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.[2380] 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.

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.[2381] Although the two firms have since

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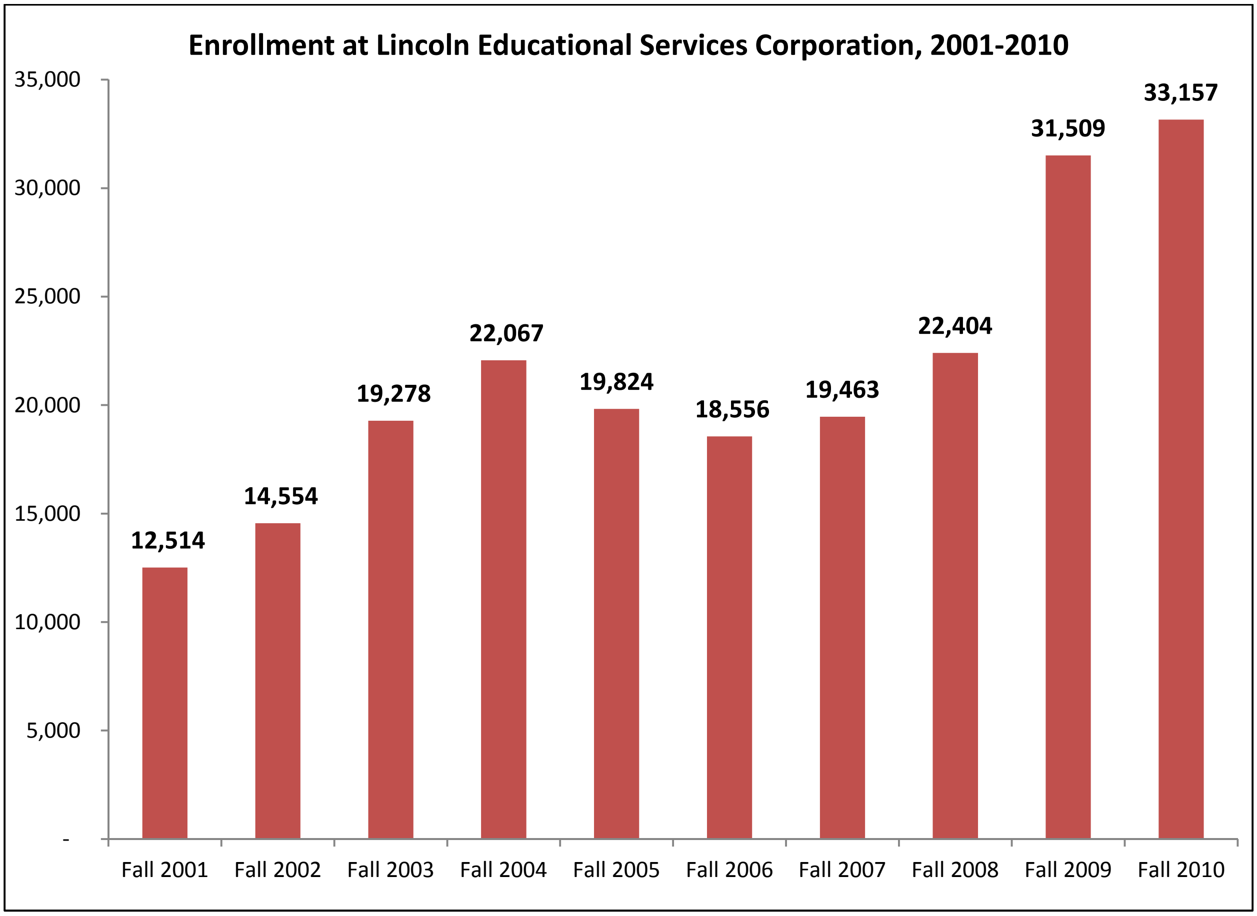
[2380] A list of campuses can be found at: http://www.lincolnedu.com/campus-program-locator (accessed April 30, 2012).
[2381] Steve Gelski, "Lincoln Educational Services IPO Debuts," *MarketWatch*, June 23, 2005 http://articles.marketwatch.com/2005-06-23/news/30750491_1_ipo-price-shares-turbulence (accessed June 25, 2012).

