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Empty promises: Many for-profit colleges lead students into debt with no diploma (Sen. Tom Harkin)

By Sen. Tom Harkin (D-Iowa) - 12/09/10 12:14 PM ET

For-profit colleges have seen explosive growth in recent years. Top executives had been rewarded handsomely, and shareholders have received great dividends. But for students at for-profit colleges, it has been a very different story. Despite enticing promises of a diploma followed by a good job, the majority of students withdraw without graduating, with few employment prospects, and in most cases a load of debt that could follow them the rest of their lives.

This is a shame, because many for-profit colleges offer innovative alternatives for students juggling work and family obligations. They could be a valuable part of our higher education system if they work for students rather than CEOs and shareholders. Regrettably, an ongoing investigation by my committee has exposed an industry marked by widespread deceptive recruiting practices, overpriced programs, huge profits and staggering debts for the most vulnerable students.

Just as subprime lenders used the promise of homeownership to lure Americans into loans they couldn't afford; for-profit colleges are using the promise of higher education to convince students to take on large debts without providing the promised education or economic advancement. An undercover General Accountability Office investigation that I requested as committee chairman found all 15 schools they visited this spring were using deceptive recruiting practices to convince students to enroll.

Our investigation has revealed that for-profit colleges are often much more expensive than comparable public schools, guaranteeing that almost every student takes out loans. The average tuition at a for-profit institution is six times that of community colleges and about twice that of public four-year schools, leading 95 percent of for-profit college students to borrow to attend school, compared with just 16 percent of community college students. For-profit colleges account for only 10 percent of higher education students, but account for 23 percent of federal student loans and 44 percent of loan defaults.

The committee has documented that, at 16 large for-profit schools, 57 percent of students who enrolled in 2008-2009 had dropped out — most within four-and-a-half months. At the largest for-profit school, more than 64 percent of those seeking an associate's degree dropped out within a year and averaged only a four-

month stay. Because for-profit colleges continually lose so many students, they must aggressively enroll tens of thousands of new students throughout the year in order to keep their enrollment levels up and the federal subsidies rolling in.

Meanwhile, for-profit institutions are raking in record profits despite their dismal student success rates. Profits at 16 of the largest for-profit schools totaled \$2.7 billion in 2009. Although it defies logic, these profits are overwhelmingly drawn from taxpayer dollars intended to support student success. More than 87 percent of revenue at the 14 largest schools comes from taxpayer dollars.

CEOs at for-profit education companies are rewarded with mega-million-dollar, taxpayer-funded salaries, even as the low-income students targeted by these schools struggle with staggering debts. For example, Strayer, a chain of for-profit colleges that receives three-quarters of its revenue from U.S. taxpayers, paid their chairman and CEO \$41.9 million last year. That's nearly 60 times the compensation of Harvard's president.

Despite their huge profits, investments in actually educating students take a back seat to non-education expenses at for-profit colleges. Eight large schools devoted nearly 50 percent of their spending to marketing, recruiting and non-education expenses, and their investments in expensive and manipulative marketing campaigns are paying off. The largest for-profit school reports current enrollment of 458,600 — larger than the undergraduate enrollment of the entire Big Ten conference.

What is the bottom line, here? The for-profit higher-education industry is rife with manipulative and misleading marketing campaigns, educational programs far more expensive than comparable public or non-profit programs and sky-high dropout rates. Yet the industry is reaping huge profits, drawn almost entirely from taxpayer dollars. Rather than invest the profits to improve student success, the schools reward executives and invest in enrolling more new students. They churn through a steady stream of new recruits, suck in billions in taxpayer dollars and leave in their wake millions of former students with no degree but plenty of debt — debt that is not dischargeable in bankruptcy.

My deep concern is that while millions of subprime mortgage borrowers lost their homes, millions of for-profit students stand to lose their future. In recent years, inadequate federal oversight has allowed a dangerous bubble to grow in the for-profit college industry. The challenge facing us is to crack down on the abusive practices, while preserving the positive options and innovations that many for-profit colleges have pioneered.

Sen. Harkin is the chairman of the Committee on Health, Education, Labor and Pensions.

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