Introduction

Vatterott Education Holdings, Inc. ("Vatterott") provides career-based Certificate and Associate degree programs primarily at its on-ground campus locations. Like many for-profit education companies, in recent years, Vatterott has experienced steady growth in student enrollment, Federal funds collected and profit realized. While Vatterott’s relatively low student withdrawal rates suggest students are persisting in the company’s programs, the company’s high rates of student loan default call into question whether Vatterott students are receiving an education that affords them the ability to repay the debt incurred.

Company Profile

Vatterott Education Holdings, Inc. is a privately held, for-profit education company headquartered in St. Louis, MO. The company is owned by the private equity fund TA Associates. The school, originally known as Urban Technical Centers, opened its first campus in 1969 in St. Louis. In 1989, Urban Technical Centers changed its name to Vatterott and began to offer accredited Associate degrees.2813

TA Associates, the private equity firm that owns Vatterott, also invests in three other for-profit education colleges, Full Sail University, the Los Angeles Film School, and the Rocky Mountain School of Design.2814 TA Associates purchased Vatterott from Wellspring Capital Management, another private equity firm, in 2009.2815 Wellspring had owned Vatterott since 2003.2816

Vatterott now operates 19 campuses and an online program which offer technical Diplomas and Associate degrees in areas such as HVAC (heating, ventilation, air conditioning, & refrigeration), computer aided drafting (CAD), and cosmetology.2817 It offers these programs through three main brands: Vatterott Colleges, L’Ecole Culinaire, and the Court Reporting Institute.2818 Vatterott is nationally accredited by the Accrediting Commission of Career Schools and Colleges.2819

Pamela S. Bell has served as president and chief executive officer of Vatterott Educational Centers, Inc. since 2007. Previously, she served as senior vice president and provost of Strayer

2813 Vatterott College, Course Catalog Memphis Campus (VAT-02-05-00070 at VAT-02-05-00080).
2816 Vatterott College, Course Catalog Memphis Campus (VAT-02-05-00070 at VAT-02-05-00080).
(Vatterott also offers a limited number of bachelor’s degree programs.)
2818 Vatterott campuses are located in: Illinois, Iowa, Kansas, Missouri, Nebraska, Ohio, Oklahoma, Tennessee, Texas and Virginia.
University. C. Kevin Landry is chairman of TA Associates. He also serves on the boards of eSecLending, a securities finance trust company, and MetroPCS Communications, Inc., a cell phone company.

In the fall of 2010, Vatterott enrolled 11,163 students. Enrollment nearly doubled since the company’s acquisition by private equity firm TA, growing from 5,800 students in the fall of 2008.

The growth in enrollment has led to growth in revenue. Over the past 4 years, Vatterott’s revenue has increased, growing from $94.8 million in 2006 to $141.1 million in 2009.

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. 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.

In 2010, Vatterott reported 86.9 percent of revenue from title IV Federal financial aid programs. However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education programs. Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 1.2 percent of Vatterott’s revenue, or $2.3 million. With these funds included, 88.1 percent of Vatterott’s total revenue was comprised of Federal education funds.

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2826 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.

2827 Id.

2828 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 Vatterott could not be extrapolated from the data the company provided to the committee.

2829 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 Appendix 12.

2830 “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.
The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent. 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.

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Vatterott more than tripled the amount of Pell grant funds it collected in just 3 years, from $19.9 million in 2007 to $61.6 million in 2010.\footnote{2832}

**Spending**

While Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.\footnote{2833} 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).\footnote{2834} These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

In 2009, Vatterott allocated 12.6 percent of its revenue, or $17.8 million, to marketing and recruiting and 18.8 percent, or $26.5 million, to profit.\footnote{2835}

\footnote{2832} Pell disbursements are reported according to the Department of Education’s student aid “award year,” other revenue figures are reported according to the company’s fiscal year. Senate HELP committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School, 2006-7 and 2009-10*, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012). See Appendix 13.

\footnote{2833} 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.

\footnote{2834} Senate HELP committee staff analysis of fiscal year 2009 financial statements. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.