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, Lincoln enrolled 33,157 students.[2382] Enrollment almost tripled since the company was purchased by the private 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

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[2382] 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 also led to a drop in revenue and profit at some companies.

online and degree programs.[2383] 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." [2384] Lincoln's growth in enrollment led to growth in revenue, nearly doubling from $328 million in 2007 to $639 million in 2010.[2385]

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.[2386] 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.[2387]

In 2010, Lincoln reported 82.7 percent of revenue from title IV Federal financial aid programs.[2388] However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education programs.[2389] 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.[2390] With these funds included, 84 percent of Lincoln's total revenue was comprised of Federal education funds.[2391]

2383 Lincoln Educational Services at Signal Hill Corp Education Conference. November, 17 2011; See also, Lincoln, 2010, Q1 Investor Call, Lincoln, 2011, Q1 Investor Call.

2384 Lincoln, March 7, 2012, Q4 Investor Call.

2385 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.

2386 "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.

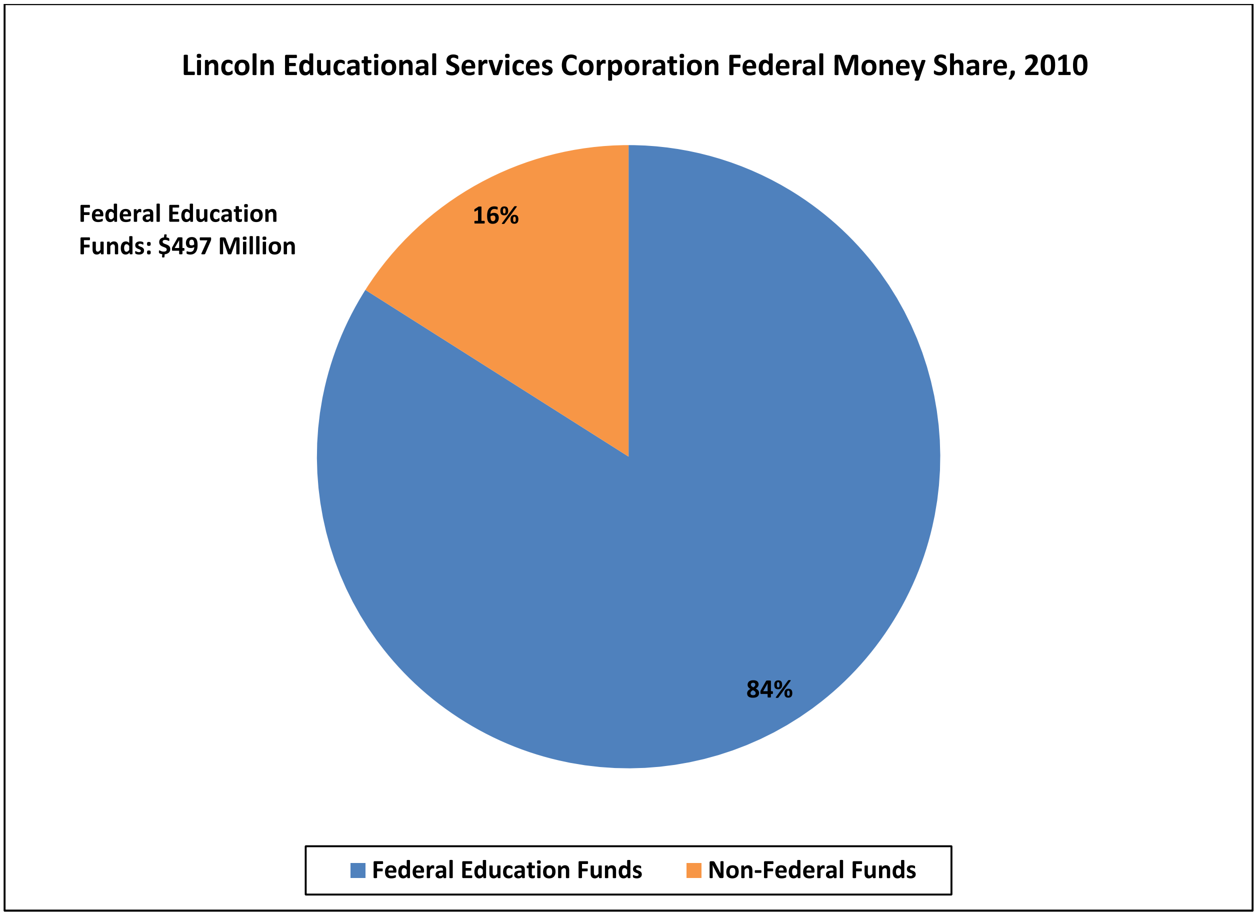
2387 Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

2388 Id.

2389 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.

