Herzing University

Introduction

Like many for-profit education companies, Herzing, Inc. ("Herzing") has experienced steady growth in student enrollment, Federal funds collected and profit realized in recent years. Students attending privately held and family-managed Herzing appear to fare better than students at some other for-profit colleges. However, the recent surge in enrollment appears to have a negative impact on student outcomes.

Company Overview

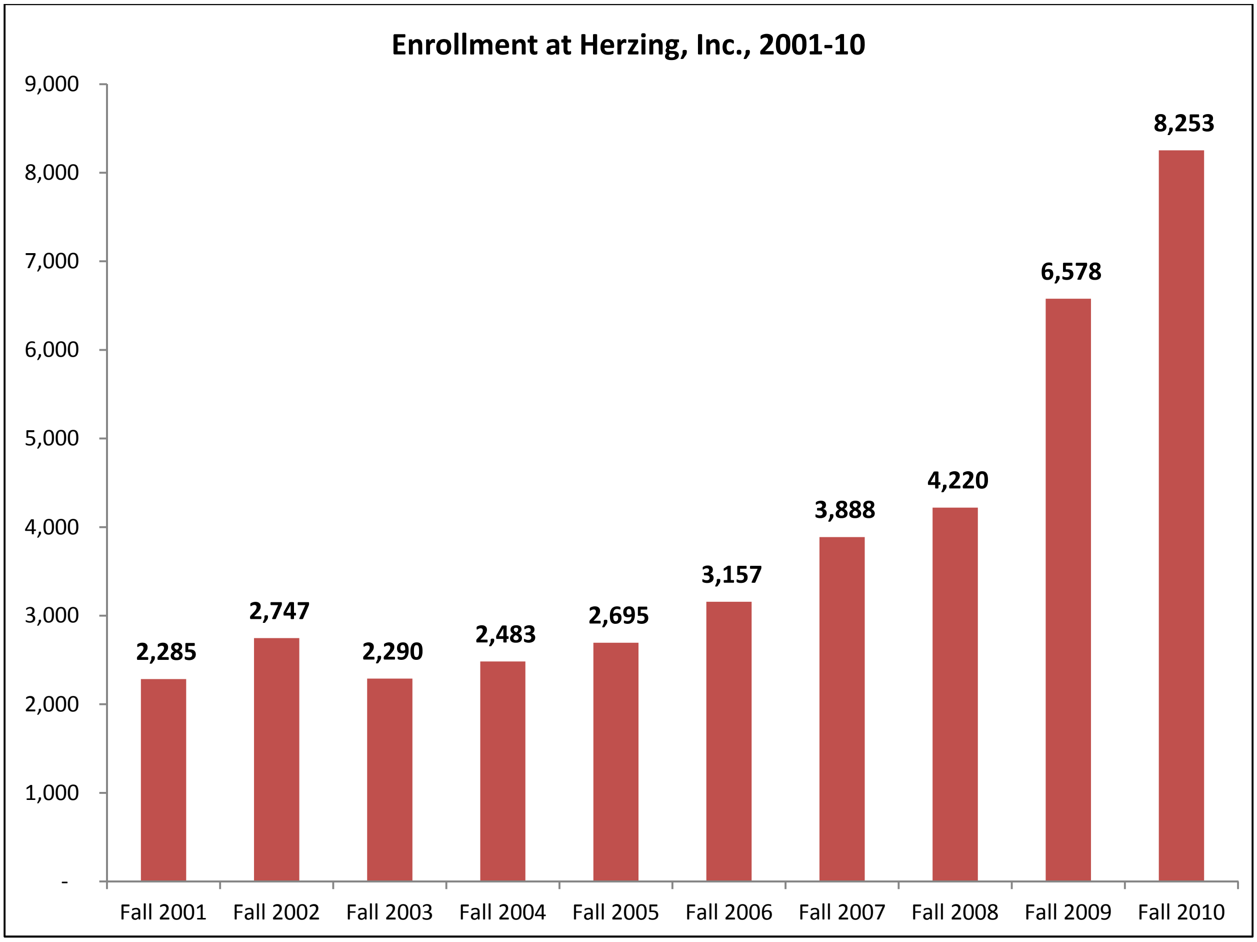
Herzing is a privately held, for-profit education company headquartered in Milwaukee, WI. Founded in 1965 by Henry and Suzanne Herzing, the company was originally a computer training institute. Today, Herzing offers Associate and Bachelor's degree programs in the fields of business management, electronics, healthcare, graphic design, and public safety as well as Master's degrees (online only). Herzing operates 11 campuses in 8 States.[1999]

The current president of Herzing University is Renee Herzing, who succeeded her father Henry Herzing in March 2009. Henry Herzing continues to serve as CFO and on the board of directors. Herzing remains owned by the Herzing family and it is unclear what outside investors the company may have.

Like more than half of the regionally accredited brands the committee examined, Herzing University is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC). [2000] At the time HLC accredited Herzing in 2004, the company enrolled 2,483 students. HLC has recently taken steps to place growth restrictions on all Associate and Bachelor's degree programs.[2001]

While it is significantly smaller than many companies the committee examined, Herzing has grown significantly over the last decade. Enrollment at Herzing has increased 260 percent since 2001. In the fall of 2001, Herzing enrolled 2,285 students. By the fall of 2010, the company enrolled 8,253 students.[2002]

[1999] Akron, Atlanta, Birmingham, Brookfield, Kenosha, Madison, Minneapolis, New Orleans, Omaha, Orlando, and Toledo.
[2000] The 30 companies operate 71 different brands not including the Art Institute.
[2001] The Higher Learning Commission, "Currently or Previously Affiliated Institutions: Herzing University" http://www.ncahlc.org/component/com_directory/Action,ShowBasic/Itemid,/instid,2838/ (accessed June 14, 2012).
[2002] 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.



