

Testimony of Debbie Cochrane, Program Director
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Joint Legislative Oversight Hearing
California's Oversight of Private Postsecondary Education

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Chairman Block, Chairman Price, and members of the committees, thank you for the opportunity to testify on California's oversight of private postsecondary education.

The Institute for College Access & Success (TICAS) is a nonpartisan, nonprofit research and policy organization based in Oakland, California. Our mission is to improve both educational opportunity and outcomes, both nationally and in California, so that more underrepresented students complete meaningful post-secondary credentials and do so without incurring burdensome debt. Our Project on Student Debt, launched in 2005, focuses on increasing public understanding of rising student debt and the implications for individuals, families, the economy, and society.

Our work has often focused on community colleges, particularly in California, because they enroll the largest share of the nation's low-income, underrepresented minority, older and part-time students, as well as the majority of adult students who work full-time while going to school.¹ However, in our ongoing analyses of student debt trends at the national, state and college levels, a disturbing pattern emerged that led us to look more closely at what is happening to students in the growing for-profit college sector—also known as the proprietary or career college sector.

Compared to other types of colleges, for-profit colleges have the dubious distinction of the highest share of students with debt and the worst federal student loan default rates. For-profit colleges now enroll approximately one in ten post-secondary students in the U.S., but they absorb a far greater share of federal student aid: one in four federal Pell Grant and loan dollars goes to students in the for-profit college sector. In California, the small fraction of students attending for-profit colleges (also about one in ten) collectively receive more dollars from the state Cal Grant program than do those at all California community colleges combined. At the same time, for-profit colleges also have the highest share of students taking out private student loans—one of the riskiest ways to pay for higher education.²

Because the for-profit college sector recruits and enrolls a disproportionate share of low-income students and students of color, we and many other student, civil rights, college access, consumer and veterans

¹ Calculations by The Institute for College Access & Success (TICAS) on data from the U.S. Department of Education, National Center for Education Statistics (NCES), National Postsecondary Student Aid Study (NPSAS), 2007-08, <http://nces.ed.gov/surveys/npsas>. Unless otherwise specified, "students" refers to undergraduate students throughout this testimony. These are the most recent data available.

² Unless otherwise noted, in this testimony the term "private loans" refers to all nonfederal student loans.

advocates are particularly concerned about the disparate impact of this sector's alarmingly high student debt and default levels. Considered together, the for-profit college industry's rapid growth, aggressive recruiting practices, heavy reliance on federal funds, high student debt and default levels, and disproportionate enrollment of underrepresented students clearly point to high and rising stakes for both students and taxpayers.

Federal and State Financial Aid Programs

In 2010-11, about a quarter of federal grant and loan dollars (more than \$31 billion) went to students attending for-profit colleges across the country. In addition, California for-profit college students received \$105 million in state Cal Grants. State grant aid programs vary widely, and Cal Grants are particularly generous to for-profit college students. More than a quarter of total state grant dollars going to for-profit college students nationally are from California's Cal Grant program.

Federal Student Aid

Federal student grant and loan programs are widely available, with no application deadline, to help students cover the costs of attending most colleges across the country. Federal Pell Grants provide up to \$5,550 to low-income students to cover tuition and fees as well as other costs students incur while attending college, such as textbooks and transportation. Federal Stafford loans are also widely available to students at participating colleges to cover the costs of college attendance, in amounts that differ based on students' class level and dependency status. For instance, a typical college freshman going directly from high school to college would be eligible for \$5,500 in federal Stafford loans, whereas an older, independent student would be eligible for \$9,500 in his first year.

In 2010-11, students attending for-profit colleges received a disproportionately large share of federal student aid dollars:

- One in four (25 percent) federal Pell Grant dollars (\$8.8 billion) went to students attending for-profit colleges.³ For-profit colleges receive a disproportionate share of federal Pell Grants because they enroll a disproportionately low-income student population, virtually all of whom must apply for and receive financial aid to cover their tuition.
- Almost one in four (22 percent) federal loan dollars (at least \$22.4 billion) went to students at for-profit colleges.⁴ For-profit college students receive a disproportionate share of federal loan dollars because the vast majority of students attending these colleges have to borrow to cover the high average cost of attendance at these schools.

³ Calculations by TICAS on data from the U.S. Department of Education, Federal Student Aid Data Center, Programmatic Volume Reports. <http://federalstudentaid.ed.gov/datacenter/programmatic.html>, accessed December 2, 2011.

⁴ Note: This includes Subsidized Stafford, Unsubsidized Stafford, Parent PLUS, and Grad PLUS. Calculations by TICAS on data from the U.S. Department of Education, Federal Student Aid Data Center, Programmatic Volume Reports. <http://federalstudentaid.ed.gov/datacenter/programmatic.html>, accessed December 2, 2011.

