

Recent Developments in For-profit Higher Education in the US: Implications for England

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- Context
- Character
- History
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Success as a Knowledge Economy:

Teaching Excellence, Social Mobility
and Student Choice

May 2016



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Success as a Knowledge Economy

To expand student choice the 2016 White Paper proposes

- The entry of 'for profit' providers; to facilitate this grant them the title of 'university' with immediate effect.
- Degree awarding powers after two years
- Allowed to charge £9,000 fees, i.e. the maximum

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Education

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Professional courses Festival of Education


Education

Too many universities are failing their students. Only the light of true competition can save them

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“The danger signs are there for all to see: [despite more realistic tuition fees](#), many universities are underperforming; teaching can be abominable, especially in research-driven institutions; and some courses do little to bolster young people’s employability.

Better-informed students would make different choices. New universities would help shake things up, especially if they were run differently. We need for-profit institutions in addition to the usual charitable universities...”

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).

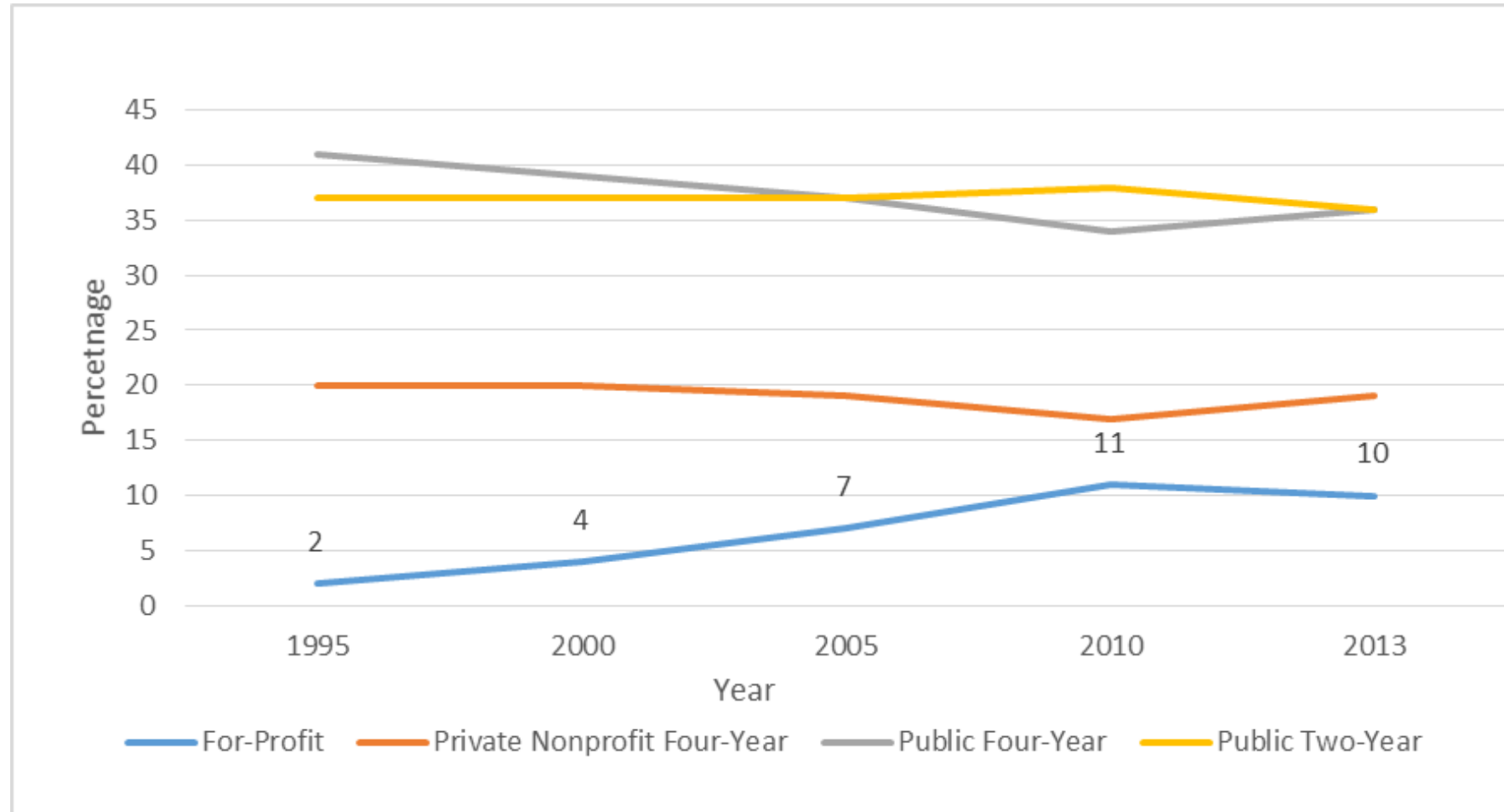
U.S. For-profit sector: history

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.

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).

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

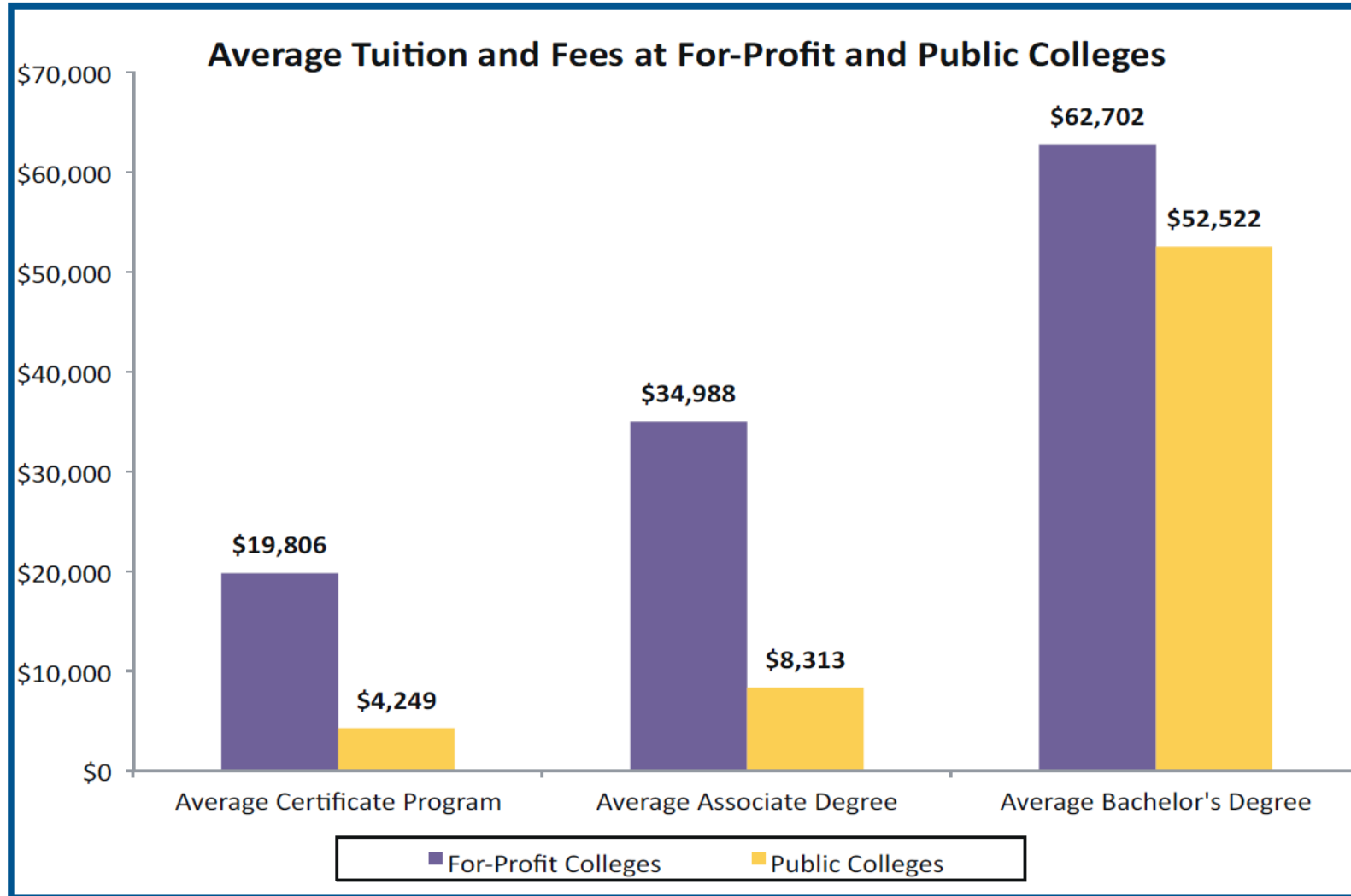
United States Senate
HEALTH, EDUCATION, LABOR AND PENSIONS COMMITTEE

