Kaplan Higher Education Corporation

Introduction

Kaplan Higher Education Corporation ("Kaplan") is one of the largest for-profit education companies in the country and offers programs at all degree levels. At the outset of the investigation, Kaplan was the source of a multitude of student and employee complaints, and was facing serious regulatory problems as a result of the high number of student defaults and an overdependence on Federal financial aid dollars. The company had poor student outcomes, with over 60 percent of 2- and 4-year degree students who enrolled in 2008-9 leaving by mid-2010. However, Kaplan has also implemented the most significant reforms of any company examined.

Company Profile

Kaplan, Inc. is a wholly-owned subsidiary of the Washington Post Company. Kaplan, Inc. has a test prep division in addition to its postsecondary education division; it conducts its postsecondary education operations through its Kaplan Higher Education Corporation subsidiary. The company entered the postsecondary education industry in 2000 by purchasing Quest Education Corp. Quest owned a network of 30 schools that focused on training students for entry-level employment in the health care and business industries. The Washington Post Company is a publicly traded education and media company with headquarters in Washington, DC. In addition to its Kaplan subsidiary, the Washington Post Company owns and operates cable television systems, newspapers (most prominently, the *Washington Post*), and broadcast television stations. In 2010, Kaplan accounted for $2.9 billion, or 61.7 percent, of the Washington Post Company's $4.7 billion in revenues.[2193]

Kaplan, Inc. is headquartered in New York. Kaplan Higher Education is based out of Chicago, IL. As of the end of 2011, approximately 35 percent of the company's students were enrolled in Bachelor's programs, 30 percent in Associate, 24 percent in Certificate, and 12 percent in Master's.[2194] Approximately 60 percent of Kaplan's total enrollment is online.[2195] Kaplan has more than 70 campuses in 21 States and a large online program, and offers Associate, Bachelor's, and Master's degrees in 10 fields.[2196] Kaplan further divides its higher education offerings into Kaplan University, which specializes primarily in online education (although it has physical locations in eight States) and offers primarily Bachelor's programs, and Kaplan Colleges and Institutes, which offer classroom-based instruction and awards Associate degrees and Certificates.

[2193] The Washington Post Company, 2010 Annual Report, http://www.washpostco.com/phoenix.zhtml?c=62487&p=irol-reportsAnnualArch (accessed June 19, 2012).
[2194] The Washington Post Company, March 2, 2011, 2011 10-K.
[2195] Id.
[2196] Kaplan, "Locations" at http://portal.kaplan.edu/Pages/Homepage.aspx (accessed June 19, 2012).

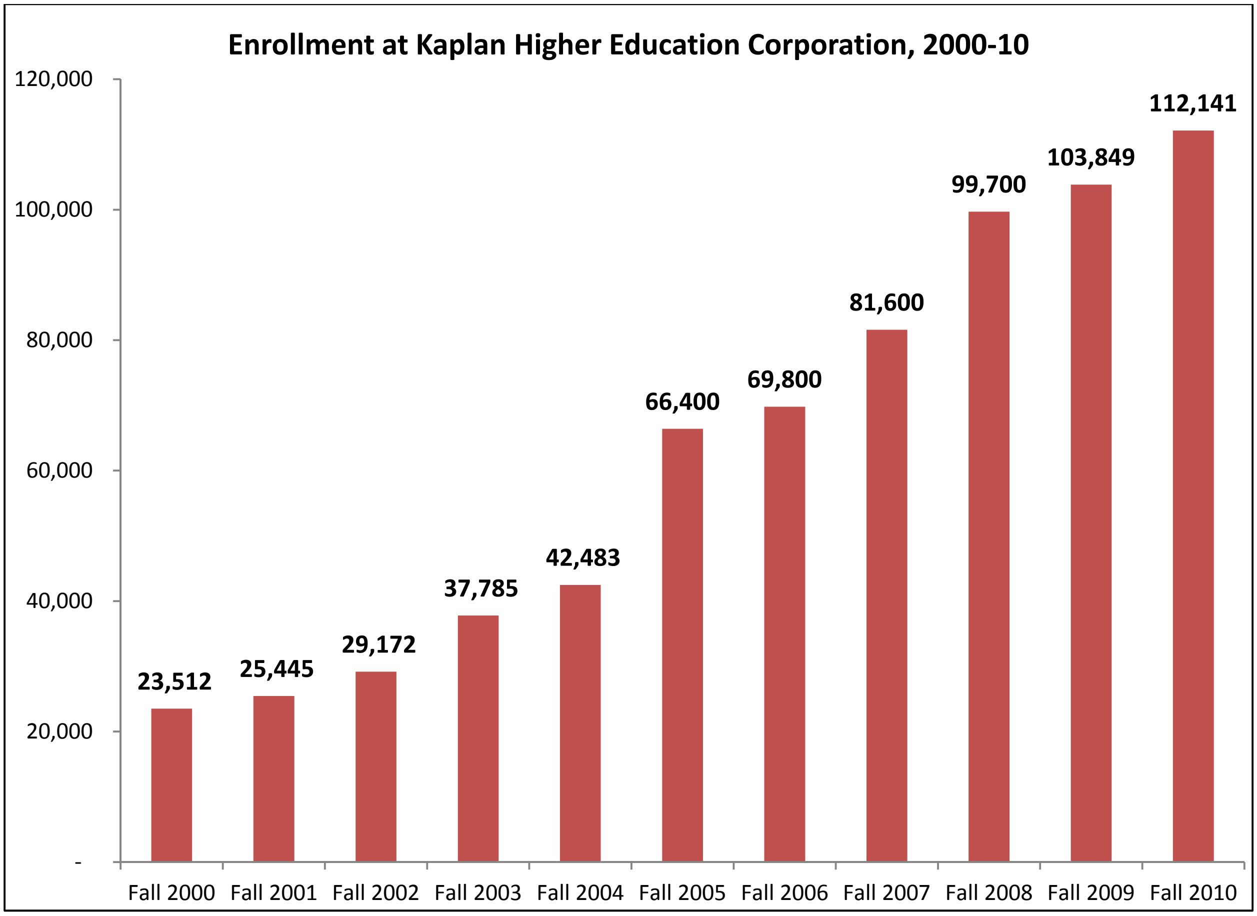
Brands
Bauder College
Concord Law School
Hesser College
Kaplan Career Institute
Kaplan College
Kaplan University
TESST College of Technology
Texas School of Business

Like more than half of the regionally accredited brands the committee examined, Kaplan University is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools. Kaplan College and Kaplan Career Institute are the largest Kaplan brands, with 51 locations across most regions of the country. Each Kaplan Career Institute and Kaplan College location is nationally accredited by either the Accrediting Council for Independent Colleges and Schools (ACICS), Accrediting Commission of Career Schools and Colleges (ACCSC), or the Commission of the Council on Occupational Education (CCOE).

Kaplan also operates a smaller network of separately-accredited brands. Bauder College in Georgia is regionally accredited by the Commission on Colleges of the Southern Association of Colleges and Schools (SACS) and Hesser College has five locations in New Hampshire and is regionally accredited by the New England Association of Schools and Colleges (NEASC). Concord Law School is a non-ABA accredited online law school. TESST College of Technology has three locations in Maryland and is accredited by ACCSC. The Texas School of Business has four locations in and around Houston, TX, and is accredited by ACICS.

Andrew S. Rosen is chief executive officer of Kaplan, Inc.[2197] Rosen previously served as CEO of Kaplan Higher Education. Matthew Seelye serves as chief financial officer of Kaplan, Inc. Seelye previously served as CFO of Kaplan Higher Education. Donald E. Graham is chairman of the board and chief executive officer of the Washington Post Company. In 2010, Donald Graham received $429,070 in compensation for his position as chairman. The salaries of Kaplan's officers are not publicly available. However, when Rosen's predecessor as CEO Jonathan Grayer left the company in 2008, he received a severance package of $76 million.[2198]

[2197] Kaplan, Campus Organization Chart, (KHE 00000032).
[2198] Washington Post, November 19, 2008, 8-K SEC Filing, http://www.washpostco.com/phoenix.zhtml?c=62487 &p=irol-sec&secCat01.1_rs=131&secCat01.1_rc=10&control_searchbox=&control_selectgroup=0 (accessed June 19, 2012).



Kaplan has posted significant growth in enrollment in recent years. In 2000, when the company purchased Qwest Education and entered the postsecondary education market, the company's campuses enrolled about 23,512 students. By 2005, the company had more than doubled its enrollment to 66,400. And by 2010, the company was five and a half times larger, at 112,141 students.[2199] This growth in enrollment led to growth in revenue. The company's revenue has almost doubled between 2006 and 2009, from $797 million to $1.57 billion.[2200]

In September 2010 the company initiated its Kaplan Commitment Program, which allows students to attend classes for 5 weeks without incurring any financial obligation to the company. This is an extremely significant reform by Kaplan and has had an impact on the number and type of students who enroll. It has also led to a fairly sharp drop in the company's enrollment, which stood at 75,984 as of March 2012, nearly 36,000 students less than the company's enrollment in fall 2010.[2201] The Washington Post Company has seen a corresponding drop in its revenue.[2202]

[2199] Enrollment for 2000-4 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). Enrollment for 2005-10 is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.

[2200] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are from the company financial statements produced to the Committee. See Appendix 18.

[2201] Washington Post Company, March 31, 2012, Def 14A SEC Filing, http://www.washpostco.com/phoenix.Zhtml?c=62487&p=irol-sec&secCat01.1_rs=1&secCat01.1_rc=10&control_searchbox=&control_selectgroup=0 (accessed June 19, 2012).

[2202] Id.

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.[2203] 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.[2204]

In 2010, Kaplan reported 85.9 percent of revenue from title IV Federal financial aid programs.[2205] However, this amount does not include the Departments of Defense and Veterans Affairs education benefits.[2206] Approximately 2 percent of Kaplan's total revenue, or $33.7 million, was collected from Department of Defense Tuition Assistance or post 9/11 GI bill funds.[2207] With these funds included, 87.9 percent of Kaplan's total revenue was comprised of Federal education funds.[2208]

[2203] "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. 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.

