Testimony of Lauren Asher, President
The Institute for College Access & Success
Before the
Senate Committee on Health, Education, Labor, and Pensions
Hearing on the Federal Investment in For-Profit Education: Are Students Succeeding?
September 30, 2010

Chairman Harkin, Ranking Member Enzi and Members of the Committee, thank you for the opportunity to testify on the high debt and default levels for students who attend for-profit colleges, and the need for greater oversight of the for-profit education industry to protect the substantial interests of both students and taxpayers.

My name is Lauren Asher. I am president of The Institute for College Access & Success (TICAS), an independent, nonpartisan, nonprofit research and policy organization based in Oakland, California. TICAS works to increase all Americans' access to quality and affordable higher education and improve the odds of successful educational outcomes for students and for society. Our Project on Student Debt, launched in 2005, focuses on increasing public understanding of rising student debt and the implications for individuals, families, the economy, and society.

At TICAS, our mission is to improve both educational opportunity and outcomes, so that more under-represented students complete meaningful credentials and do so without burdensome debt. That is why much of our work has focused on community colleges, which enroll the largest share of the nation's low-income, underrepresented minority, older, and part-time students, as well as students who work full-time while going to school.[1] Student loan borrowing rates at community colleges are quite low compared to other sectors. Indeed, because federal student loans can be a valuable tool both for expanding college access and supporting student success, we have urged community colleges to participate in the federal student loan program, so that their students are not forced to rely on riskier and more expensive forms of credit if they do need to borrow to stay and succeed in school. We also developed the underlying policy framework for what has

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[1] Calculations by The Institute for College Access & Success on data from U.S. Department of Education, National Center for Education Statistics (NCES), National Postsecondary Student Aid Study (NPSAS), 2007-08, http://nces.ed.gov/surveys/npsas. Unless otherwise specified, "students" refers to undergraduate students throughout this document.

become the Income-Based Repayment Program (IBR) for federal student loans. IBR caps federal student loan payments at a reasonable percentage of the borrower's income and forgives any remaining debt after 25 years of responsible payments, or as soon as 10 years for borrowers who work in public service.

In our ongoing analyses of student debt trends at the national, state, and college level, a disturbing pattern emerged that led us to look more closely at what is happening to students in the growing for-profit college industry. Compared to other types of colleges, for-profit colleges have the dubious distinction of the highest share of students with debt, with the highest debt levels for degree completers, the worst federal student loan default rates, and the lowest completion rates for bachelor's degree programs. For-profit colleges now enroll about one in ten post-secondary students in the U.S., but they absorb a far greater share of federal student aid: one in four federal Pell grant and student loan dollars goes to students in the for-profit sector. At the same time, for-profit colleges also have the highest share of students taking out private (nonfederal) student loans, one of the riskiest ways to pay for higher education.

Because for-profit colleges recruit and enroll a disproportionate share of low-income students and students of color, we and many other student, college access, consumer, and civil rights advocates are particularly concerned about the disparate impact of this sector's alarmingly high student debt and default levels. Considered together, the for-profit college industry's rapid growth, aggressive recruiting practices, heavy reliance on federal funds, disturbing student debt patterns, and disproportionate enrollment of under-represented students clearly point to high and rising stakes for both students and taxpayers.

Twenty years ago, when the for-profit college industry was much smaller but similarly lacking in meaningful oversight, these same patterns and problems emerged. It is striking to see what the U.S. Senate Permanent Subcommittee on Investigations concluded in 1991, and how applicable its findings remain today.

> Unquestionably, the Guaranteed Student Loan Program [GSLP] has vastly expanded accessibility to education for those Americans who seek it. The value of accessibility, however, depends on what it is that one is being given access to. On that point, the Subcommittee found that the program has failed, particularly in the arena of proprietary schools, to insure [sic] that federal dollars are providing quality, and not merely quantity, in education.
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> As a result, many of the program's intended beneficiaries -- hundreds of thousands of young people, many of whom come from backgrounds with already limited opportunities -- have suffered further because of their involvement with the GSLP. Victimized by unscrupulous profiteers and their fraudulent schools, students have received neither the training nor the skills they hoped to acquire and, instead, have been left burdened with debts they cannot repay.

> Likewise, the American taxpayer has suffered both in terms of footing the bill for billions of dollars of losses in defaulted loans and the ultimate cost of the program's failure to provide the skilled labor force our Nation needs in the increasingly competitive global marketplace.[2]

High debt and loan defaults: consequences for students and taxpayers

Not all student loan debt is harmful. Federal student loans fulfill their purpose when they help more students get quality education and training, and leave them in a position to pay off their loans, support themselves and their families, and contribute to our society and economy, whether as teachers, truck drivers, or technology entrepreneurs.

While student loans can help students acquire valuable skills and credentials, they do carry real risks for all borrowers. High student loan debt, and even low debt when paired with low earnings, can leave students with unmanageable payments that can jeopardize their families' basic needs and lead to delinquency and default. Leaving college with burdensome debt also prevents or delays borrowers from taking important steps that benefit not only individuals but our society and economy as a whole. These include starting a business, buying a home, marrying, having children, saving for retirement, and saving for their own children's education.

While federal student loans provide a variety of tools and consumer protections that can help informed borrowers manage their debt and avoid default, many borrowers are unaware of their options or lack access to unbiased advice. Borrowers with *private* student loans can face much higher costs and have far fewer options when their payments become unmanageable. They are really at the mercy of their lender. Even if a student loan borrower faces severe financial distress and qualifies for bankruptcy, it is nearly impossible to discharge student loans under current bankruptcy law.

