

**DROWNING IN DEBT: FINANCIAL OUTCOMES OF
STUDENTS AT FOR-PROFIT COLLEGES**

HEARING
OF THE
**COMMITTEE ON HEALTH, EDUCATION,
LABOR, AND PENSIONS**
UNITED STATES SENATE
ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

ON

EXAMINING FINANCIAL OUTCOMES OF STUDENTS AT FOR-PROFIT
COLLEGES

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JUNE 7, 2011
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DROWNING IN DEBT: FINANCIAL OUTCOMES OF STUDENTS AT FOR-PROFIT COLLEGES

TUESDAY, JUNE 7, 2011

U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:07 a.m. in Room 430, Dirksen Office Building, Hon. Tom Harkin, chairman of the committee, presiding.

Present: Senators Harkin, Mikulski, Hagan, Merkley, Franken, Bennet, Whitehouse, and Blumenthal.

OPENING STATEMENT OF SENATOR HARKIN

The CHAIRMAN. The Health, Education, Labor, and Pensions Committee will please come to order.

Four years ago America was caught off guard by the subprime mortgage crisis. Fast talking sales people deceived consumers into taking out loans that they knew would never be paid back and financial speculators hid the risk and passed the debt off to investors. What has become clear over the past year, through this committee's investigation, is that there is a class of subprime colleges within the for-profit sector that are doing the exact same thing. Instead of packaging these loans into securities and selling them to investors, this time they are passing the debt off to American taxpayers in the form of federally guaranteed student loans.

Both student debt and for-profit colleges have a place in American higher education. I myself used a student loan to get through school. Some for-profit colleges offer important flexibility and an educational model that can work for students who are seeking educational advancement while also balancing jobs and family commitments. But there reaches a point where the education provided does not match the cost of the debt. Let me be clear, rising student loan debt is a problem for students throughout higher education. This is an issue that has received serious attention from this committee in recent years and will continue to do so going forward.

So, why then is this hearing focused on for-profit colleges and their loan debt? The answer is that for-profit colleges have distinguished themselves by asking a higher percentage of their students to borrow, more than any other sector of higher education. Ninety-six percent of students at for-profit, degree-granting colleges borrowed to pay for colleges, 96 percent, compared to 13 percent at community colleges, 48 percent at 4-year public and 57 percent at 4-year private colleges.

How do so many students at for-profit colleges wind up with debts they can't repay? First it starts with high tuition. I will put the first chart up there, which you can see. For a 2-year associate degree, this is for a 2-year associate business degree, with an estimated annual earning power of around \$40,000 a year, at Corinthian's Everest College. Everest charges over \$46,000. ITT charges over \$44,000. Westwood College charges over \$35,000. In each case a community college nearby, offering a comparable program, costs between \$6,000 and \$9,000 per year. So you can see the difference there from the for-profits with the community college in the same associate degree program.

Similarly, high tuition is found in the bachelor degree program. That is for the associate degree programs. Now let's look at the bachelor degree, 4-year programs. At ITT almost \$89,000. At Corinthian over \$81,000. At Westwood over \$70,000. Meanwhile, a flagship public school, again in that State, Colorado, Florida and Indiana, same programs, for \$25,000 to \$40,000. Less than half as much.

In order to afford this high tuition, schools point their students toward Federal loans. But many of these students are having serious trouble repaying these loans. Look at chart three. Close to one in four students at a for-profit school is defaulting within 3 years and defaults by students at for-profit schools account for 47 percent. If you see the pie chart at the bottom, 47 percent of all student loan defaults. Keep in mind, that the for-profit schools only have 10 percent of all of the higher education students, yet they are accounting for 47 percent of the defaults. This next chart will show that. So the share of enrollment, on the left, is about 10 percent of the for-profit schools of all of the students in higher education. But on the right bar graph the share of defaults is about 50 percent, 47 percent to be exact.

One could ask how default rates could be this high. After all, there is a law in place intended to penalize institutions who students default in the 2 years after leaving school at rates that consistently exceed 25 percent. So how does this happen? The answer is that some for-profit schools have become skilled at manipulating their default statistics. They have either hired outside specialists or created its own units of, "default management staff," who are paid to counsel students into repayment options that ensure that students do not default within the 2-year window when the government is watching.

This way schools are able to keep their default rates low enough to avoid the Department of Education sanctions that would limit their access to Federal financial aid. Later on, after our witnesses testify, I have more charts and some documents that I will introduce to the record that will show how they do that. But managing the cohort default rates merely delays default for some students and can result in a higher debt when that default occurs.

If the cost of tuition is so high that it exceeds what a student can borrow through the Federal Government, some schools are equipped to offer their own loans. That is also happening now and this is a chart that shows that. These are essentially subprime loans carrying high interest rates and even higher estimated levels of default.

Look, for example, at the top. The Federal Stafford Loan Program, interest rate is 6.8 percent and I think the default, if I can see it, is around 16 percent, if I am not mistaken. Go on down the list. You will see Education Management Corporation, their interest is 11.2 percent. Kaplan, 15, that has been lowered, by the way, by Kaplan. Congratulations. Career Education Corporation, 13. Corinthian, 18 percent. I understand some of those, since we have come out with this, have started to lower them.

But you can see the percentages that they are charging and you can see the expected defaults. Fifty-five percent, 45 percent, 80 percent which the schools themselves estimate are going to default, they estimate that that many will default and yet they are making those loans. Which should raise a lot of questions, if you are making those kinds of loans you expect that big a default. We will get into that.

For example, in the next chart we took one school, Corinthian. In 2009 and 2010 Corinthian Colleges lent \$240 million to its students at an average interest rate of 13 to 15 percent with some students paying as much as 18 percent. For comparison, the Federal Reserve calculated the average interest rate on a credit card in 2009 at 13.4 percent. They would have been better off just using their credit cards.

With their 14.8 percent average interest rate, Corinthian sends a pretty clear signal about where their priorities are when it comes to shareholders versus students. I suspect that is why in 2010 as more and more attention was focused on this, the company is lowering their average percent rate.

But I want to point out one other thing. That \$240 million that Corinthian loaned to its students at these high interest rates, you might say, where did that money come from? Did it come from Wall Street? Did it come from a bank? No, it came from the taxpayers of this country. The taxpayers who gave money to students to borrow. The students then turned the money over to Corinthian. Corinthian has this big reserve. They didn't pay anything for that money. Taxpayer money. What a deal. Then they take that \$240 million and they loan it out to students at 13 to 15 percent.

Keep in mind, that is where the money came from. It didn't come from some private investor. It came from the taxpayers of this country. And yet they are making tremendous interest rates by loaning it back out to students, even though they know that a high percentage of those students are going to default.

But high interests rates only tell part of the story. In their internal accounting companies estimate the percentage of students who will default, as I have said, and in some cases how much they expect to lose from these lending programs. The internal documents that this committee has gotten over the last year shows this. Corinthian estimates that 55 percent of its students will default on their institutional loans. It is seriously troubling that companies would find it acceptable to make these loans with the knowledge that such a high percentage of their students will be unable to repay them.

Think about it, if you were running a small community bank, would you make loans to any entity that you knew 50 percent of them would never pay it back? While the school knows these loans

are a terrible investment, the student has no idea they are more likely to wind up with ruined credit than a college degree and a good job. They don't know that these loans will hang around their necks for the rest of their lives. They can't discharge them in bankruptcy.

I have often said the difference between the subprime in the mortgage industry and this is if you got a bad house, you got a bad deal, you could walk away from it. You can't walk away from these loans.

So behind each student loan default is a person who has an unpayable debt hanging around his or her knee and too often with no degree to show for it. Someone who may have to put off or cancel plans to even continue their education, buy a home, maybe even purchase health insurance or start a family. While the Federal Government provides several flexible repayment options, there is no way to walk away from your student loan, like I said that you could with a mortgage.

Nor is it acceptable to simply blame these default rates on the students and some of our documents show that internal conversations among people at these colleges say, "well it is the student's fault." When a school enrolls a student, sets their tuition, recommends that the students take out a loan, the school is making a *de facto* investment recommendation to that student. Because schools are so focused on their default rates, they are in the best position to know whether the student is likely to succeed academically, earn a degree that will actually help them secure a good job and be able to repay their loans. They are in the best position to know that.

For those who would say that holding schools accountable for whether those students repay their loans will discourage them from enrolling low-income and minority students. If they say that, I have this in return to say. Access to debt is not the same thing as access to the opportunity offered by a good education. States have designed a national network of low cost, open access community colleges to make sure that students who have a low probability of graduating are able to try out higher education with very little financial risk. Quite frankly, we should be looking for ways to assist community colleges, to assist them in their efforts, in their open access, to help students who may have gone through high school not with A's and B's but maybe C's or lower but who now want to renew themselves, want to continue their education, want to better themselves. We should be assisting them, not looking for ways to enhance more profits for Wall Street investors.

That is not access. I think this is really the second coming of the subprime crisis. At a time when we are focused on Federal debt, how can we just maintain policies that foot the bills for students to attend schools that have proven to be such a bad investment?

In 2009 for-profit colleges received \$18 billion in guaranteed student loans. If trends continue we can expect nearly half of those to default. This should not be acceptable to those of us who are stewards of taxpayers' dollars. High default rates mean ruined credit and garnishing wages for students and more spending for taxpayers.

In closing I would just say the Department of Education has taken a modest first step toward addressing this program with the newly final gainful employment rule. I know that we had all been looking forward to hearing from Secretary Duncan, but unfortunately he is ill and he will not be able to join us. I am sure he will recover soon.

We are pleased to have the Under Secretary for Education, Martha Kanter, with us, on very short notice and appreciate her deep expertise on higher education and access for low-income and minority students.

This is the committee's fifth hearing on for-profit education companies. The hearings have each helped to give us a much more clear picture of how this industry operates, how it serves students and taxpayers. I look forward to engaging with parties on all sides as we move forward, using the information gathered to date into new legislative protections, new legislative protections for students and taxpayers.

I believe it is clear that more needs to be done to ensure that taxpayer dollars are being used wisely, to ensure that for-profit colleges are actually fulfilling their commitment to provide a quality education that leads to better jobs and economic advancement.

I would ask consent at this time to place in the record documents that have been produced to the committee on the subjects we are covering today.

Without objection. So ordered.

[The information referred to can be found at www.harkin.senate.gov; click on: Issues & Agenda; then For-Profit College Investigation; Hearings; hearing title; charts and/or documents.]

The CHAIRMAN. Before we get started I would like to just take a moment to introduce our witnesses here today.

On the first panel, from left to right, Dr. Sandy Baum who is an independent higher education analyst/consultant, professor emeritus of economics at Skidmore College. She is the author of The College Board's Annual Trends in Student Aid and Trends in College Pricing and is an expert on college affordability and student debt. We appreciate your being here.

Next, we have Mr. Wade Henderson, President and CEO of the Leadership Conference on Civil and Human Rights and the Leadership Conference Education Fund. Mr. Henderson is a well-respected leader in the civil rights committee, leads a coalition of more than 200 national organizations to promote and protect the civil and human rights of all persons in the United States. We appreciate your being here, Mr. Henderson.

Next we have Mr. Eric Schmitt from Hampton, IA. Mr. Schmitt holds a bachelor degree in paralegal studies from Kaplan University in Cedar Falls, IA and will discuss the challenges he has faced with the debt resulting from that degree. We appreciate your being here.

Finally we have Pauline Abernathy from the Institute for College Access and Success and the Project on Student Debt. In her capacity as vice president she oversees national policy and advocacy strategy for the Institute. This will be our first panel.

The second panel, as I said, will be Under Secretary for Education, Martha Kanter.

Senator MIKULSKI. Mr. Chairman, may I—

The CHAIRMAN. I would yield to Senator Mikulski.

STATEMENT OF SENATOR MIKULSKI

Senator MIKULSKI. Thank you, Mr. Chairman. If I could just say a few words. I might have to leave before my opportunity to raise questions, though I am going to hear all the witnesses.

I want to thank you for your aggressive leadership in bringing this matter to our attention and it is an issue that does demand it. I believe that higher education is a very important right in our country. That if you want to work hard, you should be able to learn so that you can get a degree or a certificate that no one can ever take away from you. In our country I believe in opportunity and choice, but I also believe that we have to be stewards.

We understand that Federal grants and student loans have made educational opportunity a reality for generations. The financial risk is taken on by the student and by the taxpayer, so we need to make sure that we have a set of rules for who we help that doesn't add to student debt that is then crushing and then doesn't add to the Federal Government debt—what we think is creating opportunity is a hollow opportunity.

I do believe in choice because I am a product of a small Catholic liberal arts school, I got my masters degree from a great public land grant university, the University of Maryland. I taught at a Jesuit College. I taught at a community college. I taught day school. I taught night school. And my students taught me a lot.

Therefore, when you look at just the array of where I had the opportunity to teach, and where I had an opportunity to learn shows quite a cornucopia of choice in our country, which we would want to preserve.

I also don't believe in gouging and profiteering. This is what I am concerned about, that while we are looking for choice and opportunity, there is profiteering. I am deeply troubled by what I see on these charts, particularly in the way that it could affect poor and minority students and the way it could affect our returning veterans who think that they have a GI bill. I don't want that to turn into a hollow opportunity.

I look forward to working with you, because we do need clear rules of the game. We do need reform. But I also think we need to look at why do these students turn to these profit-making colleges? They obviously fill a niche. They obviously recruit students in a unique way. I think we need to look at why do they go there for such an enormous amount of debt and what niche do they fill and where are we in the community college. I won't take this opportunity, because we do want to go to the witnesses.

But, Mr. Chairman, when I go around and talk to my Maryland constituents, I meet a lot of young people who took one course or one semester at a college. They dropped out to either make money or any number of reasons. By the time they lurch around for what they think is one opportunity to one other, they do not have an academic home, the only consistent thing is their student debt.

Why aren't the community colleges filling more? Is it capacity? Is it the way community colleges are organized? I am a big fan of community colleges. I think we need to look at the niche that they fill and examine what other institutions could fill that niche.

I think there is a lot to learn and as always we learn from the students who are the most affected. But I look forward to working with you on a clear set of rules of the game, reform and maintaining choice and opportunity but not profiteering and gouging.

The CHAIRMAN. Senator Mikulski, thank you very much for that very profound statement and I can assure we are going to lean on your expertise and your background to help us as we develop legislation, as you say, to make sure that we have choice and open access. I look forward to discussing with you the, perhaps an expanded role for community colleges in this niche, which they haven't fulfilled and perhaps we need to look at how we help them do that. I look forward to working with you on that Senator Mikulski.

We welcome our panel. I have already introduced our witnesses. We will start from left to right. All of your statements will be made a part of the record, in their entirety. I would ask you to sum it up in 5 to 7 minutes, the key points, so that we can get into an exchange. I would appreciate it.

Ms. Baum, we will start with you and please proceed.

**STATEMENT OF SANDY BAUM, INDEPENDENT HIGHER
EDUCATION ANALYST AND CONSULTANT, CHICAGO, IL**

Ms. BAUM. OK. Thank you, Senator Harkin, members of the committee. I appreciate having the opportunity to be here today and talk with you about this very important issue of student debt and for-profit colleges.

The Senators have made some very important points. I won't repeat all of them, but I do think it is important to begin by saying that I am a strong advocate of student loans. I think borrowing is a very reasonable and appropriate way for students to finance part of their postsecondary education. One of the reasons that I am so concerned about what is being discussed here today is because I think that the whole student loan program is actually at risk and the opportunities generated for students are at risk because of some of the abuses that are occurring.

I also believe that the for-profit sector of postsecondary education has an important role to play. It is not that it is bad for there to be some sort of profit going on in education and it is very clear that there are some things that some for-profit institutions do that provide opportunities for students that they are unable to find elsewhere.

That said, the combination of student debt and for-profit institutions is just not working. It is causing severe problems for students who are accumulating inordinate amounts of debt, it is causing severe problems for taxpayers who can't afford to be wasting money in the ways that many of these dollars are being wasted, and it is not working for the institutions themselves.

I would think that the for-profit institutions that are doing well for their students would be in the front of the line of people concerned about improved oversight of the industry so that students

will be directed into institutions that really can serve them, instead of those that are exploiting them.

It is very important that we address this issue and address it carefully. You have presented a lot of data, I know other witnesses will present a lot of data and I have a lot of data in my written testimony, so I won't focus on data. I would like to point out a few numbers. It is very important to recognize that almost all students in the for-profit sector borrow, that is just not true in other sectors of higher education. So virtually no one attending for-profit institutions is actually paying with their own money. Virtually no one has parents who are paying, because the people who attend for-profit institutions, the vast majority are independent students whose parents aren't in the picture. Most of them come from low-income backgrounds, most of them just don't have much money of their own.

Among bachelors degree recipients who received their degrees in 2007–8, 60 percent of those from the for-profit sector graduated with more than \$30,000 of debt. Only 12 percent of those with degrees from the public sector had that much debt. Two-thirds of those students who received associate degrees in public colleges had no debt when they graduated, only 2 percent of those in the for-profit sector had no debt.

Completion rates for bachelors degrees in the for-profit sector are stunningly low. In less than 2-year programs and certificates they do much better, and this may be one of the important roles for for-profits in the future.

The default rates, as you have noted, are extremely high in the for-profit sector. I think it is important to note that when you look at the default rates on student loans for the for-profit sector, that is approximately the percentage of students who are defaulting. But when you look at default rates for other sectors, particularly for community colleges, so few students borrow that the default rate for students is much lower than the default rate for borrowers.

The for-profit institutions frequently talk about the demographics of their students and say the reason that our students borrow so much and the reason that they default so much is because of their demographics, they come from low-income families. They do. But the fact is that if you control for income, if you look at people within any race, ethnicity group, in the for-profit sector students borrow much more money and default with much more frequency than similar students in other sectors.

For-profit institutions are different. If it weren't that it is different to produce things in the for-profit sector, you wouldn't have all the free-market advocates complaining about the role of government. Of course it is different. It is the fiduciary responsibility of the owners and of the managers of for-profit publicly held enterprises to maximize profit for their shareholders. It is not because they are bad people, that is what they have to do. The interests of students can't be at the forefront for them.

This is not a matter of government versus free market. This is not a free market. This is government funding and it is a market characterized by abysmally poor information. The growth in the for-profit sector cannot be explained by consumers just making a choice that maximizes their utility. Consumers just don't have the

information. The students choosing these institutions don't have parents who went to college, they don't have qualified high school counselors helping them to make decisions. Someone has to help them with better information so that they will make wiser decisions.

What we are doing—we have a complicated system of financing higher education and we subsidize students in public institutions, maybe not enough, but heavily. But the subsidies we are giving in the for-profit sector are arbitrarily distributed. You default on your student loan, you get a subsidy. This is not the way the government should be allocating its funds. We should do it consciously and carefully.

So, we need student loans. We need for-profit institutions but for-profit institutions can do better. They won't do better on their own, their goal is to maximize profits, it has to be. We need to change the incentives facing these institutions. We need to provide the consumers, the students, with much better information about the prospects they face when they attend these institutions.

We risk a very well conceived and effective program, the student loan program, if we don't do better at monitoring how students are using these loans and how institutions are allocating these loans.

So, I welcome your questions after the other testimony. Thank you.

[The prepared statement of Ms. Baum follows:]

PREPARED STATEMENT OF SANDY BAUM

SUMMARY

The problem of student debt among students at for-profit postsecondary institutions is not a matter of free markets versus government intervention. The market for higher education does and should rely heavily on market forces. But it is not and never will be a textbook example of competitive markets. The for-profit sector, which has the potential to make important contributions to educational opportunities in the United States, relies on the Federal Government for most of its revenues. Virtually all students borrow heavily to study in this sector. Almost half of the institutions in this sector have official student loan default rates over 20 percent. Some institutions in this sector successfully meet the needs of their students but they are a dwindling portion of the sector. Unfortunately, the rapid enrollment growth in this sector does not reflect informed consumer response to a high quality product. With more transparency and more consumer protection, the for-profit sector will be able to make greater contributions to our educational system without damaging the futures of so many vulnerable students.

There is overwhelming evidence that large numbers of students, particularly students from low-income backgrounds, are suffering great hardship as a result of the excessive borrowing required to finance their enrollment in for-profit institutions. Institutions that leave students worse off than they were when they arrived are the exception in the public and private nonprofit sectors. Unfortunately, they appear to be the norm in the for-profit sector.

The character of the for-profit sector has changed as it is increasingly dominated by large, publicly held companies that are compelled by shareholders to maximize profit. Where it exists, good will and social consciousness on the part of the officers of these companies can only go a limited distance in determining how the firms operate.

Students who enroll in institutions or programs that graduate few of their students or that succeed in placing only a small percentage in remunerative positions in the fields for which they have been trained are playing the lottery. Our political philosophies might lead us to debate whether or not we should prevent them from playing this lottery. But it is difficult to come up with sound principles of public policy that would support our subsidizing them to play this lottery.

Few students pay with their own money to enroll in these institutions. The independent students and dependent students from low-income families who predomi-

nate at for-profit institutions are those most likely to be making their educational choices without the advice of college-educated parents or well-trained counselors. They deserve added consumer protection, rather than maximum opportunity to make decisions with a high probability of damaging their futures.

The existence of a robust Federal student loan program is a tribute to our Nation's commitment to post-secondary educational opportunity. Higher education is the best investment most young people can make. We certainly don't want to discourage students who are not virtually assured of success from taking the risk of enrolling. But that doesn't mean we should encourage every student to pursue whatever educational path might tempt them.

The title of this hearing suggests two major areas of concern. One is the impact of education debt on students. The other is the role of for-profit colleges in serving a growing portion of the postsecondary population. Student loans are an important and justified component of our higher education financing system. For-profit colleges provide a valuable alternative for some students and some institutions in this sector engage in some practices that public and private nonprofit colleges would be wise to emulate. But there is overwhelming evidence that large numbers of students, particularly students from low-income backgrounds, are suffering great hardship as a result of the excessive borrowing required to finance their enrollment in for-profit institutions. It is easy to find individual success stories in this sector, just as it is easy to find individual stories of over-borrowing and failure in the nonprofit sectors. But these anecdotes can't change the compelling story told by the data. Borrowing large sums of money to enroll in the for-profit sector is a ticket to personal crisis for a large proportion of students. Institutions that leave students worse off than they were when they arrived are the exception in the public and private nonprofit sectors. Unfortunately, they appear to be the norm in the for-profit sector.

In this testimony, I will begin by summarizing some of the data on student debt across postsecondary sectors and will then analyze why we face this very serious problem and suggest constructive ways of approaching it.

STUDENT BORROWING PATTERNS

Table 1.—Student Loan Debt of 2007–8 Degree and Certificate Recipients

2007–8	Median loan debt (2007–8)	Degree recipients with Federal loans (In percent)	Degree recipients with Non-Federal loans (In percent)	Degree recipients with any education loan (In percent)	Average Federal loan debt	Average Non-Federal loan debt	Average total loan debt
Bachelor's degree	\$20,000	62	33	66	\$17,800	\$12,600	\$23,100
Public 4-Year	\$17,700	58	28	62	\$16,900	\$9,800	\$20,200
Private 4-Year	\$22,400	69	42	72	\$18,700	\$16,900	\$27,600
Private For-Profit	\$32,700	94	64	96	\$25,900	\$11,500	\$33,100
Associate's degree	\$10,000	43	22	48	\$11,100	\$7,000	\$13,300
Public 2-Year	\$7,100	33	15	38	\$9,000	\$5,700	\$10,100
Private For-Profit	\$18,800	97	60	98	\$14,700	\$8,400	\$19,700
Certificate	\$9,000	58	34	63	\$8,900	\$5,900	\$11,300
Public 2-Year	\$6,500	24	12	30	\$8,900	\$4,500	\$8,800
Private For-Profit	\$9,700	85	51	90	\$8,600	\$5,900	\$11,500

Source: National Postsecondary Student Aid Study 2008.

As Table 1 indicates, 62 percent of 2007–8 bachelor's degree recipients graduated with student debt. The median debt among borrowers was about \$20,000. Among those who received their degrees from for-profit institutions, 96 percent had debt and the median amount they borrowed was \$32,700. Most of these students took Federal loans, but two-thirds of the 4-year college graduates from this sector also relied on non-Federal loans, which carry higher interest rates and lack the repayment protection provisions of Federal student loans.

Averages hide important differences among students. While the typical college graduate has a manageable amount of student debt and a credential that will pay off well in the labor market, there are too many exceptions to this pattern. These exceptions are highly concentrated in the for-profit sector.

Table 2.—Distribution of Total Undergraduate Debt by Sector and Type of Degree of Certificate, 2007–8

	No debt [In percent]	Less than \$10,000 [In percent]	\$10,000 to \$19,999 [In percent]	\$20,000 to \$29,999 [In percent]	\$30,000 to \$39,999 [In percent]	\$40,000 or more [In percent]
Bachelor's Degree:						
Public 4-Year	38	16	19	14	6	6
Private Nonprofit 4-Year	28	10	19	17	10	15
For-Profit	4	4	12	23	33	24
Associate's Degree:						
Public 2-Year	62	23	9	3	1	1
For-Profit	2	22	34	23	13	6
Certificate:						
Public 2-Year	70	21	7	1	1	0
For-Profit	10	46	34	8	2	1

Note: Data include Federal loans, private loans, and loans from States and institutions. Parent PLUS Loans, credit card debt, and loans from friends and family are not included. Percentages may not sum to 100 due to rounding. Data include students who attended less than half-time (13 percent of students), and who do not qualify for Stafford loans but do qualify for some non-Federal loans.

Source: NPSAS, 2008.

While many students in other sectors graduate without debt, this is not the case in the for-profit sector. Moreover, as reported in Table 2, 57 percent of 2007–8 bachelor's degree recipients from this sector graduated owing \$30,000 or more. In contrast, 25 percent of those who earned their degrees in the private nonprofit sector and 12 percent from the public sector borrowed this much. Over 60 percent of the students who earned associate degrees from public 2-year colleges graduated debt-free. Only 2 percent of those earning associate degrees and 10 percent of those earning certificates from for-profit institutions were in this situation. While only 5 percent of public sector AA degree recipients owed as much as \$20,000, 42 percent of those from the for-profit sector had this much debt.¹

Table 3: Median Debt of 2007–8 Bachelor's Degree Recipients, by Dependency Status and Income

	Dependent Student Family Income					
	Less than \$30,000	\$30,000 to \$59,999	\$60,000 to \$89,999	\$90,000 to \$119,999	\$120,000 or higher	Inde- pendent students
Public 4-Year	\$16,500	\$17,400	\$17,000	\$16,300	\$14,500	\$20,000
Private Nonprofit 4-Year	\$21,000	\$23,100	\$21,100	\$22,000	\$18,000	\$24,600
For-Profit	\$30,500	\$24,600	\$34,600	\$28,000	\$34,300	\$32,700
Percentage with Debt:						
Public 4-Year	68%	69%	61%	52%	40%	68%
Private Nonprofit 4-Year	84%	83%	75%	68%	74%	74%
For-Profit	99%	99%	99%	99%*	99%*	95%

Source: NPSAS 2008.

Students from affluent families are less dependent than others on borrowing to finance their education. The same is true for independent students. In 2007–8, 80 percent of the undergraduate students enrolled in the for-profit sector were independent, relying only on their own resources and financial aid, primarily from the Federal Government. Fewer than 60 percent of public 2-year college students were in this category. About half of the dependent students enrolled in for-profit institutions came from families with incomes below \$40,000. This compared to 35 percent in 2-year public colleges and about 25 percent in 4-year public institutions.²

However, as shown in Table 3, controlling for dependency status and income leaves wide differences in the borrowing patterns across sectors. Because very small numbers of dependent students from affluent families enroll in for-profit institutions comparisons of low-income students are more meaningful. The 68 percent of dependent students from families with incomes below \$30,000 who borrowed for the bachelor's degrees they earned from public colleges in 2007–8 had median debt of \$16,500. The 99 percent of students from this income category who borrowed for the bachelor's degrees they earned from for-profit colleges had median debt of \$30,500.

¹ Sandy Baum and Patricia Steele, "Who Borrows Most?" The College Board, 2010.

² Sandy Baum, Jennifer Ma, Kathleen Payea, *Education Pays 2010*, The College Board.

Independent students graduated with median debt of \$20,000 from public colleges, \$24,600 from private nonprofit colleges and \$32,700 from for-profit colleges.

Among low-income Hispanic students, 43 percent of 2007–8 for-profit bachelor's degree recipients had debt exceeding \$30,500. This was true of 22 percent of those earning degrees in the private nonprofit sector and only 1 percent of those who graduated from public colleges and universities.³

The large numbers of students who enroll in postsecondary institutions but never earn a degree or certificate are not included in these data on the debt levels of graduates. Bachelor's degree completion rates are much lower in the for-profit sector than in other sectors. Of first-time full-time students who began studying for a bachelor's degree at a 4-year institution in 2002, 57 percent earned a B.A. at the institution at which they began within 6 years. Completion rates averaged 65 percent at private nonprofit, 55 percent at public 4-year, and 22 percent at private for-profit institutions.

Among students at for-profit 4-year institutions, 16 percent of blacks and 28 percent of Hispanics who enrolled in 2002 had earned a bachelor's degree 6 years later. Among those who enrolled at public 4-year colleges and universities, 39 percent of blacks and 46 percent of Hispanics had earned degrees. The gaps between completion rates for black first-time full-time students and those for white and Asian students are larger in the for-profit sector than in the public and private nonprofit sectors.⁴

The story for shorter-term institutions, which enroll just over one-third of students in the for-profit sector, is much more encouraging for that sector. Reported completion rates for 2-year institutions include both 2-year degrees and certificates earned over shorter periods of time. These completion rates for students who began their studies in 2004 were highest in the for-profit sector, where 60 percent of full-time students completed their credentials within 3 years, compared to 50 percent of those in private nonprofit and 22 percent of those attending public 2-year colleges.

Table 4.—Percentage Borrowing and Average Amounts Borrowed Among All Students and Among Full-Time Students by Dependency and Sector, 2007–8.

	Percent with any loan	Percent with Federal loans	Average Federal loan per borrower	Average Federal loan per student	Percent with private loans	Average private loan per borrower	Average private loan per student	Private loans as a percentage of total borrowed
Full-Time Students:								
All Students	54	50	\$5,400	\$2,700	19	\$7,800	\$1,500	36
Dependency:								
Dependent	50	46	\$4,800	\$2,200	18	\$8,400	\$1,500	41
Independent	65	62	\$7,000	\$4,300	23	\$6,300	\$1,500	25
Sector:								
Public 4-Year	54	50	\$5,200	\$2,600	15	\$7,000	\$1,100	29
Private Nonprofit 4-Year	66	62	\$5,600	\$3,500	28	\$10,200	\$2,900	45
Public 2-Year	23	20	\$4,100	\$800	7	\$4,400	\$300	26
For-Profit	92	88	\$6,400	\$5,700	43	\$7,100	\$3,100	35

Source: Patricia Steele and Sandy Baum, "How Much are College Students Borrowing," The College Board, 2009; NPSAS, 2008.

