Chancellor University

Introduction

Chancellor University ("Chancellor") is a for-profit college acquired in 2008. However, because company's regional accreditor placed Chancellor on probation and mandated additional growth restrictions, the company's expansion plans faltered. Moreover, little data is available to show a complete picture of how students are faring.

Company Overview

Chancellor University is a privately held, for-profit education company headquartered in Seven Hills, OH. Started in Cleveland, OH, during World War II, and after the merger of Spencerian Business College and Berkey and Spencerian College, Chancellor was originally known as Dyke & Spencerian College and taught penmanship and accounting. Since its founding, the name and tax status of the school has changed several times.[1422] The school became Chancellor University in 2008 when Significant Partners LLC bought nonprofit Myers University and renamed it. At the time of its purchase, Myers University was deeply in debt and on probation with its regional accreditor. In 2009, former general electric chief executive officer Jack Welch bought a minority stake in Chancellor University. Welch's investment created Chancellors's M.B.A. program and the Jack Welch Management Institute, an online Executive M.B.A. program that launched in 2010.[1423]

Chancellor has one campus in Seven Hills, OH, along with an online division. It offers Certificate, Associate, Bachelor's and Master's degree programs in business, accounting, corporate management, human resource management, marketing, management information systems, criminal justice, paralegal education, public administration, health services management, healthcare, graphic design, and public safety and general arts. All degree and Certificate programs are offered both on campus and online.

Like more than half of the regionally accredited brands the committee examined, Chancellor University is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools ("HLC"). In October 2008, following a focused visit to Chancellor in September of that year, HLC placed Chancellor, then Myers University, on probation. This action arose out of the recommendation of the visiting team and was based on the finding that Chancellor was in danger of not meeting its accrediting criteria related to mission, governance, integrity, resources and planning. After another comprehensive visit to the school the following year, in February 2010, HLC issued Chancellor a "show cause" order, the final chance for Chancellor to provide evidence to persuade the HLC not to end its accreditation.[1424] HLC concerns related to Chancellor's governance, finances, and student outcomes.

In the fall of 2009, the Ohio Board of Regents, which authorizes private institutions' degree-granting powers, placed Chancellor on 3-year "provisional" status requiring it to submit annual progress

[1422] Chancellor Universtiy, About CU: History, http://www.chancelloru.edu/history.aspx (access June 14, 2012).
[1423] Jennifer Epstein, "For-Profit, Without Profit," Inside Higher Ed, August, 20, 2010, http://www.insidehighered.com/news/2010/08/20/chancellor (access June 14, 2012).
[1424] Higher Learning Commission, "Public Disclosure Notice on Chancellor University," February 24, 2011, http://www.ncahlc.org/download/_PublicDisclosureNotices/PDN_1837.pdf (accessed June 14,2010).

reports each September. Moreover, Chancellor's reauthorization is contingent on its maintaining its regional accreditation.

In November 2011, Jack Welch announced that he was removing the Jack Welch Management Institute from Chancellor and subsequently sold the program to Strayer Education, Inc., an established for-profit college company. Though Chancellor continues to offer a Master's program in business, this was a significant blow to Chancellor's financial health as the Jack Welch Management Institute was integral to Significant Partners' strategy for growing Chancellor.[1425]

