

1 FOR-PROFIT EDUCATION INVESTIGATION

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3 Mr. HARKIN. Mr. President, for more than 50 years, the Federal Government has
provided students with grants and loans to help pay for college. That is a
public-private partnership between the government and the students, between our
taxpayers and students. It is an investment premised on the idea that a higher
education will improve life for the borrower and also will strengthen our society by
giving more Americans the knowledge and skills to get better jobs and to be able to
give back to their communities.

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5 I know firsthand how higher education can transform one's life. I went to college on
student loans and to law school on the GI bill. That is why I have spent my career
in Congress fighting to ensure that all students who wish to learn, who wish to get
a college degree, also have the opportunity to do so. I have worked on the
Appropriations Committee to expand funding for Pell grants and student support
programs. And now, as the HELP Committee chairman, I have worked to expand Pell
grants to make sure our student loan programs are well run.

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7 For the past 2 years, Congress has provided significant resources to help students
access and finance a college education . In 2008, we increased the amount of
Stafford loans that undergraduates can borrow by \$2,000 a year. The Recovery Act of
2009 provided another \$17 billion to the Pell grant program. The recent
reconciliation law added another \$36 billion to Pell grants over the next 10 years.
So the Congress has made hard choices to secure these increases for financial aid
programs. The money is an investment in our Nation's students and also in our
country's future. For that investment to pay off, we must ensure that students are
being well educated and that schools are using Federal dollars responsibly. To
ensure our investment is paying off, earlier this year I initiated an oversight
investigation into for-profit education companies. Education companies that make a
profit for shareholders and investors are growing at an astonishing pace.
Enrollments, profits, and share of the Federal financial aid budget going to those
schools are skyrocketing.

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9 In 2008, these for-profit schools accounted for 10 percent of the students enrolled
in higher education , but those students received 23 percent of Federal student
loans and grants and they accounted for 44 percent of the defaults. Again,
for-profit schools, 10 percent of the students, got 23 percent of the Federal loans
and grants and accounted for 44 percent of the defaults.

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11 Confronted with numbers such as these, I became increasingly concerned a significant
share of our Federal investment in higher education is being misused and that some
companies are using the Federal aid program as a cash machine to drive up profits as
their main purpose. Across the country, some higher education companies are using a
high-pressure sales force, persuading consumers in search of the American dream to
go deep into debt to purchase a product of often dubious value.

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13 Default rates are sky high, taxpayer money is being squandered, top executives
walking away with fortunes. You might think I am talking about the subprime mortgage
industry, which came crashing down 2 years ago, because that does describe it. But
what I have just described is also the situation created by many for-profit
colleges. Just as in the subprime mortgage crisis, countless thousands of ordinary
Americans are being harmed by the reckless pursuit of profits by a few.

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15 This summer, I heard testimony from Ms. Yasmine Issa, a single mother of twin girls.

Two years ago, she went back to school to earn her degree in medical sonography. She went on line, typed in sonography, and found an advertisement for the Sanford-Brown Institute, part of a chain of for-profit colleges owned by Career Education Corporation, a publicly traded company. The folks at Sanford Brown sold Ms. Issa on the value of their program. They told her how it would help provide for her daughters, so she enrolled and paid out \$29,000 for an 18-month program.

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17 The recruiters at Sanford-Brown did not tell her that she could have gone to the local community college and received the same degree for \$7,000. They also didn't bother to tell her that her degree at Sanford-Brown wouldn't even allow her to sit for the sonography exam. Nor did they tell her that without passing the exam, she would not be able to work as a sonographer. So after \$29,000 invested, 18 months of hard work, Ms. Issa couldn't even sit for the exam.

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19 Ms. Issa is not alone, but she and students like her are the reason I decided we in Congress need to take a closer look at this for-profit college situation. After three hearings, I believe it is an important time to report back to the Senate on what we have found to date. So today I am going to take the time to walk through the findings of each of these three hearings, talk about the problems facing these students and taxpayers, and conclude by talking about where the HELP Committee investigation is going in the coming years.

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21 The first hearing in June asked what are for-profit colleges? We focused on this issue following dozens of troubling reports about students being ripped off by for-profit colleges. The New York Times, Bloomberg News, ``Frontline,' even Good Housekeeping had reported extensively about the growth of federally funded, for-profit higher education corporations. Our first task was to get a sense of what these for-profit colleges were, how big they were, and how well they were serving our students. Given that these companies receive almost all of their revenue from Federal dollars, one would think all of this information would be easily available to the public and not require a congressional investigation to unearth. But, unfortunately, that was not the case.

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23 First, what are for-profit colleges? For-profit colleges or proprietary institutions, as they are known in the law, are institutions of higher education that provide a program of training to prepare students for gainful employment in a recognized occupation. Essentially, in 1965, we recognized that career or vocational schools, as they were then known--most of them were privately owned--played a valuable role in our education system and that the people who attended the schools should be able to get financial aid to attend them. At the same time, we required these schools to demonstrate that students were being prepared for gainful employment in a recognized occupation--something we do not require of 2- and 4-year programs at public and nonprofit schools.