The annual borrowing data reported in Table 4 include both those students who will go on to earn degrees and those who will not. In 2007–8, when 54 percent of all full-time students relied on loans to finance their studies and 19 percent borrowed from private sources, 92 percent of those enrolled in for-profit institutions borrowed and 43 percent took private loans. Full-time for-profit students borrowed an average of \$5,700 in Federal loans and \$3,100 in private loans per student. Those enrolled in private nonprofit colleges and universities borrowed an average of \$3,500 in Federal loans and \$2,900 in private loans per student. The parallel figures for public 4-year colleges were \$2,600 and \$1,100 and public 2-year college students borrowed only an average of \$800 in Federal loans and \$300 in private loans.

DEFAULT RATES

In fiscal year 2009, the official default rate for for-profit 4-year institutions was 16 percent. For 4-year colleges in the public and private nonprofit sectors it was 5

³ Patricia Steele and Sandy Baum, "Who Borrows Most?" The College Board, 2010.

⁴ NCES, Beginning Postsecondary Students 2009, <http://nces.ed.gov/datalab/index.aspx>.

percent. The default rate for for-profit 2-year schools was 15 percent. For public 2-year colleges it was 12 percent.⁵ But as noted above, a relatively small percentage of students in this sector rely on student loans. While the default rate for for-profit institutions is a close approximation of the percentage of students from that sector who have defaulted on loans, the default rate for community colleges has to be divided by 3 or 4 to arrive at an estimate of the percentage of students from that sector who default.

Students at some private nonprofit colleges accumulate high debt levels because of high sticker prices and inadequate institutional aid. However, these schools are few and far between. Out of 1,635 private nonprofit schools, 30 have a default rate over 30 percent. Students enrolled in these 30 schools constitute 1.1 percent of all private nonprofit enrollment and account for 0.8 percent of all private nonprofit students in repayment and 4.3 percent of all private nonprofit defaults. Ninety-three colleges in this sector—6 percent of the total—have a default rate over 20 percent. Students enrolled in these 93 schools constitute 8.6 percent of all private nonprofit enrollment, and account for 5.2 percent of all private nonprofit students in repayment and 20.2 percent of all private nonprofit defaults.

In contrast, out of 1,806 for-profit schools, 273 have a default rate over 30 percent. Students enrolled in these schools constitute 13.8 percent of all for-profit enrollment and account for 15.1 percent of all for-profit students in repayment and 24.6 percent of all for-profit defaults. A startling 792 for-profit schools—44 percent of the total—have a default rate over 20 percent. Students enrolled in these schools constitute 68.6 percent of all for-profit school's enrollment and account for 66.8 percent of all for-profit students in repayment and 79.2 percent of all for-profit defaults.⁶

Student loan default is a very real problem for the Federal Government. The problem is not just loss in taxpayer dollars. Our education financing system is far from perfect, but we have made choices about relying on general subsidies from State and local governments to public institutions and on targeted Federal subsidies to individual students, combining loans with grants. Loans that are not repaid end up as subsidies to students allocated partially on the basis of financial difficulty, but also on the basis of some combination of failure to succeed in the educational system and failure to manage responsibilities. But student loan default is an even bigger problem for individuals. A student who ends up not benefiting from his education who either did not borrow or borrowed a small amount has lost time, a financial investment, and an opportunity. But a similar student who ends up defaulting on her loans will be plagued by much larger financial problems for years to come.

HOW IS THE FOR-PROFIT SECTOR DIFFERENT FROM OTHER POSTSECONDARY SECTORS?

The prevalence of high debt levels and high default rates in the for-profit sector justifies a focus on this sector. Individual institutions and categories of students in other sectors who are in similar circumstances also merit particular attention. But it is worth thinking analytically about why so many problems are concentrated in for-profit institutions. Too much of the debate on this issue is tinged with ideology. Are critics of the sector opposed to market forces or to the idea of profits? Are owners, managers and supporters of the sector evil people who cannot see beyond their own pocketbooks?

The reality is that the fundamental purpose and structure of for-profit entities differs from that of public and nonprofit entities. If the outcomes of these structures could not be differentiated, proponents of the free market would not be such strong opponents of a larger role for government in the production of goods and services. The market works very well for our economy and our society in many cases. But it is not difficult to see that all market outcomes are not optimal. We have seen all too well in recent years the dangers of inadequate consumer protection, inadequate information, and inadequate regulation of financial markets. By definition, for-profit enterprises are run with the goal of maximizing profits. Managers have a fiduciary responsibility to make the interests of owners their primary focus.

When the for-profit sector was smaller, it consisted largely of small privately owned institutions. Some owners of for-profit colleges founded their institutions to provide specific opportunities to specific types of students and are deeply committed to the well-being of their students. But the sector is increasingly dominated by large, publicly held companies. Where it exists, good will and social consciousness on the part of the officers of these companies can only go a limited distance in deter-

⁵ http://www.ifap.ed.gov/eannouncements/attachments/052011AttachFY2009FY2009_DraftNationalCDRWithPrior2yrscomparison.pdf.

⁶ Data provided by staff of the U.S. Senate Committee on Health, Education, Labor, and Pensions in May 2011.

mining how the firms operate. Comparison of compensation levels in the three major sectors of postsecondary education is instructive. Average compensation for the five highest-paid public university chief executives in 2009–10 was \$860,000. The five highest-paid Ivy League presidents received an average of \$1.3 million in 2008–9. The top five leaders of publicly traded for-profit postsecondary institutions received an average of \$10.5 million in 2009.⁷

In our market economy, firms have to continue to grow in order to be appealing to investors. Between fall 2000 and fall 2009, full-time enrollment in degree-granting institutions in the for-profit sector increased from 366,000 to 1.5 million. In just 9 years, the sector went from enrolling 4 percent of full-time students (and 3 percent of all students) to enrolling 11 percent of full-time students (and 9 percent of all students). Among students in this sector, 61 percent are enrolled in institutions that offer 4-year degrees, 24 percent are in 2-year institutions, and 15 percent attend less-than-2-year institutions.⁸

Among students who earned bachelor's degrees, 76,000 (5 percent of the total) came from the for-profit sector in 2007–8. The for-profit sector awarded 127,000 associate degrees—17 percent of the total. In 2008–9, students in the for-profit sector received 25 percent of all subsidized and 28 percent of all unsubsidized Stafford Loans.⁹

Economic theory suggests that market forces lead to efficient outcomes if certain stringent conditions are met. These conditions include the absence of significant externalities—the costs and benefits of the product or activity must accrue to the direct participants without significant impact on others—and notably, perfect information. Consumers must have the information necessary to make sound judgments about which products and services will meet their demand. They must understand the characteristics of what they buy, how the products and services produced by different firms compare, and the prices they will pay. The rapid growth in enrollments in the for-profit sector is not just a reflection of increased demand. It's not that so many students are suddenly making informed decisions about the best way to realize their educational dreams. A combination of aggressive recruiting and the growing funding and space constraints in the public sector have changed the way students perceive their options.

The market for higher education meets few of the requirements for perfect competition. Students can't buy one, try it, and buy a different brand next time if they are unhappy with the outcome. There is little market incentive for producers to provide thorough and accurate information because they do not rely on repeat customers and once students make a choice, it is likely to take them a long time—and a lot of payments—before they learn the true properties of what they have purchased.

Well-designed consumer protection makes market forces work more effectively. It doesn't make sense to have students give up large amounts of time, energy, and money to test for themselves whether institutions offer reasonable education and training. Postsecondary education is an investment that typically provides a high rate of return to both the students who participate and to society as a whole. But it can be a risky investment. If we subsidized only students who have a very high probability of succeeding and seeing their investment pay off handsomely, we would fail to provide opportunities to many individuals who cannot afford them on their own. We know some students will fail, either because they aren't up to the task or because circumstances interfere with their success.

But we shouldn't subsidize students to play the lottery. Students who enroll in institutions or programs that graduate fewer than 20 percent (or 15 percent or 30 percent) of their students or that succeed in placing only a small percentage of their students in remunerative positions in the fields for which they have been trained are playing the lottery. They are making a significant investment in an undertaking that has a stunningly low probability of success. Our political philosophies might lead us to debate whether or not we should prevent them from playing this lottery. But it is difficult to come up with sound principles of public policy that would support our subsidizing them to play this lottery. Unfortunately, even the best available information is unlikely to discourage the most vulnerable students from playing the lottery with a combination of taxpayer funds and funds they will only have to pay off in a vague and distant future.

⁷ <http://chronicle.com/premium/stats/990/private/private.php?year=2009&Order=pay>; <http://chronicle.com/article/Sortable-Table-Compensation/126965/>; <http://chronicle.com/article/Graphic-CEO-Compensation-at/66017/>.

⁸ Sandy Baum, Kathleen Little and Kathleen Payea, "Trends in For-Profit Postsecondary Education", The College Board, forthcoming.

⁹ The College Board, *Trends in Student Aid 2010*.

PUBLIC SUBSIDIES

There is nothing inherently wrong with people making profits from providing education. And no doubt there are some efficiencies in the for-profit sector that could, if applied in other sectors, both improve the learning experiences of students and reduce the cost of providing those experiences. But holding up this sector as an example of market forces at work is simply inaccurate. Many institutions in this sector receive close to 90 percent of their revenues from Federal student aid. That number is actually higher if the Federal funds that are excluded under the 90/10 regulations are considered. Very few students are actually paying with their own money to enroll in these institutions. Why is it that only independent students and dependent students from low-income families choose the for-profit sector? Don't these particularly vulnerable students, who are most likely to be making their educational choices without the advice of college-educated parents or well-trained counselors deserve added consumer protection, rather than maximum opportunity to make decisions with a high probability of damaging their futures?

Surely there should be better regulation of an industry that is so heavily financed by taxpayers and that has such a dramatic influence on the lives of so many Americans—particularly vulnerable Americans. Advocates of the sector frequently contend that restrictions on their institutions will deprive low-income students of educational opportunities. But if these opportunities lead to heavy debt burdens and questionable credentials, they are not opportunities in any meaningful sense of the word. Is it wrong to regulate payday lenders because it might deprive vulnerable individuals of the right to borrow money at extraordinary interest rates and generate debts they will never be able to repay? Is it wrong to regulate car dealers because we might deprive consumers of purchasing cars that have every likelihood of self-destructing on the road? Institutions in the for-profit sector that are serving their students well should be first in line arguing for protection against their colleagues whose drive for profits is exploiting students and undermining our ability to use market forces to the fullest to further our educational goals.

CONCLUSION

Encouraging students to pursue postsecondary education is vital to the future of our Nation and to the futures of individual students, particularly those who come from environments where they have limited resources and limited educational experiences. The only way we can succeed in providing the educational opportunities our diverse population requires is to assure the health and stability of a variety of postsecondary institutions serving a variety of needs.

Many people concerned with improving educational opportunities speak of student debt as though it were a blight on the higher education landscape and a clear sign of the moral weakness of our society. In fact, the existence of a robust Federal student loan program is a tribute to our Nation's commitment to post-secondary educational opportunity. Higher education is the best investment most young people can make. No one would suggest that people refrain from starting well-conceived and well-researched small businesses if they don't have the cash up-front. The idea is that the investment will pay off over time—enough to repay the necessary loans and then some. Comparisons of the success rate for investments in college and investments in small businesses overwhelmingly favor college.

But college does not turn out to be a good investment for everyone who tries it. We certainly don't want to discourage students who are not virtually assured of success from taking the risk of enrolling. But that doesn't mean we should encourage every student to pursue whatever educational path might tempt them. We should certainly think carefully about the incentives we provide students and about the extent to which we protect them against risk.

For-profit institutions are capable of improving student outcomes. In fact, in anticipation of greater government regulations, some institutions have taken steps to restrict the enrollment of students with little chance of succeeding, to counsel students more effectively about borrowing, and to find other ways of reducing their attrition and default rates. But they won't take these steps on their own. The students who unwittingly become the victims of the drive for profits cannot wait for solutions far in the future.

Debating how best to resolve the problem of student debt among students who enroll in for-profit postsecondary institutions should not be a debate about free markets versus government intervention. The market for higher education does and should rely heavily on market forces. But it is not and never will be a textbook example of competitive markets. The for-profit sector, which has the potential to make important contributions to educational opportunity in the United States, relies on the Federal Government for most of its revenues. Virtually all students borrow—

and borrow heavily—to study in this sector. Almost half of the institutions in this sector have official student loan default rates over 20 percent. Some institutions in this sector successfully meet the needs of their students but they are a dwindling portion of the sector. Unfortunately, the rapid enrollment growth in this sector does not reflect informed consumer response to a high quality product. With more transparency and more consumer protection, the for-profit sector will be able to make greater contributions to our educational system without damaging the futures of so many vulnerable students.

The CHAIRMAN. Thank you very much, Dr. Baum. I guarantee you we will have a number of questions to followup on your statement. Thank you very much.

Mr. Henderson, welcome, please proceed.

**STATEMENT OF WADE HENDERSON, PRESIDENT AND CEO,
LEADERSHIP CONFERENCE ON CIVIL AND HUMAN RIGHTS,
WASHINGTON, DC**

Mr. HENDERSON. Thank you, Chairman Harkin and good morning both to you and to members of the committee.

As you have already noted, I am Wade Henderson, president of the Leadership Conference on Civil and Human Rights, a national coalition of over 200 organizations working to build an America that is as good as its ideals. I am also proud to appear before you today as the Joseph L. Rauh, Jr., Professor of Public Interest Law at the David A. Clarke School of Law, University of the District of Columbia.

I want to thank you again for inviting me here today to testify on why the civil rights community strongly supports the efforts of this committee and those of the Obama administration to expand access to postsecondary education.

Before I address the substance of today's hearing, Mr. Chairman, I do want to thank you personally, for your efforts in the current appropriations process to protect education funding, especially funding for Pell Grants which are a vital lifeline for low-income and working families seeking to send their children to college. The Leadership Conference believes that access to education is a fundamental civil and human right, in fact access to high quality education is among the most pressing civil and human rights issues of this century.

This principle is especially important at a time when educational attainment and access to employment are more closely intertwined than ever and a greater investment in the lives and hopes of our Nation's young people is of paramount importance.

To be perfectly blunt, if we don't educate every child, every young adult, every working American who seeks to change careers and to educate them well, our future as a nation is in serious jeopardy.

The Leadership Conference recognizes the vital role that postsecondary education of all types, including in for-profit settings, can play in educating and preparing young people for the jobs and careers of today and tomorrow.

The for-profit sector's enrollment has more than tripled over the last decade and now comprises 11 percent of the Nation's full-time undergraduate enrollment. It enrolls disproportionate numbers of women, racial minorities, low-income students, veterans and older Americans, including many working people seeking to further their careers through online course work. However, we are alarmed by

the mounting evidence that the for-profit sector is engaging in what I would call predatory lending practices, overcharging for their product, failing to deliver on programs leading to gainful employment, leaving large numbers of students saddled with enormous debt and leaving taxpayers holding the bag. I should note, this is debt that is not dischargeable in bankruptcy, it will dog the future financial success of these individuals for much of their remaining lives.

As civil rights advocates, this is all too familiar. This is the very same thing that we saw with the rampant predatory lending that occurred during the housing boom, in which some actors in an industry that services low-income and minority people decided to take advantage of these individuals simply because they believed they could. Government cannot sit by, as it did during the housing boom, and allow the worst actors to exploit those that they serve while claiming that because they provide a valuable service that these communities desperately need, they should be exempt from scrutiny.

Indeed, the reverse is true. It is imperative that we guard against powerful institutions taking advantage of and exploiting the least among us. That is why the Leadership Conference believes that the Department of Education's gainful employment rule is a long overdue and important step in protecting students and taxpayers from unscrupulous career education programs.

While the rule does not include many of the important protections urged by civil rights, students, women's, labor and consumer organizations, it does send a strong message to many for-profit programs to start putting students first. We recognize that they have a fiduciary responsibility to their shareholders, but they also have a responsibility to the national interest on which they rely in getting the funding that supports the institutions they serve.

For-profit colleges can be a viable option for many students who may not have many other options. But that doesn't give these businesses the right to exploit those they serve. Access to college and career education isn't just about enrollment, it isn't just about being able to say that you are giving racial minorities and women and low-income people an opportunity to reach their dreams, you have to actually provide the necessary skills and training that you propose to deliver. The degrees and certification that for-profit students obtain must be worth more than the paper that they are printed on, otherwise what is the point?

Our Nation's future depends, to a large degree, on how well we educate the next generation. We will succeed only if we allow students a fair opportunity to obtain the skills and knowledge they need to fully participate in our economy and our society. The new gainful employment rule, adequate funding for both ESEA and student financial aid programs and continued efforts by both the Department of Education and this committee, will help ensure that they get the chance.

Our investment in our children, our young people, our older working adults must be as great as our dreams for our future, nothing less will do.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Henderson follows:]

PREPARED STATEMENT OF WADE HENDERSON

Good morning, Chairman Harkin, Senator Enzi, and members of the committee. I am Wade Henderson, president and CEO of The Leadership Conference on Civil and Human Rights, the Nation's premier civil and human rights coalition, representing more than 200 national organizations working to build an America that's as good as its ideals. I am also proud to serve as the Joseph L. Rauh, Jr., Professor of Public Interest Law at the David A. Clarke School of Law, University of the District of Columbia.

Thank you for inviting me here today to testify on why the civil rights community strongly supports the efforts of this committee and those of the Obama administration to expand access to postsecondary education. Mr. Chairman, before I get into the substance of today's hearing, I want to particularly commend *your* efforts in the recent and ongoing appropriations process to protect education funding, and especially Pell grants, which are a lifeline for low-income and working families seeking to send their children to college.

The Leadership Conference believes that access to education is a fundamental civil and human right. This principle is especially important at a time when educational attainment and access to employment are more closely intertwined than ever before. We live in the age of the global economy where quality K–12 public education and postsecondary opportunities are necessities and job-related skills are in increasingly high demand.

We know that if we don't educate all children—and educate them well—our future as a nation is in serious jeopardy.

Today, Mr. Chairman, we also know that postsecondary education is as important to a person's ability to raise a family and achieve the American dream as a high school diploma was when you and I were growing up. For example, the most recent report on *The Condition of Education 2011* by the Institute for Education Sciences' National Center for Education Statistics (hereinafter "NCES Report") reported that in 2009 "young adults with a bachelor's degree earned more than twice as much as those without a high school diploma or its equivalent, 50 percent more than high school completers, and 25 percent more than those with an associate's degree."¹ The NCES data also underscore the importance of higher education to women and their families. For example, while earnings of male high school dropouts (\$23,000) are close to the Federal poverty level, female high school dropouts earn far less (\$19,000).² And women who obtain associates degrees (\$31,000) still do not earn what men with high school diplomas earn (\$32,900).

The Leadership Conference recognizes the vital role that postsecondary education of all types, including in for-profit settings, can play in educating and preparing young people for the jobs and careers of today and tomorrow. The sector's enrollment has more than tripled over the last decade and now comprises 11 percent of the Nation's full-time undergraduate enrollment. It enrolls disproportionate numbers of women, minorities, low-income students, veterans, and older Americans, including many working people seeking to further their careers through online coursework.

We are alarmed, however, about mounting evidence that the for-profit sector is engaging in predatory lending practices, overcharging for their product, failing to deliver on programs leading to "gainful employment," leaving large numbers of students saddled with enormous debt, and leaving taxpayers holding the bag. For-profit colleges are a viable option for many students who may not have very many other options, but that doesn't give these businesses the right to exploit those they serve.

According to the NCES Report, the General Accounting Office, and this committee's own investigation:

- For-profit colleges charge students more, while shortchanging their education. For example, 4-year undergraduate for-profit colleges charge an average net price of \$30,900 per full-time school year, much higher than both public (\$15,600) and private not-for-profit (\$26,600) schools.³ At 2-year institutions, the net price at for-profit schools (\$24,700) is more than twice that at public schools (\$10,300).⁴
- Yet NCES found that private for-profit colleges spend an average of only \$3,069 per student on academic instruction, whereas public institutions spend an average of \$7,534 per student and private not-for-profit schools spend an average of \$15,215

¹ <http://nces.ed.gov/programs/coe/figures/figure-er2-2.asp>.

² The 2011 Federal poverty guideline for a family of four is \$22,350. <http://aspe.hhs.gov/pov-erty/11fedreg.shtml>.

³ NCES Report, Indicator 47-2, "Average total price, grants, and net price for full-time, dependent undergraduates at 4-year institutions, by institution control: Academic year 2007–08."

⁴ NCES Report, Indicator 47-1, <http://nces.ed.gov/programs/coe/figures/figure-cst-1.asp>.

per student on instruction. As a consequence of their high price tags and low investment in student learning, for-profits can channel a substantial portion of their income to marketing and profits.

- At Bridgepoint Education, Inc., for example, marketing accounted for 29.7 percent of spending in 2010 and profit 30.3 percent. The remainder 40 percent covered instruction, student services and faculty salaries, along with lobbying, administration, and executive compensation.⁵ The company reported compensating their CEO more than \$20 million in 2009.
- For-profit career programs' recruiting practices often target low-income and minority students, women, veterans, and older students seeking to obtain marketable skills in this difficult economy. While seeking to exploit prospective students' vulnerabilities, these programs fail to provide sufficient or accurate consumer information on the impact of high student loan debt (which is not dischargeable in bankruptcy) and on the quality and track record of their programs. For example, in documents obtained by this committee, one company's training manual identified the following "student profiles" for recruitment:⁶
 - Welfare Mom w/Kids
 - Pregnant Ladies
 - Recent Divorce
 - Low Self-Esteem
 - Vocational Rehabilitation
 - Experienced a Recent Death
 - Physically/Mentally Abused
 - Drug Rehabilitation
 - Fired/ Lay Off
- Yet many of these programs fail to deliver on their promises to educate students for "gainful employment," as required under the Higher Education Act and recently promulgated regulations from the Department of Education. Instead, their record is one of high withdrawal and staggeringly high debt. For example, the companies posting the highest withdrawal rates for associate degree students at their schools (ranging from 58 percent to 84 percent in 2009) enroll more than 1 million students, and nearly half of all for-profit students.
- The for-profit sector is leaving students with a mountain of student-loan debt. According to the NCES Report, 10.9 percent of students who attended 4-year for-profit institutions default on their loans within 2 years of starting repayment, which is more than twice the percentage at public and private not-for-profit schools.
- According to Campus Progress, 11 percent of all of higher education students in the country attend for-profit schools, yet they account for 26 percent of Federal student loans and 44 percent of student loan defaults.⁷

Mr. Chairman, I recently had the privilege of co-authoring an op-ed with the distinguished Congressman from San Jose, CA, Representative Michael Honda, D-CA, which I have appended to this testimony. In it, we sought to remind readers of the parallels between the victimization of students by the for-profit sector and the disastrous mortgage foreclosure crisis. The Leadership Conference has been fighting for years. We wrote:

"The subprime mortgage disaster caused the greatest loss of wealth from communities of color in modern American history. When banks misled African-American, Asian-American and Latino borrowers into taking on crushing home mortgage debt they could never hope to pay back, we called it what it was—predatory lending.

Today, many for-profit colleges have picked up where the subprime lenders left off. They are using the same promise of the American dream as bait to trap vulnerable students—the vast majority of whom are women and minorities—into underperforming schools and saddling them with a lifetime of debt.

As this industry's profits have soared, so have student loan default rates. Students enrolled in for-profit schools represent just 10 percent of all undergraduate students, but account for 44 percent of all student loan defaults.

The industry says that these schools offer opportunities to low-income students that they couldn't get elsewhere. But the debt being piled on students has devastating consequences, rendering them unable to receive credit to rent an apartment, buy a car or home, or receive future education loans. When these

⁵ Bridgepoint Education, Inc. SEC Statements, provided to Senate HELP Committee.

⁶ Vatterott Training Manual for Recruiting Staff.

⁷ <http://thinkprogress.org/education/2011/02/04/177517/for-profit-data/>.

programs fail to deliver on their promises, students suffer for the rest of their adult lives and taxpayers are left on the hook.

The industry is targeting and taking advantage of women, minority and low-income students. Approximately one out of every four African-American, Asian-American, Latino and low-income students start their postsecondary education at a for-profit institution. But their graduate rates are far below the rates for such students at public and nonprofit colleges. Just like the subprime mortgage lenders, this industry is profiting off the misery of our country's most vulnerable communities.

Once the industry had gotten its cut from the government's financial aid program, it left its students without an adequate education, without a job, and with an insurmountable debt load.

. . . This industry has destroyed people's futures, cost our government billions of dollars, and gotten rich by selling false hopes to those who most need a quality education. It's time for common sense reforms, which will hold the industry accountable to these students and to taxpayers."

Before I close, I would like to say a word about the final "gainful employment" rule that was released last week by Secretary Duncan.

The Leadership Conference believes this rule is a long-overdue and important step in protecting students and taxpayers from unscrupulous career education programs.

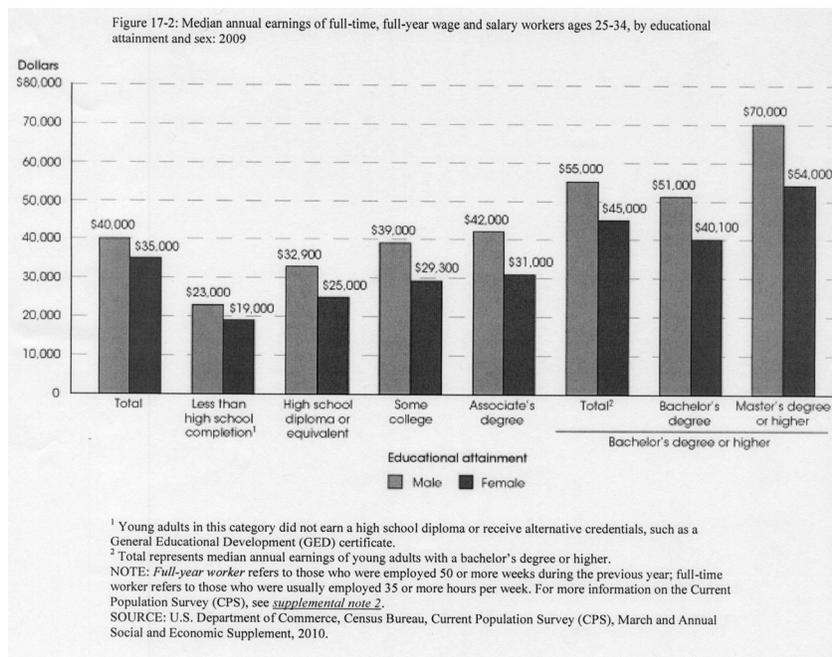
While the rule does *not* include many important protections urged by civil rights, student, women's, labor and consumer organizations, it sends a strong message to many for-profit programs to start putting students first. *Regulation is urgently needed* to hold these institutions accountable, given the rising tide of debt and default rates faced by students enrolled in for-profit programs—the vast majority of whom are represented by our coalition's member organizations. Its focus has been narrowed to those programs that, after 4 years, still fall far short on delivering a quality education. Those programs that serve their students well, however, will easily pass muster under the rule.

But just as Wall Street has fought the Consumer Financial Protection Bureau and other financial reforms, the for-profit higher education industry is fiercely resisting reasonable and modest oversight. It spent more than \$4 million on hired lobbyists in the first quarter of 2011 alone.

The Leadership Conference has commended members of Congress—including substantial majorities of the Congressional Black Caucus, the Congressional Hispanic Caucus and CAPAC—who opposed efforts to tie the Secretary's hands by prohibiting issuance or enforcement of this rule. We will continue to urge all members of both the Senate and the House to stand behind the President and allow the Secretary to begin enforcing it.

Our Nation's future depends to a large degree on how well we educate the next generation. We will succeed only if we allow students a fair opportunity to obtain the skills and knowledge they need to fully participate in our economy and our society. The new "gainful employment" rule, adequate funding for both ESEA and student financial aid programs, and continued efforts of both the Department and this committee, will help ensure they get that chance.

Thank you.



[ContraCosta Times]

STOP PREDATORY LENDING BY FOR-PROFIT COLLEGES

(By Rep. Michael Honda and Wade Henderson)¹

THE SUBPRIME mortgage disaster caused the greatest loss of wealth from communities of color in modern American history. When banks misled African-American, Asian-American and Latino borrowers into taking on crushing home mortgage debt they could never hope to pay back, we called it what it was—predatory lending.

Today, many for-profit colleges have picked up where the subprime lenders left off. They are using the same promise of the American dream as bait to trap vulnerable students—the vast majority of whom are women and minorities—into underperforming schools and saddling them with a lifetime of debt.

The costs to these students and taxpayers are tremendous. In the 2008–9 school year, the Federal Government invested more than \$4 billion in grant aid to for-profit institutions, quadruple its investment just a decade earlier.

Despite this increased Federal assistance, tuition at for-profit institutions continues to far outpace other schools, costing more than five times as much as community colleges. These for-profit schools are gaming the system—undermining the value of these Pell grants and forcing students to take out more loans, not less.

As this industry's profits have soared, so have student loan default rates. Students enrolled in for-profit schools represent just 10 percent of all undergraduate students, but account for 44 percent of all student loan defaults.

The industry says that these schools offer opportunities to low-income students that they couldn't get elsewhere. But the debt being piled on students has devastating consequences, rendering them unable to receive credit to rent an apartment, buy a car or home, or receive future education loans. When these programs fail to deliver on their promises, students suffer for the rest of their adult lives and taxpayers are left on the hook.

¹Michael Honda, D–San Jose, is a member of House Budget and Appropriations Committees and chair emeritus of the Congressional Asian Pacific American Caucus. Wade Henderson is the president and CEO of The Leadership Conference on Civil and Human Rights and The Leadership Conference Education Fund.

The industry is targeting and taking advantage of women, minority and low-income students. Approximately one out of every four African-American, Asian-American, Latino and low-income students start their postsecondary education at a for-profit institution. But their graduate rates are far below the rates for such students at public and nonprofit colleges. Just like the subprime mortgage lenders, this industry is profiting off the misery of our country's most vulnerable communities.

We strongly believe that the Department of Education has taken the right step in proposing a common-sense rule that would hold these schools accountable for delivering on their education and career promises.

Under the rules, colleges that fail to demonstrate that their programs are preparing students for "gainful employment" would risk losing their eligibility to participate in Federal education grant and loan programs.

All schools should be held accountable for the educations that they provide, including for-profits that have flown under the radar of regulation for far too long. These rules respond to the Department of Education's recent investigation finding that some in the industry were promising students job placement upon completion of their programs and failing to deliver on their promises.