\footnote{2835} Id. “Other” category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.
Profit has increased rapidly at Vatterott since being acquired by TA Associates, growing from $16.6 million in 2008 to $26.5 million in 2009.\textsuperscript{2836}

Executive Compensation

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

\textsuperscript{2836} Senate HELP Committee staff analysis. See Appendix 18.
Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Vatterott. A Diploma in Information Systems Security costs $24,500.\textsuperscript{2837} A similar degree at Saint Louis Community College costs $4,383.\textsuperscript{2838}

\begin{center}
\begin{tikzpicture}
\begin{axis}[
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    height=\textwidth,
    ybar stacked, 
    y axis line style = {opacity=0},
    axis x line = none, 
    axis y line = none, 
    enlarge x limits=0.9,
    xtick = data,
    xticklabels = {Vatterott College, Saint Louis Community College},
    xtick style = {draw=none},
    symbolic y coords={$0$, $5,000$, $10,000$, $15,000$, $20,000$, $25,000$, $30,000$},
    nodes near coords, 
]
\addplot coordinates { ($24,500$,1) ($4,383$,0) }; \node at (axis cs:24500,0) {$24,500$}; \node at (axis cs:4383,0) {$4,383$};
\end{axis}
\end{tikzpicture}
\end{center}

The higher tuition that Vatterott charges is reflected in the amount of money that Vatterott collects for each veteran that it enrolls. From 2009–11, Vatterott trained 309 veterans and received $4.7 million in post-9/11 GI bill benefits, averaging $15,312 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.\textsuperscript{2839}

Internal Vatterott documents show a focus on deflecting students’ concerns about community college cost comparisons. An “admissions techniques” guide to overcoming objections lists one possible objection as, “The community college is much cheaper, why are you so expensive?” Recruiters

\textsuperscript{2837} See Appendix 14; see also, Vatterott Education Centers, Inc. \textit{Business Management: Courses in St. Louis, South County Campus – Sunset Hills: Instructional Costs}, \url{http://www.vatterott.edu/sunset_hills/aos/business-management-courses.asp} (accessed July 7, 2012).
\textsuperscript{2838} See Appendix 14; see also, Saint Louis Community College, Saint Louis Community College, \url{http://www.stlcc.edu/} (accessed July 7, 2012).
\textsuperscript{2839} 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.
are instructed to respond, “Our tuition is relative to other career colleges in the area,” sidestepping the question.\(^{2840}\)

Over the past 5 years, Vatterott has, for the most part, adhered to semi-annual tuition increases. But it seems management often had problems communicating tuition increases with individual campuses. In one email chain, Vatterott’s corporate controller wrote, “I don’t believe any of the campuses were aware that they received approval [to increase tuition], as all of the tuition proposals have the old pricing...” \(^{2841}\) Such miscommunications often meant that some campuses did not increase tuition during the same terms as others and struggled with telling prospective students what tuition rates would be.

One email noted that the school would not increase tuition on an already enrolled student, leading one employee to write, “Whew…that’s the right thing to do.” \(^{2842}\) But other employees tried to avoid enrolling students until tuition increases went into effect. Vatterott’s vice president of operations wrote that schools could not start charging high rates until June 1, 2010, noting, “if anyone were to enroll in the start after 6/21 in May, they would still get to the old rate. Obviously try to avoid that.” \(^{2843}\) In another email chain, the same vice president pushed for quickly getting new rate information to individual campuses because, “I don’t want to have a bunch of enrollments with the old rates. . .” \(^{2844}\)

Vatterott’s tuition increases were also partly driven by prices charged by competitors.\(^{2845}\) A regional director wrote to campus directors of the Court Reporting Institute:

> We need to consider a much higher increase than the one pending approval. We need to consider implementation of the increase ASAP, as soon as we can get it approved. In the attached 2005 Annual Institutional Report you can find average tuition rates for other ACICS court reporting schools. CRI [Court Reporting Institute] appears to be on the low end of the scale when we should be one of the price leaders. [emphasis added] \(^{2846}\)

In contrast, in response to an email asking whether individual campuses had raised tuition, one campus director wrote, “We may not increase medical as the competition is very tight and that is a new program for us here.” \(^{2847}\)

Vatterott’s regular tuition increases directly impacted revenues. In responding to a request from a junior partner at a private equity firm regarding Vatterott’s 2006 performance, Vatterott’s CFO Dennis Beavers wrote, “Vatterott generated an increase in revenue of 4% as a result of tuition increases and a slight increase in enrollment.” \(^{2848}\)


\(^{2841}\) Vatterott Internal Email, *FW: TUITION UPDATES 2010-DIV 1*, August 9, 2010 (VAT-02-11-00221).

