# Med-Com Career Training / Drake College of Business

## Introduction

Med-Com Career Training / Drake College of Business ("Drake") is a closely held, for-profit education company that offers Certificate and 2-year degrees in allied health and information technology fields. While private distributions to shareholders totaled $4.35 million in 2009, the company's student loan default rate was 40 percent for students entering repayment in 2008, the highest of all companies the committee examined. It is unclear whether the company delivers an educational product worth the rapidly growing Federal investment taxpayers are making in the company.

## Company Overview

Drake is a privately held, for-profit education company headquartered in Elizabeth, NJ. Founded in 1883 by William E. Drake as the Jersey City Business School, Drake originally provided professional training for secretaries, accountants, and typists. Today, Drake has two campuses in New Jersey and offers Certificate programs in medical office technology, dental assisting and Microsoft Office certification.[2446]

Drake is nationally accredited by the Accrediting Council for Independent Colleges and Schools (ACICS) and is licensed by the New Jersey Departments of Education and Labor and Workforce Development. In 2010, ACICS launched an inquiry after reports emerged that Drake had been sending recruiters to local homeless shelters.[2447]

In 2001, Drake was acquired by Med-Com Career Training, a privately held corporation. That same year the current president of Drake, Ziad Fadel, assumed leadership of the company.[2448]

Drake experienced modest enrollment growth between the fall of 2001 and the fall of 2009, growing from 280 students to 543 students. Since 2009, however, enrollment at Drake more than quadrupled, with 2,592 students enrolled in fall 2010.[2449] That represents a 1-year enrollment growth of 400 percent, one of the largest posted single year enrollment increases of any company the committee examined.[2450] This growth was largely due to opening a second campus in Newark, NJ.

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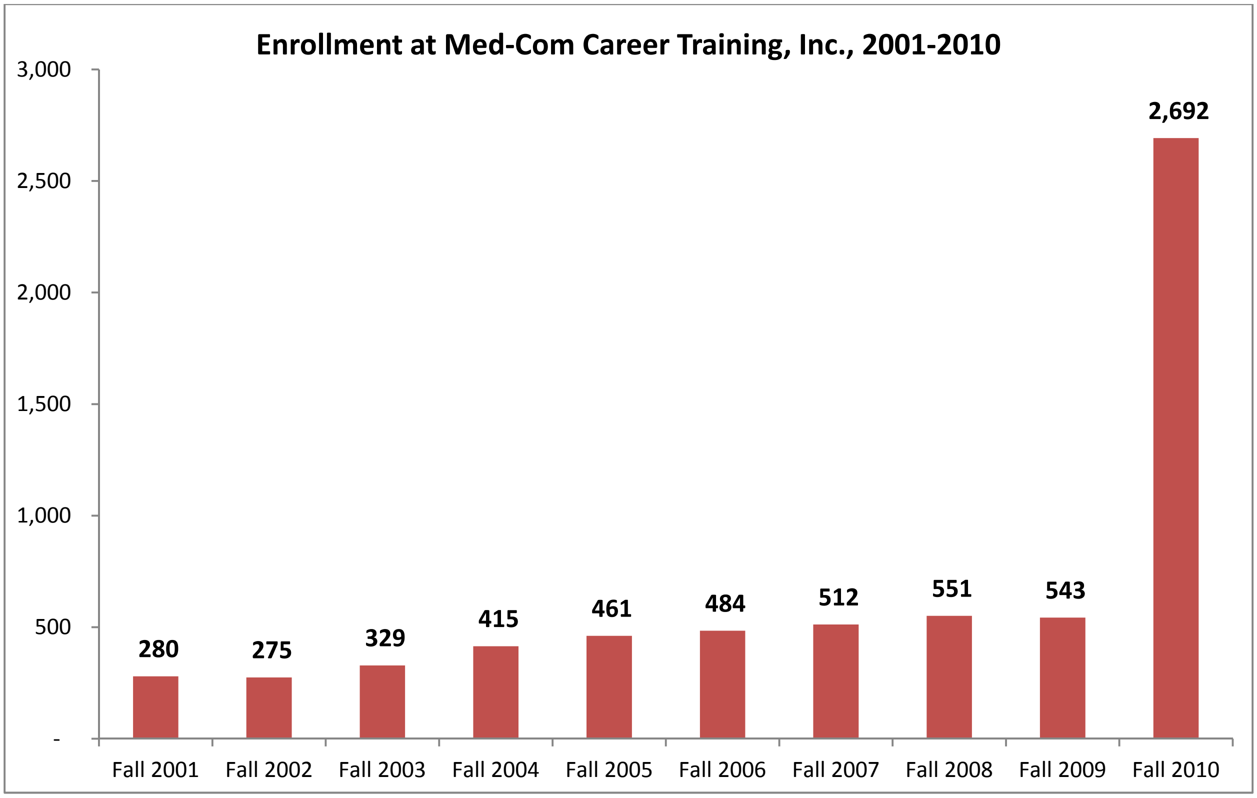
[2446] Elizabeth, NJ and Newark, NJ. Drake College of Business, Programs of Study, http://www.drakecollege.edu/academic/programs-of-study (accessed July 8, 2012).
[2447] See Kelly Heyboer and Bob Considine, "U.S. agency probes N.J.'s Drake College of Business for paying homeless students," *New Jersey Star-Ledger*, May 5, 2010. http://www.nj.com/news/index.ssf/2010/05/drake_college_to_stop_recruiti.html (accessed June 21, 2012); see also, ACICS Correspondence, August 11, 2010 (DCB-US-SEN-00004161).
[2448] See Drake College of Business, Organizational Charts and Structure, (HELP-DCB-000004 and HELP-DCB-000005).
[2449] 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). See Appendix 7.
[2450] 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 has also led to a decrease in revenue and profit at some companies.