Once the industry had gotten its cut from the government's financial aid program, it left its students without an adequate education, without a job, and with an insurmountable debt load.

Just as Wall Street is fighting to undermine the Consumer Financial Protection Bureau and other financial reforms, the for-profit college industry is fiercely resisting this reasonable oversight.

It spent more than \$4 million on lobbyists in the first quarter of 2011 alone and has engaged in a documented campaign of staging false support in the very minority communities it is victimizing.

Nothing should stand in the way of real gainful employment rules. This industry has destroyed people's futures, cost our government billions of dollars, and gotten rich by selling false hopes to those who most need a quality education. It's time for common sense reforms which will hold the industry accountable to these students and to taxpayers.

The CHAIRMAN. Thank you, Mr. Henderson.

Now we will turn to Mr. Schmitt. Welcome, and again you have 7 minutes. Please proceed, Mr. Schmitt.

STATEMENT OF ERIC SCHMITT, FORMER STUDENT, KAPLAN UNIVERSITY, HAMPTON, IA

Mr. SCHMITT. Thank you, Chairman Harkin and thank you members of the Senate HELP Committee for hearing me today.

I am coming to you as a former student of the for-profit sector, but I would like to say I represent a great many students who are not here telling their story.

I am an alumnus of Kaplan University. Around the time this committee and the Department of Education began looking at the excesses of the for-profit education sector I received an email from my alma mater asking me to get involved by telling the U.S. Education Department and Congress why the gainful employment regulation is unfair and needs to be stopped. This got me interested in what was happening in Washington and I knew that I needed to make my voice heard. Since I am sure my alma mater wouldn't find what I had to say very useful to their cause, I decided to make my voice heard in another forum. After taking on \$45,000 in student loans and spending years job hunting without success, I feel it is important to tell my story.

In 2002 I was working at an inbound customer service firm and felt I needed a change for the better. I didn't think a traditional college would work for me, being at the time, a 27-year-old father of two. I met with an admissions counselor who told me all about the campus, the college offered day and night classes for nontraditional students like me. I chose the paralegal path because after a

stint on jury duty I discovered an intuitive understanding in the public policy and the issues that shaped the law. The admissions representative assured me this was a good choice, saying Student Services had a hundred percent placement out of that program.

I was excited by a school administrators presentation showing that paralegals in my zip code would make between \$30,000 and \$36,000 a year, according to salary.com. I knew that I would take out loans to pay for my education, but since the school advertised their career-focused programs that gave you the skills you needed to work in the field, I figured it would be worth it.

My experience in class at Kaplan was relatively smooth, with the exception of the difficulty I had finding the classes I needed to graduate. The same introductory classes were always being offered, but upper level classes, required for my degree were being pushed off. The school told me and other students we could do a self study to get those credits. I explained to the dean that I wanted to learn in the classroom environment because I wanted these skills, not just a letter grade. The dean explained they needed to keep the introductory classes on the schedule to handle the influx of new enrollees, so there was not always resources to handle the upper level classes. Since my protest had no affect on the schedule, I adapted and took the class through an independent study.

In 2004 I graduated with an associates degree in paralegal studies. I had a 3.76 GPA. I was the president of the law club and had the recommendation of most of my instructors. I hoped that since I now had my associates of applied science degree my job search would be more productive. This did not turn out to be the case.

I wanted to get a jump on finding a job so a few months into my second year I began applying to every posting related to my field I saw in both the public sector and the private sector. I also contacted other employers even if they did not advertise open jobs, including law offices, banks, credit unions, even bail bond offices. After applying to a position or business, I would contact them once or twice a week until the position had been filled or that I was notified that there was no open positions. I never received a call back for an interview.

The school's Career Services didn't seem prepared or able to help me. I stopped in the office on campus a few times but always seemed to get contradictory or confusing resume tips from them. Career Services would frequently send out emails notifying graduates of jobs being offered that I had seen on Iowa Workforce Development or in the Waterloo Courier. These were job postings that I could apply to on my own, instead of driving to the school.

In early June 2005, with my unemployment running out, I finally settled for a job doing inbound customer service. This was the very field where I went to get an education in order to escape.

I blamed myself for the failure to find satisfying work and thought that returning to school to get a bachelors degree would allow me to secure a good job or get me a step closer to law school. I found out that Kaplan began offering a bachelors degree in paralegal studies that involved part online and part on campus learning. I suspected that I would have trouble transferring any credits from my associates degree to another school, so despite my reserva-

tions and the expense, I began taking classes toward my bachelors degree, in early 2006.

I continued on and graduated in 2008 with a 3.16 GPA. Since getting my bachelor degree I have had one temporary job using it, which lasted 2 weeks. I have hunted for any sort of work to get my foot in the door in the legal field. I have applied for any posted position I saw as well as sending a cover letter and resume to any business that might give me the foothold I need, courthouses, county treasurer's offices, county recorder's offices, abstract firms, law offices, claims adjustors, banks, credit unions and bail bondsmen.

I took on temporary work with the 2010 Decennial Census, which was rewarding, but it didn't have much to do with my field of study. Since then, my choices for work have been an assembly line laborer in a pesticide plant, a flagger on road construction for the season or other temporary work.

I cannot say that even once my degree has opened any doors of employment for me. I slowly learned what most employers really thought of the Kaplan degrees and graduates. I had heard all through my education that the school really didn't care what kind of job you found. There were stories of graduates who never found work or even if you tried to transfer that most of the other colleges would refuse to accept the credit hours.

I have since learned that the school counts me as successfully placed for the statistics they advertise to potential new students.

Obtaining a degree is viewed by most as a financial plus. The judge who reviewed my child support said that despite having recently lost my \$10.50 an hour janitorial job, I would be able to get a job making as much or more with my education. But now I owe \$45,000 in student loans without a permanent job to pay those bills, only very rarely in the past 7 years since completing my associates, have I been able to make any payments at all and the debt continues to pile up. The loans from my associates degree went in default late last year. The loans from my bachelors degree are in deferment, but I have no idea how I will manage after my deferment time runs out.

Because of the deferment and forbearances the interest has added more than 10 percent on top of my original balance and this battle it seems is as if even time is against me.

I feel that returning to school to get my degree has put me further away from my goals than before I started my education. I realize it is probably too late for me.

I am sure there are other parents out there looking to make a better life for their families, but the crushing debt and lack of opportunity of this mistake has cost me more than any amount of money. I had to sell my house after the divorce, because I couldn't pay for it. I had to give up opportunities to visit with my children. The financial hardship strains the most important relationships in my life. I refused, for years, to marry my current wife, Mira, for fear of dragging her down into this crushing burden. The lifetime promise of a college degree has become a lifetime burden that I only can hope I bear alone.

The debt and the magnitude of my mistake is with me like a constant weight. I lay awake at night dreading what I might have to do to save my family from this burden, to even once have consid-

ered cutting ties with everyone you love and who loves you to save them from a mistake is a horrible burden to bear.

I hope that this committee and the Department of Education can make sure that those families like mine have a real chance at building their future with a real education. Thank you.

[The prepared statement of Mr. Schmitt follows:]

PREPARED STATEMENT OF ERIC SCHMITT

My name is Eric Schmitt. I am an alumnus of Kaplan University. Around the time this committee and the Department of Education began looking at the excesses of the for-profit education sector, I received an email from my alma mater asking me to "Get Involved by Telling the U.S. Education Department and Congress Why the "Gainful Employment" Regulation is Unfair and Needs to Be Stopped." This got me interested in what was happening in Washington and I knew I should make my voice heard. Since I am sure my alma mater wouldn't find what I have to say useful to their cause, I decided to make my voice heard in another forum. After taking on \$45,000 in student loans and spending years job-hunting without success, I feel it is important to tell my story.

I graduated with an Associate degree and Bachelor's of Science in Paralegal Studies with an emphasis in Personal Injury. In the course of pursuing my degrees, I have been an on-campus student as well as part of a new generation of students, the distance learners attending online.

My involvement with a for-profit college began in 2002; I was working at an inbound customer service firm and felt I needed a change for the better. I didn't think a traditional college would work for me, being, at the time, a 27-year-old father of two. I met with an admissions counselor who told me all about the campus. It had day and night classes for non-traditional students like me. I took their entrance exam (which seemed very simplistic, but who was I to judge?), and I chose a major. My suggested choices were between paralegal and accounting. I chose the paralegal path because, after a stint on jury duty, I discovered an intuitive understanding of the intricacy of the legal process and a fascination with the interpretation of fact and statute. The admissions representative assured me this was a good choice, saying student services placed 100 percent of students out of that program.

In the orientation after I enrolled, all prospective students were asked their intended major. An administrator would pull up a slide on a power point presentation, which would show us our average salary for that profession in our zip code, according to salary.com. I remember the paralegal average being \$30,000 to \$36,000 a year. As part of the presentation, one of the school administrators asked for a volunteer to come forward. I was the volunteer. He gave me \$10. The moral of this tale was that for taking a risk, you would be rewarded. He says we all took the initiative when we enrolled at Kaplan. The reward, he said, was that since the school had such a great reputation with local businesses, that finding work in our fields would be easier. Kaplan had this great education by focusing their programs on marketable skills rather than on general education requirements. I knew that I would take out loans to pay for my education, but since the school advertised their career-focused programs that gave you the skills you needed to work in the field I figured it would be worth it.

I worked overnights and went to school in the evening. My experience in class at Kaplan was relatively smooth with the exception of the difficulty I had finding the classes I needed to graduate. The same introductory classes were always being offered, but upper level classes required for my degree were pushed off. After putting up a petition to appeal to the administration to offer the advanced classes, such as law office management, in a classroom format, as opposed to self-study, I spoke to the Dean about this issue. I was chided for the tone of my petition. I explained to him that I wanted to learn in a classroom environment because I wanted these skills, not just a letter grade. The Dean responded that they needed to keep these introductory classes on the schedule to handle the influx of new enrollees. I pointed out that some of us needed this class and other advanced classes in order to graduate. Since my protests had no effect on the schedule, I adapted and took the class through an independent study, meeting once a week with an instructor for an hour.

During this conversation, the Dean learned of my interest in law school. He told me that I could get my law degree online with an affiliated school, Concord University. It seemed, with a few hiccups, that Kaplan could provide everything I needed to fulfill my dream of practicing law. I was sure with my grades and references that I would have no difficulties finding a job after graduation.

My associate degree track required an externship. Ideally I wanted to get a paying job that would satisfy the externship and began applying to local businesses early in my second year. I used job specific and non-targeted resumes to apply to every law office in the Waterloo and Cedar Falls area. I only had one response when a law office staff secretary who was leaving her job recognized me from Kaplan, forwarded my resume to her boss as a possible replacement. I was not hired. I finally went to my Program Chair who did help me find an attorney I could take my externship through, although it was unpaid. My externship was a less than rewarding experience. I quickly learned that my supervising attorney was gaining a reputation as an unreliable and unethical member of the bar and I felt it necessary to distance myself from him.

In 2004 I graduated with an associate degree in paralegal studies. I had a 3.76 GPA, I was president of the Law Club and had the recommendation of most of my instructors. Upon graduating, I continued my job search. I hoped that since I now had my Associate of Applied Science degree, my job search would be more productive.

This did not turn out to be the case. I wanted to get a jump on finding a job so a few months before graduation I began applying to every posting related to my field I saw, in both the public sector and the private sector. I also contacted other employers even if they did not advertise open jobs including law offices, banks, credit unions, and even bail bond offices. After applying to a position or a business, I would contact them once or twice a week until the position had been filled or that I was notified there were no open positions. I never received a call back for an interview.

The school's Career Services didn't seem prepared or able to help me. I stopped into the office on campus a few times, but always seemed to get contradictory or confusing resume tips from them. Career Services would frequently send out emails notifying graduates of jobs being offered that I had seen on Iowa Workforce Development or in the Waterloo Courier. These were job postings I could apply to on my own instead of driving to the school.

I struggled to find any work with my degree so I took a 4-month unpaid internship. I knew there was no chance of being hired, but I wanted to improve my likelihood of being picked up elsewhere. I hoped a credible reference would help. In early June 2005 with my unemployment running out I finally settled for a job doing inbound customer service. This was the very field I went to get an education in order to escape.

In late 2005 I received a letter from Kaplan that they were now offering their Bachelor of Science in the Paralegal Studies program on campus via the "School within a School" program. School within a School meant that the online class format was still used, but there was a seminar for 1 hour per week on campus or via conference call. In early 2006 I enrolled, eager to continue my education since I assumed it had to have been my fault that I never received an interview. I also wanted desperately to leave the customer service industry and I thought that a 4-year degree would better help me do that. The School within a School program, I don't believe, even lasted a full year into my Bachelor's program. The campus seminars were abruptly ended without explanation or acknowledgment. I continued at Kaplan in a fully online education environment. I could have tried to transfer, but I had heard from many sources that Kaplan credits rarely transferred. The most important bit of knowledge I gained during this time was from a one-term adjunct instructor, who, when I told her of my plan to continue my education through Concord Law School, informed me that the school was not recognized in Iowa for taking the BAR exam. That information was eye opening. The Dean apparently didn't know or forgot to mention this little problem with Concord.

I continued on and graduated in 2008 with a 3.16 GPA. Since getting my Baccalaureate degree, I have had one temporary job using it, which lasted 2 weeks. I have applied to every opening I have found through my continued ongoing search. I have sent my resumé far and wide. I volunteered and I took on another internship to make more connections and build references. I took on temporary work with the 2010 Decennial Census, which was rewarding but didn't have much to do with my field of study. Since then my choices for work have been an assembly line laborer in a pesticide plant, a flagger on road construction for the season, or other temporary work.

So what is the end of my Kaplan "success story?" I cannot say that even once my degree has opened any doors of employment for me. I slowly learned what most employers really thought of Kaplan degrees and graduates. I had heard rumors and horror stories all through my education that once Kaplan was done with you they really didn't care what kind of job you found. There were stories of graduates who never found work, and that if you tried to transfer that most other colleges refused

to accept the credit hours. The judge who reviewed my child support said that despite having recently lost my \$10.50 an hour janitorial job I “would be able to get a job making as much or more with (my) education.” But now I owe \$45,000 in student loans without a permanent job to pay those bills. Only very rarely in the past 7 years since completing my Associate degree have I been able to make any payments at all and the debt continues to pile up. The loans from my Associate Degree went into default late last year. The loans from my Bachelor’s Degree are in deferment but I have no idea how I will manage after my deferment allotment runs out. Because of the deferment and forbearances, the interest has added thousands of dollars on top of my original balance. In this battle it seems as if even time is against me.

I realize it is probably too late for me, but I am sure there are other parents out there looking to make a better life for their families. The crushing debt and lack of opportunity of this mistake has cost me more than any amount of money. I had to sell my house after my divorce because I couldn’t pay for it. I have had to give up opportunities to visit with my children since I could not afford to travel to see them. The financial hardship strains the most important relationships in my life. I refused for years to marry my current wife Mira for fear of dragging her down into this crushing burden. The lifetime promise of a college degree has become a lifetime burden that I only can hope I bear alone. The debt and the magnitude of my mistake is with me like a constant weight. I have lied awake at night dreading what I might have to do to save my family from this burden. To even once have to consider cutting ties with everyone you love and who loves you to save them from a mistake is a horrible burden to bear. I hope that this committee and the Department of Education can make sure those families like mine have a real chance at building their future with a real education.

The CHAIRMAN. Mr. Schmitt, thank you very much for putting a human face on this. And for the record, I just want to say that we contacted Mr. Schmitt as a result of a letter that you wrote to me about this very subject and so I appreciate your being here and telling your personal story.

I know it doesn’t relieve the weight any, but there are thousands, hundreds of thousands who share your same situation around the United States and that is why we are looking into this as we are.

Pauline Abernathy, welcome to the committee and your statement will be made a part of the record in its entirety. Please proceed.

STATEMENT OF PAULINE ABERNATHY, VICE PRESIDENT, THE INSTITUTE FOR COLLEGE ACCESS & SUCCESS, PHILADELPHIA, PA

Ms. ABERNATHY. Chairman Harkin and members of the committee, thank you for the opportunity to testify today. The Institute for College Access & Success is a nonprofit research and policy organization that works to improve college opportunity and outcomes for all Americans so more Americans can have completely meaningful credentials without burdensome debt.

As you noted, student debt is increasingly common in all sectors of higher education, but compared to other types of colleges, debt at for-profit colleges is off the charts. This sector has the highest share of students with debt, the highest debt loads for degrees and the highest student loan default rates. Combine these facts with aggressive recruiting, loan completion rates, heavy reliance on Federal funds and increasing investigations of widespread fraud, and you have a truly toxic mix.

As others have noted, for-profit career colleges are not inherently problematic, indeed they have the potential to spur needed technological innovation. What matters to students and taxpayers is whether a school provides quality career education and training at

a reasonable cost, not its structure or ownership, but current laws and regulations have created incentives for career colleges, many owned by large, publicly traded corporations, to reap hefty profits at great expense to taxpayers and students.

As Chairman Harkin stated, virtually all students attending career colleges borrow—at both 2-year and 4-year career colleges—at least 95 percent of students take out loans. By contrast, less than half of students at public colleges borrow and only 13 percent of community college students borrow. Moreover, a majority of career college graduates graduate with both Federal and private student loans and private loans are one of the riskiest ways to pay for college. Like Federal loans, they are not dischargeable in bankruptcy, but unlike Federal loans, they typically have variable interest rates with no cap and they lack the affordable repayment options and consumer protections that can help Federal student loan borrowers stay out of default.

Low-income, African-American and Hispanic undergraduates at career colleges are about three times more likely to borrow Federal student loans than their counterparts at other colleges and four times more likely to take out private loans. Adults who attend career colleges while working full-time are almost five times more likely to take out Federal loans and over six times more likely to borrow private loans.

Students at career colleges are not only more likely to borrow, they also borrow more, much more. High borrowing rates combined with large debt loads significantly increase the risk of going to college and there is clear evidence that student debt loads at many for-profit schools are unmanageable.

As the chairman said, career college students account for nearly half of all Federal student loan defaults, even though the sector enrolls only about 10 percent of all college students. More than one in five borrowers who attended a career college defaults within 3 years, which is more than double the rate at public colleges and more than triple the rate at nonprofit colleges. The impact of these defaults, as Mr. Schmitt just testified, is severe and long-lasting, both for the borrowers and for our economy.

Student demographics alone do not explain these default rates. The Career College Association's own study concludes that even after accounting for differences in demographics and completion rates, students at for-profit colleges are at least twice as likely to default as students at other types of schools.

Indeed, some career colleges do much better than others at educating similar students. For instance, there are two colleges, for-profit colleges in San Bernardino, CA that are 1 mile apart from each other. They offer similar programs, charge similar amounts and enroll similar shares of low-income students. Yet one has a default rate more than twice the other, and the one with the lower default rate enrolls a higher share of low-income students. Our analysis of Federal data reveals that even students who complete an associates degree or certificate at a career college are at much greater risk, four times greater, than students who graduate from other types of schools. In fact, career college graduates are much more likely to default than public and nonprofit college dropouts

and they are almost twice as likely to experience unemployment as graduates of other types of schools.

In sum, these data suggest that Eric Schmitt's experience is not uncommon with tens of thousands of students taking on huge debt for degrees that have little, if any value in the job market. This has grave consequences for individuals and their families, for our energy and for taxpayers who are subsidizing for-profit colleges to the tune of more than \$32 billion last year alone.

The 14 student financial aid regulations that were recently finalized by The Department of Education are a step in the right direction, but they will not solve all the serious problems that these hearings have uncovered.

For instance, they won't stop Federal funding for worthless, unaccredited programs like the one Yasmine Issa testified about last year, and they won't provide relief to the students and taxpayers that have been victimized by such programs. They don't address the problem of schools that have literally purchased their regional accreditation. They don't put a stop to the subprime loans that some career colleges are making to their own students. And they don't prevent for-profit corporations from being funded entirely by taxpayer dollars.

Thank you for the opportunity to testify today.

[The prepared statement of Ms. Abernathy follows:]

PREPARED STATEMENT OF PAULINE ABERNATHY

SUMMARY

Pauline Abernathy is vice president of The Institute for College Access & Success (TICAS), an independent, nonpartisan, nonprofit research and policy organization and home to the national Project on Student Debt. TICAS works to improve both educational opportunity and outcomes so that more under-represented students complete meaningful post-secondary credentials and do so without burdensome debt.

Our ongoing analyses of student debt trends at the national, State and college levels led us to look more closely at what is happening to students in the growing career college sector, also known as the proprietary or for-profit sector. Compared to other types of colleges, career colleges have the largest share of students with debt, the highest student debt levels for degree completers, and the worst Federal student loan default rates.

Low-income and minority undergraduates at career colleges are about three times more likely to borrow Federal student loans as their counterparts at public or nonprofit colleges. Students who attend career colleges are also the most likely to take out risky private student loans, which are more like credit cards than financial aid and lack the important repayment options and consumer protections that come with Federal loans.

Student loan borrowers from career colleges are more than twice as likely to default as those from public colleges, and more than three times as likely as those from nonprofit colleges. Even students who graduate with a degree or certificate at a career college are at much greater risk of defaulting than completers from other types of schools. Among students who started in 2003-4 and completed an associate's degree or certificate by 2006, those who attended career colleges were four times more likely to be in default in 2009 than those from public or nonprofit colleges. In fact, completers at career colleges were much more likely to be in default than students who dropped out of public and nonprofit colleges.

There are high costs for both students and taxpayers when students are saddled with loans they cannot repay. Those who default on their student loans will have difficulty renting an apartment or buying a car, and increasingly, getting a job. The debt can follow you to the grave and it is nearly impossible to discharge either Federal or private student loans through bankruptcy.

Because the career college industry relies on federally funded grants and taxpayer-backed loans for the bulk of its revenue, we all have a lot at stake in the quality and cost of a career college education. The sector enrolls about 10 percent of college students but accounted for one in four Federal education loan dollars (\$25.0 bil-

lion) and Pell Grant dollars (\$7.6 billion) in 2009–10. This is about double the share of Federal student aid that students at career colleges received a decade earlier. In addition, career college students represent nearly half (47 percent) of all Federal student loan defaults.

While the Department of Education’s new “gainful employment” rule is a modest step towards preventing Federal taxpayer dollars from being wasted on career education programs that leave students with little but insurmountable debt, more must be done to prevent the waste of taxpayer dollars and to protect students, including veterans. Given the rising costs and stakes for students and taxpayers, we thank the committee for raising important questions and for its commitment to preserving student access to quality, affordable higher education.

Chairman Harkin, Ranking Member Enzi and members of the committee, thank you for the opportunity to testify on the impact of debt on students who attend for-profit career colleges and the need for reforms to protect the substantial interests of both students and taxpayers.

The Institute for College Access & Success (TICAS) is an independent, non-partisan, nonprofit research and policy organization based in Oakland, CA. Our mission is to improve both educational opportunity and outcomes so that more underrepresented students complete meaningful post-secondary credentials and do so without incurring burdensome debt. Our Project on Student Debt, launched in 2005, focuses on increasing public understanding of rising student debt and the implications for individuals, families, the economy and society.

Our work has often focused on community colleges because they enroll the largest share of the Nation’s low-income, underrepresented minority, older and part-time students, as well as the majority of adult students who work full-time while going to school.¹ However, in our ongoing analyses of student debt trends at the national, State and college levels, a disturbing pattern emerged that led us to look more closely at what is happening to students in the growing career college sector—also known as the proprietary or for-profit college sector.²

Compared to other types of colleges, career colleges have the dubious distinction of the highest share of students with debt—with the highest debt levels for degree completers and the worst Federal student loan default rates. Career colleges now enroll approximately 1 in 10 post-secondary students in the United States, but they absorb a far greater share of Federal student aid: one in four Federal Pell Grant and loan dollars goes to students in the career college sector. At the same time, career colleges also have the highest share of students taking out private (nonfederal) student loans—one of the riskiest ways to pay for higher education.³

Because the career college sector recruits and enrolls a disproportionate share of low-income students and students of color, we and many other student, civil rights, college access, consumer and veterans advocates are particularly concerned about the disparate impact of this sector’s alarmingly high student debt and default levels. Considered together, the career college industry’s rapid growth, aggressive recruiting practices, heavy reliance on Federal funds, high student debt and default levels, and disproportionate enrollment of underrepresented students clearly point to high and rising stakes for both students and taxpayers.

HIGH DEBT AND LOAN DEFAULTS: CONSEQUENCES FOR STUDENTS AND TAXPAYERS

To be clear, not all student loan debt is harmful. Federal student loans fulfill their purpose when they help students get a quality education or training so they can pay off their loans, support themselves and their families and contribute to our society and economy—whether as teachers, truck drivers or technology entrepreneurs.

Indeed, because Federal student loans can be a valuable tool both for expanding college access and supporting student success, we have urged all community colleges to participate in the Federal student loan program, so that their students are not

¹ Calculations by The Institute for College Access & Success (TICAS) on data from the U.S. Department of Education, National Center for Education Statistics (NCES), National Postsecondary Student Aid Study (NPSAS), 2007–8, <http://nces.ed.gov/surveys/npsas>. Unless otherwise specified, “students” refers to undergraduate students throughout this testimony.

² The term “career colleges” refers to proprietary or for-profit colleges throughout this testimony.

³ Unless otherwise noted, in this testimony the term “private loans” refers to all nonFederal student loans.

forced to rely on riskier and more expensive forms of credit if they need to borrow to stay and succeed in school.⁴

While student loans can help students acquire valuable skills and credentials, they do carry real risks for borrowers. High student loan debt, and even low debt when paired with low earnings, can leave students with unmanageable payments that can jeopardize their families' basic needs and lead to delinquency and default. Leaving college with burdensome debt can also prevent or delay borrowers from taking important steps that benefit not only individuals, but also our society and economy as a whole. These include starting a business, buying a home, marrying, having children, saving for retirement and saving for their own children's education.

Defaulting on a student loan has severe and long-lasting consequences.⁵ It can devastate a borrower's credit, making it difficult to rent an apartment or buy a car and, increasingly, to get a job. Borrowers may be hounded by collectors, and debt can balloon because of default and collection fees. Borrowers who default on Federal student loans cannot get Federal grants or loans to return to school, and the government can garnish wages, seize tax refunds and eventually dock Social Security payments. The debt can literally follow borrowers to the grave.

However, Federal student loans provide a variety of tools and consumer protections that can help borrowers manage their debt and avoid default. For instance, TICAS developed the policy framework for what is now the Income-Based Repayment (IBR) program. IBR caps Federal student loan payments at a reasonable percentage of the borrower's income and forgives any remaining debt after 25 years of responsible payments, or as soon as 10 years for borrowers who work in public service.⁶

Borrowers with *private* student loans, in contrast, can face much higher costs and have far fewer options when their payments become unmanageable. They are, ultimately, at the mercy of their lenders because private loans lack the important deferment options, affordable repayment plans, loan forgiveness programs and cancellation rights in cases of death, severe disability and school closure that Federal student loans provide. Experts agree that private student loans should only be used as a last resort.

Even borrowers in so much financial distress that they meet the requirements for declaring bankruptcy find it is nearly impossible to have student loan debt discharged, whether for Federal or private loans. To put it plainly, it is currently easier to get relief from credit card and gambling debt than from student loan debt.

STUDENT DEBT AT CAREER COLLEGES: MOST STUDENTS BORROW AND THEY BORROW MORE

Student loan debt is rising in all sectors of higher education, but the career college sector stands out with by far the highest share of students who borrow and the highest average debt levels. Any way you slice it, students at career colleges are much more likely to have debt than students at other types of schools. Nearly every student who attends a career college winds up with Federal loans, private loans or both.

- In 2007–8, almost all undergraduates (97 percent) attending 2-year career colleges took out student loans, while only 13 percent of undergraduates attending public 2-year colleges took out student loans.⁷

- In 2007–8, 95 percent of undergraduates attending 4-year career colleges took out student loans, while only 47 percent of undergraduates attending public 4-year colleges took out student loans.⁸

Looking only at those who actually receive an associate's or bachelor's degree, nearly every student who graduates from a career college has loans, compared to significantly lower shares of graduates of other types of schools. And after graduation, degree holders from career colleges have a lot more debt to pay off, on average, than those who graduated with debt from public and nonprofit colleges.⁹

⁴The Project on Student Debt. *Still Denied: How Community Colleges Shortchange Students by Not Offering Federal Loans*. April 2011. http://ticas.org/files/pub/still_denied.pdf.

⁵U.S. Department of Education. *Collections Guide to Defaulted Student Loans*. <http://www2.ed.gov/offices/OSFAP/DCS/index.html>. See also, *Default and Delinquency, Student Loan Borrower Assistance*, National Consumer Law Center. <http://www.studentloanborrowerassistance.org/default-and-delinquency/>.

⁶For more information on Income-Based Repayment, see www.IBRinfo.org.

⁷Calculations by TICAS on data from U.S. Department of Education, NCES, NPSAS, 2007–08. <http://nces.ed.gov/survey/npsas>.

⁸*Ibid.*

⁹The term “nonprofit colleges” refers to private nonprofit colleges throughout this testimony.

- At career colleges, 98 percent of associate's degree recipients had loans in 2007–8 and their average debt was \$19,700. At public and nonprofit colleges, 40 percent of associate's degree recipients had loans and their average debt was \$10,950.¹⁰
- At career colleges, 96 percent of bachelor's degree recipients had student loans in 2007–8 and their average debt was \$33,050. At public and nonprofit colleges, 65 percent of bachelor's degree recipients had loans and their average debt was \$22,750.¹¹
- Among bachelor's degree recipients, those who attended career colleges are much more likely to have *very high* debt. Almost one in four (24 percent) of all 2008 graduates from 4-year career colleges owed at least \$40,000 in student loans, compared to just 6 percent of graduates from public 4-year colleges and 15 percent from nonprofit 4-year colleges. The average debt for all 4-year college graduates with loans, from all sectors, was \$23,200.¹²

PRIVATE STUDENT LOANS: A PARTICULAR PROBLEM AT CAREER COLLEGES

In addition to high overall student debt, the career college sector has the largest share of students with *private* student loans, which carry serious financial risks for borrowers. Like credit cards, private student loans typically have uncapped, variable interest rates that are highest for those who can least afford them. Lenders typically reserve the right to raise interest rates and charge high fees for myriad reasons and to declare borrowers in default for something as simple as being a day late on a payment.

Private student loan borrowers do not have access to the important deferment, repayment, or forgiveness options that come with Federal student loans. This leaves most private loan borrowers at the mercy of the lender if they face financial distress due to unemployment, disability, illness or military deployment, or when a school shuts down before they can finish their certificate or degree.