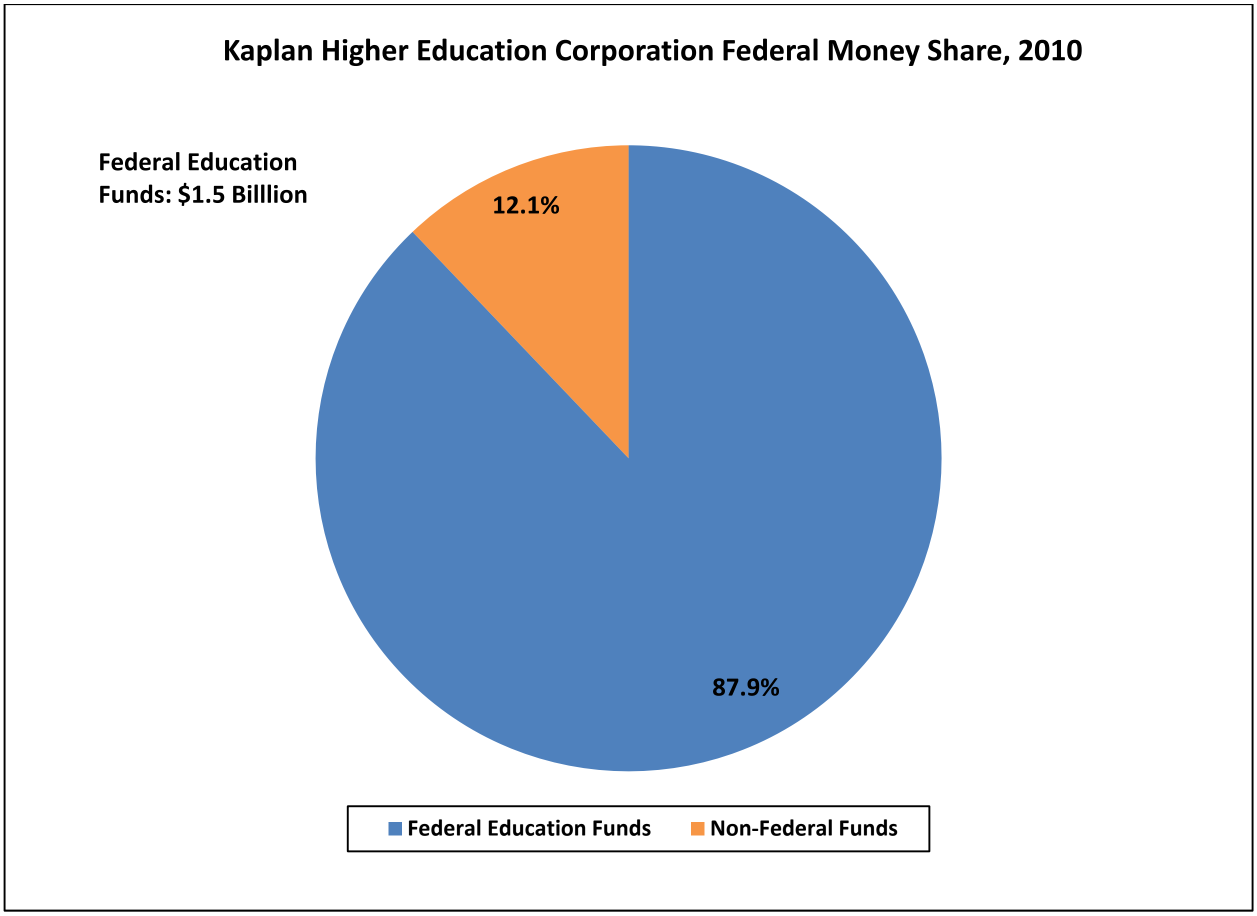
[2204] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[2205] Id.

[2206] 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 Kaplan could not be extrapolated from the data Kaplan provided to the committee.

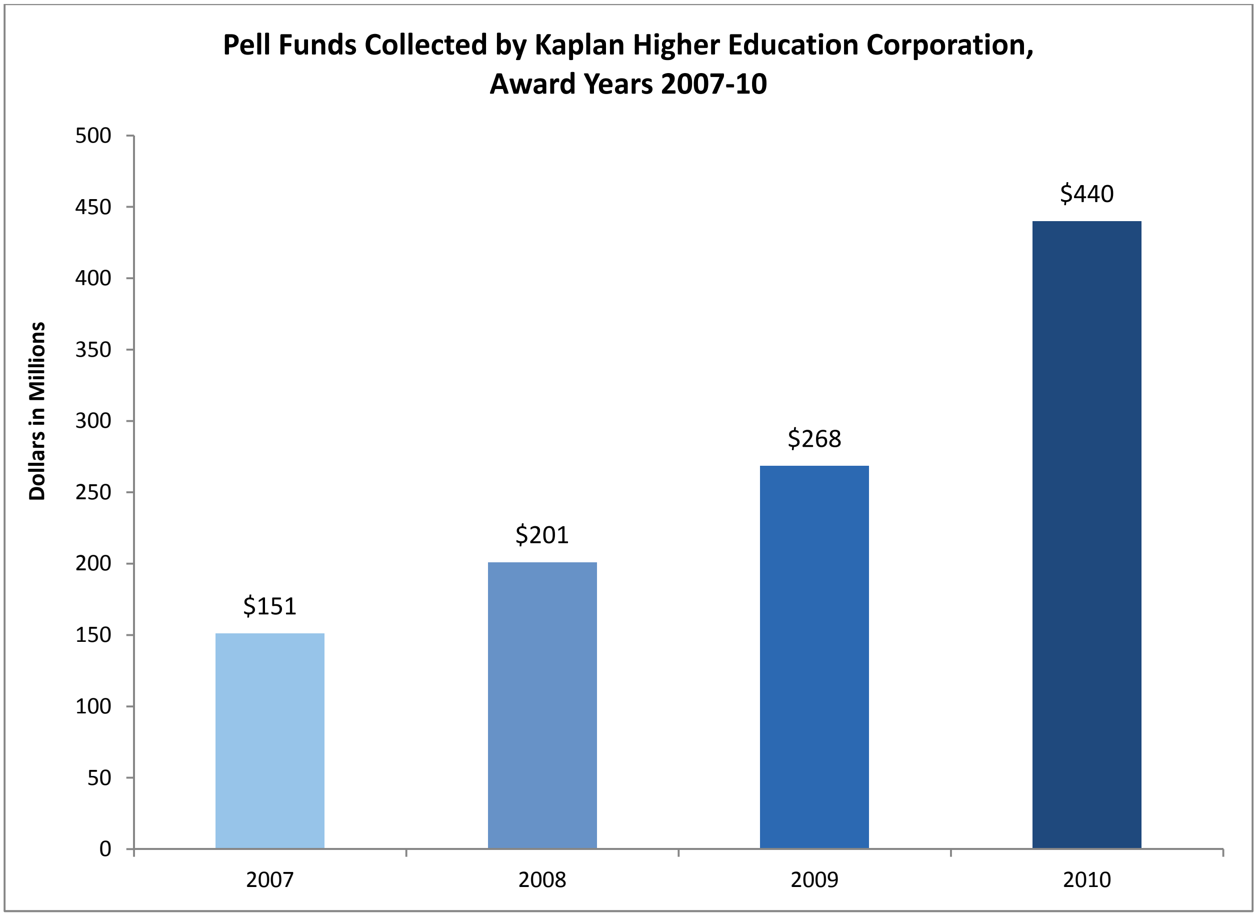
[2207] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via 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.

[2208] "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.



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.[2209] 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.

[2209] 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).



Kaplan nearly tripled the amount of Pell grants it collected, from $151 million in 2007 to $440 million in 2010.[2210]

Spending

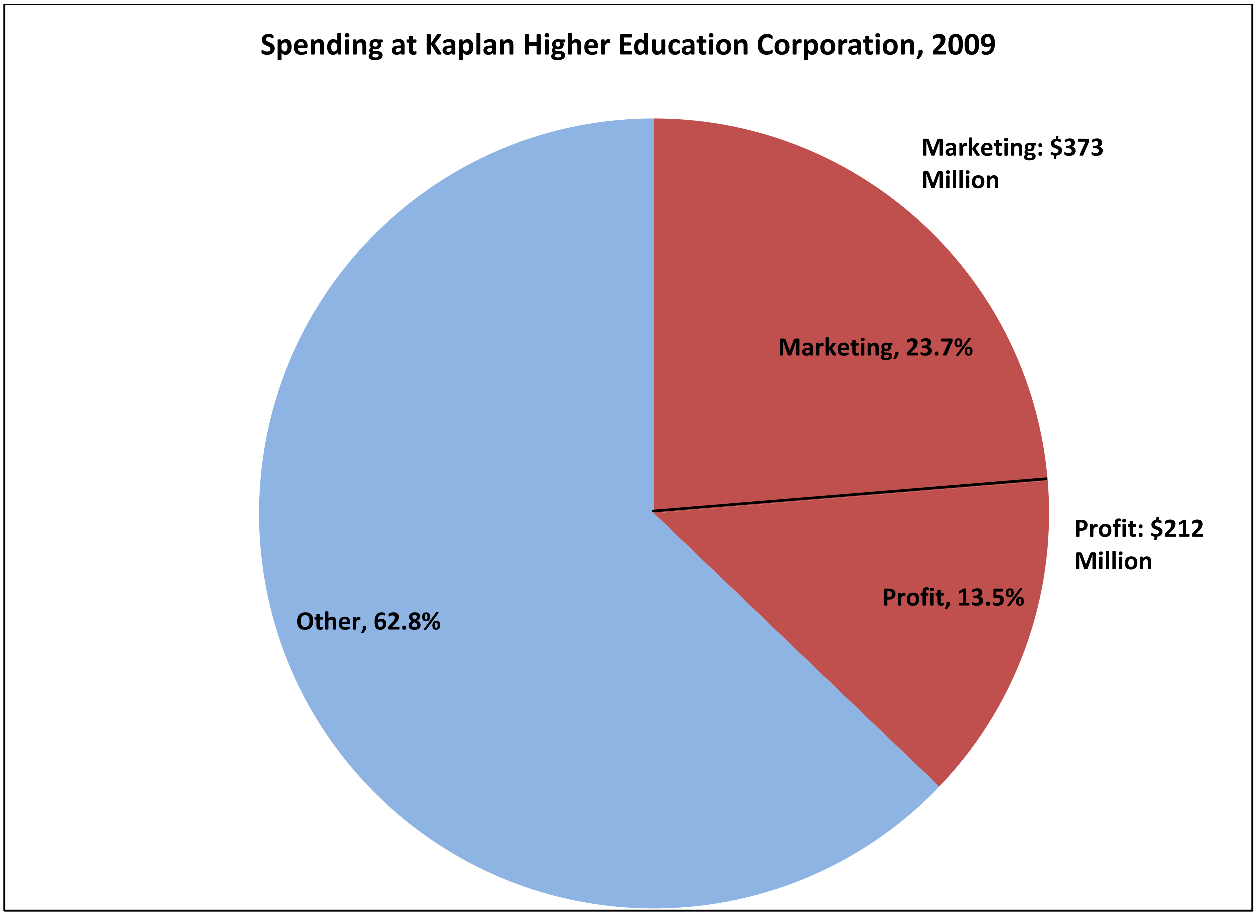
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[2211] 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).[2212] These 15 companies spent a total of $6.9 billion on marketing, recruiting, and profit in fiscal year 2009.

