

Introduction

National American University Holdings, Inc. is the most recent company to become publicly traded on a Wall Street exchange, and is the smallest publicly traded, for-profit education company. Like many for-profit education companies, NAU has experienced growth in student enrollment, particularly in online programs, and has increased the amount of Federal funds it collects and its annual profit. However, the company's performance, measured by student withdrawal and default rates, is one of the best of any company examined. It appears that many students are faring well at this degree-based for-profit college.

Company Profile

National American University ("NAU") is a publicly traded, for-profit education company headquartered in Rapid City, SD. Founded in 1948 as the National School of Business, NAU originally provided business, secretarial and accounting programs. The NAU campus grew rapidly in the 1960s with many World War II and Korean War veterans attending the school.²⁴⁹³ Over the next 3 decades, NAU renamed itself, expanded its degree programs, and established nearly 30 additional campuses in the Midwest and Southwest. In 1998, the company began offering online degree programs and in 2009, the company went public.²⁴⁹⁴

Today, NAU enrolls approximately 10,000 students and offers nearly 60 Diploma, Associate, Bachelor's and Master's degree programs in business-related disciplines, such as accounting, applied management, business administration, information technology and healthcare-related disciplines, such as nursing and healthcare management. Associate degrees represent nearly half of the company's enrollment, with Bachelor's students making up another 40 percent.²⁴⁹⁵ Fifty-three percent of NAU students attend completely online, up from 47 percent in 2011, and another 17 percent take some classes online.²⁴⁹⁶

Like more than half of the regionally accredited brands the committee examined, National American University is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC).²⁴⁹⁷ It was originally accredited by HLC in 1985.

Dr. Ronald L. Shape is chief executive officer of National American University Holdings, Inc.²⁴⁹⁸ Dr. Jerry L. Gallentine, who previously served as president of several Midwestern colleges, serves as

²⁴⁹³ National American University, 2008, *New Admissions Representative Training Manual* (NAU0014515, at NAU0014516).

²⁴⁹⁴ National American University Holdings, Inc. Form 10-K for period ending 5/31/2011.

²⁴⁹⁵ National American University Public Presentation, April 2012, Conference Call Presentation, available at http://www.national.edu/sites/default/files/files/NAUH_Q3%20FY2012.pdf. (accessed June 18, 2012).

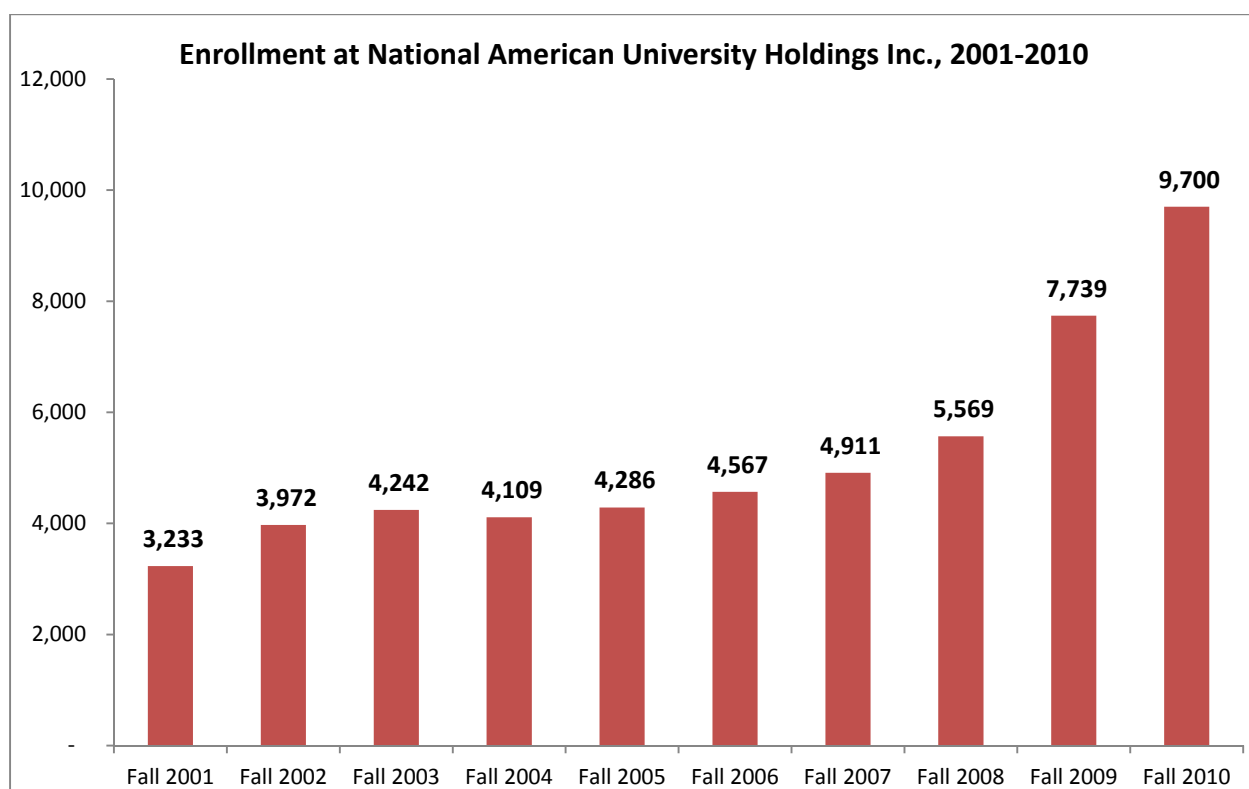
²⁴⁹⁶ National American University Holdings, Inc. Third Quarter and Nine Months Results, <http://www.national.edu/sites/default/files/National%20American%20University%20Holdings.%20Inc.%20Reports%20Fiscal%202012%20Third%20Quarter%20and%20Nine%20Months%20Results.pdf> (accessed July 12, 2012).

²⁴⁹⁷ See National American University "Accreditations, Approvals & Affiliations," <http://www.national.edu/accreditations-approvals-affiliations> (accessed July 12, 2012).

²⁴⁹⁸ See National American University, "Management," <http://www.national.edu/management> (accessed July 12, 2012).

president of the company.²⁴⁹⁹ National American University underwent a merger with Camden Learning Corporation in 2009, a “special purpose acquisition company” company that investors formed in 2007 with the intent to purchase an education business. The merger led to a corporate reorganization that resulted in the formation of National American University Holdings, Inc., a Delaware corporation listed on the NASDAQ stock exchange.²⁵⁰⁰ NAU generates nearly all of National American University Holdings, Inc.’s revenue, totaling 98.7 percent in 2011.²⁵⁰¹ The rest of the holding company’s revenue is derived from selling multi-family residential real estate in South Dakota.²⁵⁰²

The company has been expanding its physical campus locations rapidly since 2011. As of early 2012, the company operates 35 campuses, including 18 new campuses opened since 2009.²⁵⁰³ Five new campuses are pending regulatory approval from the Higher Learning Commission, and the company has announced two more campus openings in 2013.



In the fall of 2010, 9,700 students were enrolled at NAU, 25 percent more students than were enrolled at the time the company went public in the fall of 2009.²⁵⁰⁴ This growth in enrollment was

²⁴⁹⁹ See National American University, “Management,” <http://www.national.edu/management> (accessed July 12, 2012).

