

For-profit Higher Education in the US

Stephen Hunt: Centre for Global Higher Education

UCL Institute of Education 01/03/2017

“Higher education: changing global relations”

CGHE 2017 conference

The US higher education system has four principle types of institution:

- Public four-year colleges: each state supports at least one such system – these include substantial research universities
- Public two-year colleges, commonly called ‘community colleges’
- Private non-profit institutions: these include the Ivy League colleges, doctoral universities, and the exclusively undergraduate liberal arts college sector
- For-profit private sector (OECD, 2012)

Rationale for Private for-profit higher education

Mitt Romney praised for-profit colleges: “hold down the cost of education.”

The profit motive: rewards those who go after inefficiencies: the same quality for a much cheaper price.

There is also the long term – since the early 1980s - reduction in funding for US public institutions

U.S. For-profit sector: character

- Most institutions are small proprietary schools, often privately owned.
- Fifteen large-scale - multi-state - institutions account for 60 per cent of all student enrolments in the for-profit sector (Bennett et al., 2010).
- Students number in them are in the tens or hundreds of thousands, and publically traded (Bok, 2013).
- The large institutions are often subsidiaries of still larger parent companies, and have attracted Wall Street/venture capital investment (Douglass, 2012; Lechuga, 2010).

U.S. For-profit sector: character

For profits will tend to occupy the same academic space

- The for-profits concentrate almost exclusively on teaching
- Strip out any 'non-essential' aspects of provision.
- Market sensitivity
 - business studies
 - IT
 - health related courses (Bok, 2013)
- Flexibility
(Deming, Goldin, and Katz, 2012).

U.S. For-profit sector: composition

The for-profits opening up new markets to higher education.

The sector has specifically positioned itself to attract a type of student.

- Older, employed, studying for specific skills to get better paid employment
- Less socially and financially advantaged
- More frequently from minority groups (Surowiecki, 2015).

