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Why Durbin is Scary, and Why He's Not

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Our Call:

Senator Dick Durbin (D-IL) hosted a public forum Tuesday on the subject of For-Profit Colleges. Invited to speak at the session were two former for-profit school students, the CEOs of DeVry Inc (DV), Career Education Corporation (CECO), and Kaplan (WPO), as well as a public university president and local community college president and culinary arts instructor.

As expected, the tone was critical, though less sharp-edged we found, than the comparable Senate H.E.L.P. committee hearings. Senator Durbin's themes were unsurprising and focused on the disproportionate share of Title IV spending among for-profit schools, high student debt levels, allegations of deceptive marketing practices, and the quality of instruction.

Of particular importance to the Senator were the level of spending on enrollment marketing relative to the level of spend on instruction, the system of program and school accreditation and whether it is in need of reform (and what should the role of the federal government be in that reform). Finally, the Senator sounded a new theme of constrained federal budgets (without acknowledging, or even perhaps appreciating, that the only way to truly accomplish that task is to reduce the amount of access in the system).

In a statement published after the hearing concluded, Senator Durbin advocated the following "reforms:" "having for-profits pick up some cost for defaulted student loans; requiring schools to disclose more information about their costs and students' completion rates; ending schools' ability to gain accreditation by purchasing already-accredited non-profit institutions; and examining how much of the federal funds schools receive is spent on marketing."

Greater disclosure is already a requirement of the current NPRM, the purchasing of regional accreditation has been effectively addressed through the intimidation of the regional accrediting organizations by the Department, and the other two items would require an act of Congress, which despite all the noise and heat surrounding the sector, we do not consider viable in the current Congress and certainly not in the next one. Because the Senators most accommodating to the Democrats remain Olympia Snowe and Susan Collins of Maine, and because Ms. Snowe we presume to be positively disposed to the sector owing to her husband's chairmanship of Education Management, we do not see Durbin's "reforms" as viable without significant compromise and Republican co-sponsorship. Given the current tone in Washington, and the rhetoric surrounding this issue, we think compromise is highly unlikely.

Senator Durbin Opening Statement

The Senator acknowledged that for-profit schools provide flexibility for non-traditional students but believes there are issues both with pricing as well as marketing. He cited the case of students protesting outside the hearing room from The Institute of Art Illinois – Schaumberg (EDMC) where, according to the students a non-degree program cost $27K and a two-year degree cost $54K for a job that will pay approximately $30K upon graduation. The students claimed that they had no idea federally guaranteed loan debt was non-extinguishable – that they "had not been told."

Investment Analysis:

Durbin went on to describe what he believes to be a common practice of luring students without full information. He cited some schools (presumably publicly-traded with published financials) spending almost 1/3 of their costs on marketing, with only 1/2 spent on education and, with plenty of outrage, described some schools spending less on teaching than on marketing. He expressed some concern that some recruiters are deliberately trained in techniques to mislead students.

Durbin continued by seriously misconstruing the recently published repayment data, citing a majority of 2009 students unable to pay down principal, with defaults of 44%. He cited "average" profit – again presumably of the publicly-traded companies and apropos of nothing – to range between $150-$228M in 2009 in spite of or because of the recession; his implication being of course that this profit range is somehow inappropriate.

His characterization of the student experience at for-profit schools is that students are not given full information or disclosures, that teachers are "a joke," that students are left with thousands of dollars of debt with little to show for it and that some have to start over from scratch at community colleges. Of course the Senator expressed no outrage at the community colleges' unwillingness to accept credits from for-profit schools and had no objective support for transfers, which could easily number far more heading away from community colleges and to for-profit schools.

The issues the Senator claimed he wanted to address in the forum were whether it is appropriate for federal funding to be used on marketing campaigns, whether accreditation standards are high enough and what is the proper role of the federal government.

Panel I: Student / Provost Perspectives

Michelle Zuver, Westwood College - Criminal Justice BA grad in 2008

Ms. Zuver received a BA in criminal justice from nationally-accredited Westwood but has been unable to find work in law enforcement in Chicago, other Illinois suburbs or Virginia. She says her degree is "not recognized," by the city or county and that she was unaware of the different types of accreditation. She is deeply in debt, working part-time in retail and feels that the recruiter from Westwood misrepresented the value of the degree in the marketplace.

In Q&A, Ms. Zuver was unable to explain how the cost of her program presented initially as $53K ultimately led to $86K of student debt. She was unaware of the school's accreditation.

Denise Parnell, Illinois School of Health Careers, Nursing Assistant program

Ms. Parnell learned about the school from a television commercial. She was told that she would receive a CMA and other certificates, but did not. Her current debt includes $8.5K in federal loans and $5.25K in additional loans. Ms. Parnell attended the program for eight months, with the final two months consisting of an externship, and received a letter prior to completion notifying students that the program would not qualify them for a CMA.