²⁵⁰⁰ “National American University and Camden Learning Corporation to Merge,” *Bloomberg News*, August 10, 2009, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aCWGeLUTZpwo> (accessed May 12, 2012).

²⁵⁰¹ National American University Holdings, Inc. Form 10-K for period ending 5/31/11.

²⁵⁰² “National American University (NAUH:NASDAQ GM),” *Bloomberg BusinessWeek Snapshot*, <http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=NAUH:US> (accessed May 12, 2012)

²⁵⁰³ Campus locations: Colorado (4); Indiana (1); Kansas (3); Minnesota (6); Missouri (4); Nebraska (1) New Jersey (1); New Mexico (2); Oklahoma (1); South Dakota (4); Texas (8): <http://www.national.edu/locations> (accessed June 12, 2012).

²⁵⁰⁴ For companies that began filing with the Securities and Exchange Commission subsequent to an initial public offering between 2001 and 2010, 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) until Securities and Exchange Commission filings become available at which time SEC filings for the August-October period each year are used. See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall

driven by students enrolling online and also led to growth in revenue.²⁵⁰⁵ Since its initial public offering in November 2009, revenue at NAU has grown by more than 70 percent.²⁵⁰⁶

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.²⁵⁰⁷ 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 2006.²⁵⁰⁸

In 2010, NAU reported 76.1 percent of revenue from title IV Federal financial aid programs.²⁵⁰⁹ However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs or revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA).²⁵¹⁰ The committee estimates that NAU discounted approximately 5.7 percent of revenue, or \$4.4 million, pursuant to ECASLA. Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 3.9 percent of NAU's revenue, or \$3 million.²⁵¹¹ With these funds from the Departments of Defense and Veterans Affairs included, 80 percent of NAU's total revenue was comprised of Federal education funds.²⁵¹²

2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a drop in revenue and profit at some companies.

²⁵⁰⁵ Online enrollment grew at the rate of 26 percent in the same period.

²⁵⁰⁶ In fiscal year 2009, NAU reported \$62,584,000 in revenue and the company reported \$106,808,000 in revenue in 2011. Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

²⁵⁰⁷ "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.

²⁵⁰⁸ 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.

²⁵⁰⁹ 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.

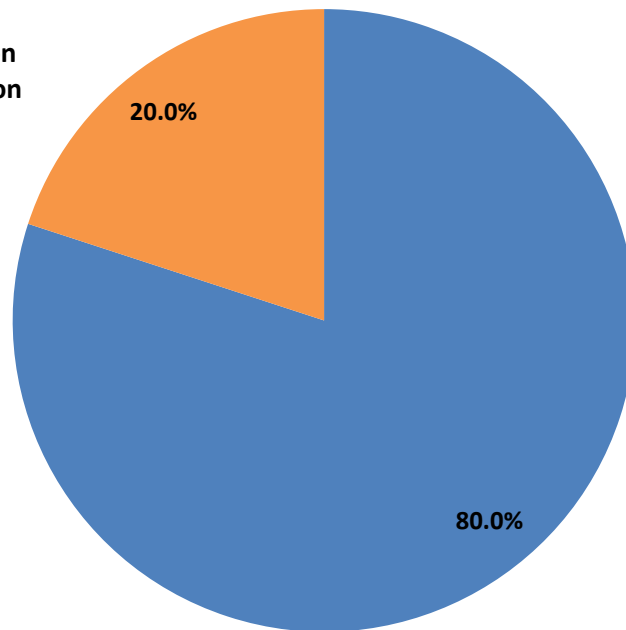
²⁵¹⁰ Pursuant to the Ensuring Continued Access to Student Loan Act (ECASLA), for-profit education companies were allowed to exclude \$2,000 in increased Stafford loan eligibility for each student during fiscal years 2009 and 2010.

²⁵¹¹ 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.

²⁵¹² "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.

National American University Holdings, Inc. Federal Money Share, 2010

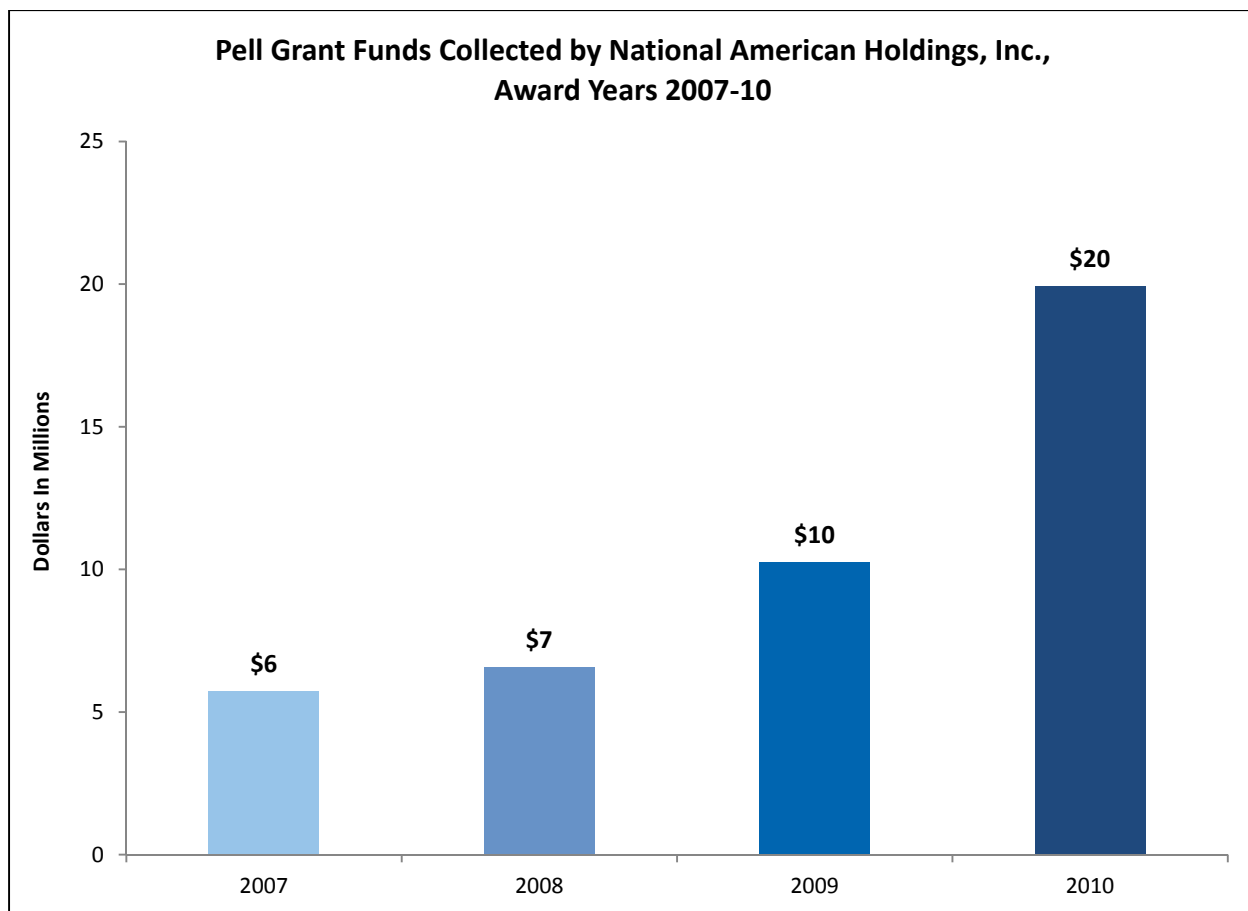
Federal Education
Funds: \$61 Million



■ Federal Education Funds ■ Non-Federal Funds

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.²⁵¹³ 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.