Driven by this increase in enrollment, revenue at Herzing has grown steadily, increasing 48 percent between 2006 and 2009.[2003]

Federal Revenue

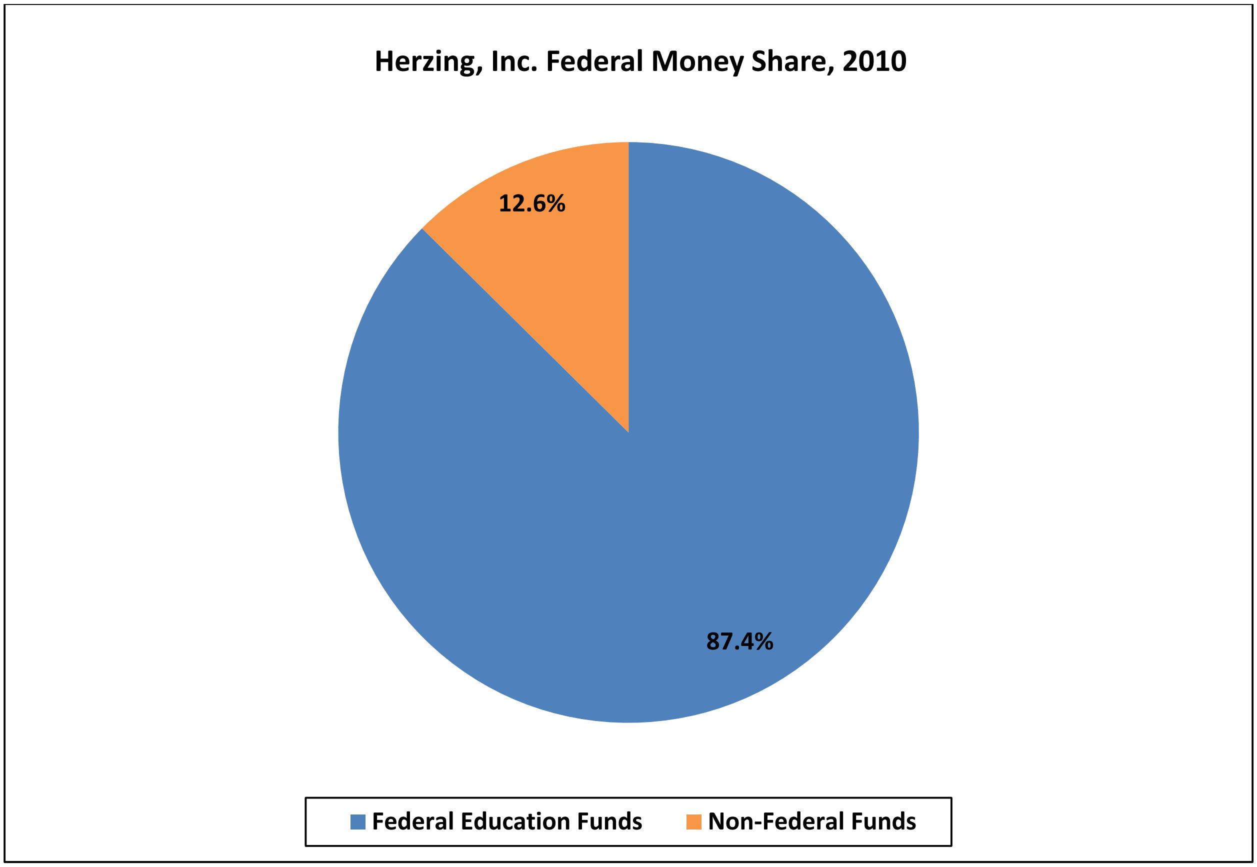
Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2004] Together, the 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.[2005]

[2003] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are from the company financial statements produced to the committee.

[2004] 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. "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.

[2005] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

In 2010, Herzing reported 86.1 percent of revenue from title IV Federal financial aid programs.[2006] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.[2007] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 1.3 percent of Herzing's revenue, or $1.5 million.[2008] With these funds included, 87.4 percent of Herzing's total 2010 revenue was comprised of Federal education funds.[2009]



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

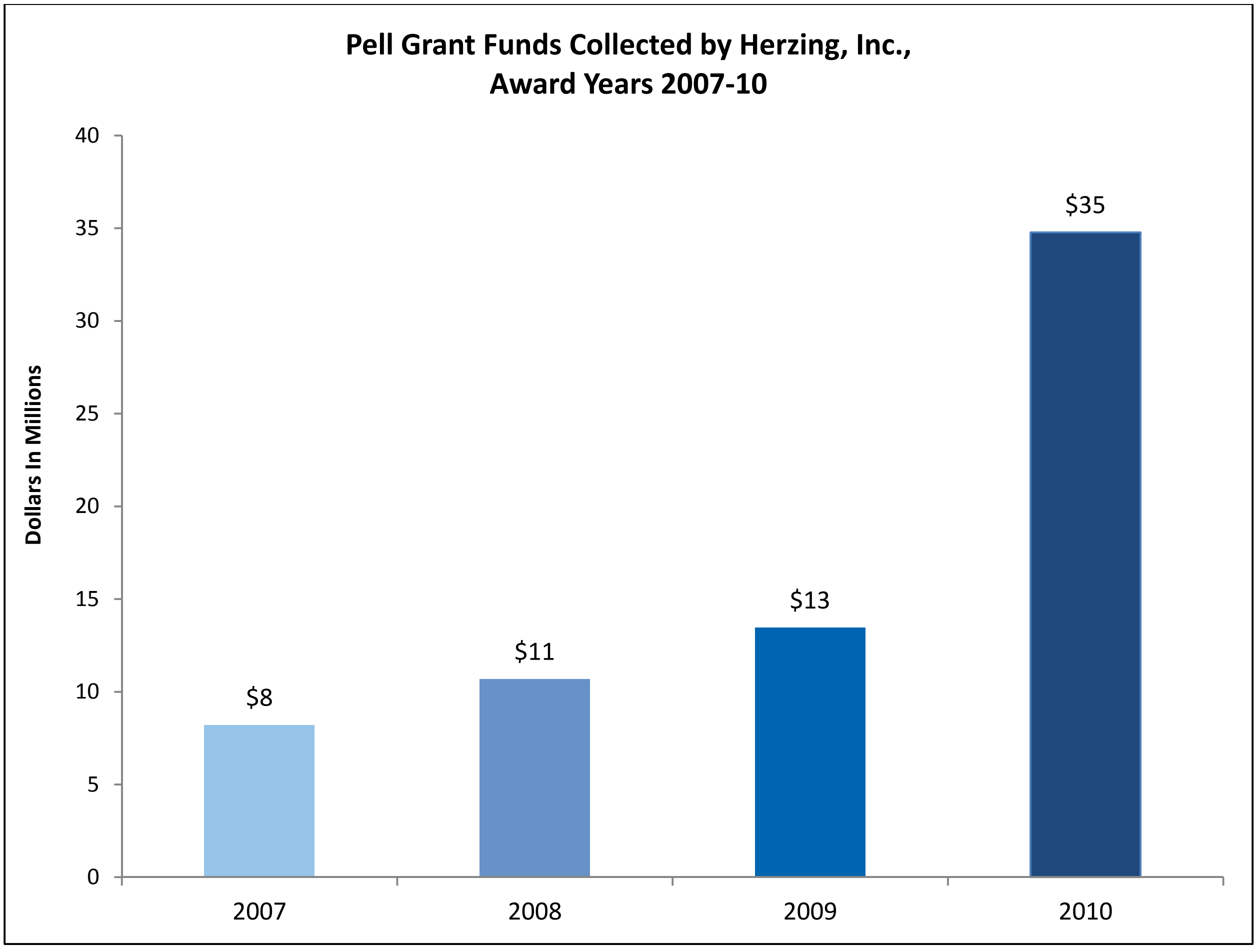
[2006] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October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