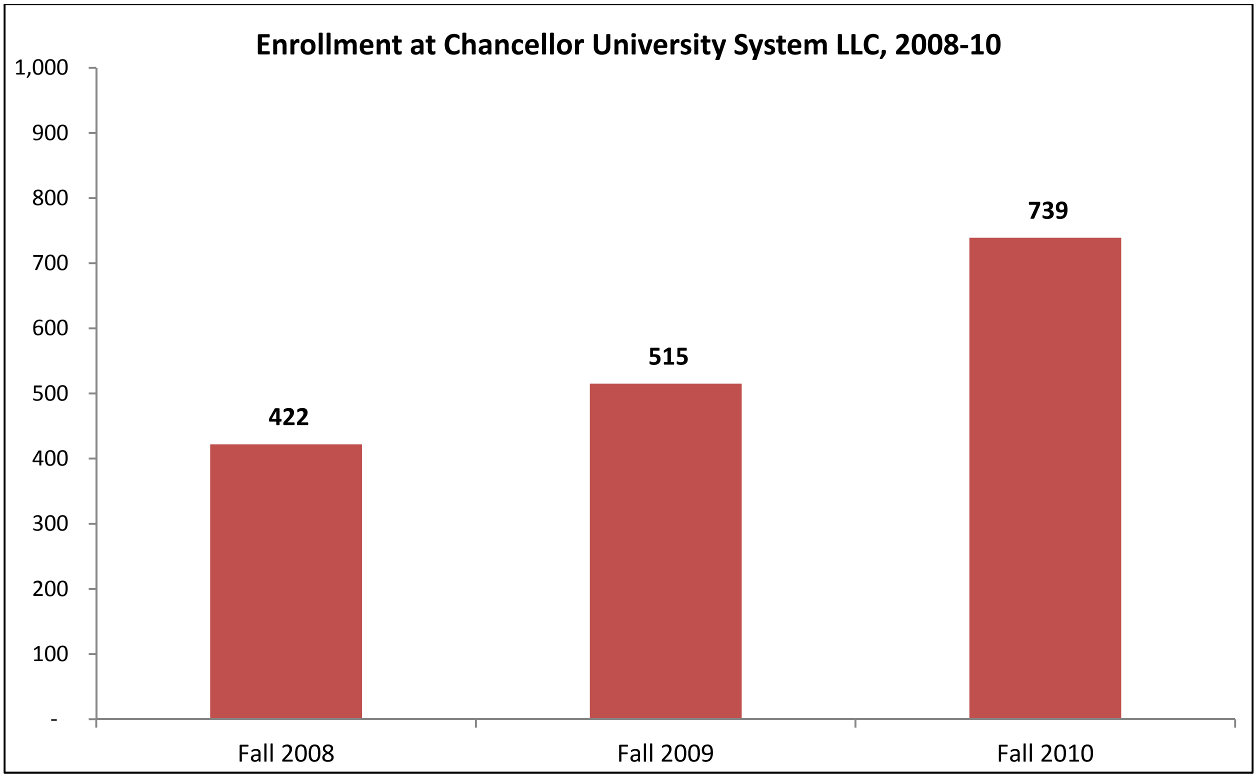
The high rate of turnover among top executives at Chancellor further reflects the company's tumultuous financial condition. Bob Daugherty is the current president and assumed his leadership role in the summer of 2010. Bob Barker, who spent 20 years as an executive at the University of Phoenix before becoming a for-profit education entrepreneur, was Chancellor's CEO for about 6 months prior to Daugherty. George Kidd, a former president of nonprofit Tiffin University, served as the president of Chancellor prior to Barker.[1426]

Enrollment at Chancellor has grown by 75 percent since becoming a for-profit college in 2008, growing from 422 students in the fall of 2008 to 739 students by the fall of 2010.[1427] However, Chancellor has not been profitable since it was acquired and has been operating on an annual budget deficit.

[1425] Timothy Magaw, "Chancellor University Loses Jack Welch Management Institute," *Crain's Cleveland Business*, November 11, 2001, http://www.crainscleveland.com/apps/pbcs.dll/article?AID=/20111111/FREE/111119952 (accessed June 14,2010).

[1426] Jennifer Epstein, "For-Profit, Without Profit," Inside Higher Ed, August, 20, 2010, http://www.insidehighered.com/news/2010/08/20/chancellor (accessed June 14, 2012).

[1427] 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. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.



Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs.[1428] Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1429] 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.[1430]

In 2010, Chancellor reported 86.7 percent of revenue from title IV Federal financial aid programs.[1431] However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education programs.[1432] Department of Defense Tuition Assistance and post-9/11

[1428] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 USC §1070 et seq.