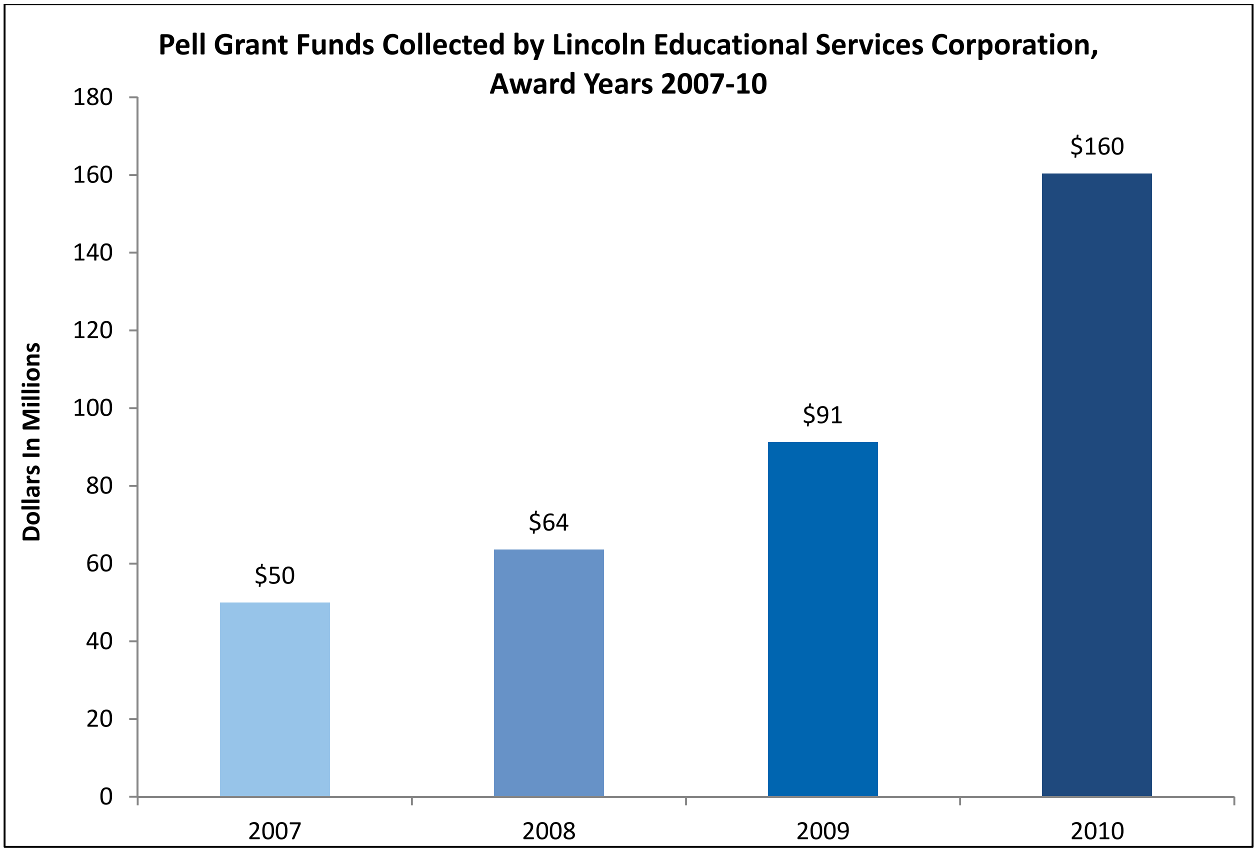
2390 Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the 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.

2391 "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.[2392] 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.

[2392] 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.



Lincoln tripled the amount of Pell grant funds it collected, from $49.9 million in 2007 to $160.3 million in 2010.[2393]

