Rasmussen College, Inc.

Introduction

Rasmussen Colleges, Incorporated ("Rasmussen") has experienced significant enrollment growth yet has little to show for it, as the company has some of the worst student retention rates of any company examined by the committee. At the same time that 63 percent of students are leaving without completing a degree, taxpayers are investing approximately $185 million a year in the company.

Company Overview

Rasmussen is a privately held, for-profit college that was founded by Walter Rasmussen in 1900. Originally named the Rasmussen Practical School of Business, the first campus was located in Stillwater, MN. Rasmussen is now headquartered in Minnetonka, MN.

Rasmussen has 22 campuses, along with an online division, and offers degree and Certificate programs in health sciences, business, education, justice studies, nursing, and technology and design.[2592] Rasmussen internal documents estimate that approximately 55 percent of students are enrolled online.[2593] Thirty-four percent of Rasmussen students are enrolled in allied health programs, 30 percent in business, 17 percent in justice studies, 11 percent in technology and design, 5 percent in education, and 3 percent in nursing.[2594]

Like more than half of the regionally accredited brands the committee examined, Rasmussen is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC).

The current president of Rasmussen College is Kristi A. Waite, the granddaughter of founder Walter Rasmussen, who was appointed in 1997. However, while retaining a smaller ownership interest, her family no longer controls the company.[2595] Rasmussen is an example of how private equity involvement has influenced a formerly family-owned school.

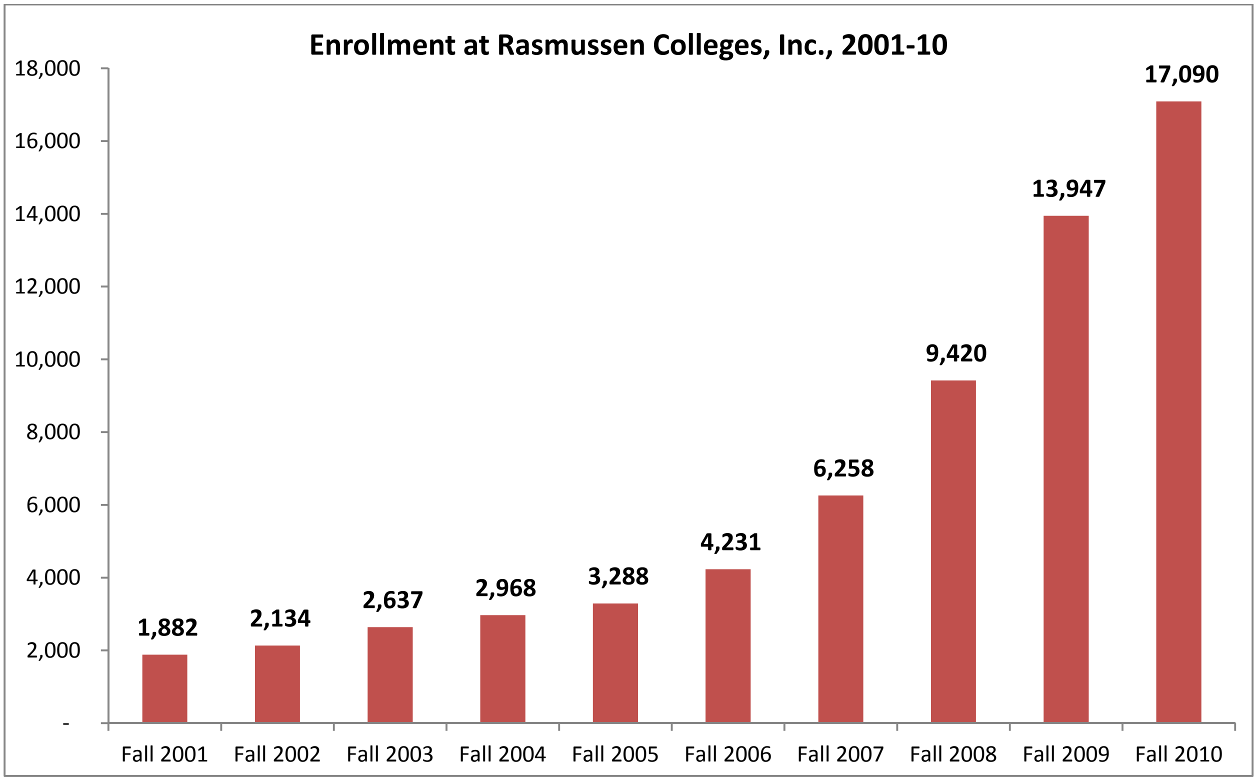
In 2003, Rasmussen was acquired by a company named Collegis after Collegis sold off their higher education IT business.[2596] A private equity firm, the Frontenac Company, made the initial investment to acquire Collegis from its founder and was invested in Rasmussen until 2008.[2597] Current CEO Michael Locke previously served as senior vice president for Collegis.

While Frontenac has sold off its remaining interest, it continues to have a large influence on the company. Robert E. King serves as the chairman of Rasmussen and is the former CEO of The Newtrend Group and Deltak, both prior Frontenac investments, and has partnered with Frontenac in five investments over the last 35 years.[2598] Robert King "entities" own more than a quarter of Rasmussen.[2599]

[2592] For list of campuses see http://www.rasmussen.edu/locations/ (accessed May 12, 2012).
[2593] Rasmussen Internal Presentation, *Rasmussen Overview* (RAS000016400, at RAS000016417).
[2594] Rasmussen Internal Presentation, 2012, *Rasmussen College Vision 2012* (RAS00021447, at RAS000021454).
[2595] Rasmussen Internal Presentation, *Rasmussen Overview* (RAS00016400). Note that all ownership information are based on internal Rasmussen documents and have potentially changed since documents were produced.
[2596] Rasmussen Internal Presentation, *Rasmussen Overview* (RAS00016400, at RAS00016403).
[2597] http://www.frontenac.com/previousinvestments.aspx?cid=9&selectionId=1
[2598] http://www.frontenac.com/previousinvestments.aspx?cid=9&selectionId=1

King also served as a member of the DeVry University board for 16 years. James E. Cowie of Frontenac continues to serve on Rasmussen's board of directors.[2600]