In Q&A, Ms. Parnell told the Senator that she was not told very much about her loans or what they would cost her. She was unimpressed with the competence of the instructors at her school and while she was led to believe that her training would lead to a job at a hospital or clinic, her externship was instead at a nursing home and the lack of certification leaves her unqualified for higher end hospital work.

Chef Bill Reynolds, Washburne Culinary Institute, Kennedy King College, Provost

Chef Reynolds was there to describe the misinformation that often exists among would-be chefs who come to school aspiring to become celebrities only to drop out of the program. He described the low-paid nature of chefs just leaving school and how hard it can be to service expensive student loans as a consequence. He is an advocate for raising standards for admission and requiring prior work experience in the field, as well as competency in math and other high school level academic skills.

In Q&A from the Senator, Chef Reynolds denigrated the quality of for-profit culinary school instruction as providing less hands-on, practical experience, though one Art Institute student in the audience shook her head and commented that this was untrue as he was speaking.

Panel II: Post-Secondary Management

Daniel Hamburger, President and CEO, DeVry Inc.

Hamburger cited DeVry's achievements including successful graduates, prestigious long-time employers, length of HLC accreditation and good works in Chicago with high school students. He also described the ways in which the company is serving the national interest by addressing the nursing and doctor shortages, focusing on student outcomes, reinvesting in student services, etc. He expressed support for thoughtful regulation and invited the Senator to visit a local campus.

In Q&A DeVry fielded softballs from Senator Durbin. He was asked about Advantage Academy, DeVry's high school to associate program, and when asked about admissions standards, Hamburger indicated that neither Chamberlain nor DeVry had open enrollment and that both schools required passing an entrance exam. (Nearly all schools have test of this nature; the Senator did not ask the natural follow-up which would have been how many applicants fail to pass the entrance test.)

When asked about repayment rates, Hamburger indicated as well that income-based repayment plans encouraged by the government should not then be subject to penalties retroactively.

When asked about programmatic accreditation at Apollo College (now Carrington), Hamburger indicated that only students qualified with a BA were enrolled so that they would be permitted to sit for the relevant certification tests.

Hamburger expressed support for regulations in concept but noted that the Department had not gotten the formula right and that unintended consequences would likely ensue as a result, including the loss of access for many students and programs.

Wade Dyke, President, Kaplan University

Dyke described the role Kaplan is playing in relieving pressure on capacity-constrained non-profits unable to expand to meet the needs of the economy. He described the sector's unique role in aiding low-income families and described the harm that Gainful Employment regulations would likely do by restricting access. He decried the notion that for-profit schools cost more by pointing to the subsidies received by state-sponsored schools and the corporate taxes they pay. He noted that debt problems were exacerbated by the government's allowing students to borrow their maximum loan capacity regardless of need. He also refuted the notion that marketing expenses were out of line with those of not-for-profit schools. He ended his remarks by citing examples of local success stories.

Durbin asked Dyke about the GAO Report allegations to which Dyke responded that the individuals situations cited had been dealt with swiftly.

When asked about Kaplan's low repayment rate, Dyke responded that they felt the calculation by the Department was flawed and discriminatory. He noted other well-respected schools that scored poorly and noted that penalizing schools whose students participate in approved government repayment solutions was inappropriate.

Pressed by Durbin on the quality of outcomes, Dyke defended Kaplan vigorously pointing to low defaults and high placement rates, and the important need to supplement publicly-funded schools that lack capacity to serve the demand.

Gary McCullough, President and CEO, Career Education Corp.

McCullough opened by acknowledging several local students attending the meeting. He described his own diligence process of the schools and the company prior to accepting the CEO position, and expressed a desire for a balanced discussion. He described the typical CEC student and outlined the company's commitment to integrity, transparency and student service. He also asserted the need for additional capacity beyond that provided by state-funded institutions, and described Gainful Employment as discriminatory and potentially harmful to students.

Senator Durbin pressed McCullough hard on culinary program costs relative to expected income. McCullough countered that the skills learned lasted a lifetime and that the program was expensive to deliver. Durbin countered that the culinary programs seemed to over-enroll students relative to the real job opportunities.

Durbin asked McCullough as well about program accreditation and he acknowledged that program accreditation information should be disclosed explicitly.

Durbin asked about the 50% discount on loaned dollars to students; McCullough responded that its assumption of 48% default was comparable to the assumptions and practice of Sallie Mae's private lending group.

Durbin asked about defaults and McCullough responded that income was the principal factor, and that the proposed rules may force the company to walk away from some students and some communities.

McCullough also indicated that he believed there were many flaws with NPRM and expressed a desire to aid the Department in improving the rules so that they would not result in negative consequences for students.