\(^{2842}\) Vatterott Internal Email, *Concerning re: Catalog and new prices*, December 4, 2009 (VAT-02-11-00312).

\(^{2843}\) Vatterott Internal Email, *RE: State Tuition Increase Acceptance*, May 14, 2010 (VAT-02-11-00411).

\(^{2844}\) Vatterott Internal Email, *FW: Tuition Release*, January 8, 2009 (VAT-02-11-00644).

\(^{2845}\) See, e.g., Email from Vatterott College Controller, *Tuition Increases, July 6, 2006* (VAT-02-11-00438). (“Can you pull together a list of competitors (other career schools) and what their tuition is?”).

\(^{2846}\) Vatterott Internal Email, *Various Policy & Procedures*, August 26, 2006 (VAT-02-11-00571).

\(^{2847}\) Vatterott Internal Email, *RE: Tuition Increases*, July 06, 2006 (VAT-02-11-00475).

Recruiting

Enrollment growth is critical to the business success of for-profit education companies. In order to meet revenue and profit expectations for-profit colleges must recruit as many students as possible to sign up for their programs.

During the period examined and prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, documents clearly reflect the pressure on recruiters to meet enrollment targets. If a lead comes to Vatterott from the Internet, recruiters are advised to call the lead “everyday for at least a month [sic]” and email the lead on the “first day and every week for a month.”2849 One the first day, recruiters must use a “blitz technique,” in which they call until they get a live person.2850 In general, recruiters must make 50 calls per day.2851 An admissions coordinator performance review lists the first 3 criteria as “Phone Calls,” “Enrollment Quotas,” and “Starts.”2852 Written warnings and performance improvement plans require unsatisfactory employees to meet quotas for phone calls, appointments, and enrollments.2853

Vatterott also encourages competition among its recruiters. Executives send out weekly emails rewarding admissions “superstars” for the most enrollments that week.2854 The recruiter with the most enrollments for the week at the Quincy, IL campus gets a special parking space.2855 In 2008, the “Vatterott Derby” pitted campuses against each other based on the number of weekly calls, contacts, and interviews.2856 The Quincy, IL, campus director told her recruiters that if they could get 70 enrollments in 1 week, “there maybe something in it for you….. hehehehehhehe (other than changing people’s lives of course...) :) [sic].” 2857

Perhaps as a result of the competition for enrollments, student complaints reflect that students regularly were given false expectations about the programs. For instance, one student wrote:

The curriculum, as I was promised, was to be eighty percent hands-on instruction. Now I am told that the school is not equipped for this kind of instruction. Now I spend the majority of my class time reading the textbook. I have attended classes on numerous occasions with no teacher for weeks at a time which led to me teaching myself and reading the text with no instruction.2858

Another student wrote, “while I had a general idea of what [Vatterott’s] program would cost, the full tuition costs were not disclosed to me until after I had already committed to the program.” 2859