Spending

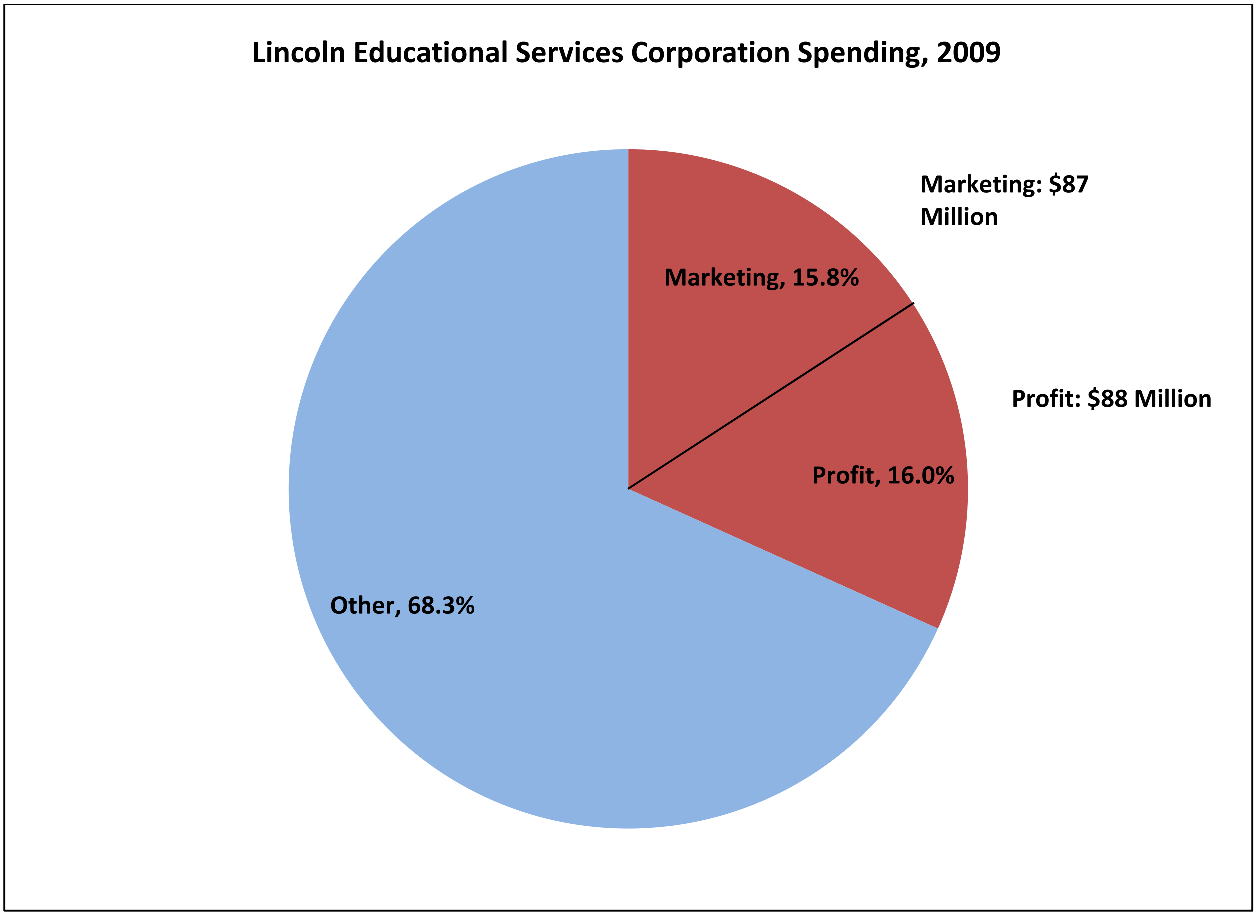
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[2394] 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).[2395] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

[2393] 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.

[2394] 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.