Student debt at for-profit colleges: Most students borrow, and they borrow more

Student loan debt is rising in all sectors, but the for-profit sector stands out with by far the highest share of students who borrow and the highest average debt levels. The recent Government Accountability Office (GAO) investigation found that colleges misled, pressured, and outright lied to students in order to get them to enroll in for-profit schools and to borrow to cover the costs.[3] The GAO uncovered some for-profit colleges obscuring the true cost of

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[2] U.S. Senate, Committee on Governmental Affairs, Permanent Subcommittee on Investigations. *Abuses in Federal Student Aid Programs* (Senate-R-102-58). 1991. http://www.eric.ed.gov/PDFS/ED332631.pdf

[3] U.S. Government Accountability Office. *For-Profit Colleges: Undercover Testing Finds Colleges Encouraged Fraud and Engaged in Deceptive and Questionable Marketing Practices* (GAO-10-948T). August 4, 2010. http://www.gao.gov/products/GAO-10-948T.

attendance and understating how much borrowing would be required. It also revealed schools significantly overstating likely earnings and job prospects to help justify high borrowing, making students believe that their debt will be easy to pay off. And it showed colleges using aggressive sales tactics to get students to sign a contract before they see a financial aid package. As this committee heard at the June hearing as well, these tactics are well-documented.[4] Some colleges push students to take out risky private loans as well as federal loans without making the differences or costs clear.[5] Several large for-profit college companies even make private loans directly to their own students, knowing that the majority of these borrowers will not be able to repay (I discuss private loans and this practice in more detail below).

Any way you slice it, students at for profit-colleges are much more likely to have debt than students at other types of schools, because nearly every student who attends a for-profit school gets signed up for federal and/or private student loans.

- In 2007-08, almost all (97 percent) undergraduates attending for-profit 2-year colleges took out student loans, while only 13 percent of undergraduates attending public 2-year colleges took out student loans.[6]
- In 2007-08, 95 percent of undergraduates attending for-profit 4-year colleges took out student loans, while only 47 percent of undergraduates attending public 4-year colleges took out student loans.[7]

Looking just at those who actually receive an associate's or bachelor's degree, nearly everyone who graduates from a for-profit college has loans, compared to significantly lower shares of graduates of other types of schools. And after graduation, degree holders from for-profits have a lot more debt to pay off, on average, than those who graduated with debt from other types of schools.

- At for-profit institutions, 98 percent of associate's degree recipients had loans in 2007-08, and their average debt was $19,700. At public and non-profit colleges, 38 percent of associate's degree recipients had loans, and their average debt was $10,950.[8]

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[4] See also testimony of Margaret Reiter before the Senate Health, Education, Labor and Pensions Committee, Hearing on Waste, Fraud and Abuse in the For-Profit Education Sector, June 24, 2010, http://help.senate.gov/imo/media/doc/Reiter.pdf.

[5] See also testimony of Valisha Cooks Before the House Committee on the Judiciary Subcommittee on Commercial and Administrative Law, Hearing on H.R. 5043, the "Private Student Loan Bankruptcy Fairness Act of 2010". April 22, 2010. http://judiciary.house.gov/hearings/pdf/Cooks100422.pdf. Andrews, Wyatt. " Student Complaints Rising at For-Profit Schools." CBS Evening News. September 5, 2010.

[6] Calculations by The Institute for College Access & Success on data from U.S. Department of Education, NCES, NPSAS, 2007-08, http://nces.ed.gov.survey/npsas.

[7] Ibid.

[8] Ibid.

- At for-profit institutions, 96 percent of bachelor's degree recipients had student loans in 2007-08, and their average debt was $33,050. At public and non-profit colleges, 65 percent of bachelor's degree recipients had loans, and their average debt was $22,750.[9]

- Among bachelor's degree recipients, those who attended for-profit colleges are much more likely to have very high debt. Almost one in four (24 percent) of all 2008 graduates from for-profit four-year colleges owed at least $40,000 in student loans, compared to just 6 percent of graduates from public four-year colleges and 15 percent from private nonprofit four-year colleges. The average debt for all four-year college graduates with loans, from all sectors, was $23,200.[10]

In addition to the largest share of students with overall debt, for-profit colleges have the largest proportion of students taking out *private* student loans, and the largest increase in this risky type of borrowing.

- In 2007-08, 42 percent of all proprietary school students – not just degree completers – had private loans in 2007-08, up from 12 percent in 2003-04. At private non-profit four-year schools, which have the second highest rate, 25 percent of students had private loans in 2007-08, up from 11 percent in 2003-04. At public colleges, private loan rates were even lower: 14 percent at public four-year and 4 percent at public two-year colleges in 2007-08.[11]

The majority of students who complete a degree or certificate at a for-profit college have private loans.

- In 2007-08, 60 percent of students who completed an associate's degree at a for-profit college had private loans, four times the rate for associate's degree completers at community colleges (15 percent).

- For bachelor's degree completers, 64 percent graduated from for-profit colleges with private loans, compared to 28 percent at public four-year colleges and 42 percent at private nonprofit four-year colleges.

- Half (51 percent) of those who completed a certificate at for-profit colleges had private loans, compared to 12 percent at community colleges.[12]

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[9] Ibid.
[10] The Institute for College Access & Success. *High Hopes, Big Debts (Class of 2008)*. May 2010. http://ticas.org/files/pub/High_Hopes_Big_Debts_2008.pdf.
[11] The Institute for College Access & Success. *Private Loans Facts and Trends*. August 2009. http://projectonstudentdebt.org/files/pub/private_loan_facts_trends_09.pdf. Note that "private loans" here refers to bank and lender-originated loans, not all non-federal loans.
[12] Baum, Sandy and Steele, P. *How Much are College Students Borrowing?* The College Board. August 2009. http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf.

Low-income and underrepresented minority students borrow more at for-profit colleges

Most low-income and underrepresented minority undergraduates attend either public or private nonprofit schools, with the greatest concentration at community colleges.[13] Among all African-American and Hispanic undergraduates, nearly eight out of ten (78 percent) attended public or private nonprofit schools in 2007-08, including 42 percent at community colleges, while 15 percent attended for-profit colleges.[14] The proportions are similar for low-income students and adult students working full-time: 80 percent of students with incomes below the median attend public and private nonprofit colleges, and 81 percent of students age 24 and older who are working full-time attend public and private nonprofit colleges.[15]

However, while most low-income and underrepresented minority students attend public colleges, these students are also heavily recruited by many for-profit colleges, where they enroll disproportionately and in growing numbers.