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

2849 Vatterott College, Internet Leads: How to increase internet lead conversations, (VAT-02-30-02504, at 02507).
2850 Vatterott College, How to Effectively Work Internet Leads, July 1, 2005 (VAT-02-30-00217, at VAT-02-30-00221).
2851 Vatterott Educational Centers, Inc., Admissions Training: Back to the Basics, (VAT-02-14-03304, VAT-02-14-03316).
2853 Vatterott Internal Memorandum, Written Warning Memorandum and Performance Improvement Plan, February 1, 2008 (VAT-02-15-00033); Note that performance documents were dated before the incentive compensation regulations took effect, and may have been revised somewhat since that date.
2854 Vatterott Internal Email, Weekly Rankings May 30.xls, June 02, 2008 (VAT-02-30-07746).
2855 Vatterott Internal Email, Admissions Parking Spot, September 23, 2009 (VAT-02-30-00086).
2856 Vatterott Internal Email,. Copy of Vatterott Derby score card Week 7 April 14-18.xls, April 21, 2008 (VAT-02-30-00160, at VAT-02-30-00161).
2857 Vatterott Internal Email,, FW: admissions-report (2).xls, July 8, 2008 (VAT-02-30-02789).
2858 Student Complaint, October 8, 2007 (VAT-02-05-01317).
2859 Texas Workforce Commission, Student Complaint Record, July 11, 2008 (VAT-02-05-00456, at VAT-02-05-00457).
Vatterott’s recruiting techniques targets potential recruits because of those students’ vulnerabilities. A presentation titled “DDC [Desire, Dedication, and Commitment] Training” provided recruiters with tips on how to recruit students who would actually enroll.2860 The presentation asks, “Who are our students?” The response includes the following: “Welfare Mom w/ Kids,” “Pregnant Ladies,” “Recent Incarceration,” and “Drug Rehabilitation.”2861 According to the presentation, these people “live in the moment and for the moment,” “their decision to start, stay in school or quit school is based more on emotion than logic,” and “pain is the greater motivator in the short term.”2862 Also according to the presentation, some people at the school questioned the admission of these people, saying, “This last batch of students you guys dumped in here are about the worst I’ve seen in years,” “I just walked by orientation—WOW-SCARRRRY!,” and “Do your ads say, LOSERS! ENROLL HERE!”2863 The presentation continues, “These Students Are The Reason We’re in Business!”2864

Vatterott has taken some action to prevent deceptive or illegal actions by staff. In one case, the school conducted an internal investigation into the use of deceptive recruiting tactics and voluntarily reported the issue to the Department of Education’s Office of Inspector General. Three employees in the admissions and financial aid departments eventually pled guilty.2865 Vatterott has also given at least one presentation aimed at preventing similar practices.2866

Yet students have little opportunity for recourse; Vatterott like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.2867 This clause 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.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that a large number of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program, and 96 percent who enroll in a 4-year degree program, at a for-profit college take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.2868

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 Vatterott are not achieving their educational and career goals.

2860 Vatterott Educational Centers, Inc., DDC Training: Vatterott-Nation, March 6, 2007 (VAT-02-14-03904).
2861 Id. at VAT-02-14-03913.
2862 Id. at VAT-02-14-03914.
2863 Id. at VAT-02-14-03915.
2864 Id. at VAT-02-14-03916.
2865 Vatterott Colleges, “Admissions Coordinator Training” (VAT-02-14-02021 at VAT-02-14-02028).
2866 Id. at 02-14-02024.
2867 See, e.g., Vatterott Colleges, Wheeler Institute of Texas, Court Reporting Institute of Huston, Enrollment Contract for Court Reporting Program, (VAT-02-05-00365, VAT-02-05-00366).
Retention Rates

Information provided to the committee by Vatterott indicates that out of the 9,407 students who were enrolled at Vatterott in 2008–9, 43.4 percent, or 4,080 students, had withdrawn by mid-2010. These withdrawn students were enrolled a median of 4 months. Of the more than two-thirds of Vatterott’s students enrolled in Certificate programs 45.1 percent withdrew, significantly higher than the sector-wide Certificate withdrawal rate of 38 percent. Most of the remainder of Vatterott’s students enroll in 2-year Associate degree programs. The withdrawal rate for Vatterott’s Associate degree program is 39.7 percent, whereas the average withdrawal rate for Associate degree programs sector-wide was 62.8 percent.

<table>
<thead>
<tr>
<th>Status of Students Enrolled in Vatterott Education Holdings, Inc. in 2008-9, as of 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Degree Level</strong></td>
</tr>
<tr>
<td>Associate Degree</td>
</tr>
<tr>
<td>Certificate</td>
</tr>
<tr>
<td>All Students</td>
</tr>
</tbody>
</table>

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.

Student Loan Defaults

While the number of students leaving Vatterott without a degree is relatively low, the loan default rate is high. 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.