²⁵¹³ 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).



While the dollar amount remains comparatively small, the amount of Pell grant funds NAU collected grew by almost 600 percent in just 3 years, from \$5.7 million in 2007 to \$19.9 million in 2010.²⁵¹⁴

Spending

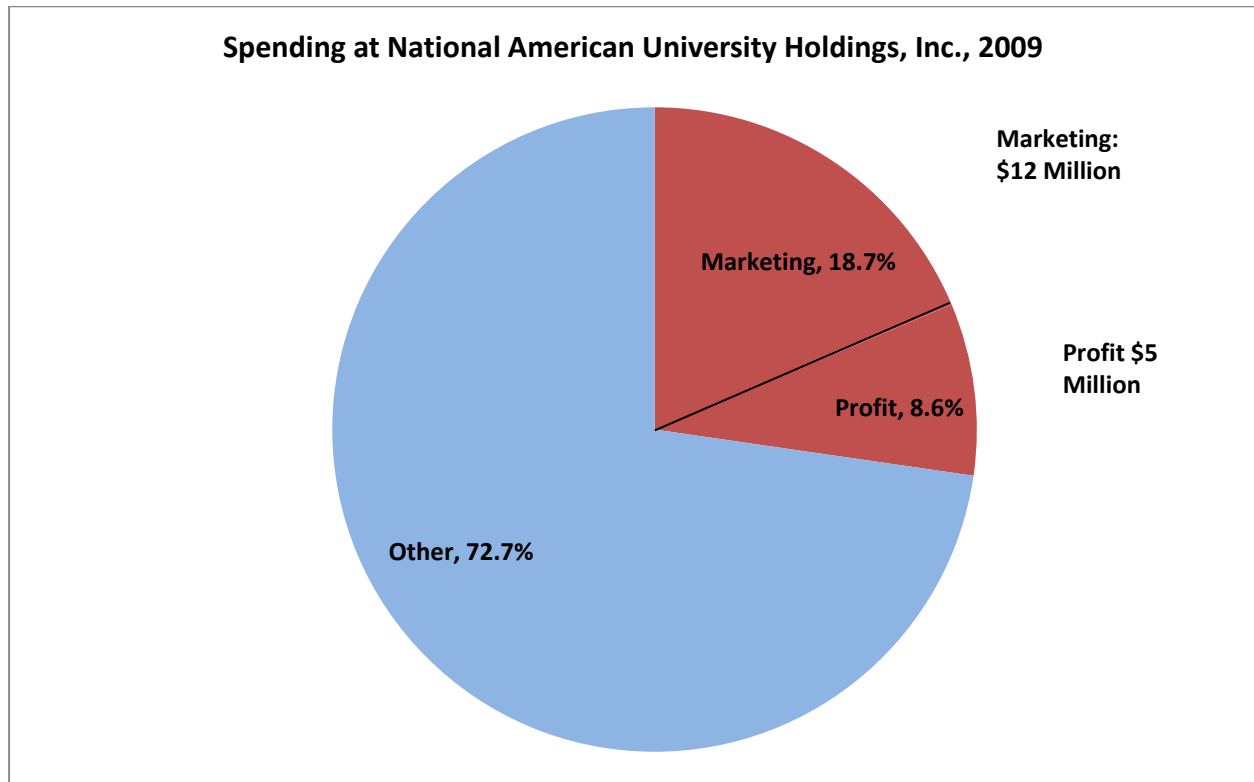
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.²⁵¹⁵ During the same period the companies spent 23 percent of revenue on marketing and recruiting (\$3.7 billion) and 19.7 percent on profit (\$3.2 billion).²⁵¹⁶ These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.²⁵¹⁷

²⁵¹⁴ Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, <http://Federalstudentaid.ed.gov/datacenter/programmatic.html> (accessed July 12, 2012). See Appendix 13

²⁵¹⁵ 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.

²⁵¹⁶ Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings and information provided to the committee by the company pursuant to the committee document request of August 5, 2010.

In 2009, NAU devoted 18.7 percent of its revenue, or \$11.7 million, to marketing and recruiting and 8.6 percent of its revenue, or \$5.4 million, to profit.²⁵¹⁸



NAU devoted a total of \$17.1 million to marketing, recruiting and profit in fiscal year 2009.²⁵¹⁹ The amount of profit NAU generated increased rapidly following the company’s public stock listing. In 2009, NAU reported a profit of \$5.4 million, and by 2011 its profit more than tripled to \$16.4 million.²⁵²⁰

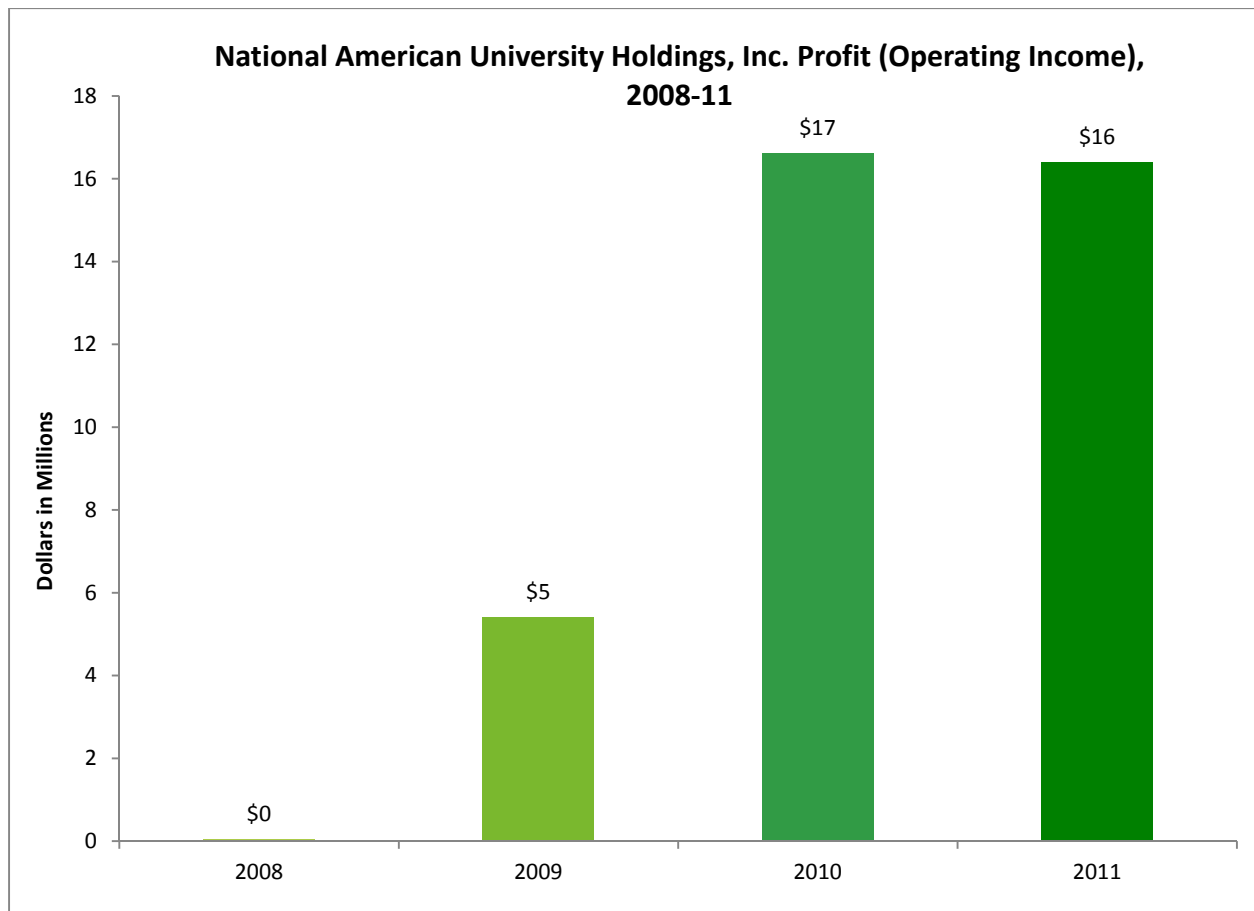
Profit is based on operating income reported in SEC filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.

