Executive Summary
2012 U.S. Senate Committee Findings + 2015 Update

Overview

- A 2-year investigation by the Senate Committee on Health, Education, Labor, and Pensions found that taxpayers invest billions of dollars annually in companies that operate for-profit colleges by providing federal student aid and military and veterans educational benefits to the students these companies enroll. Yet, more than half of students who enrolled in 2008-09 left without a degree or diploma within a median of 4 months.
- For-profit colleges are owned and operated by businesses. The financial performance of these companies is closely tracked by analysts and by investors. 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 Committee examined the practices of 30 for-profit education companies, half of which were privately traded and half of which were owned by a private equity firm.
- 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 only succeed financially when students succeed.
- For-profit colleges have an important role to play in higher education. The existing capacity of nonprofit 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.
- 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.

Summary of findings from a report by the Senate Health, Education, Labor and Pensions (HELP) Committee: *For-Profit Education: The Failure to Safeguard the Federal Investment and Ensure Student Success* (July 30, 2012). Find the Executive Summary at:
http://www.help.senate.gov/imo/media/for_profit_report/ExecutiveSummary.pdf

Tuition

- Most charge higher tuition than comparable programs at community colleges and flagship state universities. BA degrees were 20 percent more costly and Associate degrees and Certificate programs were four to four- and-one half more expensive
- For-profits regularly raise tuition, and some do so to create a gap between tuition and what federal and state aid will cover, forcing students to pay cash or take out private student loans, which help schools to maintain 90/10 compliance
- Vast majority of 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

Federal Revenue

- Received an average of 79% of their revenue from federal student aid plus military and veteran educational benefits (86% at the 15 publicly-traded schools)
- Targeted veterans in order to evade the 90/10 rule
- 8 of the top 10 recipients of veterans Post-9/11 GI bill funds were for-profit education companies

Expenditure Priorities

- 15 publicly-traded schools spent 23% of revenue on marketing and recruiting ($3.7 billion) and dedicated 19.7% to profit ($3.2 billion) in 2009
- CEOs at 15 publicly-traded schools took home an average of $7.3 million in 2009, significantly outpacing compensation of community college and public school presidents

Recruiting Tactics

- Recruit as many students as possible because enrollment growth is critical to their business success, particularly for publicly traded companies whose revenue and profit expectations are closely watched by Wall Street
- Employed 35,202 recruiters, or about 1 recruiter for every 53 students attending in 2010, but relatively few career and student services staff per student
- Recruiters trained to call prospective students multiple times a day, to create a sense of urgency to enroll, and to identify and exploit vulnerabilities and pain in their live in order to persuade them to enroll
- 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

Academic Quality and Student Outcomes

- 80% of faculty on average were part-time with higher percentages at some schools, raising questions about their ability to exercise academic independence to balance the company's business interests
- 15 publicly traded schools spent between $892 and $3,962 per student annually on instruction, significantly less than public and non-profit schools but comparable to community colleges which have significantly lower tuition
- Overall, devoted less to actual instruction costs (faculty and curriculum) than to either marketing and recruiting or profit
- 54% of students who enrolled in 2008-09 had withdrawn by 2010 and 9 companies had Associate degree programs with withdrawal rates over 60 percent

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- 64% of students attending online programs left without a degree compared to 46 percent of students attending campus-based programs offered by the same companies
- Among the 15 publicly traded companies, 55% of students departed without a degree compared to 46% of students among the 15 privately held companies examined
- Student loan default rates increased across all 30 companies examined between 2005 (17.5%) and 2008 (22.6%), a 32.6% increase over 4 years and many schools devoted, significant resources to lowering their measured default rates by persuading students at risk of default to enter forbearance or deferment

2015 Update

- 3 of the 30 schools examined by the Committee have shutdown—Chancellor (2013), Anthem (2014), Drake (2015), and Corinthian (2015)
- In July 2014, Corinthian agreed to sell or close all of its campuses when ED threatened to delay the disbursement of federal student aid over Corinthian's refusal to share information related to concerns over the company's practices, including falsifying job placement data used in marketing claims to prospective student and allegations of altered grades and attendance
- In February 2015, ECMC, a loan guarantee agency and student loan debt collector, purchased 53 Corinthian campuses amid concerns about the sale to a company with no experience running a large educational institution and with a history of using aggressive debt collection tactics; pressure from advocacy groups and members of Congress did result in ECMC agreeing to several concessions, including dropping mandatory arbitration of student grievances and a 40% reduction in the principal on private student loans marketed to students by Corinthian
- CFPB filed lawsuits against both ITT (Feb. 2014) and Corinthian (Sept. 2014) over their predatory private student loan programs
- Four for-profit companies have switched from for-profit to nonprofit status—Keiser, Herzing, and Education America (Remington College)—and Grand Canyon is completing a change in status. In addition, the 53 former Corinthian campuses purchased by ECMC in February 2015 are now operating as nonprofit entities
- Several for-profit companies have settled with state attorneys general over allegations including misleading information about job placement rates, costs, and accreditation; and, aggressive recruitment practices: Bridgepoint ($7.25 million), CareerED ($10.25 million), EDMC ($3.3 million), Herzing (no settlement amount disclosed), and Alta ($4.5 million)
- One for-profit school reached a settlement with the Justice Department over allegations that it employed unqualified instructors: Kaplan ($1.3 million)
- One school reached settlements with students: Vatterott ($13 million) over allegations of misleading enrollment practices
- A 2014 Senate HELP Committee Report found that 8 of the top 10 recipients of revenue from individuals using their Post-9/11 GI Bill benefits from 2009 through 2013 were for-profit companies, including, Apollo, ITT, EDMC, DeVry, CareerED, Strayer, Corinthian, and UTI. Together, they received $2.9 billion of the $3.2 billion paid by VA to the 10 schools
- All but 1 of the 8 for-profit companies receiving the most revenue from Post-9/11 GI Bill benefits offered programs that would fail or are at risk of failing EDs proposed Gainful Employment regulations, ranging from 60% of programs at ITT to 17% at UTI. All programs pass the proposed test at Strayer

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