Although Drake did not experience substantial enrollment growth between 2006 and 2009, Drake's revenue increased more than 1,200 percent over that period, from \$3.7 million in 2006 to \$49.7 million in 2009.[2451] Revenue figures for 2010 are unavailable.

## 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.[2452] 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.[2453]

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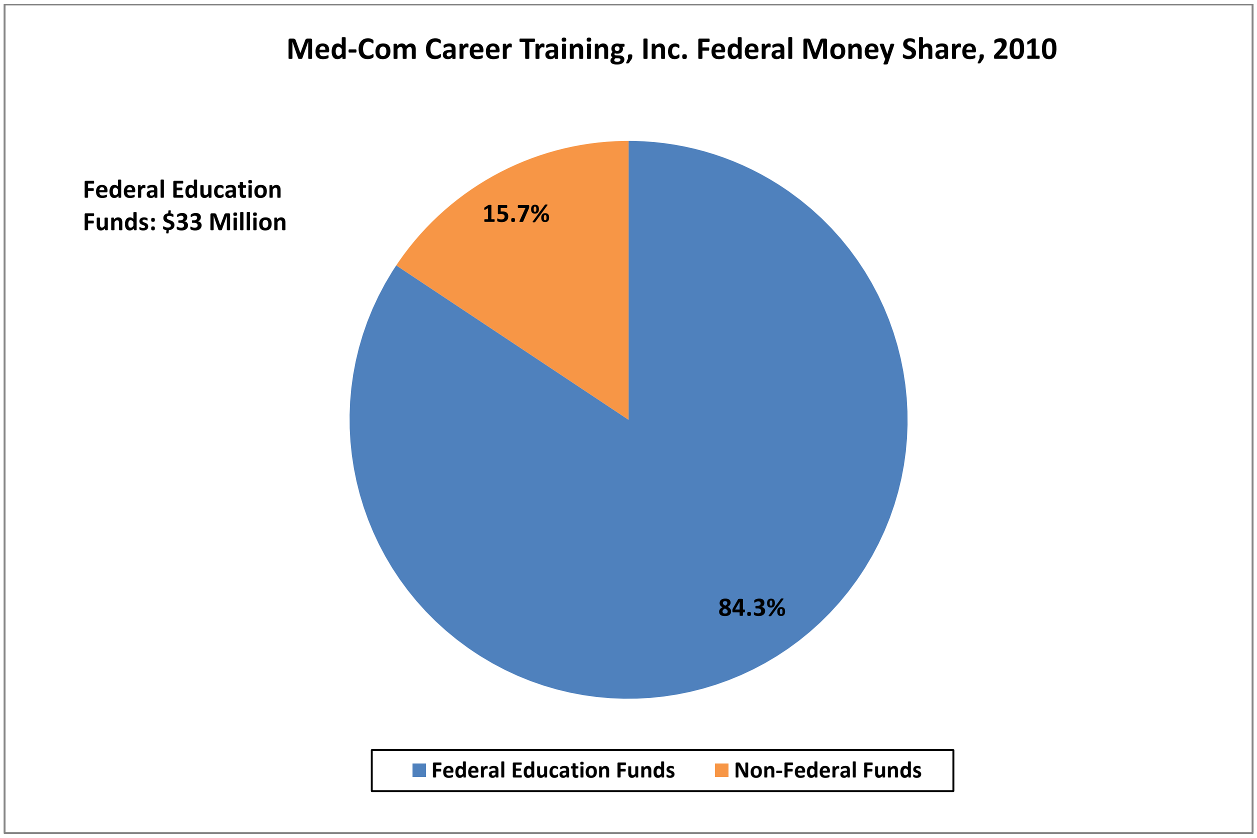
[2451] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are from the company financial statements produced to the committee. See Appendix 18.

[2452] "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 (accessed July 12, 2012), 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

[2453] 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.

In 2010, Drake reported 84.3 percent of revenue from title IV Federal financial aid programs.[2454] Of the 30 companies examined, Drake is the only company that does not collect additional Federal dollars from Departments of Defense and Veterans Affairs military education benefit programs.[2455]




The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. 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.[2456] 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.