- African-American and Hispanic students make up 28 percent of all undergraduates, but they represent nearly half (46 percent) of undergraduates in the for-profit sector.[16]
- Low-income students, many of whom are also students of color, are also over-represented at for-profits; 64 percent of students attending for-profit college have incomes below the median for all undergraduates.[17]

The majority of students who are low-income, underrepresented minorities, and adults working full-time do *not* take out student loans to pay for college.[18] However, those who attend for-profit colleges are much more likely to borrow – and borrow more – than their counterparts at other types of schools. The data clearly show that across levels of income and categories of race/ethnicity, for-profit college students borrow more than those who attend elsewhere..

- At for-profit colleges, low-income and minority undergraduates are about three times more likely to borrow federal student loans – and four times more likely to borrow private student loans – as their counterparts at public or private nonprofit colleges.[19]

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[13] Unless otherwise specified "low-income" refers to students whose family income is less than the median income of undergraduates. Family income includes the student's income for all students plus parents' income for dependent students and a spouse's income for married independent students. NPSAS reports the median income for dependent undergraduate students was $66,637, and the median income for independent undergraduate students was $26,099. Throughout this document "underrepresented minorities" refers to African-American and Latino students.
[14] These percentages do not sum to 100 because some students attended more than one college during the 2007-08 year.
[15] Calculations by The Institute for College Access & Success on data from U.S. Department of Education, NCES, NPSAS, 2007-08, http://nces.ed.gov/surveys/npsas.
[16] Ibid.
[17] Ibid.
[18] Ibid.
[19] Ibid.

- At for-profit colleges, adults working full-time are almost five times more likely to borrow federal student loans – and over six times more likely to borrow private student loans – than their counterparts at public or private nonprofit colleges.[20]

- Pell Grant recipients who graduate from four-year colleges are more likely to have high debt if they attended a for-profit college. Among graduating seniors in 2008, 23% of Pell Grant recipients from for-profit colleges carried at least $40,000 in student loans, compared to 14% at all other colleges. Most Pell Grant recipients have family incomes below $40,000.[21]

Consequences of not completing are worse for students at for-profit colleges

Regardless of what kind of college you attend, success is what you hope for, but it is never guaranteed. Completion rates vary considerably both across and within different types of schools.[22] Some schools offer more support than others to help students succeed, and students can face all kinds of obstacles to completing their course of study, from financial challenges to family health crises. Graduation rates are much lower at for-profit colleges than at other types of colleges for students seeking bachelor's degrees, as documented by a report issued last week by the College Board.

- The six-year graduation rate for first-time, full-time bachelor's degree students is just 22 percent at for-profit four-year colleges, less than half the rate at public four-year colleges (55 percent) and only a third of the rate at private nonprofit four-year colleges (65 percent).

- This rate is lowest (16%) for African-American students at for-profit colleges, much lower than for African-American students at public four-year colleges (39%) or private nonprofit colleges (45%). For-profit colleges also have the widest gap between bachelor's

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[20] Ibid.
[21] *High Hopes, Big Debts (Class of 2008)*, May 2010. .
[22] See, for example: Haycock, Kati, Lynch, M., and Engle, J. *Opportunity Adrift: Our Flagship Universities are Straying from their Public Mission.* The Education Trust. January 2010. http://www.edtrust.org/sites/edtrust.org/files/publications/files/Opportunity%20Adrift%28%29.pdf. Hess, Frederick, et al. *Diplomas and Dropouts: Which Colleges Actually Graduate their Students (and Which Don't).* American Enterprise Institute. June 2009. http://www.washingtonmonthly.com/college_guide/feature/college_dropout_factories.php?page=all. Miller, Ben, and Ly, P. "College Dropout Factories." *Washington Monthly.* August 23, 2010. http://www.washingtonmonthly.com/college_guide/feature/college_dropout_factories.php?page=all .

degree completion rates for African-American students and for White and Asian students.[23]

Currently, the graduation rates reported by the U.S. Department of Education only capture full-time students who complete a degree or certificate from the college where they first enrolled. By excluding part-time, returning, and transfer students, as well as in many cases students who do not start college in the fall semester, these rates paint an imperfect picture of completions. In response to widespread concern about the need for more meaningful graduation figures for two-year schools in particular, the Higher Education Opportunity Act of 2008 established a task force to study the issue and develop recommendations for alternative measures.[24] But for now, the only graduation rates available for students completing associate degrees or certificates have the significant limitations described above. These data indicate that for first-time, full-time students, completion rates for associate degrees and certificates combined are higher at for-profit two-year colleges (60 percent) than at public two-year colleges (22 percent). Notably, the vast majority of these completions at for-profit colleges are short-term certificate programs, while most community college completions are two-year associate's degrees.[25]

Regardless of programs of study, the consequences of non-completion are far worse for students who drop out of for-profit schools. If you borrowed to help pay for school and did not complete your program of study, the more you borrowed, the worse off you are. You do not have a degree, certificate, or better job to show for your time in school, but you still have to pay your loans. That puts non-completers at for-profit colleges in the worst position, as they are the most likely to borrow, and borrow larger amounts than students at other types of colleges. Even at two-year schools, nearly every for-profit college student takes out loans. A full 97 percent of students enrolled at for-profit two-year colleges have loans, compared to just 13 percent of students at public two-year colleges.[26]

When students drop out of a quality, affordable program, there are other costs, as well. They have foregone earnings and time without the benefit of a recognized credential. There are also social costs, because in addition to being more likely to have a job and higher taxable earnings, college graduates are also more likely to vote, to be healthier, and to pass on the value of education to their children.[27]

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[23] Baum, Sandy, Ma, J., and Payea, K. *Education Pays: The Benefits of Higher Education for Individuals and Society*. The College Board. September 2010. http://trends.collegeboard.org/files/Education_Pays_2010.pdf.
[24] "U.S. Education Secretary Appoints Members and Chair of New Committee on Measures of Student Success." U.S. Department of Education. June 2, 2010 Available at http://www.ed.gov/news/press-releases/us-education-secretary-appoints-members-and-chair-new-committee-measures-student .
[25] Baum, Ma, and Payea, 2010.
[26] Calculations by The Institute for College Access & Success on data from U.S. Department of Education, NCES, NPSAS, 2007-08, http://nces.ed.gov/surveys/npsas.
[27] Baum, Sandy, Ma, J., and Payea, K. *Education Pays: The Benefits of Higher Education for Individuals and Society*. The College Board. September 2010. http://trends.collegeboard.org/files/Education_Pays_2010.pdf.