[2210] 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.

[2211] 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.

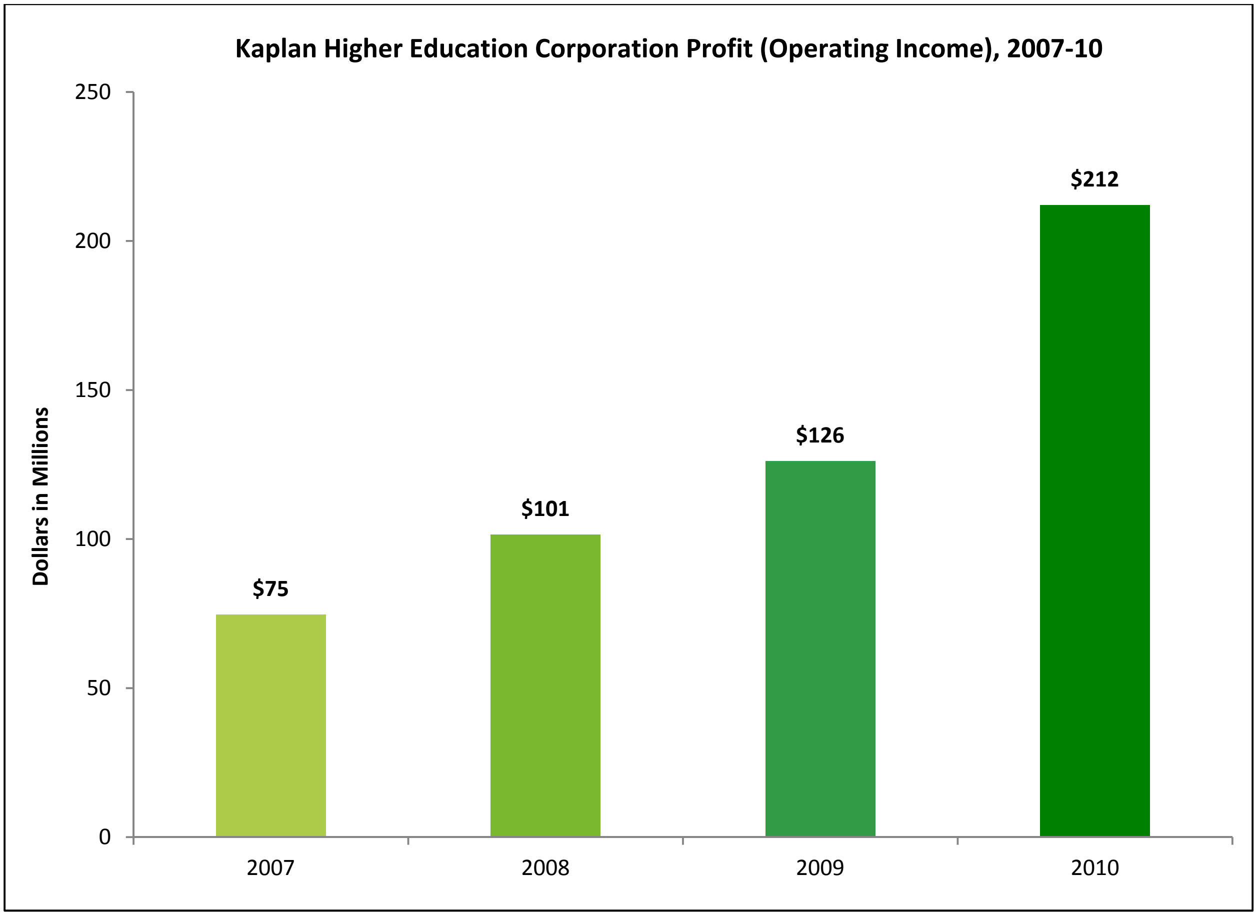
[2212] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.

In 2009, Kaplan allocated 13.5 percent of its revenue, or $212.1 million, to profit and 23.7 percent, or $372.7 million, to marketing and recruiting.[2213]



Kaplan devoted a total of $585 million to marketing, recruiting, and profit in fiscal year 2009.[2214] The amount of profit Kaplan generated also increased rapidly, nearly tripling from $74.7 million in 2006 to $212 million in 2010.[2215]

[2213] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.
[2214] Id. "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, and other expenditures.
[2215] Senate HELP Committee staff analysis. See Appendix 18.



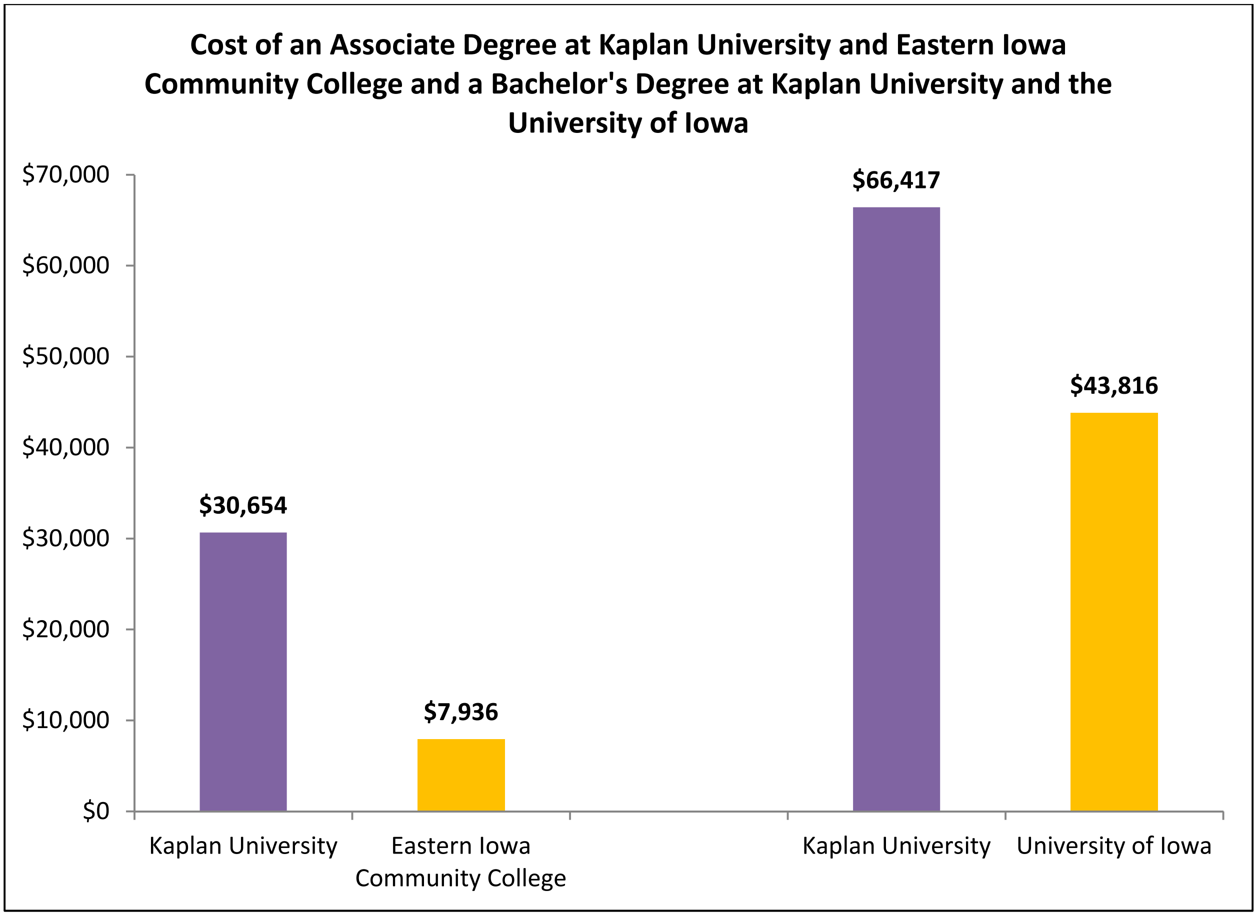
Executive Compensation

Kaplan does not disclose executive compensation for its executives.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Kaplan. An Associate of Applied Science in Business Administration at Kaplan University's Davenport, IA campus costs $30,654.[2216] The same degree at Eastern Iowa Community College costs $7,936.[2217] A Bachelor's of Science in Business Administration at Kaplan University's Davenport Campus costs $66,417,[2218] while a Bachelor's of Science in Business Administration at the University of Iowa costs $43,816.[2219] At Kaplan's Cedar Rapid's campus charges $23,410 for a Diploma in Practical Nursing.[2220] The same diploma is available at Eastern Iowa Community College for $7,376.[2221]

2216 See Appendix 14; see also, Kaplan University, *Tuition and Fees*, http://davenport.kaplanuniversity.edu/pages/tuition.aspx (accessed July 12, 2012).
2217 See Appendix 14; see also, Eastern Iowa Community College, *Eastern Iowa Community College*, http://www.eicc.edu/ (accessed July 12, 2012).
2218 See Appendix 14; see also, Kaplan University, *Tuition and Fees*, http://davenport.kaplanuniversity.edu/pages/tuition.aspx (accessed July 12, 2012).
2219 See Appendix 14; see also, University of Iowa, *University of Iowa*, http://www.uiowa.edu/ (accessed July 12, 2012).
2220 Kaplan University, *Practical Nursing Diploma*, http://cedarrapids.kaplanuniversity.edu/nursing/Pages/Practical_Nursing_Diploma.aspx#tution_fee (accessed July 13, 2012).
2221 Eastern Iowa Community College, *Eastern Iowa Community College*, http://www.eicc.edu/ (accessed July 12, 2012).