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

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2869 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.

2870 Id. 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.

2871 Id. The Bachelor’s degree program rate included too few students to provide a meaningful comparison.

2872 Direct Loan Default Rates, 34 C.F.R. § 668.183(c).

schools defaulted within the same period.\textsuperscript{2874} On the whole, students who attended for-profit schools default at nearly 3 times the rate of students who attended other types of institutions.\textsuperscript{2875} 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.\textsuperscript{2876}

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent. This change represents a 32.6 percent increase over 4 years.\textsuperscript{2877} Vatterott’s default rate has similarly increased, growing from 20 percent for students entering repayment in 2005 to 26.6 percent for students entering repayment in 2008. Vatterott’s most recent default rate is nearly 20 percent higher than the rate for all for-profit colleges and more than double the rate for all schools.

![Vatterott Education Holdings, Inc. Trial 3-Year Default Rates, 2005-8](chart)

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. Vatterott hired Horizon Educational Resources, Inc., a specialist in default prevention services, to counsel students into forbearance or deferment. In 2010, Horizon received a “delinquency counseling

\textsuperscript{2874} Id.
\textsuperscript{2875} Id.
\textsuperscript{2876} Id.
\textsuperscript{2877} Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, \url{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.
fee” of $10 per month per delinquent borrower.\textsuperscript{2878} Vatterott also contracts with WISS Student Assistance Service, paying $5 for each student account tracked by WISS and $80 for each student assisted by WISS.\textsuperscript{2879} Between January 2006 and September 2010, Vatterott paid Horizon and WISS a combined $637,523.\textsuperscript{2880}

When a student is in forbearance their loan balances continue to grow as the result of accumulating interest but default is averted both for the student and the company.\textsuperscript{2881} However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

**Instruction and Academics**

The quality of any college’s academics is difficult to measure, however the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures. By looking at the instructional cost that all sectors of higher education report to the Department of Education, it is possible to compare spending on actual instruction.

Vatterott spent $2,404 per student on instruction in 2009, compared to $1,343 on marketing, $2,001 on profit.\textsuperscript{2882} 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 schools, generally spend a higher amount per student on instruction. By comparison, St. Louis Community College spent, on a per student basis, $5,034.\textsuperscript{2883}

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, higher in some companies.\textsuperscript{2884} Vatterott has a more even division between full-time and part-time faculty. In 2010, the company employed 367 part-time and adjunct faculty members and 356 full-time members.\textsuperscript{2885}

\textsuperscript{2878} Horizon Educational Resources, *Contract with Vatterott Education Centers for Provision of Student Loan Default Prevention Services*, December 23, 2009 (VAT-02-21-00002, at VAT-02-21-00014).

\textsuperscript{2879} Vatterott Educational Centers, Inc., *Participation Agreement*, December 21, 2000 (VAT-02-21-00030).

\textsuperscript{2880} Vatterott Educational Centers, Inc., *Internal Document*, (VAT-02-21-00001); See also, Email from Mark Fowler, *SFA Compliance Audit*, February 26, 2007 (VAT-02-36-00521).

\textsuperscript{2881} Id.

\textsuperscript{2882} 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.

\textsuperscript{2883} 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.

\textsuperscript{2884} 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.

\textsuperscript{2885} Id.
However, it does seem that Vatterott has difficulties with faculty and instructional materials. One student stated, “I believe I could receive a better education sitting at home reading the books and it would cost a lot less money…” Another student wrote, “during the two months that I have been enrolled at the North Park campus, I have had no instruction on anything.” Still another said, “We had unqualified instructors, a poorly organized & weak curriculum, [and] labs that were poorly equipped.”

Further, several students complained to the Better Business Bureau about their HVAC program at a Missouri campus. The students wrote that their first instructor was “fired a week into the [first] phase after verbally attacking and threatening a student.” The substitute replacement did not provide quality education, nor did a recent Vatterott graduate who “had poor classroom management and lack of experience in the field…” The students did note that one of their professors with actual experience was very good. The students also complained about the poor quality of the lab space, noting that the labs were moved and rebuilt several times during the students’ program. The students also had to share equipment, which was often old and not in working condition. To Vatterott’s credit, the school took some remedial action, but also attempted to discredit the underlying concerns by arguing that the reconfigurations of labs did not “affect the training.”