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25 Today, we find ourselves in a world where proprietary schools offer everything from basic school training to liberal arts graduate degrees, and some for-profit schools enroll not a few hundred students but in some cases a few hundred thousand students. If these schools were providing high-quality education for most of their students, those numbers would be a cause for celebration. Instead, they are a case for concern, and these concerns are longstanding.

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27 Twenty years ago, former Senator Sam Nunn of Georgia held a series of hearings looking at the for-profit sector, and because of the problems he found, he initiated a series of legislative fixes to ensure that for-profit schools were a good

investment for students and taxpayers. As with many laws, 20 years has taken its toll, and those reforms have been almost completely rolled back. We find ourselves today facing some of the same problems, with few tools in place to provide genuine oversight of our taxpayers' investment.

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29 What has not changed is that, unlike public or nonprofit schools, proprietary schools are legally bound to operate in the interest of their owners. As the companies have gotten larger, they have been transformed from mom-and-pop operations into high-growth, high-investment, big businesses. Fifteen for-profit education companies that operate 69 schools with an enrollment of 1.5 million are actually publicly traded on the New York stock exchange or on NASDAQ. Another 33 for-profit education companies operating 65 more for-profit schools are at least partially owned by private equity investors or hedge funds. The result is that the vast majority of for-profit schools have prioritized growth over education in order to satisfy the demands of their investors. In fact, growth and return on investment for shareholders is their legal obligation. So it should not surprise us that educating students is taking a backseat to just getting more bodies in the door.

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31 For-profit colleges traded in the stock market are a relatively recent phenomenon that has created a drastically transformed landscape for us here in Congress, the legislators. As I said, in 1992--the last time Congress took a serious look at this sector under Senator Nunn--there were no publicly traded, for-profit higher education institutions--none, zero. In 2010, 15 publicly traded institutions enrolling a million and a half students are in existence. That is just publicly traded. There are many more that are equity owned, owned by equity investors or hedge funds, which also did not exist 20 years ago.

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33 To satisfy shareholders, publicly traded schools must constantly focus on growth, measuring up to Wall Street's laser-like attention to quarterly enrollment statistics. Publicly traded schools must also generate higher revenues while keeping down costs, including teaching costs. These schools do this by raising tuition and increasing the number of enrolled students, which in turn increases the amount of Federal student aid dollars flowing to the schools. But it does not necessarily do anything about the quality of the education received.

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35 A focus on growth at the expense of student outcomes is not just the province of the publicly traded companies. As I said, increasingly, hedge funds and private equity firms invest in for-profit colleges and manage the business end of the operation. For example, how many people know that Goldman Sachs--yes, the same Goldman Sachs--is the owner of more than one-third of the publicly traded EDMC--that is a for-profit college--which is the operator of something called the Art Institute and Brown Mackie? These are colleges; these are for-profit schools. A vice president and a managing director of Goldman Sachs sit on the EDMC board. These firms are interested in short-term profit and have little interest in the long-term educational outcomes of the students attending the schools.

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37 It certainly is not clear to the students that the school is owned by a bunch of Wall Street investors. I had this chart printed. These are not all of them, but these are for-profit schools owned by private equity and hedge funds that we were able to come up with. How many students at Rasmussen College or Morrison University or the Institute for Business and Technology or Beckfield College or Chancellor University or Ashworth College or Florida Coastal School of Law--how many students signing up for this know they are owned by private investors or hedge funds that operate these schools? They sound as if they are just legitimate colleges.

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39 An estimated 1.3 out of 1.8 million students attending for-profit schools in 2008
were attending schools primarily owned by Wall Street investors. Let me repeat that.
40 Out of 1.8 million students going to for-profit colleges in 2008, 1.3 million
41 students were attending colleges primarily owned by Wall Street investors. Again,
42 this landscape was not around 20 years ago. In fact, most of it was not around 10
43 years ago.

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41 Here is what the hedge fund owners of Westwood College state on their Web site:

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43 They always keep their eye on the ball of what is best for the business over the
long term.

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45 Not the students, not the education of students, but they keep their eye on the ball
of what is best for the business, the hedge fund. That is funny, I thought the ball
we should be keeping our eye on is how good a job we are doing educating students
with taxpayer money.

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47 Westwood is under investigation by the attorney general in Colorado. It has had its
operation shut down in Texas, and it was told not to operate online in Wisconsin. No
accrediting agency seems willing to acknowledge that it accredits this school, yet
Westwood College turned a profit of \$46.7 million in 2009. It is owned by a hedge
fund.

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49 While we call these schools for-profits to distinguish them from public community
colleges and 4-year colleges and the nonprofit universities, it is really a misnomer
since they are largely federally funded through student loans, grants, and military
benefits. As a group our committee looked at, these publicly traded companies
receive at least 85.6 percent of their revenue from Federal dollars of one sort or
another. That is for profit?