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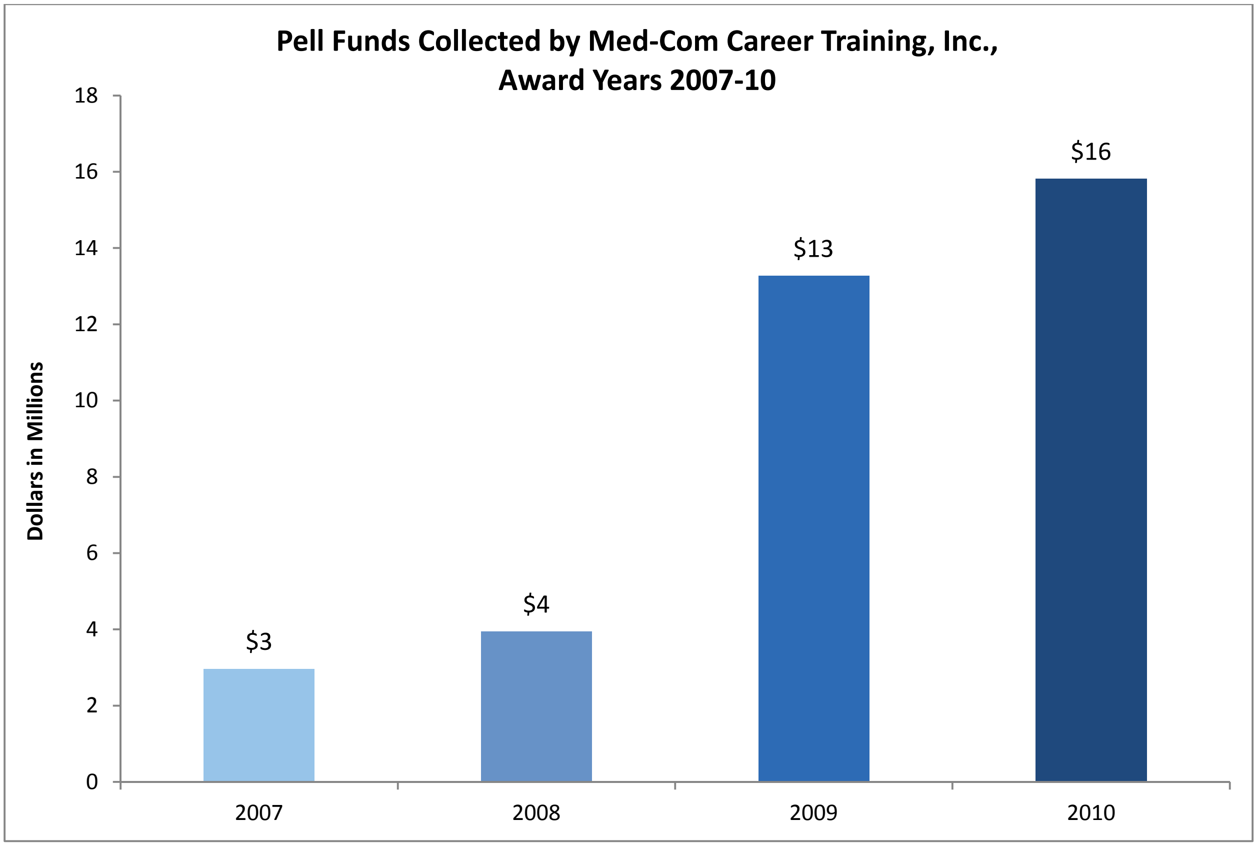
[2454] Id.

[2455] Id. 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 Med-Com could not be extrapolated from the data the company provided to the committee. "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. However, Drake did not collect any funds from these programs. See Appendix 10.

[2456] 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.




Drake tripled the amount of Pell grants it collects just in the past 3 years, from $2.96 million in 2007 to $15.8 million in 2010.[2457] Department of Education data indicate that 100 percent of students at the company's Newark, NJ campus and 90 percent of students at the Elizabeth, NJ campus received Pell grants in 2009-10.[2458]

## Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of revenues to marketing and recruiting new students and to profits. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[2459] During the same period the companies spent 23 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[2460]