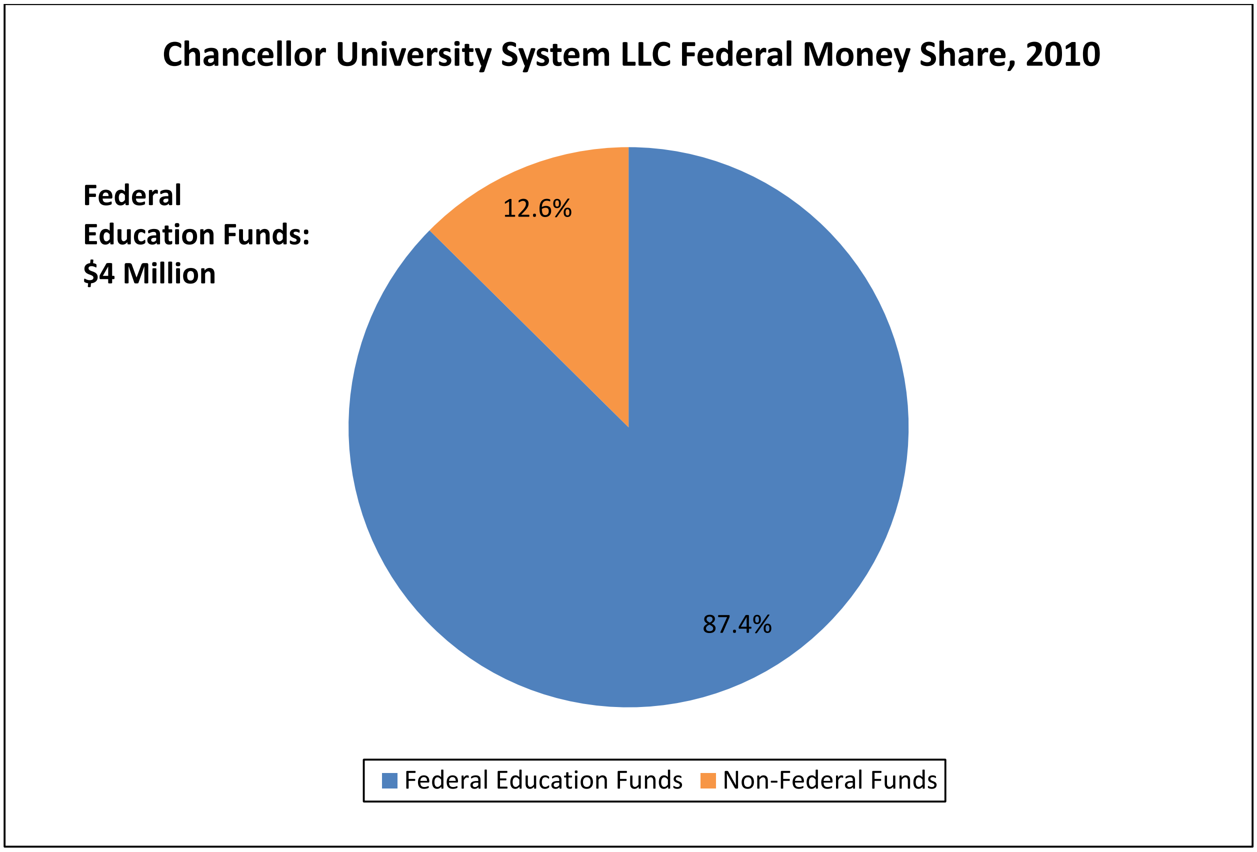
[1429] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

[1430] 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.

[1431] Senate HELP Committee staff analysis of fiscal year 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.

[1432] 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

GI bill funds accounted for approximately 0.7 percent of Chancellor's revenue, or $32,342.[1433] With these funds included, 87.4 percent of Chancellor's total revenue was comprised of Federal education funds.[1434]



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.[1435] 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

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calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for Chancellor could not be extrapolated from the data the company provided to the committee.