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

**Staffing**

Overall, while for-profit education companies employ large numbers of recruiters to enroll new students, these same companies have far less staff to provide tutoring, remedial services or career counseling and placement. Vatterott’s recruiting and admissions employees, however, do not outnumber employees in student or career services. In 2010, with 11,163 students, Vatterott employed 116 recruiters, 40 career services employees, and 205 student services employees.

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2886 Letter, November 17, 2009 (VAT-02-05-01888).
2889 Id. at VAT-02-05-00221.
2890 Id.
2891 Id. VAT-02-05-00225.
2892 Id. at VAT-02-05-00216.
2893 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.
Vatterott’s large number of student services staff stems, in part, from the Vatterott Student Tutoring, Advising, and Retention (V–STAR) program, which offers new students weekly seminars, guest speakers, and brown bag luncheons during their first term to help them meet other students and learn about the school’s support services.  

Regulatory Strategies

For-profit education companies are subject to 2 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. Some companies, including Vatterott, 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 financial aid programs.

The 90/10 rule is a serious regulatory concern for Vatterott. Document after document reviewed by the committee shows Vatterott employees working to lower the school’s rate before January 1 of any given year. For example, in a November 2008 email, a Vatterott financial aid analyst asked another employee to review individual student accounts to verify whether their financial aid


2895 See, generally, Email from Leean Edwards, *90/10 to Campus Directors*, April 28, 2010 (VAT-02-09-00023).
would come in. The analyst added, “The goal is obviously to get as much of these ‘ten’ sources in by the end of December as possible due to how close the 90/10 calculation is probably going to be.”

Vatterott’s 90/10 ratio in 2008 was so bad that executives completely shut off title IV disbursements to 3 campuses in October. Internal emails show Vatterott intentionally did not share this information with its students. Vatterott’s corporate director of financial aid wrote to other employees, “Remember – we are not sharing with the students that we are not disbursing…it’s a software issue and it’s temporary.”

Vatterott’s 90/10 ratio continued to be a problem in 2009. As late as December 23, 10 of Vatterott’s campuses had 90/10 ratios well into the 90s. Oklahoma City, for example, had a 90/10 ratio of 97.39 percent. However, Vatterott only had to report 90/10 ratios for regions as a whole, meaning those schools were counteracted by schools within the required ratio. Because Oklahoma City was so far over the required ratio, Vatterott worked vigorously to get it switched to a region with a lower average 90/10 ratio.

The 90/10 regulation leads some education companies to increase tuition. Like many companies examined, Vatterott prices its tuition so that it is difficult for students to finance the cost of tuition with Federal student aid funds alone. Students must then find a way to pay for this gap, often using alternative loans if they cannot pay cash. In May 2007, Vatterott CFO Dennis Beavers sent an email explaining an upcoming tuition increase:

The reason the increase needs to happen as soon as possible is that all students starting after July 1 will be eligible for the increased loan limits for the entire duration of their schooling. Thus we are likely to run into 90/10 problems if we don’t increase tuition.

Similarly, in an email discussing pending policy issues for the school, a regional director wrote, “your 90:10 ratio mandates a more aggressive approach to pricing.” Companies like Vatterott appear to fail to consider, or consider and dismiss, the possibility of reducing tuition and attracting some students who are willing and able to make cash payments towards their education, thus meeting the policy goal of the regulation: to ensure that colleges and the programs they offer are of sufficient quality to draw some cash-paying students. At least for some schools, such a policy is unacceptable because of the potential reductions in revenue and profit.

Additionally, Vatterott uses the revenues from its student-run salons and restaurants in the “10” side of its revenues. As Vatterott’s CFO Dennis Beavers noted, funds from campus salons and restaurants is “a key component to meeting our 90/10 ratio and requires everyone’s focus.” Everyone included students. In an email titled, “90/10 and Cosmo,” the campus director of Vatterott’s Joplin, MO, campus wrote, “Our students need to know the value of selling retail and our syllabi should drive them to not only sell retail products, but develop a client book of business – they should be ‘re-booking’ the client for the next service.”