²⁵¹⁷ Id.

²⁵¹⁸ Id.

²⁵¹⁹ “Other” category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.

²⁵²⁰ Senate HELP Committee staff analysis. See Appendix 18.



Executive Compensation

Executives at NAU, like most for-profit executives, are more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.²⁵²¹ In 2010, NAU President Jerry L. Gallentine received \$1.1 million in compensation, close to 3 times as much as the President of the South Dakota State University who received \$340,642 in total compensation for 2009-10.²⁵²² CEO Ronald L. Shape earned \$990,361.²⁵²³

²⁵²¹ Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.

²⁵²² “President and provost salary data: 2009-10 Executives’ compensation at public institutions,” UC Berkeley News Center, <http://newscenter.berkeley.edu/president-and-provost-salary-data/> (accessed June 27, 2012).

²⁵²³ Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.

Executive	Title	2010 Compensation
Ronald L. Shape	Chief Executive Officer and Chief Financial Officer	\$990,361
Jerry L. Gallentine	President	\$1,154,422
Michaelle Holland	Regional President for the South and Southeast Regions	\$692,807
Robert D. Buckingham	Executive Chairman of the Board	\$3,127,120
Total		\$5,964,710 ²⁵²⁴

NAU compensation packages are well below the average for publicly traded, for-profit education companies.²⁵²⁵

Tuition and Other Academic Charges

While tuition at NAU's brick and mortar and online schools varies, overall, compared to South Dakota public colleges offering the same programs, the price of tuition is higher at NAU. A Bachelor's degree in Business Administration from the main NAU campus in Rapid City costs \$62,813 and the same degree online costs \$60,389,²⁵²⁶ whereas the same degree at the University of South Dakota costs \$35,216.²⁵²⁷

An Associate's degree in Business Administration at NAU costs \$28,769 on campus and \$30,257 online.²⁵²⁸ A similar degree at Western Dakota Technical Institute, also located in Rapid City, costs \$11,516, less than half the cost of a NAU Associate's degree.²⁵²⁹

²⁵²⁴ Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities and Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.

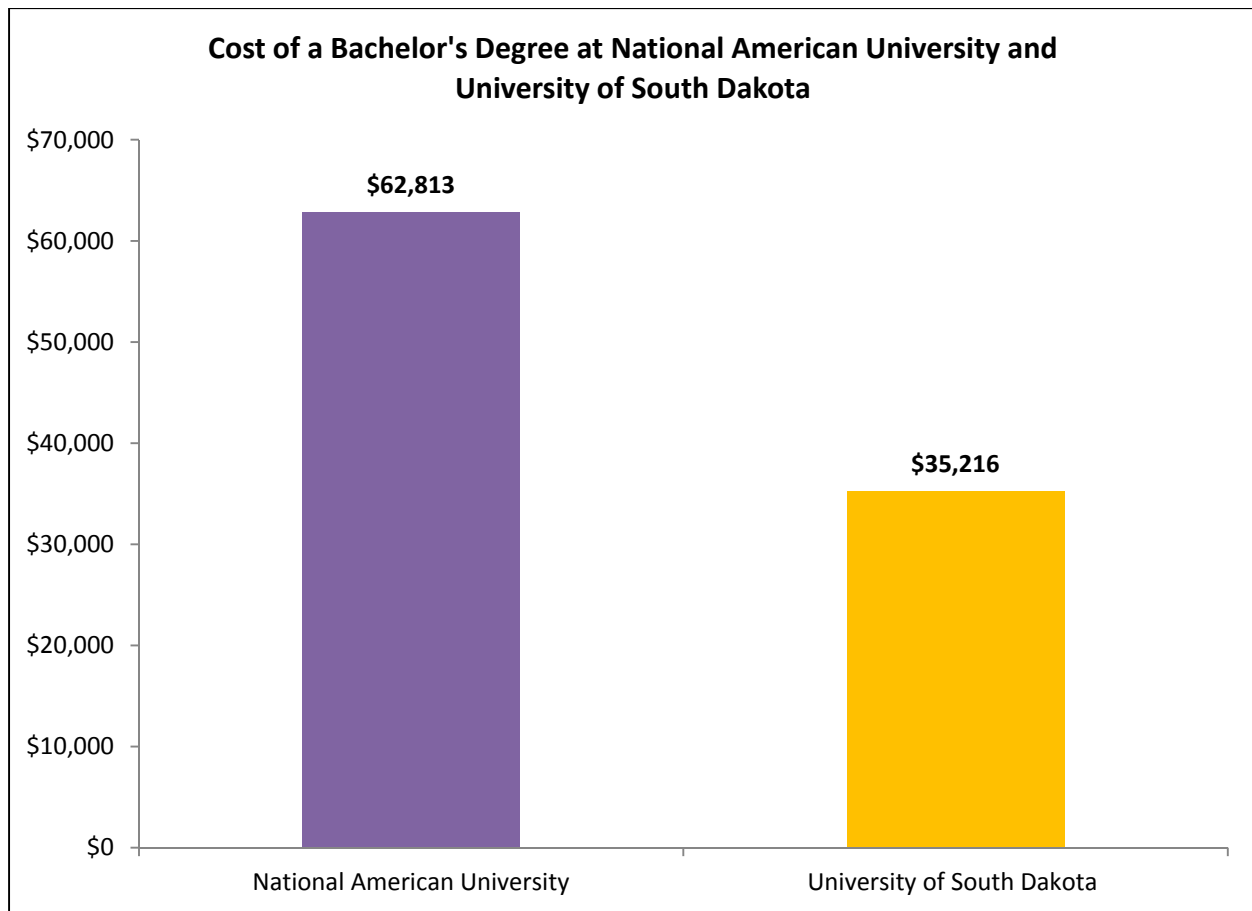
²⁵²⁵ The chief executive officers of the large publicly traded for-profit education companies took home, on average, \$7.3 million in fiscal year 2009.