The odds of taking out a private loan are highest for students at career colleges. Among all career college students, 42 percent used a private loan in 2007–8, the most recent year for which data are available. At nonprofit 4-year schools, 25 percent of students have taken out private loans; at public 4-year schools, only 14 percent; and at community colleges, just 4 percent.¹³

The *majority* of students who complete a degree or certificate at a career college have private loans.

- In 2007–8, 60 percent of students who completed an associate's degree at a career college had private loans, which is four times the rate for associate's degree completers at community colleges (15 percent).¹⁴
- For bachelor's degree completers, 64 percent graduated from career colleges with private loans, compared to 28 percent at public 4-year colleges and 42 percent at nonprofit 4-year colleges.¹⁵
- Half (51 percent) of those who completed a certificate at career colleges had private loans, compared to 12 percent at community colleges.¹⁶

While private student loans are no more a form of financial aid than a credit card is when used to pay for tuition or books, they are sometimes included in financial aid packages, and some colleges offer their own private loans directly to students. Some career colleges have been aggressively expanding their own private lending to students who are at very high risk of default.¹⁷

Pushing these students to take on private loan debt they cannot repay can be devastating for the students in the long run, but quite profitable for the school. For example, Corinthian Colleges reports that a “significant number” of its students have institutional loans as well as Federal loans, and the company plans to double

¹⁰ Calculations by TICAS on data from U.S. Department of Education, NCES, NPSAS, 2007–8, <http://nces.ed.gov/survey/npsas>.

¹¹ *Ibid.*

¹² The Institute for College Access & Success. *High Hopes, Big Debts (Class of 2008)*. May 2010. http://ticas.org/files/pub/High_Hopes_Big_Debts_2008.pdf.

¹³ The Institute for College Access & Success. *Private Loans: Facts and Trends*. August 2009. http://projectonstudentdebt.org/files/pub/private_loan_facts_trends_09.pdf. Note that “private loans” here refers to bank and lender-originated private student loans, not all non-Federal student loans.

¹⁴ Baum, Sandy and Steele, Patricia. *How Much are College Students Borrowing?* The College Board. August 2009. http://advocacy.collegeboard.org/sites/default/files/09b_552_Policy_Brief_WEB_090730.pdf.

¹⁵ *Ibid.*

¹⁶ *Ibid.*

¹⁷ Pope, Justin. “For-Profit Colleges’ Increased Lending Prompts Concerns.” *Associated Press*. August 15, 2009. http://www.usatoday.com/news/education/2009-08-15-profit-college-lending_N.htm.

its institutional loan volume to \$240 million per year, even though it is writing-off 55 percent of these loans.¹⁸ Other large career college companies, such as ITT Educational Services and Career Education Corporation, are also lending to their own students, despite anticipating to write-off in excess of 40 percent of these loans.¹⁹

These companies consider these loans good investments because their profits from Federal grant and loan dollars far outweigh these write-offs. Institutional lending became more common after career colleges successfully lobbied Congress in 2008 to be able to immediately count institutional loans towards the 10 percent of revenues they are required to get from sources other than Federal student aid. From July 2008 through June 2012, the Higher Education Opportunity Act of 2008 (HEOA) temporarily lets them count the net present value of their institutional loans as non-Federal revenue in the year the loans are made, rather than counting them as revenue if and when they are actually repaid by the students.²⁰

These career college institutional loans are attempts to get around market corrections that appropriately reduced access to expensive, subprime private loans for very high-risk borrowers. In 2008, Sallie Mae stopped most of its lending to these types of schools because of high default rates and other questionable practices.²¹

Subprime institutional lending is also an attempt to evade the statutory requirement that someone other than the Federal Government should be willing to pay for a school's education and training. Federal law allows career colleges to get up to 90 percent of their revenue from Federal student aid. It is common sense that if no one else is willing to pay for what a school offers, taxpayers should not be paying for it either.

Students who are pushed into private loans they cannot afford, whether the loan is from their school or an outside lender, are stuck with the debt even in bankruptcy, while the lenders can simply write off the bad debt and move on. Since 2005, bankruptcy law has treated private student loans much more harshly than other types of unsecured consumer debt, such as credit card debt and even gambling debt. Bills recently introduced in the U.S. Senate (S.1102) and House of Representatives (H.R. 2028) would restore fair treatment to private student loan borrowers in severe financial distress.

LOW-INCOME AND UNDERREPRESENTED MINORITY STUDENTS BORROW MORE AT CAREER COLLEGES

Most low-income and underrepresented minority students attend either public or nonprofit schools, with the greatest concentration at community colleges.²² Among all African-American and Hispanic undergraduates, nearly 8 out of 10 (78 percent) attended public or nonprofit schools in 2007–8, including 42 percent at community colleges, while 15 percent attended career colleges.²³ The proportions are similar for low-income students and adult students working full-time: 80 percent of students with below-median incomes attend public and nonprofit colleges, and 81 percent of

¹⁸ Corinthian Colleges Q3 2011 conference call. May 3, 2011. <http://newsroom.cci.edu/eventdetail.cfm?eventid=93960>.

¹⁹ Career Education Corporation Q1 2009 Earnings Call Transcript. May 7, 2009. <http://seekingalpha.com/article/136209-career-education-corporation-q1-2009-earnings-call-transcript?page=-1>. "For-Profit Schools Face Detention Not Expulsion." *Wall Street Journal*. August 20, 2010. ITT Educational Services Q1 2011 Earnings Call. April 21, 2011. <http://www.ittesi.com/phoenix.zhtml?c=94519&p=irol-eventDetails&EventId=3923596>.

²⁰ "For loans made to students by the institution from July 1, 2008, but before July 1, 2012, the net present value of the loans made during a fiscal year if the loans are evidenced by promissory notes, issued at intervals related to the institution's enrollment periods, and are subject to regular loan repayments and collections. For loans made on or after July 1, 2012, only the amount of loan repayments the institution receives during a fiscal year, excluding repayment on any loans for which the institution previously used the net present value in its 90/10 calculation." From U.S. Department of Education, "Dear Colleague" letter summarizing the Higher Education Opportunity Act (DCL ID: GEN-08-12 FP-08-10). December 2010. <http://www.ifap.ed.gov/dpccletters/attachments/GEN0812FP0810AttachHEOADCL.pdf>.

²¹ "The Credit Crunch Takes a Toll." *Inside Higher Ed*. January 23, 2008. <http://www.insidehighered.com/news/2008/01/23/credit>. See also, Burd, Stephen. *Subprime Mess Reaches Higher Ed*. Higher Ed Watch. January 31, 2008. http://higheredwatch.newamerica.net/blogs/education_policy/2008/01/subprime_student_loan_mess.

²² Unless otherwise specified, "low-income" refers to students whose family income is less than the median family income of all U.S. undergraduates. Family income includes the student's income for all students plus parents' income for dependent students and a spouse's income for married independent students. According to the latest available Federal data (NPSAS: 08), the median income for dependent undergraduate students was \$66,637 in 2008, and the median income for independent undergraduate students was \$26,099. Throughout this document, "underrepresented minorities" refers to African-American and Hispanic students.

²³ These percentages do not sum to 100 because some students attended more than one college during the 2007–8 year.

students age 24 and older who are working full-time attend public and nonprofit colleges.²⁴

However, while most low-income and underrepresented minority students attend public colleges, these students are also heavily recruited by many career colleges, where they enroll disproportionately and in growing numbers.

- African-American and Hispanic students make up 28 percent of all undergraduates, but they represent nearly half (46 percent) of undergraduates in the career college sector.²⁵

- Low-income students, many of whom are also students of color, are also over-represented at career colleges; 64 percent of students attending career colleges have incomes below the median for all undergraduates.²⁶

The majority of students who are low-income, underrepresented minorities, and/or adults working full-time *do not take out student loans to pay for college*.²⁷ However, those who attend career colleges are much more likely to borrow—and borrow more—than their counterparts at other types of schools. The data clearly show that across levels of income and categories of race/ethnicity, career college students borrow more than those who attend elsewhere.

- At career colleges, low-income and minority undergraduates are about *three times* more likely to borrow Federal student loans—and *four times* more likely to borrow private student loans—as their counterparts at public or nonprofit colleges.²⁸

- Due at least in part to their over-representation at career colleges, 17 percent of African-American undergraduates took out a private student loan in 2007–8, making them the most likely to borrow these risky products among all racial and ethnic groups. Their rate of private loan borrowing has also risen the most steeply, quadrupling from 2003–4 to 2007–8.²⁹

- At career colleges, adults working full-time are almost *five times* more likely to borrow Federal student loans—and over *six times* more likely to borrow private student loans—than their counterparts at public or nonprofit colleges.³⁰

Pell Grant recipients who graduate from 4-year colleges are more likely to have debt—and to have high debt—if they attended a career college. Most Pell Grant recipients have family incomes below \$40,000. Among graduating seniors in 2008, 23 percent of Pell Grant recipients from career colleges carried at least \$40,000 in student loans, compared to 14 percent at all other colleges.³¹

HIGHER DEFAULT RATES AT CAREER COLLEGES: NOT JUST DEMOGRAPHICS

Students who attend career colleges face much higher odds of defaulting on a Federal student loan than students who attend other types of schools. As a sector, career colleges have by far the highest default rate for Federal student loans.³²

- Nearly half of all Federal student loan borrowers who entered repayment in 2009 and defaulted by 2010 attended career colleges (47 percent), even though only about 10 percent of all students attended these schools.³³

- The average 2-year default rate for Federal loan borrowers at career colleges is more than double the average rate at public colleges, and it is more than triple the rate at nonprofit colleges.³⁴

- The average 3-year default rate at career colleges is 22 percent, again more than double the rate at public colleges and triple the rate at nonprofit colleges (10

²⁴ Calculations by TICAS on data from U.S. Department of Education, NCES, NPSAS, 2007–8, <http://nces.ed.gov/surveys/npsas>.

²⁵ Ibid.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Ibid.

²⁹ *Private Loans: Facts and Trends*, August 2009. Note that “private loans” here refers to bank and lender-originated private student loans, not all non-Federal student loans.

³⁰ Calculations by TICAS on data from U.S. Department of Education, NCES, NPSAS, 2007–8, <http://nces.ed.gov/surveys/npsas>.

³¹ *High Hopes, Big Debts (Class of 2008)*, May 2010.

³² Unless otherwise noted, default rates and shares of defaulters reflect only those who default within 2 years of first entering repayment. Federal student loan default data are not available by borrowers’ income or race/ethnicity.

³³ Calculations by TICAS on data from U.S. Department of Education, “FY 2009 Draft Student Loan Cohort Default Rates,” posted May 20, 2011, <http://ifap.ed.gov/eannouncements/attachments/052011AttachFY2009FY2009DraftNationalCDRWithPrior2yrscomparison.pdf>, and U.S. Department of Education, NCES, IPEDS, <http://nces.ed.gov/ipeds>. Default figures include borrowers who entered repayment in Federal fiscal year 2009 and had defaulted by the end of the 2010 Federal fiscal year.

³⁴ Ibid. These 2-year default rates include borrowers who entered repayment in Federal fiscal year 2009 and had defaulted by the end of the 2010 Federal fiscal year.

percent and 7 percent, respectively).³⁵ Career colleges with 3-year default rates over 40 percent received more than \$217 million in Pell Grants in 2009-10 alone.³⁶

While student demographics play a role, the evidence is clear that demographics are by no means the sole explanation for the sector's high default rates. Schools play an important role as well.

- The Career College Association's own study concludes that even after accounting for differences in student demographics, students attending career colleges are at least twice as likely to default as students at other types of colleges.³⁷

- Lenders report that the school attended affects a student's chance of default. In its private student loan business, Sallie Mae expects to see a 30 percent difference in default rates for a borrower with a FICO score greater than 700, "depending on the school that borrower attends."³⁸

- Career college industry executives regularly tell investors that they can lower their default rates. For example, in a recent press release, Corinthian Colleges attributes a drop in its default rates to "substantial investment in cohort default management over the past 18 months."³⁹

- A 2010 Education Sector report also documents the role schools can play in lowering default rates:

"[T]he experience of the Texas HBCUs, along with a new statistical analysis of cohort default rates, suggests that dangerously high default rates for institutions that serve at-risk students are not inevitable . . . Their [the Texas HBCUs] success is not only applicable to other similar institutions, but to all schools that serve those students most at risk for default and who are committed to helping them succeed."⁴⁰

Indeed, many career colleges *have* kept Federal student loan default rates down during the period when cohort default rates are measured and could affect schools' eligibility for Federal student aid. In preparation for the shift from measuring a school's cohort default rate based on the 2 years of repayment to the first 3 years of repayment, the U.S. Department of Education has published data showing what school default rates would look like based on a 3-year window. The default rates at 202 career colleges were at least *15 percentage points* higher for a 3-year window compared to a 2-year window (e.g., a school's default rate increased from 20 percent to at least 35 percent when the additional year was included).⁴¹ This suggests that colleges kept defaults down during, but not after, the period in which they were being tracked as a measure of institutional accountability. These 202 career colleges collectively enrolled 13 percent of all students attending career colleges. By comparison, only 10 schools in all other sectors saw a similar increase in their default rates when the window was extended from 2 to 3 years, and these 10 schools enrolled one-tenth of 1 percent of students in all other sectors. Clearly, career colleges are not at the mercy of student demographics when it comes to managing default rates,

³⁵ Calculations by TICAS on data from the U.S. Department of Education, "Trial Three-Year Cohort Default Rates FY 2008." <http://federalstudentaid.ed.gov/datacenter/cohort.html>. Accessed May 19, 2011. These 3-year default rates represent Federal student loan borrowers who entered repayment in Federal fiscal year 2008 and defaulted by the end of the 2010 Federal fiscal year.

³⁶ Calculations by TICAS on data from the U.S. Department of Education, "Trial Three-Year Cohort Default Rates FY 2008," <http://federalstudentaid.ed.gov/datacenter/cohort.html>, and U.S. Department of Education, Federal Student Aid Data Center, Programmatic Volume Reports. <http://federalstudentaid.ed.gov/datacenter/programmatic.html>. Accessed April 26, 2011. These 3-year default rates represent Federal student loan borrowers who entered repayment in Federal fiscal year 2008 and defaulted by the end of the 2010 Federal fiscal year.

³⁷ Charles River Associates for the Career College Association. *Report on Gainful Employment*. April 2010. http://www.whitehouse.gov/sites/default/files/omb/assets/oira_1840/1840_0423_2010-h.pdf.

³⁸ Student Lending Analytics. *Highlights of Sallie Mae Investor Meeting at Credit Suisse Conference*. February 12, 2010. http://studentlendinganalytics.typepad.com/student_lending_analytics/2010/02/highlights-of-sallie-mae-investor-meeting-at-credit-suisse-conference.html.

³⁹ Corinthian Colleges, Inc. *Corinthian Colleges Reports Fiscal 2011 Third Quarter Results*. May 3, 2011. <http://investors.cci.edu/releasedetail.cfm?ReleaseID=573924>.

⁴⁰ Dillon, Erin and Smiles, Robert. *Lowering Student Loan Default Rates: What One Consortium of Historically Black Institutions Did to Succeed*. Education Sector. February 2010. http://www.educationsector.org/usr_doc/Default_Rates_HBCU.pdf.

⁴¹ Calculations by TICAS on data from the U.S. Department of Education, "Trial Three-Year Cohort Default Rates FY 2008." <http://federalstudentaid.ed.gov/datacenter/cohort.html>. Accessed May 19, 2011. Foreign institutions and institutions with 50 or fewer borrowers who entered repayment in Federal fiscal year 2008 are excluded from the count of colleges with large increases in default rates.

and they have demonstrated a willingness and ability to be responsive to changes in policy that have implications for their bottom line.

CONSEQUENCES OF NOT COMPLETING ARE WORSE FOR STUDENTS AT CAREER COLLEGES

Completion rates vary considerably both across and within different types of schools.⁴² Some schools offer more support than others to help students succeed and do a better job of matching students with programs suited to them, and students can face all kinds of obstacles to completing their course of study, from financial challenges to family health crises.

Graduation rates are much lower at career colleges than at other types of colleges for students seeking bachelor's degrees, as documented by a report issued last year by the College Board.

- The 6-year graduation rate for first-time, full-time bachelor's degree students is just 22 percent at 4-year career colleges, less than half the rate at public 4-year colleges (55 percent) and only a third of the rate at nonprofit 4-year colleges (65 percent).⁴³

- This rate is lowest for African-American students at career colleges (16 percent), much lower than for African-American students at public 4-year colleges (39 percent) or nonprofit colleges (45 percent). Career colleges also have the widest gap between bachelor's degree completion rates for African-American students and for White and Asian students.⁴⁴

A recent study by The Education Trust found that low graduation rates at career colleges cannot be explained away by their admissions policies.

- At open admission colleges, where all applicants are admitted, the graduation rate at 4-year career colleges (11 percent) was about three times lower than the rates at public and nonprofit 4-year colleges (31 percent and 36 percent, respectively).⁴⁵

- At the most selective colleges, which admit less than 50 percent of applicants, career colleges still had the lowest graduation rates: 43 percent, compared to 62 percent at public colleges and 78 percent at nonprofit colleges.⁴⁶

These graduation rates, which all colleges report annually to the U.S. Department of Education, paint an incomplete picture because they only capture full-time students who complete a degree or certificate from the college where they first enrolled. However, recently released persistence and completion data from a national longitudinal study that includes part-time and transfer students reveal the same trends, not only for students pursuing bachelor's degrees, but for those pursuing associate's degrees and certificates as well.

Taking into account part-time and transfer students, students at career colleges still have the least favorable outcomes. Students who started at career colleges in 2003–4 were much less likely to complete a credential or stay enrolled than those who started at other types of colleges.⁴⁷ In other words, students who started at career colleges were more likely to drop out without a degree or certificate.

- More than three-quarters of students starting at public and nonprofit 4-year colleges persist or complete (78 percent and 81 percent, respectively), compared to less than half of students who first enroll at 4-year career colleges (45 percent).⁴⁸

- Students starting at public and nonprofit 2-year colleges have roughly comparable persistence and completion rates as those starting at 2-year career colleges,

⁴² See, for example: Haycock, Kati, Lynch, M., and Engle, J. *Opportunity Adrift: Our Flagship Universities are Straying from their Public Mission*. The Education Trust. January 2010. <http://www.edtrust.org/sites/edtrust.org/files/publications/files/Opportunity%20Adrift%28%29.pdf>. Hess, Frederick, et al. *Diplomas and Dropouts: Which Colleges Actually Graduate their Students (and Which Don't)*. American Enterprise Institute. June 2009. <http://www.aei.org/docLib/Diplomas%20and%20Dropouts%20final.pdf>. Miller, Ben, and Ly, P. "College Dropout Factories." *Washington Monthly*. August 23, 2010. http://www.washingtonmonthly.com/college_guide/feature/college_dropout_factories.php?page=all.

⁴³ Baum, Sandy, Ma, J., and Payea, K. *Education Pays: The Benefits of Higher Education for Individuals and Society*. The College Board. September 2010. http://trends.collegeboard.org/downloads/Education_Pays_2010.pdf.

⁴⁴ *Ibid.*

⁴⁵ The Education Trust. *Subprime Opportunity: The Unfulfilled Promise of For-Profit Colleges and Universities*. November 2010. http://www.edtrust.org/sites/edtrust.org/files/publications/files/Subprime_report_1.pdf. The study measured 6-year graduation rates at 4-year colleges.

⁴⁶ *Ibid.*

⁴⁷ *Persistence and Attainment of 2003–4 Beginning Postsecondary Students: After 6 Years*. December 2010. U.S. Department of Education, National Center for Education Statistics. <http://nces.ed.gov/pubspubs2011/2011151.pdf>.

⁴⁸ *Ibid.*

but they are more likely to complete credentials with higher value. Twelve percent of students starting at community colleges ended up completing a bachelor's degree within 6 years, compared to almost no students (0 percent) at 2-year career colleges.

Because nearly all students at career colleges borrow to cover the high costs, the consequences of not completing are far worse for students who drop out of career colleges. Drop-outs from career colleges are much more likely to have student loans and have higher debt than drop-outs from other colleges. Four out of five (81 percent) students who started at career colleges in 2003–4 and dropped out within 3 years took out student loans, compared to 23 percent of students who dropped out of public and nonprofit colleges. Of those who borrowed, the drop-outs from career colleges left with much higher debt (17 percent more) than students who dropped out from public and nonprofit colleges.⁴⁹

Moreover, students who drop out of career colleges are much more likely to default on their Federal loans than students who drop out of other types of colleges. More than one in five (23 percent) students who started at career colleges in 2003–4 and dropped out within 3 years were in default on their Federal student loans in 2009, compared to 3 percent of students who dropped out of public and nonprofit colleges.⁵⁰

In other words, students are taking a much bigger risk by going to a costly career college than to a community college. Students who do not or cannot finish a program of study at a career college are likely to be left with a lot of debt that will be difficult to pay off. In contrast, those who attend community college and find that they cannot keep up with the coursework because of a family illness or job loss, or who determine that they are not suited for the field of study they were pursuing, will probably have no debt, or very little debt, to pay off. Those who did borrow to attend community college will in most cases have only Federal student loans, which give borrowers many more options for managing their debt and staying out of default.

DEBT FOR WORTHLESS DEGREES—WHEN COMPLETION DOESN'T PAY

While college completion, in general, leaves students better off, a worthless or grossly overpriced credential can be worse than no credential at all, especially if the graduate borrowed to pay for it. We analyzed recently released data and found that students who complete a degree or certificate at a career college are at much greater risk of defaulting than students who graduate from other types of schools. Among students who started in 2003–4 and completed an associate's degree or certificate by 2006, those who attended career colleges were *four times* more likely to be in default in 2009 than those who attended public or nonprofit colleges (12 percent vs. 3 percent, respectively).⁵¹ In fact, *completers* at career colleges were much more likely to be in default than students who *dropped out* of public and nonprofit colleges.

The associate's degree and certificate completers from career colleges were also almost *twice* as likely to be unemployed. Forty-one percent of students completing associate's degrees or certificates at career colleges by 2006 experienced 3 months or more of unemployment since their graduation, compared to 22 percent of students graduating from public and nonprofit colleges.⁵²

At previous hearings, this committee heard testimony that may help to explain why so many career college graduates experience unemployment and default. Last June, Yasmine Issa, a single mother, testified that she completed a career college program that purported to prepare her for work as a sonographer, only to find out \$32,000 later—including \$15,000 in loans—that the program did not actually qualify her to sit for the licensing exam or work in the field. The school's recruiters went out of their way to tell her that the *school* was accredited, but what they did not tell her was that its sonography *program* was unaccredited and effectively worthless. She found out too late that the local community college offered an accredited sonography program for about half the cost.

It is unlikely that any student would know that an accredited school could offer an unaccredited program. As David Hawkins of the National Association for College Admission Counseling (NACAC) testified before this committee last August, "the information asymmetry between the employees in charge of recruiting and prospective students is immense. In an unregulated environment, the potential for misrepresent-

⁴⁹Calculations by TICAS on data from U.S. Department of Education, National Center for Education Statistics (NCES), 2003–04 Beginning Postsecondary Students Longitudinal Study, Second Follow-up (BPS:04/09). <http://nces.ed.gov/surveys/bps/>.

⁵⁰Ibid.

⁵¹Ibid.

⁵²Ibid.

tation and outright fraud is a clear and present threat, which can result in harm to students and, in the case of Federal aid and loans, to the taxpayer.”⁵³

For example, an article in last June’s issue of *Good Housekeeping* magazine offered a thoughtful but daunting list of 11 different kinds of research students should do if they are considering a career college, from checking with local public colleges to see if they offer similar programs at lower cost, to interviewing prospective employers, to figuring out the name of the school’s parent company and, if it is publicly held, reading its most recent 10-K filing with the SEC.⁵⁴ The ability to interpret corporate SEC filings and detailed knowledge of the different types of accreditation should not be required to avoid getting ripped off by a career college.

Other questionable practices by career colleges can lead to worthless degrees. *The Chronicle of Higher Education* recently reported that former and current career college employees say the schools pressure them to falsify attendance records, raise grades and manipulate job-placement numbers.⁵⁵ According to *The Chronicle*,

“More than a dozen current and former professors from six of the seven largest publicly traded education companies say they were leaned on to dumb down courses, offer lengthy extensions and change failing grades.”

The article also confirmed that many career colleges tie teacher pay to the number of students who complete their classes, creating a strong financial incentive for teachers to pass students regardless of a student’s performance. Faculty members reported tremendous pressure to keep students enrolled and keep their grades high enough so that they continue qualifying for Federal student aid, the primary source of revenue for most career colleges. In fact, former faculty at ITT Technical Institute reported being fired after reporting altered grades or refusing to change students’ grades.

COSTS AND RISKS FOR TAXPAYERS

Because the career college industry relies on federally funded grants and taxpayer-backed loans for the bulk of its revenue, taxpayers, as well as students, have a lot at stake in the quality and cost of career college education. While career colleges have a fiduciary responsibility to act in the best interest of their shareholders and generate profits, Congress has a fiduciary responsibility to act in the best interest of taxpayers.

This committee’s June 2010 report, *Emerging Risk*, outlined just how heavily taxpayers are subsidizing the career college industry.⁵⁶ While career colleges may get up to 90 percent of their revenue from Federal student aid from the Department of Education (Title IV grants and loans), that extraordinarily high percentage currently excludes some Federal student loans, and it does not include other government revenue sources, such as G.I. bill benefits or Federal job training funds. Here are just a few examples of how much taxpayers are spending on career colleges.

- One in four Federal Pell Grant dollars (\$7.6 billion) went to students attending career colleges in 2009–10, almost double the share a decade earlier.⁵⁷ In the coming year, career colleges are expected to receive an estimated \$10.2 billion in Pell Grant dollars.⁵⁸
- One in four Federal loan dollars (\$25.0 billion) went to students at career colleges in 2009–10, more than double the share in 1999–2000.⁵⁹ In the coming year,

⁵³Testimony of David Hawkins, Director of Public Policy and Research, National Association for College Admission Counseling, before the Senate Health, Education, Labor, and Pensions Committee, Hearing on Marketing and Recruitment in For-Profit Education. August 4, 2010. <http://help.senate.gov/imo/media/doc/Hawkins1.pdf>.

⁵⁴Yeoman, Barry. “School of Hard Knocks.” *Good Housekeeping*. June 2010. <http://www.barryyeoman.com/articles/hardknocks.html>.

⁵⁵Field, Kelly. “Faculty at For-Profits Allege Constant Pressure to Keep Students Enrolled.” *The Chronicle of Higher Education*. May 8, 2011. <http://chronicle.com/article/Pawns-in-the-For-Profit/127424/>.

⁵⁶U.S. Senate Health, Education, Labor, and Pensions Committee. *Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education*. U.S. Senate. June 24, 2010. <http://harkin.senate.gov/documents/pdf/4c23515814dca.pdf>.

⁵⁷Calculations by TICAS on data from U.S. Department of Education, Office of Postsecondary Education (OPE). “Pell End of Year Report, 2009–10” and “Pell End of Year Report, 1999–2000.” <http://www2.ed.gov/finaid/prof/resources/data/pell-data.html>, accessed May 19, 2011.

⁵⁸Calculations by TICAS on data from U.S. Department of Education. “Fiscal Year 2012 Budget Request: Student Financial Assistance.” <http://www2.ed.gov/about/overview/budget/budget12/justifications/p-sfa.pdf>.

⁵⁹Calculations by TICAS on data from U.S. Department of Education, Federal Student Aid Data Center, Programmatic Volume Reports. <http://federalstudentaid.ed.gov/datacenter/programmatic.html>, accessed May 19, 2011.

career colleges are expected to account for an estimated \$33 billion in Federal student loans.⁶⁰

- In the first year of the Post-9/11 G.I. bill, 36 percent of tuition payments (\$640 million) went to career colleges.⁶¹ Current and former recruiters report intense pressure to enroll veterans, whose Federal aid dollars from the G.I. bill do not count toward career colleges' 90 percent cap on revenue from the Federal Government. One former military admissions adviser said, "[W]e knew that most of them would drop out after the first session. . . . Instead of helping people, too often I felt like we were almost tricking them."⁶²

- About 40 percent of the \$580 million in tuition assistance for active-duty troops went to online career colleges in fiscal year 2010.⁶³ Online career colleges that market heavily to members of the military typically price their course credits at the maximum amount covered by G.I. bill benefits, \$250, which can be five times more than the cost of community college credits offered on military bases.⁶⁴

- In addition, some State grants can be used to attend career colleges. For example, in California, career college students received \$94 million in State Cal Grants in 2009–10, much more than the \$78 million awarded to community college students.⁶⁵ By contrast, the State's community colleges enroll eight times as many students as career colleges in the State.⁶⁶

The career college industry readily admits that their programs cost students much more than similar programs elsewhere. The best available estimate for the average, undiscounted cost of tuition and fees for career colleges in 2010–11 is nearly \$14,000, which is almost twice the average undiscounted cost for in-state students at public 4-year colleges, and more than five times the cost at public 2-year colleges.⁶⁷

Even after taking substantial State subsidies for public colleges into account, taxpayers and students combined can still end up paying less for career education programs at public colleges than at career colleges. This is what the Florida Office of Program Policy Analysis and Government Accountability (OPPAGA) found last year, when it compared five career education programs offered by both public and career colleges in the State.⁶⁸

- Three out of the five programs studied cost thousands of dollars less at public colleges than at career colleges after combining the student and State contributions. These programs were \$2,250 to nearly \$5,100 cheaper at public colleges. The two programs that cost less at career colleges were cheaper by much smaller amounts: \$46 and \$837.

- One career college program—massage therapy—had a per-student cost more than double the public college program's cost, along with fewer completions and a lower pass rate on the licensure exam.

- The public programs also had much higher rates of accreditation and much higher pass rates on licensure and certification exams. For example, 95 percent of the public phlebotomy programs were accredited, compared to 26 percent of the career college programs.

⁶⁰ Calculations by TICAS on data from the U.S. Department of Education. "Fiscal Year 2012 Budget Request: Student Loans Overview." <http://www2.ed.gov/about/overview/budget/budget12/justifications/s-loansoverview.pdf>.

⁶¹ Lipton, Eric. "Profits and Scrutiny for Colleges Courting Veterans." *The New York Times*. December 8, 2010. <http://www.nytimes.com/2010/12/09/education/09colleges.html?ref=forprofitschools>.

⁶² Ibid.

⁶³ Reed, Charlie. "DOD to tighten scrutiny of for-profit, online colleges." *Stars and Stripes*. September 24, 2010. <http://www.stripes.com/news/dod-to-tighten-scrutiny-of-for-profit-online-colleges-1.119391>.

