



For-Profit Higher Education

BY THE NUMBERS

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Student Loan Borrower Assistance

Student Loan Borrower Assistance

A Project of the **National Consumer Law Center®**

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ABOUT THE NATIONAL CONSUMER LAW CENTER

The National Consumer Law Center®, a nonprofit corporation founded in 1969, assists consumers, advocates, and public policy makers nationwide on consumer law issues. NCLC works toward the goal of consumer justice and fair treatment, particularly for those whose poverty renders them powerless to demand accountability from the economic marketplace. NCLC has provided model language and testimony on numerous consumer law issues before federal and state policy makers. NCLC publishes an 18-volume series of treatises on consumer law, and a number of publications for consumers.

NCLC's Student Loan Borrower Assistance Project provides information about student loan rights and responsibilities for borrowers and advocates. We also seek to increase public understanding of student lending issues and to identify policy solutions to promote access to education, lessen student debt burdens, and make loan repayment more manageable. See the Project's web site at www.studentloanborrowerassistance.org for more information.

ACKNOWLEDGEMENTS

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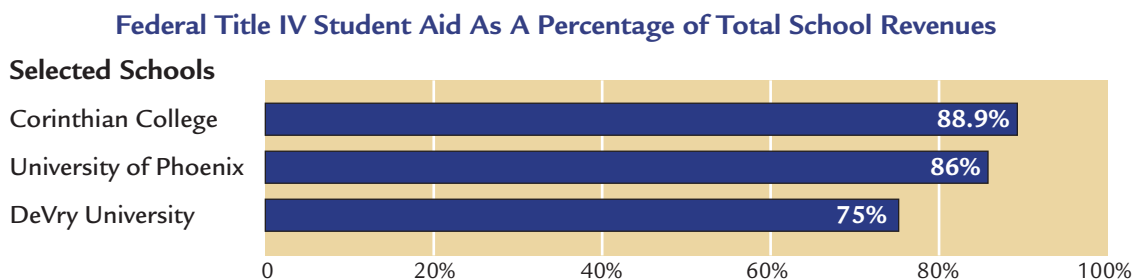
National Consumer Law Center's
Student Loan Borrower Assistance Project

The For-Profit Higher Education Sector is Booming

- According to Motley Fool Stock Review in November 2009, “All of these [for-profit school] companies are growing sales, profits, and enrollments by 20% or more. . . . For-profits enjoy juicy operating margins over 25%.”
- Shares of the Apollo Group Inc., the parent company of the University of Phoenix, more than doubled from 2006 to 2009. Enrollment almost doubled since 2004. Revenue was \$1.1 billion during the three months ending Aug. 31 2009.¹
- The percentage of full-time undergraduates enrolled in the for-profit (proprietary) sector increased from 2% in 1990 to 6% in 2000 and 10% in 2007. The shares of students enrolled in all other sectors declined over this period.²

Growth Is Fueled By Government Funds









































Many schools rely heavily on federal student aid funds. *Forbes Magazine* described one of the large for-profit schools as a company built to swallow federal student assistance in the way a whale gathers up plankton.³



Source: Height Analytics, S.E.C Filings. Data was reported in August 2009.

Pell Grants and For-Profit Schools

For-profit colleges top this list of postsecondary institutions that received the most money in 2008–2009 from federal Pell Grants, which are awarded to needy students.

Pell Grant Recipients, 2008–2009		Pell Grant Revenue (in millions)		Proprietary
230,774		U. of Phoenix		\$656.9 ✓
101,993		Everest College ¹		\$266.6 ✓
77,298		Kaplan College ²		\$202.1 ✓
56,375		ITT Technical Institute		\$148.9 ✓
42,223		The Art Institutes		\$106.4 ✓
39,693		DeVry U.		\$105.2 ✓
30,289		Miami Dade College		\$90.4
30,053		Ashford U.		\$79.5 ✓
23,259		Lincoln Technical Institute ³		\$66.7 ✓
19,444		Instituto de Banca y Comercio (P.R.)		\$65.5 ✓
23,879		Baker College of Flint		\$56.9
18,262		National College ⁴		\$54.1 ✓
19,822		Sanford Brown College ⁵		\$53.7 ✓
16,673		Pennsylvania State U. at University Park		\$51.8
18,858		Brown Mackie College		\$51.3 ✓
19,047		American Intercontinental U.		\$50.7 ✓
17,494		Virginia College		\$50.5 ✓
13,076		U. of Turabo (P.R.)		\$47.8
20,078		Colorado Technical U.		\$47.7 ✓
16,136		Wayne County Community College District		\$42.9

¹ Includes figures for Everest Institute and Everest University.