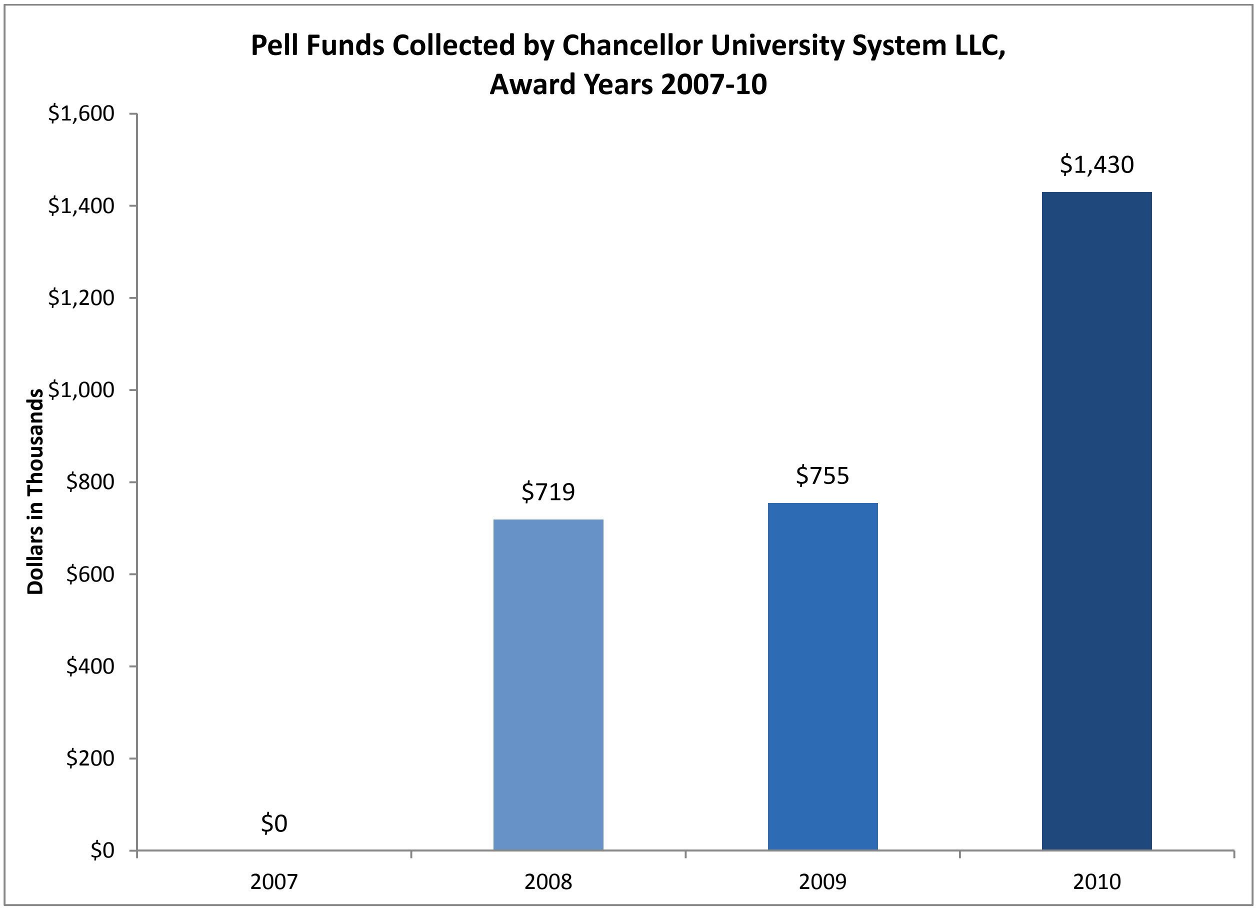
[1433] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-2011 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[1434] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.

[1435] 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.

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.

Chancellor doubled the amount of Pell grant funds it collected since becoming a for-profit institution, from $719,485 in 2008 to $1.4 million in 2010.[1436]



Spending

While Federal student aid programs are intended to provide 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.[1437] During

