inc.	19,099	\$44,031,342	\$2,305
TUI Learning LLC	7,795	\$3,851,000	\$494
Universal Technical Institute, Inc.	34,468	\$77,348,256	\$2,244
Vatterott Educational Centers, Inc.	13,244	\$17,787,320	\$1,343
Walden LLC	52,756	\$101,182,000	\$1,918

\* data not available

## Appendix 23: Per Student Spending on Instruction at Comparison Institutions in Other Sectors

Comparison to Public 4-Year Universities		
Company	Public Institution	Spending per Student
Alta Colleges, Inc.	University of Colorado-Boulder	\$10,365
American Career Colleges, Inc.	University of California-Irvine	\$15,039
American Public Education, Inc.	West Virginia University	\$9,862
Anthem Education Group	University of Arizona	\$11,128
Apollo Group, Inc.	University of Arizona	\$11,128
Bridgepoint Education, Inc.	University of Iowa	\$14,882
Capella Education Company	University of Minnesota	\$13,247
Career Education Corporation	University of Illinois-Champagne	\$11,776
Chancellor University System LLC	Ohio State University-Main Campus	\$15,466
Concorde Career Colleges, Inc.	University of Missouri-Columbia	\$9,762
Corinthian Colleges, Inc.	University of California-Los Angeles	\$30,331
DeVry, Inc.	University of Illinois-Champagne	\$11,776
ECPI Colleges, Inc.	University of Virginia-Main Campus	\$14,567
Education America, Inc.	N/A	
Education Management Corporation	Penn State University	\$16,507
Grand Canyon Education, Inc.	University of Arizona	\$10,336
Henley Putnam LLC	N/A	
Herzing, Inc.	University of Wisconsin	\$14,329
ITT Educational Services, Inc.	Indiana University-Bloomington	\$11,856
Kaplan Higher Education Corporation	University of Iowa	\$14,882
Lincoln Educational Services Corporation	Rutgers University	\$16,654
Med-Com Career Training, Inc.	Rutgers University	\$16,654
National American University Holdings, Inc.	University of South Dakota	\$7,431
Rasmussen Colleges, Inc.	University of Minnesota	\$13,247
Strayer Education, Inc.	University of Virginia-Main Campus	\$14,567
The Keiser School, Inc.	University of Florida	\$2,758
TUI Learning LLC	University of California-Irvine	\$15,039
Universal Technical Institute, Inc.	N/A	
Vatterott Educational Centers, Inc.	N/A	
Walden LLC	University of Minnesota	\$13,247

## Appendix 23: Per Student Spending on Instruction at Comparison Institutions in Other Sectors

Comparison to Community Colleges		
Company	Non-Profit Institutions	Spending per Student
Alta Colleges, Inc.	Community College of Denver	\$2,402
American Career Colleges, Inc.	Orange Coast College	\$3,272
American Public Education, Inc.	Blue Ridge Community College	\$2,296
Anthem Education Group	Phoenix College	\$3,344
Apollo Group, Inc.	Phoenix College	\$3,344
Bridgepoint Education, Inc.	Eastern Iowa Community College	\$3,866
Capella Education Company	N/A	
Career Education Corporation	College of DuPage	\$4,603
Chancellor University System LLC	Cuyahoga Community College	\$4,867
Concorde Career Colleges, Inc.	Johnson County Community College	\$5,801
Corinthian Colleges, Inc.	Orange Coast College	\$3,272
DeVry, Inc.	College of DuPage	\$4,603
ECPI Colleges, Inc.	Tidewater Community College	\$3,789
Education America, Inc.	Valencia Community College	\$2,617
Education Management Corporation	Community College of Allegheny County	\$4,173
Grand Canyon Education, Inc.	Phoenix College	\$3,344
Henley Putnam LLC	N/A	
Herzing, Inc.	Milwaukee Area Technical College	\$11,970
ITT Educational Services, Inc.	Ivy Tech Community College	\$2,827
Kaplan Higher Education Corporation	Eastern Iowa Community College	\$3,866
Lincoln Educational Services Corporation	Essex County College	\$3,878
Med-Com Career Training, Inc.	Essex County College	\$3,878
National American University Holdings, Inc.	Western Dakota Tech	\$3,671
Rasmussen Colleges, Inc.	Normandale Community College	\$4,208
Strayer Education, Inc.	Northern Virginia Community College	\$3,850
The Keiser School, Inc.	Broward College	\$3,217
TUI Learning LLC	N/A	
Universal Technical Institute, Inc.	Mesa Community College	\$4,091
Vatterott Educational Centers, Inc.	Saint Louis Community College	\$5,034
Walden	N/A	