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51 Under current law, these companies cannot get more than 90 percent of their revenue
from student loans and grants. We call it the 90-10 rule. To me, that seems like a
lot, but for these companies, it is not enough. According to an internal lobbying
document from the Career College Association released by the New America Foundation,
one of the top priorities for the for-profit college trade association is to roll
back that rule and increase the amount of Federal dollars these companies can get
from the

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53 government. Ninety percent is not enough. They have clearly done a good job since at
least six of the companies--Kaplan, EPCI, TUI, ACC, Remington, and Vatterott--get
more than 90 percent of their revenues from the Federal Government.

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55 You might say: Wait a second, Senator Harkin, I thought you said they were limited
to 90 percent by law.

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57 True. Here is how they get around it. The University of Phoenix, for example, in its
SEC filing acknowledged it received 89 percent of its revenues from Federal
financial aid programs. Document requests that we got indicate they receive an
additional 1.5 percent of revenues from other Federal sources, including military
benefits. That means even the largest for-profit school--Phoenix--is receiving more
than 90 percent of its revenues from Federal taxpayer dollars.

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59 Again, how do they do that? If you get military money, that is not counted in the 90

percent; that is counted in the 10 percent that is private. Let's get that again. If they enroll a military person who gets GI bill benefits and they put it into these schools, that is not counted as part of the 90 percent. That is what their nice lobbying got done for them. Some of them get more than 90 percent of their money from the Federal Government.

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61 So, again, just looking at Phoenix, the University of Phoenix took in more than \$1 billion in Pell grants last year and more than \$3 billion in Federal student loans--\$4 billion in revenue from American taxpayers for just one company in 1 year.

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63 More than 93 percent of the students in these schools take out Federal student loans. The loans go to these schools. By relying so heavily on Federal subsidies, these for-profit colleges have privatized the process of collecting Federal subsidies, but they have left the students holding the bag for the cost of a subpar education at a very high price.

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65 Of course, the term ``for-profit'' is not completely misplaced because, regardless of how poorly students perform, as long as these companies can demonstrate enrollment growth, they remain profitable. In 2009, the same 30 schools that received 86 percent of revenues from Federal dollars generated \$3.5 billion in profits for the hedge funds, the equity investors, or stockholders, shareholders.

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67 Last year, together, all the schools had a profit margin of 19 percent. How many businesses in the State of West Virginia have a profit margin of 19 percent, I ask, or Iowa? But that is the average. Some schools have profit margins of 33 percent. The highest we found was a 37-percent profit margin last year. Where did the money come from? Taxpayers. The taxpayers of America. It is not a bad deal if you can get it.

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69 Then look at what happened with the executive salaries. That 85 to 90 percent-plus of their revenues coming in from the taxpayers really paid for some high executive salaries. BusinessWeek recently reported that the CEO of Strayer, one of these schools, was paid \$41.6 million last year--that is the president of a school--26 times the highest salary paid to a nonprofit or private university president, probably more than at the University of West Virginia or Iowa or Iowa State.

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71 Combined, the executives at the 15 publicly traded schools received \$2 billion from the sale of stock over the last 7 years. Let me repeat that. Over the last 7 years, these executives who run these schools started dumping stock. They started selling all their stock back. Do you know what they got? They got \$2 billion in the last 7 years from the sale of their stock.

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73 If they loved these schools so much, you would think they would be investing the money in the schools, to help some of these students, maybe tutoring, some kind of support mechanisms for those poor students who come in who do not have an experience of going to school; that they would be doing everything they could to make sure students who came in stayed and did not drop out.

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75 No. They sold stock and walked away with \$2 billion in the last 7 years. The co-CEO of the company that owns the University of Phoenix was paid \$11.3 million last year. That is more than 7 times the \$1.6 million paid to the highest paid head of a nonprofit--more than 14 times the compensation paid to the president of Harvard.

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77 Boy, they are walking away with money. Well, that was our first hearing. What are

these schools? Our second hearing that we had in August, we featured testimony from the Government Accountability Office, the GAO, focused on how for-profit schools go about recruiting students. We had heard companies--these for-profit schools--complain that their rapid growth was nothing more than students voting with their feet.

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79 Unfortunately, the GAO and our witnesses, including a former recruiter at Westwood College, I just mentioned, made clear that for-profit college growth is actually the result of an aggressive, well-funded marketing effort by the schools, including lies and deception.

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81 Using undercover agents and hidden cameras, GAO presented a troubling picture of student recruitment. Undercover investigators from GAO visited 15 campuses of 12 companies and they found misleading, deceptive, overly aggressive or fraudulent practices at every one of those campuses, every single one.

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83 We watched the films. We watched. They had these little hidden cameras and microphones. We watched them in our committee hearing. Startling. Startling. Students were lied to and misled about the costs of the program, about what they could expect to earn, about how many students graduated, whether their credits would transfer, and whether the program was accredited.

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85 They were misled about whether their student loans were dischargeable in bankruptcy and even were prevented from having a conversation with a financial aid officer until after they signed on the dotted line. So you sign on the dotted line. Then you get to talk to the financial aid officer.

