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- [Solution](#)
- [Advantage](#)
- [Partners](#)
- [Company](#)
- [Contact](#)

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[Entries RSS](#) | [Comments RSS](#)

• Recent Posts

- [For-Profit Universities: What Exactly Are We Debating? Part II](#)
- [For-Profit Universities: What Exactly Are We Debating? Part I](#)
- [Webinar – Building Student Profiles: 3 Steps to Meeting The Demands Of Today's Students](#)
- [Student Profiles: Part I](#)
- [For-Profit Colleges: Sound Taxpayer Investment or Wasteful Spending?](#)

• About the Authors

- [About](#)

• Archives

[For-Profit Universities: What Exactly Are We Debating? Part II](#)

Posted on September 29, 2010 by Matthew Schnittman

When we last left off, we covered possible goals of the current for-profit education hearings in terms of [protecting student interests and ensuring quality education](#). So let's approach the other issues raised by Senator Harkin, the financial ones: taxpayer investments and marketing expenditures.

Are taxpayers getting a good ROI on their investments?

*Senator Harkin asks, "And are students – and U.S. taxpayers – getting good value for the billions of dollars they are investing in these schools?"*¹

I've addressed this in a previous blog post, ["For-Profit Colleges: Sound Taxpayer Investment or Wasteful Spending?"](#)² – so I won't go into detail here, but suffice it to say, data shows that the investment to

educate a student in a non-profit school exceeds that of a for-profit student.

*Senator Harkin also asks, “Are our new investments in student financial aid sufficiently safeguarded under current law?”*¹

The Federal recovery rate of student loans is actually 110.6%. How can this be, you might ask? When a student defaults on a federal loan, the government assigns a Private Collection Agency to collect. The government can garnish wages, income tax returns, etc. to collect its loan, plus interest, plus fees. In general, student loans cannot even be ignored in bankruptcy cases.³ Given the recovery rates of federal student loans, it is actually exponentially less expensive to taxpayers for a student to attend a for-profit university than a public one – please see my previous [taxpayer investment blog post](#)² for the breakdown of the numbers.

One of the findings of the Spellings Commission⁴ stated, “The lack of transparency in financing is not just a problem of public communication or metrics. It reflects a deeper problem: inadequate attention to cost measurement and cost management within institutions.”

That said, taxpayers actually benefit from students attending for-profit colleges and universities. Not only does it make financial sense in terms of overall taxpayer investment and government loan recovery practices, it makes economic sense as for-profits are meeting the future workforce needs of our country.

Are for-profits spending too much on marketing?

*Senator Harkin states, “The Committee issued a report showing that, in order to boost recruitment, many publicly traded for-profit schools spend huge sums of Title IV dollars – taxpayer dollars – on TV advertisements, billboards, phone solicitation and web marketing, and as we will see shortly, an aggressive sales staff.”*¹

While Harkin’s point is valid, how can we actually compare the marketing investment made by for-profit schools and public schools? How can a taxpayer assess the “marketing expenses” of a non-profit school’s athletics programs, expensive buildings or grounds? Let’s look at the University of Iowa as an example. The school recently spent \$70 million on a new recreation center, which has become a critical stop on prospective student tours (aka – marketing), and \$7.2M on a new boathouse, according to an article in The Chronicle of Higher Education.⁵ These marketing expenses should be considered in the ongoing debate.

Do for-profit marketing tactics need tighter regulation?

*As for the Senator’s stated concern regarding abusive marketing tactics, the data doesn’t support the Senator’s comments, “Instead, too often, they (prospects) are victims of deceptive and/or abusive marketing tactics.”*¹

The for-profit schools market to potential students to make sure the underserved population knows that educational opportunities exist for them. According to the January 2010 Parthenon Group Post Secondary Graduate and Dropout Survey, students were asked, [“Going into your studies, did you have a sense of how much debt you would have to take on?”](#)

- Just under 60% of for-profit students said yes, the institution I attended provided this information.
- Approximately 40% of state school students answered yes, the institution I attended provided this

information.

The for-profit industry employs tens of thousands of staff – The University of Phoenix has 20,000 alone. In an industry that large, there are bound to be inappropriate actions by individuals. However, this is not limited to for-profit schools – in fact, not too long ago, Harvard University was ordered to pay the U.S. government over \$20 million on behalf of two employees for fraud.

According to the National Center for Education Statistics, in 2007, over 80% of for-profit students were over the age of 22. They can drive, vote, serve in the military, drink, get married, have kids, etc. Can't they make their own purchase decisions, and shouldn't they have some sort of self responsibility? If we think there is an issue with inappropriate marketing activities and the government needs to be a consumer advocate, let's come up with regulations and solutions for that – not throw on ambiguous metrics.

In Closing

I hope this two-part blog has sparked some conversations with your colleagues on the goals and overall focus of the recent and upcoming hearings. The for-profits and non-profits both play valuable roles in our society. Throughout the hearing process, whether the dialog turns to student interests, the quality of education, taxpayer investments, or marketing expenditures/practices – or maybe a combination of all of these student experience and financial issues – I believe we will come out with a stronger educational system that will continue to serve a diverse student population. As always, I welcome your comments.

Sources:

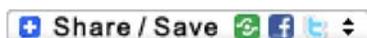
¹*Statement of Chairman Tom Harkin (D-IA) At the HELP Committee Hearing “For-Profit Schools: The Student Recruitment Experience,” August 4, 2010 (<http://harkin.senate.gov/press/release.cfm?i=326942>)*

²*“For-Profit Colleges: Sound Taxpayer Investment or Wasteful Spending?” blog post by Matthew Schnittman, August 17, 2010 (<http://saasinhighered.wordpress.com/2010/08/17/for-profit-colleges-sound-taxpayer-investment-or-wasteful-spending/>)*

³*The White House, Office of Management and Budget (<http://www.whitehouse.gov/omb/budget/Supplemental/>)*

⁴*A Test of Leadership: Charting the Future of U.S. Higher Education, A Report of the Commission Appointed by Secretary of Education Margaret Spellings, 2006, page 11, (<http://www2.ed.gov/about/bdscomm/list/hiedfuture/reports/final-report.pdf>)*

⁵*“At the U. of Iowa, 2 New Buildings to Make Exercise a Pleasure,” The Chronicle of Higher Education, Lawrence Biemiller, Septmeber 8, 2010 (http://chronicle.com/blogPost/At-the-U-of-Iowa-2-New/26748/?sid=pm&utm_source=pm&utm_medium=en)*



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[Next Page »](#)

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- [Conferences](#)
- [Data Management](#)
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- [News](#)
- [Student Data Management](#)
- [Taxpayer Investment in For-Profit Colleges](#)

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