In general, students are taking a much bigger risk by going to a costly for-profit school than to a community college. If you do not or cannot finish a program of study at a for-profit school, the odds are very high that you will be left with a lot of debt that will be difficult to pay off, since nearly all students at for-profits borrow to cover the high costs, and for more than 40% that borrowing includes risky private student loans.[28] But if you go to a community college and find that you are not suited to the field you were pursuing, or cannot keep up with the coursework because of a family illness or job loss, you will probably have very little debt, if any, to pay off. If you did borrow to attend community college, in most cases you will have only federal student loans, which give borrowers many more options for managing their debt and staying out of default.

Debt for worthless degrees – when completion doesn't pay

While college completion, in general, leaves you better off, a worthless or grossly overpriced credential can be worse than no credential – especially if you took out student loans. That is what happened to Yasmine Issa, a single mother who testified before this Committee in June.[29] She completed a for-profit program that purported to prepare her for work as a sonographer, only to find out $32,000 later – including $15,000 in loans – that the program did not actually qualify her to sit for the licensing exam or work in the field. While the school's aggressive recruiters went out of their way to tell her that the *school* was accredited, its sonography *program* was un-accredited and effectively worthless. She found out too late that the local community college offered an accredited sonography program for about half the cost.

Unless you work in higher education policy or watched the June hearing, it would never occur to you that an accredited school could offer an unaccredited program. This is just one way that hard-working students who follow the rules – along with taxpayers – are getting ripped off by some for-profit schools and left with loans they cannot repay.

Another unfortunate student, Michelle Zuver, shared her story at a forum Senator Durbin held in Chicago on August 31, 2010. Michelle earned a bachelor's degree in criminal justice from a for-profit college, but her degree is not recognized by any law enforcement agencies in her area, although she went to school specifically to qualify for that profession. A college recruiter pressured her to enroll and told her the program would cost $52,000. She ended up borrowing $86,000, mostly in private student loans, for a degree she cannot use. Her credits will not even transfer to a properly accredited program in her field.

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[28] *Private Loans Facts and Trends*, 2009.
[29] Testimony of Yasmine Issa before the Senate Health, Education, Labor and Pensions Committee, Hearing on Waste, Fraud and Abuse in the For-Profit Education Sector, June 24, 2010, http://help.senate.gov/imo/media/doc/Issa.pdf .

All 15 of the colleges investigated in the GAO's recent report received at least 89 percent of their revenues from federal student grants and loans, and all 15 engaged in at least some deceptive practices designed to get students to borrow more than they planned or realized, and several committed outright fraud. In one striking example, a beauty school recruiter told a prospective student that once he completed their program, he would earn $150,000-$250,00 a year as a barber. The GAO report notes that 90% of barbers actually earn less than $43,000 a year.[30]

Higher default rates at for-profit colleges: not just demographics

Students who attend for-profit colleges face much higher odds of defaulting on a federal student loan than those who attend other types of schools. As a sector, for-profit colleges have the highest default rate for federal student loans.[31]

- Nearly half of all federal student loan borrowers who entered repayment in 2008 and defaulted by 2010 attended for-profit schools (43 percent), even though only about ten percent of students attended these schools.[32]
- The average two-year default rate for federal loan borrowers at for-profit colleges is nearly double the average rate at public colleges, and it is triple the rate at private non-profit colleges.[33]

While student demographics play a role, the evidence is clear that demographics are by no means the sole explanation for the sector's high default rates. Schools play an important role as well.

- The Career College Association's own study concludes that even after accounting for differences in student demographics, students attending for-profit colleges are twice as likely to default as students at other types of colleges.[34]
- Lenders have noted that attending a for-profit school is a risk factor for default.[35] In its private student loan business, Sallie Mae has reported that it expects to see a 30%

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[30] GAO, 2010.
[31] Unless otherwise noted, default rates and shares of defaulters reflect only those who default within two years of first entering repayment. Federal student loan default data are not available by borrowers' income or race/ethnicity.
[32] Calculations by The Institute for College Access & Success on data from U.S. Department of Education, "Official Cohort Default Rates for Schools," http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html, accessed September 13, 2010 and U.S. Department of Education, National Center for Education Statistics (NCES), Integrated Postsecondary Education Data System (IPEDS), http://nces.ed.gov.ipeds. Default figures include borrowers who entered repayment in federal fiscal year 2008 and had defaulted by the end of the 2009 federal fiscal year.
[33] U.S. Department of Education. "Student Loan Default Rates Increase." September 13, 2010. http://www.ed.gov/news/press-releases/student-loan-default-rates-increase-0 .
[34] Charles River Associates for the Career College Association. "Report on Gainful Employment," April, 2010. http://www.whitehouse.gov/sites/default/files/omb/assets/oira_1840/1840_04232010-h.pdf.

difference in default rates for a borrower with a FICO score greater than 700, "depending on the school that borrower attends."[36]

- For-profit schools regularly tell investors that they can lower their default rates. For example, on a recent earnings call, Corinthian Colleges stated, "[W]e are aggressively attacking cohort default rates, and expect to see measurable results."[37] ITT Educational Services stated on an earnings call, "default management is a very important part of what we'll be doing and focusing on in 2010."[38]