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87 That does not happen at West Virginia University or Iowa State. You can see the financial aid officer and see what you are eligible for before you decide to go there.

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89 I wish to digress for a minute about these loans being dischargeable in bankruptcy. That is one thing very few of these students know. Let's face it. A lot of these students come from low-income families--and I will get to that also in a minute--and they have not probably had a good educational experience in secondary school, but they want to better themselves.

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91 So they listen to this high-pressure sales tactic. They get these kids online and stuff and they call them on the phone and they say: Do not worry about anything. We will fill out all the paperwork. We will take care of all the paperwork, and based upon what you said, you are eligible for this much Pell grant--you will get the money--and loans and you can get these Federal loans. We will take care of all the paperwork. You do not have to worry about a thing when you sign up.

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93 What the students do not know is that the loans they are taking out can never be discharged--never, until they die. We talked a lot about the subprime and how many people were left with houses they bought that they could not pay for. Here is one difference. You can walk away from the house. If you buy a car and you get a loan on a car and you cannot make it, you can walk away from the car. Students cannot walk away from these debts. Once that school gets that money and they drop out, they have that debt hanging around their neck.

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You know what happens--and I will get to this letter, too--these students then cannot go on to another school. They cannot get another loan. They cannot do anything until they pay that debt. The Federal Government will be after them on that debt. Even when they get Social Security, they will go after the Social Security

payments.

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96 How many students would borrow \$29,000 if they knew that, if they knew that debt will be yours until you pay it off? They do not know that. They drop out of school, they borrow the money, they gave it to the school, and that is it. Not true. Schools do not inform them of this.

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98 The committee received recruitment training manuals from several different campuses. They have one thing in common: manipulation. Get this, and this is written up. They encourage their sales staff to identify the emotional weaknesses of prospective students, to exploit the pain, to motivate students to enroll. Again, do not take it from me. A recent Business Week article described a document from Kaplan University that urged the recruiters to focus on ``the fear, uncertainty and doubt of their prospective students.''

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100 These recruitment practices more likely characterize boiler-room sales tactics than trying to get someone a good education . These abusive recruitment practices result in students unprepared for or poorly matched to their academic program, with a high probability of dropping out, leaving school not with a degree but with a mountain of debt.

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102 Some for-profit companies spend in excess of 30 percent of total cost just to fund an aggressive sales force, 30 percent of total cost, just in their sales force.

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104 Those abusive practices, so widespread that GAO found them at every campus of every company it visited, are the symptoms of a very sick industry. While GAO made some minor revisions and clarifications of the long list of misleading practices it documented--and that the industry has now tried hard to use to discredit the work of the GAO--the essential finding stands; that every single school engaged in misrepresentation, deception or outright fraud.

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106 I urge anyone interested to go to our committee Web site, the HELP Committee Web site, and listen to those GAO tapes for themselves. In fact, the 30 companies from which I requested information spent a combined \$4.12 billion in marketing in fiscal year 2009, \$4.12 billion they spent on marketing.

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108 If you say: Well, what is wrong with that? Just think, 86 percent of that came from the taxpayers. Six companies: Apollo, Walden, Grand Canyon, Bridgepoint, Strayer, and ITT actually spent more than 50 percent of their revenues on a combination of marketing and profit. So you add up their marketing and their profit, over 50 percent of their revenues.

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110 The second HELP Committee hearing made clear to me the problems of the for-profit sector cannot be chalked up to a few bad actors. The opportunity for great profits, in spite of poor student outcomes, has become the business model in this sector. I became worried this approach, characterized by aggressive recruitment, high cost, high debt, low graduation rates, was creating a vortex, sucking in even the good actors in the industry.

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112 Think about this business model. Think about it. If you are one of these for-profit schools, you make the most money by recruiting the poorest students, and here is why. Because if you get the poorest students, they are eligible for the maximum Pell grant. You get the poorest students, they are eligible for the maximum Federal loans.

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114 That is profit. That is profit to these companies. So that is the business model.
Since they, the companies, are legally bound to try to increase their returns,
either to their equity investors or hedge funds or their shareholders, they have to
have this growth. So they keep aggressively recruiting more students. The poorer you
are, the better they like it because it gives them more money. Then, if you drop
out, it is no skin off their teeth. They do not owe you anything. So the poorer
students get recruited. They do not get any support or very little, a little help.
They drop out--I have a chart to show you that after a bit--and they have all this
debt and the schools have all the money. That is the business model.

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116 The HELP Committee held its third and most recent hearing in September, with a focus
on answering the question: What is happening to all the students whom these schools
are pushing so hard to bring in the door--the ones I just talked about.

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118 Unfortunately, according to information provided by the 30 schools and analyzed by
the HELP Committee, it appears these students are not faring very well. At the 30
companies we analyzed, 54 percent of the students who came in the door in the
2008-2009 school year had left without a degree by the following year. OK. At 30
companies we had analyzed, 54 percent of the students who came in the door that year
left the following year without a degree. They vanished--54 percent, one out of
every two, they left. That number is striking.