## Appendix 23: Per Student Spending on Instruction at Comparison Institutions in Other Sectors

Comparison to Non-Profit 4-Year Colleges		
Company	Community College	Spending per Student
Alta Colleges, Inc.	University of Denver	\$13,954
American Career Colleges, Inc.	N/A	
American Public Education, Inc.	Mountain State University	\$3,571
Anthem Education Group	Midwestern University	\$10,219
Apollo Group, Inc.	Midwestern University	\$10,219
Bridgepoint Education, Inc.	Upper Iowa University	\$3,734
Capella Education Company	University of Saint Thomas	\$11,361
Career Education Corporation	DePaul University	\$10,018
Chancellor University System LLC	University of Dayton	\$10,416
Concorde Career Colleges, Inc.	Webster University	\$5,610
Corinthian Colleges, Inc.	University of Southern California	\$35,920
DeVry, Inc.	DePaul University	\$10,018
ECPI Colleges, Inc.	Liberty University	\$1,957
Education America, Inc.	N/A	
Education Management Corporation	University of Pennsylvania	\$38,974
Grand Canyon Education, Inc.	Midwestern University	\$10,219
Henley Putnam LLC	N/A	
Herzing, Inc.	Marquette University	\$9,141
ITT Educational Services, Inc.	Indiana Wesleyan University	\$4,193
Kaplan Higher Education Corporation	Upper Iowa University	\$3,734
Lincoln Educational Services Corporation	N/A	
Med-Com Career Training, Inc.	N/A	
National American University Holdings, Inc.	Sinte Gleska University	\$4,530
Rasmussen Colleges, Inc.	University of Saint Thomas	\$11,361
Strayer Education, Inc.	Liberty University	\$1,957
The Keiser School, Inc.	Nova Southeastern University	\$11,064
TUI Learning LLC	University of Southern California	\$35,920
Universal Technical Institute, Inc.	N/A	
Vatterott Educational Centers, Inc.	N/A	
Walden	University of Saint Thomas	\$11,361



Appendix 24: Employee Distribution by Company, Fiscal Year 2006-10

Company	Employee Type	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
American Career College, Inc.	Career Services and Placement	13	21	21	35	*
	Faculty-Full Time	56	72	73	108	*
	Faculty-Not Full Time	66	91	77	114	*
	Financial Aid Assistance	16	18	22	20	*
	Marketing and Advertising	1	1	2	3	*
	Recruiting	21	36	41	48	*
	Student Services	6	7	7	7	*
Alta Colleges, Inc.	Career Services and Placement	88	82	89	119	90
	Faculty-Full Time	203	289	238	243	339
	Faculty-Not Full Time	926	934	1,026	1,250	1,332
	Financial Aid Assistance	124	151	185	228	222
	Marketing and Advertising	13	15	34	41	42
	Recruiting	525	513	625	691	651
	Student Services	109	104	115	143	165
Anthem Education Group	Career Services and Placement	191	444	160	135	133
	Faculty-Full Time	942	782	725	583	591
	Faculty-Not Full Time	409	448	437	341	327
	Financial Aid Assistance	233	260	182	119	125
	Marketing and Advertising	~	~	~	~	~
	Recruiting	1,473	1,430	577	509	492
	Student Services	496	192	268	187	167
American Public Education, Inc.	Career Services and Placement	9	13	20	25	28
	Faculty-Full Time	77	118	117	254	261
	Faculty-Not Full Time	443	550	626	781	1,062
	Financial Aid Assistance	3	15	36	44	49
	Marketing and Advertising	9	11	17	19	25
	Recruiting	28	42	55	63	80
	Student Services	90	115	152	179	205
Apollo Group, Inc.	Career Services and Placement	0	0	0	0	0
	Faculty-Full Time	821	837	928	1,051	1,140
	Faculty-Not Full Time	18,244	18,675	20,673	26,610	31,671
	Financial Aid Assistance	~	~	~	~	~
	Marketing and Advertising	~	~	~	~	~
	Recruiting	5,406	6,215	7,494	8,233	8,137
	Student Services	2,429	2,575	2,853	3,254	3,737
Bridgepoint Education, Inc.	Career Services and Placement	*	0	1	1	1
	Faculty-Full Time	*	61	60	61	51
	Faculty-Not Full Time	*	959	1,296	2,457	2,977
	Financial Aid Assistance	*	111	174	237	284
	Marketing and Advertising	*	10	19	29	12
	Recruiting	*	418	900	1,397	1,703
	Student Services	*	132	215	328	386
Capella Education	Career Services and Placement	21	17	19	21	25
	Faculty-Full Time	122	136	158	161	165
	Faculty-Not Full Time	576	641	744	871	1,073
	Financial Aid Assistance	18	36	55	88	110
	Marketing and Advertising	74	98	119	123	136
	Recruiting	173	211	238	281	329
	Student Services	226	334	417	353	394
Career Education Corporation	Career Services and Placement	*	*	*	*	293
	Faculty-Full Time	*	*	*	*	1,867
	Faculty-Not Full Time	*	*	*	*	5,005
	Financial Aid Assistance	*	*	*	*	963
	Marketing and Advertising	*	*	*	*	66
	Recruiting	*	*	*	*	2,668
	Student Services	*	*	*	*	865