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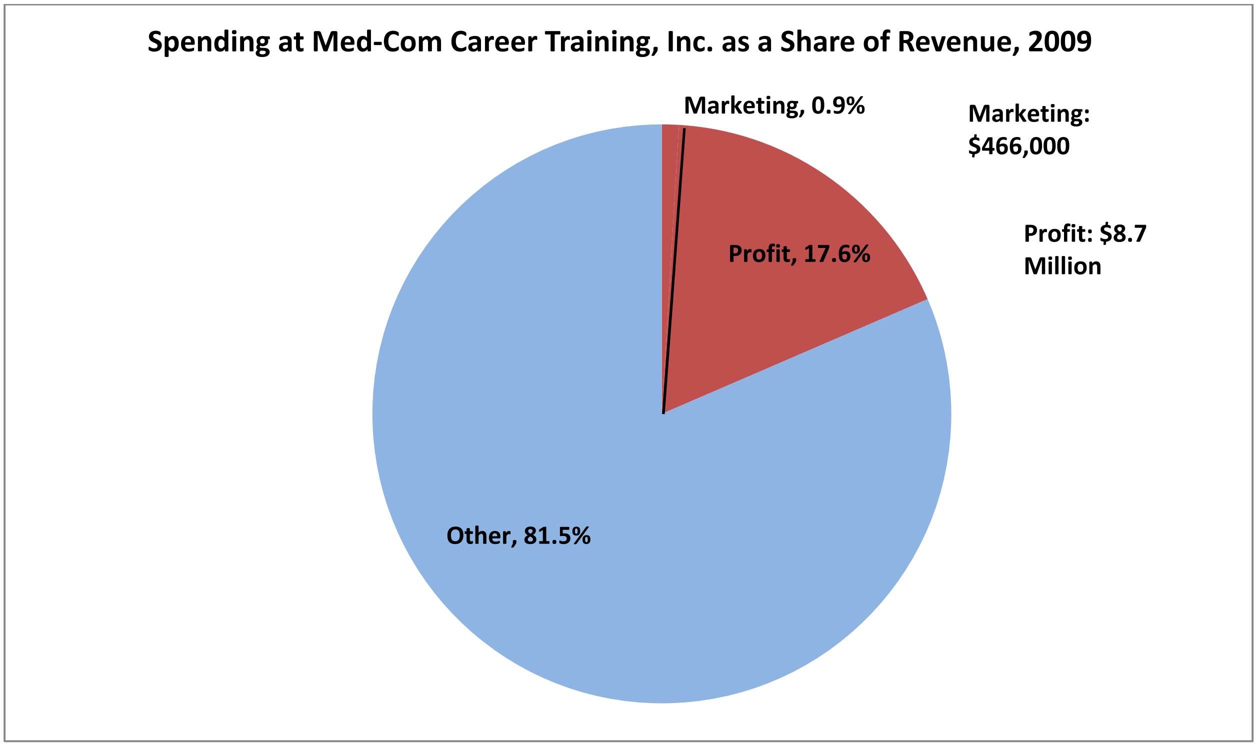
[2457] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.
[2458] IPEDS, *Data Feedback Report*, 2011.
[2459] 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.
[2460] Senate HELP Committee staff analysis of fiscal year 2009 financial statements and information provided to the committee by each company pursuant to the committee document request of August 5, 2010. Profit is based on operating income. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as

In 2009, Drake allocated 0.9 percent, or $465,816, to marketing and recruiting and 17.6 percent, or about $9 million, to profit.[2461] Out of its profit, Drake distributed $4.3 million to its small group of shareholders.[2462] In addition, Drake devoted $9.8 million to unclassified "consulting fees," an additional 20 percent of revenue.[2463]




Driven by a surge in enrollment, Drake also generated increasing profits. In 2009, Drake reported a profit of $8.7 million, 11 times more than its profit in 2006.[2464] Private distributions of profits to the company's shareholders grew more than six times, from $604,622 in 2006 to $4.3 million in 2009.[2465]

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reported to the committee. See Appendix 19. "Other" category includes administration, instruction, executive compensation, faculty salaries, student services, facilities, maintenance and bad debt expenses.

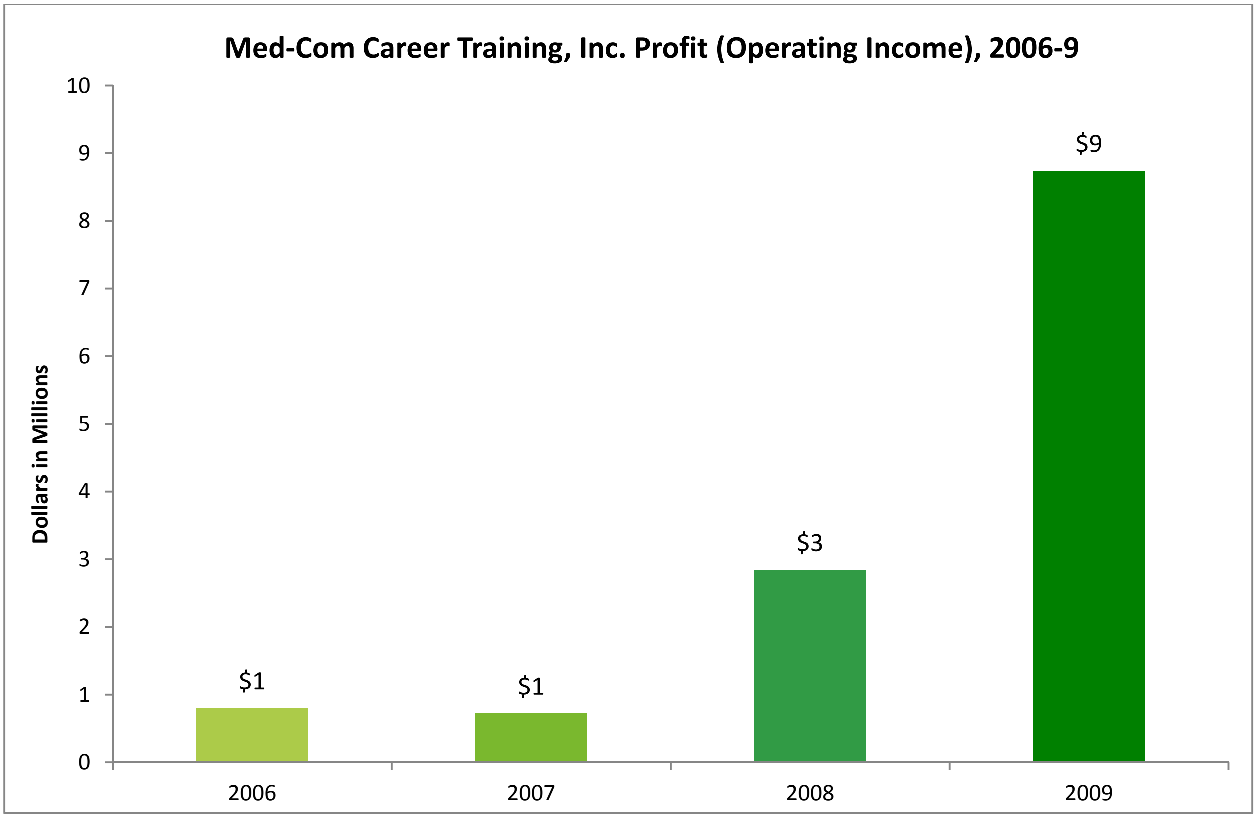
[2461] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

