RASMUSSEN

DATE: May 9, 2008

TO: Michael Locke
Kristi Waite

FROM: George Fogel

SUBJECT: Student Financial Services Update

Since our last meeting on student financial service, much has transpired. The joy and pain of additional lending by the government has come to fruition. I have reached out to our top seven lenders to ensure their continued commitment to student lending and our space. I have also met with Associated Bank, a Green Bay based bank as well (who we just signed as a corporate education partner). I will be working with them to add them to our list. Working with "home-town" people has its advantages as we have seen with the Bank of North Dakota.

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We have reinforced that the "planners" job is to plan with the student how they are going to fund their education. This includes trying to get the student to maximize their current cash payments and minimize their loans. We have more success with this at some of our campuses than others as student history/expectation and community culture play in this. We can require a specific cash payment; however, if the student takes additional loans above the cost of tuition, this cash will not help our 90/10. Cash payment must be matched with lower loans so that the cash "counts." This is again where the planners must plan with the student. Susan and I are going to put together some training on how to "sell" this by the end of the month for the planner.

90/10 Issues

With the increase in loan limits and Pell that take effect on July 1st, our 90/10 will be an issue in Florida. Year-to-date, we are at 87.3%. With the increase in loans and Pell, additional national baccalaureate students, the addition of Fort Myers and overall lower tuition in Florida, it will be more difficult to meet our 90/10 objectives. If we did nothing, our projection for 90/10 for FY 08 would be 88.8% which would be reported as 89% on our audit. For FY09, with no changes in price and the increases in Pell and loans, our 90/10 would increase to 101.2%. Technically, not possible as there would be excess funds which would not allow us to go over 100%, but mathematically where we would end up.

We have looked at 90/10 various different calculations and options. Below are the options we have considered:

1. Do nothing drastic. Plan to push Title IV funds to FY2009 to manage to 87.4% for FY 2008. If Congress completes the HEA reauthorization, we would re-evaluate our options based on the impact the 90/10 language would have on us and determine our course of action (most of which are listed here). Our estimate is that we would have to push $2.0MM to FY2009. We have managed 90/10 for a soft landing previously, so I am confident we can do this easily.

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. While not desirable, this solution offers the best long term "fix" for 90/10 assuming nothing happens to the Minnesota State grant. This solution would also dramatically reduce our

default rates in Florida. The final benefit of doing this would be that we would move from the Atlanta Case team. I have built a relationship with the Atlanta team, but our ties are still much closer to Chicago.

3. Move a Minnesota branch campus to be a branch off of Ocala. Selecting a campus like Lake Elmo would be least disruptive to students as it has relatively fewer students compared to Brooklyn Park. The state grant received by Lake Elmo is sufficient to off set the 90/10 issues in Florida but it might not be able to sustain the protection on 90/10 over the long term. If Lake Elmo was moved on July 1, 2008, our 90/10 would be 87.0% FY 2008 and no money would have to be pushed. However, with the new loan limits and Pell increase over the full year, we would need to raise Florida prices 10% and Minnesota prices 7% for an FY 2009 90/10 of 86.4%. Brooklyn Park would be more disruptive, but because of the greater volume of students our 90/10 would be 84.4%. Our regulatory counsel has said this can be done, but it will require coordination with two DOE case teams and most likely an explanation of why we are doing it. Not insurmountable obstacles, but would require effort.

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% increase in price to create enough of a gap to allow us to have a 90/10 of 86.6%. We can potentially drive the 90/10 lower depending on how HEA addresses institutional grants and institutional loans. Those will also be part of the "tuition" increase strategy as well assuming they survive to the final HEA bill.

5. Pull in the Florida State Grant early to off set Title IV dollars. Keeping us again at an 87.4% 90/10 we could move an additional $1MM in FY 08 and only have to push $1MM to FY2009. The only issue with this is by accelerating this $150K into 2008, we will have off set an additional $1.2MM in Title IV next year in order to not push money to FY2010.

Recommendation

My recommendation is to do nothing in the short term. We can manage the 90/10 for a soft landing at 87.4%. We do not want to make unnecessary changes to our structure, like moving a campus to the Florida OPEID, unless absolutely necessary. Moving the campus will create unneeded attention from the DOE. Move forward with a 15% tuition increase for new students, 10% for existing students.

We will need to watch carefully HEA to see how we adjust to the final legislation. If the changes to the rules that makes 90/10 an administrative capability survives as proposed, and not a "death penalty" provision, we could run our 90/10 higher than we have traditionally. With less of a penalty, we could run this closer to the edge. Unfortunately, Reba from CCA state on a conference call Thursday that HEA reauthorization will likely stretch to the July 4th recess which lengthens the timeline for certainty on what the new rules will bring.

If there is not significant relief, i.e. the bill remains unchanged from where it is currently; we will need to make several moves in order to protect our Florida Campuses. I recommend we combine an increase in price along with moving the Lake Elmo to the Ocala OPEID. The price increase will increase the gap that will have to be funded by either direct cash payments, private or institutional loans. With the state grant that Lake Elmo receives, there will be enough "10" money to off set the Florida "90" money. Additionally, when we open additional locations in Minnesota, they should also be branches of Ocala in the future in order to secure our future as we open new campuses in Florida. Additionally, we may want to open additional campuses in Florida off of the Minnesota campuses, like Eagan for example.

Final note, 90/10 is something we will need to continue monitor on a monthly basis to make sure we are driving to where we want to land and are never surprised. To that end, it isn't just monitoring the Florida OPEID, but others as well, especially Eden Prairie. As the population of the EP OPEID shifts to national online, there will be less state grant, the EP OPEID will be the next 90/10 issue we will have to deal with if Congress doesn't fix it.