The higher tuition that Kaplan charges is reflected in the amount of money that Kaplan collects for each veteran that it enrolls. From 2009-11, Kaplan trained 4,840 veterans and received $43.9 million in post-9/11 GI bill benefits, averaging $9,081 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[2222]

Internal documents indicate that tuition decisions were driven by revenue and profit considerations, limited only by the market in which the individual campuses operate. When Kaplan raised the tuition for a nursing program at its Sacramento campus by 8 percent, the director of finance for the School of Nursing noted, "With the new pricing, we can lose 2 students and still make the same profit." [2223] In another situation, discussing locations in the southwest, Kaplan's Director of Strategy wrote, "since those public programs have long waiting lists, we have the ability to charge a premium in this market." [2224]

Kaplan increases tuition approximately 5 percent every year.[2225] In 2005, online tuition was $280 per credit hour.[2226] Today, online tuition costs $371 per credit hour. The most recent 5 percent increase in 2010 sparked internal debate among Kaplan executives, as it appears to have been done in response to

---

[2222] 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.
[2223] Kaplan Internal Email, September 10, 2009, re: *Sacramento Price Increase* (KHE 173528).
[2224] Kaplan Internal Email, April 30, 2009, re: *Pricing Comparisons* (KHE 171956).
[2225] College Board, "Trends in College Pricing," http://trends.collegeboard.org/downloads/College_Pricing_2011.pdf (accessed June 19, 2012) (According to the College Board, "Over the decade from 2001-2 to 2011-12, published in-state tuition and fees at public 4-year colleges and universities increased at an average rate of 5.6% per year beyond the rate of general inflation.").
[2226] Kaplan, January 29, 2006, Board of Trustees Meeting Minutes (KHE 00003642, at KHE 00003651).

concerns that some campuses were getting close to the 90 percent Federal revenue line.[2227] The president of Kaplan's School of Nursing sent an email to Kaplan University's chief operating officer and senior vice presidents, with the subject: "Significant concerns about 5% tuition increase." He noted an across-the-board tuition increase would hurt the school's nursing Bachelor's degree "business" because their for-profit competitors University of Phoenix, Walden, and Grand Canyon University already charged far less per credit hour for the degree.[2228]

In an email exchange discussing a blanket tuition increase, a Kaplan executive listed a number of concerns with the increase, only to conclude, "obviously, I understand that 90/10 concerns supersede all of the above." [2229] In a separate email exchange, the regional vice president of admissions in Dallas wrote, "I also think we should base price on a fair return for our grads. What kind of starting salary can they expect for the investment." [2230] Others seemed to indicate that 90/10 concerns were paramount: A regional vice president in California responded, "Please remember that there are Title IV implication[s] here. … Hence, the price has to be able to provide a gap large enough so that the campus does not experience 90:10 issues." [2231]

Some students told the company that tuition was too high. One prospective student emailed an admissions adviser:

> I'm informing you that I'm not going to attend classes at Kaplan. … This is the MAJOR reason, the approx cost of my tuition at Kaplan would be around $16,000 to $17,000, with only $3,000 in grants, the remainder in loans [sic].[2232]

At one point, the company prepared talking points for recruiters if a prospective student raised the issue of high tuition. If prospective students said community college was cheaper, admissions advisers were instructed to respond that a recent survey on student satisfaction ranked Kaplan No. 1 in the "Benefits vs. Cost" category. The talking points continued: "So while community colleges may be cheaper, students say Kaplan is a better value." [2233] In reality, 2-year non-profit colleges scored only a tenth of a point behind Kaplan in the "Benefits vs. Cost" category, and they scored significantly higher in the "job placement" category.[2234]

The talking points provided to recruiters for handling objections to the cost of tuition specify the responses a recruiter was trained to use if the students says, "the tuition is too expensive." [2235] These talking points included discussing the "future financial dividends" of a degree, the fact that financial aid is available, and the fact that Kaplan was "one of the lowest priced private online accredited institutions." The talking points document told instructors to "regain control of the conversation by giving the student the cost per credit hour then move into the interview." The recruiter was not trained to talk about the full cost of the degree, leaving students with a partial answer.

The issue of whether to give a full refund came up at Kaplan's Texas School of Business. Executives there debated whether to provide a refund to a student who had enrolled 2 months earlier and

---

[2227] Kaplan Internal Email, December 4, 2009, re: *Significant concerns about 5% tuition increase* (KHE 173785) ("My understanding is the explanation given is that we're doing this [raising tuition across the board] to help with 90/10.").
[2228] Id.
[2229] Kaplan Internal Email, December 6, 2009, re: *FW: To answer you email* (KHE 272465, at KHE 27267-68).
[2230] Kaplan Internal Email, October 28, 2009, re: *Price* (KHE 286119).
[2231] Id.
[2232] Kaplan Internal Email, June 29, 2009, re: *Lynne Smith* (KHE 297978) (emphasis in original).
[2233] Kaplan, Baird Talking Points It's Official: We're at the Top of Our Class (KHE 072778).
[2234] "Survey Results," Kaplan University, *available at* http://web.archive.org/web/20090307092139/http://www.kaplan.edu/ku/surveyresults/. (accessed July 12, 2012).
[2235] Kaplan, *Overcoming Objections: Formula for Overcoming Objections* (KHE 077340, at KHE 077342-43).

recently withdrew. The student had failed to provide proof of high school graduation to the school within 30 days after enrolling, as required by financial aid regulations and the company's own policy.[2236] Instead, the student had provided the proof after the 30 day period was over.

The Texas School of Business executive director told his staff to accept the student's late proof of graduation and charge her. Numerous employees were troubled by that decision. The school's director of finance wrote, "These students have stop attending school and we should have reverse them earlier so there charges will be wiped out but now they will owe huge balance to school and morally this is not right and we have failed student because now they [are] not going to pay school and their account [is] going to be sent to collection and ruin their credit as well." [2237]

The email received mixed responses. The school's executive director replied, "Is it morally right to utilize a service and not paying for it [sic]?" [2238] Another employee commented, "She met all the admissions requirements and was locked in during the start meeting. … The student failed themselves [sic]…!" [2239] The school's director of education, on the other hand, sided with the director of finance. In an email sent only to a separate director of retention, she wrote:

> Yes, I need help. [The executive director of the Texas School of Business] just emailed us and stated that he wants us to accept the POG [proof of graduation] and charge the student. I am not sure how to handle this situation. … I really don't want to fight, but I must protect the student and the policy. PLEASE HELP!!!! [Emphasis in original][2240]

In the end, the executive director instructed his employees to accept the proof of graduation and charged the student.[2241]

Institutional Loans

In addition to Federal debt, some students, because of the high price of tuition, must rely on alternative financing. This helps the company meet a regulatory requirement that no more than 90 percent of revenues come from Federal student aid dollars ("90/10").[2242] Kaplan operates an institutional loan program, under which the company itself lends money to students who cannot obtain alternative loans from private lenders.

Kaplan offers its students the opportunity to borrow from an institutional loan program, the Kaplan Choice Loan Program.[2243] The program allows students to borrow up to $15,000. For loans originated from September 2008 through June 2010, the loans carried a fixed interest rate of 15 percent. Loans originated after July 1, 2010, carry a fixed interest rate of 6.8 percent, and any existing loans

---

[2236] The admissions policy states, "If the student has not submitted all required entrance requirements within 30 calendar days of the Official Start Date, the student must be placed in Reverse status." Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 290830).
[2237] Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 225776, at KHE 225779).
[2238] Kaplan Internal Email, January 29, 2012, re: *Revenue Review* (KHE 225803).
[2239] Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 225776 at KHE 225779).
[2240] Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 225776).
[2241] Kaplan Internal Email, January 29, 2010, re: *Revenue Review* (KHE 225794).
[2242] For institutional loans made between July 1, 2008, and June 30, 2012, institutions may count as total revenue the net present value of loans. After July 1, 2012, institutions may only count as total revenue the amount of loan repayments they actually receive.
[2243] Students must apply for private loans before receiving Kaplan Choice loans, making the program a loan of last resort.

originally issued at 15 percent started accruing the reduced 6.8 percent interest on September 3, 2010.[2244] Students may defer the loans while in school and may take up to 10 years to repay them.[2245]

Kaplan Choice began in September 2008. In June 2009, Kaplan Choice had $5 million in disbursed loans, estimated to rise to $29 million by the end of the year.[2246]

For accounting purposes, Kaplan must reserve money to pay off future defaults on the loans. Kaplan determined this "reserve" rate by examining the defaults in private loans made to Kaplan students by a third-party lender in prior years. In 2009, the default rate for that private loan program was 69.5 percent for students entering repayment in 2006.[2247] Kaplan executives relied on this number to determine that Kaplan should reserve 80 percent of the amount lent to students for defaults.[2248] In July 2010, Kaplan executives considered raising the loan reserve from 80 percent to 85 percent but decided against the increase.[2249]

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations, for-profit colleges must recruit as many students as possible to sign up for their programs. In the words of one Kaplan campus Executive Director, "Sales drives the business." [2250]

Internal Kaplan documents indicate that Kaplan recruiters were expected to enroll as many students as possible, and that they were trained in high-pressure sales tactics to do so. Calls to prospective students were considered to be first and foremost "sales call[s]." [2251] Recruiters were also told to make fast and frequent contact with possible student "leads." An email from the president of Kaplan's Davenport campus instructed, "Every lead is to be called a minimum of 3 times per day! Every day until contact is made!" [2252] Kaplan especially encouraged contacting "impulse" leads because "they may lose interest and move on to something else." [2253] Similarly, admissions advisers were instructed to make quick contact with leads who had "shopped around" because they are "likely to move on to other competitors if immediate contact is not made." [2254] In fact, a Kaplan presentation noted that 50 percent of all Internet leads enroll with the first campus that contacts them, implying that Kaplan must strive to be the first to make contact.[2255]

[2244] Kaplan, *Fact Sheet: Kaplan Choice Loan Program* (KHE 0036753).
[2245] Kaplan Draft Memorandum to Kevin Corser from Carole Valentine, June 4, 2009, re: *Kaplan Higher Education Corporation Reserve Estimate for Kaplan Choice Loans* (KHE 0037010, at KHE 0037011).
[2246] Id. at KHE 0037011.
[2247] Kaplan Internal Email, April 21, 2009, re: *KC Loan Default Assumption/[Redacted – Third Party Lender] Loan Data* (KHE 137576).
[2248] Kaplan Internal Email, July 17, 2009, re: *Kaplan Choice Loan Reserve Rate* (KHE 325963).
[2249] Kaplan Internal Email, July 1, 2010, re: *[Redacted – Third-Party Lender] Loan Performance Reports: Default Update* (KHE 207125).
[2250] Kaplan Internal Email, September 18, 2009, re: *Ft. Worth Verification Past Due* (KHE 233387).
[2251] Kaplan Internal PowerPoint, *"Explore" Another Piece of My Heart: Turning Inquiries into Appointments* (KHE 052058, at KHE 052059, 61).
[2252] Kaplan Internal Email, January 29, 2010, re: *Internet Leads!* (KHE 268102).
[2253] Kaplan, *Who Are Our Leads?* (KHE 056399, at KHE 056415).
[2254] Id. at KHE 056416.
[2255] Id.