\* data not available for year

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Appendix 24: Employee Distribution by Company, Fiscal Year 2006-10

Company	Employee Type	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Chancellor University System LLC	Career Services and Placement	*	*	*	1	3
	Faculty-Full Time	*	*	*	9	20
	Faculty-Not Full Time	*	*	*	0	50
	Financial Aid Assistance	*	*	*	2	6
	Marketing and Advertising	*	*	*	0	0
	Recruiting	*	*	*	2	14
	Student Services	*	*	*	12	15
Concorde Career Colleges, Inc.	Career Services and Placement	83	75	82	86	86
	Faculty-Full Time	459	482	513	545	569
	Faculty-Not Full Time	459	479	515	520	524
	Financial Aid Assistance	80	85	100	120	114
	Marketing and Advertising	2	2	10	12	2
	Recruiting	159	177	182	209	228
	Student Services	13	14	26	29	32
Corinthian Colleges, Inc.	Career Services and Placement	407	410	451	673	784
	Faculty-Full Time	1,706	1,710	1,783	2,238	2,577
	Faculty-Not Full Time	2,538	2,381	3,000	3,365	3,857
	Financial Aid Assistance	731	908	1,032	1,250	1,628
	Marketing and Advertising	26	25	27	35	38
	Recruiting	1,478	1,604	1,868	2,270	2,811
	Student Services	229	290	384	558	711
Devry, Inc.	Career Services and Placement	141	134	142	144	231
	Faculty-Full Time	1,489	1,365	1,504	1,373	1,476
	Faculty-Not Full Time	3,903	4,713	5,080	6,053	7,349
	Financial Aid Assistance	291	342	430	603	746
	Marketing and Advertising	39	44	71	74	81
	Recruiting	1,149	1,278	1,615	2,027	2,350
	Student Services	756	807	957	1,130	1,438
ECPI Colleges, Inc.	Career Services and Placement	32	34	41	40	47
	Faculty-Full Time	290	326	308	336	532
	Faculty-Not Full Time	229	314	342	428	598
	Financial Aid Assistance	66	72	75	88	105
	Marketing and Advertising	2	3	3	3	5
	Recruiting	128	131	135	179	216
	Student Services	45	43	53	56	55
Education America, Inc.	Career Services and Placement	37	64	74	76	110
	Faculty-Full Time	453	378	414	480	547
	Faculty-Not Full Time	411	446	422	423	365
	Financial Aid Assistance	129	146	118	116	130
	Marketing and Advertising	12	13	10	12	13
	Recruiting	270	395	359	306	346
	Student Services	40	66	65	60	60
Education Management Corporation	Career Services and Placement	261	270	310	274	321
	Faculty-Full Time	1,922	2,159	3,062	3,104	3,863
	Faculty-Not Full Time	4,206	5,361	6,298	6,199	8,114
	Financial Aid Assistance	599	776	805	912	1,318
	Marketing and Advertising	303	343	417	413	492
	Recruiting	1,746	2,424	3,599	4,108	5,669
	Student Services	597	693	860	919	1,187
Grand Canyon, Inc.	Career Services and Placement	3	4	3	3	3
	Faculty-Full Time	82	102	97	97	99
	Faculty-Not Full Time	841	1,421	2,279	3,471	2,442
	Financial Aid Assistance	17	20	30	56	69
	Marketing and Advertising	18	43	54	42	41
	Recruiting	173	480	837	985	1,065
	Student Services	74	103	233	414	478

\* data not available for year

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Appendix 24: Employee Distribution by Company, Fiscal Year 2006-10