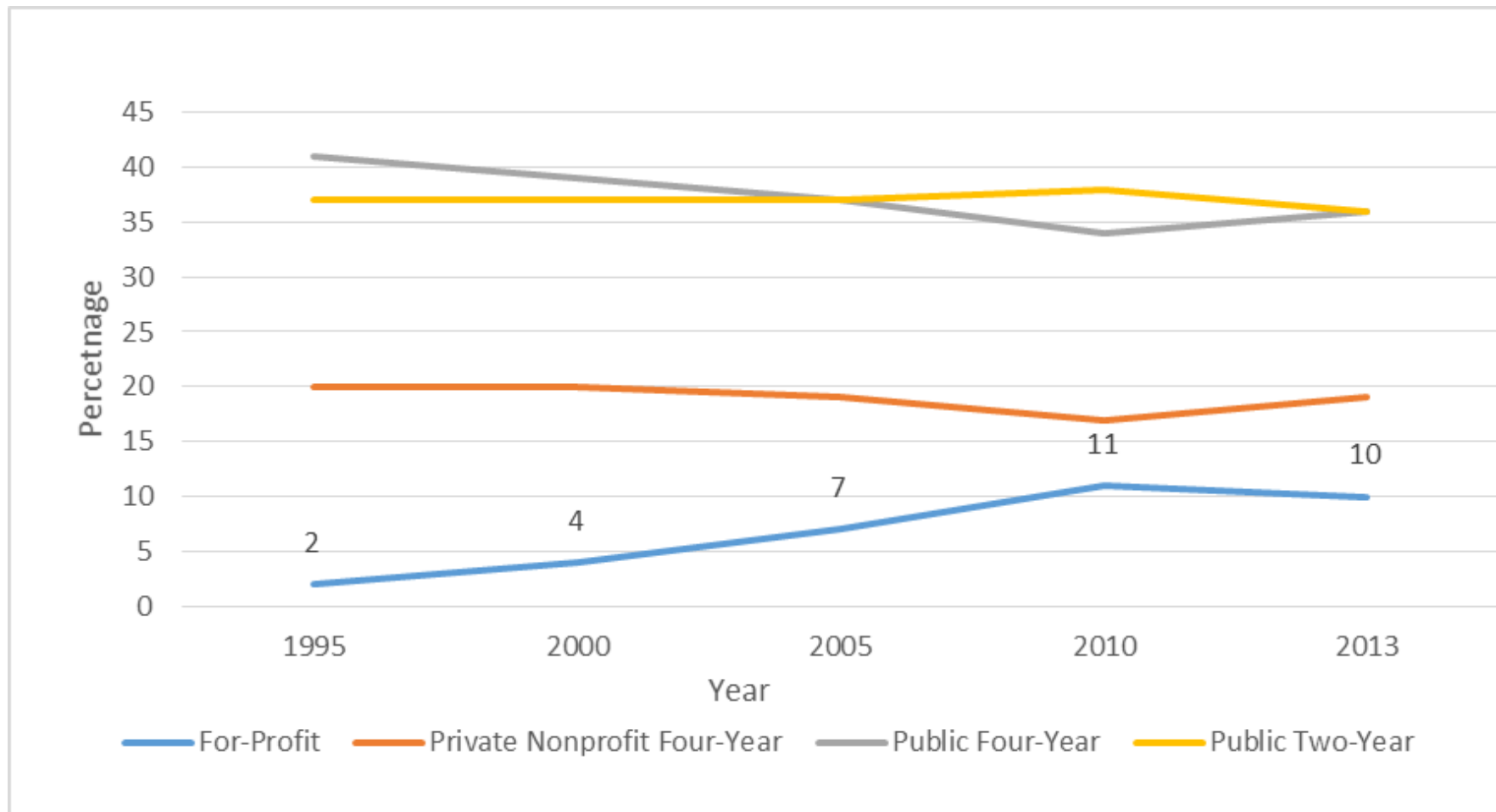
U.S. For-profit sector: history

The for-profit sector played little or no part in the twentieth century massification of American higher education.

“In the early 1970s for-profits enrolled just 0.2 percent of all degree-seeking students in the United States” (Hanford, 2016).

It has, until relatively recently, been the fastest growing element in the entire higher education sector (Bok, 2013).

Percentage of US student population by type of provider 1995 - 2013 (source: The College Board, 2015)



There were an estimated 3,436 for-profit higher education institutions in 2014-15.

Distribution of federal student loan funds by sector, 2004-05 to 2013-14, selected years (Source: The College Board, 2015)

Providers	2004-05	2007-08	2010-11	2013-14
Public Two-Year	6%	8%	10%	10%
Public Four-Year	41%	38%	36%	39%
All Private Non-profit	35%	32%	29%	31%
For-Profit	17%	23%	25%	20%

2010-11 students at for-profit institutions received 25 per cent of federal loans, and 25 per cent of Pell Grants, but only accounted for 11 per cent of enrolments.