Girard (Jerry) Weber, President, College of Lake County (community college)

Weber described the opportunities provided by for-profit schools in providing competition to state-funded schools and as well as offering more variety. However, he described for-profits as charging as much as eight times as much for programs already available at community colleges and questioned why the public would support that. His school still has additional capacity though he acknowledged some issues, and Weber believes taxpayers are unaware of how Title IV works. He does not acknowledge any justifiable difference in product offerings, and attributes the choice of for-profit over community college as premised on false marketing claims and predatory sales practices. He favors restrictions on recruiting that require for-profit schools to make students aware of community college options. He avoided answering the question of whether non-traditional students necessarily came with worse completion rates.

When asked about low completion rates for community colleges, Weber indicated that many students came for single classes and ad hoc training so that completion was not a fair or effective measure of quality.

He noted that his student population had very low incomes and that his school allowed them to receive an education without accumulating significant debt.

Al Bowman, President, Illinois State University

Bowman described ISU's efforts to help under-represented students and improve its graduation rates from 55% to 70%. He attributed the improvement to reduced class size and more focused resources. Dodging a question regarding the relation of income to completion, he suggested that focused effort could improve retention regardless of student background. He does not believe open enrollment is an approach to higher education that makes sense. He described a freshman to sophomore retention rate of 80% for students from underrepresented groups; overall retention is 85% for the general population, and Bowman believes these results can be replicated in other schools. Approximately 1/3 of students leave ISU with no debt, 2/3 leave with just under $20K of debt.

Bowman indicated support for universal access but also suggested institutions had a responsibility not to enroll students that were unlikely to be successful.

Durbin Closing Statement

Senator Durbin closed the forum by noting that for-profit schools depend more on federal aid than other types of schools (without noting state subsidies or the fact that many not-for-profit institutions have smaller Title IV percentages due to higher prices.) He noted that the top recipients of Title IV monies are DeVry, Kaplan, and University of Phoenix and suggested that this could be at odds with reducing the federal deficit.

He suggested the federal government had a responsibility to draw the line at how much loan debt is too much for a student to take on, noting that most 20-21 year-olds are not capable of making such a decision.

Durbin underscored his disapproval of federal funds being used to recruit students. He indicated that he did believe there should be a common set of accreditation standards, and he indicated a need to crack down on misleading recruitment practices.

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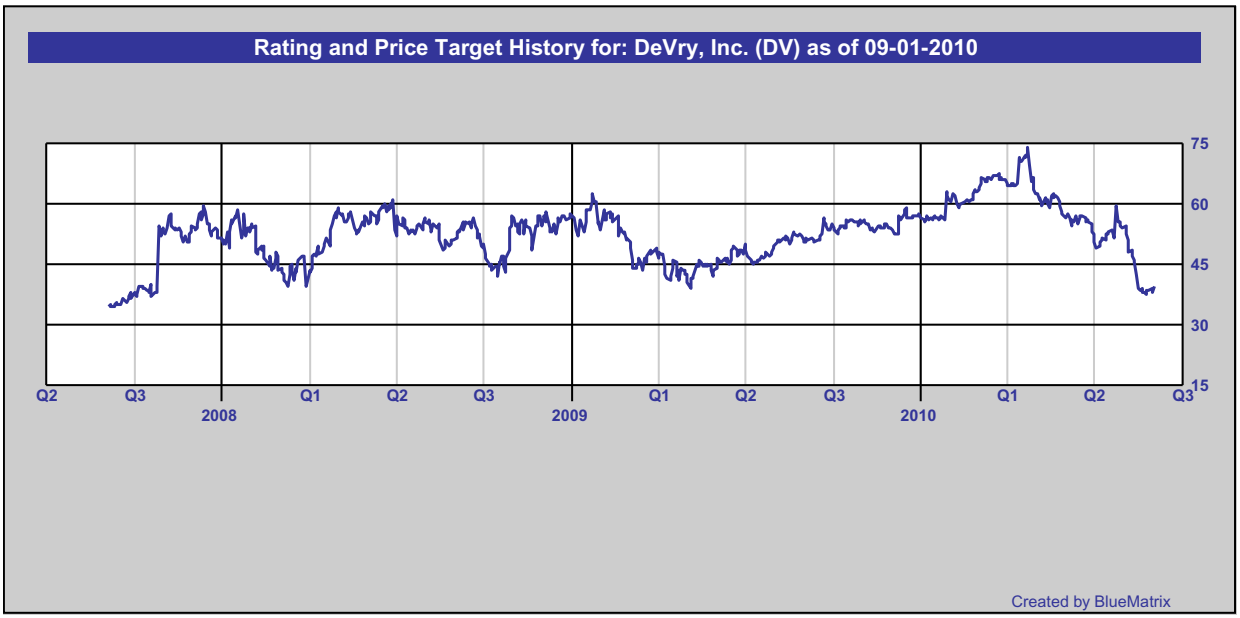

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			IB Serv./Past 12 Mos.	
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SELL	**1**	**0.7**	**1**	**100.0**

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