- A recent report by Education Sector documents the role schools can play in lowering default rates: "the experience of the Texas HBCUs, along with a new statistical analysis of cohort default rates, suggests that dangerously high default rates for institutions that serve at-risk students are not inevitable...Their [the Texas HBCUs] success is not only applicable to other similar institutions, but to all schools that serve those students most at risk for default and who are committed to helping them succeed."[39]

Many for-profit schools *have* kept federal student loan default rates down during the period when cohort default rates are measured and could affect schools' eligibility for federal student aid.[40] Last December, in preparation for the shift from measuring a school's cohort default rate based on the first two years of repayment to the first three years of repayment, the U.S. Department of Education published data showing what school default rates would look like based on a three-year window. The default rates at 183 for-profit institutions were at least *15 percentage points* higher for a three-year window compared to a two-year window. This suggests that the colleges were aggressive about keeping defaults down during, but not after, the period in which they were being tracked as a measure of institutional accountability. These 183 for-profit institutions collectively enrolled nine percent of all students attending for-profit institutions. By comparison, only 20 schools in all other sectors saw a similar increase in their default rates when the window

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[35] Student Lending Analytics. "Sallie Mae To Discontinue Career Training Loan Program." January 15, 2010. http://studentlendinganalytics.typepad.com/student_lending_analytics/2010/01/sallie-mae-to-discontinue-career-training-loan-program.html

[36] Student Lending Analytics. "Highlights of Sallie Mae Investor Meeting at Credit Suisse Conference." February 12, 2010. http://studentlendinganalytics.typepad.com/student_lending_analytics/2010/02/highlights-of-sallie-mae-investor-meeting-at-credit-suisse-conference.html

[37] Call transcript available online at: http://seekingalpha.com/article/186144-corinthian-colleges-inc-f2q10-qtr-end-12-31-09-earnings-call-transcript?page=-1

[38] Call transcript available online at: http://seekingalpha.com/article/183751-itt-educational-services-inc-q4-2009-earnings-call-transcript?page=-1

[39] Dillon, Erin and Smiles, Robert. "Lowering Student Loan Default Rates: What One Consortium of Historically Black Institutions Did to Succeed." Education Sector. February 2010. http://www.educationsector.org/usr_doc/Default_Rates_HBCU.pdf

[40] ITT Educational Services, Inc. Q4 2009 Earnings Call Transcript. January 21, 2010. http://seekingalpha.com/article/183751-itt-educational-services-inc-q4-2009-earnings-call-transcript?page=-1.

was extended from two to three years, and these 20 schools enrolled one-tenth of one percent of students in all other sectors.[41]

Clearly, for-profit colleges are not powerless in the face of student demographics when it comes to managing default rates, and they are responsive to changes in policy that have implications for their bottom line.

What happens to students who default

Defaulting on a federal student loan has severe and long-lasting consequences.[42] It wrecks your credit rating, making it difficult to rent an apartment or buy a car, and increasingly, to get a job. You will likely be hounded by collectors, and your debt will increase significantly because of default and collection fees. You cannot get federal grants or loans to return to school, and the debt can follow you until you die. There is no statute of limitations, and the government can garnish your wages, seize your tax refunds, and eventually take a slice of your Social Security check. Even if you are in such severe financial distress that you meet the requirements for declaring bankruptcy, it is nearly impossible to discharge student loans.

Private student loans can follow you not only to the grave but also beyond. Unlike federal loans, most private loans have co-signers *and* remain collectible even if the borrower dies.[43] Since 2005, private student loans have been treated just as harshly as federal student loans in bankruptcy. While similar kinds of private, profit-driven consumer debt are discharged when you are approved for bankruptcy, private student loans are not. Ironically, it is easier to get relief from credit cards and gambling debt than from private student loan debt.

Private student loans: a particular problem at for-profit schools

As noted above, in addition to high overall student debt, the for-profit college sector has the largest share of students with *private* student loans, which carry serious financial risks for borrowers. While private student loans are no more a form of financial aid than a credit card is

[41] Calculations by The Institute for College Access & Success on data from the U.S. Department of Education, "Trial Three-Year Cohort Default Rates FY 2007." Excludes institutions with 50 or fewer borrowers who entered repayment in federal fiscal year 2007.
[42]U.S. Department of Education. *Collections Guide to Defaulted Student Loans*. Accessed September 26, 2010 at http://www2.ed.gov/offices/OSFAP/DCS/index.html. See also, Student Loan Borrower Assistance, National Consumer Law Center. Default and Delinquency. Accessed on September 26, 2010 at http://www.studentloanborrowerassistance.org/default-and-delinquency/.
[43] National Consumer Law Center's Student Loan Borrower Assistance web site: Disability and Death section. Available at thttp://www.studentloanborrowerassistance.org/loan-cancellation/disability-and-death/ .See also Pilon, Mary. "When Student Loans Live on After Death." Wall St. Journal. August 7, 2010. http://online.wsj.com/article/SB10001424052748704741904575409510529783860.html.

when used to pay for tuition or books, they are sometimes included in financial aid packages, and some for-profit colleges even offer their own private loans directly to students.

- The odds of having a private loan are highest for students at for-profit colleges, where 42 percent used a private loan in 2007-08, the most recent year for which data are available. Next come students at private nonprofit four-year schools at 25 percent, public four-year schools at 14 percent, and community colleges at 4 percent.

- Due at least in part to their over-representation at for-profit colleges, 17 percent of African-American undergraduates took out a private student loan in 2007-08, making them the most likely to borrow these risky products among all racial and ethnic groups. Their rate of private loan borrowing also rose the most steeply, quadrupling from 2003-04 to 2007-08. [44]

Like credit cards, private student loans typically have uncapped, variable interest rates that are highest for those who can least afford them. Lenders typically reserve the right to raise interest rates and charge high fees for myriad reasons and to declare borrowers in default for something as simple as being a day late on a payment. These loans also lack the important deferment options, affordable repayment plans, loan forgiveness programs, and cancellation rights in cases of death, severe disability, and school closure that federal student loans provide. But, as noted above, unlike credit card debt and other consumer loans, private student loans are virtually impossible for borrowers to discharge in bankruptcy.