²⁵²⁶ See Appendix 14; see also, National American University, *Disclosures*, <http://www.national.edu/disclosures> (accessed July 12, 2012). Tuition alone was calculated by multiplying the cost per credit hour by total credit hours required.

²⁵²⁷ See Appendix 14; see also, University of South Dakota, *University of South Dakota*, <http://www.usd.edu/> (accessed July 12, 2012).

²⁵²⁸ See Appendix 14; see also, National American University, *Disclosures*, <http://www.national.edu/disclosures> (accessed July 12, 2012). Tuition alone was calculated by multiplying the cost per credit hour by total credit hours required.

²⁵²⁹ See Appendix 14; see also, Western Dakota Tech, *Western Dakota Tech*, <http://www.wdt.edu/> (accessed July 12, 2012).



Over the past 5 years, undergraduate tuition at NAU’s Rapid City campus has increased an average of 4.6 percent per year, while online tuition has increased an average of 6.1 percent per year.²⁵³⁰

Internal documents make clear that tuition is driven at least in part by profit expectations. In fall 2007 after NAU failed to achieve its quarterly profit expectations, the chief financial officer wrote to campus directors, “the university (as a system) was not successful in achieving its summer quarter profit expectations” and “as a result” the company proposed a mid-year tuition increase, as well as a technical change in how the company bills students.²⁵³¹ Campus directors expressed reservations about the increase. The campus director of NAU’s Denver campus raised concerns about having two tuition increases in the same academic year, especially because of existing student dissatisfaction with the campus:

Since we just had a tuition increase for the fall 2007 quarter, I expect students will not be very happy with a second increase within the same academic year. The second increase may cause us to lose some students as we are already experiencing some drops by students who perceive a lack of quality teaching faculty. I think because there has been so much change in personnel at this campus since May there is an undercurrent of concern and frustration with the changes and students might see this as just another

²⁵³⁰ National American University; Historical Tuition Raises, FY2006 to FY2010 (HELP-NAU_000001) National American University, September 2010, *Tuition and Fees Per Quarter* (NAU0019621); National American University, 2010-11, *Tuition, Fees & Refund Policy 2010-2011: Distance Learning Campus* (NAU0019536). The percentage increase in online tuition was calculated using the difference between the 2007-8 and 2008-9 tuition rates, which was 5.31 percent, and leaving out the 2007-8 mid-year tuition increase.

²⁵³¹ National American University Internal Email, October 2007, *re: Mid Year Adjustments* (NAU0013678).

opportunity to vent. I believe that with a majority of new staff members and a lack of staff in certain departments, some of the students are questioning the Denver campus[.] In reality, I think we still would be competitive with other private, proprietary institutions in Denver but we are getting close to a pricing line that might take us out of the market.²⁵³²

The campus director of NAU's Rapid City campus thanked the CFO for not suggesting a tuition increase at that campus, writing, "a satisfied customer is one who perceives he/she receives value for dollars spent and our market has some issues with our rates.... A mid-year increase for [Rapid City] would have cost us more than it would have gained."²⁵³³ Yet another campus director raised concerns about students not being able to repay their debt if tuition levels were too high:

My biggest concern is getting the students funding to cover the costs – if that can be done at \$290 per credit – I'm game... Increasing my revenue by 40,000 a quarter would be nice as long as I don't have to turn around and write it off as bad debt later...²⁵³⁴

NAU executives were also concerned about competition with other schools. The Denver campus director who, in 2007, feared a mid-year tuition increase would bring NAU close to crossing a competitive pricing line continued to oppose further tuition increases in 2008, noting, "we will be out pricing our program with our competitors."²⁵³⁵ Likewise, the Rapid City campus director who agreed with holding firm on mid-year tuition rates also sought to keep graduate tuition rates the same for the 2008-9 academic year. He wrote:

Given the fact that this campus' competition is strictly state institutions with significantly lower tuition rates at both the undergrad and grad levels, a more greedy approach would backfire and many prospects/students would simply choose a less expensive educational alternative.²⁵³⁶

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 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, internal NAU documents clearly reflect the pressure on recruiters to meet enrollment targets. NAU notes that in 2009 it revised the code of conduct for all recruiters and specifies that all recruiters are required to sign the code of conduct and are held strictly accountable to the code.²⁵³⁷

²⁵³² National American University Internal Email, October 2007, re: *RE: Mid Year Adjustments* (NAU0013825).

²⁵³³ National American University Internal Email, October 2007, re: *RE: Mid Year Adjustments* (NAU0013834).

²⁵³⁴ National American University Internal Email, December 2008, re: *RE:* (NAU0013713, at NAU0013716).

²⁵³⁵ National American University Internal Email, January 2008, re: *FW: Tuition Increase Recommendations* (NAU0013551, at NAU0013556).

²⁵³⁶ National American University Internal Email, October 2007, re: *Mid Year Adjustments* (NAU0014003, at NAU0014004).

²⁵³⁷ National American University, August 2010, *Admissions Code of Conduct*, (NAU0021252). See also Appendix 6.

One of NAU's recruiting handbooks produced to the committee instructed recruiters check for leads "at a **minimum** every 15 minutes [emphasis in original]." ²⁵³⁸ Once a recruiter took responsibility for a lead, he or she had to call the lead three times the day the lead was discovered, another time the next day, and another time the same week until the lead answered or called back. ²⁵³⁹ Recruiters were instructed to send an introductory email on the first day, probe for information via email on the second day, and establish office hours via email sometime during the first week. ²⁵⁴⁰ A training manual for new admissions representatives stated that representatives were "expected to devote a minimum of four hours per day to telephone contact work (setting appointments, follow-up, etc.)." ²⁵⁴¹

Once NAU recruiters made a phone call, they were instructed to "create a sense of urgency and initiate the follow-up." ²⁵⁴² Recruiters can create a sense of urgency if they ask questions such as, "Tell me what your life would be like if you let another 5 years go by without getting your degree." ²⁵⁴³ Recruiters were also instructed to "counter at least 5 objections." ²⁵⁴⁴ If cost was the objection, recruiters should respond with, "We are talking about an investment in your future, not a cost." ²⁵⁴⁵ Recruiters were also instructed not to give out complete program costs and instead give only a credit hour rate. ²⁵⁴⁶ If lack of interest was the objection, recruiters should respond with, "What is it your not interested in [sic]? Is it increasing your income, financial investments, increasing your knowledge, etc.? Let's spend some time having you visit the school and determine where your interests may lie." ²⁵⁴⁷

Recruiters were instructed that when countering these objections and providing information about NAU they should "give buyers enough information, and no more, about your solution and how it will benefit them, to convince them that they are justified in buying." ²⁵⁴⁸ The training manual stated:

We must remember that if giving out the information over the phone worked, we would all just do that! Here is what we also need to be reminded of: "*Information does not sell, people do AND people do not buy features, they buy benefits.*"

So, the first step to telephone success is to convince ourselves our prospects are calling for help and guidance NOT information. So, let's respond to their "*cry for help*" by enticing them to come in and see the benefits of an education! [emphasis in original]. ²⁵⁴⁹

The training manual continued, "The best information piece is one that gives NO detailed information and answers NO questions" [emphasis in original]. Instead, the goal of a phone conversation is to "set up a face-to-face interview." ²⁵⁵⁰

²⁵³⁸ National American University, National American University Online Admissions Coordinator Manual (NAU0014290, at NAU0014450).