[2462] Id.

[2463] Harvey Glick, CPA, *Med-Com Career Training, Inc. Audited Financial Statements,* December 31, 2009 (HELP-DCB_000006) [unredacted version on file with committee].

[2464] *Med-Com Career Training, Inc. Audited Financial Statements,* 2006-9 [on file with committee]. See Appendix 18.

[2465] Id.



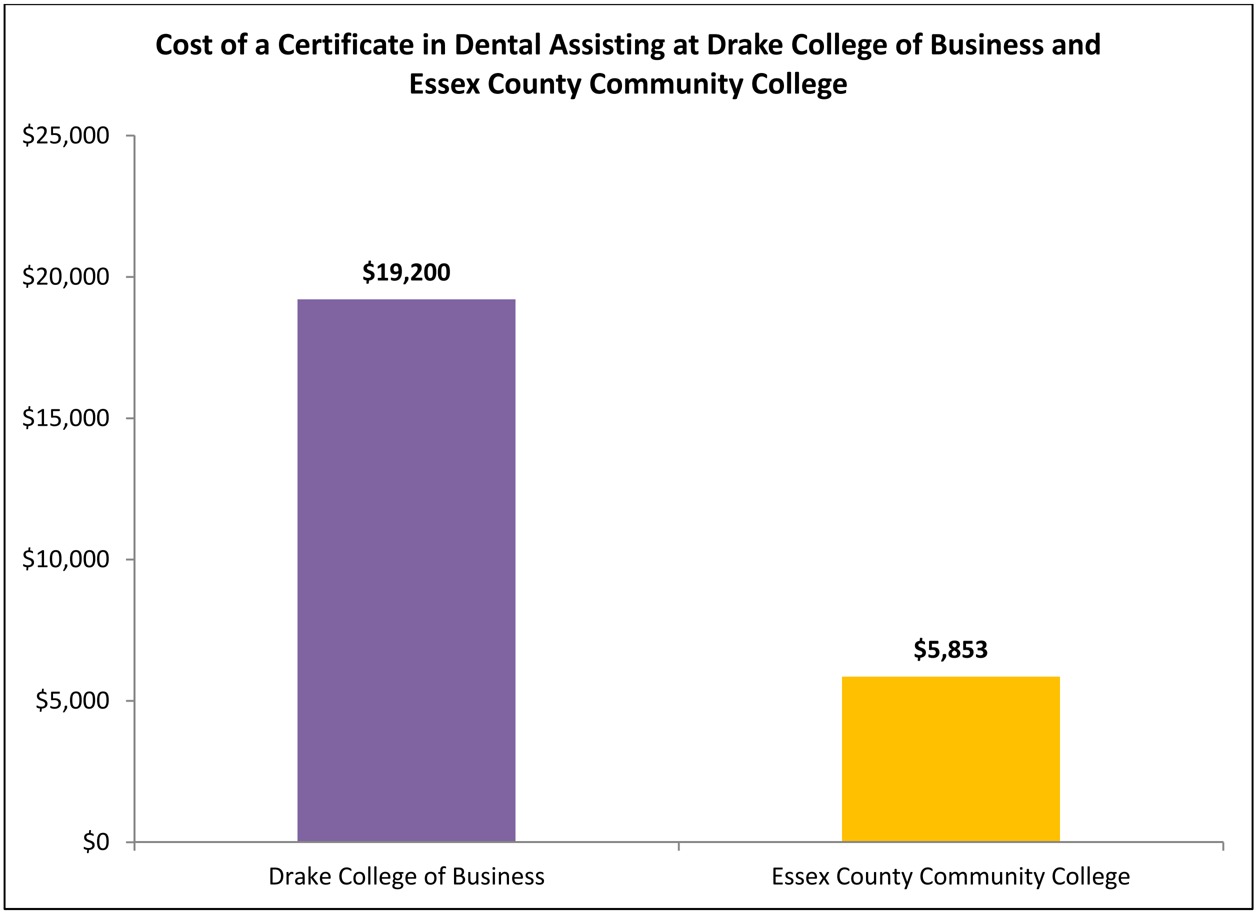

## Executive Compensation

As a privately held company, Drake is not obligated to release executive compensation figures.