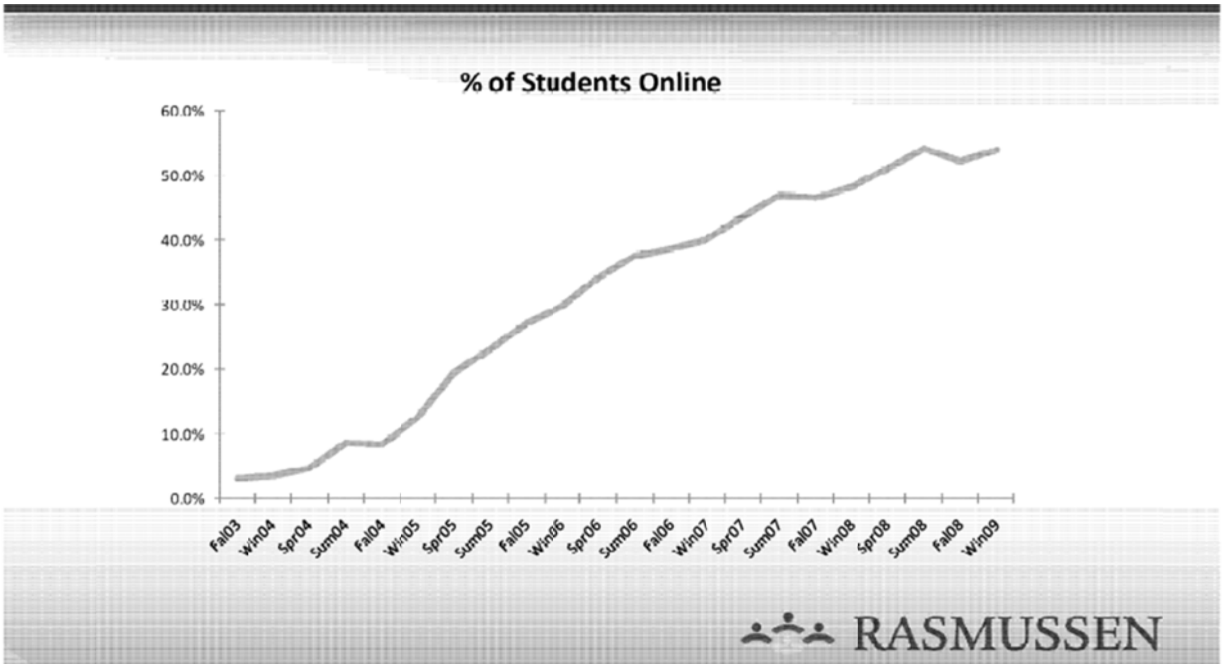
Frontenac is not the only private equity influence on Rasmussen. Former board member and chairman of the private equity firm Madison Dearborn Partners, John Canning Jr., and related "entities" own a substantial portion of Rasmussen.[2601]



The company has grown significantly over the last decade with enrollment increasing more than 500 percent since the company's 2003 purchase, growing from 2,637 students to 17,090 students in 2010.[2602] The percentage of students attending online has also increased fairly rapidly since 2003.

2599 Rasmussen Internal Presentation, *Rasmussen Overview* (RAS000016400, at RAS00016445). (On file with committee.)
2600 http://www.frontenac.com/previousinvestments.aspx?cid=9&selectionId=1.
2601 Rasmussen Internal Presentation, *Rasmussen Overview* (RAS000016400, at RAS00016445). (On file with committee.)

2602 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 drop in revenue and profit at some companies. See Appendix 7.



The growth in enrollment has led to growth in revenue. In just 3 years, revenue at Rasmussen grew rapidly, more than tripling from $46.4 million in 2006 to $147.3 million in 2009.[2603]

An internal company presentation states the company's goal as "to be the premier provider of online educational experiences delivering Associate, Bachelor's, and Graduate degree programs through its network of online and local community campuses with $500 [million] in revenue in 2014." [2604]

The company's strategy for achieving this goal includes the following:[2605]

• Grow mature campuses 20 percent+ with new student markets (HS) and new programs.

• Open 2-3 new campuses per year.

• Expand Rasmussen online 75 percent+ per year.

• Manage Expense Growth to be less than revenue growth by a minimum of 5 percent.

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs.[2606] Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to

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[2603] 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.
[2604] Rasmussen Internal Presentation, *Rasmussen Overview* (RAS000016400, at RAS00016402).
[2605] Id. at RAS00016407
[2606] "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 U.S.C. §1070 et seq.

for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2607] 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.[2608]

In 2010, Rasmussen reported 78.8 percent of revenue from title IV Federal financial aid programs.[2609] However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education programs.[2610] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 1.8 percent of Rasmussen's revenue, or $4.1 million.[2611] With these funds included, 80.6 percent of Rasmussen's total revenue was comprised of Federal education funds.[2612]

[2607] 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.

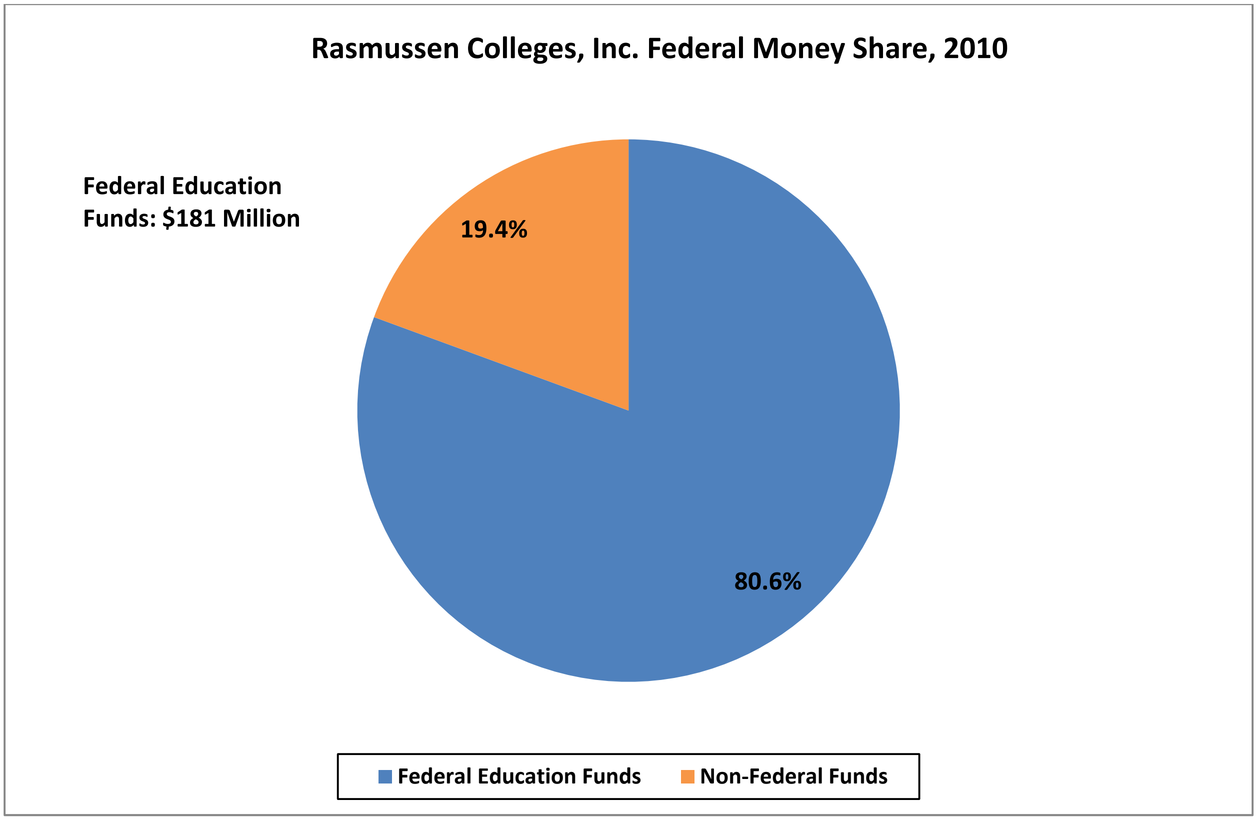
[2608] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[2609] Senate HELP Committee staff analysis of fiscal 2010 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 provided by the Department of Education on October 14, 2011. See Appendix 9.