The sector received \$22 billion in taxpayer loans and Pell Grants in 2013

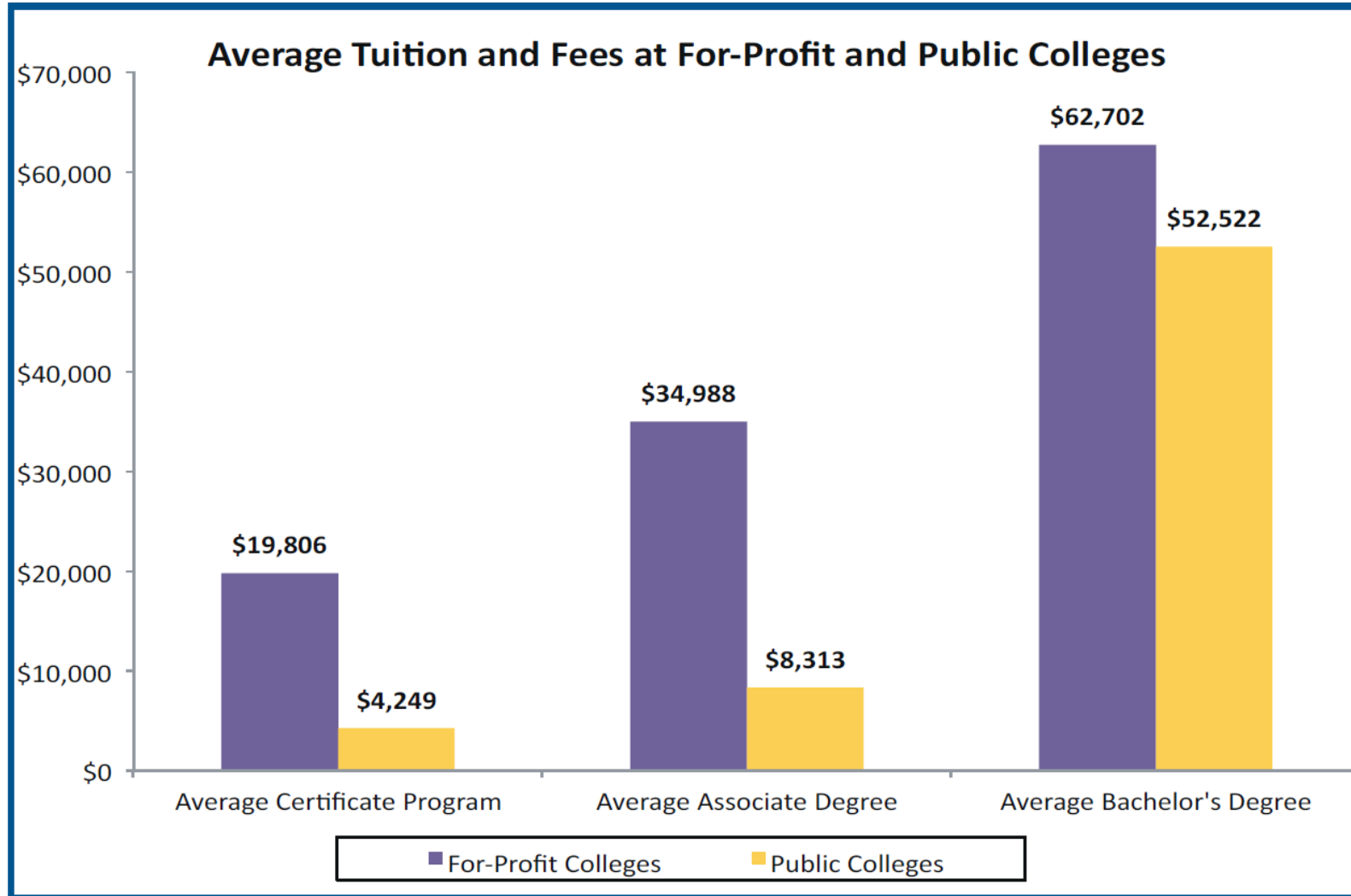
United States Senate
HEALTH, EDUCATION, LABOR AND PENSIONS COMMITTEE