## Tuition and Other Academic Charges

Compared to its public colleges offering the same programs, the price of tuition is more expensive at Drake. A Certificate in Dental Assisting at Drake costs $19,200,[2466] whereas the same Certificate at Newark's Essex County College costs $5,853.[2467]

[2466] See Appendix 14; see also, Drake College of Business, *Tuition*, http://www.drakecollege.com/financial-aid/tuition (accessed April 2, 2012). Drake identifies this as the total cost of the program, including tuition, fees, books and supplies.
[2467] See Appendix 14; see also, Essex County College, *Essex County College*, http://www.essex.edu/ (accessed June 21, 2012).




Tuition at Drake has risen dramatically in recent years.[2468] In 2006, the full cost for a Certificate in Dental Assisting was $4,375. Since that time, the company has increased tuition an average of twice each year to the current price of $19,200. In September 2008, Drake nearly doubled the cost of all of its programs.

Through its raises in the price of tuition and enrollment growth, Drake has increased its revenues more than 1,200 percent since 2006. Additionally, a growing amount of this increase has been kept by the company's owners as profit.

## Recruiting

Enrollment growth is critical to the business success of for-profit education companies. In order to meet revenue and profit expectations, for-profit colleges must recruit as many students as possible to sign up for their programs.

In 2010, *Bloomberg BusinessWeek* reported that Drake and other for-profit colleges were targeting the homeless with high pressure recruiting tactics.[2469] Beginning in 2008, Drake offered potential students a biweekly stipend of $350 for enrolling, attending class and maintaining their grades above a "C" average. At the time of the *BusinessWeek* article's publication in early 2010, one source

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[2468] Drake College of Business, *Program Costs for Each Program*, January 1, 2010 (DCB-US-SEN-00000579, at DCB-US-SEN-00000580-82).
[2469] Daniel Golden, "The Homeless at College," *Business Week*, April 30, 2010 http://www.businessweek.com/magazine/content/10_19/b4177064219731.htm (Accessed June 21, 2012).

estimated that 3/4ths of the students enrolled at Drake were receiving the stipend.[2470] Another source opined that many students would not have enrolled and would not continue to attend school without the incentive of the stipend. The company's 2009 financial statement indicates that the company spent $11.8 million, 23.7 percent of its revenue, on "Student reimbursement expenses." [2471]

Drake suspended its homeless recruiting efforts after questions were raised in 2010 after the publication of the BusinessWeek article.[2472] The company states that while the company no longer sends employees to shelters, it will still accept potential students who apply for admission who reside at shelters. Drake also changed the form of its stipend program.[2473] Drake has continued to provide students with $350 a week as a Line of Credit that will be forgiven if the student graduates on time with a GPA of 3.0 or higher.[2474] If the student does not graduate on time with a GPA of 3.0 or higher, the college states that a student must pay back the Line of Credit at 0 percent interest over 20 years.[2475]

Following the revelation of recruiting at homeless shelters and the payments to students, the college's accreditor, ACICS, initiated an inquiry into its recruiting practices.[2476] An ACICS team that visited Drake raised a number of "fundamental issues about the alignment of DCB [Drake] business practices and its Institutional Effectiveness Plan." [2477] Among other things, the visiting team was concerned with whether and how the company was measuring the effectiveness of the Line of Credit payments. The company states that all issues were fully resolved with the accrediting agency and that the agency determined that Drake demonstrated full compliance with accrediting standards.

## 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 are leaving 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 are leaving for-profit colleges with debt but no diploma or degree each year.[2478]

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." An analysis of these metrics indicates that many people who enroll in at Drake are not achieving their educational and career goals.

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[2470] Id.
[2471] Harvey Glick, CPA, *Med-Com Career Training, Inc. Audited Financial Statements,* December 31, 2009 (HELP-DCB_000006) [unredacted version on file with committee].
[2472] Kelly Heyboer and Bob Considine, "U.S. agency probes N.J.'s Drake College of Business for paying homeless students," *New Jersey Star-Ledger*, May 5, 2010. http://www.nj.com/news/index.ssf/2010/05/ drake_college_to_stop_recruiti.html (accessed June 21, 2012).
[2473] Id.; ACICS Correspondence, August 11, 2010 (DCB-US-SEN-00004161).
[2474] Drake College of Business, *Promissory Installment Note*, (DCB-US-SEN-00000626, at DCB-US-SEN-00000638).
[2475] Id., at DCB-US-SEN-00000642.
[2476] ACICS Correspondence, August 11, 2010 (DCB-US-SEN-00004161).
[2477] Id.
[2478] 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 22, 2012).

## Retention Rates

Retention data Drake provided information to the committee appears to be incorrect. A spreadsheet provided by the company indicates that 6,261 students enrolled at Drake in 2008-9.[2479] According to information the company provided to the Department of Education, the company's total enrollment in fall 2009 was 543 students, a dramatic difference between the data the company provided to the committee.