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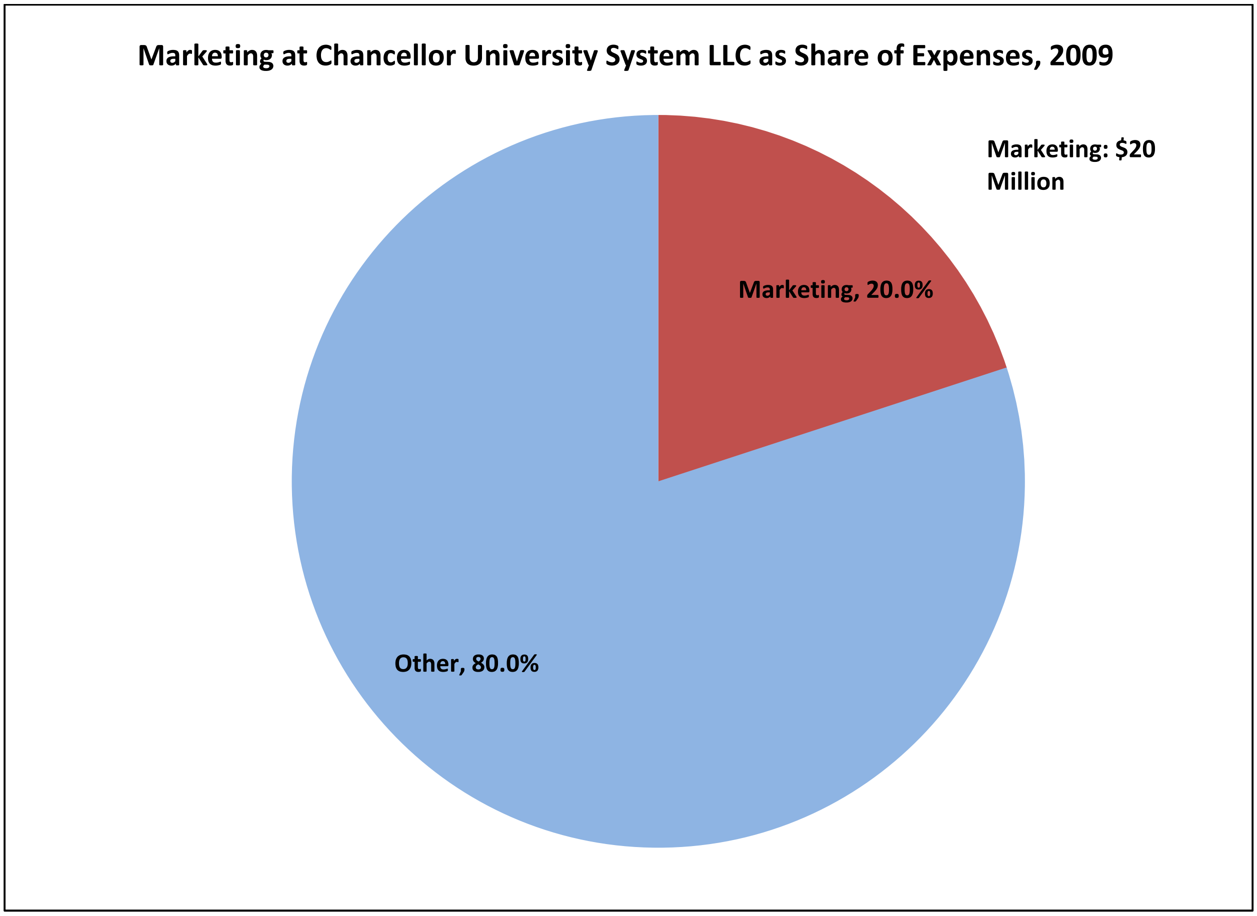
[1436] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

[1437] 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.

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).[1438]

In 2009, Chancellor allocated 20 percent of its expenditures, or $20 million, to marketing and recruiting.[1439]



However, as previously noted, unlike the majority of for-profit education companies examined over the course of this investigation, Chancellor has been operating at a loss since becoming a for-profit institution in 2008.[1440] In 2009, the company's expenses exceeded its revenue by $6.9 million.