²⁵³⁹ Id. at NAU0014353-54).

²⁵⁴⁰ Id.

²⁵⁴¹ National American University, 2008, New Admissions Representative Training Manual (NAU0014515, at NAU 0014520) (emphasis in original).

²⁵⁴² National American University, National American University Online Admissions Coordinator Manual (NAU0014290, at NAU0014341).

²⁵⁴³ Id. at NAU0014345).

²⁵⁴⁴ Id.

²⁵⁴⁵ National American University, 2008, New Admissions Representative Training Manual (NAU0014515, at NAU 0014520).

²⁵⁴⁶ Id., at NAU0014539.

²⁵⁴⁷ Id., at NAU0014535.

²⁵⁴⁸ National American University, National American University Online Admissions Coordinator Manual (NAU0014290, at NAU0014336).

²⁵⁴⁹ National American University, 2008, New Admissions Representative Training Manual (NAU0014515, at NAU 0014528).

Recruiters were pushed hard to have a positive first phone call with a prospective student because “it usually costs a university approximately \$150 to generate each lead.”²⁵⁵¹ “If we let the receptionist take a message and tell the prospect someone will get back to them, the likelihood of them going on and calling another school increases greatly.”²⁵⁵² The training manual for new admissions representatives noted, “It is important to remember that every business must include good customer service!”²⁵⁵³ The university suggested finding additional leads at places such as “Hair Salons,” “Ethnic Celebrations or Centers,” and “Wal-Mart, Target, Kmart, etc.—any stores that may have people that need to get an education.”²⁵⁵⁴

The business focus in for-profit colleges’ recruiting practices may lead to pressure on recruiters to admit students who should not be attending the school. For example, the Associate Director of NAU’s Wichita campus noted that she would be watching several students carefully before issuing refunds because she was concerned they enrolled “to get money & what usually happens is once they receive their FA refund they stop attending classes.”²⁵⁵⁵

That pressure may also have led recruiters to lie about the school’s degree offerings. In one instance, a recruiter told a prospective student the school had an excellent medical assisting program and got the student to enroll.²⁵⁵⁶ After being confused about getting placed in accounting, the student discovered the campus did not yet have approval for the medical assisting program and that the student was instead placed in the school’s healthcare management program. In a letter to the school, the student wrote that the admissions representative “lied to me in order to get my business” and that many students had the same thing happen.²⁵⁵⁷ In its response to the student complaint, NAU said the student was informed the campus did not yet have a medical assisting program before enrolling and “could have declined” the academic dean’s suggestion to take accounting. NAU did not refund the student’s money.²⁵⁵⁸

While student complaints may not be representative of the experience of the majority of NAU students, these complaints provide an important perspective on NAU’s recruiting practices.

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,

²⁵⁵⁰ Id. at NAU0014538).

²⁵⁵¹ Id.

²⁵⁵² Id. at NAU0014538.

²⁵⁵³ Id.

²⁵⁵⁴ Id. at NAU0014590.

²⁵⁵⁵ National American University Internal Email, December 2008, re: *WI FA Refund approvals* (NAU0039976, at NAU0039979).

²⁵⁵⁶ National American University, May 2009, Student Letter of Complaint (NAU0020222).

²⁵⁵⁷ Id. NAU states that the student never contacted the University again, BBB closed the file and the student’s account was paid in full.

²⁵⁵⁸ National American University External Correspondence, June 2009, re: [redacted] (NAU0020229).

take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.²⁵⁵⁹

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 while some people who enroll in at NAU are not achieving their educational and career goals, overall, the company is doing a much better job of serving students than many of the companies examined.

Retention Rates

Analysis of data provided by NAU indicates that of the 4,445 students who enrolled at NAU in 2008-9, 40.5 percent, or 1,799 students, withdrew by mid-2010.²⁵⁶⁰ These withdrawn students were enrolled a median of two and a half months.²⁵⁶¹ Although 4 out of every 10 students withdrew from the school during the period examined, NAU has some of the best student retention rates compared with other for-profit colleges.²⁵⁶² Just 39.8 percent of Bachelor’s student withdrew, one of the three lowest withdrawal rates for BA programs, and much lower than the 54.3 percent withdrawal rate across all companies. Forty-one percent of Associate degree students withdrew, the lowest 2-year degree withdrawal rate for a regionally accredited school and far below the average of 62.8 withdrawn.

Status of Students Enrolled in National American University in 2008-09, as of 2010					
Degree Level	Enrollment	Percent Completed or Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Associate Degree	2,214	58.9%	41.1%	910	74
Bachelor’s Degree	2,231	60.2%	39.8%	889	70
All Students	4,445	59.5%	40.5%	1,799	72

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.

²⁵⁵⁹ 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 12, 2012).

²⁵⁶⁰ 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.

²⁵⁶¹ Id.

²⁵⁶² 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.

Supplemental data provided by the company indicates that about 29 percent of the NAU's Associate and Bachelor's graduate within 5 years, and about 46 percent graduate within 7 years. These percentages translate to a long-term withdrawal rate of approximately 54 percent.

Student Loan Defaults

The number of students leaving NAU with no degree correlates with the rates of student loan defaults by students who previously attended NAU. 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.²⁵⁶³

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.²⁵⁶⁴ In contrast, 1 in 11 students at public and non-profit schools defaulted within the same period.²⁵⁶⁵ Students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions and 47 percent.²⁵⁶⁶ Almost half of all student loans currently in default are held by students who attended for-profit colleges.²⁵⁶⁷

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.²⁵⁶⁸ This change represents a 32.6 percent increase over 4 years.²⁵⁶⁹ NAU's 3-year default rate has similarly increased, growing from 13.2 percent for students entering repayment in 2005 to 15.5 percent for students entering repayment in 2008.²⁵⁷⁰ NAU's most recent default rate is below the average 22.6 percent rate of the 30 schools studied by the committee.

²⁵⁶³ Direct Loan Default Rates, 34 CFR § 668.183(c).

²⁵⁶⁴ 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 on July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default by sector.

²⁵⁶⁵ Id.