**For Profit Higher Education:
The Failure to Safeguard the Federal
Investment and Ensure Student Success**

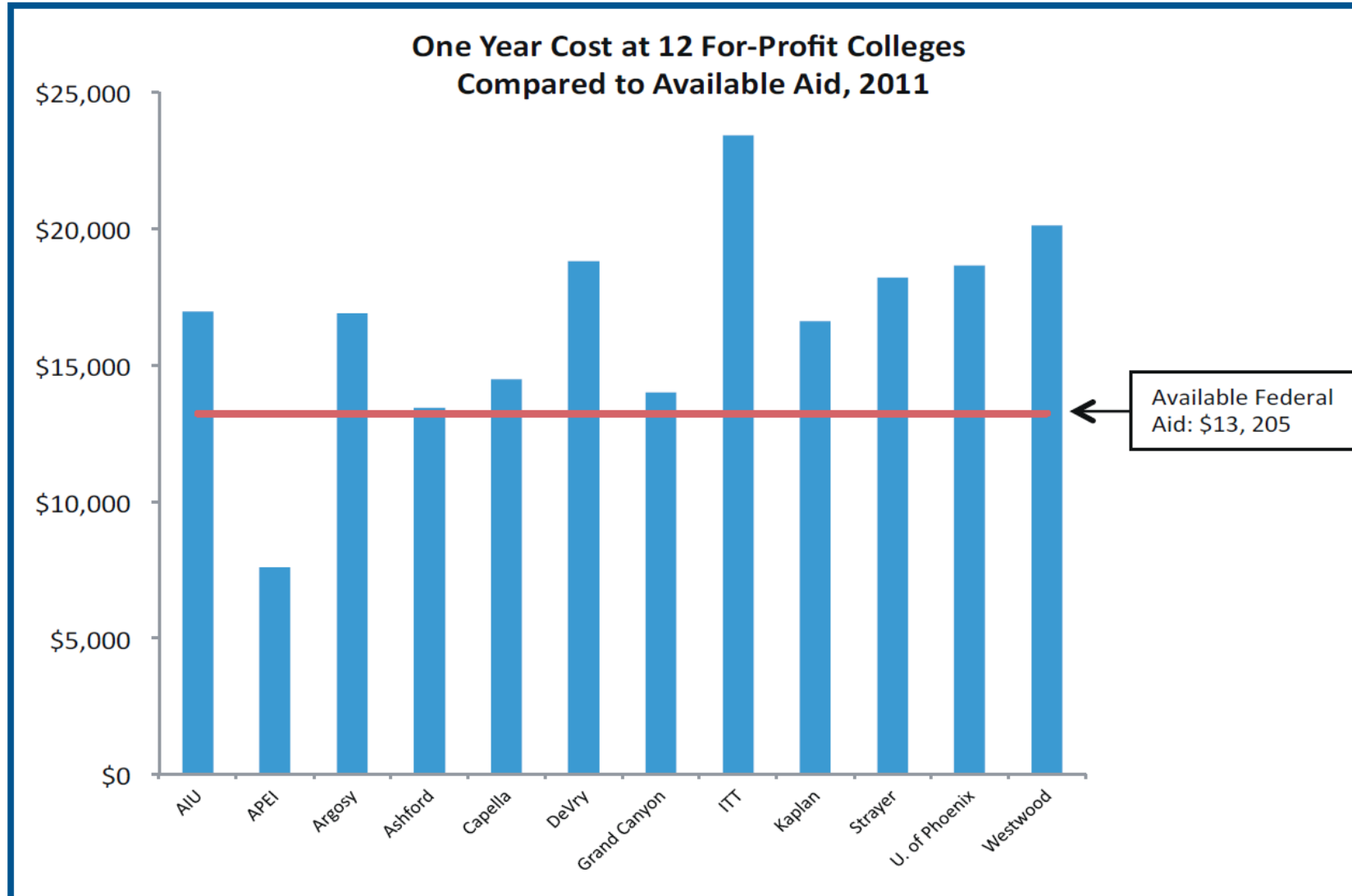


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The effect of the profit motive...



U.S. For-profit sector: issues

Problems facing for-profits

Significant sections have been accused of:

- Recruitment abuses: The use of exaggerated and misleading claims, in advertising and marketing, designed to increase enrolment
- Low graduation rates: 2002 cohort: 22 per cent graduation rate
- Greater student debt: \$39,950 in 2012: \$14,000 more than public colleges
- High student loan default rates: about half of all loan defaults
- Courses identified as fraudulent, i.e. delivering little if any quality teaching. Harking report: 18 per cent of revenues on teaching

“Poking the Pain” of Prospective Students

ITT recruiter training presentation slide.¹⁸⁸

**FIND OUT WHERE
THEIR PAIN IS.**



One pervasive sales technique found in the documents of multiple companies is to manipulate a prospective student’s emotions.¹⁸⁹ One recruiting manager explained that recruiters “need to focus on . . . digging in and getting to the pain of each and every prospective student.”¹⁹⁰

According to this technique, a recruiter asks probing questions to find a prospective student’s “pain”—about a dead-end job, inability to support their children, failing parents or relatives.¹⁹¹ They then use that “pain” to make the student feel vulnerable.¹⁹² Then, when the prospective student feels vulnerable, the recruiter will offer the prospective student the possibility of a college degree as the opportunity to make that pain go away.¹⁹³

Course sales techniques

“Don’t ask people what they THINK about something you’ve said.