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120 We know from the Department of Education that nearly every student at a for-profit
college will take out a Federal student loan. Of course, they will get their Pell
grants too. That means more than half these students are enrolling, being saddled
with debt, and dropping out without a degree.

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122 The numbers are even worse when we look specifically at students enrolled in
associate's degree programs. This chart will show this. The chart shows the 10
associate's degree programs with the worst outcomes for students, these 10. The
column in yellow shows the percentage of students leaving--right here. So here is
the institution's total students. Here is the withdrawal rate. This is the
withdrawal rate in the first year; in the first year, 84.4 percent of students from
Bridgepoint who signed up dropped out in the first year. What do you think happened
to their loans? What do you think happened to their Pell grants? Students get those
back? Not on your life. Bridgepoint kept them, the money went to their shareholders.

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124 In that program, Bridgepoint, 84 percent, nearly all the 7,900 students they have,
left before attaining their associate's degree. I am not talking about a master's
degree, I am talking about a 2-year degree. Nearly 70 percent at the second school,
Lincoln, with the rest in the 60-percent range. So they had 69 percent who did not
finish.

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126 Just among those 10 schools, 375,000 students enrolled in the 2008-2009 school year.
Nearly 250,000 dropped out without a degree a year later--250,000. These are
staggering numbers.

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128 Behind these numbers are students who are fed up with the lack of help or support
from the school. They can no longer justify the level of debt they are taking on
because they realize the dream job the recruiter sold them on is not waiting at the
end.

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130 I should be clear, these are not the complete dropout rates. More students are
actually likely to quit by the time we would actually measure that. These are

students who are gone within 1 year, many of whom never even register in the Department of Education's annual enrollment count.

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132 Guess where they are counted, though. They are counted by investors looking to value the company and measure its likely profit. So when I say all these students dropped out, that is just 1 year. How many dropped out the second year? We do not know that.

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134 Let me focus, for a moment, on Bridgepoint. Bridgepoint operates Ashford University and is based, sort of, in Clinton, IA. A group of private equity investors purchased a small Catholic school in 2004, when it had about 375 students. In 2004, this small Catholic school in Clinton, IA, had 375 students. They transformed it into a for-profit school. It now has 67,000 students, a 17,000-percent increase in student population in 6 years, 17,000 percent.

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136 Ashford still operates the small campus in Iowa. About 600 students go there. The other 67,000 take classes online. I, obviously, was very interested to know how the heck they can be doing such a good job for students with that kind of growth. What the data we have collected for our investigation can tell us, for the first time, is they are not doing a very good job for their students.

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138 Eighty-four percent of the students seeking an associate's degree and 63 percent of bachelor's degree-seeking students leave Ashford within 1 year, without finishing their programs.

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140 But look at the growth--17,000 percent growth. This is not terribly surprising because Bridgepoint offers no tutoring or other student services. If a student starts to have difficulties at Ashford online, they have two options: talk to their part-time teacher online or ask the computer avatar, who is the online student resource center.

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142 Should a student succeed in completing a degree at Ashford, they had best not expect a lot of help finding a job. While Bridgepoint employs 1,703 recruiters, they employ just one person to handle career planning. They employ 1,703 recruiters, and one person to handle career planning for the entire student body of 67,000 students. According to a recent study, 60 percent of all community college students need extra help to succeed in school. They need tutoring and classes to make up for what they may not have learned in middle school and high school. For-profit colleges have served a similar population with similar needs. As they often remind us, the for-profit sector serves a group of students that traditionally lack access to higher education. Their students are the ones who are the most vulnerable, the ones who didn't have parents who went to college, who didn't grow up in a fairly wealthy household. And to make it through college, they require a significant support structure that is not available at these for-profit schools.

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144 Like Bridgepoint, schools that have large online programs seem to have particularly troubling outcomes. This becomes clear when we look at a large publicly traded school that has both a large online program and a large campus-based program for associate degree-seeking students. I am talking about a 2-year degree. We can see it on this chart.

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146 Career Education Corporation--that is another one of these for-profit schools--has a withdrawal rate of 44 percent on their campus-based programs, and a whopping 69.5 percent in their online programs. Campus-based program withdrawal rate 44 percent; online withdrawal rate 69.5 percent. Something is very wrong here. To me, this

suggests these online students are not getting the support they need. It is inexpensive for a school to enroll a student online, but to ensure those students are learning and succeeding would require a major investment that for-profit schools, obviously, are not willing to make.

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148 What these high dropout numbers illustrate is a phenomenon called ``churn.'' That is an industry term for bringing in students, signing them up for loans and Pell grants, and then leaving them to sink or swim. Then they go out the door, and they bring in more. That is what they call churning through the students because so many students at these for-profit schools come in the door and then leave within 4 months, 5 months, 6 months. Many of these students don't even show up in the data the Department of Education collects.