² Includes figures for Kaplan Career Institute and Kaplan University.

³ Includes figures for Lincoln College of Technology.

⁴ Includes figures for National College of Business and Technology.

⁵ Includes figures for Sanford-Brown Institute.

Note: For some institutions, the agency presented separate figures for each of multiple branch campuses. To allow for comparison with other institutions, The Chronicle added those amounts to produce totals and then ranked all institutions by total amounts. The proprietary institutions shown here have branches in several states, except where noted. Amounts are cumulative through June 30. Dollar amounts are rounded.

Source: Chronicle of Higher Education, “Data Points,” January 4, 2010.

Key statistic: In 2008, students received a record \$18.3 billion in Pell Grants. Proprietary schools collected about \$ 4.3 billion of that amount, or about 24% of all Pell Grant funding, about double the proportion from ten years ago.⁴

The proprietary school sector also received millions of dollars in stimulus funding as well as Department of Defense funding, Work Force Investment Act and other government funds.

Constant Pressure to Grow = Widespread Fraud and Abuse

The Department of Education Inspector General testified in 2005 that “while fraud and abuse does occur at non-profit and public sector institutions, historically, fraud and abuse predominantly involves proprietary schools.” He warned in particular that rapid growth is a risk factor for abuse.⁶

In December 2009, Representative Elijah Cummings sent a letter to Chairman Miller and Chairman Towns requesting hearings to shine a light on the for-profit education sector.

Selected Recent Investigations and Lawsuits

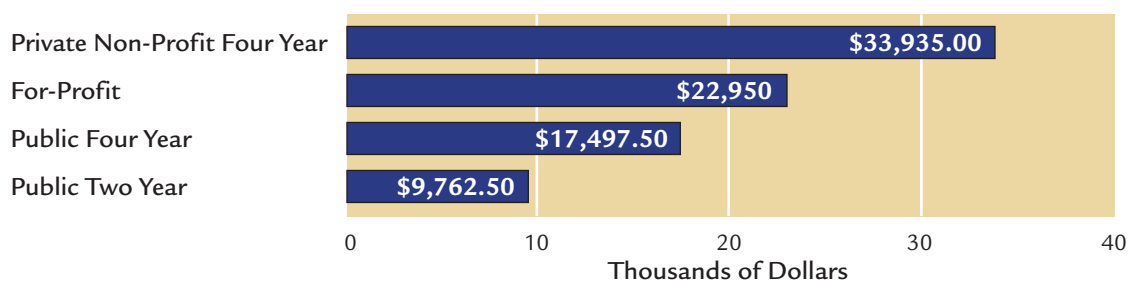
- In December 2009, the owner of the University of Phoenix agreed to pay over \$78 million to settle a False Claims lawsuit alleging that the university improperly compensated recruiters in violation of federal student aid laws.
- In October 2009, Apollo Group announced that the S.E.C was investigating the company’s revenue-recognition practices.
- Other proprietary schools, including Kaplan Higher Education, face similar cases alleging misuse of government funds due to serious violations of the Higher Education Act student financial aid rules.
- A Department of Education investigation of Miami Technical Institute in 2009 found employees directed students to falsify financial information to qualify for Pell grants.
- The Technical Career Institute was found in a 2008 Department of Education audit to have improperly paid lenders to reduce the school’s default rate.
- The California Attorney General reached a multi-million dollar settlement in 2007 with Corinthian Vocational Schools to settle a lawsuit alleging false advertising and unlawful business practices.
- New York’s 2006 investigations into for-profit colleges led to a moratorium on the establishment of new programs by for-profit colleges.