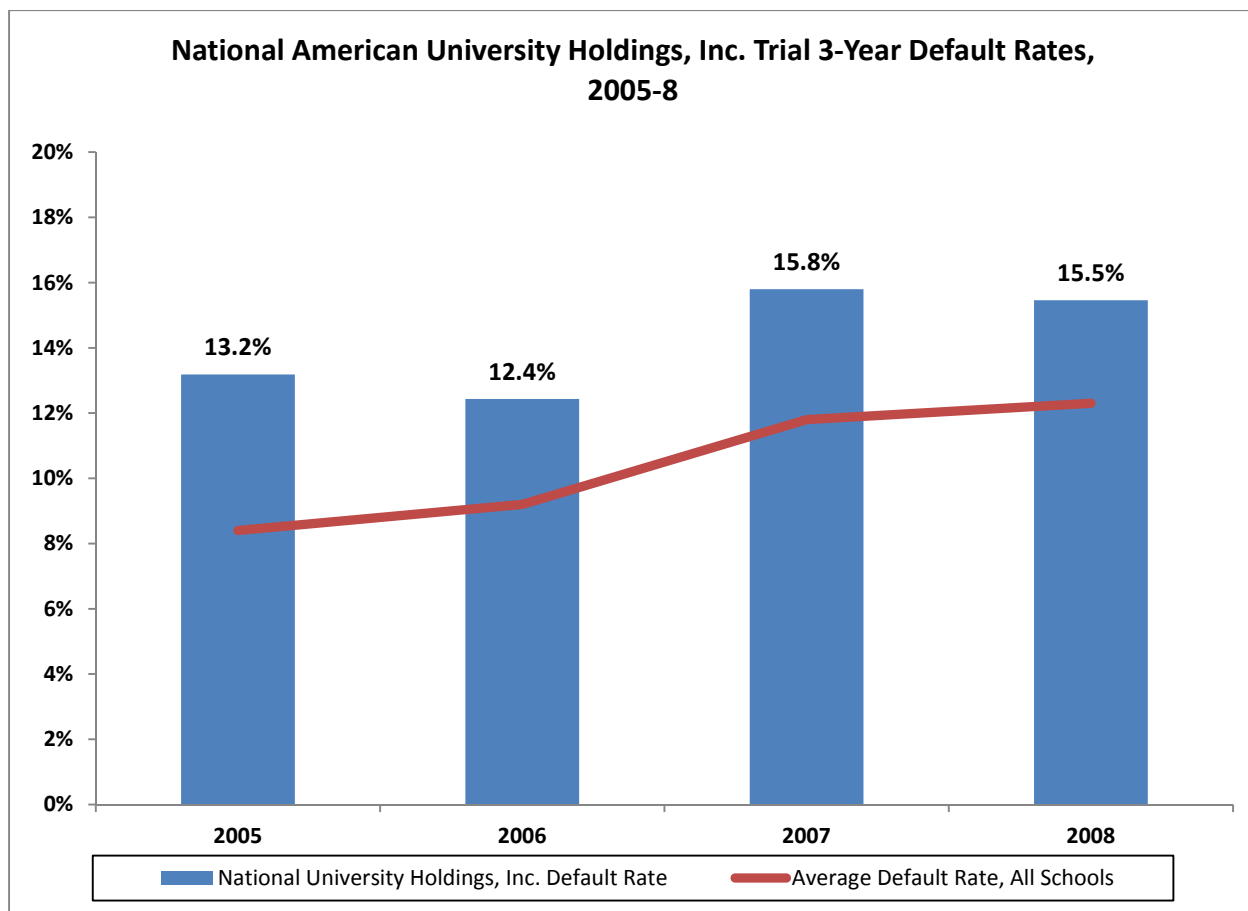
²⁵⁶⁶ Id.

²⁵⁶⁷ Id.

²⁵⁶⁸ 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 for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.

²⁵⁶⁹ Id.

²⁵⁷⁰ Id.



Although NAU’s default rate is well below the Department of Education’s threshold for penalties, the Department’s switch to a 3-year cohort default rate raised some eyebrows at the company. When the Association of Private Sector Colleges and Universities, the trade association of for-profit colleges, sent an email alert to its members, then-CFO Ronald Shape asked the school’s system director of financial aid to “check to see what impact this will have on NAU’s rates.”²⁵⁷¹ The director estimated a 14.9 percent 3-year cohort default rate, noting one major problem with this would be that “once the default rate goes above the 10% lenders are hesitant to work with us, [and] if we go over 15% we would lose our alternative loan options with those lenders.”²⁵⁷²

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.

NAU spent \$1,811 per student per year on instruction in 2009, compared to \$2,384 on marketing and \$1,104 on profit.²⁵⁷³ The amount that publicly traded, for-profit companies spend on instruction

²⁵⁷¹ National American University Internal Email, January 2008, re: *RE: Alert* (NAU0014695, at NAU0014696).

²⁵⁷² National American University Internal Email, January 2008, re: *RE: Alert* (NAU0014695).

²⁵⁷³ Senate HELP Committee staff analysis. See Appendix 21. 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,

ranges from \$892 to \$3,969 per student per year. In contrast, public and non-profit schools, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other South Dakota-based colleges spent, on a per student basis, \$7,431 at University of South Dakota, \$4,530 at the private non-profit Sinte Gleska University, and \$3,671 at Western Dakota Tech.²⁵⁷⁴

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools investigated by the committee, 80 percent of the faculty is part-time, this percentage is higher in some companies.²⁵⁷⁵ NAU is one such company; over 96 percent of its faculty is part-time.²⁵⁷⁶ In 2009, NAU employed 730 part-time faculty and 26 full-time faculty.²⁵⁷⁷

Several students complained about the quality of their instructors. In one instance, a student stated that a teacher "lasted about ten minutes and stated that she wouldn't even teach the material in this class to her high school students, and walked out."²⁵⁷⁸ The school replaced the teacher with a "bookstore lady" who did not know which books the students would be using and did not have a syllabus. NAU allowed the student to drop the class after the school's normal add/drop period.²⁵⁷⁹ In another instance, a student complained about the lack of personal attention from one of her professors, writing:

I have to admit he is the worst instructor I have had with NAU. I understand he has close to one hundred students in his on line class and I really think this is too much for one instructor and the class should be smaller. I do not feel he knows or understand each of his students enough to know what they need or want out of the class [sic].²⁵⁸⁰

Students also noted problems with the quality of NAU's instructional materials. One student complained about electronic instructional materials that had confusing instructions and broken Web site links.²⁵⁸¹ Another student did not receive books for a class until the week of final exams.²⁵⁸² NAU still made the student pay for the class.²⁵⁸³

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

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.

²⁵⁷⁴ 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.

²⁵⁷⁵ 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.

²⁵⁷⁶ Id.

²⁵⁷⁷ Id.

²⁵⁷⁸ National American University External Correspondence, January 2009, *Letter of Complaint From a Student* (NAU0020215).

²⁵⁷⁹ Id.

²⁵⁸⁰ National American University Internal Email, February 2009, *re: RE: [redacted]* (NAU0019375, at NAU0019382).