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150 At Bridgepoint, for example, on the first day of classes in the fall of 2009, there were about 48,000 students signed up. Over the next year, recruiters signed up 77,000 additional students. Let's keep these figures in mind. In the fall of 2009, 48,000 students signed up for Bridgepoint.

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152 In the next year, they signed up 77,000 additional students. Then at the end of that school year in 2010, there were only 67,000 total students enrolled. That means the school's actual head count for that year was about 125,000 students enrolled at some point. But 58,000 students, nearly half of them, didn't stick around. They were out the door. These are the kinds of things people don't know. This is what our investigation has uncovered by getting the documentation that led us to these figures.

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154 The picture is much the same at other for-profit schools. In fact, most schools we analyzed recruit at least the equivalent of their entire starting student population anew each year. That bears repeating. Most of the schools we analyzed recruit at least the equivalent of their entire starting student population anew every year.

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156 This chart describes the University of Phoenix. We have all heard of them. If someone has never heard of them, they don't watch TV or read newspapers or ride a bus or anything else to see all their ads. They do a great job of advertising. At the University of Phoenix, in 2008-2009, the school started the year with 443,000 students. They ended the school year with 470,800 students, so almost a 28,000-student increase, 27,800 to be exact. They grew their enrollment by 27,800. In fact, they actually recruited and enrolled 371,700 new students in that year to get 27,800. Again, these numbers can get a little confusing. Let me try that again.

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158 The University of Phoenix started the school year in 2008 with 443,000 students. They ended the school year with 470,800, a growth of 27,800 students. How did they get 27,800? They recruited 371,700 students just to get that 27,800. That means almost 350,000 students passed through the University of Phoenix in 2009 without anything to show for it. They came in. A lot of them gave them their Pell grants. They turned over their student loans. Then they vanished. The students got the debt and the University of Phoenix got a nice little profit. Actually, a nice big profit.

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160 At another company, EDMC, the marketing and recruiting machine signed up 124,000 new students in the last school year. But they ended up the year with only 19,000 more students than when they started. Recruiters for these schools face the imperative of enrolling large numbers of new students each year to replace those dropping out and eventually reach the point where the number of new students is sufficient to actually cause the enrollment to grow.

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162 That is what the shareholders demand. That is what the hedge funds who own them
demand. That is what their equity investors demand. The schools may be very
163 successful as companies, making profits for their investors and their owners and, I
164 might say, huge compensation for their executives and their presidents, but it is
165 hard to say they are successful as educational institutions.

166 (Mr. BENNET assumed the chair.)

167 Mr. DURBIN. Will the Senator yield for a question?

168 Mr. HARKIN. I am delighted to yield.

169 Mr. DURBIN. I wish to ask the Senator, most people say businesses ought to have
170 their opportunity to make a profit. That is what America is all about. What
percentage of the revenues at, say, the University of Phoenix come from Federal
171 taxpayers?

172 Mr. HARKIN. I am glad the Senator asked that question. I will go over that again.
There is a Federal law that says they can only get 90 percent of their revenue from
Federal financial aid sources, loans or grants, Pell grants, loans, that type of
173 thing, 90 percent. The University of Phoenix reported last year they got 89 percent
of their money from the Federal Government. But here is the kicker. If you are a GI
and they recruit you and you are giving them your GI bill benefits and other
educational benefits you get through the military, that is not counted in the 90
174 percent. For some reason that is not taxpayer money. Actually, the University of
Phoenix got more than 90 percent of their money from the taxpayers.

175 Mr. DURBIN. If I might follow up, didn't we ask the GAO to do a study, or the
176 Department of Defense to do a study about GI bill benefits and how much we were
actually spending through the GI bill for education through the for-profit schools
compared to the public schools, community colleges, colleges and universities? We
asked for that number, and we ended up learning these for-profit schools were
charging GIs and veterans three times the amount being charged for those who went
177 through other traditional schools, public schools, and universities.

178 It strikes me we have a legitimate concern. I know the Senator from Iowa and myself
have been dutifully and loyally voting for Federal aid to education . I don't know
his story. My story is, I am standing here today because of a National Defense
Education Act government loan that let me finish college and law school; the Senator
from Iowa the same thing. I have thought, goodness' sakes, if that is how I reached
179 this point in my life, other people deserve the same chance. I have been almost an
automatic vote when it comes to that kind of assistance.

180 I thank the Senator from Iowa. Now that he has had these hearings and I have joined
181 him in investigating it, I find that a growing percentage of Federal aid to
education is going to for-profit schools that operate with 90 percent Federal tax
dollars and don't end up providing the kind of education these young men and women
need to succeed, and many of them end up defaulting on their student loans. So there
they are with the debt and nothing to show for it, which I believe is the point the
Senator is making.

182 I ask my colleague, a veteran himself, how can it be fair to the government or the
veterans for this kind of exploitation to continue?