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

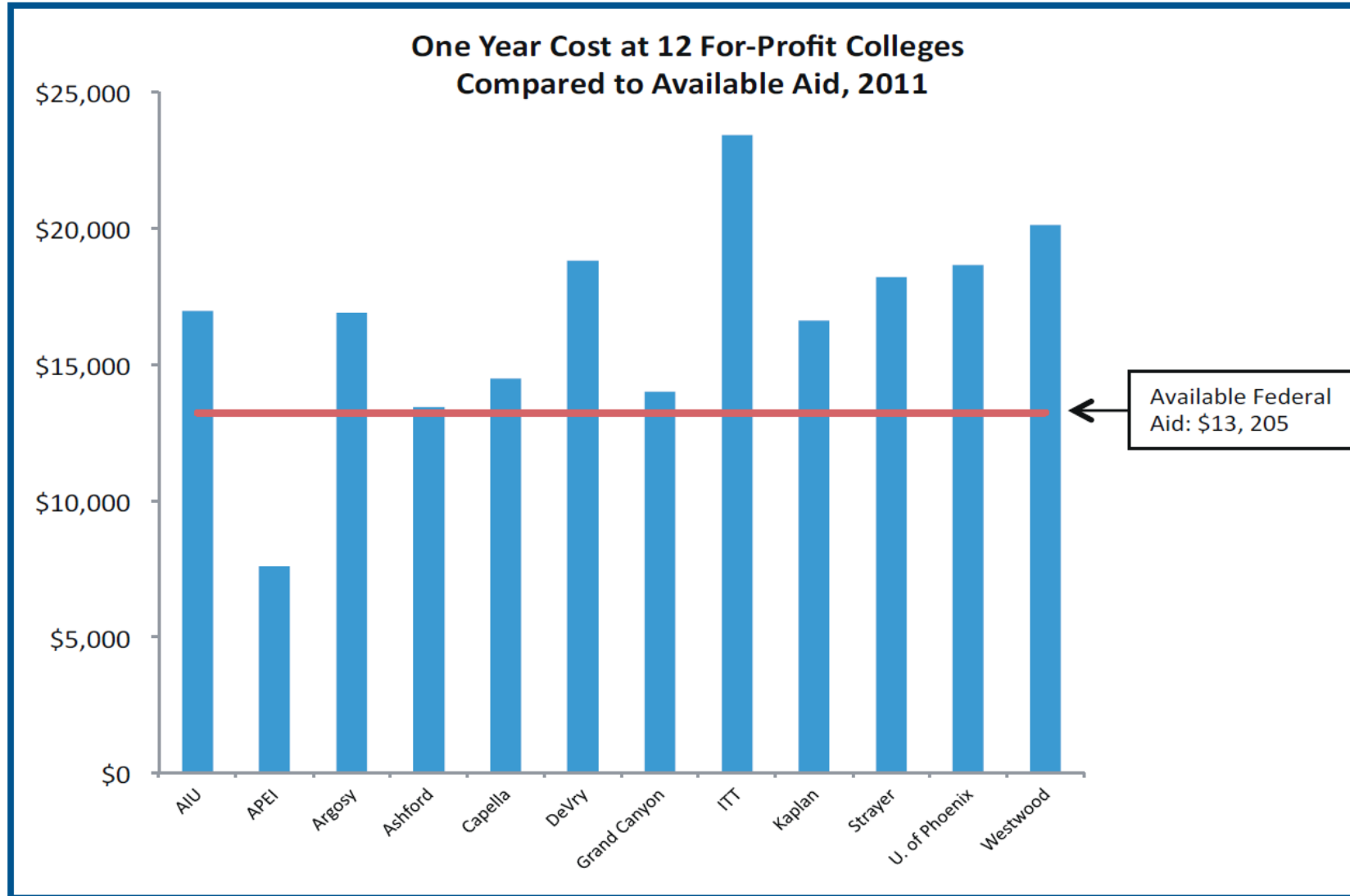


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July 30, 2012



The effect of the profit motive...



U.S. For-profit sector: issues

Problems facing for-profits

Significant sections have been accused of:

- Recruitment abuses
- Low graduation rates
- High student loan default rates
- Courses identified as fraudulent, i.e. delivering little if any quality teaching (Bok, 2013)

“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.

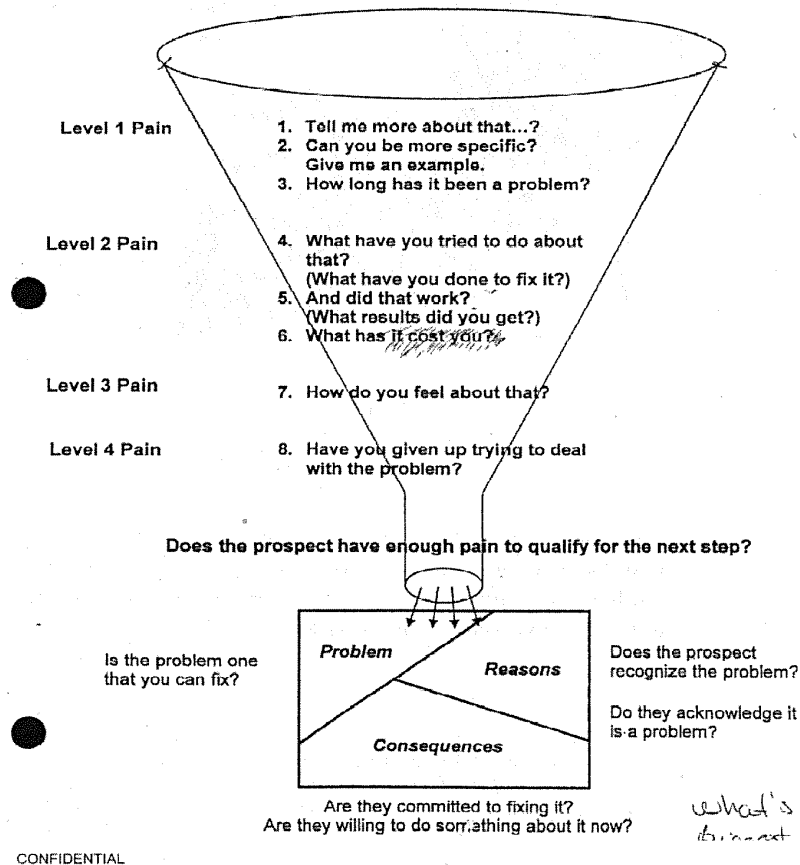
Instead, always ask them how they FEEL about it. People buy emotionally and justify it logically.”

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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Consequences of Funding Structure

- The recruitment abuses are largely rooted in the overwhelming importance of tuition fees in the finances of the for-profit sector.
- Result: recruitment of significant numbers of students unable to complete the course, typically vulnerable low-income students.
- Elevated drop-out rates, and subsequently greater loan-default rates (Lewin, 2016; Bennett et al., 2010; Lynch, Engle, and Cruz, 2010).