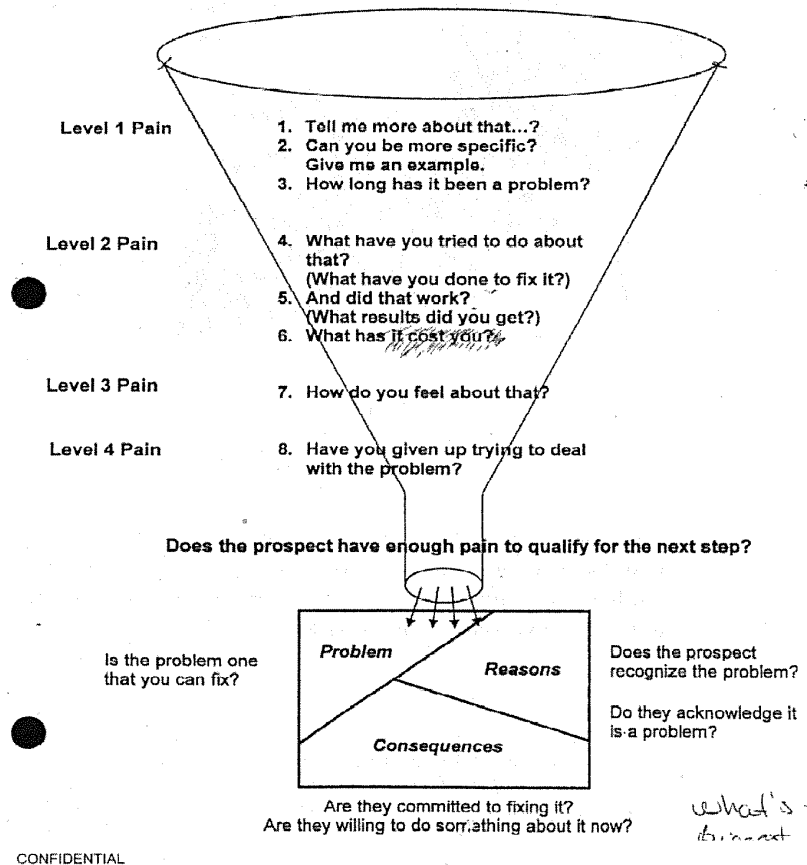
Instead, always ask them how they FEEL about it. People buy emotionally and justify it logically.”

ITT's training materials detailed the steps of this tactic: "Establishing Rapport," "transition into digging for the motivation," "transition into feeling the pain," and "transitioning into making the connection between the motivation and getting a degree." 194 To address students who sign an enrollment agreement but indicate they may not want to start school, recruiters were instructed to "poke the pain a bit" and "remind them what things will be like if they don't continue forward and earn their degrees." 195

ITT, however, went a step further than most other companies in their pain-based sales techniques with a "Pain Funnel:"

2. Pain Funnel and Pain Puzzle

Eight Questions



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Table 3: Six-Year Graduation Rates for Ten Large⁺ For-Profit Colleges

Institution	Number of Campuses [±]	Undergraduate Full-Time Equivalent Enrollment	Bachelor's First-Time, Full-Time Graduation Rate Cohort	Six-Year Graduation Rate, 2008
University of Phoenix	42	238,326	16,044	9%
DeVry University	12	24,291	4,189	31%
The Art Institute	16	31,130	2,863	41%
Berkeley College	2	5,889	620	35%
Sullivan University	1	2,862	587	15%
Westwood College	4	6,644	546	27%
International Academy of Design and Technology	3	5,322	529	16%
School of Visual Arts	1	3,351	522	67%
The Illinois Institute of Art	2	3,319	488	44%
ITT Technical Institute	27	17,375	485	66%
Total	110	338,509	26,873	20%

Department of Education released data in November 2016

- Mean earnings of graduates of public undergraduate career training certificate programs are nearly \$9,000 higher than mean earnings of graduates of for-profit undergraduate certificate programs
- Nearly a third of for-profit certificate students graduated from programs where the typical graduate earned less than what a full-time minimum wage worker earns in a year, compared with only 14 percent in the public sector.