[2007] 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 Herzing could not be extrapolated from the data the company provided to the committee.

[2008] 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.

[2009] "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.

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.[2010] 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.



Herzing more than tripled the amount of Pell grant funds it collected in just three years, from $8.2 million in 2007 to $34.8 million in 2010, with a dramatic surge between 2009 and 2010.[2011]

Spending

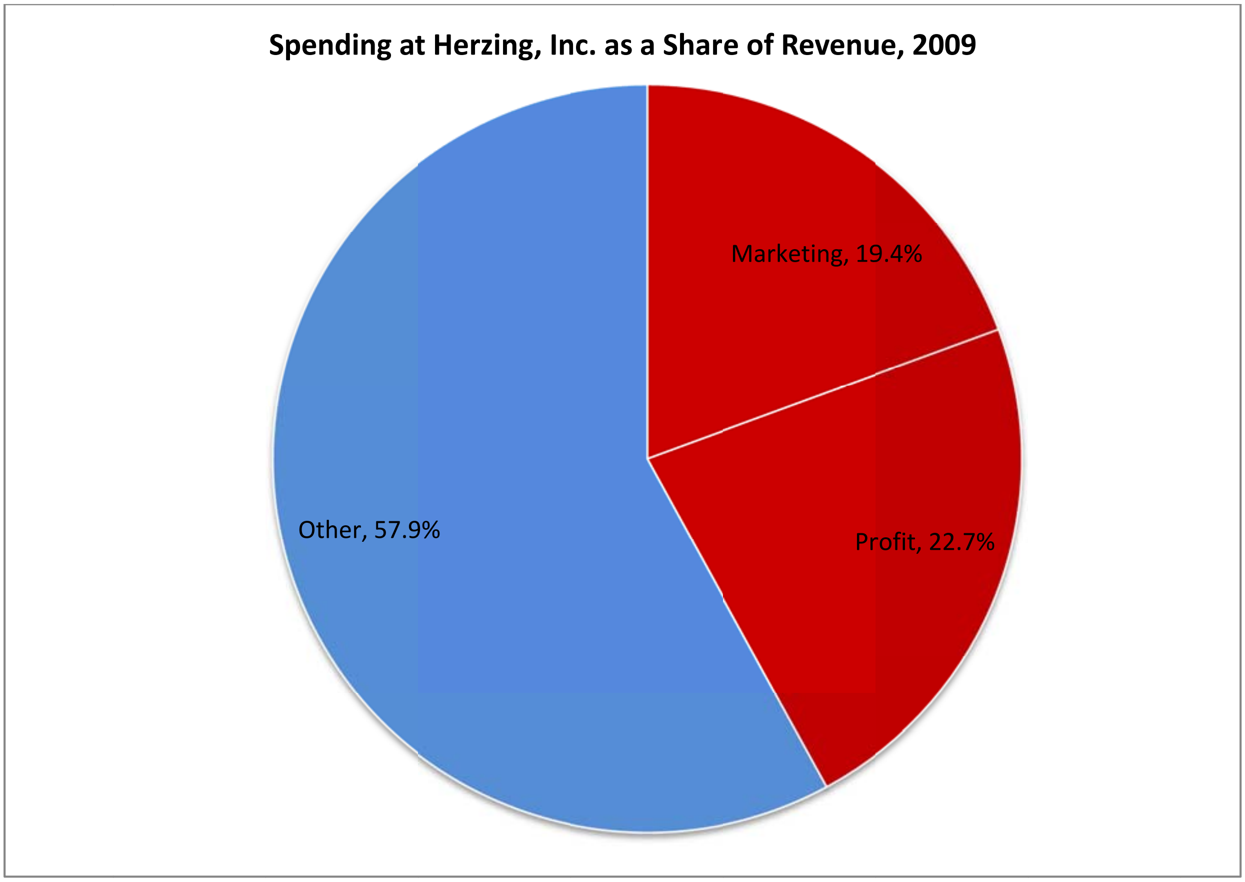
While Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded

[2010] 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 (accessed July 12, 2012).