[2610] 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 Rasmussen could not be extrapolated from the data the company provided to the committee.

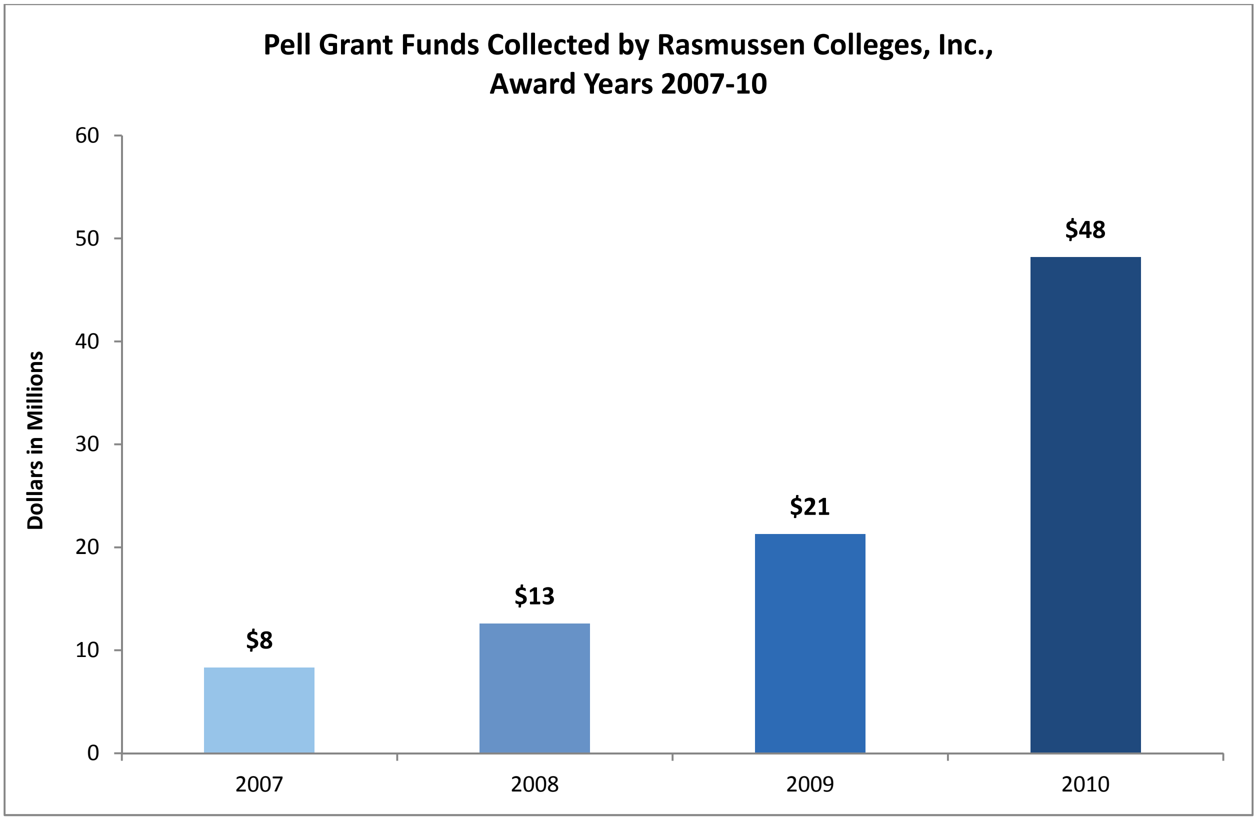
[2611] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 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.

[2612] "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.



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.[2613] 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.

[2613] 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.



Rasmussen increased the amount of Pell grant funds it collected by 480 percent in just 3 years, from $8.3 million in 2007 to $48 million in 2010.[2614]

Spending

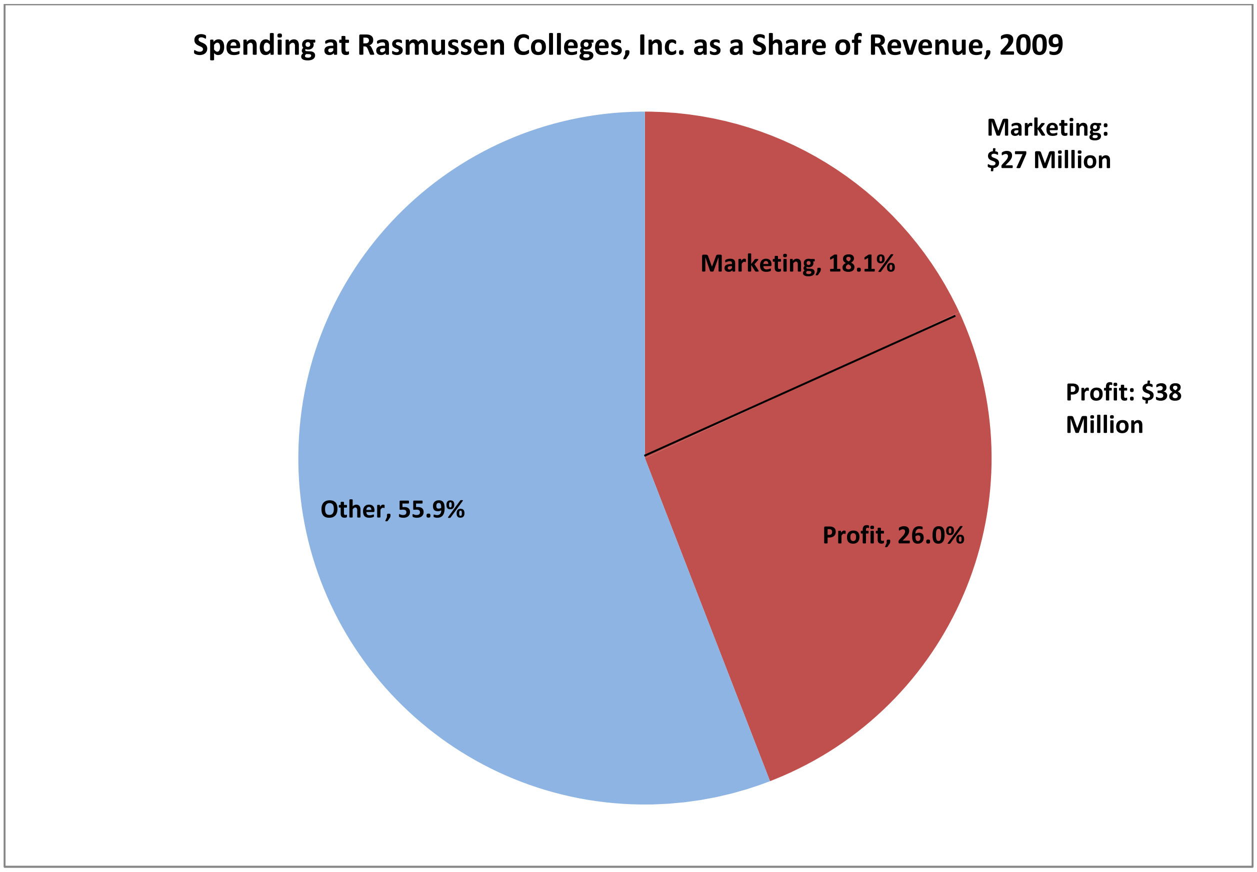
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[2615] 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).[2616] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