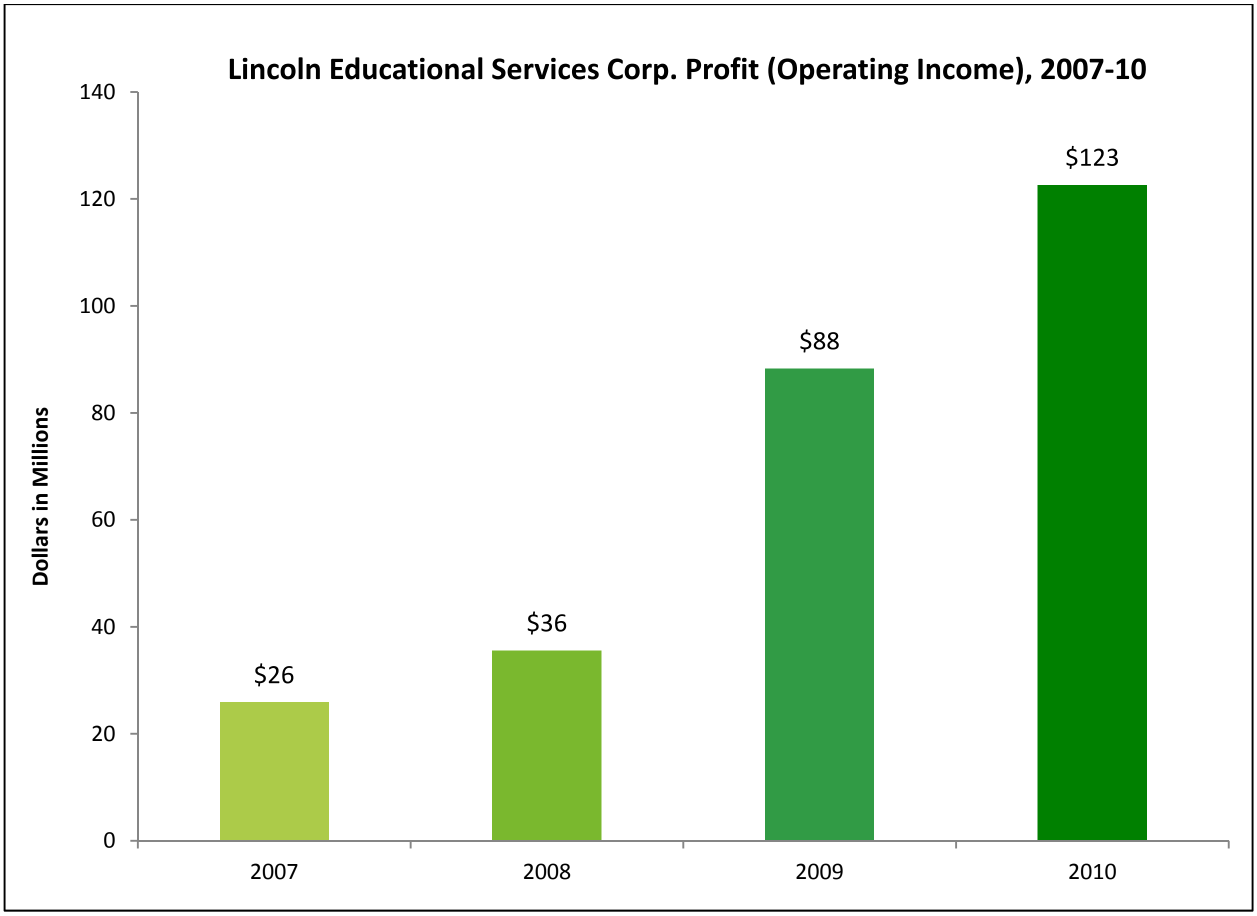
[2395] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings and information provided to the committee by the company pursuant to the committee document request of August 5, 2010. Profit is based on operating income reported in SEC filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.

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.[2396]



Lincoln devoted a total of $175 million to marketing, recruiting and profit in fiscal year 2009.[2397] 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.[2398]

[2396] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.
[2397] Id. The "other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.
[2398] 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.[2399] 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.[2400]

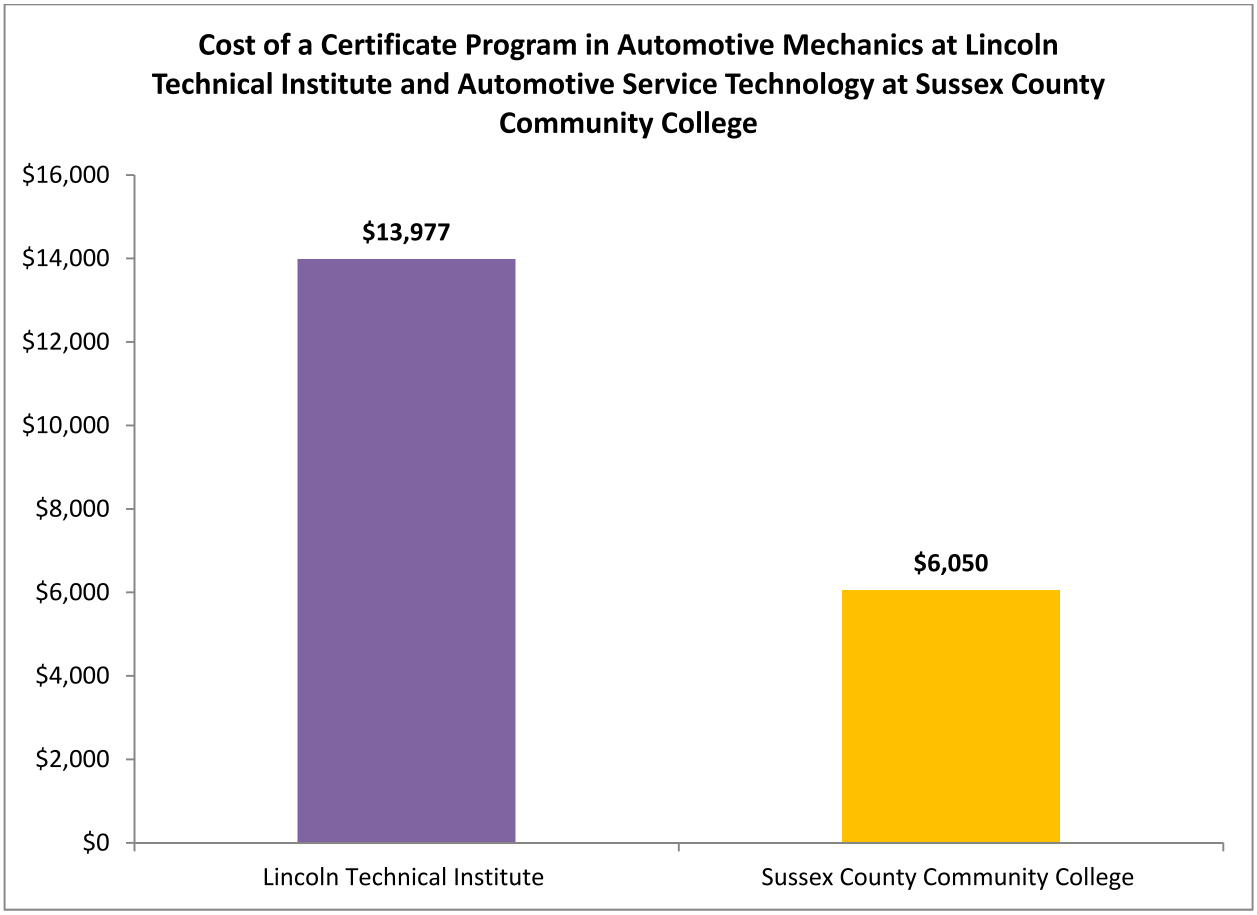
The chief executive officers of the large publicly traded, for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[2401] McAlmont's $2.1 million compensation package for 2009 is one-fifth the average for publicly traded companies. However, it is still noteworthy given 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.