[2011] Pell disbursements are reported according to the Department of Education's student aid "award year," other revenue figures are reported according to the company's fiscal 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 and 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012). See Appendix 13.

education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[2012] During the same period, the companies spent 23 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[2013] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

In fiscal year 2009, Herzing devoted 19.4 percent of its revenue, to marketing and recruiting and 22.7 percent, to pre-tax profit.[2014]



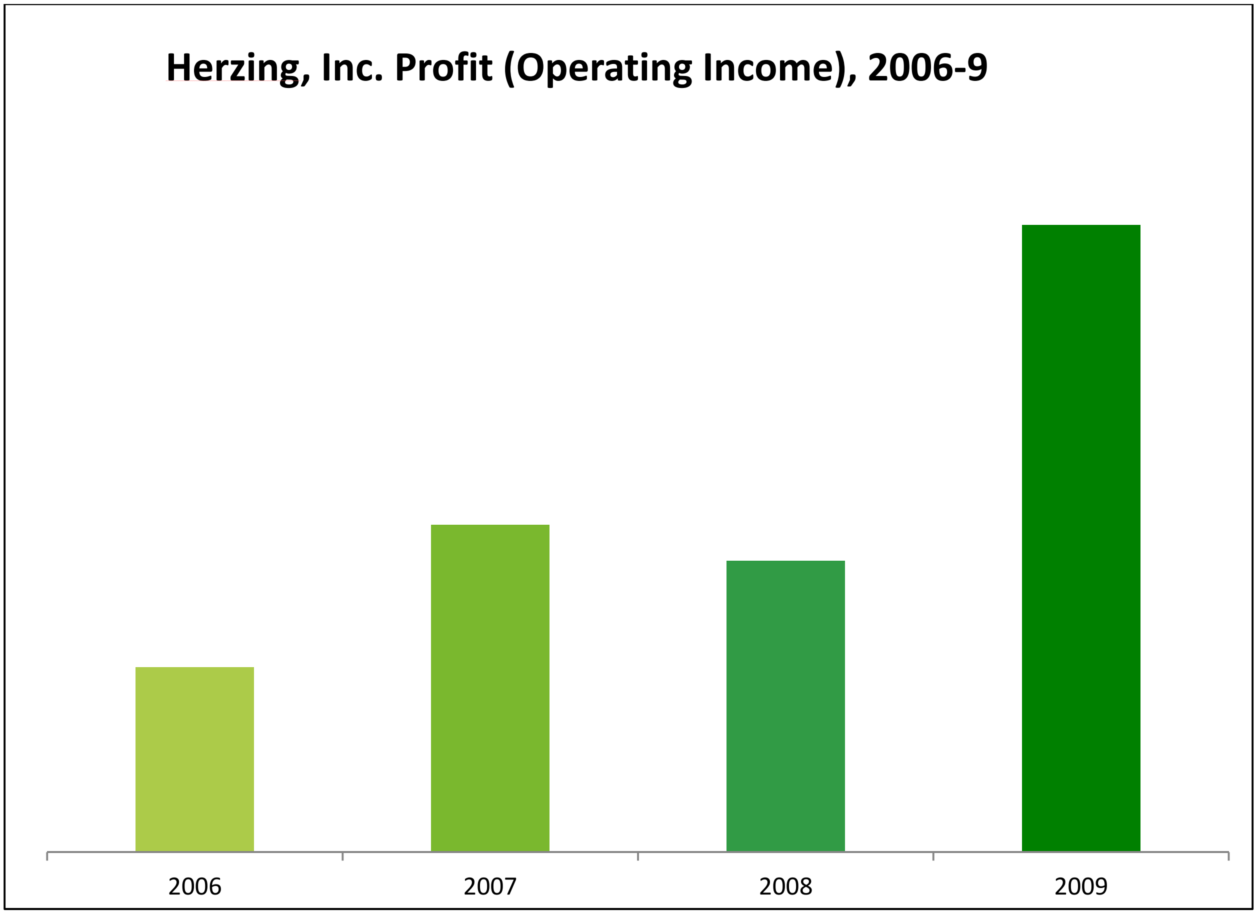
The amount of profit Herzing generated also increased rapidly, rising 71 percent between 2006 and 2010.[2015]

[2012] 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.

[2013] 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.

[2014] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.

[2015] Senate HELP Committee staff analysis. See Appendix 18.



Executive Compensation

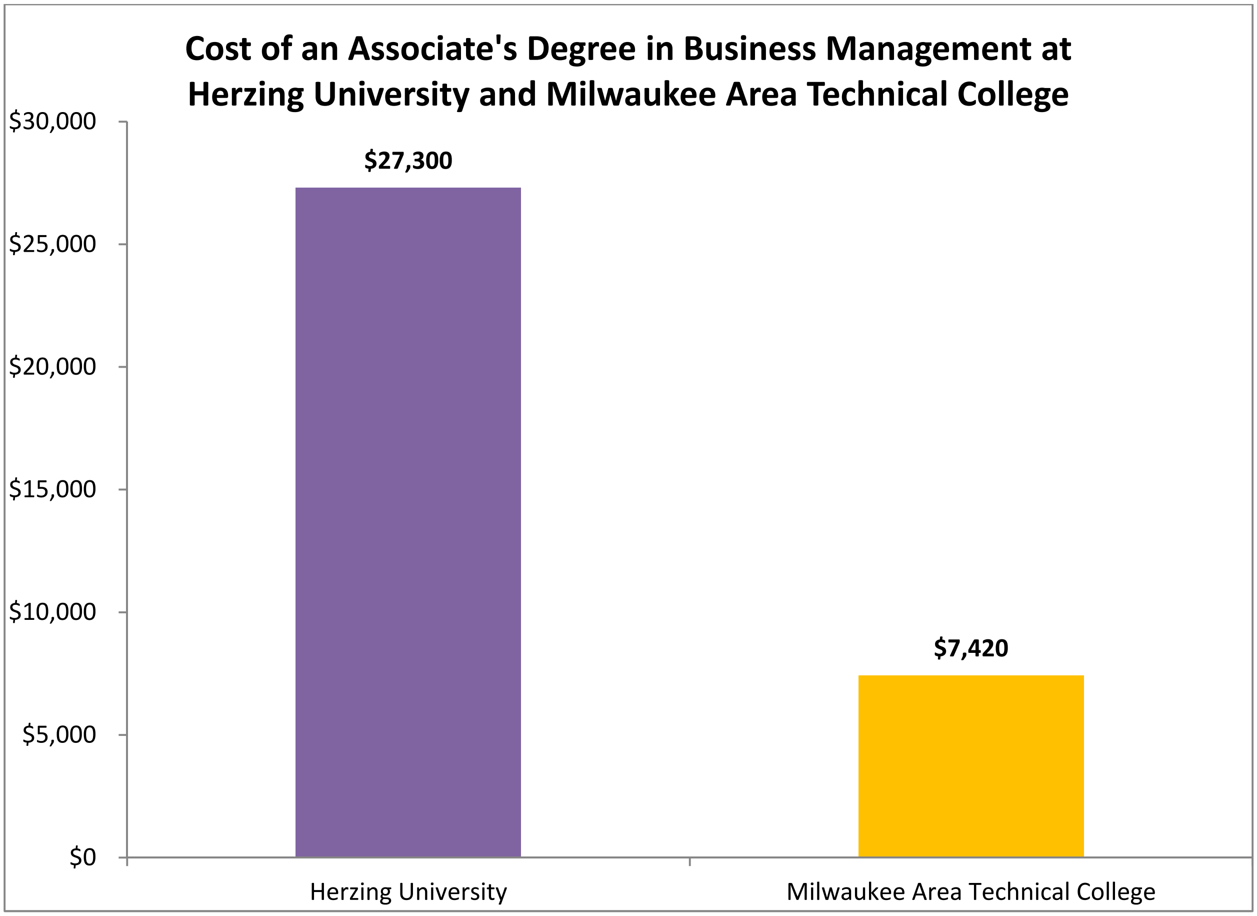
As a privately held company, Herzing is not obligated to release executive compensation figures.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Herzing. A Diploma in Medical Assisting at Herzing University costs $22,800.[2016] The same degree at Milwaukee Area Technical College costs $5,459.[2017] Herzing charges $27,300 for an Associates in Business Management;[2018] Milwaukee Area Technical College offers an Associates in Business Management for $7,420.[2019] A Bachelor of Science in Business Management with a concentration in