Some for-profit colleges are aggressively expanding their own private lending to students who are at very high risk of default.[45] Pushing these students to take on private loan debt they cannot repay can be devastating for the students in the long run, but quite profitable for the school.

- For example, Corinthian Colleges, Inc. made $150 million of such loans in the fiscal year that ended this June, as well as $120 million the year before. They fully expect a shocking 56 to 58 percent of the borrowers to default.[46] Yet they consider these loans good investments because they will increase enrollment and with it a profitable flow of federal grant and loan dollars that outweighs the planned write-offs. Corinthian owns more than 100 colleges across the U.S.[47] Other large for-profit college companies, such

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[44] *Private Loans: Facts and Trends*, August 2009.
[45] Pope, Justin. "For-Profit Colleges' Increased Lending Prompts Concerns." Associated Press. August 15, 2009. http://www.usatoday.com/news/education/2009-08-15-profit-college-lending_N.htm.
[46] "Corinthian Colleges, Inc. F4Q09 (Qtr End 06/30/09) Earnings Call Transcript" http://seekingalpha.com/article/158257-corinthian-colleges-inc-f4q09-qtr-end-06-30-09-earnings-call-transcript?source=bnet; and "Corinthian Colleges, Inc. F2Q10 (Qtr End 12/31/09) Earnings Call Transcript" http://seekingalpha.com/article/186144-corinthian-colleges-inc-f2q10-qtr-end-12-31-09-earnings-call-transcript?part=qanda.
[47] From Corinthian College's Web site as of September 22, 2010: http://www.cci.edu/brands .

as ITT and Career Education Corporation, are also lending to their own students and expecting very high defaults.[48]

- In addition to using these loans to gain access to profitable amounts of federal student aid, for-profit colleges can immediately count these private loans towards the 10% of revenues these schools are required to get from sources other than federal student aid. From July 2008 through June 2012, the Higher Education Opportunity Act (HEOA) lets for-profit colleges count the net present value of their institutional loans as non-federal revenue in the year these loans are made, rather than counting them as revenue if and when they are actually repaid by the students.[49]

These are attempts to get around market corrections that appropriately reduced access to expensive, subprime private loans for very high risk borrowers, and to justify prices for for-profit education and training programs that may exceed federal aid limits. In 2008, Sallie Mae stopped most of its lending to these types of schools because of high default rates and other questionable practices. But whether the source is their own school or an outside lender, the students who are pushed into private loans they cannot afford are stuck with them even in bankruptcy, while the lenders are free to move on.

Costs and risks for taxpayers

Because the for-profit college industry relies on federally funded grants and taxpayer-backed loans for the bulk of its revenue, taxpayers, as well as students, have a lot at stake in the quality and cost of for-profit education. While for-profit schools have a fiduciary responsibility to act in the best interest of their shareholders and generate profits, Congress has a fiduciary responsibility to act in the best interest of taxpayers.

This Committee's June 2010 report, *Emerging Risk*, outlined just how heavily taxpayers are subsidizing the for-profit college industry.[50] While for-profit colleges may get up to 90% of their revenue from federal student aid (Title IV grants and loans), that extraordinarily high percentage

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[48] "Career Education Corporation Q1 2009 Earnings Call Transcript" http://seekingalpha.com/article/136209-career-education-corporation-q1-2009-earnings-call-transcript?page=-1. *Wall Street Journal*, "For-Profit Schools Face Detention Not Expulsion," Aug. 20, 2010.

[49] "For loans made to students by the institution from July 1, 2008, but before July 1, 2012, the net present value of the loans made during a fiscal year if the loans are evidenced by promissory notes, issued at intervals related to the institution's enrollment periods, and are subject to regular loan repayments and collections. For loans made on or after July 1, 2012, only the amount of loan repayments the institution receives during a fiscal year, excluding repayment on any loans for which the institution previously used the net present value in its 90/10 calculation." From U.S. Department of Education, "Dear Colleague" letter summarizing the Higher Education Opportunity Act (DCL ID: GEN-08-12 FP-08-10). December 2010. http://www.ifap.ed.gov/dpcletters/attachments/GEN0812FP0810AttachHEOADCL.pdf .

[50] U.S. Senate Health, Education, Labor and Pensions Committee. "Emerging Risk?: An Overview of growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education." U.S. Senate. June 24, 2010. http://harkin.senate.gov/documents/pdf/4c23515814dca.pdf .

currently excludes some federal student loans, and it does not include other government revenue sources, such as GI Bill benefits or federal job training funds. Here are just a few examples of how much taxpayers are spending on for-profit colleges.

- One in four federal Pell Grant dollars (more than $7.3 billion) went to students attending for-profit schools in 2009-10, almost double the share a decade earlier.[51]

- Nearly one in four federal student loan dollars (at least $20.3 billion) went to students at for-profit schools in 2008-09 (the latest year of available data), more than double the share in 1999-00.[52] In the coming year, for-profit colleges are expected to absorb an estimated $30 billion in federal student loans.[53]

- Since August 2009, taxpayers have spent $618 million on tuition and fees at for-profit colleges through the post-9/11 G.I. Bill. That amounts to more than a third (35%) of taxpayer spending in that period on veterans' tuition and fees.[54]

- In fiscal year 2010, an estimated $230 million in tuition assistance for active-duty troops went to for-profit, online colleges.[55]

The best available estimate for the average, undiscounted cost of tuition and fees for all for-profit colleges in 2009-10 is nearly $14,200, which is more than twice the average undiscounted cost for in-state students at public four-year colleges, and more than five times the cost at public two-year colleges.[56] For-profit colleges, which have an obligation to maximize profits for shareholders, can set their prices to generate the maximum possible revenue from federal student loans, as well as other federal and state government sources.