[2614] 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.

[2615] 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.

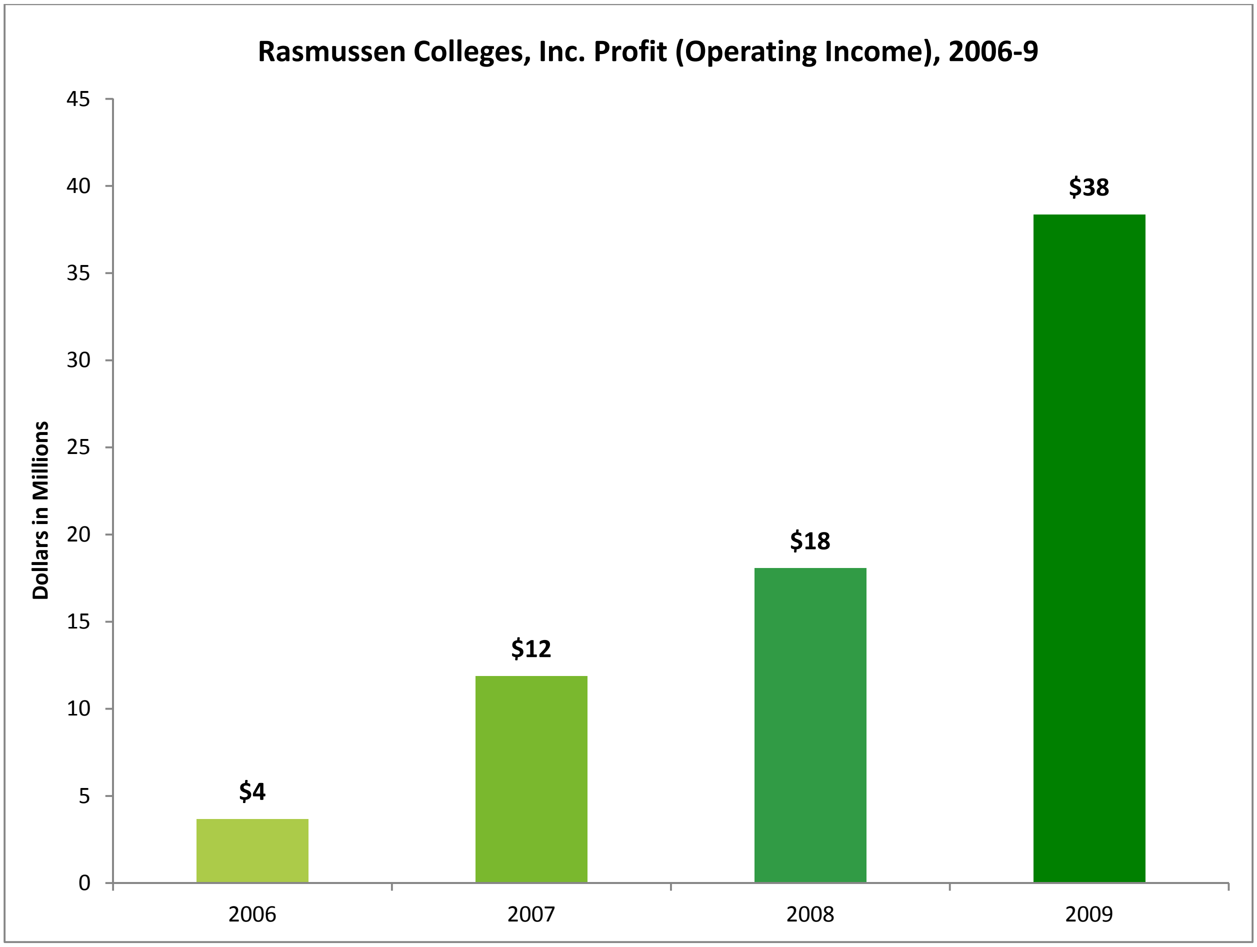
[2616] Senate HELP Committee staff analysis of fiscal year 2009 financial statements and information provided to the committee by each company pursuant to the committee document request of August 5, 2010. Profit is based on operating income. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19. "Other" includes: instruction, faculty salaries, executive compensation, student services, maintenance, administration, facilities and other expenditures.

In 2009, Rasmussen allocated 18.1 percent of its revenue, or $26.6 million, to marketing and recruiting and 26 percent, or $38.3 million, to profit.[2617]



Rasmussen's profit has grown rapidly, from $4 million in 2006 to $38 million in 2009.[2618]

[2617] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.
[2618] Senate HELP Committee staff analysis. See Appendix 18.



Executive Compensation

As a private-held company, Rasmussen is not obligated to release executive compensation figures.