[2016]See Appendix 14; see also, Herzing University, *Medical Assisting Services*, http://www.herzing.edu/academics/medical-assisting-services (accessed July 13, 2012).
[2017] See Appendix 14; see also, Milwaukee Area Technical College, *Milwaukee Area Technical College*, http://www.matc.edu (accessed July 13, 2012).
[2018] See Appendix 14; see also, Herzing University, *Business Management*, http://www.herzing.edu/academics/business-management (accessed July 13, 2012). Herzing estimates the cost of this program as between $27,300-30,300, making $27,300 the most conservative estimate as to degree cost.
[2019] See Appendix 14; see also, See Appendix 14; see also, Milwaukee Area Technical College, *Milwaukee Area Technical College*, http://www.matc.edu (accessed July 13, 2012).

business administration costs $57,000 at Herzing University,[2020] while a Bachelor's degree in Business at the University of Wisconsin-Madison costs $50,480.[2021]



The higher tuition that Herzing charges is reflected in the amount of money that Herzing collects for each veteran that it enrolls. From 2009-11, Herzing trained 278 veterans and received $2.7 million in post-9/11 GI bill benefits, averaging $9,695 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[2022]

Internal Herzing emails indicate that company executives are aware that cost of tuition is a growing problem. A 2009 email from the Director of Admissions at the Madison campus states that:

> Many of our students are already coming to us with large amounts of loans from prior institutions. Any increase will make it much more difficult for students to be able to graduate in their programs. This is only adding to the student's debt without them gaining additional marketable skills/degrees.[2023]

He also states:

[2020] See Appendix 14; see also, Herzing University, *Business Management*, http://www.herzing.edu/academics/business-management (accessed July 13, 2012).
[2021] See Appendix 14; see also, University of Wisconsin-Madison, *Wisconsin*, http://www.wisc.edu/ (accessed July 13, 2012).
[2022] 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.
[2023] Herzing Internal Email, November 6, 2009, re: *Tuition Increase Recommendations* (HP000006785).

> We would prefer to see no increase as there is already a struggle for many students….With the lack of alternate loans available we are worried students will not be able to afford even entering our program and go elsewhere. [2024]

Complaints help to document student concern regarding the cost of attendance. After being of informed about a tuition increase, one student complained:

> I am not sure why the cost of tuition needs to be increased. … Because I have invested so much money and time into this institution, I feel I have no other choice but to stick it out.[2025]

She ends the letter by asking if the school has cut the budget in order to help save money. The school responded that students should write to Congress and ask that Pell Grants be increased. Another student noted:

> This now means [I] will have to spend an EXTRA $1350 to go to this already expensive RN program.[2026]

She continues:

> I wish this [annual] increase was brought to my attention before [I] signed all the papers to be admitted.[2027]

While student complaints may not be representative of the experience of the majority of students, they do provide an important window into practices that appear to be occurring.

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.

During the period examined and prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, documents clearly reflect the pressure on recruiters to meet enrollment targets.

A Herzing recruiter training document entitled "Handling Objections" coaches recruiters on how to overcome prospective students' objections to enrolling at the school.[2028] According to the document the most common objections are:

1. Now is not a good time, too much going on- family, job, planning a wedding, moving etc.
2. Tuition is too high compared to community college.
3. Too much money for a diploma program.
4. Can't afford tuition at this time.

[2024] Id.
[2025] Herzing Internal Email, February 10, 2009, re: *Don Madelung & [redacted] on Local Radio 2/7/2009* (HP000006830, at HP000006831).
[2026] Herzing Internal Email, February 13, 2012, re: *Annual Tuition Increase* (HP000006912). (emphasis in original)
[2027] Id.
[2028] Herzing, *Handling Objections: A Step by Step Process* (HP000004085).

5. Don't want loans, only grants.
6. Concerned about placement, looking for guarantee.
7. Leery about the credibility of an online school.[2029]

The document also explains the source of these objections:

Why do prospects object?
Fear.

- Fear of risk.
    - Risk of loss.
        - Loss of money.
        - Loss of time.