Department of Education data shows that the graduation rate of first-time full-time students at the company's Elizabeth, NJ campus is 30 percent, and the rate at the Newark, NJ campus is unavailable because the campus is new.[2480]

## Student Loan Defaults

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.[2481]

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.[2482] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2483] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2484] 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.[2485]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[2486] This change represents a 32.6 percent increase over 4 years.[2487] While Drake's default rate fell between students entering repayment in 2006 and 2007, its 2008 default rate skyrocketed, more than doubling from 17.9 percent for students entering repayment in 2007 to 40.1 percent for students entering repayment in 2008.[2488] Drake's 2008 default rate is almost double the rate for all for-profit colleges and more than triple the rate for colleges in all sectors and has the highest rate of loan default among the 30 schools the committee examined.

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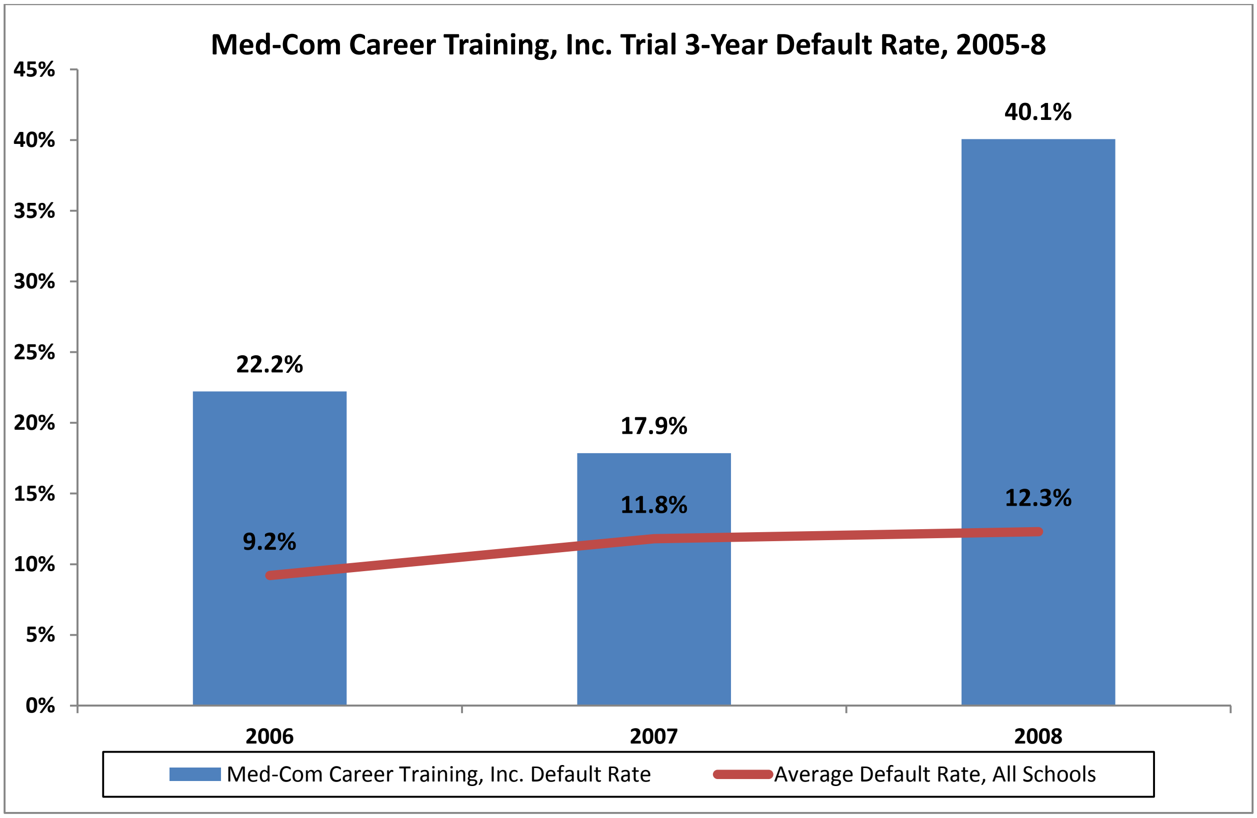
[2479] Senate HELP Committee staff analysis. See Appendix 15.
[2480] IPEDS, *2010* G*raduation Rate.*
[2481] Direct Loan Default Rates, 34 CFR 668.183(c).
[2482] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[2483] Id.
[2484] Id.
[2485] Id.
[2486] 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.
[2487] Id.
[2488] Id.




## Instruction and Academics

The quality of any college's academics is difficult to measure, however the amount that a school spends on instruction per student compared to other spending is a useful indicator. By looking at the instructional cost that all sectors of higher education report to the Department of Education, it is possible to compare spending on actual instruction.