- Online colleges that market heavily to members of the military typically price their course credits at the maximum amount covered by GI benefits, $250, which is five times

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[51] Calculations by TICAS on data from U.S. Department of Education, Federal Student Aid Data Center, Programmatic Volume Reports. http://federalstudentaid.ed.gov/datacenter/programmatic.html, accessed July 22, 2010; U.S. Department of Education, Office of Postsecondary Education (OPE). "Pell End of Year Report, 1999-00." http://www2.ed.gov/finaid/prof/resources/data/pell-data.html, accessed July 28, 2010.
[52] Calculations by The Institute for College Access & Success on data from U.S. Department of Education, Federal Student Aid Data Center, Programmatic Volume Reports. http://federalstudentaid.ed.gov/datacenter/programmatic.html, accessed September 27, 2010.
[53] Calculations by The Institute for College Access & Success on data from the U.S. Department of Education. "Fiscal Year 2011 Budget Request: STUDENT LOANS OVERVIEW." http://www2.ed.gov/about/overview/budget/budget11/justifications/t-loansoverview.pdf, accessed June 22, 2010.
[54] Golden, Dan. "Veterans Failing Shows Hazards of For-Profit Schools in GI Bill." Bloomberg News. September 23, 2010. http://www.bloomberg.com/news/2010-09-23/veterans-failing-to-learn-show-hazards-of-for-profit-schools-under-gi-bill.html.
[55] Reed. Charlie. "DOD to tighten scrutiny of for-profit, online colleges." *Stars and Stripes.* September 24, 2010. http://www.stripes.com/news/dod-to-tighten-scrutiny-of-for-profit-online-colleges-1.119391.
[56] The College Board. *Trends in College Pricing 2009*. http://www.trends-collegeboard.com/college_pricing/1_1_published_prices_by_sector.html?expandable=0. See also http://www.trends-collegeboard.com/college_pricing/introduction.html.

more than the typical cost of community college credits offered on military bases, according to a Bloomberg News analysis.[57]

- Some state grants can be used to attend for-profit colleges. For example, California's Cal Grant program made some awards of more than $15,000 to students at for-profit colleges in 2007-08, including colleges that the California Attorney General found in 2005 to have falsified job placement and salary data for graduates. This is roughly ten times the value of a typical Cal Grant received by a community college student.[58]

Even after taking substantial state subsidies for public colleges into account, taxpayers and students combined can still end up paying less for career education programs at public colleges than at for-profit colleges. This is what the Florida Office of Program Policy Analysis and Government Accountability (OPPAGA) found earlier this year, when it compared five career education programs offered by both public and for-profit colleges in the state.[59]

- Three out of the five programs studied cost thousands of dollars less at public colleges than at for-profit colleges after combining the student and state contributions. These programs were $2,250 to nearly $5,100 cheaper at public colleges. The two programs that cost less at for-profit colleges were cheaper by much smaller amounts: $46 and $837.

- One for-profit program – massage therapy – had a per-student cost more than double the public college program's cost, along with fewer completions and a lower pass rate on the licensure exam.

- The public programs also had much higher rates of accreditation and much higher pass rates on licensure and certification exams. For example, 95% of the public phlebotomy programs were accredited, compared to 26% of the for-profit programs.

Déjà vu All Over Again

Sadly, this is not the first time that policymakers have had to raise concerns about these kinds of problems in the for-profit college sector. Following the creation of the G.I. Bill in 1944,

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[57] Golden, Dan. "Marine Can't Recall His Lessons at For-Profit College." Bloomberg. December 15, 2009. http://www.bloomberg.com/apps/news?pid=newsarchive&sid=al8HttoCG.ps.

[58] California Student Aid Commission, "Cal Grant Statistics, Academic Year 2007-08". http://www.csac.ca.gov/pubs/forms/grnt_frm/07-08PreliminaryGrantStatistics.pdf. See also, California Office of the Attorney General, July 31, 2007, "Brown Reaches Multi-Million Settlement with Corinthian Vocational School". http://ag.ca.gov/newsalerts/release.php?id=1444.

[59] Florida Office of Program Policy Analysis and Government Accountability (OPPAGA), *Public Career Education Programs Differ From Private Programs on Their Admission Requirements, Costs, Financial Aid Availability, and Student Outcomes*, January 2010. Report 10-18. http://www.oppaga.state.fl.us/MonitorDocs/Reports/pdf/1018rpt.pdf.

thousands of for-profit colleges sprung up virtually overnight to enroll veterans.[60] In response to well-founded concerns about waste, fraud and abuse, Congress established an important market mechanism for veteran education programs. It capped the percentage of a program's students that could receive veteran benefits at 85%. This "85-15 Rule" is intended to ensure that at least 15 percent of a program's students are willing to pay the sticker price without the federal subsidy.[61]

In 1972, amendments to the Higher Education Act allowed for-profit schools to participate in the federal Title IV student financial assistance programs for the first time. Problems arose almost immediately. Throughout the next two decades, there were Congressional hearings, investigations and legislative attempts to uncover and thwart deceptive and fraudulent practices in the proprietary sector. The most notable investigation came in 1990, when the Senate Permanent Subcommittee on Investigations of the Committee on Governmental Affair, led by Senator Sam Nunn, documented a wide range of pervasive problems plaguing virtually every part of for-profit college administration and oversight.[62]

In response, Congress passed a series of reforms in 1992. These included establishing an 85-15 rule for Title IV financial aid, modeled after the G.I. Bill provision but focused on revenues rather than students. It required proprietary schools to get at least 15 percent of their revenues from sources other than Title IV programs. A "50 percent Rule" made schools ineligible for Title IV funds if more than half their courses were provided through correspondence. Importantly, the 1992 reforms also banned incentive compensation for college recruiters and personnel.