[2399] 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.
[2400] Id.
[2401] 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
Total[2402]		$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.[2403] The same program at Sussex County Community College in Sussex, NJ costs $6,050.[2404]



[2402] 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.
[2403] See Appendix 14; see also, Lincoln Education, *Student Outcomes Disclosures*, http://www.lincolnedu.com/download/consumer/Union_Student-Disclosure.pdf (accessed June 25, 2012).
[2404] 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.[2405]

The company gives each campus a tuition target increase between 3 and 4 percent every year.[2406] 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.[2407] 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.[2408] 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.[2409]

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."[2410] The company's manual admonishes, "All web leads must be contacted 5 times within the first 2 days."[2411] 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.[2412]

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.[2413] They included: free application and registration, credit for military experience,

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[2405] 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.
[2406] Lincoln Educational Services, *Response to an Inquiry Regarding Tuition Increases* (LESC0000145).
[2407] Lincoln, 2011, Q2 Investor Call.
[2408] Id.
[2409] Lincoln, 2011, Q2 Investor Call.
[2410] Lincoln, *Website Lead Proce*dures (LINC0109028).
[2411] Id.
[2412] Lincoln Internal Presentation, *How to Keep Reps Productive in Q4-2006* (LINC0121064, at LINC0121065).
[2413] Lincoln Internal Presentation, *Military Road Map: Results of Assessment Process* (LINC0001436, at LINC0001438).

special refund policies, 10 percent-plus tuition reduction program, no out-of-pocket expense program and a military spouse program.[2414]

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.[2415]

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." [2416] 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.[2417]

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.[2418] 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. 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.[2419]

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.

2414 Id., at LINC0001483

2415 Lincoln, *PIP Trip Locations* (LINC0130351).

2416 Email from Better Business Bureau, January 19, 2008 (LINC0000130, at LINC0000135).

2417 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.

2418 Lincoln, Enrollment, LESC0002053, at LESC0002054.

2419 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 (accessed June 25, 2012).

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.[2420] 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 2008-9, or 4,306 students, withdrew by mid-2010. This is the second highest withdrawal rate of any company examined by the committee.[2421]

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.[2422]

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.[2423] In contrast, 1 student in 11 at public and non-profit

[2420] 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.