Tuition and Other Academic Charges

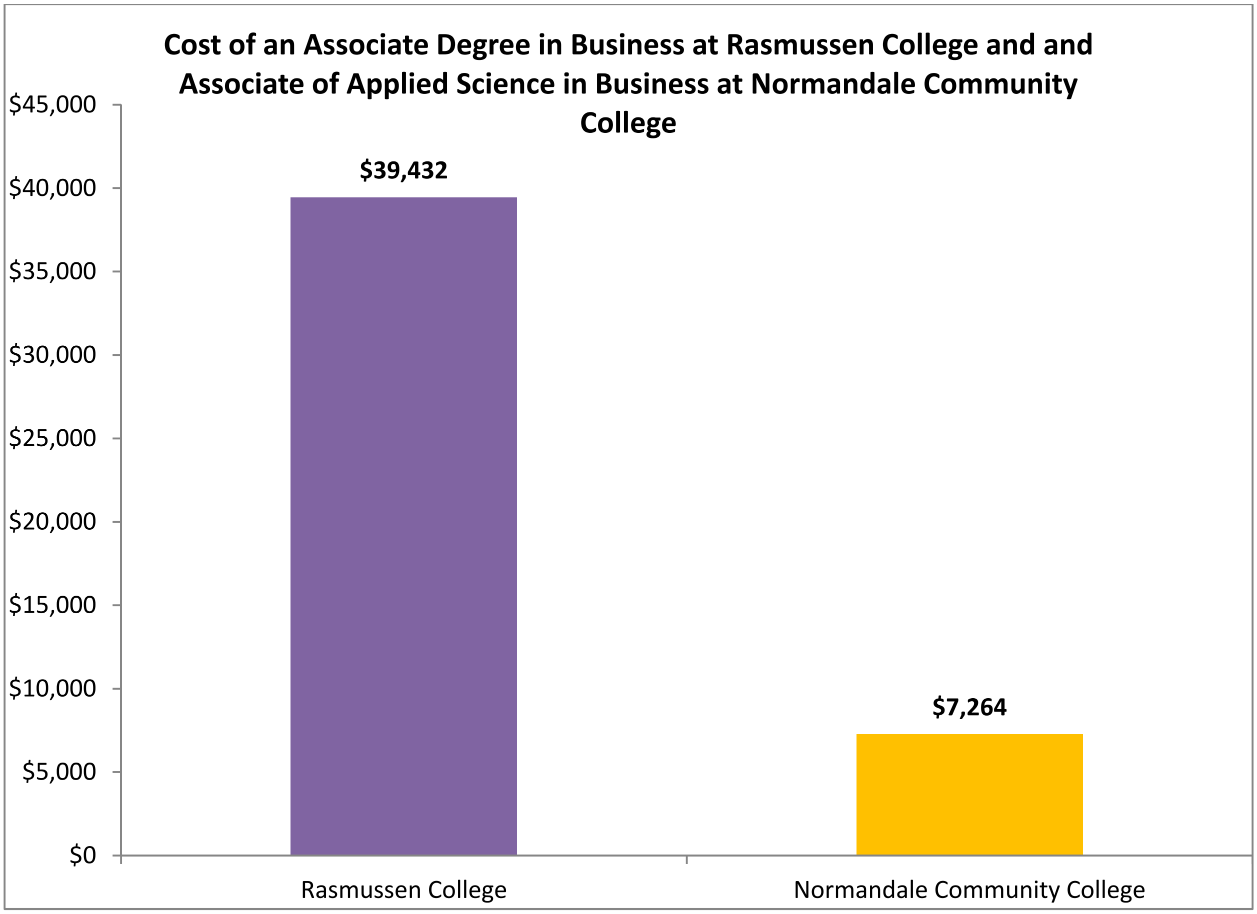
Compared to public colleges offering the same programs, the price of tuition is higher at Rasmussen. An Associate degree in Business Management with Administration at Rasmussen's Minnesota campus costs $39,432.[2619] The same degree from Normandale Community College costs $7,264.[2620] A Bachelor's degree in Business Management from Rasmussen College costs $68,668.[2621] The University of Minnesota costs $56,240 for a Bachelor's in Business.[2622]

2619 See Appendix 14; see also, Rasmussen College, School of Business, http://www.rasmussen.edu/student-investment-disclosure/minnesota/ (accessed July 12, 2012).

2620 See Appendix 14; see also, Normandale Community College, *Normandale Community College*, http://www.normandale.edu/ (accessed July 12, 2012).

2621 See Appendix 14; see also, Rasmussen College, School of Business, http://www.rasmussen.edu/student-investment-disclosure/minnesota/ (accessed July 12, 2012).

2622 See Appendix 14; see also, University of Minnesota, University of Minnesota, http://www1.umn.edu/twincities/index.html (accessed July 12, 2012).



The higher tuition that Rasmussen charges is reflected in the amount of money that Rasmussen collects for each veteran that it enrolls. From 2009-11, Rasmussen trained 681 veterans and received $8.6 million in post-9/11 GI bill benefits, averaging $12,628 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[2623]

From 2008 to 2009, Rasmussen transitioned all campuses from a per-course to a per-credit pricing structure, except Minnesota, which was already operating with a per credit structure.[2624] The new pricing structure led to average tuition increases of between 7 percent and 23 percent.[2625]

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 recruit as many students as possible to sign up for their programs.

Internal company documents make clear that Rasmussen hires outside firms for lead generation. In these lead generation agreements, Rasmussen contracts with a group to provide some or all of the following information about a potential student: first and last name, mailing address, home, cell and work telephone number, email address, highest degree of education achieved, year achieved the highest

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[2623] 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.
[2624] Rasmussen Internal Pricing, April 2009, *2010 Pricing* (RAS00003172, at RAS00003173).
[2625] Id.

degree of education, the best time to call, desired area of study, degree of interest, and planned start date.[2626] These contracts range in number of lead and cost paid per lead. For example, one 2006 contract noted a price structure of 100 leads per month at a rate of $18 per Qualified Lead for Ground schools and $15.00 per Qualified Lead for Online schools.[2627] These prices appear to have risen in recent years. A 2008 insertion order was for 700 leads at $45/lead ($31,500) for Rasmussen Online.[2628] One 2010 order was for a contract price of 100 leads per month at $40/lead for Rasmussen Online.[2629] An April through December 2009 Insertion Order from one company noted that production of 50 leads would be billed at $37/lead for use at two of Rasmussen's campus ($1,850), a total of 275 leads at $39/lead for another 11 campuses ($10,725), 50 leads at $46/lead for one Florida campus ($2,300), 25 leads at $46/lead for another Florida campus ($1,150), and an additional 500 leads at $46/lead ($23,000) for a sum total of $39,025.[2630] Lead prices in insertion orders submitted to the HELP Committee indicate Rasmussen pays up to $75/lead.[2631]

Rasmussen like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.[2632] 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.

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.[2633]

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 at Rasmussen are not achieving their educational and career goals.