The results were clear. In less than ten years, for-profit sector default rates fell from 29 percent in 1991 to 9 percent in 2000.[63]

However, it did not take long for the newly strengthened rules to get weakened under intense lobbying from the for-profit college industry. In 1998, Congress reduced the percentage of revenue that schools had to obtain from non-Title IV sources from 15 percent to 10 percent (changing the 85-15 rule to 90-10). This was just one year after a GAO report concluded that proprietary schools that relied more heavily on Title IV funds tended to have poorer student outcomes: "Our analysis showed that, on average, the higher a school's reliance on Title IV, the

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[60] Altschuler, Glenn C. and Stuart M. Blumin. *The G.I. Bill: A New Deal for Veterans.* Oxford University Press. 2009.
[61] Decision by the U.S. Supreme Court: 435 U.S. 213, 98 S.Ct. 1024, 55 L.Ed.2d 225, Max CLELAND, Administrator of the Veterans Administration, et al. v. NATIONAL COLLEGE OF BUSINESS., No. 77-716. March 20, 1978.
[62] The 1990 hearings culminated in Senate Report 102-58, *Abuses in Federal Student Aid Programs*, Report Made by the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs, United States Senate, May 17, 1991.
[63] Calculations by The Institute for College Access & Success on U.S. Department of Education data on student loan defaults, for Federal Fiscal Years 1991 and 2000.

lower its students' completion and placement rates, and the higher its students' default rates."[64] The rules continued to be watered down through the 2000s, including:[65]

- 2002—The Department of Education added "safe harbors" to the ban on incentive compensation which, in direct contradiction to the statute, allowed forms of incentive compensation. These loopholes directly contributed to the growth of high-pressure recruiting tactics at some for profit colleges.[66]

- 2005—The rule limiting distance courses to 50% of a college's total enrollment was gutted by eliminating the requirement that eligible telecommunications (i.e., online) courses be part of programs at least one year in length, opening door to 100% online colleges. In the internet age, this allowed colleges to double in size virtually overnight.

- 2008—The Higher Education Opportunity Act (HEOA) substantially weakened the already weak 90-10 rule for Title IV student aid. It allowed for-profit schools to immediately count institutional loans towards their 10 percent of non-federal revenues, rather than counting them as they are repaid; allowed schools to count some Title IV aid towards the 10 percent, rather than the 90 percent, side of the 90-10 calculation; and eased penalties for proprietary institutions that fail to comply with the 90-10 rule.

Unfortunately and predictably, weakened regulation and reduced oversight, combined with a large potential revenue stream of federal dollars, have led once again to an environment where the incentives for less scrupulous for-profit colleges to game the system appear to exceed the risks. At the same time, the risks to students and taxpayers are much larger in scale and cost than ever before.

The last time Congress cracked down on abuses at for-profit colleges, the sector was a shadow of the size it is today. In 1991 – the point at which the Permanent Subcommittee on Investigations found proprietary colleges to be "leaving hundreds of thousands of students with little or no training, no jobs, and significant debts that they cannot possibly repay" – there were fewer students enrolled in the entire for-profit sector than there are enrolled today in just the University of Phoenix. In 1991, the University of Phoenix enrolled just over 7,000 students. Last fall, it enrolled more than 475,000.[67]

In 1991, Ashford University did not exist. It was then a tiny nonprofit college in Iowa with a different name and fewer than 300 students. In 2005, the year Congress eliminated the rule

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[64] GAO. "Proprietary Schools: Poorer Student Outcomes at Schools That Rely More on Federal Student Aid," GAO/HEHS-97-103 Proprietary Schools and Student Aid. June 1997.
[65] Congressional Research Service Report RL-33909. *Institutional Eligibility for Participation in Title IV Student Aid Programs Under the Higher Education Act: Background and Reauthorization Issues,* by Rebecca R. Skinner.
[66] Testimony of David Hawkins, Director of Public Policy and Research, National Association for College Admission Counseling, before the Senate Health, Education, Labor and Pensions Committee, Hearing on Marketing and Recruitment in For-Profit Education. August 4, 2010. http://help.senate.gov/imo/media/doc/Hawkins1.pdf.
[67] Calculations by TICAS on IPEDS for the years noted.

limiting aid to online schools, this tiny nonprofit college with fewer than 1,000 students became Ashford University. By last year, just four years later, it was a publicly traded for-profit corporation with more than 46,000 students—more than the University of Iowa or Iowa State, and more than all the colleges in Wyoming combined.[68]

The fact that for-profit schools are growing quickly is not inherently problematic, but the high stakes for both students and taxpayers suggest that the sector should be actively and carefully monitored. Our higher education and financial aid systems are very complicated, even for highly educated consumers. As David Hawkins of the National Association for College Admission Counseling (NACAC) testified before this Committee in August, "the information asymmetry between the employees in charge of recruiting and prospective students is immense. In an unregulated environment, the potential for misrepresentation and outright fraud is a clear and present threat, which can result in harm to students and, in the case of federal aid and loans, to the taxpayer."[69]

For example, an article in this June's issue of *Good Housekeeping* magazine offered a thoughtful but daunting list of 11 different kinds of research students should do if they are considering a for-profit college for career education, from checking with local public colleges to see if they offer similar programs at lower cost, to interviewing prospective employers, to figuring out the name of the school's parent company and, if it is publicly held, reading its most recent 10-K filing with the SEC.

Missing from this already long list are any questions about program-level accreditation and licensing requirements, which, as this Committee heard from Yasmine Issa in June, are arcane issues that can render even a completed credential completely useless. This level of sophisticated, defensive research and analysis is more than should be required of any consumer, and is particularly burdensome for the less-educated consumers deliberately targeted by much of this industry. The ability to interpret corporate SEC filings and detailed knowledge of the different types of accreditation should not be required to avoid getting ripped off by a for-profit school.

Thank you again for holding today's hearing and for the opportunity to testify today. I look forward to answering your questions.

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[68] Ibid.
[69] Testimony of David Hawkins, Director of Public Policy and Research, National Association for College Admission Counseling, before the Senate Health, Education, Labor and Pensions Committee, Hearing on Marketing and Recruitment in For-Profit Education. August 4, 2010. http://help.senate.gov/imo/media/doc/Hawkins1.pdf.