182 Mr. HARKIN. I say to the Senator, who has been a leader in this effort of looking at
the for-profit industry, trying to get the facts so we can make reasonable decisions
as legislators about protecting both the taxpayers' dollars and protecting students,
on December 8 our committee published this report called ``Benefiting Whom,
For-Profit Education Companies and the Growth of Military Education Benefits.'' I
suggest that he might want to look at that. The Senator is absolutely right. More
and more of this money is going to the for-profit schools.

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184 Let me put it this way: Between \$640 to \$700 million in GI bill benefits went
basically to public institutions, public schools--the University of Illinois, Iowa
State, University of Colorado, University of Georgia--all that. About \$640 to \$700
million went to public schools. That supported 209,000 students. About the same
amount of money from GI bill benefits went to the for-profit schools and supported
75,000 students.

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186 Mr. DURBIN. So it is roughly three to one.

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188 Mr. HARKIN. Yes. That is about right.

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190 Mr. DURBIN. So for every dollar we spent through the Department of Defense to help
veterans in the GI bill, if they went to a for-profit school, they were being
charged three times what public schools were charging.

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192 Mr. HARKIN. The Senator is correct.

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194 Mr. DURBIN. And the numbers we found show that, for example, four of the five
biggest schools receiving the most post-9/11 GI bill funding have at least one
campus with a student loan default rate above 24 percent over 3 years. In
comparison--and I don't have the numbers in front of me--I believe when we look at
public schools, the default rates are in the 7- to 10-percent range.

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196 Mr. HARKIN. That is correct.

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198 Mr. DURBIN. So more and more students are being charged higher tuition, going deeper
in debt, and defaulting at a rate of 3 to 1, being charged three times as much,
defaulting three times as much as those who are attending public schools?

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200 Mr. HARKIN. That is right.

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202 Mr. DURBIN. It seems to me, at a time of great national deficits, when we do care
about our veterans, this is an unexplainable, indefensible situation. I thank the
Senator from Iowa for his hearings on this matter. I ask him: At this point, where
do we go from here in terms of these schools and in terms of what we should be
asking of them to make sure the students, the veterans, and the taxpayers get a fair
shake?

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204 Mr. HARKIN. I thank my friend from Illinois for his focus on this issue for a long
time and bringing it to our attention. Again, where are we going? We have some more
hearings we are going to be having after the first of the year.

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206 Then we are going to be looking at legislation we need to do. We need to take care
of this.

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208 As I said earlier, our friend and former colleague, Senator Sam Nunn of Georgia, in

1992, had hearings on this very same subject, and we put in place what we thought were fixes to straighten out this industry and to make sure taxpayers' dollars were better protected. Almost all those have been done away with--the fixes that were made by Senator Nunn and this body, this Congress at that time. We have to reexamine those fixes and others again.

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210 For example, as the Senator knows, in 1992, we put a ban on compensating employees solely for recruiting students; in other words, you could not pay recruiters for how many students they recruited.

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212 Mr. DURBIN. Bounties.

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214 Mr. HARKIN. A bounty. That was rolled back in 2001. We also had a provision that was put in the law then, that at least 50 percent of your students had to be campus based. That was done away with in 2005. So all your students can be online. Since 2005, we have seen this huge explosion in online students going to these private schools online. So those are just two of the things that have been rolled back. I think we have to reexamine that and reexamine how we better protect both taxpayers and students.

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216 Mr. DURBIN. If I could ask one last question of the Senator from Iowa.

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218 So the U.S. Department of Education is looking at this?

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220 Mr. HARKIN. Yes.

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222 Mr. DURBIN. Secretary of Education Arne Duncan is looking into this.

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224 Mr. HARKIN. Yes.

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226 Mr. DURBIN. You cannot escape the reaction of the for-profit school industry. They are buying full-page ads in every newspaper they can get their hands on, claiming we are, by this investigation, trying to deny an opportunity for education for particularly disadvantaged students.

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228 Mr. HARKIN. Yes.

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230 Mr. DURBIN. Isn't the bottom line that we want to make sure that, first, schools are accredited, so when they hold themselves out to offer a training program, certificate, degree, they, in fact, are doing that; second, to make sure they are charging a reasonable amount for the education they are offering; third, if you have so many defaults, it basically says your students are just accumulating debt, not accumulating diplomas, and we have to bring that to an end; and they are asking about whether students end up in a job when it is all over, gainful employment. Are any of these unreasonable if the Federal Government is providing 90 percent of the revenues for these schools?

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232 Mr. HARKIN. I think the Senator is being very reasonable. I think these are the minimum kinds of things we ought to do, as I said, to be stewards of the taxpayers' money, protect our veterans, and protect other students.

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234 One of the tricks in the trade, as they say--I bet if I asked most Senators to describe a semester, what is a semester, you would think a semester goes usually from September to January, one semester; and maybe January to May is another

semester; and then there is summer school. That is not it. A semester is what you make it. Some of these schools have a semester that is 5 weeks long. So if you can keep your students in for 60 percent of the semester, you keep all their money. Then they drop out, and you have the money.