2896 Email from Vatterott College Corporate Office, RE: Students to review, November 21, 2008 (VAT-02-33-00017).
2897 Email from Lois Madsen, 90 10 at 020693, October 10, 2008 (VAT-02-09-00039).
2898 Email from Vatterott Educational Centers, Inc., Latoya Hawkins account card.pdf, October 06, 2009 (VAT-02-09-00907).
2899 Email from Lois Madsen, FW: 90/10 Calculations, December 23, 2009 (VAT-02-09-00596).
2900 Email from Dennis Beavers, RE: TUITION INCREASE, May 10, 2007 (VAT-02-11-00071).
2901 Email from Vatterott Educational Centers, Inc., Various Policy & Procedures, August 26, 2006 (VAT-02-11-00571).
2902 Email from Dennis Beavers, Important Information! – Salon/Restaurant Budget to Actual Report – Feb 2010 and April Budget, March 18, 2010 (VAT-02-09-00883).
2903 Email from Vatterott College Campus Director, 90/10 and Cosmo, September 27, 2008 (VAT-02-09-02537).
Vatterott also takes advantage of military funds to manage its 90/10 ratio. Indeed, when counting all Federal money including military education benefits, Vatterott received 93.1 percent of total revenues from the Federal Government in 2009.

In addition to title IV and military funding, Vatterott sought State money, employer reimbursements, and a variety of other non-Federal funds. Corporate officials especially pushed for Workforce Investment Act and Trade Adjustment Assistance funds, with one employee calling it a possible “90/10 bonanza for us.” Vatterott was so successful in its efforts that, in April 2010, it held 30 percent of all the Trade Adjustment Assistance funding in the entire State of Missouri.

Vatterott also attempted to address its 90/10 concerns by selling uncollected student debt to consumer debt purchasers. As part of the company’s end-of-year 90/10 procedures, they sold existing student debt to Global Acceptance Credit Corporation, allowing the company to list the proceeds from the sale favorably in its 90/10 reporting for the year.

Multiple students complained about aggressive debt collection. One student filed a complaint with the Better Business Bureau claiming Vatterott never notified her of an outstanding balance and that she only received notice of her default from an attorney’s office. When she went to the school an accounting department employee “apologized deeply and then told me that I was one of ‘thousands’ of people that this happened to.” The employee could not help the student because “the corporate office took all accounts from every campus and sold them to collections.”

Conclusion

Like many others in the sector, Vatterott’s enrollment increased rapidly over the past decade, particularly in the 2 years following the company’s acquisition by private equity firm TA Associates. With this growth in enrollment, Vatterott has received increasing amounts of Federal financial aid dollars and realized significant increases in profit. However, the company offers a relatively robust student service support structure through its V–STAR program. And while the withdrawal rate for students who left Vatterott before attaining a Certificate or degree is far below average, the company’s relatively high student loan default rates suggest that students completing its programs may not be able to obtain employment or salaries that enable them to repay the debt they incur. Taken together, these outcomes cast serious doubt on whether Vatterott students are receiving an education that affords them adequate value relative to the cost, and call into question the $169 million investment American taxpayers made in the company in 2010.

2904 See, generally, Email from Vatterott Educational Centers, Inc., RE: GI Bill ENROLLMENT, August 17, 2010 (VAT-02-09-00033).
2905 See, e.g., Email from Vatterott Educational Centers, Inc., FW: Agency Fund Sources, July 7, 2010 (VAT-02-09-00027).
2906 Internal Email, RE: Trade Adjustment Assistance, January 26, 2010 (VAT-02-09-00918).
2907 Email from Vatterott Educational Centers, Inc., 90/10 to Campus Directors, April 28, 2010 (VAT-02-09-00023).
2908 Email from Mark Fowler, 90/10 Procedures for Year End, December 5, 2007 (VAT-02-09-00623); see also Vatterott Educational Centers, Inc., Better Business Bureau Complaint Activity Record, March 2, 2005 (VAT-02-05-00001).
2909 Id.