Documents show that during sales calls or interviews recruiters were told to find prospective students' "pain and fears" and to use those areas to convince them that a degree was the best way to alleviate them.[2256] A rubric given to recruiters told them to ask: "If you don't make this change, how do you think your future looks?," followed by: "ARTICHOKE – Getting to the PAIN.[emphasis in original]" [2257] The rubric provided the takeaway for recruiters in capitalized, bold letters:

> **IT IS ALL ABOUT UNCOVERING THEIR <u>PAINS AND FEARS</u>. ONCE THEY ARE REMINDED OF HOW BAD THINGS ARE, THIS WILL CREATE A SENSE OF URGENCY TO MAKE THIS CHANGE.** [Emphasis in original] [2258]

Another internal Kaplan presentation, titled "Creating Urgency," aimed to teach recruiters how to instill a sense of urgency in the prospective student so that they are more likely to enroll immediately instead of waiting to think it over. In a particularly telling slide, the presentation tells recruiters that addressing students' fears is much more important than addressing their needs. The presentation asks, "Which matters more???" above a scale with needs on one side and fears on the other. On the scale, the need, "Go to the school," is outweighed by fears that it is too expensive, will take up too much time, and will require support that isn't there.[2259] The presentation went on to conclude that recruiters must establish a sense of urgency because, "The longer the timeframe between your interview and the enrollment, the more the student will remember the fears of going to school!!!" [2260]

To overcome students' fears, admissions advisers were instructed to use "outcome based selling" instead of "process based selling." A presentation on "admissions coaching" noted that "the use of *process based words or phrases* is potentially dangerous and may decrease the number of propsects that will move forward with the entire interview [sic]. [Emphasis in original]" [2261] Process-based words included seemingly important topics of discussion, such as: "program," "degree, diploma," "right school," and "online classes." [2262] In contrast, outcome-based words include: "career," "congratulations," "first step in chan[g]ing your life," and "future." [2263] The presentation provided sample openings to "jump start the conversation and begin peeling the layers of the artichoke to expose the heart." [2264]

Kaplan recruiting training documents emphasized "overcoming objections" raised by prospective students. For example, a nursing admissions performance rubric showed that a recruiter received high marks only if he or she "makes 2 attempts to overcome the objection by using a response which was directly related to the objection." [2265] The document indicated that a recruiter must undergo coaching by a manager if he or she makes only one attempt to overcome an objection.

To further encourage admissions advisers to contact and enroll students at a fast pace, Kaplan created competitions to recruit the most students. In one instance, admissions advisers at four Texas schools each made teams to compete for the highest enrollment numbers. The competition was dubbed

---

[2256] Kaplan, *Job Aid: Outbound with Rubric & OBS references: Based on the Undergraduate Programs Script published on July 9, 2009* (KHE 084935, at KHE 084936).
[2257] Id. at KHE 084935.
[2258] Id. at KHE 084936 .
[2259] Kaplan, March 2010, *Creating Urgency: Continuing Education* (KHE 096451).
[2260] Id.
[2261] Kaplan, November 5, 2008, *Illuminating Success Admissions Coaching: Six Components of a Conversatoin: Outcome Based Selling* (KHE 058787, at KHE 058789) .
[2262] Kaplan, updated December 4, 2008, *Nursing Admissions Quality Contact Call Rhubric* (KHE 058787, at KHE 058789).
[2263] Kaplan, November 5, 2008, *Admissions Coaching: Six Components of a Conversation: Outcome Based Selling* Training Manual (KHE 058787, at KHE 058790).
[2264] Id. at KHE 058797.
[2265] Kaplan, updated December 4, 2008, *Nursing Admissions: Quality Contact Call Rubric* Training Manual (KHE 0049214).

"the Texas Cup." [2266] The teams sent each other competitive emails such as, "BANDITS strike with their first for the day! Ponies are going DOWN!!!! [Emphasis in original]" [2267] In another contest, titled, "The Ultimate Juggler Phone-a-Thon," admissions advisers were asked, "Who can juggle their leads the best to make the most appointments that show?" [2268] Kaplan made a "Contest Guidelines" presentation that set out acceptable contest categories and rewards. The guidelines "strongly encouraged" contests to "avoid potential infringement of laws governing educational recruitment," and prohibited prizes exceeding $50 per person.[2269]

Students who felt deceived had little opportunity for recourse; Kaplan like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.[2270] This clause severely limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group.

Government Accountability Office Undercover Recordings

Undercover recordings made during GAO visits to two Kaplan College campuses, in Riverside, CA and Pembroke Pines, FL showed multiple instances of deceptive and misleading recruitment.

For example, at Kaplan's Pembroke Pines campus, the GAO documented a recruiter stating, "we will get you a job. I can't promise you that just because I can't say those words here, but I'm telling you right now, you will get a job." [2271] During the visit to the Pembroke Pines Campus, the undercover prospective student asked at least five times to speak to a financial aid employee so that he can find out how much he would qualify for in grants and how much he would have to pay back in loans. He was rebuffed each time, and made to feel that the question is stupid. The recruiter's replies were: "My question back to you is why this is right now a concern?" and "Let's assume that Uncle Sam will help you out" and "This [enrollment agreement] is not signed in blood." The company has since closed this campus. After the recruiter finally indicated he would go find someone in financial aid, he returned a few minutes later with another recruiter who insisted that the undercover agent could not speak to someone in financial aid before signing an enrollment agreement.[2272] Kaplan documents indicate that what the undercover student found was company policy. The company designed the admissions sales process so that the "preferred path (ideally used in most cases)" is that prospective students do not to speak with financial aid counselors before they sign enrollment contracts.[2273]

Military

Like other for-profit schools, Kaplan takes advantage of a major loophole in the 90/10 calculation: military funds. Military funding is particularly valuable because although the money comes from the Federal Government, it counts on the 10 percent side of the 90/10 calculation. In an email chain with the subject, "KU 90/10 Issue," a Kaplan executive listed ways to keep Kaplan within the

[2266] Kaplan Internal Email, June 28, 2010, re: *Week 1 In The Books…………..* (KHE 236427, at KHE 236427-28).
[2267] Kaplan Internal Email, June 28, 2010, re: *Week 1 In The Books…………..* (KHE 236459, at KHE 236466).
[2268] Kaplan Internal Email, June 14, 2010, re: *FW: The Ultimate Juggler Phone-A-Thon June 16, 2010* (KHE 196925at KHE 196927).
[2269] Kaplan, *Contest Guidelines: Contest Templates* Training Document (KHE 0048302, at KHE 0048307).
[2270] Kaplan, *Davenport Campus Enrollment Agreement* (KHE 0051386, at KHE 0051387).
[2271] Audio Recording: Undercover Recording of Visits by GAO Agents to For-Profit Schools, School 8, Scenario 1 1:57-2:10, http://harkin.senate.gov/help/gao.cfm (accessed June 12, 2012).
[2272] Id, at Scenario 2 40:04, 41:45, 44:07-47:02.
[2273] Kaplan Internal Email, October 13, 2009, re: *FW: Process Flow* (KHE 279097).

90/10 requirement. At the top of the list: "Accelerate military billings / collection at KU. Go to D.C. and pick up the check if you have to." [2274]

Kaplan has engaged in serious efforts to increase military enrollees in recent years. A 2010 presentation, "Kaplan Military University," lists enrollment objectives and a larger objective to "improve 90/10 by 5%." [2275] Although Kaplan is not one of the top for-profit colleges in terms of military recruiting and enrollment, Kaplan enrolled 4,840 veterans between 2009 and 2011. In 2010, the company brought in about $33.7 million from the Departments of Defense and Veterans Affairs military education benefit programs combined.

The need to increase military enrollment led Kaplan to engage in aggressive recruiting tactics. A Kaplan admissions training manual for recruiting military students tells recruiters to use a "fear, uncertainty, doubt" technique to influence prospective military students' perceptions, especially if the prospects want to examine other online schools.[2276] The manual told recruiters to "instill FUD [fear, uncertainty, doubt] regarding the 'features' of competitors' programs" by telling prospective students: "Some schools are open enrollment. They accept anyone" and "Accelerated programs are great if you're in a hurry, but is that really the best way to learn?" and "Some schools require group projects where your grade depends on another's participation." [2277]

Kaplan also actively sought out military events where it could recruit soldiers and veterans. When Kaplan signed up for an event at a wounded warrior facility, where severely injured servicemembers recuperate, one employee expressed enthusiasm, noting that Kaplan could "hopefully get some good soldiers out of the deal." [2278]

The ability to recruit veterans and members of the military even factored into the school's decision to issue an official transcript for a student with an outstanding balance. Typically, Kaplan's policy prohibits a campus from providing students with official transcripts unless they are current on their loan repayments.[2279] For example, at the HELP Committee's September 2010 hearing, Danielle Johnson, a non-military student, testified that Kaplan would not provide her with her official transcript because she owed the company $877.[2280] However, in the instance of the servicemember, Kaplan made an exception because the former student had obtained a job on a local military base and the military would only accept an official transcript. One Kaplan executive noted: "I am concerned that the Military base will see us a[s] difficult to deal with in the future. We have just started establishing good relationship with them and we have about 30 students from the base that it is expanding!" [2281] The education director at the campus ultimately issued the official transcript.

