

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.²⁹⁶⁷

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 Pruyne, 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

²⁹⁶⁷ 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 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.

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.

Joshua Pruyn 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. Pruyn 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 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 offered 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, he also testified that there is need for indicators of student success that can be used in regulation, and that there is a significant issue of disclosure.