<https://studentaid.ed.gov/sa/about/data-center/school/ge?src=press-release>

- Many graduates at for profits leave with lower earnings than they had when they started: for-profits substantially underperform other colleges, even accounting for their more disadvantaged student body.

The National Consumer Law Center – an independent consumer justice organisation

Note: Chart is organized alphabetically by government agency.

SCHOOLS/ OWNERS	GOVERNMENT AGENCY	INVESTIGATION OR LAWSUIT?	DATE	ALLEGATIONS OR ISSUES
Corinthian Colleges, Inc. ²	AGs from AR, AZ, CO, CT, HI, ID, IA, KY, MO, NC, NE, NM, OR, PA, TN, WA	Multi-state Investigation	1/2014	Organizational information; tuition, loan and scholarship information; lead generation activities; enrollment qualifications for students; complaints; accreditation; completion and placement statistics; graduate certification and licensing results; student lending activities.
ITT Educational Services, Inc. ⁴	AGS from AR, AZ, CT, ID, IA, KY, MO, NE, NC, OR, PA, TN and WA	Multi-state Investigation	1/2014	Marketing and advertising, recruitment, financial aid, academic advising, career services, admissions, licensure exam pass rates, accreditation, student retention, graduation rates and job placement rates.
Career Education Corp. ⁶	AGs from AR, AZ, CT, ID, IA, KY, MO, NE, NC, OR, PA, TN, WA	Multi-state Investigation	1/2014	Student-recruitment practices, graduate employment statistics, graduate employment certification and licensing results, and student lending activities.
Education Management Corporation ⁸	AGs from AZ, AR, CT, ID, IA, KY, MO, NE, NC, OR, PA, TN, WA ⁹	Multi-state Investigation	1/2014	Practices relating to recruitment, graduate placement statistics, graduate certification and licensing results, and student lending activities.
Ashford University; Bridgepoint Education, Inc. ¹¹	CA AG	Investigation	1/2013	False advertising; false or misleading statements during telemarketing calls.
Heald College; Everest Colleges; Everest Univ. Online; Everest College Phoenix, Inc.; Wyotech; Corinthian Colleges, Inc. ¹³	CA AG	Lawsuit	10/2013	Inflated and misrepresented job placement rates to students and investors, advertised programs that it does not offer and disciplined call center employees when they tried to tell prospective students the truth; unlawfully used military seals in advertising; and inserted unlawful clauses into enrollment agreements.
Bryman College, Everest Colleges, Nat'l Inst. of Technology; Corinthian Colleges, Inc. ¹⁵	CA AG	Lawsuit	7/2007	Inflation of placement rates; failure to disclose completion rates; overstating starting salaries of graduates; failure to meet minimum performance standards.
Corinthian Colleges, Inc. ¹⁸	CFPB	Civil Investigative Demand	4/2012 (CID); 12/2013 (NORA letter)	Unlawful acts or practices relating to advertising, marketing or origination of private student loans. NORA letter states that CFPB may seek injunctive and monetary relief.

Student Debt

- Total US student loan debt reached \$1.3 *trillion* in 2015:
- This figure has more than doubled over the last 10 years (The Federal Reserve, 2016).
- In 2015 40 million individuals now have outstanding student loans;
- In 2008 the figure stood at 29 million (Lewin, 2016).

Response

Obama, 2015: Gainful Employment Regulation requires vocational courses to meet minimum thresholds with respect to the debt-to-income rates of their graduates. Programs that fail to meet these minimum requirements could lose access to all federal financial aid for a period, putting them at a higher risk of closing.