The Costs for Students

Students at for-profits are more likely to borrow and borrow more than students at any other type of college. Yet, they are also among the least likely to complete school. College completion rates are low in all sectors. Only about half of all freshman entering baccalaureate programs earn degrees within 6 years. Given the cost, low completion rates are particularly burdensome for students at for-profit schools. For example, only 8.9% of University of Phoenix students without prior college experience complete a degree in six years, including 5% of those who attend classes online compared to a national graduation rate of about 56.1% for four year schools and 30.9% for two year schools.⁷

The High Cost of Education

Average Cost of Attendance for All Students, 2007–08

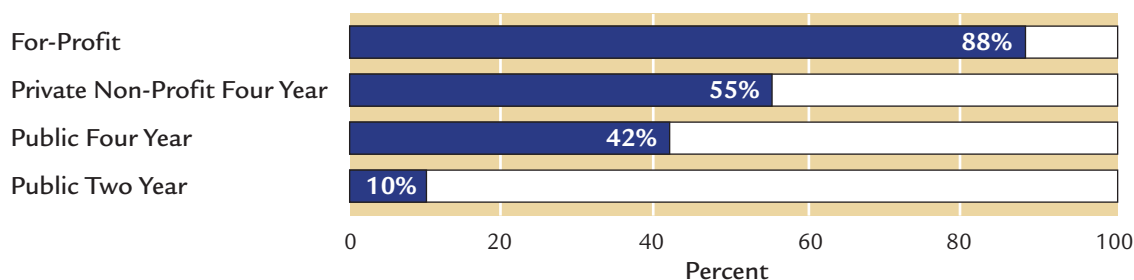


Source: College Board, Trends in College Pricing 2009. The information is based on published cost of attendance and includes net tuition and fees, net room and board and other costs, and average grant aid for full-time dependent students. The data was calculated by taking the average of the published cost of attendance for students in all income groups.

Student Loan Debt by Sector

Federal Loans: Heaviest Borrowing by Proprietary Students

Percentage of Students Using Federal Stafford Loans: 2008–09



Source: College Board, Trends in Student Aid 2009. Data includes both full-time and part-time undergraduates.

Percent of Graduating Class with Student Loans and Average Debt for Those with Loans: 2008

Sector	Average Debt	Percent with Debt
Public four-year	\$20,200	62%
Private nonprofit four-year	\$27,650	72%
Private for-profit four-year	\$33,050	96%

Source: The Project on Student Debt, "Student Debt and the Class of 2008" (Dec. 2009). Based on calculations by the Project on Student Debt using data from the National Postsecondary Student Aid Survey 2008.

Private Student Loans: Disproportionate Borrowing in the Proprietary Sector

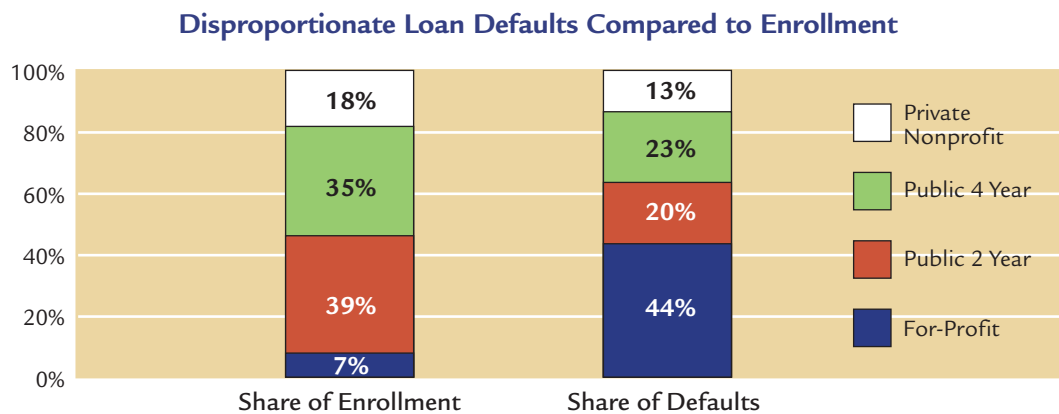
Private student loans are made by lenders to students and families outside of the federal student loan programs. They are not subsidized or insured by the federal government. They are almost always more expensive than federal loans and do not have the same range of borrower protections as federal loans.