It is also clear that Kaplan tried to maximize the amount of money it could receive from military benefit programs. In 2009, Kaplan set its tuition prices before the Department of Veterans Affairs determined its student-loan reimbursement rates. A Kaplan financial controller noted:

[2274] Kaplan Internal Email, November 11, 2009, re: *KU 90/10 Issue* (KHE 211344, at KHE 211345).
[2275] Kaplan, Military University PowerPoint (KHE 267362, at KHE 267364).
[2276] The company insists that this document was never approved by Kaplan's legal team, but it was in use for over a year at some locations.
[2277] Kaplan, *Military eLearning Modules 2009* Training Document (KHE 094981, at KHE 094987).
[2278] Kaplan Internal Email, March 29, 2010, re: *Wounded Warrior* (KHE 195614).
[2279] Having no balance can be a challenge for students, given that new classes begin every 5 weeks.
[2280] Danielle Johnson, Testimony before the U.S. Senate HELP Committee, "The Federal Investment in For-Profit Education: Are Students Succeeding?" September 30, 2010.
[2281] Kaplan, November 9, 1009, Student Complaint (KHE 0038790).

> KU online, as you know, has set their prices. But … in a perfect world they would have waited until this level of reimbursement [from the VA] became settled. They will probably be under priced compared to the reimbursement the soldiers can obtain. We don't want to go down that path.[2282]

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.[2283]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll at Kaplan are not achieving their educational and career goals.

Retention Rates

Overall, of the 102,757 students who were enrolled at Kaplan in 2008-9, 55.3 percent, or 56,874 students, withdrew as of mid-2010.[2284] These withdrawn students were enrolled a median of 4 months. Overall, Kaplan's retention rate closely tracks the sector-wide withdrawal rate of 54.1 percent.[2285] Kaplan's Associate program has the third highest withdrawal rate of all Associate programs examined by the committee. Kaplan's Bachelor's degree candidates also fare worse than the industry average, with 68.2 percent withdrawing, compared to the industry average of 54.3 percent. Kaplan performed better than average in regards to Certificate-seeking students, those Kaplan programs had 32.7 percent of students withdraw, compared to 38 percent on average.

[2282] Kaplan Internal Email, April 1, 2009, re: *FW: Military Pricing* (KHE 192296).

[2283] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief,* August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 19, 2012).

[2284] 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.

[2285] 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 Students Enrolled in Kaplan Higher Education Corporation in 2008-9, as of 2010						
Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Associate Degree	33,324	12.5%	18.4%	69.1%	23,030	127
Bachelor's Degree	31,354	3.7%	28.1%	68.2%	21,390	126
Certificate	38,079	65.8%	1.5%	32.7%	12,454	98
All Students	102,757	29.5%	15.1%	55.3%	56,874	120

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 withdrew after mid-2010 when the data was produced.

Online vs. Brick and Mortar Outcomes

An analysis of withdrawal rates among the 11 companies that provided disaggregated data indicates that students enrolled in online programs had higher withdrawal rates than students enrolled in campus based programs. Kaplan online students are withdrawing at a rate of 71.9 percent, or 91 percent higher than their brick and mortar counterparts, who withdraw at a rate of 37.6 percent. This means students attending Kaplan online are nearly twice as likely to drop out as their brick and mortar counterparts. In every category of degree, online Kaplan students are far more likely to withdraw from their programs than they are to complete.

Online

Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Associate	22,447	1,407	6.3%	4,062	18.1%	16,978	75.6%
Bachelor's	30,152	1,005	3.3%	8,240	27.3%	20,907	69.3%
Certificate	483	168	34.8%	13	2.7%	302	62.5%
All	53,082	2,580	4.9%	12,315	23.2%	38,187	71.9%

Brick and Mortar

Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Associate	10,877	2,752	25.3%	2,073	19.1%	6,052	55.6%
Bachelor's	1,202	158	13.1%	561	46.7%	483	40.2%
Certificate	37,596	24,872	66.2%	572	1.5%	12,152	32.3%
All	49,675	27,782	55.9%	3,206	6.5%	18,687	37.6%

Student Loan Defaults

The number of students leaving Kaplan with no degree correlates with the high rates of student loan defaults by students who attended Kaplan. According to a Kaplan internal email chain, students who withdraw make up 97 percent of Kaplan defaults.[2286] The executive who noted this also noted that "dropped students are not successful" because "they did not accomplish their academic goals," "they are

[2286] Kaplan Internal Email, November 28, 2009, re: *KU CDR Original Loan Amount and Default Rate* (KHE 197327).

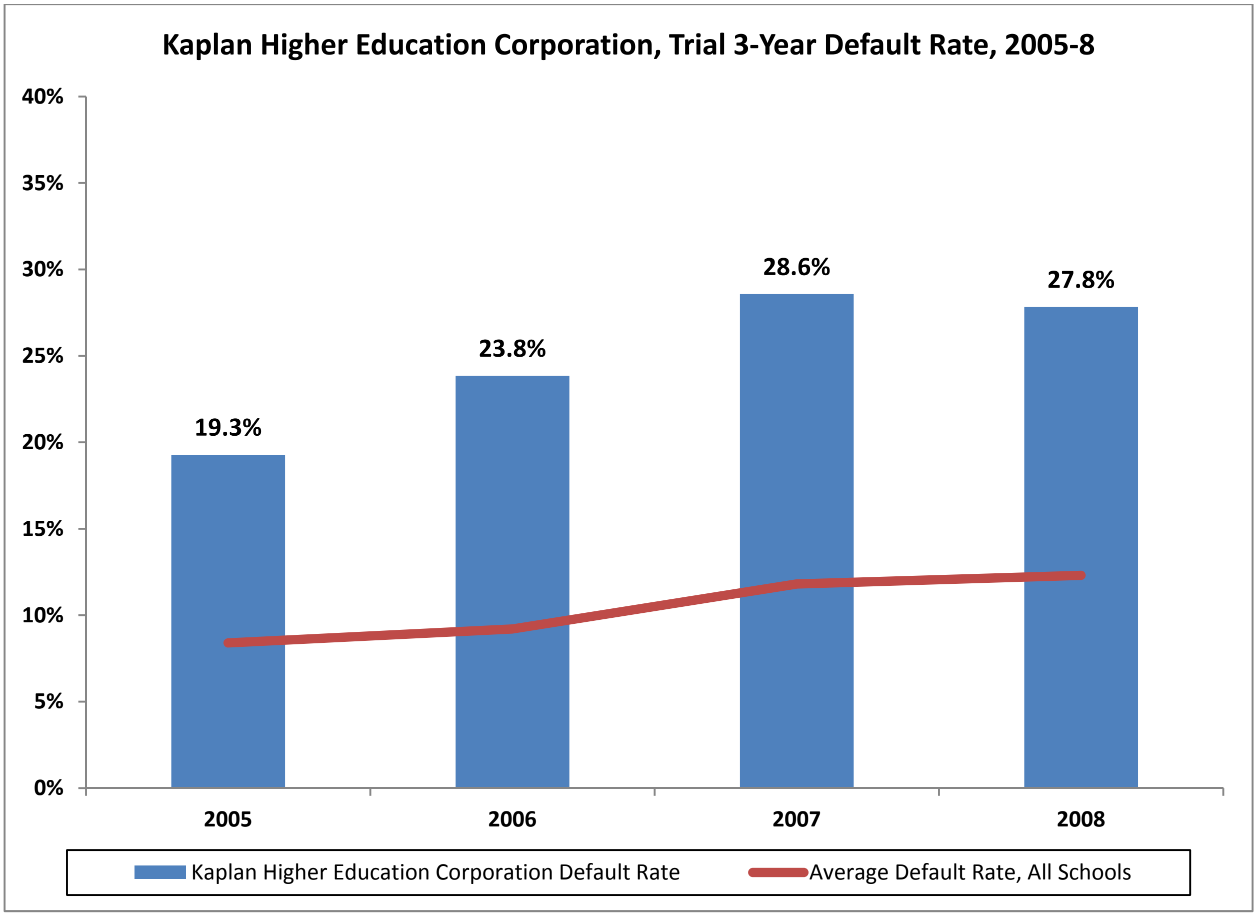
in debt to KU," "they almost always have debt resulting from financial aid," and "the value they gave (indebtedness to KU and financial aid lenders) is greater than the value received (an incomplete education)" so "they default." [2287]

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.[2288]

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.[2289] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2290] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2291] The consequence of this higher rate is that almost half of all student loan defaults nationwide are held by students who attended for-profit colleges.[2292]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[2293] This change represents a 32.6 percent increase over 4 years. Kaplan's default rate has similarly increased, growing from 19.3 percent for students entering repayment in 2005 to 27.8 percent for students entering repayment in 2008. Kaplan's most recent default rate is about 25 percent higher than the rate for all for-profit colleges and has the third highest rate of loan default among the 30 schools examined by the committee.

[2287] Id.
[2288] Direct Loan default rates, 34 CFR 668.183(c).
[2289] 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.
[2290] Id.
[2291] Id.
[2292] Id.
[2293] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.



The default picture at some individual campuses is particularly dire. At Kaplan's TESST College of Technology in Baltimore, MD 32.9 percent of students entering repayment in 2008 defaulted within 3 years. Additional poor performing campuses include those in Corpus Christi, TX where 948 out of 3,047 students (31.1 percent) faced default within 3 years of entering repayment, and a campus in Brooklyn, OH where 207 of 557 (37.2 percent) of students faced default.