⁶⁴ Golden, Dan. "Marine Can't Recall His Lessons at For-Profit College." *Bloomberg*. December 15, 2009. <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=al8HttoCG.ps>.

⁶⁵ Morain, Dan. "Cut waste? Start with for-profit colleges." *The Sacramento Bee*. February 17, 2011. <http://www.sacbee.com/2011/02/17/3409537/cut-waste-start-with-for-profit.html#storylink=misearch>.

⁶⁶ Calculations by TICAS on data from U.S. Department of Education, NCES, IPEDS. <http://nces.ed.gov/ipeds>.

⁶⁷ The College Board. *Trends in College Pricing 2010*. http://trends.collegeboard.org/college_pricing/report_findings/indicator/Tuition_and_Fee_and_Room_and_Board_Charges_2010_11.

⁶⁸ Florida Office of Program Policy Analysis and Government Accountability (OPPAGA), *Public Career Education Programs Differ From Private Programs on Their Admission Requirements, Costs, Financial Aid Availability, and Student Outcomes*. January 2010. <http://www.oppaga.state.fl.us/MonitorDocs/Reports/pdf/1018rpt.pdf>.

Sadly, this is not the first time that these kinds of problems have emerged in the career college sector. Following the creation of the G.I. bill in 1944, thousands of career colleges sprung up virtually overnight to enroll veterans.⁶⁹ In response to well-founded concerns about waste, fraud and abuse, Congress established an important market mechanism for veteran education programs. It capped the percentage of a program's students that could receive veteran benefits at 85 percent. This "85–15 Rule" is intended to ensure that at least 15 percent of a program's students are willing to pay the sticker price without the Federal subsidy.⁷⁰

In 1972, amendments to the Higher Education Act allowed career colleges to participate in the Federal Title IV Student Financial Assistance programs for the first time. Problems arose almost immediately. Throughout the next two decades, there were congressional hearings, investigations and legislative attempts to uncover and thwart deceptive and fraudulent practices in the career college sector. The most notable investigation came in 1990, when the Senate Permanent Subcommittee on Investigations, led by Senator Sam Nunn, documented a wide range of pervasive problems plaguing virtually every part of career college administration and oversight.⁷¹

In response, Congress passed a series of reforms in 1992 with strong bipartisan support. These included establishing an 85–15 rule for title IV financial aid, modeled after the G.I. bill provision but focused on revenues rather than students. It required career colleges to get at least 15 percent of their revenues from sources other than title IV programs. A "50 percent rule" made schools ineligible for title IV funds if more than half their courses were provided through correspondence. The 1992 reforms also banned incentive compensation for college recruiters and personnel. The results were clear. In less than 10 years, career college default rates fell from 29 percent in 1991 to 9 percent in 2000.⁷²

However, it did not take long for the newly strengthened rules to get weakened under intense lobbying from the career college industry. In 1998, Congress reduced the percentage of revenue that schools had to obtain from non-title IV sources from 15 percent to 10 percent (changing the 85–15 rule to 90–10). This was just 1 year after a GAO report concluded that career colleges that relied more heavily on title IV funds tended to have poorer student outcomes: "Our analysis showed that, on average, the higher a school's reliance on title IV, the lower its students' completion and placement rates, and the higher its students' default rates."⁷³ The rules continued to be watered down through the 2000s, including:⁷⁴

- 2002—The Department of Education added "safe harbors" to the ban on incentive compensation which, in direct contradiction to the statute, allowed forms of incentive compensation. These loopholes directly contributed to the growth of high-pressure recruiting tactics at some career colleges.⁷⁵
- 2005—The rule limiting "correspondence" courses to 50 percent of a college's total enrollment was gutted by eliminating the requirement that telecommunications (i.e., online) courses be included in the count. Doing so allowed short-term, online programs to be eligible for Federal aid for the first time. This opened the door to 100 percent online colleges, enabling colleges to double in size virtually overnight.
- 2008—The Higher Education Opportunity Act (HEOA) substantially weakened the already weak 90–10 rule. It allowed career schools to immediately count institutional loans towards their 10 percent of non-Federal revenues, rather than counting them as they are repaid; allowed schools to count some title IV aid towards the 10

⁶⁹ Altschuler, Glenn C. and Blumin, Stuart M. *The G.I. bill: A New Deal for Veterans*. Oxford University Press. 2009.

⁷⁰ Decision by the U.S. Supreme Court: 435 U.S. 213, 98 S.Ct. 1024, 55 L.Ed.2d 225, Max CLELAND, *Administrator of the Veterans Administration, et al. v. National College Of Business*, No. 77–716. March 20, 1978.

⁷¹ The 1990 hearings culminated in Senate Report 102–58, *Abuses in Federal Student Aid Programs*, Report Made by the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs, United States Senate, May 17, 1991.

⁷² Calculations by TICAS on U.S. Department of Education data on student loan defaults, for Federal fiscal years 1991 and 2000.

⁷³ GAO. *Proprietary Schools: Poorer Student Outcomes at Schools That Rely More on Federal Student Aid*, GAO/HEHS-97-103 Proprietary Schools and Student Aid. June 1997.

⁷⁴ Congressional Research Service Report RL-33909. *Institutional Eligibility for Participation in Title IV Student Aid Programs Under the Higher Education Act: Background and Reauthorization Issues*, by Rebecca R. Skinner.

⁷⁵ Testimony of David Hawkins, Director of Public Policy and Research, National Association for College Admission Counseling, before the Senate Health, Education, Labor, and Pensions Committee, Hearing on Marketing and Recruitment in For-Profit Education. August 4, 2010. <http://help.senate.gov/imo/media/doc/Hawkins1.pdf>.

percent, rather than the 90 percent, side of the 90–10 calculation; and eased penalties for career colleges that fail to comply with the 90–10 rule.

Unfortunately and predictably, weakened regulation and reduced oversight, combined with a large potential revenue stream of Federal dollars, have led once again to an environment where the incentives for career colleges to game the system appear to exceed the risks. At the same time, the risks to students and taxpayers are much larger in scale and cost than ever before.

The last time Congress cracked down on abuses at career colleges, the sector was a shadow of the size it is today. In 1991—the point at which the Permanent Subcommittee on Investigations found career colleges to be “leaving hundreds of thousands of students with little or no training, no jobs, and significant debts that they cannot possibly repay”—there were fewer students enrolled in the entire career college sector than there are enrolled today in just the University of Phoenix. In 1991, the University of Phoenix enrolled just over 7,000 students.⁷⁶ Today, it enrolls more than 400,000.⁷⁷

The fact that career colleges are growing quickly is not inherently problematic, but the high stakes for both students and taxpayers suggest that the sector should be actively and carefully monitored.

The Obama administration has taken some important steps in this direction. In 2009, the U.S. Department of Education convened a panel of negotiators to develop stronger rules for ensuring the integrity of the Federal financial aid programs. These rules apply to all types of colleges, but the problems they address are most frequently seen in career colleges, where the financial incentives for owners and investors to profit from Federal student aid can run counter to the best interests of students and taxpayers.

Next month, on July 1, 2011, the first of these regulations will go into effect. For example, new incentive compensation rules eliminate the “safe harbors” created in 2002, bringing the regulation back in line with the Federal law banning payments to college employees and contractors based on how many students they enroll or how much Federal aid they bring in. Under the new rules on misrepresentation, schools are prohibited from misleading students about critical aspects of their programs, such as cost, subject matter, and graduates’ ability to get jobs in their field. The new Ability-to-Benefit (ATB) rule removes harmful conflicts of interest from the administration of screening tests to students who lack a high school diploma or GED, reducing the odds that such students will be fraudulently classified as eligible for Federal grants and loans. The career college trade association has filed a lawsuit against the Department of Education seeking to block several of these common-sense rules, including the provisions on misrepresentation.⁷⁸

Last year, Congress wisely gave the new Consumer Financial Reform Bureau authority over private student loans, including supervisory and investigatory authority over private student lending by career colleges and other nonbank lenders. Thanks to an amendment by Senators Sherrod Brown, Bennet, Franken and Mikulski, the Bureau will include a Private Education Loan Ombudsman, which for the first time will give private loan borrowers a place to turn for help and give policymakers a clear view of what these consumers are experiencing.

Recently, 11 State attorneys general from both parties launched a joint investigation of the career college industry’s recruiting, financing and other practices, and the Justice Department and at least two State attorneys general joined a whistleblower lawsuit against one of the largest publicly traded career college corporations.⁷⁹

Last week, the Administration took a modest step toward preventing Federal taxpayer dollars from being wasted on those career education programs that leave students with little but insurmountable debt. The final gainful employment rule applies to all career education programs, whether offered by a public, non-profit or for-profit college. By defining gainful employment, the Department will be able to enforce the long-standing Federal law requiring all post-secondary career education

⁷⁶ Calculations by TICAS on data from U.S. Department of Education, NCES, IPEDS, <http://nces.ed.gov/ipeds>.

⁷⁷ Apollo Group Q2 2011 earnings call transcript. March 29, 2011. <http://seekingalpha.com/article/260792-apollo-group-s-ceo-discusses-f2q11-results-earnings-call-transcript>.

⁷⁸ *Career College Assn. d/b/a Assn. of Private Sector Colleges and Universities v. Duncan and U.S. Dept. of Ed.*, (Filed D.C. Cir., 11 Jan. 2011). <http://www.career.org/iMISPublic/AM/CM/ContentDisplay.cfm?ContentFileID=12948&MicrositeID=0&FusePreview=Yes>.

⁷⁹ Wallack, Todd. “Mass. investigating top for-profit college: AG demands University of Phoenix data on recruiting, finances.” *The Boston Globe*, May 17, 2011. http://articles.boston.com/2011-05-17/business/29552871_1_college-access-success-college-students-schools; Lewin, Tamar. “Questions follow leader of for-profit colleges.” *The New York Times*. May 26, 2011. http://www.nytimes.com/2011/05/27/education/27edmc.html?_r=1.

programs that receive Federal financial aid to “prepare students for gainful employment in a recognized occupation.”

The final rule, by including private student loans in its debt measures, may help to discourage the types of subprime private student lending discussed earlier. And because the final rule is based in part on whether a program’s former students are repaying their loans, it may also provide a disincentive for schools to simply delay defaults—through deferments and forbearances—until after the period when schools are held accountable for them.

Unfortunately, the final rule does not provide strong, immediate protections for students and taxpayers and will allow many programs that over-charge and under-deliver to continue to receive Federal student aid. A broad coalition of student, civil rights, consumer, higher education and college access organizations submitted a series of recommendations to strengthen the modest draft rule published last July, none of which were incorporated.⁸⁰ Programs with debt levels well beyond what experts recommend, and where very few former students are repaying their loans, will continue to receive millions of taxpayer dollars. While the final rule is a step in the right direction for students, including veterans, and taxpayers, it is substantially weaker than the draft rule and it will take longer to protect students and taxpayers from the worst of the programs.

More needs to be done—by the Administration, Congress, States, schools and others. For example, the Department of Education already has authority to address some of the troubling practices uncovered by this committee’s investigation and oversight hearings, and soon the Consumer Financial Protection Bureau will also. Where the Administration does not believe it has adequate authority, it should request it from Congress. The Department is initiating a new negotiated rulemaking process to address issues related to Federal student loans, which gives the Administration an important opportunity to tighten some regulations and provide needed relief to students, veterans and taxpayers who have been harmed by school practices. Congress also should do more to hold schools accountable for taxpayer funds and to more closely align the incentives for schools with the interests of students and taxpayers. Taxpayers should not be subsidizing worthless or overpriced programs, and students—and our economy—should not be saddled with unmanageable debt by unscrupulous schools.

Thank you for holding today’s hearing and for the opportunity to testify today. I look forward to answering your questions.

The CHAIRMAN. Ms. Abernathy, thank you for your testimony and thank you very much for the Institute and all the great work that you’ve done. As you can probably tell, some of the things that we use are from the analysis that you have provided through your institute.

We will begin a round of 7-minute questions now. I want to start with Mr. Schmitt, and again to thank you for personalizing this and bringing it to a personal basis. I thank you for writing me that letter, otherwise we never would have known you.

Mr. SCHMITT. You are welcome.

The CHAIRMAN. Mr. Schmitt attended Kaplan, which he said has a strong presence in Iowa, but I don’t think it is unique to Kaplan. I also want to make it very clear, that Kaplan stands alone amongst the large, for-profit education companies for having taken what are, in my opinion, real and significant steps to reduce high withdrawal rates and high default rates by implementing the Kaplan Commitment Program. I have followed this over the last year, the program allows a student to attend actual classes for a 5-week period at which time Kaplan or the student may decide that the student should not continue, but with no cost to the student and no Federal loans or grants being taken out.

I would also like to note that Kaplan Higher Education and its CEO, Andrew Rosen, have been standouts for the level of coopera-

⁸⁰“Coalition Letter to the Honorable Arne Duncan, Secretary of Education.” Protect Students and Taxpayers. August 12, 2010. <http://www.protectstudentsandtaxpayers.org/wp-content/uploads/2011/06/Coalition-ltr-on-GE-NPRM-September-9.pdf>.

tion that they have offered to the committee through the course of this investigation. So again, I want to compliment Kaplan for taking these very, very significant steps.

However, that is not to lessen what has happened to Mr. Schmitt and so many others who attended Kaplan and other career colleges around the United States.

One question, you said you had an externship and they had you placed, Kaplan counted you as successfully placed. Why didn't that work out?

Mr. SCHMITT. That externship was in a law office that was, to put it mildly, in a State of chaos that eventually that lawyer was suspended indefinitely.

The CHAIRMAN. Disbarred?

Mr. SCHMITT. No, just suspended indefinitely.

The CHAIRMAN. I see.

Mr. SCHMITT. I really didn't want to count that against Kaplan, because there is no way they could control that lawyer, but I figured out fairly early on that that employment relationship was not going anywhere.

The CHAIRMAN. Your written testimony made reference, and I think you made a slight reference in your testimony to the dean encouraging you to go to Kaplan's law school.

Mr. SCHMITT. Yes.

The CHAIRMAN. How did that factor into your education and what did you discover? You discovered that you couldn't take the Iowa Bar?

Mr. SCHMITT. Yes. During the conversation with the dean about adding the later classes for my associates graduation it came out that I was interested in going to law school. He told me about Concord University and that they offered a law school online. It never came up during that conversation that Concord Law does not allow you to sit for the bar in Iowa.

So I continued back for my bachelors. And the only way I ended up finding out is a one-term adjunct instructor came in, about three-quarters into my bachelors degree and when I was just talking to her about my plans, she said, you can't sit for the bar in Iowa with a degree from Concord. By that point it was too late, what was I supposed to do, drop out?

The CHAIRMAN. Mr. Henderson, let me turn to you. I would like to have the chart, Document No. 1 put up, if I could, please.

It is a recruiting training manual produced by Corinthian. You should have that, I hope you have that in front of you. Do you have that or not? Can you see the chart there, Wade?

Mr. HENDERSON. Yes.

The CHAIRMAN. There's a section called "Common Objections and Responses," from the recruiting training manual. The first reads, "How much does it cost?" The proposed training response is, "John, the cost of the program will vary. Is your question really how much is it going to cost in out-of-pocket dollars?"

The second objection is, "Can you tell me the cost of your course?" To which the proposed response is, "If you are like most people I talk to, you are probably more concerned with how you can pay for school than how much it costs."

This document goes on to other subjects such as transferability of credits. I would urge all members of the committee to read the entire document, but what I am getting at here is recruiting.

You pointed out in your testimony, let me find it here, that in some of the documents—we have one company’s training manual, that was Vatterott Training Manual for Recruiting Staff, identified the following quote, “Student Profiles for Recruitment.” This is in your testimony. Here is who they want to go after, welfare mom with kids, pregnant ladies, they need an update on that.

[Laughter.]

Recent divorce, low self-esteem, vocational rehabilitation, experienced a recent death, physically, mentally abused, drug rehabilitation, fired, laid off. And so it just seems to me that many times what they are doing is they are targeting, I think as Miss Abernathy pointed out, they are actually targeting low-income people for getting them recruited into the schools.

Do you suppose this has anything to do with the fact that the poorer the student—here is the kind of a business model, the poorer the person you can go after, the more they qualify for higher Pell Grants and higher student loans, obviously.

Mr. HENDERSON. Absolutely.

The CHAIRMAN. If you are not poor you don’t qualify for either.

Mr. HENDERSON. Absolutely.

The CHAIRMAN. So the poorer you are the more you get and the more you then turn over to the school. So it seemed to me that these schools would be targeted, very low-income minority students, and I think you pointed out or Miss Abernathy, sometimes your testimonies overlapped a little bit on the proportion of African-American and Hispanics that are recruited by these schools.

Mr. HENDERSON. Absolutely.

The CHAIRMAN [continuing]. So, address yourself to that and those types of recruiting. Because a lot of people say, “well why do these kids go to these schools? Why do they go if they are so expensive? Why do these kids do this?”

Mr. HENDERSON. Chairman Harkin, I think your question, your perceptive question goes to the very heart of the business model of many of the for-profit institutions that we have investigated.

Let me say at the outset, that for-profit colleges have an important role to play in the overall scheme of educational opportunities. I think most of the witnesses this morning have confirmed that. However, you pointed out correctly that there does seem to be, at least in some instances, and the one you cited from my testimony, where some schools actually target individuals who are clearly vulnerable to an overstatement of the promises that the school can deliver. It is the most graphic case of let the buyer beware, you know, caveat emptor, that we have seen in terms of how educational opportunities are provided.

Not to take us too far afield, many of the problems that we are addressing today have their genesis in the lack of quality public education available to students in schools around the country. That is obviously something that we in the civil rights community have focused on for generations and are trying mightily to challenge. The lack of investment in early childhood education often leave

kids with a quarter of a million vocabulary deficit at the start of school and that achievement gap is never overcome.

Having said that, these programs that we are talking about today offer the last clear chance of the promise of educational opportunity and what it can bring to students. When Mr. Schmitt said today that "look, it may be too late for me, having now saddled myself with \$45,000 in nondischargeable debt and dealing with the struggles of keeping a family together," it broke my heart because there are many individuals like Mr. Schmitt who believed the overstated promises that these schools often use as inducements for registration and enrollment. And without some sort of guard, some regulation to limit what schools can say and promises, victims like Mr. Schmitt abound.

So who among us hasn't seen the television ad of the young woman in pajamas, shortie pajamas, talking about how wonderful it would be to sit before the computer all day doing my school work. What an attractive inducement that is to take advantage of the opportunity she promises. And yet behind that you see the very kinds of rampant techniques, which are indeed borne from rapacious greed.

I do understand there is a fiduciary responsibility in the private market to address the interests of your shareholders. But there has to be a concomitant balance in favor of the public interest that says that modest regulation, that prevents the exploitation of individuals who, because of their lack of formal educational attainment, do need to have someone who is sitting in place or in judgment of the quality of the advertising that is out there. I think the evidence that Miss Abernathy has unearthed and her organization has identified and that we presented in our testimony confirms that very point.

One last point, Mr. Chairman. The Consumer Financial Protection Bureau that you and others fought so hard to create, is designed to prevent precisely the kind of exploitation that we see in an unregulated or loosely regulated market that purports to offer opportunity when, in fact, it is debt designed as opportunity that can't be overcome. I think it is a huge problem.

The CHAIRMAN. Mr. Henderson, thank you very much. I have followup questions for Miss Baum and Miss Abernathy, but we will now go around. I have, in order of appearance, Senator Blumenthal, Senator Whitehouse, Senator Merkley, Senator Franken, Senator Hagan.

Senator Blumenthal.

STATEMENT OF SENATOR BLUMENTHAL

Senator BLUMENTHAL. Thank you, Senator Harkin. I want to join Mr. Chairman in thanking you for your profoundly important and historic work on this topic which I think provides a model for not only what oversight can and should be, but also to really provide improvement for countless people who are depending on this body to fulfill their hopes and dreams.

Mr. Henderson, I was very moved by the statement you just made about those hopes and dreams and it seems to me we are dealing here with a situation that is fundamentally different from the subprime housing market where there are objective indicia, the

value of the house, somebody's income, that lead to clearly objective ways to assess whether or not someone can afford a particular house. And the liar's loans and the no doc loans and so forth, were in some ways, a different kind of problem. What strikes me as different here is that we are dealing with hopes and dreams, someone is trying to better himself and increase opportunity.

You have very rightly said that some of these for-profit colleges fill a void that we all have a responsibility for having created. Maybe we wish that there were no need for colleges to make a profit by providing this education, but that reality exists and for better or worse, it is a reality for lower income students and students of color.

So I come to my question which is to all of you, how do we improve on the consumer protections that are available? How do we make sure that the promises are accurate, going beyond the gainful employment regulations, how do we make sure that the expectations created by the marketing and the promotion are not false expectations?

And in particular, and I want to join in saying, that Kaplan has taken significant steps, how do we encourage others to do the same? How do we encourage more of this to happen?

Mr. HENDERSON. Senator Blumenthal, thank you. And I will start the discussion but I think you have invited all to address it.

Let me say that I agree with you completely with regard to the distinctions between predatory lending in the housing market where there are certain objective measures that can be used and predatory lending in the for-profit student loan industry where there are not quite the same objective measures to be examined. Having said that, they do share, however, a common characteristic in that we have an unregulated or largely under-regulated industry that is enormously profitable where institutions are engaging in exotic lending instruments, for example, schools creating their own subprime loans, as well as a market of students who are eligible for a panoply of financial support but who are largely under-educated with respect to the consequences of using those financial supports to their own detriment. And I am referring now to the inability to discharge those debts.

It does seem to me that where the Federal Government or State government have failed to provide the kind of quality education that would at least minimally prepare individuals to respond to these challenges, then it is a doubly harsh consequence to deny individuals the right to discharge those loans in bankruptcy. I am not suggesting that bankruptcy laws be amended to be more generous with respect to students who have borrowed money from for-profit schools, but I do think it imposes an additional duty on the Congress to examine the issue, as Chairman Harkin and your committee are now doing, and to come up with reasonable standards that help move the market in places where, for example, Kaplan has chosen to go, but are not being adopted by others who are in that industry.

I know that there has been great criticism, at least on the part of some in the civil and human rights community, of the Department of Education's new gainful employment regulations. But the truth is, it appears that the Department, by taking a modest step,

sought to insulate its rule from attack by those members who would argue over regulation and would seek a legislative override of that rule.

I think it is important that the rule be established, that it generate support as a minimal first step. I think the CFPB, the Consumer Financial Protection Bureau, be charged with the responsibility of examining this area of work and produce a set of proposed rules that, in addition to gainful employment would help regulate the manner in which some of these outlandish, outlandish statements of what—and deceptive, not just outlandish, outlandish and deceptive statements that are now used to induce students into taking out loans and enrolling of these schools be curbed. And that would be a first recommendation.

Senator BLUMENTHAL. I would encourage others to respond as well. Are there other good guys that should be encouraged? Should the regulations be strengthened? How do we stop the over promises and the excess expectations that are purposefully created?

Ms. BAUM. I think we have to be sure to think about this both from the side of the students, the consumers in the market, and from the institutions, the producers in the market, because on neither side are the decisions being made appropriate.

For students, as I said in my testimony, the only students who are choosing these institutions are students who do not have good information, who do not have good guidance, they don't have parents who have a college education, they don't have good high school counselors. So obviously if they were given the kinds of information that would allow them to wisely choose opportunities in the way that other students do, they would make different choices. We are absolutely right to subsidize these students and to subsidize students who actually are very much at risk of failure, but that doesn't mean that we should subsidize them to make whatever educational choice might tempt them. They need more guidance than that, we need more control over our funds.

Institutions obviously also have to be restricted. There is no reason why we should be subsidizing these institutions so extremely. We need some—to provide incentives for these institutions. The fact of what Kaplan is doing now is an indication that institutions, I am not sure that what they are doing is enough, but that the institutions will respond to incentives, they won't do it out of the goodness of their heart or out of social generosity, they will do it if that is what they know they have to do in order to survive. And we have to make sure that we provide those appropriate incentives.

I would also say that income-based repayment, that program needs to be strengthened, but if it works well these students won't default. So we have to be careful about using default as the only indicator because while it is good for students to be on an income-based repayment, that doesn't solve the taxpayer's problem.

Senator BLUMENTHAL. Ms. Abernathy.

Ms. ABERNATHY. Yes, I would echo what my colleagues just said. There is no one single solution. There are a whole range of things that need to be done and need to be done urgently, given the scale and scope of this problem. Clearly the Consumer Financial Protection Bureau, as Mr. Henderson just said, as soon as it has the power to do so needs to be investigating and supervising this kind

of institution loan lending with the kinds of write-off rates and interest rates that your documents have revealed.

The Department of Education currently has authority, we believe, to do much more to help the students who have been saddled with debt because of the practices that have been done and particularly where they have been, with the case of a program that is unaccredited, again, take the example of Yasmine Issa who testified last year. That program does not prepare anyone for employment in that profession, because it is unaccredited and you can't sit for the exam and no one will hire you unless you have passed that exam. So that is a false certification and those loans should be discharged for the students who attended those programs and taxpayers should not have to pay for those loans, the corporations should have to pay for those loans. We believe the Department currently has the authority to do that.

If there is a negotiated rulemaking process that is just starting up, that would be one avenue to address that. If the Department doesn't believe they can do that then they should be requesting, in our opinion, authority from Congress to make sure that we're not just stopping these kinds of practices going forward, but we're doing something for the thousands of students who are now saddled with debt for the rest of their lives as a result of these practices.

There are a host of other things that clearly need to be done. We need to do something about the schools who have purchased their accreditation. And not just stop it going forward, but do something about those that have it now. Likewise, we need to make sure that there are not perverse incentives for colleges to aggressively recruit veterans and active duty military, because of the way we have structured our laws.

So there is just a whole host of things that we stand ready, along with a whole host of other organizations, to work with you and the administration to move swiftly to address this.

Senator BLUMENTHAL. My time has expired, but I really want to thank you and the Chairman for this very, very useful testimony and just say, as I was listening to you, especially Mr. Henderson, I was struck that home ownership is commonly called The American Dream, but American education is the American Dream. Some of the worst practices here have turned that dream into a nightmare. What we want to do is really encourage the best practices and make sure that they become common practice.

I would be interested in following up with you, all of you. And again, thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.
Senator Merkley.

STATEMENT OF SENATOR MERKLEY

Senator MERKLEY. Thank you very much.

Ms. Abernathy, I wanted to understand one piece in your testimony when you referred to institutional loans. I gather that the key was that the institutional loans could count as non-Federal funding. So for example, if I had a program and I am the institution and I raise the cost by 10 percent, I then lend that 10 percent back to the student. You mentioned that some of these loans are

done in a predatory fashion or a subprime fashion. I would, as the institution have met, essentially, the requirement for the non-Federal 10 percent, even though I am doing so in a fashion that perhaps is further exploiting the student. Is that the right analysis of what sometimes happen?

Ms. ABERNATHY. Yes, you are absolutely correct. It is happening in large part because of a change in the law that the industry lobbied for, successfully, in 2008 which allowed them to count all of that loan amount as soon as the loan is made, rather than only counting the payments by the students, if and when they repay those loans toward the 10 percent, if you will. So that change in the 2008 law, which is a temporary change that is due to expire next year, and in our opinion should expire immediately and not wait another year, it is what has created this incentive for schools to do this as a way to work around the requirement that they not be fully federally funded.

Senator MERKLEY. I didn't see it in your testimony, though perhaps I missed it. I would like to follow up and get a better sense of whether the bulk of those loans are fair and decent loans or whether the bulk of them are predatory and if so, in what kind of fashion. Do they have exploding interest rates? Do they have variable rates with huge spreads? Also, whether those loans are disposable upon bankruptcy.

Ms. ABERNATHY. Just briefly right now.

Senator MERKLEY. Very briefly, because I want to ask some other questions as well.

Ms. ABERNATHY. Right. The loans absolutely are not dischargeable in bankruptcy, again because of a change in the law that was sought in 2005 that treats them like Federal loans. I will just say that from—the only information that is publicly available until today about these loans is what is given to the SEC and to investors by these companies. And all that was clear from that is that they were writing off 40, 50 percent or more of these loans. The terms of the loans have not been public until today, with this new batch of documents.

Senator MERKLEY. Mr. Schmitt, are some of your loans institutional loans?

Mr. SCHMITT. No, they are not.

Senator MERKLEY. OK. Mr. Schmitt, I wanted to turn to some other pieces of your testimony and thank you for sharing your story. Were you anticipating that when you entered the bachelors program that was through the law school, but it was a bachelors program?

Mr. SCHMITT. No. The bachelors program was still through Kaplan. The Concord School of Law is owned by Kaplan, but it is marketed as a separate school.

Senator MERKLEY. I see. And were you expecting to be able to sit for the bar exam, if you went to the Concord Law school, and that is partly why you were getting your bachelors so you were qualified to be able to go to the Concord Law school?

Mr. SCHMITT. Yes.

Senator MERKLEY. I see. OK, that is helpful.

Going back to when you were told that there was 100 percent placement, I think the Chair's question clarified this, but I wanted

to make sure. The externship counted towards placement statistics?

Mr. SCHMITT. I have been told since that Kaplan has counted me as successfully placed. Why specifically I cannot say. I would assume it is the externship, but—

Senator MERKLEY. I would like to explore a little bit more, we will submit some questions for the record to try to understand that.

Certainly it sounded like that was a factor in your excitement over joining the paralegal program was that people finished the program and they were getting jobs. And as you had dialogue with other students going through the program, were they getting jobs? Were there a lot of paralegals that went through the program, that you know of, able to get jobs as paralegals?

Mr. SCHMITT. Of the students that graduated with me—with their degrees—I know of, to date, only four students, of more than two dozen that I knew personally, that have gotten jobs as paralegals.

Senator MERKLEY. OK. Four out of?

Mr. SCHMITT. Two dozen, three dozen.

Senator MERKLEY. So it would have been more appropriate to tell you the placement rate was 20 percent or something of that fashion, based on your experience?

Mr. SCHMITT. Yes.

Senator MERKLEY. Were there community college options in your area where you could get the same paralegal training?

Mr. SCHMITT. The only community college that offers the paralegal training that I know of is in Des Moines, IA, DMACC. I lived in Waterloo at the time so that was not possible for me.

Kirkwood College, which I believe is in Cedar Rapids did offer it, but we were told that our program was so much better than Kirkwood, which I find interesting, since the Kirkwood program is actually ABA accredited and Kaplan's is not.

Senator MERKLEY. And that lack of accreditation of the particular program was a key factor in whether or not you were able to get placed?

Mr. SCHMITT. I would have to assume so.

Senator MERKLEY. OK. This is an issue that I have had a lot of concern about, an institution being accredited but not a program. I think it really is a key to this puzzle.