In 2007-08, students attending for-profit schools composed about 9% of all undergraduates, but 27% of those with private loans. 42% of all proprietary school students had private loans in 2007-08, up from 12% in 2003-04.⁸

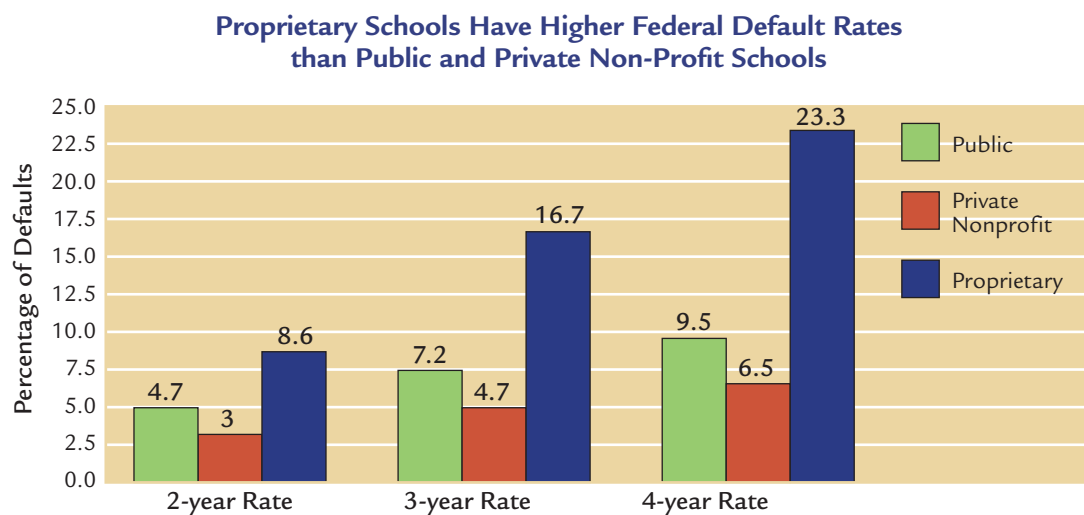
Many schools have also begun offering their own credit products. For example, in 2009, Corinthian Colleges planned to make about \$100 million in loans, ITT Technical Institutes about \$75 million and Career Education Corporation (CEC) about \$50 million.

Two of the largest for-profit school chains set aside about half of their internal lending reserves as a loss reserve, essentially telling investors, “. . . that they don’t expect borrowers to repay more than half of what they borrow.”⁹

Student Loan Defaults By Sector



Source: The Institute for College Access & Success, “New Default Rate Data for Federal Student Loans: 44% of Defaulters Attended For-Profit Institutions” (Dec. 15, 2009). Based on three year cohort default rate data for FY 2007.



Source: U.S. Government Accountability Office, "Proprietary Schools," GAO-09-600 (August 2009). Based on analysis of 2004 federal student loan cohort default rates.

Severe Consequences of Student Loan Default

Borrowers in default on federal loans cannot get federal loans and grants to go back to school. The government can seize their tax refunds (including earned income tax credits), garnish wages without first getting a judgment and even seize Social Security benefits. There is no time limit on federal student loan collections.

About the Numbers

The data in the charts and graphs is from different years, as indicated on each chart. The most recent data available was used whenever possible.

Notes

¹ Daniel Golden, "Apollo Weakness for Phoenix Revenue Spurs Short Sales (Update 1)," Bloomberg.com, Oct. 30, 2009.

² CollegeBoard, Trends in College Pricing 2009 at 17.

³ Daniel Kruger, "Blackboard Jungle," Forbes Magazine, Dec. 13, 2004.

⁴ Justin Pope, "For-profit Colleges Haul in Government Aid," USA Today, Nov. 30, 2009, available at: http://www.usatoday.com/news/education/2009-11-30-for-profit-colleges_N.htm.

⁵ Daniel Golden, "Marine Can't Recall His Lessons at For-Profit College," Bloomberg.com (Dec. 15, 2009).

⁶ Statement of John P. Higgins, Jr., Inspector General, U.S. Department of Education, Before the House Committee on Government Reform, May 26, 2005.

⁷ Daniel Golden, "Apollo Weakness for Phoenix Revenue Spurs Short Sales (Update 1)," Bloomberg.com, Oct. 30, 2009.

⁸ The Project on Student Debt, "Private Loans: Facts and Trends," August 2009, available at: http://www.projecton-studentdebt.org/files/pub/private_loan_facts_trends_09.pdf.

⁹ Justin Pope, "For profit colleges' Increased Lending Prompts Concerns," USA Today, Aug. 15, 2009, available at: http://www.usatoday.com/news/education/2009-08-15-profit-college-lending_N.htm.