Retention Rates

Information Rasmussen provided to the committee indicates that of the 9,623 students who enrolled at Rasmussen in 2008-9, 63.2 percent, or 6,085 students, withdrew by mid-2010.[2634] These

[2626] Rasmussen, July 2007, Signed Internet Media, Inc. Lead Sales Agreement (RAS00003249, at RAS00003255); Rasmussen, Terms Addendum to Agreement between Deltak edu, Inc. And Affiliate Crew, Inc. (RAS00003266, atRAS00003267); Rasmussen, Lead Generation Insertion Order (RAS00003309, at RAS00003309-10).
[2627] Rasmussen, Terms Addendum to Agreement between Deltak edu, Inc. And Affiliate Crew, Inc. (RAS00003266, at RAS00003272).
[2628] Rasmussen, January 2008, Completed ClassesUSA: Client Insertion Order (RAS00003344).
[2629] Rasmussen, Completed Lead Generation Insertion Order (RAS00003309).
[2630] Rasmussen, March 2009, Completed All Star Directories Insertion Order (RAS00003280).
[2631] Rasmussen, May 2010, Education Dynamics Prospecting Services Advertising Agreement (RAS00003443).
[2632] Rasmussen, *Rasmussen College Enrollment Agreement* (RAS00004438).
[2633] 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
[2634] 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

withdrawn students were enrolled a median of 5 months.[2635] Rasmussen's retention rates are among the lowest of the companies examined. Associate degree students at Rasmussen, who make up more than three-quarters of its student population, withdrew at a rate of 63 percent, meaning nearly half of students who enrolled in 2008-9, 4,887 students, were gone by mid-2010.[2636] The withdrawal rate for Rasmussen's Bachelor's program, 64.2 percent, is also significantly higher than the average sector-wide Bachelor's withdrawal rate of 54.3 percent. Rasmussen's Associate and Bachelor's program withdrawal rates both rank amongst the 10 worst in the sector.[2637]

Status of Students Enrolled in Rasmussen in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	7,758	7.8%	29.2%	63.0%	4,887	164
Bachelor's Degree	1,865	2.9%	32.9%	64.2%	1,198	164
All Students	9,623	6.8%	29.9%	63.2%	6,085	164

Student Loan Defaults

The large number of students leaving Rasmussen without a degree does not correlate with the relatively low rate of student loan defaults by students who attended Rasmussen. 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.[2638]

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.[2639] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2640] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2641] The consequence of this higher rate is that almost half of all student loan defaults nationwide are held by students who attended for-profit colleges.[2642]

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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.

[2635] Additionally, an internal Rasmussen document estimates that 59 percent of starts persist to the third quarter. Rasmussen Internal Presentation, *Maximizing Our Return on Admissions* (RAS0006445, at RAS0006447).

[2636] 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.

[2637] 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. See Appendix 15.

[2638] Direct Loan default rates, 34 CFR 668.183(c).

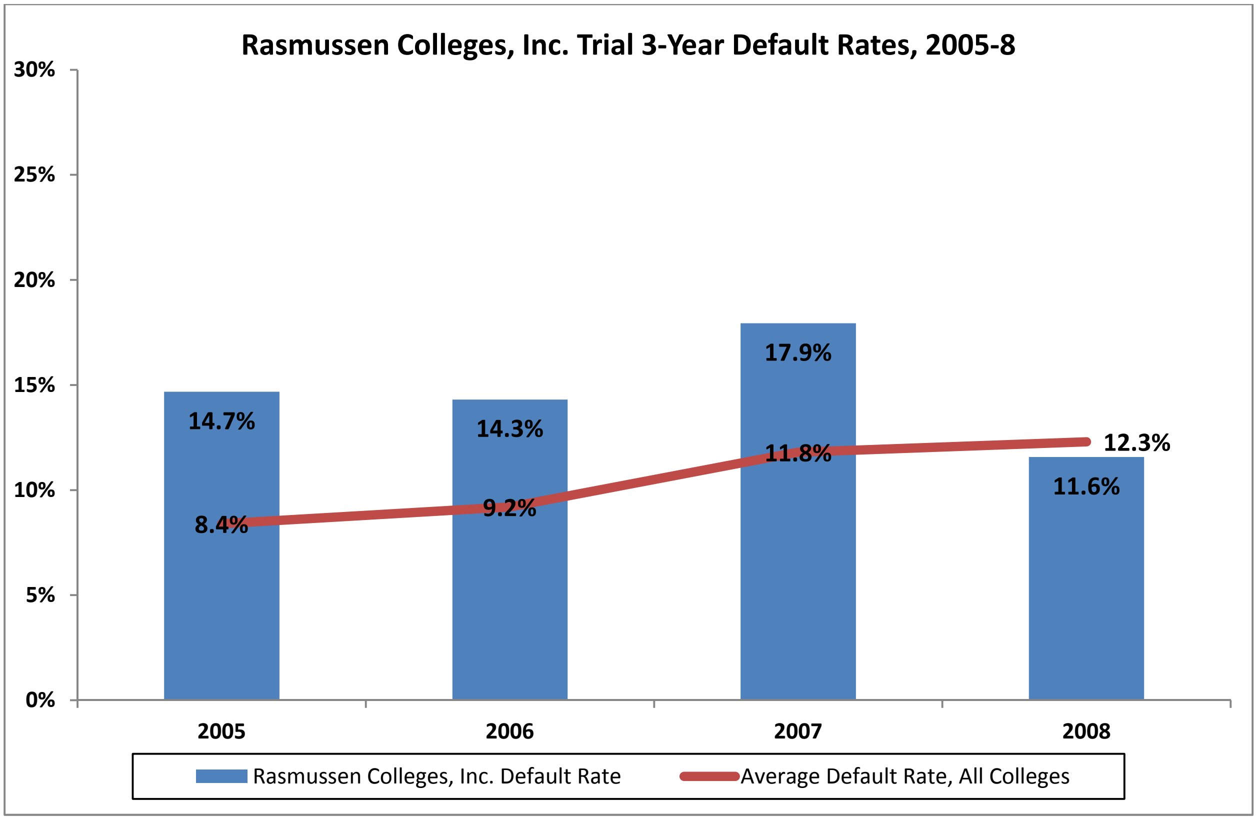
[2639] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.

[2640] Id.

[2641] Id.

[2642] Id.

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[2643] This change represents a 32.6 percent increase over 4 years.[2644] Rasmussen was one of only four schools whose 3-year default rate dropped from 2005 to 2008. Rasmussen's default rate was 14.7 percent for students entering repayment in 2005 and 11.6 percent for students entering repayment in 2008.



The default rate for some Rasmussen programs is markedly higher. These include: Network Support (45 percent), Child Care Specialists (26 percent default rate), Pharmacy Technician (26 percent), and Criminal Justice (22 percent).[2645]

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. From 2005 to March 2008, Rasmussen contracted with General Revenue Corporation (GRC), a subsidiary of Sallie Mae, to operate its default management.[2646] GRC operates call centers with hundreds of employees trained to "cure" student defaults. 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.

[2643] 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.
[2644] Id.
[2645] Rasmussen, January 2010, *Default Rates, A three year look* (RAS00004360).
[2646] Rasmussen, January 2010, *Default Rates, A three year look* (RAS00004360).