We had a student, Yasmine Issa, who testified at the June 24th hearing about her sonogram training, and she said she couldn't get a job because her program was not accredited. The institution, Sanford-Brown, was, but the program wasn't. This seems like a key point where it is very confusing because you may be told, as an applicant, that the school is accredited and you are assuming that the program is accredited.

At what point in your experience did you realize that the program wasn't accredited and that it was going to be a problem? Was it not until you started applying for jobs?

Mr. SCHMITT. About 2 weeks ago, talking to the Senate HELP Committee. There is no accreditation requirement by law in Iowa, however—for the paralegal programs. However, it seems there is industrial accreditation to get these higher level paralegal jobs, which obviously I am not qualified for.

Senator MERKLEY. Thank you.
Mr. SCHMITT. You are welcome.
The CHAIRMAN. Senator Franken.

STATEMENT OF SENATOR FRANKEN

Senator FRANKEN. I am concerned here for a number of reasons, they are all pretty apparent. One thing I am concerned about is that we do not have our colleagues, our Republican colleagues here. Because I know that there are for-profit, and I think every witness has acknowledged this, it would have been nice to have had a witness from the other, I don't know, to represent the for-profit schools, because there are for-profit schools in Minnesota that do a great job. There are others around the country that do a great job. And I think you have all acknowledged that.

This is all very, very sad because we have two victims here. One is the taxpayers and I would love to know how much the taxpayers eat because of for-profits. But the victims are also the students and students like Mr. Schmitt.

We are talking here about trying to be fiscally responsible. My wife's father died when she was 17 months old, leaving her mom widowed at age 29 with five kids, four daughters, every daughter went to college. They went on combinations of Pell Grants and scholarships. So there is no bigger champion of Pell Grants than me. So I want our Pell Grants to be used properly. And I want to be a good fiscal steward. So this actually enrages me.

At the same time I wish the for-profit industry was here. I don't understand why good players in this business don't want to weed out the bad actors. The bad actors who are saying, let's recruit—here is the list of qualities to look for, low self esteem, being abused, that is who we are trying to recruit? That is a recruiting document. Why aren't the good actors working here helping us weed out the bad actors and help the industry improve itself?

Does anyone know how much the taxpayers eat because of for-profits? Does anyone have some kind of estimate? How much is it costing—I mean we are trying to balance the budget here, we are trying to reduce our deficit.

Ms. ABERNATHY. We know how much Federal student loans and Pell Grants go to students attending for-profits and we know the default rates, but we don't necessarily know then what share of the Pell Grant dollars are being wasted. One in four Pell Grant dollars now go to students attending for-profit colleges. Some of those Pell Grants are creating opportunity, but clearly many are not.

One statistic that career colleges, for-profit colleges—with default rates over 40 percent—received \$217 million in Pell Grants in 2009 and I am sure more last year. So that gives you some indication. And certainly before we start cutting Pell Grants more—we just reduced Pell Grants by \$4 billion in the budget agreement last year—for students who need it to get to college, like your wife did, we should be going after those kinds of wasted dollars that are going to schools that are clearly, systematically failing students.

Ms. BAUM. One reason we don't have a good answer to that question is that calculating the cost of student loan defaults is complicated and depends on what kind of—which accounting you use, how you account for that. There was a recent report written by the

for-profit sector that tried to compare the cost to taxpayers, of public institutions and for-profit institutions and you should read that with caution because there the cost of defaulted loans is zero and there is some over counting of some of the taxpayer subsidizes to public institutions.

So I think having a good answer to your question would be an important task.

Senator FRANKEN. OK. But, then there is the cost to people like Mr. Schmitt. That is the cost, too. Because here is someone that has this hanging over him and I suppose the government is probably very good at getting you to pay it, ultimately.

So here you are. Kirkwood, how far away was Kirkwood from your home?

Mr. SCHMITT. I think it is in Cedar Rapids. I am assuming Cedar Rapids is—well Cedar Rapids was 45 minutes away.

Senator FRANKEN. So in retrospect you would have—

Mr. SCHMITT. In retrospect, yes.

Senator FRANKEN [continuing]. You would have gone to Kirkwood?

Mr. SCHMITT. Yes.

Senator FRANKEN. OK. You were 27 years old, so this is why—see someone made the point that you don't have parents who went to college or you don't have good counselors, well a 27-year-old—you are a father too, right?

Mr. SCHMITT. Yes.

Senator FRANKEN. Two boys. Two kids.

Mr. SCHMITT. Two kids.

Senator FRANKEN. So you are not going to have access to a counselor and you have people telling you, this is a good choice for you. This is a really good choice for you. Right? That is how—

Mr. SCHMITT. Yes.

Senator FRANKEN. Go to the law school here, go to our law school. So you figure, OK, I will get the 4-year degree because that will get me into the law school and then I will go to the law school and then I will take the bar, except that you can't take the bar in Iowa if you go to that law school. And no one tells you? No one tells you that you can't take the bar at the school?

Mr. SCHMITT. Not until the adjunct instructor told me in the third term when we were just talking about it.

Senator FRANKEN. Just as a happenstance it happened?

Mr. SCHMITT. Yes.

Senator FRANKEN. Boy, that is just awful.

Mr. Henderson, very quickly because I am running out of my time. Some people argue that if you are going to crack down on these for-profits which spend \$3,000 a year on education as opposed to a public nonprofit, 7,500 as opposed to a private nonprofit \$15,000 a year on education, that if you crack down on this it is bad for racial minorities and etc. Can you speak to that?

And first say the reasoning that they use and then answer it, if you would.

Mr. HENDERSON. Yes, there is a very cynical hypocrisy that goes into a statement made by some for-profit institutions that by supporting even modest regulation you are somehow curbing opportunities for racial minorities.

As I exchanged with Chairman Harkin, the most effective way of addressing the core problem is to provide a quality education for every student. We are striving to accomplish that goal. But it has been an elusive goal and even almost six decades after the U.S. Supreme Court decided, in *Brown vs. The Board of Education*, to dismantle largely racially segregated schools, we still have pockets of racial isolation, poor quality public education, poor instruction and a lack of resources to achieve the kind of quality education we are talking about.

The students who are themselves attempting to use the opportunities that they see available to them, by way of attending for-profit schools, are attempting to make the great leap forward, to overcome the difficulties of the past and to try to achieve something meaningful in their lives. And yet, the deceptive practices which many of these institutions employ, the emphasis on recruiting among the most vulnerable and emotionally ill-prepared of students to address these issues, results in the kinds of problems that you and Mr. Schmitt just exchanged.

This is nothing short of, nothing less than the hijacking of the American Dream and in doing so, by offering promises that can't possibly be met and by not providing even the minimum of adequate information necessary to make an informed judgment. As a law professor recognizing the importance of the American Bar Association accreditation, for every student who seeks to take a bar, not just in Iowa but in other States, it borders on the criminal to withhold essential information that would have allowed Mr. Schmitt to make that judgment.

With respect to students of color, I think that it is really an unfortunate use of a commitment to provide an equal opportunity, turned on its head, because the truth is the students who these institutions purport to be most concerned by are the very students who are carrying the highest debt load and who are less likely and the least likely to be able to address the problems that we have talked about.

It is cruel, it is unjust and ultimately it is immoral. I mean I don't use that term lightly and very often. But when you have that kind of exploitation without the minimal level of regulation necessary to protect the public, it borders on the immoral.

Senator FRANKEN. Yes, I am far over my time, I just want to again say there are for-profits that do a good job. And I think they have every reason to want to crack down on the ones who don't.

The CHAIRMAN. And my friend from Minnesota, I had said this before, that one of those that came to us was Regency Beauty Schools, headquartered in Minneapolis, they were very supportive of a strong gainful employment rule, very active in trying to clean up the industry and from all of the indications they have, they are doing a very good job. So there are some good ones out there. One happens to be the Regency Beauty Schools in Minneapolis.

Senator Hagan.

STATEMENT OF SENATOR HAGAN

Senator HAGAN. Thank you, Mr. Chairman and thank you very much for having this hearing today.

I wanted to talk to the panel about the GI bill and how this impacts for-profit institutions. My husband went to law school on the GI bill and I am a strong, strong supporter of it. Especially during a time when all of our soldiers are returning from Iraq and Afghanistan. In North Carolina, we are the most military-friendly State in the Nation, with about a third of our population either in the military, a veteran, or related to the military. So it is very important, that the educational benefits that we provide to our returning veterans are used wisely.

I am also concerned because last month in the unemployment numbers, about 12.5 percent of our Iraq and Afghanistan veterans were unemployed. I think education is key in matching skill sets with the employers.

But with the generous post-9/11 benefit package and given the high tuition at many of the for-profit schools, a veteran can easily exhaust their benefits pursuing a degree at a for-profit institution. And to the dismay of the veteran, in many cases their accumulated credits are not recognized, if they attempt to transfer, in some cases, to a public institution.

Do you believe the GI bill should be counted as Federal financial aid for the purposes of enforcing the 90/10 rule? And do you believe that the gainful employment regulation provides sufficient incentive for the for-profit schools to keep the tuition growth to more reasonable levels than what we have seen in recent years? I welcome any of you to comment on these two questions.

Ms. BAUM. I think it is hard to understand why any Federal funds should not be counted as Federal funds. So if the goal is to limit Federal funds, of course that should be counted. And the idea is, will people pay out of their own resources for this? So, yes.

In terms of gainful employment, I think that we really need to look at what the impact is going to be. It is pretty clear that the teeth have been taken out of the rules that were proposed. I think we need to be careful about bureaucracy and about how schools will get around the rules, and it is not clear that just strengthening the numbers is going to solve the problem. But as written, it is highly unlikely that this is the solution to the problem.

Mr. HENDERSON. But Senator, I think you put your finger on one of the most vulnerable populations in this entire discussion and one that Congress and the American people, quite frankly, should be more concerned about than almost any. I mean these are people who have risked their lives in the national interest. These are people who have served their country by volunteering to serve in the military. They come out, they seek to better their lives and they enroll in for-profit institutions, and again, no slur intended for for-profit institutions in their entirety. But many of our returning veterans enroll in schools and are shamelessly exploited.

First and foremost, the Pentagon has a responsibility to educate every veteran about to be discharged, on the options and risks that currently exist, regardless of what we would like to change, to make sure that these individuals are better prepared to meet the challenges of discharge. And certainly knowing more about the education systems which are making a decided effort to recruit among our veterans, is a necessary protection.

Senator HAGAN. Do you have any recommendations as to what needs to be done?

Mr. HENDERSON. I certainly think, with respect to ensuring that students understand the risks that exist currently, the fact that they can't discharge these debts, the fact that the schools in which they seek to enroll should be accredited by the bodies that would allow them, for example, to take the bar or to pursue careers. I think public education from the Pentagon is among the first things that I would try to emphasize, in addition to changes on the regulations.

And I would only leave you with this one reality. The truth is that these are for-profit institutions. They are participating in the capitalistic system, which we all support. But they also bring to bear disproportionate pressure to curb even modest regulation in an area where regulation does not exist. If you think it is going to be possible to create the bipartisan support necessary to regulate this institution, you have got to show me where the bipartisan support exists. I don't see it today. And I think that it is going to be very hard to generate it without a stronger public reaction.

Senator HAGAN. The Education Trust which is a research and advocacy group recently released a report titled "Priced Out: How the Wrong Financial Aid Policies Hurt Low Income Students." And this report examined cost and graduation rates of nearly 1,200 4-year colleges and out of these 1,200 institutions only 5 were determined to be serving low-income students well. And I am proud to say that one of these five schools was the University of North Carolina at Greensboro. I think it is notable that there were not any for-profit colleges represented on this list, the very schools, in many instances that claim to serve our most high-need, low-income students.

How do we change the mentality of all institutions of higher education to ensure that college is a realistic option for the lowest income Americans and not just a select few?

Miss Abernathy.

Ms. ABERNATHY. There is no one single solution, but clearly we need to ensure that there are great incentives and rewards for enrolling low-income and disadvantaged students. And not just enrolling them, but successfully enrolling them and producing the kind of outcomes we want. The schools documented in that report demonstrate that it is possible and it doesn't necessarily require—the colleges that do it well are not inherently different than some of the other colleges that are not. They have made a decision, they have prioritized, they have made leadership and we need to make more of them.

Mr. HENDERSON. I mean Senator again, not to belabor the point, I think that low-income students have special challenges that are borne out of the poverty and isolation that many of them have grown up with. And it certainly has affected the quality of education they have had in K through 12. Every student, whether from low-income or from upper income, is not ready for college, some students have to have additional preparation.

Community colleges play a vitally important role in helping to prepare students for the rigors of college. They do a terrific job in providing, relatively speaking, low cost, high quality programs. And

to the extent that students are induced or encouraged to pursue a particular course of action, community colleges, it seems to me, represent a very important and effective model to be used in this process.

Senator HAGAN. I agree with you totally. In North Carolina we have 58 community colleges, most of them within a 30-minute drive of any place.

Mr. HENDERSON. They are extraordinary institutions. They, in many instances, are under-utilized and under-valued. And they can certainly play an important role in helping to prepare students from disadvantaged, low-income backgrounds into the rigors of quality public education.

I would also say it is important to ensure that there are objective standards that are applied both to for-profit and nonprofit educational institutions to avoid student exploitation.

And to the degree that there is a recognized fiduciary responsibility for those in the private sector, so too should there be a community standard that is used to evaluate the quality of institutions for the betterment of the national interest. And until the regulators who are involved in this area, whether it is the Department of Education, the Consumer Financial Protection Bureau or others help to establish that standard, we are still going to have a system with a patchwork of regulation which is dictated largely at the State level, with virtually no regulation at the Federal level of response to the problems we have talked about today.

Senator HAGAN. Thank you, Mr. Chairman.

The CHAIRMAN. Senator, as I think I said earlier, you may not have been present when I said that, I said that I think that maybe this committee really ought to be looking at ways to assist and to promote community colleges to fill a niche, more than they are doing. Rather than to continue to provide unlimited amounts of money through the loan program or through Pell Grants for the for-profit schools, maybe more of that ought to be focused on the community colleges.

Senator HAGAN. Our community colleges in North Carolina are the place to go for workforce training, to get that 2-year degree. And all the colleges have agreements with the public university system that all of the class work will transfer to a 4-year degree program.

The CHAIRMAN. Could the Senator tell me, how many of those really have vigorous, comprehensive, online programs? It seems to me that is where the community colleges are not filling a niche, where they could be having online programs at substantially less cost, and probably better quality, because they would connect it through the university systems in the various States.

Senator HAGAN. I know some of them do and I could certainly get that information.

The CHAIRMAN. I would like to work with you on that.

Senator HAGAN. OK.

The CHAIRMAN. Because I think that this committee ought to be looking at how—

Senator HAGAN. I know our universities, our public universities have a host of online courses for the 4-year degree program, quite a few, and very reputable, very good, high quality.

The CHAIRMAN. I am looking for——

Senator HAGAN. My son has actually taken some.

The CHAIRMAN. I am looking for suggestions on how we do this with the community colleges around the country. Thank you, Senator Hagan.

We will start another round. I wanted to again get to the issue I think that was raised by Senator Merkley and that is we always look at the 2- to 3-year default rates, but what are the lifetime—because he asked the question, what does this mean for the taxpayers of this country. I discussed that in my opening statement. Right now our best measure is that over 22 percent of for-profit students default within 3 years, but we don't really know, overall, what happens after that.

Let me just share some internal estimates by two separate schools. I think you have these in front of you, I especially say Miss Abernathy and Miss Baum, I believe you have these in front of you. This would be Document 11, Chart 8. There is no way you can see what that says there. But I believe you have that with you, if you look at Document 11. I tried to make sure we prepared all that for you. Some of it has been redacted, but it starts out, the first sentence says, "Brian, per your request we have summarized below the default dollars by closed cohort year. Do you have that now?"

Ms. ABERNATHY. I am not sure that I do, but I appreciate—oh, I do have it. Thank you.

The CHAIRMAN. OK. All right. Thanks.

Here is what it says, this is a document that was produced by Apollo. That is the parent company of the University of Phoenix. The document is an internal analysis of the lifetime default rates of the University of Phoenix and Western International University, WIU, where most of the students in the Axia associate degree program are enrolled.

The document begins by explaining that the estimates are based on logic developed by the Texas Guarantee Agency that 47.5 percent of defaults will occur in the first 3 years. It then goes on to estimate that the 10-year default rate, or what we might call the lifetime default rate, for WIU will potentially be 60.4 percent for 2005, 77.5 percent for 2006, 55.8 percent for 2007.

That is from the documents from Apollo. If you look at 2005, 2006, 2007, at the last line there is a 10-year estimated default rate. That is what they are saying they are estimating. So it is not just 20-some percent, 55 to 77 percent for a lifetime default rate.

If you will look at the next document, Document 12, there was a 2010 Kaplan estimate of the lifetime default rates for the students at Kaplan University, entering repayment in 2007 is 64.4 percent. This includes the campus that Mr. Schmitt attended. Kaplan, as a whole, had an internal estimated default rate of 76.5 percent for that same period.

[The information referred to can be found at www.harkin.senate.gov; click on: Issues & Agenda; then For-Profit College Investigation; Hearings; hearing title; charts and/or documents.]

The CHAIRMAN. So I guess what I would ask is what does this tell us about the effectiveness of a 2- or even 3-year cohort window at judging the real default rates? What does this mean for the 2

million students currently enrolled in for-profit institutions? In other words, there are too many of these students enrolled, if the lifetime default rate is 55 to 70 percent or somewhere in that neighborhood, what does that mean for them and what does it mean for the taxpayers, to get to Mr. Merkley's question? Is the current practice of looking at only a 2- to 3-year window of default for Federal loans adequate to protect taxpayers?

If you have default rates that high, it costs money to go after those to pay it. So some collection agency is making money, maybe you don't get 100 cents on the dollar, maybe you get 50 cents or 40 cents, but the collection agency gets a large share of that. And so that is a loss to the taxpayer. It is hard to estimate, but I just ask you, if you are looking at these 10-year default rates, what does that mean 10 years from now for that cohort that is in these schools right now and how much of a loss will that be on the taxpayers and shouldn't we be looking at longer window default rates than just 2 or 3 years?

Miss Abernathy.

Ms. ABERNATHY. I mean a 76.5 percent default rate is astounding. Clearly our 2-year and even our 3-year cohort default rates are inadequate and these numbers demonstrate that. The Department of Education has released lifetime default rates for sectors, not for individual colleges, but for sectors. And for the for-profit career college sector they estimate that for this cohort that you are citing here, the lifetime default rate is 47 percent. So 50 percent of the students—

The CHAIRMAN. That is all of the schools?

Ms. ABERNATHY. All of the career colleges. Clearly at the college that Mr. Schmitt attended, the school itself knew that their rate was much, much higher. And how they continued to justify enrolling students knowing that 76 percent, three out of four students, were going to default, I am not certain. It seems unconscionable.

It clearly indicates that we are not doing enough with our 2-year and 3-year cohort default rates. And even our 3-year cohort default rates, which we know are a much better indicator, are not going to start to be enforced until 2014. That is 3 years from now, while schools will continue to receive money.

From a taxpayer's perspective, many of the Federal loans will be collected, at great cost to the students and to the taxpayers, because of the collection costs, as you say. But, they will receive them, because the government has the power to garnish wages, seize tax refunds, actually even take social security payments if you still haven't paid off at that point. What it doesn't do though is recoup the Pell Grant dollars and the damage done to people's lives.

And so the cost is really—it just seems unconscionable. So clearly more needs to be done to hold schools accountable. And the documents here that really clearly demonstrate that schools are delaying defaults until after the school is no longer held accountable for them, rather than preventing the defaults from occurring.

Ms. BAUM. I think it is clear that we need to look at default rates for longer periods of time. And I agree with everything that Miss Abernathy said. We also can't forget about the short-term default rates, because we need to do something quickly when we see these

things happening. So you wouldn't want to have to wait until 10 years after students had graduated to do something about it.

I would also like to reiterate the point that I made before, which is that there are ways, as we see, to manage default rates, income-based repayment will increasingly be one of those ways. So looking at loan repayment and not just default is terrifically important.

The CHAIRMAN. Also, I just want to add, but my time is running over, I will yield, that we also have internal documents that show that a high percentage of these lifetime defaults are students who did not complete the program. They took courses and then they dropped out. So they don't have a diploma, they have a debt and they have used Pell Grants to go to these institutions. And yet they have no degree whatsoever, they have nothing to show for it. But the for-profit school, they have the Pell Grants and they have the guaranteed loans. The school doesn't have to give any of that money back, they have the money.

I think something that needs to be looked at is how many of these are students—it gets back to something that we uncovered a long time ago in our investigations, that is the churning of students, the churning of students that takes place in these for-profit schools. If they just come in, they take a few courses—and I really do think that this is what led—and again, I compliment Kaplan for this, publicly, for instituting that 5-week thing where they can come in and test it out without any Pell Grants, without any student loans. I think that is a big step in the right direction. I think looking at that probably compelled them to start looking at instituting that kind of a reform.

Ms. BAUM. I think that is right. I would also like to point out one thing that I don't think has been mentioned yet today, which is that one of the dangers is not just the risk, the terrible risk to the taxpayers and the students, that we have discussed, but also this whole student loan program and student debt is getting a bad name, because of these terrible problems people face. Students need to borrow to finance their education and many students are being deprived of the opportunity of an education because they are terrified to borrow because they hear these stories. It is another reason to prevent these stories from occurring.

The CHAIRMAN. Yes, thank you.

Senator Blumenthal.

Senator BLUMENTHAL. Yes, thank you, Mr. Chairman. I would like to join you in the effort to provide more support for community colleges that you and Senator Hagan were discussing earlier. I went on Friday to the graduation ceremony for one of our community colleges in the State of Connecticut, Asnuntuck, and 92 percent of their graduates have jobs coming out of school, 92 percent. So the contrast here is very vivid and striking. And I would like to join you in that initiative.

And second, Senator Franken's mention that there are a lot of good guys, as I said earlier, in the for-profit college industry and we need to encourage and support them as well and commend schools like Kaplan when they improve their services.

But I would like to come back to the issue that we have talked about a little bit which is the veterans. And Mr. Henderson, not only the Department of Defense but also the Veterans Administra-

tion has an obligation here. And very often the transition from active duty to veterans status is not accompanied by the kind of education that is necessary.

I introduced a bill a couple of weeks ago, Honoring all Veterans Act, which provides for more transitional services. And the Consumer Financial Protection Board actually has a unit, headed by Holly Petraeus, related to General Petraeus by marriage, and they are beginning this kind of work. So I think the more ideas we can get from you to improve protection of veterans, particularly because they are an especially vulnerable population. So any ideas you have now or going forward—Ms. Abernathy also mentioned that issue, alluded to it in her last answer to me. I would welcome them now or in the future.

Mr. HENDERSON. Senator Blumenthal, thank you for your question. Just as an aside, Mrs. Petraeus is someone that I have worked with in the context of attempting to resolve the foreclosure crisis that is affecting many homeowners in the country today and most especially there are concerns about the status of veterans who often, through no fault of their own, find that they are—and those in active duty, through no fault of their own, find that they are holding notes to homes that are, as the realtors say, “under water,” meaning that they owe more on their note than the home is worth.

In the case of active duty service people, they sometimes will get orders of reassignment which will then force them to make a stark choice about their home, either to abandon the home because they certainly can't sell it, the bank won't take it back, they can't rent it because they can't make enough on the home. And were they to foreclose they would compromise their security clearance, for those that have them.

Mrs. Petraeus has been, I thought, a terrific help in trying to advance, very quickly, efforts by banks and service lenders to respond to that significant problem. And she has, in the effort, tremendous support from the civil and human rights committee.

Senator BLUMENTHAL. I wholeheartedly agree with you, by the way.

Mr. HENDERSON. Yes, I think she is doing a terrific job.

I think that as a country we owe a higher standard of care to the men and women who have served their country and who now seek to integrate themselves back into our society and education options like those that are being discussed today are being presented to them as among the more attractive ways of using their GI benefits and the other resources that they have available to them.

I think it is unconscionable that they do not get the advice and counseling, as a community, that they need and deserve. So just as now we are turning our attention to the problem of homeless veterans, which is a significant issue in many communities that has largely gone unrecognized, even though it is right before our very eyes, do we have a responsibility to supervise this area of our work with respect to returning veterans. I think we can do better without necessarily having to enact new laws. I think more vigorous enforcement, a greater willingness to use the education networks that we have available to us and a commitment to prevent the exploitation of returning veterans, because simply as a moral standard

we should not permit that to happen and I think if we made that declaration we could do better with the existing system now. So that is what I hope comes out of this hearing.

Ms. ABERNATHY. I certainly agree. We need to provide much more information to our veterans and active duty service members. On the other hand, currently the DOD and Veterans Administration aren't even collecting some of the data that would need to be provided to them. So we need to collect it and we need to provide it.

Having said that, information alone is not enough. We don't just provide information about salmonella and eggs, we take them off the market. Likewise, we don't tell people there is lead in some toys, we take them off the market. So if there is evidence that a program is this bad, we should not be subsidizing. In this case it is not even a market where a product is being offered, we as taxpayers are subsidizing and providing the funding for these programs.

So there is an even higher bar, both because of who is consuming them, our veterans, but also because we as taxpayers are funding these services. And so we have every right to say there is a minimum level of quality that we expect and draw the line. And then provide information about those programs that are all above that line. But there is no reason why we should be subsidizing programs we know are damaging and harmful.

Senator BLUMENTHAL. I think you make a good point, which is to distinguish a truly unacceptably, substandard educational institution from a worthwhile institution that may be providing loans to students that can't be repaid because of factors that can be controlled. In other words, if the education is substandard, if it fails to meet minimum quality criteria, it shouldn't be in business. And that is the function of the accreditation process, and you alluded to it earlier and that applies no matter how students are financed to go there.

But I do want to conclude because my time has expired, just by saying that the statements that you all have made, particularly so far as they concern veterans, are really very important and pertinent and they really require solutions that should be bipartisan solutions. And so to come back to sort of what is the elephant in the room, I hope that our Republican colleagues will join us in seeking those kinds of solutions, because they truly have to be bipartisan and should be.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

I just have one other thing I wanted to go over with the panel before we bring up our second panel. And that had to do with the management of cohort default rates. Do you have the second chart that I had up before? Yes, that one. I don't know if you have another one down there or not.

But basically, I had mentioned in my opening statement that schools manage its cohort default rates, or CDR's as they are called, and sometimes they hire outside contractors to do that. This chart here shows what default management means for students—there are four schools represented there.

Ashford, DeVry, ITT and Strayer, all four employed GRC, it is a subsidiary of Sallie Mae, to contact students who are late making payments and try to fix that before they default. But this chart shows that the vast majority of the students that are cured, as they call it, by GRC, don't actually start making loan payments but are instead entered into deferment or forbearance.

We know that is a good thing from the perspective of the schools. What does it mean for the students? Miss Abernathy, could you address yourself to that? What does that mean when they go into forbearance? What does that mean for the schools and the students?

Ms. ABERNATHY. For the schools it means they are avoiding default. For the borrower it means their balance is increasing.

The CHAIRMAN. And that is important because the law says that they cannot have a, what, a 3-year running average of over 25 percent?

Ms. ABERNATHY. Currently 25 percent. It will go up to 30 percent.

The CHAIRMAN. So when they go up to 25 percent, they get near that, they want to get more students into—

Ms. ABERNATHY. Out of default.

The CHAIRMAN. Out.

Ms. ABERNATHY. Not in default.

The CHAIRMAN. Right. And that is forbearance?

Ms. ABERNATHY. That is one form. Repayment is another. And ideally we want students repaying their loans, not in forbearance where their loan balances are increasing. And putting students willy-nilly into forbearance when it is not in their interest to be in forbearance, just increases the likelihood of default, because the balance is increasing during the time that they are in forbearance.

The CHAIRMAN. That is happening to Mr. Schmitt, right? Yes, OK.

Mr. SCHMITT. That is correct.

Ms. ABERNATHY. And I want to follow up on the comment on income-based repayment, because my organization was one of the champions of income-based repayment and we strongly believe that more needs to be done to let borrowers know that it is available and will allow them to repay their loans as a share of their income so that their Federal loan payments at least will be manageable.

Having said that, income-based repayment is intended to be a benefit for borrowers, not a shelter for schools. Just in the same way that mortgage or homeowner's insurance is intended to be a benefit for homeowners not an excuse for builders to build substandard homes. It is there for borrowers and so again what we are seeing here is an interest just in putting students into forbearance and not into helping them ensure that they can repay or that they are in repayment.

The gainful employment regulation that was just finalized may help address this to some extent, because one of the factors it looks at is the share of students who are in repayment. So if schools are putting all of their students into forbearance, that will affect their repayment rate. Having said that, the measure doesn't go into full effect until 2015 and the standards are so modest that even a school will still be able to do this kind of tactic as a way to manage their cohort default rates, which simply delays defaults rather than

prevents them. And that the gainful employment regulation in and of itself won't cure this.

What these documents tell me or suggest to me is that we do need to re-look at our forbearance policies to change our policies to prevent the abuse of forbearance where it is used to—as a shelter for schools rather than a benefit for borrowers.

The CHAIRMAN. Miss Baum, did you have anything to add to that at all, on this whole issue? These companies really are hiring outside agencies to contact students to put them in forbearance because they are managing that CDR. You know?

Ms. BAUM. It is a very complicated question, because of course designing a program that will help students by relieving their obligation to pay, by definition prevents them from defaulting and helps the schools. So I think that—I mean we want loan counseling, we would rather, for an individual who cannot pay, to go into one of these programs. But I think it requires looking at who is actually going into these programs and how are these programs designed.

So income-based repayment, for example, for too many students their balances will also continue to increase. If students really can't pay, if they really are in a situation where they are not going to be able to pay long-term, then we need to prevent those balances from increasing so that we protect students who are put into these programs. Obviously, we need to get measures that cannot be so easily manipulated by the institutions.

The CHAIRMAN. All right. Miss Abernathy, you had something to add to that?

Ms. ABERNATHY. Yes. It is just my understanding that some of the documents that you are releasing indicate that the schools have been paying people up to a thousand dollars a student to get the students into forbearance. And forbearance is the only option those people are being paid to put the students in—

The CHAIRMAN. Why?

Ms. ABERNATHY [continuing]. So they are not counseling the student on what is in their best interest, they are simply paid a thousand dollars a head, they really are bounty hunters, which Senator Mikulski, at a previous hearing referred to them as bounty hunters and she was more right than I think anyone realized, but the sole direction they are being given is put them in forbearance, which only increases their loan balance and increases their chances of default.

The CHAIRMAN. Why is the school paying that kind of money to do that?

Ms. ABERNATHY. Clearly they are making enough profit off of these loans and grants and students that they can afford to spend a thousand dollars putting students into forbearance.