Company	Employee Type	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Henley Putnam LLC	Career Services and Placement	0	0	0	0	0
	Faculty-Full Time	0	0	0	0	0
	Faculty-Not Full Time	11	23	46	47	61
	Financial Aid Assistance	0	0	0	0	0
	Marketing and Advertising	0	1	1	3	3
	Recruiting	2	10	11	7	7
	Student Services	4	4	4	4	4
Herzing, Inc.	Career Services and Placement	9	12	13	21	21
	Faculty-Full Time	104	106	131	160	187
	Faculty-Not Full Time	100	157	182	253	283
	Financial Aid Assistance	35	40	43	66	70
	Marketing and Advertising	3	3	4	7	9
	Recruiting	64	86	95	110	119
	Student Services	28	32	34	45	46
ITT Educational Services, Inc.	Career Services and Placement	306	320	327	391	431
	Faculty-Full Time	1,221	1,206	1,276	1,610	1,682
	Faculty-Not Full Time	2,121	2,574	3,365	3,634	4,473
	Financial Aid Assistance	556	609	678	809	876
	Marketing and Advertising	12	10	11	11	12
	Recruiting	1,601	1,855	2,113	2,378	2,550
	Student Services	24	34	33	97	109
Kaplan Higher Education Corporation	Career Services and Placement	30	165	238	333	307
	Faculty-Full Time	1,328	1,478	1,587	1,782	1,705
	Faculty-Not Full Time	2,855	3,386	4,599	5,873	6,472
	Financial Aid Assistance	354	572	741	1,166	1,186
	Marketing and Advertising	96	82	107	123	136
	Recruiting	1,764	2,080	2,377	3,236	3,069
	Student Services	294	458	723	986	979
The Keiser School, Inc.	Career Services and Placement	27	39	41	51	47
	Faculty-Full Time	355	505	451	498	476
	Faculty-Not Full Time	783	832	826	952	861
	Financial Aid Assistance	266	259	276	283	265
	Marketing and Advertising	5	5	5	5	5
	Recruiting	336	333	329	391	371
	Student Services	69	67	97	105	97
Lincoln Educational Services Corporation	Career Services and Placement	69	66	81	118	122
	Faculty-Full Time	740	712	794	1,036	1,088
	Faculty-Not Full Time	492	473	678	857	855
	Financial Aid Assistance	154	166	194	257	284
	Marketing and Advertising	7	9	10	16	15
	Recruiting	486	503	520	685	711
	Student Services	21	22	38	52	47
Med-Com Career Training, Inc.	Career Services and Placement	2	3	10	10	11
	Faculty-Full Time	23	23	55	92	90
	Faculty-Not Full Time	0	0	0	0	0
	Financial Aid Assistance	3	4	6	9	10
	Marketing and Advertising	0	0	0	1	1
	Recruiting	4	6	15	16	13
	Student Services	1	2	8	10	10
National American University Holdings, Inc.	Career Services and Placement	30	32	35	45	54
	Faculty-Full Time	21	28	25	26	25
	Faculty-Not Full Time	470	570	548	730	628
	Financial Aid Assistance	68	75	77	94	112
	Marketing and Advertising	9	9	8	5	6
	Recruiting	92	93	101	137	190
	Student Services	36	36	38	47	57

\* data not available for year

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Appendix 24: Employee Distribution by Company, Fiscal Year 2006-10

Company	Employee Type	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Rasmussen Colleges, Inc.		8	12	14	20	30
	Faculty-Full Time	111	120	137	192	265
	Faculty-Not Full Time	340	416	540	549	1,214
	Financial Aid Assistance	40	60	85	115	152
	Marketing and Advertising	12	14	15	27	37
	Recruiting	111	168	215	344	448
	Student Services	80	115	175	234	303
Strayer Education, Inc.	Career Services and Placement	109	121	122	149	165
	Faculty-Full Time	182	219	254	336	423
	Faculty-Not Full Time	1,105	1,293	1,507	1,735	2,048
	Financial Aid Assistance	191	219	250	303	328
	Marketing and Advertising	27	35	40	41	40
	Recruiting	284	271	315	353	393
	Student Services	289	344	383	453	485
TUI Learning LLC	Career Services and Placement	*	~	~	~	~
	Faculty-Full Time	*	54	66	77	69
	Faculty-Not Full Time	*	148	198	221	200
	Financial Aid Assistance	*	3	7	12	17
	Marketing and Advertising	*	~	~	~	9
	Recruiting	*	~	~	11	17
	Student Services	*	~	~	~	16
Universal Technical Institute, Inc.	Career Services and Placement	33	84	81	102	129
	Faculty-Full Time	1,096	1,003	961	942	1,046
	Faculty-Not Full Time	10	7	5	2	3
	Financial Aid Assistance	207	183	183	226	229
	Marketing and Advertising	20	21	31	35	36
	Recruiting	386	328	384	412	446
	Student Services	178	150	161	172	199
Vatterott Education Holdings, Inc.	Career Services and Placement	32	29	29	33	40
	Faculty-Full Time	375	330	300	334	356
	Faculty-Not Full Time	157	224	319	299	367
	Financial Aid Assistance	57	59	62	70	82
	Marketing and Advertising	0	5	4	4	7
	Recruiting	131	96	94	104	109
	Student Services	106	136	174	187	205
Walden LLC	Career Services and Placement	0	0	1	3	*
	Faculty-Full Time	103	94	121	153	*
	Faculty-Not Full Time	992	1,096	1,580	1,848	*
	Financial Aid Assistance	18	21	30	32	*
	Marketing and Advertising	100	102	103	104	*
	Recruiting	291	358	384	475	*
	Student Services	243	368	417	471	*

\* data not available for year

~ data not available for employee type