According to internal company emails GRC did a poor job when they were first hired by Rassmussen and cut its fees in half for its service.[2647]

After March 2008 Rasmussen decided to centralize default management.[2648] This centralization of default management included engaging with private investigators for skip tracing and signature gathering.[2649] Skip tracing is the process of locating a borrower's whereabouts whose contact information is not known. The private investigators performed skip tracing on every borrower at a rate of $25 per student, and were tasked with attaining two signatures per student at a rate of $50 per student within Minnesota and $75 per student in other States.[2650] The company asserts that it no longer utilizes private investigators.

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. 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.

Rasmussen spent $4,801 per student on instruction in 2009, compared to $6,261 on marketing and $9,017 on profit.[2651] The amount that privately held companies the committee examined spend on instruction ranges from $1,118 to $6,389 per student per year.[2652] In contrast, public and non-profit schools 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 Minnesota-based colleges spent, on a per student basis, $13,247 at the University of Minnesota, $4,208 at Normandale Community College, and $11,361 at the University of St Thomas.[2653]

In a June 2010 presentation informing Rasmussen management of the upcoming HELP Committee's hearings on for-profit schools, Department of Education rulemaking, and increased media attention on for-profit schools, the presenter highlighted the need for increasing spending on its public relations message. The presentation states:

> Rapid expansion of institutional research office, government relations and public advocacy efforts. We will redeploy resources from other key areas. Nothing more

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[2647] Rasmussen Internal Email, February 2008, re: *RE: CCA Cohort Default Rate* (RAS00024382).
[2648] Rasmussen Internal Email, January 2010, *Default Rates, A three year look* (RAS00004360).
[2649] Id.
[2650] Rasmussen Internal Presentation, Default Management Department (RAS00004301, at RAS00004314).
[2651] Marketing 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. See Appendix 21.
[2652] Id. Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.
[2653] 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.

> important … Funding institutional research and government relations means other things will not be funded.[2654]

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 investigated, 80 percent of the faculty is part-time.[2655] In 2010, Rasmussen employed 265 full-time and 1,214 part-time faculty.[2656] Thus, more than 80 percent of Rasmussen's faculty was employed on a part-time basis.[2657] Such disparity between part-time and full-time faculty is more commonly seen at larger publicly-traded, for-profit education companies.

A school that dedicates relatively little of its revenue to teaching students, on its face, raises serious questions about the quality of the education it provides. Students and employers expect to be able to trust that institutions of higher education, especially career-focused education, are teaching skills that are valued in the workplace with appropriate integrity and rigor. Undercover observation and student complaints reveal that many for-profit schools have curriculums that do not challenge students, academic integrity policies that are sparsely enforced, and teaching interactions that in some cases do not lead to successful student learning and outcomes.

In a 2011 investigation, undercover investigators from the U.S. Government Accountability Office ("GAO") enrolled in 12 different online colleges using fictitious identities and academic credentials. Rasmussen was one of the schools visited by the GAO. Agents enrolled in two different courses at Rasmussen University. These agents repeatedly submitted plagiarized work for each of those courses.

Several assignments submitted by GAO agents were given full or partial credit even when the professors noted that the assignment was plagiarized. For instance, in an Introduction to Business course at Rasmussen, the GAO agent submitted answers to an assignment copied directly from the Bureau of Labor Statistics' Web site.[2658] The teacher gave 24.5 out of 30 points for the assignment. Even after acknowledging that the answers were not written by the student, the teacher seemed less concerned with cheating and lack of original thought than with the fact that the student plagiarized not relevant information (ostensibly plagiarizing the *right* information would have been ok). The teacher said:

> It appears that you copied and pasted from the website. By doing so you put a lot of extra information that I didn't need. Next time I would prefer if you would read the information and only include what is needed. I know that this was a hard assignment though. Everyone struggled with it.[2659]

[2654] Rasmussen Internal Presentation, June 2010, Operating in the New World (RAS00038658, at RAS00038684, RAS00038688).
[2655] 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.
[2656] Id.
[2657] Id.
[2658] GAO Investigation Documentation, *The Gross Domestic Product* (HQ-4600695).
[2659] GAO Investigation Documentation, January 2011, *Record of Analysis: Rasmussen –IB—Email 3* (HQ-4610903).

Rasmussen's policy required that no credit be granted for the first dishonest assignment and removal from the course after the second. Rasmussen did not follow its own academic honesty policies in response to the plagiarized work of the GAO agents.[2660]

A student complaint reflected concern regarding academic quality. "I wish to express to you my disgust and disdain for how this institution comports itself. It has been my experience that the few instructors who go above and beyond to assist their students are an anomaly … This will be my last term, as I can no longer justify the onerous expense to teach myself from tutorials posted on YouTube."[2661]

While student complaints may not be representative of the experience of the majority of Rasmussen students, these complaints do provide an important perspective on Rasmussen's academic quality.