2016 change: In order for students to qualify for federal student aid, institutions must prepare them for "gainful employment in a recognized occupation."

For a course to fail it's graduates must have annual loan payments in excess of 12 percent of their total earnings or 30 percent of their discretionary income. Programs that are rated failing in two of three consecutive years are ineligible to receive Title IV student aid funds.

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ITT Technical Institute Shuts Down After Government Cut Off New Funding

Closing of major for-profit school operator could leave taxpayers on the hook for hundreds of millions of dollars in federal loans



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Obama's For-Profit Execution

How to kill a company without proving a single allegation.

Aug. 29, 2016 7:05 p.m. ET

Say what you will about the Obama Administration, it isn't slowing down as it heads for the exits. The Education Department wants to put as many for-profit colleges as possible out of business, and last week it gave ITT Technical Institute a de facto death sentence.

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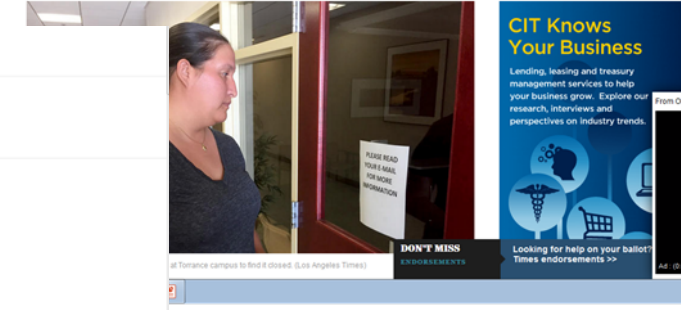
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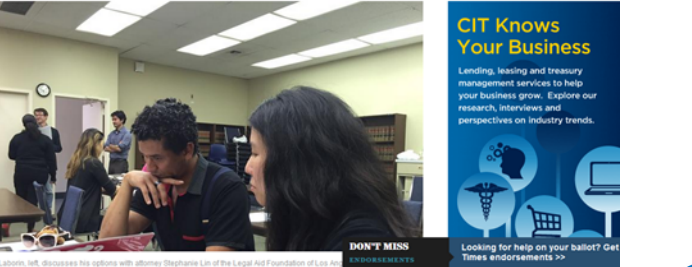
ITT Tech shuts down all its schools; one student says he's 'angry times 10 million'



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Closing of ITT Tech and other for-profit schools leaves thousands of students in limbo



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For-profit college ITT shuts down: Tens of thousands of students in the lurch

by Kathryn Vasel and Katie Lobosco @CNNMoney
September 9, 2016 11:21 AM ET



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Another for-profit college has closed, leaving tens of thousands of students in the lurch.

Gainful Employment Regulation Effect:

25th August 2016: ITT Tech: barred from recruiting federal loan students. Required to put up \$152 million indemnity

ITT ceased to operate on the 5th September, with up to 40,000 students consigned to limbo, and the tax-payer liable for about \$500 million in loans.

ITT's swift demise indicates a broad feature shared by much of the for-profit sector: its total reliance on federally funded tuition fee loans as an income source.

November 2016: DeVry University, online & locations nationwide, agreed to a \$100 million settlement of a federal lawsuit alleging that it falsely advertised the success of its graduates

Gainful Employment Regulation Effect:

January 2017 Report covered 29,000 programs at public non-profit, for-profit institutions.

- 66 percent of the programs were at for-profit institutions
- 98 percent of the 800 programs that failed were at for-profit colleges
- Those failing programs collectively produced some 116,000 graduates in the years measured, 2010-12;
- No course at Community Colleges failed.



President Trump

The fate of the for-profit sector is like much else now uncertain.

His secretary of State for Education Betsy DeVos has said little about higher education.

The general expectation is Trump will be better disposed towards the for-profit sector than Obama.

- He opposes the planned expansion of the public two-year degree Community College sector, which Obama had ambitions to make free for secondary education graduates. Presumably, if demand is to be met now it will be by the private sector.
- Student loans should be relocated to the private or non-federal government sector
- Trump University likely to return!