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236 This is something else we have to look at, a better definition of what the timeframes are. What do we mean by a semester? How much time is that? How much time does a student have to stay there before the school can keep the grants and keep the loans from the student? But, again, these are things I think our committee and others are going to have to wrestle with, as we go ahead on this issue.

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238 I know others are backed up here to speak. I started a little bit late. I was supposed to start at 3:15. I think I started at 3:30, if I am not mistaken. So I will just take a few more minutes and try to close. I do not wish to keep other Senators waiting.

239

240 I, again, wish to close on this, on the cost and debt. At these for-profit schools, many students do not leave with a degree, but most leave with debt. The average student attends for about 128 days before dropping out. That is a little over 4 months. That is the average. For most schools, that is two terms. That is enough time for students to rack up thousands of dollars in debt--anywhere from \$6,000 to \$11,000, depending on the program and school.

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242 That is because for-profit schools are far more expensive than comparable programs at community colleges or public universities. The average tuition for a for-profit school is about six times higher than a community college and twice as high as a 4-year public school. Average annual tuition for a for-profit school was about \$14,000 in 2009, while tuition at community colleges averaged about \$2,500, and instate 4-year tuition was about \$7,000.

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244 Of the 15 schools investigated by GAO, 14 had higher tuition than the nearest public college offering a similar program. One that we looked at offered a ``computer-aided drafting certificate'' for \$13,945, when the same program at a nearby community college cost \$520. The cost of an associate's degree offered by the second largest for-profit is over \$38,000, and a bachelor's degree can cost up to \$96,500.

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246 Again, I just referenced to the Senator from Illinois the recent study we had done regarding the GIs and what the GIs are coming out with. They are paying three, four, sometimes five times as much going to an online school as they could at a community college or a local public or even a nonprofit university.

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248 On the placement--I know others are here, and I do not wish to again hold them up. I talked about what Senator Nunn had done back in 1992. Let me just respond on one thing on the accreditors. The Senator from Illinois mentioned accreditation. I wish to just respond to that because a lot of people think, if they are accredited, they must be all right. But here is what we found.

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250 All institutions of higher learning are governed by a combination of the Federal Department of Education, State agencies, and private accrediting agencies, which ought to act as a safeguard against the proliferation of high-cost, low-quality educational institutions. A few States have passed strong State authorization requirements, which have made it difficult for some questionable for-profit colleges to set up shop in those States. Unfortunately, those States are the exception rather than the rule. Accrediting agencies are charged with the mission of ensuring

educational quality. However, this does not happen at a lot of for-profit schools.

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252 There are two types of accrediting agencies: the so-called national accreditors that focus on accrediting for-profit schools, and there are regional accreditors that accredit most public and nonprofit universities. Increasingly, for-profit schools are seeking regional accreditation. One particular regional accreditor, the Higher Learning Commission of the North Central Association of Colleges and Schools, accredits 18 of the 24 for-profit schools that have regional accreditation and, until recently, was known as the go-to accreditor for for-profit schools.

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254 They have a cozy relationship. We had testimony from a witness employed by one of the national higher education accrediting organizations. He testified:

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256 Accreditors must hold institutions accountable to ensure that only the highest level of integrity is injected into the student recruitment and admissions process.

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258 The same witness assured the committee that in 629 onsite evaluations of member schools over the previous 2 years, the agency did not find even a single example of ``substantial non-compliance.'' Yet this witness's organization accredits three of the schools documented by the GAO as having engaged in misleading or deceptive recruiting.

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260 So, again, that is where we find ourselves: One-quarter of our financial aid budget is going to a sector dominated by education companies owned by investors and shareholders seeking to maximize short-term profit. Their mission is to grow and to get profits at the expense of positive student outcomes. There are virtually no legislative checks in place, though new Department of Education regulation on incentive compensation is a step forward. The current accreditation bodies in higher education are ill-equipped to deal with the size and relentlessness of the investor-owned companies. As a consequence, as I just said, we have ``for-profit'' companies financed with over 85 percent of taxpayer dollars, reaping \$3.5 billion in profits, and millions of students leaving these schools with debt but no diploma.

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262 These schools will receive more than \$30 billion in Federal aid this upcoming year--\$30 billion. It seems to me it is the obligation of us here and Federal regulators to provide effective government oversight and regulation of Federal financial aid dollars. The public is watching to see whether taxpayers' dollars are being used wisely and effectively. With high-cost schools, and sky-high dropout rates, with limited job placement and services, I have grave doubts that many of these for-profit schools are a good taxpayer investment.

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264 At stake in the debate is the future of millions of Americans who are being aggressively recruited into high-cost programs of often dubious educational quality. For all these reasons--for every Yasmine Issa who has been misled or defrauded by a for-profit college--we have an obligation to make sure these schools are doing a decent job for their students. We need for-profit schools that put the interests of their students first. We need for-profit education companies that strive to serve the needs of the students they recruit and enroll. That is not always the case today. Congress and the executive branch have an obligation, I would say a moral obligation, to provide effective oversight of the for-profit sector in higher education . We owe this to the students, and we owe it to every taxpayer.

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266 I yield the floor.