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New Federal Rule Threatens Practices and Revenue at For-Profit Colleges

Change in definition of 'credit hour' could affect the colleges' share of federal student aid

By Goldie Blumenstyk

A new rule from the U.S. Department of Education governing the definition of credit hours could be costly to some higher-education providers.

For-profit colleges commonly arrange their schedules to attract working adults and others seeking convenience.

Those arrangements are also a huge financial boon to the colleges.

By basing their academic calendars on the minimum course-credit requirements to qualify a full-time student for federal financial aid, the colleges make it easier for their students to maximize their use of loans and grants—the lifeblood of most for-profits.

Under commonly used calendars, an associate degree, typically thought of as a two-year degree, is designed to take three academic years. That allows students to take on a more manageable workload—and it also means they can tap into the bigger federally subsidized loans allowed to full-time students only after they reach their third academic year. Students pursuing bachelor's degrees gain access to the higher loan amounts before they're even halfway through their degrees. The approach also makes it easier for the neediest students to receive additional Pell Grant money.

The strategy, while perfectly legal and even lauded by some advocates for working students, is one of the reasons for-profit colleges end up with such a disproportionate share of federal student aid. For-profit colleges enroll fewer than 10 percent of all undergraduates but account for more than 20 percent of Pell Grant funds and of federally subsidized student loans.

"The point is to streamline the higher-education process so that programs are aligned, build in a logical sequence, are immersive and concentrated, hold electives to what is essential, and promote degree or certificate completion," said Harris N. Miller, president of the Association of Private Sector Colleges and Universities, in a written statement. "Federal student-aid policy rightly recognizes the need for students to be given the choice to pursue award attainment in a serious, purposeful manner."

Some for-profit colleges are also smoothing the path to a degree by increasing the number of credits awarded for a single class, and that, too, benefits their bottom line.

American InterContinental University and Kaplan University, for example, assign credit values to their courses in excess of what is typical for terms of similar lengths elsewhere—an approach that in the case of American InterContinental has prompted questions from federal regulators and Congress about "credit inflation."

The concern centers on whether the courses with higher credit values carry a commensurately higher level of class time or coursework.

Colleges say that they're offering the higher-credit courses because students want faster ways to complete their degrees, and that advances in pedagogy, particularly in online education, make accelerated courses more feasible.

But by increasing the credit value of courses, the colleges can also increase their profit margins, because their costs for faculty and other expenses to provide the higher-credit courses don't necessarily increase by as much as what they receive from the higher tuition they charge.

It's "a financial home run" for the companies, said Bradley Safalow, chief executive of PAA Research, an independent stock-research firm. But "students, and by proxy taxpayers, are getting a whole lot less, for a whole lot more."

Mr. Safalow highlighted the credit-hour-inflation issue in a report in June. In that report he warned that a new regulation expected from the Department of Education next month "could have far-reaching implications" for the for-profit college industry.

Changing Rules

The new regulation, if it follows the outlines of the one proposed earlier this year, will require accreditors to base their credit-hour assessments on an old standard of one credit equals one hour of instruction plus two hours of study each week for a semester. While some national accreditors now require colleges to meet defined standards for the awarding of credit, regional accreditors don't.

The new rules will "put the onus on the accreditors to pay attention now," said Barmak Nassirian, associate executive director of the American Association of Collegiate Registrars and Admissions Officers.

Mr. Safalow, whose firm is independent from investors and banks that have a financial stake in how the stocks of the industry fare, said he expected the rule could require Kaplan, American

InterContinental, and other colleges to make "significant revisions" in their course delivery models, which could lower their revenue per student, raise their instructional costs, and reduce their revenues from federal loans and grants.

American InterContinental's credit system came under public scrutiny in December. That was when the Department of Education's inspector general pointedly challenged the standing of AIU's new accreditor, the Higher Learning Commission of the North Central Association of Colleges and Schools, for allowing AIU to pass muster even though the accreditor had found AIU's policy of awarding nine credits to a five-week business course "egregious."

AIU subsequently converted some of its online nine-credit courses to two 4.5-credit courses. But students can now take the two courses and still receive the nine credits in five weeks.