As one Kaplan vice president noted, students who attended only a week or two of classes defaulted on loans at a significant rate. The vice president recommended analyzing the impact that a policy change would have on attrition and default rates.[2294] Another vice president recommended a full refund for withdrawals in the first 3 to 30 days of class. He noted, "This is radical but so are the consequences of missing 90/10, default, and outcomes." [2295]

In line with this approach, in September 2010, Kaplan instituted the Kaplan Commitment. All students who enroll in Kaplan can take 5 weeks of classes without incurring any obligation to the school or to lenders. If a student leaves Kaplan within that time, or if the company determines that because of the student's performance or attendance he or she is unlikely to succeed, the student can withdraw having only paid a minimal application fee. This program works in the best interests of students and is a significant step away from burdening withdrawn students with student loan debt.

[2294] Kaplan Internal Email, February 1, 2010, re: *Default Reduction* (KHE 154379).
[2295] Id.

Default management

It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Helping get delinquent students into repayment, deferment, or forbearance prior to default is encouraged by the Department of Education. However, many for-profit colleges appear to be investing in aggressive tactics for the sole purpose of ensuring that borrowers do not default within the 3-year regulatory window so that the college does not lose access to Federal taxpayer-funded student aid dollars.

Significantly, Kaplan hired internal default management staff and contracted with third-parties to manage the default rates it reports to the Department of Education. Default management is primarily accomplished by putting students who have not made payments on their student loans into temporary deferments or forbearances. In an email titled "2008 CDR," Kaplan's vice president of financial aid asked Kaplan's Director of Default Management & Strategy how the Department of Education's decision to look at 3-year cohort default rates would affect Kaplan's numbers. He writes:

> Also, with the three year CDR, have they [Department of Education] increased the number of deferments or forbearances a student is eligible to receive? Under the two year plan, we could use deferments or forbearances to get out of danger. Can we do the same for the 3 year CDR? [2296]

Another executive pondered what Kaplan could "legally do to eliminate the low dollar defaulters before they make it into the stats……" [2297]

Default management contractors are paid to counsel students into repayment options that ensure that students default outside the 2-year, soon to be 3-year, statutory window, in which the Department of Education monitors defaults. Notably, Kaplan at one point hired private investigators for its default management efforts.[2298] These PIs were tasked with locating former students approaching default. Under the contract, if a PI located a student, he would ask the student to sign forbearance forms and advise the student to contact their lenders and negotiate terms to avoid default.[2299] In 2008, Kaplan paid the PI company $575 for each "successful resolution" (a student being put into forbearance) and $150 for each "non-successful resolution." [2300] Kaplan had already paid the company $500,000 for its services in the first half of 2009,[2301] when, in July 2009, with 12 weeks to get high delinquency rates under control, Kaplan temporarily increased these incentive payments to $1,000.[2302]

Kaplan also employs a full-time internal "default prevention team." In August 2009, a Kaplan executive proposed spending a significant sum on hiring 70 employees to make up this team.[2303] Documents show that these initiatives included paying default prevention staffers bonuses for each delinquency "cured" (preventing a student from impacting the default rate through deferment, forbearance, loan consolidation, or repayment). In 2009, default prevention staff could earn $75 for

---

[2296] Kaplan Internal Email, December 4, 2009, re: *FY 2007 Final Chart numerator denominator challenges* (KHE 112966).
[2297] Kaplan Internal Email, October 12, 2009, re: *CDR Analysis for 2007* (KHE 140077).
[2298] Kaplan, July 29, 2009, *Default Management Status Update and Strategy: Current State* (KHE 270925 at KHE270956).
[2299] Kaplan, August 29, 2008, Letter re: *Terms of Engagement for Retention of Investigatory Services,* Letter agreement between Corporate Risk International and Kaplan Higher Education Corporation (KHE 0036513).
[2300] Id., at KHE 0036515.
[2301] Kaplan, July 29, 2009, *Default Management Status Update and Strategy: Current State* (KHE 270925 at KHE 270956).
[2302] Id. at KHE 270925.
[2303] Kaplan, August 21, 2009, *Default Management Proposed New Org Structure* (KHE 137725). Kaplan states that this default management structure was not implemented as proposed in this document.

"curing" a 270+-day delinquency, $50 for "curing" a 180-269 day delinquency, and $30 for "curing" a 179-day-or-less delinquency.[2304]

In addition to full-time default management staff, Kaplan encourages its financial aid managers and career services staff to help lower default rates. A presentation titled, "FA [Financial Aid] Managers['] Role in Reducing Bad Debt," gives financial aid managers the following advice when trying to lower Kaplan's high default rates: "How do you eat an elephant? One bite at a time!" [2305] An internal email reveals the relationship between various departments in pushing students into forbearance. A member of the default prevention team worked with Kaplan's Career Services to bring a student in and give her employment leads, then have her sign a loan forbearance and unemployment deferment. The employee wrote, "Woohoo! One more student off the delinquency Report….Now that's what u call TEAM WORK [sic]! [Emphasis in original]" [2306]

Kaplan, like many other for-profit colleges, contracted with the General Revenue Corporation (GRC), a subsidiary of Sallie Mae, to "cure" students who are approaching default.[2307] Under the agreement, Kaplan pays GRC from $16 to $36 per student borrower account to contact them and attempt to prevent them from defaulting. If GRC successfully "cures" a student by putting them into deferment or forbearance, or having the student bring their loans current by making payments, then, for the most recent tracked group of students entering repayment, Kaplan pays a bonus of $38. In practice, documents indicate that nearly all "cures" are accomplished by deferment or forbearance, not by students actually repaying their loans.

This practice is troubling for taxpayers. The cohort default rate is designed not just as a sanction but also as a key indicator of a school's ability to serve its students and help them secure jobs. If schools actively work to place students in forbearance and deferment during the 2- (now 3-) year tracking window, that means taxpayers and policymakers fail to get an accurate assessment of repayment and default rates. A school that has large numbers of its students defaulting on their loans indicates problems with program quality, retention, student services, career services, and reputation in the employer community. Aggressive default management undermines the validity of the default rate indicator by masking the true number of students who end up defaulting on their loans. Critically, schools that would otherwise face penalties—including loss of access to further taxpayer funds—continue to operate because they are able to manipulate their default statistics.

Moreover, forbearances may not always be in the best interest of the student. This is because during forbearance of Federal loans, as well as during deferment of unsubsidized loans, interest still accrues. The additional interest accrued during the period of forbearance is added to the principal loan balance at the end of the forbearance, with the result that interest then accrues on an even larger balance. Thus, some students will end up paying much more over the life of their loan after a forbearance or deferment.

[2304] Kaplan, July 29, 2009, *Default Management Status Update and Strategy: Bonus Plan* (KHE 270925 at KHE 270953).
[2305] Kaplan, *FA Managers Role in Reducing Bad Debt: How do you eat an elephant? One bite at a time!* (KHE 063733).
[2306] Kaplan Internal Email, June 15, 2010, re: (subject redacted) (KHE 369139) (emphasis in original).
[2307] Kaplan, February 14, 2010, *Second Amendment to Cohort Default Management Services Agreement* (KHE 0036566);Kaplan, *Cohort Default Management Services Agreement* (KHE 0036546).

Instruction and Academics

The quality of any college's academics is difficult to quantify. However the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.

Kaplan spent $1,550 per student on instruction in 2009, compared to $2,144 per student on marketing and $1,220 per student on profit.[2308] The amount that publicly traded for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. 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 Iowa-based colleges spent, on a per student basis, $14,882 at the University of Iowa, $3,734 at Upper Iowa University, and $3,866 at Eastern Iowa Community College, on instruction.[2309]

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. Sector-wide, among the 30 schools the committee examined, fully 80 percent of the faculty is part-time, higher in some companies.[2310] Kaplan employed 1,705 full-time and 6,472 part-time faculty in 2010.[2311]

Students raised concerns with academic quality by filing complaints with the school, State, and Federal agencies. In one instance, a student in California spoke with her school's president and director of education about the poor performance of her math instructor, who had never taught math before. The school switched instructors halfway through the course after determining the teacher "was not well suited" for the course.[2312] Another student complained that her teacher "spent most of his time recruiting students to go to another school at which he was teaching." [2313] Kaplan fired the teacher for that precise conduct but refused to refund students' tuition, claiming subsequent modules with a new teacher provided the students with adequate course content.[2314]

In some cases, at brick-and-mortar campuses, instructors failed to show up to classes. One student complained that her class had no teacher during the first 2 weeks of the term. Students in the class received a refund.[2315] Another student complained that a class had no instructor for the last block