It is difficult to obtain a clear picture of the amount that Drake spends on instruction because the company misreported its instructional spending number to the Department of Education for 2009: The company listed that it spent an amount equal to its entire operating expenditures on instruction, when in fact the company's financial statements show that a significant portion of their expenses were dedicated to non-educational line items. For 2008, when it appears Drake reported a correct number, the company spent $889 per student on instruction.[2489] In contrast, public and non-profit schools, generally spend a higher amount per student on instruction. Other New Jersey-based colleges spent, on a per student basis, $16,654 at Rutgers and $3,878 at Essex County Community College.[2490]

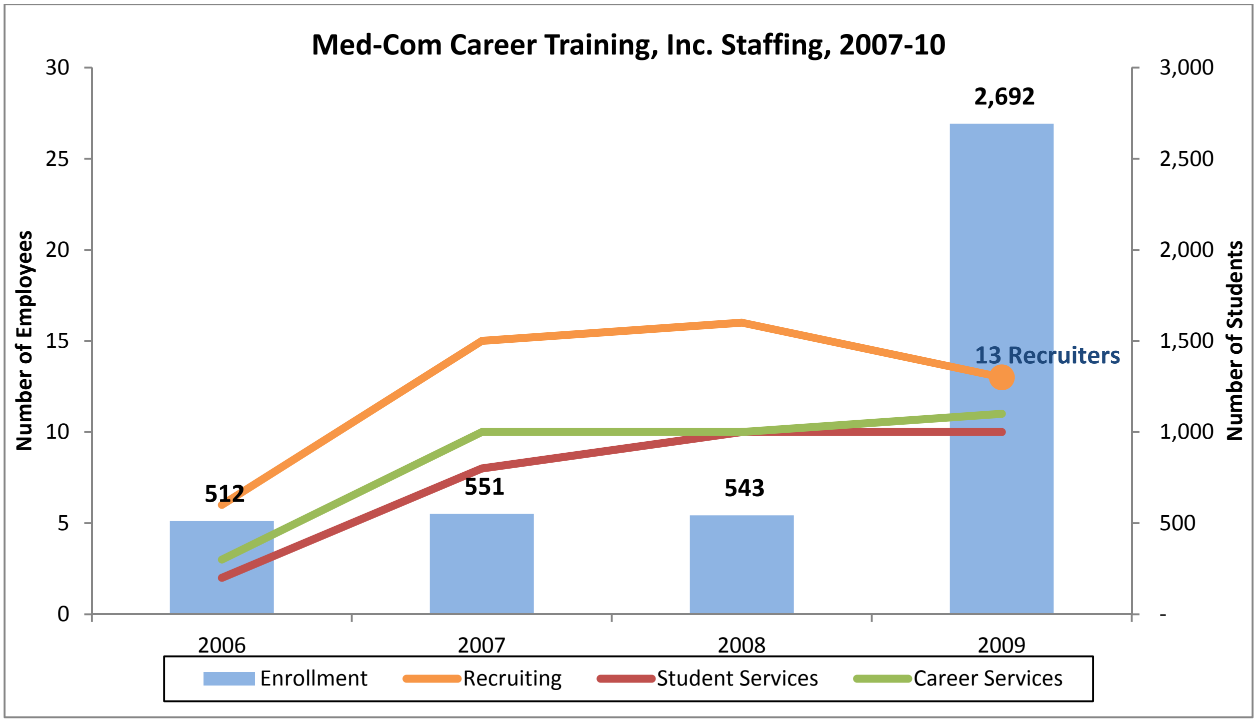
[2489] Senate HELP Committee staff analysis. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students."

[2490] 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.

Drake spent $186 on marketing and $3,488 on profit per student in 2009.[2491] The company also spent $3,920 per student on unclassified "Consulting fees."

## Staffing

The committee found that while for-profit education companies employed large numbers of recruiters to enroll new students, the companies had far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 2,692 students, Drake employed 13 recruiters, 11 career services employees, and 10 student services employees.[2492] That means each career counselor was responsible for 245 students and each student services staffer was responsible for 269 students. Meanwhile, the company employed one recruiter for every 207 students.




While overall there is not a large disparity in the number of recruiting and student and career service staff Drake employs, the number of student and career services staff remained constant as enrollment surged at Drake. Information provided by the company indicates that Drake hired no additional student services staff and only one additional career services employee between 2009 and 2010, even though the college's enrollment increased nearly 400 percent over that period.

## Conclusion

Drake is a small but highly profitable education company. Nearly all of Drake's revenue is derived from Federal taxpayer funds, and most of the company's profit is funneled to the company's

[2491] For this calculation, the committee relied on the instruction amount Drake reported in its financial statement rather than the number the company reported to IPEDS. The amount reported to IPEDS is incorrect. See Appendix 20 and Appendix 22.
[2492] 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.

small group of shareholders. Moreover, Drake increased its tuition tremendously over the past few years; its Certificate program tuition is approximately three times higher than tuition at nearby community colleges.

The company's enrollment growth nearly quadrupled in a single year between 2009 and 2010. With this growth in enrollment, the amount of Federal financial aid dollars flowing to the school also increased. And yet, a staggering share Drake students, more that 40 percent of those who entered repayment in 2008, were unable to make payments on their student loans and fell into default within 3 years of leaving the school. These alarming outcomes are particularly troubling because they indicate that students, some of whom Drake admitted recruiting from homeless shelters, are left with high amounts of debt and without the earning capacity necessary to pay for the cost of their education. Taken together, these issues cast serious doubt on the notion that Drake's students are receiving an education that affords them adequate value relative to the cost, and call into question the $33 million investment American taxpayers made in the company in 2010.