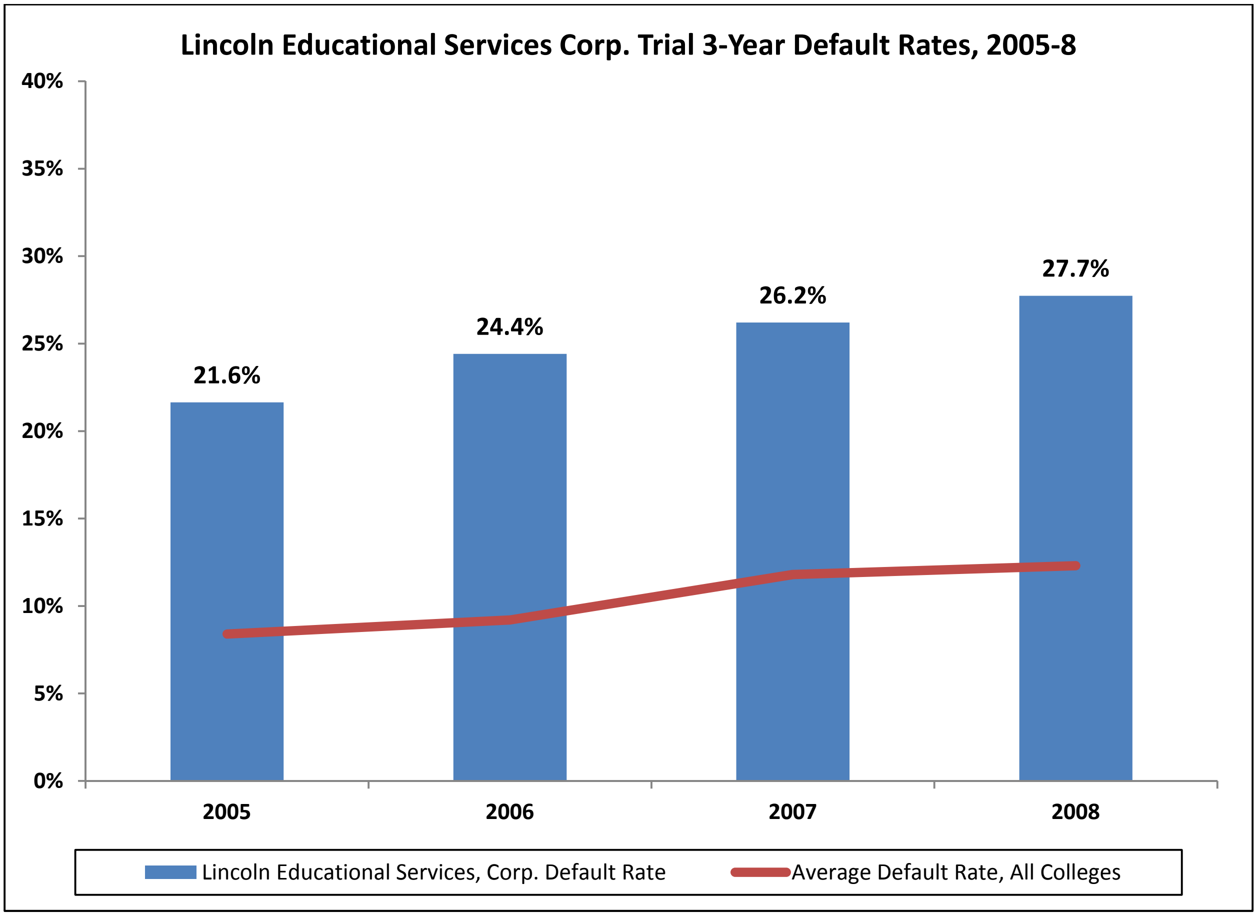
[2421] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have 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.

[2422] Direct Loan default rates, 34 CFR 668.183(c).

[2423] 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.

schools defaulted within the same period.[2424] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2425] 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.[2426]

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.[2427] 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).

2424 Id.
2425 Id.
2426 Id.
2427 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.[2428] 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.[2429] 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.[2430]

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.[2431] 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.[2432]

Complaints from Lincoln's faculty reflect concerns with the academic quality. One Lincoln instructor stated:

[2428] Lincoln Technical Institute, *Cohort Default Management Services Agreement*, February 25, 2009 (LESC0001959, at LESC0001968).

[2429] 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.

[2430] 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.

[2431] 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.

[2432] Id.

> 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![2433]

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." [2434]

Students also raised quality concerns.[2435] One student wrote:

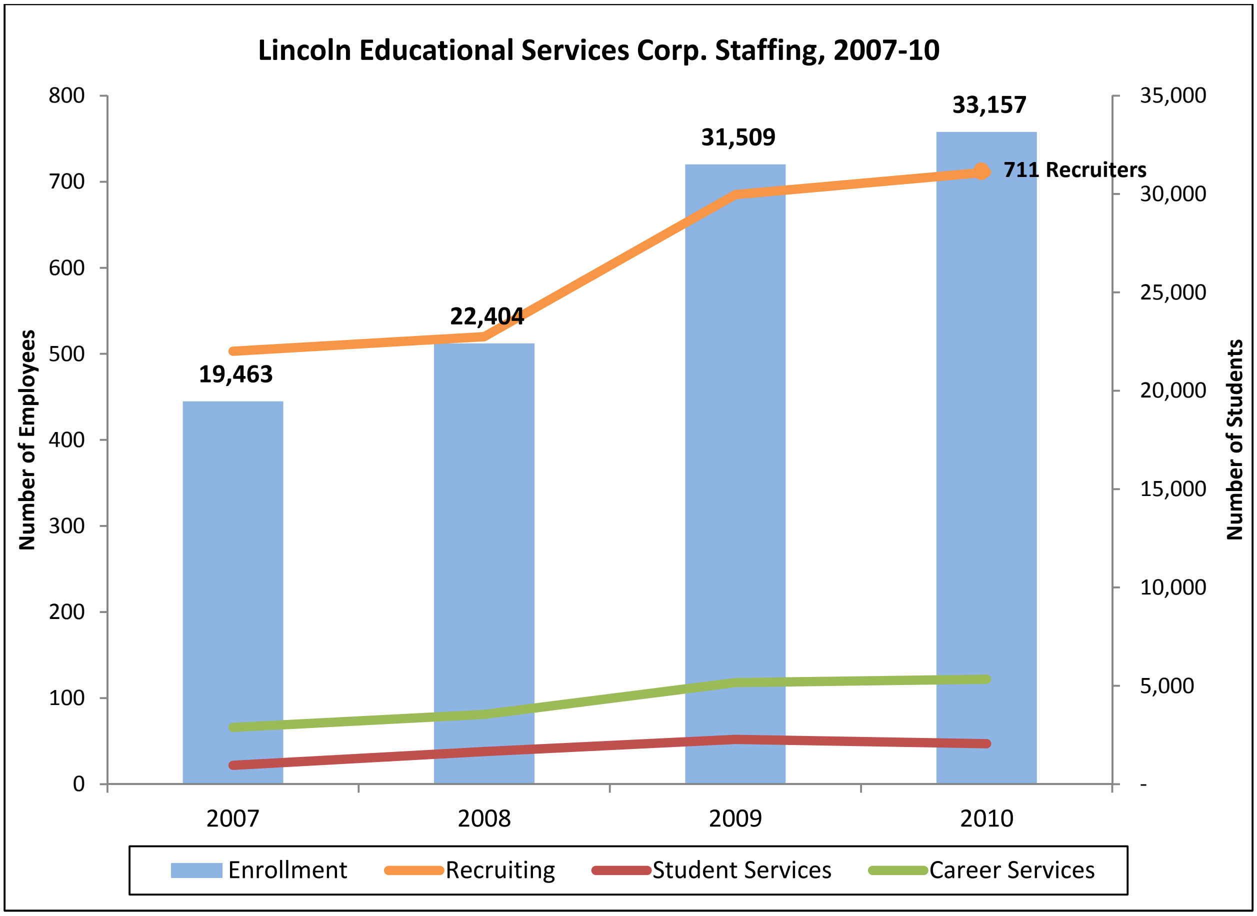
> During my first "module" the instructor was not teaching the class . . . Throughout the seven month duration of the program, there were times when no instructor was present and we were told to leave early and keep quiet due to the potential loss of federal funding… My federal aid was wasted on something that I cannot even consider an education.[2436]

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.[2437]

[2433] 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.
[2434] Id.
[2435] 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).
[2436] 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.
[2437] Email from Better Business Bureau, January 19, 2008 (LINC0000130, at LINC0000135).

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 33,157 students, Lincoln employed 711 recruiters, 122 career services employees and 47 student services employees.[2438] 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

[2438] 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.

> she never emailed me any job leads. My federal aid was wasted on something that I cannot even consider an education.[2439]

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.[2440] 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.[2441]

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.[2442]

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." [2443] The company could avoid the

[2439] 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.
[2440] Lincoln Internal Memorandum, no date (LINC0088022, at LINC0088023).
[2441] Id., at LINC0088024.
[2442] Email from Stephen Buchenot, *FW: Grand Prairie Investigation,* June 4, 2010 (LINC0088022).
[2443] *Consolidations of OPE-ID#* (LINC0001399, at LINC0001400). Note: Internal memorandum with no title or date.

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.[2444]

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 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." [2445] 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.

[2444] This requires the blessing of the Department of Education, the college's accrediting agency, and the State regulator, which usually grant these shifts.
[2445] Lincoln, *SignalHill Corp Education Conference*, November 17, 2011.