For-profit issues

Graduation Rates

The 2002 cohort* commencing full time study of bachelor level degrees had, by 2008-09, the following graduation rates:

- 22 per cent at four-year for-profit institutions
- 55 per cent at public
- 65 per cent at private non-profit colleges and universities

(Institution of Educational Sciences, 2010; Lynch et al., 2010).

*Integrated Postsecondary Education Data System, National Centre for educational Statistics

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% |

For-profit issues

Legal action against large multi-state providers including:

- The Education Management Corporation (EDMC): 110 sites; 32 states
- ITT Technical Institute (IT Tech/ ITT): 130 sites in 38 states
- Corinthians: 100 Site, 72,000 students

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. |

For-profit issues

Student Outcomes

First time post-secondary students leaving for-profit institutions are more likely to experience unemployment than similarly qualified students who attended not-for profit institutions.

For-profit students, once the effect of unemployment is controlled for, also have slightly lower earnings and levels of job satisfaction, but neither difference is statistically significant (Deming et al., 2012)*

*Beginning Postsecondary Students Longitudinal Study

For-profit issues

Student Loan Default

A disproportionate amount of student loan default associated with students who attend for-profit institutions.

These students accounted for about half of student loan defaults in 2013, although only about 12 per cent of student numbers (TICAS, 2014).

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).

Possible Solutions

Harkin report recommendations:

- Require that the Department of Education collect comprehensive student outcome information and enable data retrieval by corporate ownership.
- Prohibit institutions of higher education from funding marketing, advertising and recruiting activities with Federal financial aid dollars.
- Require that for-profit colleges receive at least 15 percent of revenues from sources other than Federal funds
- Utilize criteria beyond accreditation and State authorization for determining access to Federal financial aid.

For-profit issues

- Resistance to transparency. The U.S. Department of Education only counts students who are first-time, full-time students.

The body representing the for-profit sector, the Association of Private Sector Colleges and Universities (APSCU) spent \$16 million on lobbying in 2013 partly in a successful bid to prevent the US Department of Education tightening transparency regulations.

This would have entailed publication of comprehensive dropout and loan default rates, allowing prospective students to make informed decisions about possible enrolment. Any additional information is currently only reported voluntarily.

Possible Solutions

Addressing the distinct problems posed by for-profit higher education, Angulo (2016) identifies a straightforward solution:

“Taking for-profits out of the federal student aid programs – by eliminating reference to the sector in the next Higher Education Act reauthorization – would put a halt to the fraud as well as the spread of for-profit regulation” (Angulo, 2016 p. 147).

Possible Solutions

Obama, 2015: Gainful Employment Regulation requires vocational 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." the annual loan payment of a typical graduate must not exceed 20 percent of his or her discretionary income or 8 percent of total earnings.

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Education

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“...any rules discriminating against for profit-providers torn up. In five years’ time, Britain needs to be home to at least half a dozen serious alternative universities and a bigger spread of fees and course formats, or else the reforms will have failed.”



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Will for-profits offer wider choice to students?

Will for-profits provide the same service but cheaper?

Will they operate more efficiently?

Will for-profits compete with established Universities, or just with each other?

How will they affect the job market for teaching staff?

“While Trump University claimed it wanted to help consumers make money in real estate, in fact Trump University was only interested in selling every person the most expensive seminars they possibly could. Based upon my personal experience and employment, I believe that Trump University was a fraudulent scheme, and that it preyed upon the elderly and uneducated to separate them from their money.”

Former salesman for the company, Ronald Schnackenberg, in an affidavit

- Seminars
- “Mentorship” programs, which cost up to \$35,000.

It wasn't a university at all. Nor even a school. It halted operations in 2010 amid lawsuits in New York and California alleging widespread fraud.

It was a company that purported to be selling Trump's secret insights into how to make money in real estate. From the time Trump University began operating, in 2005, the A.G.'s office repeatedly warned the company that it was breaking the law by calling itself a university. (In New York State, universities have to obtain a state charter.)

Trump University, the scandal-plagued learning annex which promised to teach its students Donald Trump's secrets of how to get rich in real estate