The CHAIRMAN. So that they don't go over the 25 percent? Is that—

Ms. ABERNATHY. Correct.

The CHAIRMAN. That is? Yes. Interesting.

This has been most helpful. I thank you all very, very much and for being here and for your testimonies and for helping us to think this thing through.

I would close this panel by just saying that, yes, we do need better regulations, I think. We need better structures in place. I am not certain that regulations can do it all, regulations can come and go. I am just thinking that there must be some legislative type of an approach to this that is longer lasting, more enduring that people know will last more than just one administration to the next or something like that. And of course this committee is going to be consulting with members of the committee and others to develop that type of legislation that will build on the gainful employment modest step that the Administration has taken.

But I agree with you, Mr. Henderson, the most I have looked at this over the last year and I say again publicly, when we started on this I had no idea what was going on. I had thought for-profit schools were fine, what is the problem? Until we got into it and began to see what was happening.

When someone can start a school from scratch in 2005 with 300 students and today they have over 80,000 students and the profit went from \$3 million to \$216 million and the CEO is making \$20.5 million a year, and they have a huge default rate, you have got to start asking questions. I hate to paint it with a broad brush. Because there are some for-profit schools—and you know what we have looked at, I would say this also that it tends to be—the for-profit schools that tend to be doing, at least from my vantage point, from what I have seen, doing a good job, being really supportive of their students, are—well you might call the mom and pops—the ones that are kind of smaller in nature, they have been around for some time, they usually have a course of study for students, it is usually one, you can't go there to get a degree in accounting or pre-law or something like that, they are usually geared toward some occupation, and by and large they have been pretty darn good. Not to say they are all good, but they happen. That strikes me as interesting.

And that what Sam Nunn did in 1992 with the hearings he held and the legislation we passed, which was then subsequently overcome by rules and regulations, I think was pointed in the right direction. And at that time it was 85/15. Then it went to 90/10 and the industry wanted to push for 95/5. And now we have the situation with the military where that is counted on the 10 side, not on the 90 side, but it is still the same taxpayers' money. And Mr. Henderson, you are absolutely right, it is just—what they are doing to the GI's—and I think Senator Carper brought out in his hearing the fact that the Department of Defense isn't even tracking this. They have no idea.

It seems to me they have a responsibility to these young GI's, men and women, to give them good guidance and good counseling on what they are going to use their GI bill benefits for, because you only get it one time, you get it once. And to follow and track them, to know what is happening to these young GI's. That is another thing I think that we are going to be looking at. That is something that I will be working with Senator Carper on in that regard.

Thank you all very, very much. You have added greatly to this deliberation. Appreciate you being here. Thank you.

Now we will call our second panel.

The second panel we have the Honorable Martha Kanter, Under Secretary at the U.S. Department of Education. Secretary Kanter oversees the Administration's goal to have the highest proportion of college graduates in the world over the next decade, by focusing on ways to provide students more access to quality postsecondary educational opportunities and help them complete it.

Before being confirmed by the U.S. Senate in June 2009, Under Secretary Kanter was chancellor of the Foothill-De Anza Community College District, and we just talked a lot about community colleges, in Los Altos Hills, CA, one of the largest community college districts in the country.

She also served as president of De Anza College, vice president of instruction and student services at San Jose City College where she also established the first program for students with learning disabilities. And as an alternative high school teacher in Massachusetts and New York. Dr. Kanter is the first community college leader to serve as under secretary.

We have your testimony. It will be made a part of the record in its entirety, Ms. Kanter. And if you could sum up your testimony in 5 to 7 minutes, we would appreciate it.

STATEMENT OF THE HONORABLE MARTHA KANTER, UNDER SECRETARY U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC

Ms. KANTER. Thank you, Mr. Chairman. Mr. Chairman and Senator Bennet, I am here on behalf of Education Secretary Arne Duncan who was unable to come this morning because he is recuperating from a back injury.

We are here to talk about student loans, loans that enable access to higher education. Without them, as we heard this morning, millions of Americans would not be able to afford a college education. College is an investment that yields significant returns over a lifetime for individuals, for the tax base of our Nation and most importantly for our Nation's social and economic vitality and security.

Census data shows that workers with bachelors degrees earn 70 percent more than a person with only a high school diploma. College graduates are half as likely to be unemployed than those with only a high school diploma. And more than two-thirds of our Nation's jobs are going to require a postsecondary education.

Education is at the heart of the American promise for a nation built by immigrants and sustained by the energy and ideas of people from all across the world. Education remains the gateway to citizenship, civic engagement and prosperity.

Our goal in the Administration is to have, as you said, the highest percentage of college-educated workers in the world by the end of the decade. A generation ago we were first in the world, today we are ninth. To achieve the 2020 goal, thereby increasing our global competitiveness, we need every segment of the educational sector to boost productivity and achievement from early learning through higher education.

Today one in four young people don't graduate from high school. Of those that do, about two-thirds enroll in college and large numbers, as we heard, never finish. Depending on whether you look at private, public or for-profit 4-year or 2-year institutions. We believe

it is a national crisis that on average half of America's undergraduates fail to graduate in 6 years. This is the reason why our college access, quality and completion agenda is such a high priority for the department.

Meanwhile, tuitions keep rising as fiscally challenged States cut back on education spending and as institutions struggle to cover the cost of a quality education. Two-thirds of American college students today graduate with student loan debt, averaging about \$23,000, a more than 25 percent increase since 2004. Simply stated, too many students and their families are challenged to repay their loans, default rates are climbing and are now in the range of 15 percent for all schools and 45 percent for for-profit schools.

As a former community college instructor, dean and president, I did everything over the years to help students land part-time jobs, get Pell Grants, scholarships and work study to minimize the impact of the loans that they would have to take. I didn't want to see as many as we could get that loan indebtedness that you heard about this morning.

But I knew that eventually many of them would have to take out loans as they continued their education and training throughout their lives. Student loans are a powerful tool for bringing higher education within reach, but like any tool, they can be misused, leaving students and taxpayers with few options.

To address these challenges our department published the gainful employment and 13 other program integrity rules this year, challenging career college programs, both for-profit and nonprofit, to meet new standards over the next 4 years to lower default rates and ensure that the education they are providing leads to real jobs. The rules were enacted to respond to the escalating default rates and poor graduation rates of too many Americans and the marketing, lending and compensation practices that became increasingly prevalent in the career college programs, especially in the for-profit sector.

Our research showed that 92 percent of students at for-profit institutions borrowed to finance their education in 2007-8. By contrast, the sector with the next highest borrowing rate was at 4-year private, nonprofit institutions where 59 percent of students borrowed. At public 2- and 4-year institutions, just 13 percent and 46 percent respectively, of students, borrowed. On balance the gainful employment regulations require each particular to demonstrate that at least 35 percent of its students pay their loans and the debt burdens for typical students don't far exceed the recommendations we receive from our experts.

A number of the for-profit colleges have already accepted the challenge and have begun taking steps to improve their programs. Some are offering, as we heard, tuition-free trial periods to give students an opportunity to decide if they really want to enroll before taking on the debt. And toward this end, today we are releasing a guidance letter to encourage these trial periods in more institutions and announcing a new pilot program inviting applications that will give institutions new tools to reduce student debt.

The Department is committed to striking a balance that is going to draw upon the strengths of the sector, the for-profit sector spe-

cifically, while avoiding its pitfalls, protecting students and ensuring that Federal dollars are well spent.

But let me be perfectly clear about one thing. Our gainful employment rule will do nothing to hurt the educational opportunities for low-income students and students of color, just the opposite is true. In the years ahead, the disadvantaged students that are disproportionately likely to enroll in these programs are going to see higher graduation rates, lower default rates and programs that provide better value in the labor market. We shouldn't be saddling any students with debt they won't be able to repay and that is no less true when students come from disadvantaged backgrounds. Only 1 percent of the variation in repayment rates is explained by the percent of the student body who are racial or ethnic minorities.

Our written testimony reviewed all of our efforts to keep colleges cost affordable for young people, for working Americans, for displaced workers and for adults who never had the chance, so I won't go through them in detail right now, but I will be available to answer your questions.

Let me close by saying that America faces a stark choice in this era of growing Federal deficit and shrinking State and local revenues. Either we come together as a nation and meet this challenge collectively, to educate our way to a better, stronger and more productive economy, or we watch our competitive advantage in the global economy slowly erode.

We are grateful to have a strong partner in Congress, thanks to your generosity and your vision and commitment of leaders here and on both sides of the aisle, we have to have an American system that will remain strong and vibrant. And at this point we are still the envy of the world and we want to keep it that way.

So let me thank you for the opportunity and I am available to answer your questions.

[The prepared statement of Ms. Kanter follows:]

PREPARED STATEMENT OF HON. MARTHA KANTER

Mr. Chairman, Ranking Member Enzi and members of the committee, thank you for the opportunity to appear before you today to discuss the issue of student loan debt.

The President and I believe that postsecondary education should be within the reach of every American. As you know, this belief transpired into a goal for America to once again have the highest proportion of college graduates in the world by 2020. To be clear, this goal is founded on more than a belief. Rather, it is a strategy for competitiveness, growth, and shared prosperity that is deeply rooted in the economic well-being of our country.

For students, too, college remains an excellent investment. College graduates with an associate's degree earn at least 30 percent more than those who attended only high school, and they are half as likely to be unemployed. In June 2010 Georgetown University's Center on Education and the Workforce released a report titled "Projections of Jobs and Education Requirements Through 2018." The report says that nearly two-thirds of the job vacancies between 2008-18 will require some postsecondary education.

And, of course, education has important civic benefits, helping students broaden their horizons and engage in their communities and our democracy.

Student loans are a powerful tool for bringing higher education within reach. Like any tool, they can be misused or even risky, and some students are struggling to repay their loans. Yet it holds true that for most students, borrowing to pay for college will be one of the best investments of a lifetime. As such, the Federal student loan program continues to be a pillar of our college affordability efforts.

There remains concern, however, that students are taking on debt they cannot afford in order to attend education programs that leave them with poor employment

prospects. Student loan defaults are on the rise, particularly in the for-profit sector and particularly for students who have not completed certificate or degree programs. We have a responsibility to make sure that all students have the critical information and appropriate protections to make smart financial decisions about postsecondary education.

The Administration has made a landmark investment in postsecondary education and is taking new steps to make student loans more affordable and strengthen the American system of higher education. I would like to describe those efforts before addressing for-profit colleges specifically.

BACKGROUND

A little more than a year ago, with the leadership of this committee, Congress enacted the most significant changes to the student aid programs since their creation four decades ago. Due to student loan reform, all new Federal student loans are made through the Direct Loan program—using low-cost capital from the Treasury and delivered and serviced through student loan companies under performance-based contracts. These reforms are estimated to save taxpayers over \$60 billion over the next decade, allowing for increased investments in Pell Grants and community colleges, and making student loans more affordable, while still reducing the deficit.

The student loan programs have grown significantly in recent years. Currently, 36.1 million Americans hold over \$740 billion in outstanding Federal student loans. When combined with outstanding private education loans, student loan debt is now greater than the total volume of credit card debt. This year, the Department expects to make \$116 billion in new student loans. The program's growth is due to the down-turned economy coupled with growing student enrollment, changes Congress made to expand student loan eligibility, and increased prices of postsecondary education—particularly outside of the community college sector.

There remains a robust market in private student loans—including loans made by schools themselves—outside of the government system of student lending. Private loans totaled \$8.5 billion this year, according to the College Board. While these loans are necessary for some students to afford the high cost of tuition—such as students in very expensive programs or those students who are not eligible for Federal loans—they typically carry much higher, interest rates and lack important borrower protections available under Federal student loan programs such as discharge for disability of death, and affordable repayment options such as income-based repayment.

The most recent data from the Department's National Postsecondary Student Aid Study (NPSAS) shows that in 2008, two-thirds of students graduating from 4-year colleges and universities had student loan debt. At the same time, average debt levels for graduating seniors with student loans rose to \$23,100 in 2008—a 24 percent increase from 2004. Still, over half of all associate degree recipients and one-third of all bachelor's degree recipients did not have any educational debt.

In most cases, loans are excellent investments. Workers with a 4-year college degree earn 70 percent more than those with only a high school diploma, and are typically only half as likely to be unemployed. Workers with 2-year degrees earn 30 percent more.

But there is evidence that, for a fraction of students, student loan debts are not affordable. A recent survey conducted by the Pew Research Center and the Chronicle of Higher Education shows that an overwhelming majority of college graduates say that college was a good investment for them personally. But about a quarter of students surveyed said their loans have affected their career choices adversely, and a quarter also said that college loans have made it harder to buy a home.

Default rates are climbing as well. The projected 2009 2-year cohort default rate is now 8.9 percent, up 27 percent from only 2 years ago. Among former students at for-profit colleges, the projected 2009 data indicates 15.2 percent are defaulting within 2 years of their first scheduled payment. (see "Attachment A")

The Department works very hard to protect taxpayers from the costs of defaulted student loans, and appropriately so. We eventually collect about 85 cents for every dollar that enters default, on a present-value basis, including anticipated collections from charges to students for costs of collecting defaulted student loans.

But for students, the consequences of default can be severe. Collection costs can be added to the size of the loan. In addition, third-party debt collectors, tax and Federal benefit offsets, and a variety of other tools can be used to collect the loan. Only very rarely can defaulted student loans be discharged in bankruptcy. As a result, we need to be careful to make sure that students are borrowing appropriate amounts and using the tools that are available to help students better manage their educational debts.

STRIKING THE RIGHT BALANCE ON FOR-PROFIT COLLEGES

As indicated by the fact that Chairman Harkin is holding this hearing, student debt is a particular concern for students at for-profit institutions.

For-profit career colleges can be helpful partners in reaching the President's goal of once again leading the world with the highest proportion of college graduates. Many of them do a great job preparing students for work. As a sector, for-profit institutions have done a lot to introduce important technological innovations, increase access to higher education, and create new career opportunities for millions of Americans—especially for low income and working adults.

At the same time, student debt is particularly prevalent at for-profit schools. According to NPSAS, 92 percent of students at for-profit institutions borrowed to finance their education in 2007–8. By contrast, the sector with the next highest borrowing rate was at 4-year private nonprofit institutions, where 59 percent of students borrowed. At public 2- and 4-year institutions, just 13 percent and 46 percent, respectively, of students borrowed.

Not only do students at for-profit institutions borrow at a greater rate than their peers, on average, the amount they borrow is greater than all but one sector. Students at for-profit institutions on average borrowed \$8,100, compared to \$6,600 for students at public 4-year institutions and \$4,100 for students at public 2-year institutions. Students attending private nonprofit 4-year institutions borrowed \$9,100 for programs that are typically much longer than proprietary programs.

Burdened with higher borrowing rates and larger debt levels, borrowers at for-profit institutions have worse repayment outcomes than their peers at other institutions. In the 2008 cohort, students at for-profit institutions represented just 12 percent of students, but they accounted for 26 percent of borrowers and over 46 percent of students who defaulted within 3 years of leaving school. In fact, for-profit institutions produced a larger share of students who defaulted on their loans than the entire public sector of higher education combined.

The Department is committed to striking a balance that will draw upon the strengths of the for-profit sector while avoiding its pitfalls, protecting students, and ensuring that Federal dollars are well spent. As you may know, over the past 2 years the Department has taken a series of efforts to strengthen program rules, such as prohibiting recruiters from being paid based upon the number of students they recruit.

With the help of over 90,000 public comments, last week we released final regulations defining the term “gainful employment,” setting requirements for eligibility for occupational training programs. While the regulations apply to programs at all types of institutions, for-profit programs are most likely to leave their students with unaffordable debts and poor employment prospects.

Our final regulations require each program to demonstrate that at least 35 percent of its students are paying their loans and that debt burdens for typical students do not far exceed expert recommendations. By setting a minimum standard of expectation, we hope to improve the lowest performing programs; those who can't or won't improve will lose access to Federal loans.

I want to be perfectly clear about one thing: This rule will do nothing to hurt the educational opportunities for low-income students and students of color. Just the opposite is true. The disadvantaged students that are disproportionately likely to enroll in these programs will see higher graduation rates, lower default rates, and programs that provide better value in the labor market. They will also be able to make more informed choices. Our final rule equips students and their families with critical information about gainful employment programs by requiring disclosure of program costs, completion, placement, and loan repayment rates. Disclosures are important, but do not erase the need for minimum safeguards to ensure that students are well served by their educational institutions and taxpayers are protected from abuse of the student aid programs.

I reject the premise that we need to lower our standards for programs that enroll large numbers of disadvantaged students. We should not be saddling any students with debts they won't be able to repay, and that's no less true when students come from disadvantaged backgrounds. Nor is it true that some types of students won't repay their loans. We found that only 1 percent of the variation in repayment rates is explained by the percentage of the student body who are racial or ethnic minorities.

At the end of the day, we believe that because industry will quickly adapt to the regulations and clean its own house, very few programs will lose title IV funds. In fact it is already happening, with some segments of the career college industry taking meaningful steps by closing down low performing programs, reducing student debt, offering free trial periods, and reforming recruiting practices.

Today, I am directing my staff to take two new steps to help institutions rise to these new standards. First, we will release guidance providing a blueprint for institutions that want to offer free trial periods for new students mirroring approaches that some in the for-profit industry have already pioneered. And in the coming days, we will invite applications for a pilot project giving institutions new tools to reduce student debt. We will let institutions reduce the size of student loans, while carefully measuring the impact on students' access and success, to see if it's possible to design lower cost programs.

Together with our new regulations, these steps will help ensure that students at these schools are getting what they pay for: solid preparation for a good job. We're giving career colleges every opportunity to reform themselves but we're not letting them off the hook, because too many vulnerable students are being hurt.

This is a significant step forward, but only one example of how we are working tirelessly to ensure that students of every age and background succeed in college and career.

IMPROVING ACCESS TO NEED-BASED FUNDS

In the past 2 years, Congress and the Administration have worked together to make more aid available to college students. First, we have significantly expanded our investment in Pell Grants. Since 2008, the maximum award has grown by \$819 and the number of recipients has grown by 50 percent, from 6.2 million to 9.4 million. These investments were made possible, in part, by reforming the student loan programs and eliminating unnecessary bank subsidies in the guaranteed student loan program. As you know, the Pell grant program is in peril due to rising program costs and because, in past years, one-time funding was used as a temporary solution and shortfalls have accumulated. In order to continue investments in higher education that are critical to America's future, while also choosing to maintain fiscal discipline, the Administration remains committed to an approach that will maintain the maximum award at \$5,550 and put Pell Grants on a sound financial footing for future years.

There is also evidence that the complexity of the student aid application—known as the FAFSA—and lack of awareness of aid eligibility have been obstacles to students entering college and receiving aid. In 2008, more than 2 million students who were eligible for Pell Grants failed to apply for Federal student aid, of which over 60 percent said they didn't think they were eligible. One pilot program found that providing modest assistance in filling out the FAFSA boosted college enrollment among low-income high school graduates by 7 percentage points.

Over the past 2 years, the Department has also used online technology to enable students and parents to automatically skip unnecessary questions and to electronically retrieve their tax information directly from the IRS, making the FAFSA both easier to complete and more accurate. We have proposed legislation to eliminate 20 questions that require the applicant to obtain information that is unavailable from the IRS, so that a student could apply for aid on our Web site with only basic information such as his or her address and college choices. We are also working to provide FAFSA assistance to potential college students by working with school systems, high schools, and Volunteer Income Tax Assistance (VITA) sites across the country. In addition to its support for investments in Pell Grants, the Administration worked with Congress to reauthorize the American Opportunity Tax Credit to help offset higher education costs for students and families. For the first time, the credit is now refundable to families who earn too little to pay income taxes. The credit is now worth \$10,000 for 4 years of college.

All told, Federal funds available through Pell Grants and the American Opportunity Tax Credit have grown by approximately \$25 billion a year. Last year, the College Board released a study that revealed that the net price of tuition—the cost after grant aid and tax benefits—is actually lower than it was 5 years ago. We are tremendously proud of our role in that accomplishment.

STUDENT LOAN AFFORDABILITY

With your help, Mr. Chairman, we have also expanded the loan repayment options that are available for borrowers to help ensure that students are able to pursue careers about which they are truly passionate, without taking on an unmanageable student loan debt. Towards this end, the income-based repayment plan is available for all eligible student loan borrowers. This plan ensures that payments on Federal student loans are never more than 15 percent of a borrower's income after a basic living allowance is taken into consideration. In addition, under the Public Service Loan Forgiveness Program, the Federal Government will now forgive a borrower's outstanding loan balance after 10 years of successful repayment if the bor-

rower serves as a teacher, nurse, or other public service professional, and 25 years for all others. This is a good deal for students today and will be a better deal in 2014 when the income cap will be lowered to 10 percent of a borrower's income and remaining debt will be forgiven in 10 years for those in public service and 20 years for all others.

To illustrate just how important income-based repayment is for borrowers, consider the following example. Imagine an out-of-school borrower making \$30,000 a year, but saddled with \$40,000 in Federal student loan debt. Payments for that borrower would be:

- \$460.32 per month under the standard 10-year repayment plan; or
- \$277.63 per month under an extended 25-year repayment plan; or
- \$174.94 per month under our income-based repayment plan.

Beginning in 2014, a new borrower with similar income and debt would pay only \$114.63 per month. Income-Based Repayment is the equivalent to a very sizable monthly tax cut for borrowers, again paid for by reducing unnecessary bank subsidies that had been present in our Federal student loan system. The fiscal year 2012 Budget Resolution passed by the House (H. Con. Res. 34) proposes to repeal the provision of last year's student loan reform including funding for the income-based repayment plan. We must work together to protect this important safeguard for student loan borrowers, and ensure that student loan borrowers, especially those committed to careers in public service, benefit from a stronger plan in 2014. The Administration also has proposed that the debt forgiven through Income-Based Repayment should not be taxed.

In addition to ensuring that loans are affordable, we need to make sure that they are sufficiently and appropriately available. While there are well-founded concerns about the increasing debt levels among some borrowers, it is also true that current annual loan limits in the Federal student loan programs are inadequate for certain students. The existing Perkins Loan Program provides students with additional low-interest loans, but the program is too small, inefficient, and inequitably structured to help many students. For these reasons, this Administration supports creating an expanded, modernized Perkins Loan program that will provide \$8.5 billion in new loan volume annually—8½ times the current Perkins volume—and, when fully implemented, would reach over a total of 3 million students at as many as 2,700 additional post-secondary education institutions.

As important as grants, tax benefits, and loans are, it is important to keep in mind there are two sides to the college affordability ledger. There is financial aid on one side and college costs on the other. States and colleges themselves have a responsibility to keep cost growth down. We know that declining State spending is a major driver of tuition increases at public universities. Colleges themselves need to keep an eye on their mission of providing a quality education at an affordable cost. Public institutions like the University of Maryland and some private institutions like Cornell are finding ways to combat rising tuition without compromising on quality. We know that there are ways to improve learning at a lower cost. Carol Twigg's work at the National Center for Academic Transformation is encouraging the thoughtful use of technology to drive down instructional costs while simultaneously improving student outcomes is heartening. I want to join President Obama in challenging every university and college president to do more of the same to get a handle on spiraling costs.

Given the varying prices, the likely payoffs of different post-secondary education programs, and the significant consequences for getting into trouble with debt, it is important for students and families to make informed decisions about which college to choose and how to pay for it. We need to make sure that they have the information they need to evaluate schools based on price, quality, and fit. Just as it should be easy for Americans to compare mortgage or credit card offers, it should be easy to compare colleges and financial aid packages. We are implementing a number of new provisions in the Higher Education Act to empower them to make those comparisons so that students and families have the information they need to vote with their feet.

The College Navigator Web site maintained by our National Center for Education Statistics includes average net price tuition amounts, which gives students and their families a more accurate picture of information on college costs than just a school's "sticker price." By October, all institutions of higher education will have their own net price calculators on their Web sites. The Department has given schools a template to use for the net price calculator, or they can design their own.

Later this month, we will unveil a new College Affordability and Transparency Center to provide information on postsecondary institutions' published tuition and net prices, ranked from high to low, and indicating which institutions' prices are

climbing fastest. And we are developing a model financial aid award letter that, if adopted, would make it easier for students to compare financial aid offers across schools.

We're proud of these efforts, but they will help only if students use them. That is why we created the Financial Education for College Access and Success program last year. This initiative provides funds for State-led efforts to, among other things, improve student financial literacy. For example, the Tennessee Department of Education will develop and evaluate new instructional materials—which will be available at no cost to States—that help middle school and high school teachers prepare their students for financial decisions related to investing in postsecondary education. We also established a partnership with the Federal Deposit Insurance Corporation and the National Credit Union Administration to provide students with safe, affordable deposit accounts so they can learn about finances while managing and saving their own money. If we wait until students are taking out a loan before providing relevant and effective financial education and counseling then we are too late.

Just last week, our Federal Student Aid office invited guaranty agencies to propose innovative business models that we expect will include new, outcomes-focused approaches to provide financial counseling, debt management, and default prevention without additional costs to taxpayers.

HELPING MAKE POSTSECONDARY EDUCATION PAY OFF

We are also working hard to encourage efforts by institutions to improve the quality of instruction at an affordable cost. An example of this is our effort, we are collaborating with the Department of Labor on a program they administer, to support and enhance education and training programs that can be completed in 2 years or less through the \$2 billion investment in the Trade Adjustment Assistance Community College Career Training Grant program that was funded as part of last year's legislation that included student loan reforms.

As you may know, this program's application period for the first \$500 million dollar investment closed earlier this spring, with award notifications scheduled to take place later this year. Our hope is that every community college in the country; indeed, every school in the country, will have access to all of the high-quality materials created with these funds.

I am also calling on States and colleges to boost completion rates, because we know that students who fail to graduate often struggle to repay their loans. Currently, only about 60 percent of students at 4-year colleges earn a degree within 6 years of initial enrollment. At 4-year for-profit institutions the completion rate is only about half that. At 2-year institutions, students in for-profit programs earn credentials at rates slightly above their peers at public programs, but nonetheless only one student graduates from these programs at these institutions for every two who leaves with no degree to show for the time and investment.

Our fiscal year 2012 budget request includes investments that are targeted to help disadvantaged students enroll in and complete college. Our request includes a new national innovation fund to support programs that explore innovative practices to accelerate learning, boost completion rates, and hold down tuition costs. We are also proposing to reward States and colleges that produce more college graduates. We have also released a "College Completion Tool Kit" of low cost and no cost strategies that States can pursue to boost attainment and associated Federal revenue streams to draw upon these strategies. The best jobs and fastest growing firms will gravitate to communities, counties, and States with a highly educated workforce, and we are committed to helping each State educate its way to a better economy.

CONCLUSION

Ensuring that every qualified American has the opportunity to pursue his or her college goals is among the most critical priorities for this Administration.

Equipping our citizens with the skills and knowledge offered by our higher education system will ensure that all Americans can contribute to our shared goal to out-build, out-innovate, and out-educate the rest of the world. The Administration will continue to work tirelessly to ensure that students and families have the resources to pay for college and the tools they need to make the best decisions for themselves about pursuing postsecondary education.

The value of a college degree remains much higher than its price—and higher education, in general, is certainly still a worthwhile investment. But, we need to continue to ensure that students can afford to enroll in and complete college and that they have the protections in place if by chance, their college choices do not pay off.

	Fiscal Year 2007 Official				Fiscal Year 2008 Official				Fiscal Year 2009 Draft			
	# of Schools	Borrower Default Rate (%)	# of Borrowers Defaulted	# of Borrowers Entered Repayment	# of Schools	Borrower Default Rate (%)	# of Borrowers Defaulted	# of Borrowers Entered Repayment	New # of Schools	Borrower Default Rate (%)	# of Borrowers Defaulted	# of Borrowers Entered Repayment
Public	1,614	5.9%	102,919	1,721,629	1,618	6.0%	104,292	1,720,664	1,628	7.3%	132,379	1,812,646
Less than 2 yrs	144	7.5%	595	7,832	145	6.7%	523	7,736	143	9.9%	756	7,626
2-3 yrs	846	9.9%	48,287	483,721	848	10.1%	49,331	487,436	859	12.1%	64,005	526,399
4yrs(+)	624	4.3%	54,037	1,230,076	625	4.4%	54,438	1,225,492	626	5.2%	67,618	1,278,621
Private	1,718	3.7%	29,558	778,296	1,702	4.0%	30,620	761,129	1,706	4.7%	39,586	830,957
Less than 2 yrs	46	12.6%	449	3,538	45	14.1%	537	3,794	44	14.8%	616	4,160
2-3 yrs	188	8.1%	1,204	14,798	180	8.2%	1,167	14,157	173	10.1%	1,527	15,053
4yrs(+)	1,484	3.6%	27,905	759,960	1,477	3.8%	28,916	743,178	1,489	4.6%	37,443	811,744
Proprietary	2,008	11.0%	92,731	838,328	2,118	11.6%	103,764	889,034	2,197	15.2%	155,211	1,016,277
Less than 2 yrs	1,039	12.0%	15,603	129,627	1,105	12.4%	15,418	123,454	1,153	14.0%	18,624	132,485
2-3 yrs	702	12.5%	33,030	262,640	723	12.6%	34,538	272,215	744	15.0%	43,245	287,536
4 yrs(+)	267	9.8%	44,098	446,061	290	10.9%	53,808	493,365	300	15.6%	93,342	596,256
Foreign	435	2.2%	163	7,276	421	2.2%	176	7,902	424	5.5%	493	8,808
Unclassified	1	0.0%	0	5	1	0.0%	0	5	1	0.0%	0	4
Total	5,776	6.7%	225,371	3,345,534	5,860	7.0%	238,852	3,378,734	5,956	8.9%	327,669	3,668,692

Comparison of FY 2009 Draft Cohort Default Rates to Prior Two Official Calculations
Calculated January 15, 2011

The CHAIRMAN. Thank you very much, Secretary Kanter.
We will begin with 7-minute rounds. I know Senator Bennet had some questions, too.
First of all, we often hear that the gainful employment rule only affects for-profit schools. Is that correct?

Ms. KANTER. The gainful employment rule actually protects all students, public, for-profit, nonprofit, wherever programs reside that lead to gainful employment.

The CHAIRMAN. Can you explain how the Department of Education expects the gainful employment rule to influence the behavior of institutions?

Ms. KANTER. Yes. One thing we are doing is disclosure. It is a very important tool for providing students and families with the information they need to make good decisions. Our final rule will give them more disclosure information.

On July 1st we will be publishing completion rates, placement rates, total debt, total tuition charges at institutions, so that is going to help families make better choices. In terms of the for-profit sector, we have an improvement process. The gainful employment regulations are going to protect all students, that is the purpose of this, but what we wanted is a rule that will go after the bad actors, as Secretary Duncan has said, and create an improvement model so that more of the sector can educate students for the quality that they came to the schools to get.

