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Harkin: Report Reveals Troubling Realities of For-Profit Schools

WASHINGTON—Today, Senator Tom Harkin (D-IA), Chairman of the Senate Health, Education, Labor and Pensions (HELP) Committee, unveiled a report on the findings of the Committee's two-year investigation of the for-profit higher education industry. The report outlines widespread problems throughout the sector, as evidenced by the thousands of pages of never-before-released internal documents that education companies submitted to the Committee at Harkin's request.

"In this report, you will find overwhelming documentation of overpriced tuition, predatory recruiting practices, sky-high dropout rates, billions of taxpayer dollars spent on aggressive marketing and advertising, and companies gaming regulations to maximize profits. These practices are not the exception -- they are the norm; they are systemic throughout the industry, with very few exceptions," Harkin said.

"Justice Louis Brandeis famously said that sunlight is the best disinfectant. As a result of this investigation, a wide range of Americans – including taxpayers, prospective students and their families – are waking up to the troubling realities of this industry. I hope that for-profit colleges will be moved by this final report to reform and focus on students' success instead of just their financial aid dollars. But that will not be enough -- real, bold legislative reforms are critical. We need to know how every student is faring. We need to ensure that resources intended for education are spent productively. We need colleges to provide the services that students need to succeed. And for companies so reliant on taxpayer revenues, we need to start requiring they demonstrate results for students, not just shareholders."

Findings of the report include:

Staggering investment of tax dollars: Taxpayers are investing more than $30 billion a year into companies that operate for-profit colleges, including 25% of Department of Education student aid funds, 37% of Post-9/11 GI Bill benefits, and 50% of Department of Defense Tuition Assistance funds. Among the 15 publicly traded for-profit college companies, the total of these sources accounts for 86% of revenues.

Sky-high tuition: Most for-profit colleges charge higher tuition than community colleges or flagship public universities for comparable programs: on average, B.A. programs cost 19% more than at flagship public universities, Associate programs four times more than at community colleges, and certificate programs cost four times more than at community colleges. Internal documents indicate that for-profit education companies set tuition to satisfy profit goals, and rarely set tuition below available federal student aid. Partially because of these high costs, 96% of for-profit students take out federal and/or private loans to cover the cost and more than one in five will default on those loans within three years.

Predatory recruiting: Internal documents, interviews with former employees, and GAO undercover recordings demonstrate that many companies train recruiters in tactics of emotional exploitation in order to get prospective students to enroll. Some companies have also been using tactics that mislead prospective students with regard to the cost of the program, the time to complete the program, the completion rates of other students, the success of other students at finding jobs, the transferability of the credit, or the reputation and accreditation of the school. Additionally, the 90-10 rule has made veterans and servicemembers prime targets for these aggressive recruiting tactics.

Too many students leave with debt, but no degree: The HELP Committee analyzed student data provided by 30 for-profit higher education companies and found that for students who enrolled in 2008-09, more than half withdrew by mid-2010. For Associate degree students, that number was even higher: 64% of 2-year students left with no degree.

Billions in taxpayer dollars diverted to marketing, executive salaries, and profits: In FY2009, the 30 companies examined devoted 22.4% of all revenues, or $4.1 billion, to marketing, advertising, recruiting and admissions staffing; 19.4%, or $3.6 billion, to profit; and 17.7%, or $3.2 billion, to student instruction. The average CEO salary was $7.3 million in 2009, more than seven times the average salary of large public university presidents, and more than twice the average at non-profit colleges and universities. The amount allocated to marketing and to profit *each* exceeded the 17.4 % spent on student instruction.

Gaming the regulatory system to maximize profits: Internal documents show that for-profit education companies use multiple strategies to comply with the letter of the 90/10 rule that both defy the spirit of regulations and lead to policies that are bad for students, including stopping the flow of needed federal student aid to certain campuses before the end of the fiscal year, or raising tuition above available federal aid to create a gap that must be filled by private loans or out-of-pocket cash or credit card payments. In order to keep student default rates under the acceptable threshold for access to federal financial aid, some companies pay vendors and employees to make thousands of calls to former students to "cure" students at risk of default. Documents obtained from four large for-profit schools show that on average, 75% of the students "cured" were placed in forbearance or deferment. While keeping the company eligible for taxpayer dollars, these practices distort default rates, and at least in some cases, these practices delay rather than avert default on balances that continue to accumulate interest.

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