Executive Compensation

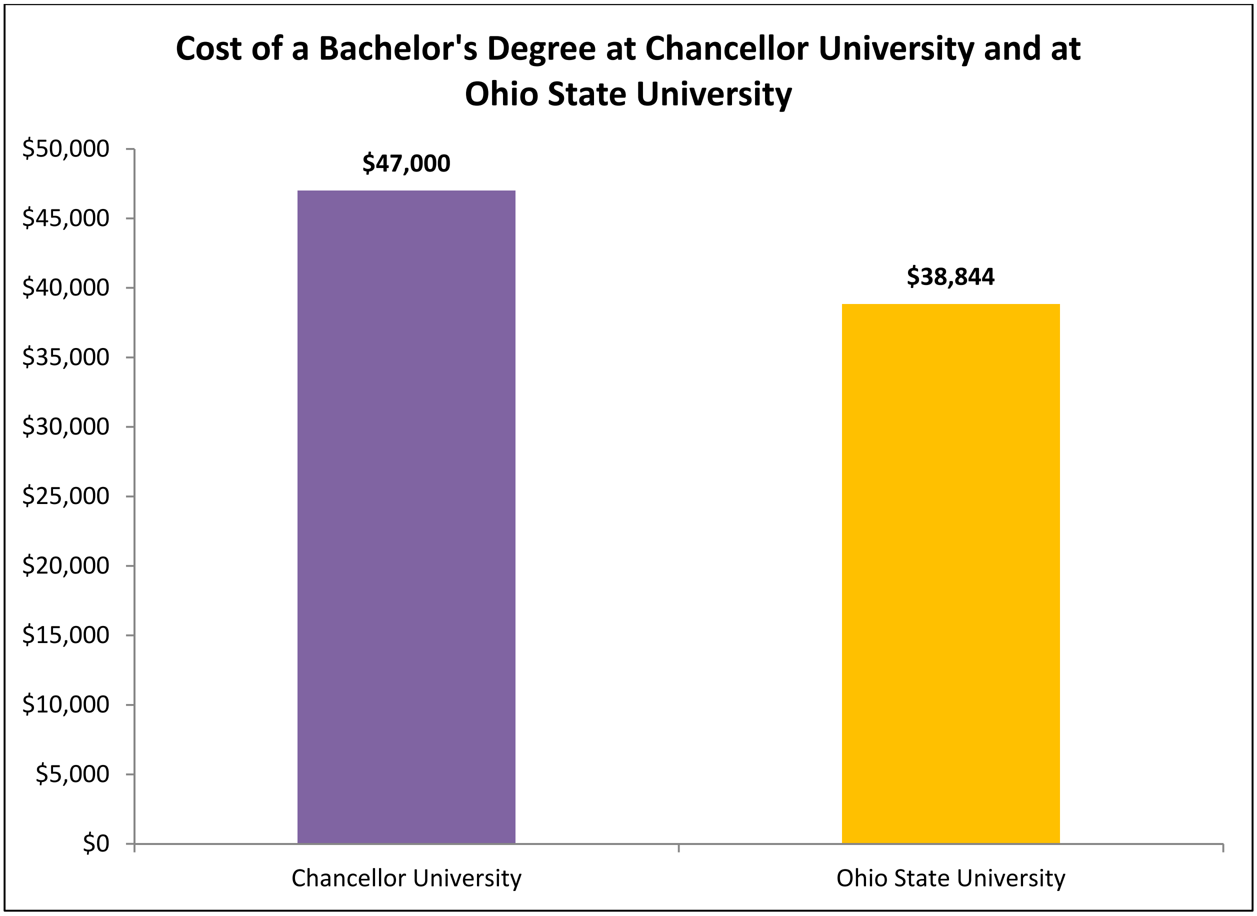
As a private-held company, Chancellor is not obligated to release executive compensation figures.

[1438] Senate HELP Committee staff analysis of fiscal year 2009 financial statements. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19. "Other" includes: instruction, faculty salaries, executive compensation, lobbying, student services, maintenance, administration, facilities and other expenditures.
[1439] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

[1440] Senate HELP Committee staff analysis. See Appendix 18.

Tuition and Other Academic Charges

Compared to public colleges offering the same degrees, the price of tuition at Chancellor is more expensive. A Bachelor of Science in Business Administration with a concentration in accounting costs $47,000 at Chancellor,[1441] while the same degree at Ohio State University costs $38,844.[1442]



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.

Chancellor has come under scrutiny for overzealous recruiting. In 2010, Chancellor was named in a Bloomberg Businessweek article exposing for-profit colleges that were targeting the homeless for heavy recruitment.[1443] According to BusinessWeek, Chancellor began focused recruiting efforts in homeless shelters in Cleveland after it realized that University of Phoenix, owned by Apollo Group, was

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[1441] See Appendix 14; see also Chancellor University, *Gainful Employment*, http://www.chancelloru.edu/gainful-employment.aspx (accessed July 12, 2012). There is no difference in cost between online and a brick and mortar campus.
[1442] See Appendix 14; see also, The Ohio State University, *Ohio State University*, http://undergrad.osu.edu/ (accessed June 14, 2012).
[1443] Daniel Golden, "The Homeless at College," *Bloomberg Buisnessweek*, April 30, 2010, http://www.businessweek.com/magazine/content/10_19/b4177064219731.htm (accessed June 14, 2012).