---

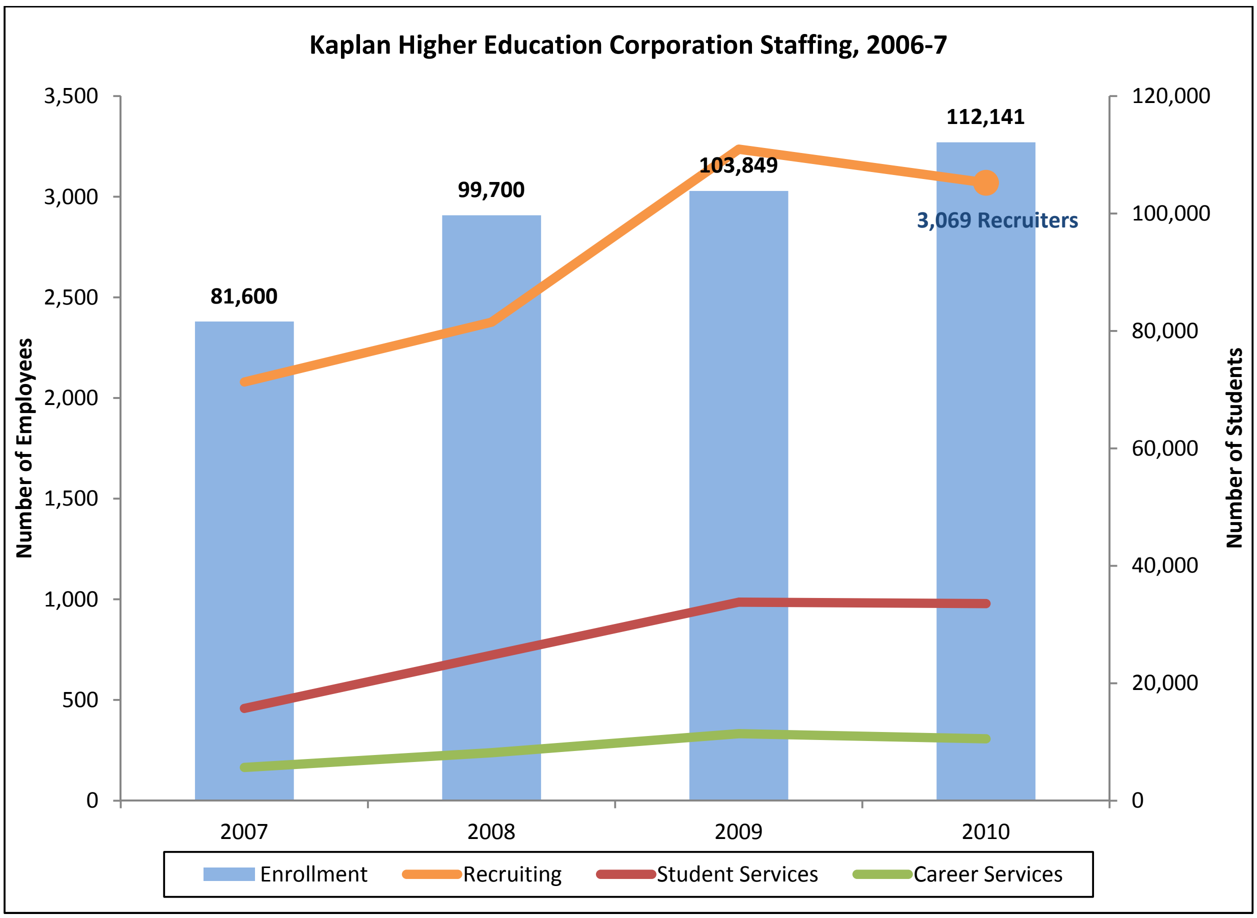
[2308] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the 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.
[2309] 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.
[2310] 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.
[2311] Id.
[2312] Kaplan, February 27, 2008, Student Complaint (KHE 0039927).
[2313] Kaplan, August 7, 2007, Student Complaint (KHE 0038448).
[2314] Id.
[2315] Kaplan, September 26, 2006, Student Complaint re: *no teacher in class* (KHE 0038360).

of material and that an administrative employee would sit in the class for an hour or 2, then give students credit for a 5-hour day.[2316]

Other students raised concerns about the poor logistics of their classes. One student complained that her class was told CPR training would be included in the course but, due to lack of teachers, Kaplan asked students to pay for CPR training separately and take the class at night.[2317] Another student complained about lack of supplies and organization, writing:

> The school did not have the supplies needed for the class, the dates assigned for the class were not accurate. The classrooms were changed several times. Teachers changed during the lessons. … I do not think it is fair for me to pay a 10 thousand dollar financial aid if the school did not comply with what I signed up for.[2318]

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. Kaplan however, does provide better tutoring services than many others in the sector. In 2010, with 112,141 students enrolled, Kaplan employed 3,069 recruiters, 979 student

---

[2316] Kaplan, September 26, 2006, Student Complaint re: *lack of instruction* (KHE 0038425).
[2317] Kaplan, June 6, 2006, Student Complaint (KHE 0038443).
[2318] Kaplan, October 25, 2006, Student Complaint re: *false advertisement* (KHE 0038291).

services staff, and 307 career services and placement staff.[2319] That means each career counselor was responsible for 365 students, and each student services staffer was responsible for 115 students, but the company employed one recruiter for every 37 students.

Career Services

For-profit schools promote themselves as career-oriented skill-focused places. Indeed, most for-profit education advertising focuses on "getting the job" after graduating from school. Kaplan has a relatively robust number of career services employees compared to other education companies examined by the committee and provides placement services though many of its campuses are regionally accredited and not required to do so. However, in 2009, several student complaints note the lack of service they received when trying to find jobs. Others report that those services are not helpful. An alumna of TESST College, a Kaplan school in Maryland, said she felt that career services "just want us to get out of there hair [sic]" and told her to take an $8-an-hour job that would not provide sufficient income to pay her bills.[2320]

Another student who graduated from Kaplan's Hesser College in Pennsylvania filed a complaint in July 2010, stating:

> The job assistance program really is NO help what so ever! I graduated in Feb with my Diploma in Medical Assistance……hmmm still no job and I have not seen any leads from Hesser since probably May….and when I do get leads, they are from Craigslist, hello don't you think the students are already looking there too????? How about some real leads?? [emphasis in original][2321]

One student who had graduated at the top of the class still could not find a job and complained about lack of support from career services. The student wrote:

> Your Career Placement Service is horrible. I graduated Summa Cum Laude. I have been into the Cedar Rapids office several times. They have not helped me at all. I cannot pay back my loans at the present time because my wage is so small, I don't have the funds available to me. If you all would work harder at placing graduates, you would be a much better institution.[2322]

This sentiment was echoed by Eric Schmitt, a witness who attended the Cedar Falls campus and testified at the committee's June 2011 hearing. He stated:

> The school's Career Services didn't seem prepared or able to help me. I stopped in the office on campus a few times but always seemed to get contradictory or confusing resume tips from them. Career Services would frequently send out emails notifying graduates of jobs being offered that I had seen on Iowa Workforce Development or in the

[2319] 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.
Fall 2010 Enrollment reported to Department of Education Integrated Postsecondary Education Data System (IPEDS). SEC filings indicate that Kaplan's total enrollment dropped significantly the following year, but enrollment figures are not yet available through IPEDS.
[2320] Kaplan, June 29, 2009, Student Complaint re: *Career Services: insufficient survice* (KHE 0038688) [sic].
[2321] Kaplan, June 16, 2010, Student Complaint re: *Career Service: insufficient* (KHE 0039604) .
[2322] Kaplan, August 4, 2010, Student Complaint re: *Career Services* (KHE 0039225).

> Waterloo Courier. These were job postings that I could apply to on my own, instead of driving to the school.[2323]

Instances such as these perhaps explain why Kaplan does not collect information on its graduates' salary. As Kaplan's vice president of financial aid noted:

> Career Services does not collect salary information because they would have to report the information. For our programs to be viable long term, we need to ensure our salaries are increasing year over year. Also, we need to ensure that starting salaries of our graduates are, on average, greater than their entry salaries when they start school. Without this knowledge on salaries, we cannot judge the quality of the programs or placements. More over, we cannot ensure students are able to repay their loan payments [sic].[2324]

Regulatory Compliance

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, and that no more than 25 percent of students default within 2 years of entering loan repayment. As discussed in the main body of this report, some companies, including Kaplan, lower their reported default rates by placing students in forbearances and deferments to delay default. Moreover, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal aid programs.

In addition to military funding, Kaplan addresses its 90/10 concerns by trying to get students to make cash tuition payments during their time in school. Kaplan's program for encouraging cash payments is known as "EXCITE: Encourage X-tra Cash Investment Toward Education." [2325] Kaplan executives pushed the program, noting, "cash is King." [2326] Under the program, Kaplan recruiters are instructed to ask students how much they can pay per month towards tuition. A guidance presentation states, "This is their reality not yours. You might be surprised by the amount they can commit to – let them commit." [2327]

A Kaplan presentation advises employees to use a "feel, felt, found method" to overcome "customer" objections to paying more cash tuition.[2328] In a role-play example in which the "customer" is receiving unemployment insurance and unsure whether he can afford to make cash payments, the presentation tells recruiters to say the following:

- Bill, I understand how you <u>feel</u> about not being able to afford the required monthly payment.
- Other students initially <u>felt</u> that very same way.
- However, they <u>found</u> that they only had to sacrifice things like watching cable TV, going out to movies, eating fast foods, and buying CDs or DVDs for a few months to be able to achieve the career they always wanted.

[2323] Eric Schmitt (Kaplan University alumnus), Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Drowning in Debt: Financial Outcomes of Students at For-Profit Colleges,* June 7, 2011.
[2324] Kaplan Internal Email, July 13, 2009, re: *Defaulter Analysis* (KHE 265925).
[2325] Kaplan, *EXCITE: Encourage X-tra Cash Investment Toward Education* Training Manuel (KHE 063195).
[2326] Kaplan Internal Email, July 17, 2009, re: *Kaplan Choice Loan Reserve Rate* (KHE 325963).
[2327] Kaplan, *EXCITE: Encourage X-tra Cash Investment Toward Education: Asking for Monthly Tuitoin Payments, Admissions & Financial Aid Continued* Training Manuel (KHE 063195, at 63200).
[2328] Kaplan, *Overcoming Objections Tuition Payment Commitment* (KHE 272320, at KHE 272325).

- Bill, what can you sacrifice for a few months to have job security, improved income, and the benefits you've always wanted? [2329]

Conclusion

At the time the committee investigation was initiated, Kaplan had undergone a period of rapid acquisition and expansion and the company exhibited some of the most serious problems of any company examined by the committee. As a result of a heavy brick-and-mortar presence in Iowa, student complaints were flooding the Chairman's office. Recruiting tactics captured on recordings made by undercover GAO agents were among the worst. With 68 and 69 percent of students enrolling in Associate and Bachelor's programs in 2008-9 withdrawing by mid-2010, Kaplan's retention was among the lowest. Moreover the company was facing serious regulatory challenges both in complying with 90/10 and in rising default rates. Internal documents revealed additional questionable recruiting practices, particularly with regard to recruiting military servicemembers and veterans. Other documents revealed the company had paid private investigators to collect signed forbearance agreements from students delinquent on loan payments. Witnesses who appeared before the committee testified regarding deceptive recruiting practices, heavy-handed efforts to prevent access to transcripts, and students with high debt accompanied by an inability to find a job.

However, during the course of the investigation Kaplan initiated significant reforms that showed a commitment to becoming a company far more focused on student success than it was in 2010. The Kaplan Commitment
5-week trial program initiated in September 2010 has resulted in many students who might otherwise have left a Kaplan school with debt but no diploma being allowed the opportunity to try the programs risk-free. The program underscores the fundamental commitment of Kaplan's parent company, the Washington Post company, to increasing student success rates and has come at a financial cost to Kaplan and the Post company. While Kaplan still faces some regulatory challenges particularly with 90/10, the committee expects that both the debt and default rates of students will decline and the success rates will rise significantly in the near future.

[2329] Id. at KHE 272331.