Eliminate the fear = overcoming the objections.[2030]

Because "preparation is the key," the document outlines how to effectively prepare for these student objections: "Build a comprehensive list of objections. Prepare an objection response form. Keep the list up to date, add new objection and responses as they occur. Set up a Strategic Tactical Objections Response Meeting (S.T.O.R.M) to deal with new objections." [2031]

Students complained that recruiters mislead and outright lied to them in order to induce their enrollment. One such complaint reads:

> When I contacted Herzing College about the Medical Coding program, I was informed that I would be a Coder II upon completion. That is false. In order to obtain the status of Coder II you must have three years of experience to be eligible to take the certification test.[2032]

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.[2033]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." These metrics indicate that many students who enroll at Herzing are not achieving their educational and career goals.

[2029] Id. at HP000004097.
[2030] Id. at HP000004087.
[2031] Id. at HP000004088.
[2032] Herzing, November 2007, *Student Complaint Summary* (HP000002215, at HP000002216).
[2033] Patricia Steele and Sandy Baum, August 2009, "How Much Are College Students Borrowing?," *College Board Policy Brief*, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 14, 2012).

Retention Rates

Information Herzing provided to the committee indicates that of the 4,196 students who enrolled at Herzing in 2008-9, 52 percent, or 2,180 students, withdrew by mid-2010.[2034] Overall, Herzing's withdrawal rate of 52 percent closely tracks the withdrawal rate of 54.1 percent for the 30 schools the committee examined.[2035] Herzing's 52.7 percent withdrawal rate from the Associate degree program and 49.3 percent withdrawal rate from the Bachelor's degree programs are lower than the sector-wide rates of 62.8 percent and 54.3 percent respectively. However, Herzing's Certificate program students, who made up one-quarter of its enrollees in 2008-9, withdrew at a rate of 52.5 percent, which is significantly higher than the 38 percent average of the companies examined.

Status of Students Enrolled at Herzing, Inc. in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	2,237	13.0%	34.4%	52.7%	1,178	149
Bachelor's Degree	841	4.5%	46.1%	49.3%	415	161
Certificate	1,118	20.8%	26.7%	52.5%	587	150
All Students	4,196	13.4%	34.7%	52.0%	2,180	151

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Online vs. Brick and Mortar Outcomes

An analysis of withdrawal rates among the 11 companies that provided disaggregated data indicates that students attending online programs had higher withdrawal rates than student attending campus based programs. Overall, online students at Herzing withdrew at a higher rate, 54.9 percent, than their brick and mortar counterparts, at 50.4 percent. This holds true for both Associate and Certificate withdrawal rates with online students withdrawing at higher rates, 57.4 percent and 56.2 percent respectively, than those at brick and mortar campuses, 51.2 percent and 47 percent. However, online Bachelor's degree students have a higher rate of retention than brick and mortar Bachelor's students, with 50.5 percent of brick and mortar students leaving compared to 46.7 percent of online students. In general, even with 10 percent more students withdrawing from online Certificate programs, the disparity between online and brick and mortar students is less pronounced at Herzing than at other companies analyzed.

[2034] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

[2035] 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.

Status of Online Students Enrolled at Herzing, Inc. in 2008-9, as of 2010							
Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Associate	523	28	5.4%	195	37.3%	300	57.4%
Bachelor's	257	5	1.9%	132	51.4%	120	46.7%
Certificate	665	88	13.2%	203	30.5%	374	56.2%
All	1,445	121	8.4%	530	36.7%	794	54.9%

Status of Brick and Mortar Students Enrolled at Herzing, Inc. in 2008-9, as of 2010							
Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Associate	1,714	262	15.3%	574	33.5%	878	51.2%
Bachelor's	584	33	5.7%	256	43.8%	295	50.5%
Certificate	453	145	32.0%	95	21.0%	213	47.0%
All	2,751	440	16.0%	925	33.6%	1,386	50.4%

Herzing's accreditor HLC appears to have particular concerns about the learning outcomes of its students and has placed stipulations on Herzing's accreditation status that prevent the addition of new undergraduate programs and require commission staff approval for graduate level programs.[2036] HLC has also scheduled a focused visit to Herzing to examine "integrity of public information and on learning outcomes assessment." [2037]