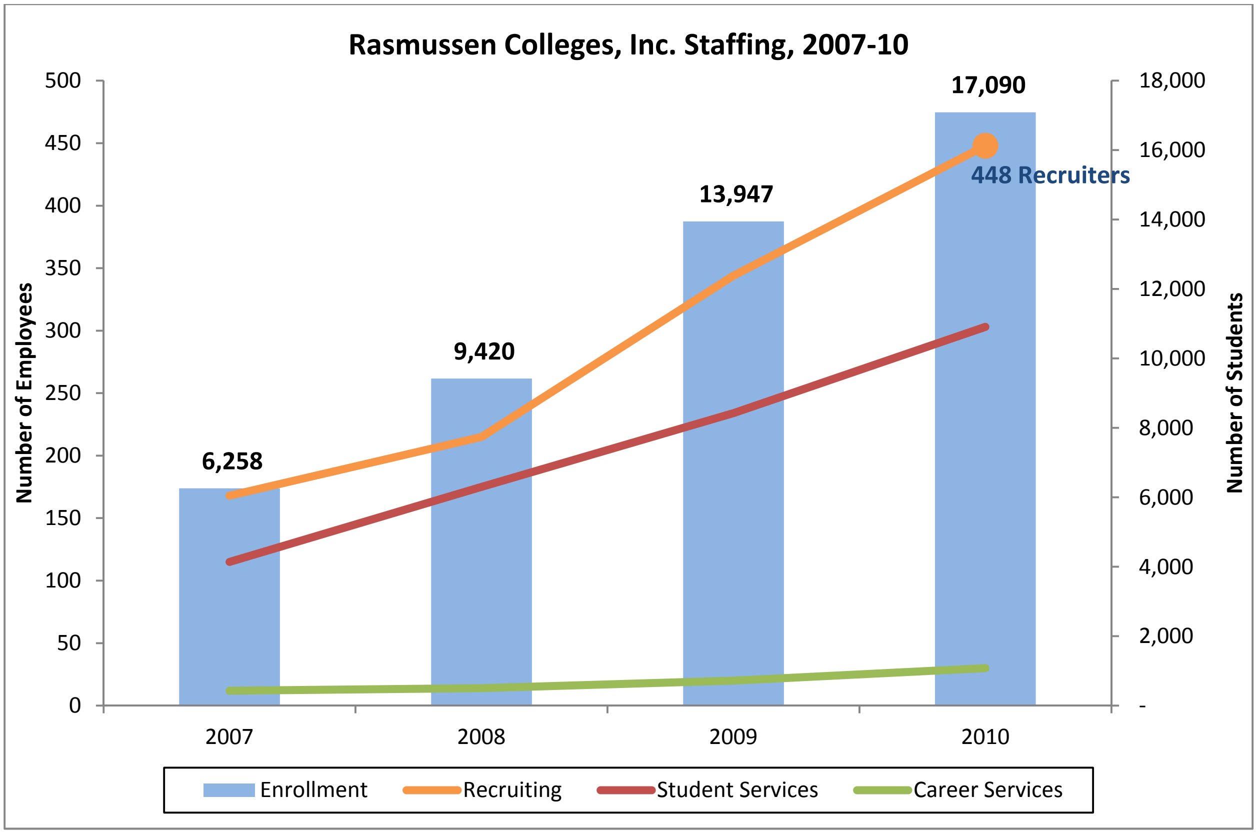
Staffing

While for-profit education companies employ large numbers of recruiters to enroll new students, these companies frequently employ far less staff to provide tutoring, remedial services, or career counseling and placement. In 2010, with 17,090 students, Rasmussen employed 448 recruiters, 30 career services employees, and 303 student services employees.[2662] That means each career counselor was responsible for 570 students and each student services staffer was responsible for 56 students. Meanwhile, the company employed one recruiter for every 38 students.

[2660] U.S. Government Accountability Office, *For Profit Schools: Experiences of Undercover Students Enrolled in Online Classes at Selected Colleges*, Report to the Chairman, Committee on Health, Education, Labor, and Pensions, October 2011, http://www.gao.gov/assets/590/586456.pdf.

[2661] Rasmussen Internal Email, August 2010, re: *FW: My Opinion* (RAS00046545).

[2662] 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.



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 Rasmussen, 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.[2663]

90/10

An internal Rasmussen memo details the company's 90/10 concerns with its Florida campuses and states that for fiscal year 2009 "with no changes in price and the increase in Pell and loans, our 90/10 would increase to 101.2%." [2664] The memo discussed five potential options for fiscal year 2008: [2665]

[2663] Institutional loan programs are among the tactics used by companies to mitigate the impact of 90/10. Rasmussen did put into place an institutional loan program but it was small and did not last long. In total they disbursed $51,792 for 10 students. Rasmussen, Letter to Chairman Harkin, September 16, 2010.

[2664] Rasmussen Internal Correspondence, May 2008, re: *Student Financial Services* (RAS00011756).

[2665] 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, including Rassmussen, 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.

1. Plan to push Title IV funds to FY 2009 to manage to 87.4% for FY 2008
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
3. Move a Minnesota branch campus to be a branch off of Ocala…The state grant received by Lake Elmo is sufficient to offset the 90/10 issues in Florida but it might not be able to sustain the protection on 90/10 over the long term
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 percent increase in price to create enough of a gap to allow us to have a 90/10 of 86.6 percent
5. Pull in the Florida State Grant early to offset Title IV dollars.[2666]

A later July 2008 memo placed all title IV loans at Florida schools on "hold" to ensure that the school complied with the 90/10 requirement.[2667] The ECASLA exception allowed Rasmussen to drop their 90/10 for their Florida campuses from an estimated 86 percent to an estimated 75 percent.[2668]

Gainful Employment [2669]

According to an email from George Fogel, Rasmussen's vice president of Compliance and Financial Services, to CEO Michael Locke, concern over the proposed gainful employment regulation led to consideration of a range of actions in order to come into compliance with the proposed regulation, including requiring students to carry more credits or make cash payments:

> **On buying debt:** "In terms of how we address the gainful employment issue, we have several options. First, is offering a scholarship to our graduates to "buy" down their debt. This will be costly, however, as we discussed it is on the back of our drops. My guess is this will only be a short term fix if we can do it at all as the department or Congress will "fix" this and not led this kind of discounting (much in the same way as you can't pay off defaulting loans)."
>
> **On lowering tuition:** "Obviously we can lower our tuition across the board, if we did that, it would be disastrous to revenue. We would have to drop our tuition by almost in half."
>
> **On course/credit? minimums:** "Alternatively, we can require students to take three or more classes and essentially kill the two course taker. This will drive up Pell since they will be taking more credit, it will also get rid of a lot of excess funds that part time students can receive, plus students would get out in the work force faster."
>
> **On cash payments:** "Also, we could require students to make a large cash payment while in school, whether cash or credit card. If we required students to pay $1000 in cash ever [sic] quarter, we would fix 90/10 and would take the debt gap down by almost 50%."

[2666] Id. See also Rasmussen Internal Email, January 2009, re: *our 3 Fla. campuses?* (RAS00011144).
[2667] Rasmussen Internal Email, June 2008, re: *90/10 Funds Hold for Summer Term* (RAS00010515) See also Rasmussen Internal Email, August 2008, re: *RE: BACH STUDENTS* (RAS00008219).
[2668] Rasmussen Internal Email, August 2008, re: *RE: HEA Reauthorized*! (RAS00010941).
[2669] On June 30, 2012, the District Court for the District of Columbia struck down the gainful employment rule stating that the Department had failed to provide sufficient justification for the requirement that 35 percent of students are repaying loans. Association of Private Colleges and Universities v. Duncan, 2012 DC D 1:11-CV-01314-RC U, p. 29-31, available at http://big.assets.huffingtonpost.com/judgeordergainful.pdf (accessed July 6, 2012).

> **On loan repayment:** "Finally, probably the best way to avoid this regulation is to continue to have our grads pay their loans. Excluding the Florida schools, at 4.9%, it would indicate that the vast majority of our grads are able to pay their loans. Obviously, there are may [sic] different levers we can manipulate to manage this. Some are less painful than others." [2670]

Conclusion

Like many others in the sector, Rasmussen's enrollment increased rapidly over the past decade. Much of this growth came after the company's 2003 acquisition by the private equity company Frontenac. Additionally, Rasmussen has received increasing amounts of Federal financial aid dollars, at least $185 million in 2010, and realized significant increases in profit. However, the company's programs are costly and students attending Rasmussen have some of the worst retention rates of any company examined by the committee, with more than 63 percent of students leaving with no degree. While Rasmussen has made some minor improvements, including an orientation program, and makes a greater investment in spending on instruction and student services than many for-profit colleges examined, it is unclear whether taxpayers or students are obtaining value from their investment in the company.

[2670] Rasmussen Internal Email, February 2010, re: *RE: Requested Docs* (RAS00021237).