Jeff Leshay, spokesman for AmericanIntercontinental's parent company, Career Education Corporation, said the splitting up of the credit values for the revised courses wasn't merely the academic equivalent of eating an entire pizza in a single sitting after slicing it in two. In the new formation, each 4.5-credit course has an additional test or assignment. AIU's 4.5-credit courses "are rigorous and achieve the intended student outcomes," he said, adding that the pedagogy inherent in the online-delivery format justifies the higher credit level. The classroom version of the courses, and most other courses at AIU and at the company's Colorado Technical University, are 10-week courses that carry 4.5 credits.

A Kaplan spokesman said the institution increased the credit values of some of its 10-week courses beginning in 2003-4 from four credits to five to "bring more parity" between the lower-division and upper-division courses. As part of that, said the spokesman, Ron Iori, additional assignments or requirements were added at the advice of a curriculum committee.

Mr. Safalow's stock-research company, in another report, cites an anonymous comment from a former high-ranking academic executive at Kaplan who called Kaplan's course-credit increases "a race to the bottom."

Kaplan officials said in a written statement that the institution has "an extensive governance process in place to manage curriculum changes, such as credit hours, and provide the necessary validation of any changes. We expect our schools to comply with the government's definition of a credit hour as it is currently proposed."

Minimum Course Load

The spotlight on credit-hour issues could also bring attention to for-profit degree programs designed to give students access to

higher levels of federal aid.

With Congress and the public now so focused on the growing amount of federal student aid flowing to for-profit colleges, the basic business model of the entire sector "could become a very large hot-button issue," Mr. Safalow says.

The business model is simple. At ITT Technical Institutes, for example, the curriculum is designed so students take three courses of four credits each 12-week quarter. Following federal guidelines for a quarter-system calendar, ITT classifies students as having completed an academic year after they've completed 36 credits. As second-year students, they qualify for higher levels of student loans (and if they're financially needy enough, for the next installment of their Pell Grants). After the next three quarters going "full time," the students can obtain the even higher levels of loans designed for students in their third and fourth academic years, even though at that point, with 72 credits, they'll still need 24 additional credits to receive their associate degree (ITT requires 96 credits for that) and 108 more credits for a bachelor's.

In contrast, many community colleges award the associate degree for 90 quarter credits, and their programs are designed to be completed in six quarters, not eight. In practice, many of their students do move more slowly. But far more do so by attending part time and taking the lower aid levels that come with that.

Other for-profits require even more credits than ITT: Several of the associate degrees at Westwood College, for example, require 107 or more quarter credits, while many of its bachelor's degrees require 195, versus the usual 180 for a quarter system.

The system works similarly at institutions that use unconventional schedules designed specifically to serve working students, like the one at the University of Phoenix. There the curriculum is designed so full-time students seeking a bachelor's degree take one three-credit course at a time every five weeks, and the academic year is 24 credits. So at Phoenix students qualify for the higher levels of federal loans once they've completed just 48 credits toward the 120 they need for a bachelor's degree.

Those same credit minimums for academic years apply to all colleges. The only restriction is that each academic year, whether comprising two semesters or three quarters, must be at least 30 weeks long. But very few nonprofit and public colleges design their entire course calendars to take advantage of the financial-aid opportunities.

That's partly because they are not, as a whole, oriented toward serving adult students and those who couldn't afford college without

the financial aid. They also respond to different financial and political pressures. At public colleges, for example, state financing formulas often penalize institutions for students that don't carry a course load sufficient to have them complete their eight-semester degree in eight semesters.

Advocates for working students say those traditional academic calendars keep working students from completing college in a timely manner. This month the president of Complete College America, Stan Jones, publicly took traditional colleges to task for failing to adapt their calendars to better serve the "new emerging majority" of college students.

The for-profit colleges do accommodate that new wave, he noted in an interview. "Their motivation may be money, but there is still a benefit to the student." But he faults them for a calendar approach that encourages students to carry less than a full credit load.

A much better strategy, said Mr. Jones, would involve more colleges devising academic calendars so that students considered full time for purposes of federal financial aid were actually taking a full course load, such as 15 credits a semester, and getting their degrees faster. (He advocates a block schedule that allows students to take their classes in the evenings or the mornings, rather than scattered throughout the day and the week.)

With that, said Mr. Jones, students "would get financial aid plus graduate at a high rate, sooner."

Mr. Nassirian, whose organization represents the higher-education officials who oversee credit-hour matters, said it may be time for federal officials to take another look at how colleges use the definition of a full-time student and a complete academic year.

"The definition is not intended to be a ceiling on their full-time status," he said. It shouldn't be a systemic "way to get access to three years of financial aid for what is really a two-year program."

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