The CHAIRMAN. We have presented evidence that some for-profit colleges are making institutional loans to students at interest rates as high as 18 percent, I presented that earlier. And the expected default rates exceed 50 percent, the schools themselves expected default rates to be over 50 percent, yet they make these loans with high interest rates.

I pointed out, Secretary Kanter, where that money comes from. It doesn't come from Wall Street, that money comes from the taxpayers. So they take the money that comes through with student loans and Pell Grants and then they can turn around and make institutional loans to students to keep on that 90/10 split. And yet they expect half of their students to default.

You have run an institution of higher education. Haven't you?

Ms. KANTER. Yes.

The CHAIRMAN. What do you think about a school's decision to make those kinds of loans? Would your school make those kinds of loans, if you knew that half of them were going to default?

Ms. KANTER. No, we wouldn't.

The CHAIRMAN. Then why do you think these schools—and what in the gainful employment rule is ever going to do to make that change?

Ms. KANTER. Right now we have a situation where career colleges are measured by a 2-year cohort default rate, meaning that we track the borrowers who enter repayment within a 2 year window. In 2008, the latest year for which we have official data, the students defaulted at a rate of 11.6 percent compared to 4 percent of students at privates and 6 percent of students at publics.

So we have looked at recent changes in the law. And the reasoning behind the changes were due to concerns that colleges weren't managing their default rates, as you said.

The CHAIRMAN. That is right.

Ms. KANTER. The 3-year rate is going to give us a better picture of how many borrowers are going to be able to repay their student loans. And we have been giving these rates to colleges, for informational purposes, over the last couple of years to help them better

track their progress and work to fix those programs before sanctions would apply.

In the case of for-profit institutions, we want them to use these tools to better manage the kind of debt that students are taking, far beyond students signing up for loans. Particularly we have released lifetime default rates, as you heard this morning, to also be an area that we want some change in the sector.

The CHAIRMAN. Is the Department going to take into account 10-year default or lifetime default rates, which I showed this morning sometimes are as high as 70 percent, by their own internal documents of the for-profit schools.

Ms. KANTER. Right. I mean that is something we will have to look at, absolutely. But frankly, we want to get students right at the beginning, in the first year—before they take a loan. That is really where the interaction has to take place. And then once they get a loan how to best manage it and where they can get the best value.

The CHAIRMAN. Madame Secretary, I understand that and as I said earlier, I considered the gainful employment rule modest, it certainly was a step back from what the proposed rule was and I thought the proposed rule was modest and now we have this new thing. Is it better than nothing? Yes. Better than nothing. But I must say to you that I looked and what does it say to you, Madame Secretary, that after this rule was published last week, stock prices of these larger for-profit schools soared? What does that say?

Ms. KANTER. Right. We don't control the markets.

The CHAIRMAN. I am not saying the market out there—they saw the gainful employment rule and the stocks boomed.

Ms. KANTER. We want the sector to succeed, I think that was one of the fundamental tenets of the rule. We have 11 percent of students in these programs, we have to create a model that is going to help them improve and actually target the worst performing programs and either have them improve or eliminate its eligibility for Federal aid.

The CHAIRMAN. So you are saying it is fine for them to make even more profits than what they are making?

Ms. KANTER. I can't judge—

The CHAIRMAN. Is that what you are saying?

Ms. KANTER [continuing]. How much profit an institution or a corporation—

The CHAIRMAN. That doesn't—

Ms. KANTER [continuing]. Wants to build, but I do think their business models ought to be based on consumer protection, what is best for students. I think the goals ought to be to lower the default rates, that was one strong part of our proposal. To increase the graduate rates which is a second part. And to actually do the front-end services so students don't have to take loans at higher interest rates than the average. I mean that is a real concern for us.

The CHAIRMAN. What it said to me was that the investors and Wall Street looked at this and said, "you know, for the next 3 or 4 years, at least, things are going to be pretty good, because this doesn't go into effect until 2015."

Ms. KANTER. We publish 14 rules including gainful employment. So we think the package of program integrity rules, when taken to-

gether, will really provide the kind of direction, and I think that many have said this is a positive first step. It is not the be-all and the end-all, but we had to make some progress and I think we have done our best to create a good starting point for this.

The CHAIRMAN. I read your background, Secretary Kanter, you spent your career working with low-income students. If you were here for the first panel, I don't know when you arrived, but see when you have a business model out there that says you will make more profit, you will make more profit by getting the poorest people in, obviously because they get the most Pell Grants and the most student loans, and so you target, as we heard, vulnerable people and you bring them in, because that is how you increase your profit. And if they default after 3 years, who cares? It is no skin off their teeth. They keep the loans, they keep the Pell Grants.

We have seen the profit structure of some of these schools, tremendous. I am not against profit but when it comes only from taxpayers, I mean this is not something—they aren't making something that is competing with somebody else, a device or something that they have patented, some new invention, this is education. And it is coming from the taxpayers. And I just wonder how they can say it is for-profit when over 90 percent of their money is coming from the taxpayers. How can that be for-profit?

Ms. KANTER. Right.

The CHAIRMAN. People said there is a role for for-profit's, as I have said before, there are some that are doing a great job out there. But, it looks to me that in the last, 15 years I would say, perhaps—well, I go back to when it was increased from 85/15 to 90/10, in 1998, I believe and when the rule was promulgated in 2001 on paying recruiters to recruit, the so-called Safe Harbor Provisions of 2001, and then the final blow was in 2005 when the final thing was that 50 percent of our students had to be on campus was taken out, so everybody could be online. And you have seen a sector here that, whereas I pointed out before in many of our hearings, many of these large schools are owned by Wall Street investors and investment houses, private equity companies.

We have listened in, our staff has, I didn't, listened in on the investor's call and the investor's call for the schools that they listen in on, not one word was said about how are the students are doing, it was all, how much money are you making. The last quarter you made great profits, and that was wonderful. That is the investor's call, because it is geared toward making more profits.

As I said, I am not against profits but when it is coming from the taxpayers of the country and it is going after the poorest people in our society, and they are being put at risk through aggressive recruiting, and I have put this out on the floor of the Senate, I have read the different kinds of ways that they go after students or people, like Mr. Schmitt and others that are vulnerable, maybe don't have any family background of people going to college to try to guide and direct them, I think it is what Miss Abernathy said, you have a toxic mix. A toxic mix. And I believe it is going to take more than those rules.

I think it is a first step. It is a modest first step, granted. But to really bring this, I think into line and to make the commitment of these schools to the success of their students, both in school and

after school, to make that equivalent, equal to their commitment to the profit side, then you are getting somewhere. That is not where it is. Their commitment is not to those students. The commitment is to the profit side and somehow that has to be righted and I think it is going to take a much more aggressive policy than what we have done in the past.

I didn't mean to take so long. But I didn't know if you had a response to that. You don't have to respond to it if you don't care to.

Ms. KANTER. I can say that it is totally unacceptable to prey on students. Students are going to all institutions to get a quality education. Accreditation has got to do a better job. We are doing a lot of work in that arena. We have an advisory commission to look at high impact strategies that the secretary can think about the AGA reauthorization in the future.

In my personal experience, we can help poor students succeed without sending them into debt. And that is why our rules are looking at practices like incentive compensation, the misrepresentation and the certain thresholds that the institutions have to meet. I mean we are looking at a whole package of reforms to help that particular sector do a much better job so that students can be first, students must be first in this equation. That is why students are coming to college.

I am concerned. The 90/10 rule was based upon a market principle that said, 10 percent would at least be devoted to the value that an individual would pay to go to those institutions. So there are other ways that are being accounted for that 10 percent, that can certainly be revisited, but that is a great concern as well.

The CHAIRMAN. I am just concerned about the students who have been there and the students who are there now, but also for the next 3 or 4 years. And you know, we are up to what, \$37 billion now? How much?

Ms. KANTER. Thirty?

The CHAIRMAN. Thirty billion. We are up to \$30 billion a year now going to the for-profit sector and that has been increasing and increasing. I am going to be here and I am going to see next year if it increases more and it increases more and increases more, that is why I am alarmed that we aren't doing more to look ahead and say, "wait a minute, we have to do some things now or we are going to be either further in the hole and we are even going to have even more students with more debt, not having diplomas, not having succeeded in these for-profit schools. And we will be back here 3 years from now with the same kind of problems we have now." That is my big concern.

I would like to thank each of our witnesses for being with us today. We will leave the record open for 10 days and witnesses may submit statements for the record, or supplemental statements.

I think we have heard today how for-profit colleges target low-income students as sources of revenue, much like the subprime lenders did in the mortgage crisis. The difference, though, as we have seen, between a mortgage crisis and the for-profit colleges, is that students are left with debt that stays with them for the rest of their lives. People who lost their houses can walk away from their house, students can't walk away from this.

Why should the taxpayers be expected to invest in these schools when even the companies themselves write off up to 80 percent of their institutional loans? If they think it is a bad investment why should the taxpayers think it is a good investment?

The Department of Education I think, has taken some good first steps. This hearing, I think, has made the case that we need to take additional action to protect students and taxpayers from subprime colleges. These schools need to be held responsible for their students being unable to repay the loans.

And with that, this hearing of the HELP Committee will stand adjourned.

[Additional material follows.]

ADDITIONAL MATERIAL

THE LEADERSHIP CONFERENCE,
February 3, 2011.

Hon. ARNE DUNCAN,
Secretary of Education,
U.S. Department of Education,
400 Maryland Avenue, SW,
Washington, DC 20202.

Re: Proposed “Gainful Employment” Rule, Docket ID ED–2010–OPE–0012

DEAR SECRETARY DUNCAN: On behalf of The Leadership Conference on Civil and Human Rights, a coalition charged by its diverse membership of more than 200 national organizations to promote and protect the rights of all persons in the United States, along with the undersigned organizations, we write to express our collective support for a strong “gainful employment” rule.

The Department’s proposed regulation to define gainful employment under Title IV of the Higher Education Act of 1965 and to protect students from programs that do not deliver on their marketed promises of a better future falls within our mission and has generated significant support from our members. In fact, many of our members—including the American Association of University Women, the American Federation of Teachers, the Mexican American Legal Defense and Educational Fund, the National Council of La Raza, the National Education Association, and the United States Student Association—submitted comments in response to the Federal Register notice published on July 26, 2010. Accordingly, we urge the prompt adoption of a strong final gainful employment rule, one that will protect students and taxpayers no later than the 2012 academic year.

In order to be eligible to receive student financial aid grants and loans under title IV, current Federal law requires all post-secondary career education programs, including *all* public and nonprofit college programs of less than 2 years and nearly all for-profit college programs, to “prepare students for gainful employment in a recognized occupation.” What constitutes “gainful employment,” however, has yet to be defined. The proposed rule, if finalized, would fill this void and enable long overdue Federal enforcement, protecting students and taxpayers alike from millions of dollars in wasted Pell Grants and defaulted student loans.

The need for the rule is particularly urgent for students enrolled in the for-profit school sector. *The American Prospect* recently noted that,

“[f]or-profit schools have little incentive [now] to care whether their students land well-paying jobs; if graduates can’t pay back their loans, taxpayers will, because the Federal Government guarantees the loans.”

Students enrolled in for-profit schools represent just 10 percent of all postsecondary students in the United States but account for 44 percent of all student loan defaults. The proposed rule would provide significant protection to students, by sparing them entry into a proven dead-end educational track, while also sparing taxpayers otherwise on the hook for their Federal student loans.

We support the approach in the proposed rule, which makes program eligibility under title IV contingent on median student debt-to-income ratios and repayment rates. Such markers are sound proxies for meaningful preparation for employment and ensuring that students are not incurring unmanageable levels of student loan debt. Those programs that serve their students well will easily pass this review, narrowing the Department’s focus to those that fall short on delivering the American Dream.

These proposed protections are particularly important for (1) **students of color**, who represent about half of the undergraduate students in for-profit programs; (2) **low-income students**, who make up 6 in 10 for-profit college students; (3) **women**, who comprise nearly two-thirds of for-profit college undergraduates; and (4) **armed-service members and veterans**, a growing target student body for many of for-profit colleges since the passage of the Post-9/11 G.I. bill:

- **Minorities:** While most (66 percent) underrepresented minority students attend public colleges, they are disproportionately represented at for-profit colleges. African-American and Hispanic students make up 28 percent of all undergraduates, but they represent nearly half (46 percent) of undergraduates at for-profit colleges.—Source: National Postsecondary Student Aid Study 2008.

- **Low-Income:** While most (70 percent) low-income students attend public colleges, they are disproportionately represented at for-profit colleges. Sixty-four per-

cent of students attending for-profit colleges have incomes below the median for all students.—Source: National Postsecondary Student Aid Study 2008.

• **Intersection of Minority and Low-Income Groupings:** At for-profit colleges, low-income and minority undergraduates are about three times more likely to borrow Federal student loans, and four times more likely to borrow private student loans, as their counterparts at public or private nonprofit colleges. Eighty-eight percent of students with below-median incomes attending for-profit colleges borrowed Federal student loans in 2007–8, compared to 33 percent of those attending public and private nonprofit colleges. Forty-one percent of students with below-median incomes attending for-profit colleges borrowed private (non-Federal) student loans in 2007–8, compared to 12 percent of those attending public and private nonprofit colleges. Eighty-six percent of African-American undergraduates attending for-profit colleges borrowed Federal student loans in 2007–8, compared to 29 percent of those attending public and private nonprofit colleges.—Source: National Postsecondary Student Aid Study 2008.

• **Women:** Women make up almost two-thirds (64 percent) of the undergraduates attending for-profit colleges. The gender imbalance is especially stark at private for-profit colleges of less than 2 years, where women comprise three out of four (75 percent) of undergraduates. To put this in context, women make up 55 percent of those attending public colleges of all levels and 58 percent of those attending private nonprofit colleges.—Source: 2008–9 data from the Federal Integrated Postsecondary Education Data System.

• **Armed-Service Members and Veterans:** The Senate Health, Education, Labor, and Pensions Committee found that 20 for-profit colleges pulled in \$521 million in taxpayer-funded military and veterans tuition assistance in 2010, nearly eight times more than in 2006.—Source: John Lauerman, *For-Profit Colleges Scam Military for \$521 Million, Report Says*, Bloomberg Newswire, Dec. 9, 2010.

To be clear, the civil and human rights community supports policies that maximize *meaningful* postsecondary educational and *equitable* employment opportunities. Unfortunately, too many for-profit college recruitment practices targeted at vulnerable students appear to sacrifice “quality” college opportunities in favor of “quantity” profits for the institutions. It is worth noting, however, that we do not believe all for-profit colleges are bad actors. The way to separate the wheat from the chaff is to finalize and enforce a vigorous gainful employment rule.

We understand the final comment period has closed. Given that opponents of the rule have asked the Department to retract, delay or weaken the regulation, however, we feel a strong need to communicate our members’ support for a strong regulation. In addition, on behalf of our members that *did* weigh in with the Department during the public comment process, we respectfully request a meeting with you to discuss the benefits of the proposed rule and to reply to claims by opponents.

Finally, as raised by some of our members during the comment period, many stakeholders believe the final rule should be stronger than the draft rule. For example, a number of organizations believe that students—and in particular the more vulnerable and underrepresented students who disproportionately attend for-profit colleges—deserve career education programs that are held to even *higher* standards than those that the Department has proposed. Given that student indebtedness and default rates are on the rise, we believe this is an important first step for the Department to take and one that should be taken immediately.

In closing, we agree with your recent observation that “some bad actors are saddling students with debt they cannot afford in exchange for degrees and certificates they cannot use.” To that end, we applaud the Department for proposing these regulations, which will provide much-needed oversight for career education programs that leave students with little other than burdensome debt and dashed dreams. We encourage the Department to act quickly and decisively and issue a final regulation.

We look forward to hearing back from your office regarding a meeting with members of The Leadership Conference. In order to schedule the meeting, or to discuss any of the points raised in this letter, please contact Dianne Piché, Leadership Conference Senior Counsel, at 202–466–3311.

Thank you for your consideration.

Sincerely,

WADE HENDERSON,
President & CEO.

NANCY ZIRKIN,
Executive Vice President.

American Association of University Women
American Federation of Teachers

AFL-CIO
 Center for Media and Democracy
 Consumers Union
 Gay Lesbian and Straight Education Network
 Hip Hop Caucus
 Mexican American Legal Defense and Educational Fund
 National Association for the Advancement of Colored People
 National Council of La Raza
 National Education Association
 National Partnership for Women and Families
 National Women's Law Center
 Southeast Asia Resource Action Center
 Southern Poverty Law Center
 United States Student Association

LAW OFFICES, WILLIAMS & CONNOLLY LLP,
 WASHINGTON, DC 20005-5901,
 June 16, 2011.

Hon. TOM HARKIN, *Chairman,*
Committee on Health, Education, Labor, and Pensions,
U.S. Senate,
Hart Senate Office Building,
Washington, DC 20510.

DEAR CHAIRMAN HARKIN: I am writing on behalf of Kaplan Higher Education Corporation to set the record straight on a number of matters touched upon in the testimony of a former Kaplan student at the hearing before the Senate Committee on Health, Education, Labor, and Pensions on June 7, 2011. I ask that this letter be made part of the record of that hearing.

The faculty, staff and administrators at Kaplan care about each one of its graduates and sympathize with the difficulties this student has faced in finding employment. At the same time, this student's testimony did not paint a complete and accurate picture of his experiences at Kaplan, the placement rate of the program in which he participated, or the possible reasons for his current unemployment.

First, in his written statement to the committee the student characterized his Kaplan-arranged 2004 externship experience as a "less than rewarding experience." That contrasts quite sharply with what this student wrote on a student survey at the time of his externship, a copy of which was provided to your staff in advance of the hearing. Asked at that time, "What portion of your externship experience was most beneficial to you?" he answered: "The most beneficial experience was seeing what a paralegal really does." Asked "What portion of your externship experience was least beneficial to you?" he answered: "*Can't help you. I have found it all very beneficial.*" (Emphasis added). Asked "What changes would you recommend to the externship program at the College?" he answered: "*None. The externship program works reasonably well as is.*" (Emphasis added). In short, the student felt that the externship experience was in fact a rewarding one at the time.

Second, the student failed to acknowledge anywhere in his written or oral testimony that upon completion of his Associate's degree program he did, in fact, receive and accept a permanent offer of employment from the firm with which he had his externship. He went to work at the firm and only 5 months later informed Kaplan that he had left the firm. While there is no question that he left the firm for good reasons, it was misleading for the student to omit this placement from his testimony and then to express surprise to the committee that Kaplan regarded him as having been placed when he graduated. The student was, in fact, placed in a permanent position, and the committee should be aware of that fact.

Third, the student testified that he knew of no more than four students out of the dozens in his class who secured permanent employment after receiving their Associate's degrees. In fact, as Kaplan informed your staff before the hearing, there were 22 students in the paralegal graduating class in 2004 at Cedar Falls. Of those who did not continue their education beyond the Associate's degree, 14 of 17 were placed. In fact, the latest overall job placement rate for all programs at the Cedar Falls, IA campus is 94 percent.

Fourth, the student testified that the Dean at the Cedar Falls campus mentioned that Kaplan had a law school (Concord Law School in California) but failed to mention that graduates of Concord cannot take the Iowa Bar exam. As the student's written statement makes clear, the Dean's alleged comment about Kaplan's law school was made in the course of a conversation about courses in the second year

of the Associate's degree program. At that time, as the student told me and your staff members in a joint telephone interview conducted the week before the hearing, law school was no more than a distant thought on the horizon. Associate's degree recipients are not eligible to apply for law school. This student didn't even begin his studies toward a Bachelor's degree, which would be required for admission to law school, until 4 years after this passing conversation with the Dean, and even then there is no indication that law school was part of his plan. His written statement says simply:

"In early 2006 I enrolled [in the Bachelor's degree program at Kaplan University], eager to continue my education since I assumed it had to have been my fault that I never received an interview. I also wanted desperately to leave the customer service industry and I thought that a 4-year degree would better help me do that."

In short, he enrolled for further education at Kaplan University because he was seeking a Bachelor's degree, not because he intended to go to law school.

This former student never, in fact, applied to Concord or any other law school and, apparently, never even visited the Concord Law School Web site. To our knowledge, he never took the Law School Admission Test. If he had contacted Concord Law School or visited the Web site, he would have learned immediately what he learned from his instructor in the Kaplan University Bachelor's degree program—that he would not be eligible to sit for the Iowa bar with a Concord degree. In short, this student was never misled about the effect of a Concord degree, and he did not enroll in any Kaplan program because of any misunderstanding on that subject.

Fifth, the student told me and your staff in our joint interview with him that he could only recall five paralegal vacancies for which he has applied since receiving his Bachelor's degree in paralegal studies in 2008. A survey published on *Careerbuilder.com*, however, indicates that there have been 152 paralegal vacancies that have existed in Iowa during the last 6 months, with only 1.7 job seekers per opening. This student lives in a town of 4,200, where paralegal jobs are not likely to exist, but many of the 152 vacancies have been within commuting distance from his home. Yet he seems to have applied for only five. And he has affirmatively not considered positions in Des Moines, where the largest number of paralegal jobs exists, because he is not interested in moving to Des Moines.

Nor has this student availed himself of the services of the Kaplan Cedar Falls Career Services office at any time since he received his Bachelor's degree from Kaplan University. As a graduate of the Cedar Falls campus, he is entitled to seek the assistance of the Cedar Falls Career Services office at any time during his career. Career Services remains available to assist him at this time.

Sixth, I should note that this student was mistaken when he testified that he now owes \$45,000 in student loans. The National Student Loan Data System indicates that he owes approximately \$38,000. The average Kaplan University graduate leaves with about \$28,000 in debt. This compares favorably to the average debt loads of the graduates of the public and private colleges in Iowa, according to the Project on Student Debt:¹ \$31,000 at Iowa State University; \$22,684 at the University of Iowa; \$34,386 at Clark College; and \$34,919 at Drake University.

Finally, Mr. Chairman, I know that the testimony of this student was offered merely as an example of the burdens that one student has faced. As noted above, the experience of this student was not typical of the students in the paralegal program at Cedar Falls. Nor is it typical of Kaplan University students. To provide a different perspective, I would like to tell you of the story of Maria Zenó, a 2008 graduate of Kaplan University's paralegal program who has authorized us to recount the following:

Ms. Zenó has been employed by the same lawyer for 9 years. During one of her early years with this lawyer, she was going through materials with a lawyer from a different firm, when she caught something in that attorney's paperwork that was not accurate. The lawyer refused to take Maria seriously because of her lack of formal postsecondary training. Shocked by his reaction, Maria enrolled in Kaplan University the same day. Maria explains that it was not easy to complete her studies: "I was juggling school, work and a personal life that required me to care for my three children and a husband. It was a rocky road, but I got through it." Maria received her Bachelor's degree in paralegal studies in 2008 and was immediately granted a \$3,000 pay increase by her employer. Maria continues to work for the same attorney today, and her future is looking bright. She paid back her student loans of approximately \$38,000 in 5 years, and she is now enrolled in law school. "Because of my hard work at Kaplan," she says, "I was top of my class in the first

¹http://projectonstudentdebt.org/state_by_state-view2010.php?area=IA.

year of law school and I was able to get scholarship money.” Maria is looking forward to completing her law degree in 2013. Her boss, a sole practitioner, plans to make Maria his partner once she passes the bar. She aspires someday to argue before the Supreme Court. She says that she will never forget the attention she received when she was a student at Kaplan University.

Mr. Chairman, Kaplan very much appreciates your remarks at the last committee hearing, when you stated that:

“Kaplan stands alone among the large, for-profit education companies for having taken what are, in my opinion, real and significant steps to reduce high withdrawal rates and high default rates by implementing the Kaplan Commitment program.”

Andrew Rosen, Kaplan’s CEO, is grateful in particular for your complimenting him and Kaplan as “stand-outs for the level of cooperation that they have offered to the committee through the course of this investigation.” Kaplan has taken these matters very seriously, and believe me when I say that it is truly encouraging to everyone at Kaplan to know that their efforts have not gone unnoticed.

Sincerely,

KEVIN T. BAINE.

LETTER REGARDING KAPLAN’S STATEMENT IN RESPONSE TO TESTIMONY AT U.S. SENATE HEALTH, EDUCATION, LABOR, AND PENSIONS COMMITTEE HEARING JUNE 7, 2011

Kaplan recently released a statement calling into question the accuracy of my testimony at the U.S. Senate Health, Education, Labor, and Pensions Committee Hearing regarding for-profit colleges. I feel it necessary to address the points that Kaplan has made, not in the spirit of revenge, but in the spirit of holding the for-profit education industry accountable to their students. There is no amount of criticism I can give Kaplan that will make me feel better, or my future brighter. I want to put my days at Kaplan and my degree behind me in order to try to salvage a viable future. Fortunately, Kaplan has recently taken positive steps to put students first through the program, “The Kaplan Commitment,” which allows students to attend for 5 weeks with no commitment. While this is a step in the right direction, I did work hard for a degree that has ultimately done nothing to improve my life. I understand that Kaplan had to make a statement about my testimony from the recent hearing in order to preserve their reputation, and I now feel that it is necessary for me to clarify what was written.

ADDING CONTEXT TO THE STUDENT SURVEY

Kaplan wrote:

“First, the student today characterized his Kaplan-arranged 2004 externship experience as a ‘less than rewarding experience.’” That contrasts quite sharply with what this student wrote on a student survey at the time of his externship. At that time, when asked “What portion of your externship experience was most beneficial to you?” he answered: “The most beneficial experience was seeing what a paralegal really does.” Asked “What portion of your externship experience was least beneficial to you?” he answered: “Can’t help you. I have found it all very beneficial.” Asked “What changes would you recommend to the externship program at the College?” he answered: “None. The externship program works reasonably well as is.”

I did find that the experience of observing what a paralegal does in a solo practitioner office as beneficial because it allowed me to discover in practical terms what I did and did not like about my chosen field. However, while the externship allowed me to learn about the different roles in a law office, I soon realized that these were roles that Kaplan’s programs did not prepare me for. Additionally, while I did indicate on the survey that I would not recommend any changes, at this time I was more interested in a positive reference letter and felt that anything negative I said would have been held against me. I was approaching graduation and was excited at the thought of putting my education to work in the real world. However, I have now had my degree for some time now and have sadly realized that it is likely that I may never find a job relating to my degree.

ACCEPTING A JOB IN A CORRUPT ENVIRONMENT

Kaplan wrote:

“In today’s testimony, this student fails to acknowledge that, in fact, he received and accepted a permanent offer of employment from the firm with which he had his externship. This student then resigned from this job.”

While Kaplan is correct that I did accept an offer of employment for the firm with which I had my externship, Kaplan is incorrect to leave out information regarding the corrupt environment that led me to leave shortly after. I interned at Hall law firm from February 2004 to early April 2004, working for free past the normal end of the externship in hopes of securing employment. I was not hired at that time and thereafter left the unpaid externship and began to seek paid work in the area. Upon stopping at the office to pick up a few personal items from my externship, the attorney then offered me a job that I accepted. I worked at the law firm for less than a month due to the increasingly erratic and fraudulent behavior of the attorney. I received one payment of \$200. After I left the office, I later learned that he had been suspended indefinitely. Although I do think Kaplan could do a better job in placing students in externships, I do not blame Kaplan or myself for how the events unfolded. I later learned that Kaplan counted me as employed for their statistics and therefore a “success story.” However, I do not consider this short experience as employment and definitely not a success story.

KAPLAN’S DEFINITION OF SUCCESS

Kaplan wrote:

“Putting the student’s own experience aside, the experience of other students in his class was decidedly different. Of the others who did not continue their education beyond the Associates degree, 13 of 16 were placed. In fact, the latest overall job placement rate for all programs at the Cedar Falls, IA campus is 94 percent.”

Kaplan claims to have a placement rate of 94 percent, but does not provide any information as to how this number is calculated. I personally know of one IT graduate told by potential employers that Kaplan programs do not teach the skills needed in order for students to succeed in the workforce. I remember that Kaplan also pushed him to sign a waiver releasing Kaplan of any job placement responsibilities in order to get his diploma. If I am considered a successfully placed graduate to Kaplan, how many other Kaplan graduates have negative similar stories to mine, yet are considered a success?

DILIGENT JOB SEARCH

Kaplan wrote:

“Second, unfortunately this student has not availed himself of the services of the Kaplan University Cedar Falls career services office during this period. Had he done so the office could have directed him to the roughly 150 paralegal jobs posted on multiple job boards in Iowa during the last 6 months—many within commuting distance of his home. The career services office at Kaplan Cedar Falls is available to all graduates throughout their careers, and it remains prepared at any time to assist this witness in finding employment should he wish to avail himself of that assistance.”

If this number of job postings is correct on Kaplan’s Career Services department job board, then I congratulate Kaplan for improving their Career Services since I attended. However, when I was using Kaplan’s Career Services in 2006, career services had considerably less opportunities for paralegals. Most of the job opportunities were for wait staff or retail clerks, which are not the type of jobs that I went back to school and worked hard to obtain a degree for. I soon developed my own diligent job search process without any help by Kaplan, and continued this search even when I moved 80 miles away.

SETTING THE RECORD STRAIGHT ON CONCORD LAW SCHOOL

Kaplan wrote:

“In his testimony, Mr. Schmitt said that a dean mentioned Concord Law School, but did not say that students can only sit for the bar in the State of California. According to Schmitt’s written testimony, this was a casual encounter he had while he was in his associate’s degree program, not an official conversation with a Concord admissions advisor. At that time, Mr. Schmitt was not eligible to apply to Concord, but had he looked at Concord’s Web site or reviewed any Concord materials, he would have seen that Concord’s accreditation was very clearly articulated.”

This was a conversation I had with a Kaplan education professional. As such, he should have known that a certain amount of weight would be given to his words. While I am sure I could have eventually found the status of Concord School of Law had I gone to the Web site, I assumed, naively it turns out, that I could also obtain information like this by a representative of the school. When talking to a dean employed by Kaplan about my future plans involving law school, information about the restrictive limits on where I could actually use that degree seems to be an important piece of information that should most definitely be talked about. I feel that withholding this type of information is very misleading.

Upon reading my clarifications and explanations of the statements made by Kaplan I hope the members of this committee and the public who read this statement have a better context upon which to judge my testimony. My hope and reason in testifying is that fewer students will have to go through the hard work I did only to find that none of it leads to a better future. My battle is not with Kaplan in particular, but to try and ensure that all for-profit education institutions begin to put students first. The failure to provide a proper and fair regulatory and legislative framework for the for-profit sector is an important issue that I hope gets the attention it deserves.

Sincerely,

ERIC SCHMITT.

[Whereupon, at 12:44 p.m., the hearing was adjourned.]