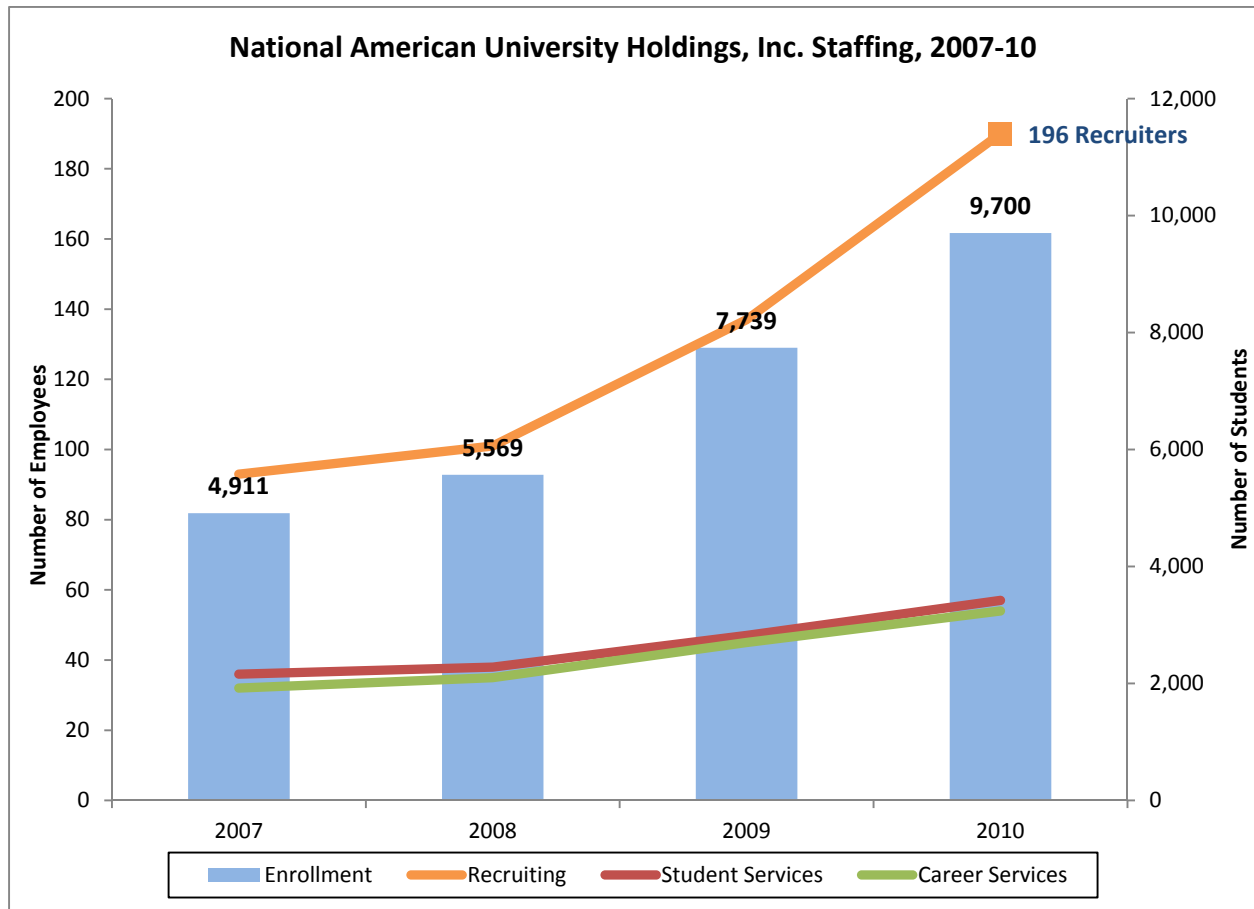
²⁵⁸¹ National American University Correspondence, December 2007, *Letter of Complaint from a Student* (NAU0020161).

²⁵⁸² National American University Correspondence, April 2007, *re: Alleged Delinquent Balance* (NAU0020153). NAU states that the student never responded again and the balance is still due on the account and the University has not collected the amount due.

²⁵⁸³ National American University, April 2007, *Letter from Collections Manager to Former Student* (NAU0020155).

Staffing

While most of the for-profit education companies examined by the committee employed large numbers of recruiters to enroll new students, the companies had far less staff to provide tutoring, remedial services or career counseling and placement. Like others in the sector, NAU’s recruiting and admissions employees far outnumber employees in student or career services. In 2010, with 9,700 students, NAU employed 196 recruiting and marketing staff, 57 student services staff and 54 career services and placement staff.²⁵⁸⁴ That means each career counselor was responsible for 180 students and each student services staffer was responsible for 170 students. Meanwhile, the company employed one recruiter for every 49 students. NAU states that its recruiters continue to play a student support roll after the initial enrollment.



The low number of student services staff took a toll on students trying to find tutors. One student who struggled in Elementary Algebra was told to set up a time with one of the school’s tutors, but none was available.²⁵⁸⁵ That same student requested a tutor for another Algebra class but did not receive one until three other students also requested tutoring. However, the assigned tutor was another student who had not attended the first class and could provide little help. When the student complained, the response she received was that “NAU has never committed to or was responsible for supplying any

²⁵⁸⁴ 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.

²⁵⁸⁵ National American University Correspondence, January 2009, *Letter of Complaint from a Student* (NAU0020215). NAU states that the student never responded to the University, did not take the course, and account is paid in full.

type of tutelage or any extra help by the teachers.”²⁵⁸⁶ NAU’s brochure distributed to prospective students claims that “all tutors are professionals with master’s degrees or higher” and free “24/7 one-on-one online tutoring” is available for many courses.²⁵⁸⁷

While student complaints may not be representative of the experience of the majority of NAU students, these complaints do provide an important perspective on the quality of NAU’s student services.

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 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, 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 from a 2010 company “cabinet meeting” explain that, “in regards to the 90/10 ratio, our goal is 75/25. This will mean ramping up our military enrollments and company tuition assistance enrollments.”²⁵⁸⁸ In fiscal year 2010, the company collected \$1.4 million in post-9/11 GI bill funds and \$1.6 million in military Tuition Assistance funds. In addition to pursuing military servicemembers and veterans and corporate partnerships.

In 2008, after credit markets froze up and third-party student-loan financing was no longer available, for-profit colleges responded by creating institutional loan programs under which they would lend money to students directly. These programs are sometimes troublesome because they tend to have both high interest rates and a high likelihood of default. For institutional loans made between July 1, 2008 and June 30, 2012, institutions may count about half the value of the loan as revenue on the “10 side” of the 90/10 calculation at the time the money is loaned. After July 1, 2012, institutions may only count the amount of loan repayments they actually receive over the term of the loans. NAU has a small institutional loan program, with only \$223,497.69 of institutional loans outstanding as of mid-2010 and only 106 loans originated over the past 5 years.²⁵⁸⁹ NAU’s institutional loans have a fixed interest rate of 8 percent or lower, significantly less than many other for-profit colleges, with \$50 minimum monthly payments and repayment periods not to exceed 10 years.²⁵⁹⁰ NAU also helps students find private loans through the FASTChoice program but does not receive any fees in connection with these loans.²⁵⁹¹

Conclusion

Students attending National American University have significantly better rates of retention than other companies of comparable size. As the most recent company to become publicly traded and to embrace an online model, NAU has not grown at the rate of some publicly traded companies, but enrollment has doubled since the company became publicly traded and the amount spent per student on

²⁵⁸⁶ Id.

²⁵⁸⁷ National American University, *Student Manual* (NAU0019525, at NAU0019530).

²⁵⁸⁸ National American University, June 2010, *President’s Cabinet Meeting Minutes* (NAU0013189).

²⁵⁸⁹ National American University, *Response to Document Request No. 27: Description and Explanation* (NAU0014713_0001).

²⁵⁹⁰ National American University, *Institutional Loan Rate & Fees* (NAU0018527).

²⁵⁹¹ National American University, *Response to Document Request No. 27: Description and Explanation* (NAU0014713_0001).

instruction is quite low. The company faces challenges in diversifying its sources of revenue for purposes of regulatory compliance and it will be interesting to see if the company can continue to deliver student success as it expands.