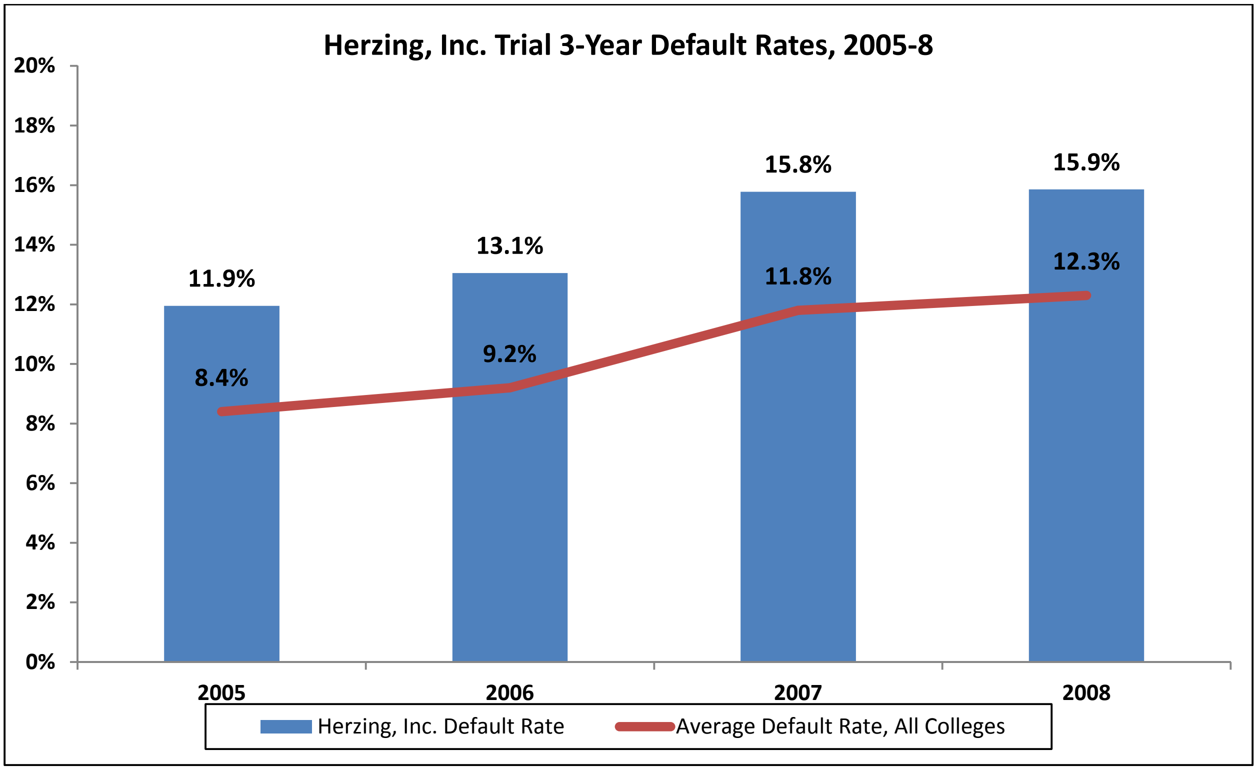
Student Loan Defaults

The number of students leaving Herzing with no degree correlates with the high rate of student loan defaults by students who attended Herzing. 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.[2038]

Slightly more than one in five students, who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[2039] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2040] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2041] 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.[2042]

[2036] The Higher Learning Commission, "Currently or Previously Affiliated Institutions: Herzing University" http://www.ncahlc.org/component/com_directory/Action,ShowBasic/Itemid,/instid,2838/ (accessed June 14, 2012).
[2037] Id.
[2038] Direct Loan Default Rates, 34 CFR 668.183(c).
[2039] 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 (accessed July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default by sector.
[2040] Id.
[2041] Id.
[2042] 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.[2043] This change represents a 32.6 percent increase over 4 years.[2044] Herzing's 3-year default rate has gradually increased, growing from 11.9 percent for students entering repayment in 2005 to 15.9 percent for students entering repayment in 2008.



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 and what students say about their experience are two useful measures.

Herzing spent $3,822 per student on instruction in 2009, compared to $2,447 per student on marketing, and $2,864 per student on profit.[2045] The amount that privately held companies the committee examined spend on instruction ranges from $1,118 to $6,389 per student per year.[2046] In contrast, public and non-profit schools, generally spend a higher amount per student on instruction. By

2043 Id.
2044 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 (accessed July 12, 2012). 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.
2045 Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.
2046 Drake College of Business (low end) and Chancellor University (high end) have been excluded from this calculation due to unreliability regarding the data.

comparison, on a per student basis, the University of Wisconsin spent $14,329 per student on instruction and Marquette University spent $9,141 per student. Milwaukee Area Technical College spends 11,970 per student.[2047]

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 companies the committee examined, 80 percent of the faculty is part-time.[2048] In 2010, Herzing employed 187 full-time and 283 part-time faculty, a far higher ratio of full-time to part-time faculty than at an many companies examined.[2049]

However, student complaints reflect concern with the academic quality. One Herzing student writes:

> We are currently in our fourth week of class and … I can honestly say that I have not learned anything in this class.[2050]

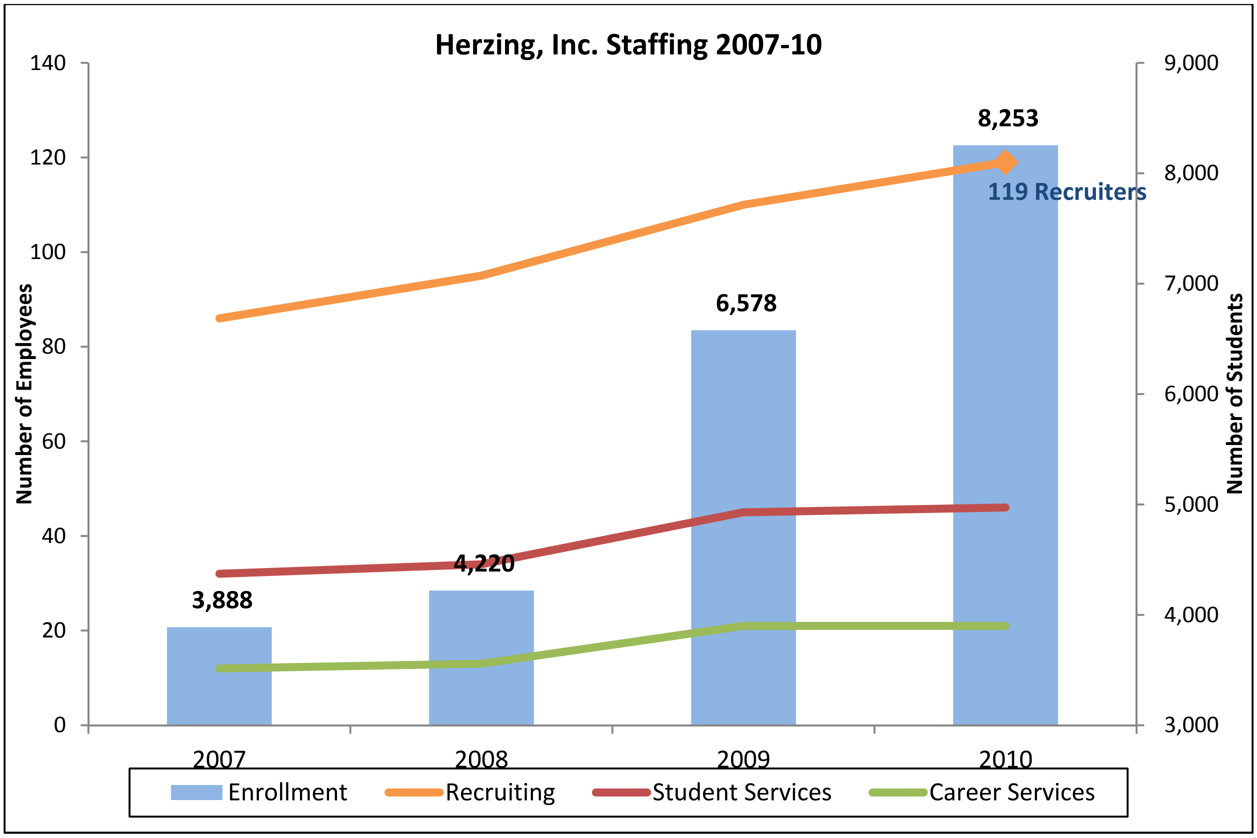
She goes on to note that on several occasions when students asked teachers basic questions, the teacher was unable to answer.