also doing so. Estimating that this kind of recruiting could produce "a minimum of at least 10 enrollees by spring term," Chancellor sent officials to give presentations at a dozen social services programs. According to one shelter coordinator, their pitch was "very heavy handed. It was beating the drum, 'Go to Chancellor. This is what we offer. Financial aid, financial aid, financial aid.'" After Chancellor's presentation, the same coordinator, who worked for a women's shelter, reports being hounded with phone calls and emails to "get these women rolling." As of the time of the article's publication in 2010, Chancellor stopped its recruiting in Cleveland shelters. According to Chancellor CEO Bob Barker, the shelter recruiting was discontinued for failing to recruit enough new students.

Targeting the homeless, a group that is both uniquely vulnerable and particularly poorly situated to succeed in higher education, is particularly concerning because student loan debt is extremely hard to discharge. BusinessWeek reported finding people in Cleveland shelters with trade school debts from 20 years ago. Those who don't repay their student loans may forfeit their chances for public housing and are also ineligible for Federal financial aid to return to college.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, the committee found 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.[1444]

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 students who enroll at Chancellor are not achieving their educational and career goals.

Retention Rates

Unlike all other companies examined by the committee, Chancellor failed to produce information that would allow the committee to accurately analyze the number of students that withdrew from Chancellor.[1445]

Student Loan Defaults

The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1446]

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.[1447] In contrast, 1 student in 11 at public and non-profit

[1444] Patricia Steele & Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy* Brief, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 14, 2012).
[1445] Chancellor produced documents listing the students who "formally ceased to attend" Chancellor in 2009 and 2010, but these documents do not distinguish between students who withdrew and students who completed their program, noting that "Chancellor University does not have a formal withdrawal policy." See Appendix 15.
[1446] Direct Loan Default Rates, 34 CFR 668.183(c).

schools defaulted within the same period.[1448] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1449] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1450]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[1451] This change represents a 32.6 percent increase over 4 years.[1452] Chancellor's default rate for students entering repayment in 2008 was 14 percent, well below the average for the for-profit education sector. However, because 2008 was Chancellor's first year in operation, this default rate does not account for the majority of its student population.

Instruction and Academics

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

Chancellor spent $10,893 per student on instruction in 2009, compared to $5,726 on marketing.[1453] The amount that privately held companies the committee examined spend on instruction ranges from $1,118 to $6,389 per student per year.[1454] In contrast, public and non-profit 4-year colleges and universities, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other Ohio-based colleges spent, on a per student basis, $15,466 at Ohio State University's Main Campus, $10,416 at University of Dayton, and $4,867 at Cuyahoga Community College.[1455]

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,

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1447 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.
1448 Id.
1449 Id.
1450 Id.
1451 Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-2008, http://federalstudentaid.ed.gov/datacenter/cohort.html Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
1452 Id.
1453 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 and Appendix 22.
1454 Id. Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.
1455 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.

80 percent of the faculty is part-time.[1456] Seventy percent of Chancellor's faculty is employed part-time.[1457] In 2010, the company employed 20 full-time and 50 part-time faculty.[1458]

Staffing

While for-profit education companies employ large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 739 students, Chancellor employed 14 recruiters, 3 career services employees, and 15 student services employees.[1459]

Conclusion

Chancellor is an example of what can occur when genuine oversight is brought to bear by accreditors. To the extent that Chancellor expands and becomes profitable it is likely to do so with solid student outcomes and quality curriculums.

Chancellor remains under review by the State of Ohio and its regional accreditor. There are signs that the school is experiencing a crisis in management as it continues to operate at a loss and has failed to attract enough students to generate the revenue it needs to remain solvent. It recently lost Jack Welch's Management Institute, the signature program around which the college had hoped to grow. It is unclear if the company will be able to resolve the concerns of the State and the accreditors.

[1456] 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.
[1457] Id.
[1458] Id.
[1459] Id. See Appendix 7 and Appendix 24.