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

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 8,253 students, Herzing employed 119 recruiters, 46 student services employees and 21 career services, and placement staff.[2051] That means each career counselor was responsible for 393 students and each student services staffer was responsible for 179 students. Notably, these numbers have not increased significantly as student enrollment has exploded. Meanwhile, the company employed one recruiter for every 69 students.

[2047] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.
[2048] 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.
[2049] Id.
[2050] Herzing, Student Complaint, November 25, 2009 (HP000002321).
[2051] 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.



Many Student complaints express dissatisfaction with the level of services available at Herzing. One student reports receiving very attentive treatment while being recruited, but then not getting phone calls returned once enrolled. She states:

> In my experience, communication between Herzing and on-line students does not exist.[2052]

She continues:

> I am absolutely astonished at the lack of communication, lack of effort and lack of support that I have had from Herzing.[2053]

Several students complained that the career services office did not help them find leads or connect them with employers. A student notes that all the office does is send job postings the student had already found himself. He continues:

> If I would have known I would be without a job a year after I finished school then I would have never [come] to your school.[2054]

Another student wrote about withdrawing from Herzing after taking two classes and deciding the program was not for him. He notes that he paid for the classes he took, but ended up receiving nonstop calls from the school for payment for the entire program—about $9,000. He concludes:

[2052] Herzing Internal Email, May 27, 2009, re: *Herzing – Birmingham, AL- (important)* (HP000002285, at HP000002287).
[2053] Id, at HP000002288.
[2054] Herzing Complaint, September 14, 2009, (HP000002319).

> I believe it would be only fair if I [paid] for the classes I did complete, (even the ones with a failing grade). I do not think it is right or just to charge me for classes I did not take.[2055]

While student complaints may not be representative of the experience of the majority of Herzing students, these complaints do provide an important perspective on the quality of student and career services at Herzing.

Regulatory Strategies

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenues come from title IV Federal financial aid programs ("90/10") and that no more than 25 percent of students default within 2 years of entering loan repayment. 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. Internal documents indicate that rather than reducing tuition and requiring a student contribution, Herzing employs various other tactics to generate non-title IV revenue including increasing State funding, creating a tuition "gap," maximizing cash payments and providing institutional loans.

According to an internal Herzing memo, potential revenue streams for increasing non-title IV funds include pursing military funding, corporate funding, Native American tribal funding, international funding and State funding.[2056]

State funding can also make a significant difference as an email from founder and CFO Henry Herzing points out:

> that Ohio eliminating the state grant in mid year caused the problem whereas in states like Minnesota there is no problem with the state grant.[2057]

An email from the Chairman to the CEO illustrates the company's strategy. He states that:

> In Akron and possibly Alabama and Toledo hire a rep to focus on WIA, veterans, rehabilitation, workmen's compensation clients, and tuition reimbursement or corporate contracts…we could discount as much as it takes to get the business if the company or institution pays… Let's be aggressive in getting sponsored students-offering 40 to 50% discounts in Ohio-High priority… Our goal should be to get under 85% so we are not living on the edge. [2058]

Another part of Herzing's strategy for dealing with 90/10 has been to increase the cost of tuition. This has been a source of some concern as indicated in a November 2009 email from the director of financial services:

> … to assist in 90/10, our students will have higher cash payments or they will have to apply for alternative loans. In my experience, and especially lately, the majority of our students cannot afford higher payments. We have people coming in weekly asking to

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[2055] Herzing Complaint, April 1, 2009 (HP000002165, at HP000002166).
[2056] Herzing Internal Memorandum, December 7, 2009, re: *90/10 Mitigation and Business Development* (HP000001046).
[2057] Herzing Internal Email, September 19, 2009, re: *FW: Slides Board meeting Sept 09 EFC Equal to Zero by Campus.pptx* (HP000006680).
[2058] Herzing Internal Email, November 25, 2009, re: *90/10 Initiatives-possibilities* (HP000005715).

> reduce their contributions or take out the maximum loans to increase their credit balances.[2059]

Rather than looking at options to improve the company's regulatory issues, Herzing's preferred solution would appear to be to eliminate 90/10 altogether as the former CEO Henry Herzing states:

> 90/10 is a multi-front battle, like cancer-we won't find one single solution other than abolition.[2060]

While it is relatively small compared to others in the for-profit sector, Herzing's institutional loan program also helps to mitigate the impact of 90/10.[2061] In 2010, Herzing originated 39 loans with a total principal of $69,646 (an average loan amount $1785.80). These loans had an interest rate of 12 percent and default rate of 18.21 percent.

Conclusion

While Herzing has experienced rapid growth, it remains one of the smaller companies the committee examined. More than half the company's students withdrew during the period examined, but these withdrawal rates are below the sector average. While the company does not appear to invest in student services that could reduce withdrawal rates, it also appears to avoid many of the tactics used by larger publicly traded companies and private equity-owned companies. Moreover, Herzing faces challenges to remain in compliance with the regulation that no more than 90 percent of revenue come from Federal financial aid dollars. Moving forward, the company will need to focus on improving student outcomes rather than prioritizing growth.

[2059] Herzing Internal Email, November 30, 2009, re: *Tuition* (HP000005730, at HP000005732).
[2060] Herzing Internal Email, September 4, 2009, re: *90/10 combining* (HP000006166).
[2061] The company started its institutional loan program in 2009.