- In 2007-08, almost all undergraduates (97 percent) attending 2-year for-profit colleges took out student loans, while only 13 percent of undergraduates attending public 2-year colleges took out student loans.⁵
- In 2007-08, 95 percent of undergraduates attending 4-year for-profit colleges took out student loans, while only 47 percent of undergraduates attending public 4-year colleges took out student loans.⁶

No more than 90 percent of for-profit colleges' revenue can come from federal grant and loan programs administered by the U.S. Department of Education, known as Title IV programs. Colleges can lose eligibility for future federal aid if Title IV dollars comprise more than 90 percent of their total revenue in two consecutive years. Referred to as the "90/10 rule," this provision was intended to prevent for-profit colleges from being funded solely by federal taxpayers. It is based on the premise that, if no one else is willing to pay for what a school is offering, taxpayers should not be either. This means that for every nine dollars they get from federal Title IV grants and loans, for-profit colleges must get at least one dollar from another source. Considered from another angle, each dollar of revenue received from any other source allows the college to take in nine more Title IV grant and loan dollars.

State Financial Aid

State Cal Grants are distributed based on very different criteria. Cal Grants are available to students who meet criteria for both academic merit and financial need, attend participating colleges, and, in most cases, are recent high school graduates who apply for them before March 2. The size of a Cal Grant award depends on the type of grant the student is offered and the specific college the student attends. For community college students, for instance, a Cal Grant B award provides \$1,551 to help cover textbook costs and other costs of attendance. At private colleges, including for-profit colleges, a Cal Grant B award currently provides that \$1,551 plus up to \$9,708 to cover tuition (for a maximum nine-month award of \$11,259).

Compared to other state grant aid programs, Cal Grants are particularly generous to for-profit colleges. In 2009-10, six percent of state grant aid recipients in California attended for-profit colleges, and they received nine percent of California's state grant aid dollars. Across all other states, about three percent of state grant aid recipients attended for-profit colleges, and they received about three percent of state grant aid dollars. In California, the average state grant received by for-profit college students was about \$6,900. Across the other states, it was less than a third of that amount at \$1,900.⁷

Individual state comparisons are also illustrative. California distributes more state grant aid dollars than any other state, followed by New York and Texas. In New York, only one percent of state grant aid recipients attended for-profit colleges, and they received one percent of the dollars disbursed. The average grant awarded to for-profit college recipients was \$2,800, less than half the average California

⁵ Calculations by TICAS on data from U.S. Department of Education, NCES, NPSAS, 2007-08.

⁶ Ibid.

⁷ Calculations by TICAS on data from the National Association of State Student Grant and Aid Programs for 2009-10, accessed January 25, 2012. Excludes Puerto Rico.

grant. In Texas, as with more than a dozen other states, no state grant aid dollars went to for-profit colleges.⁸

Overall, students attending for-profit colleges in California received \$105 million in Cal Grants in 2010-11 – an increase of 49 percent since 2005-06.⁹ It is also worth noting that for-profit colleges receive more Cal Grant dollars than do the state's 112 community colleges, despite the community colleges enrolling seven times as many undergraduate students.¹⁰

Other Federal Resources

Active-duty service members and military veterans are eligible for other forms of college financial assistance, through the Department of Defense or the Department of Veterans Affairs. Importantly, federal aid dollars from these departments are *not* counted towards the 90 percent cap on federal student aid. Because these dollars come from outside the Department of Education, they count toward the 10 percent instead.

These G.I. and veterans' benefits equate to more than one billion dollars a year for for-profit colleges.

- In the first year of the Post-9/11 G.I. Bill, 36 percent of tuition payments (\$640 million) went to for-profit colleges.¹¹
- About 40 percent of the \$580 million in tuition assistance for active-duty troops went to online for-profit colleges in fiscal year 2010.¹² Online for-profit colleges that market heavily to members of the military typically price their course credits at the maximum amount covered by G.I. Bill benefits, \$250, which can be five times more than the cost of community college credits offered on military bases.¹³

Private and Institutional Student Loans

Private student loans should not be considered financial aid any more than credit cards should be when students use them for textbooks. However, it is important to consider private student loans in the picture of how students, particularly those at for-profit colleges, are paying for college. Private student loans typically have uncapped, variable interest rates that are highest for those who can least afford them. Lenders generally reserve the right to raise interest rates, charge high fees for myriad reasons, and declare borrowers in default for something as simple as being a day late on a payment.¹⁴ In 2010-11, students

⁸ Ibid.

⁹ Calculations by TICAS on data provided by the California Student Aid Commission.

¹⁰ Calculations by TICAS on data from U.S. Department of Education, NCES, Integrated Postsecondary Education Data System (IPEDS). <http://nces.ed.gov/ipeds>.

¹¹ Lipton, Eric. "Profits and Scrutiny for Colleges Courting Veterans." *The New York Times*. December 8, 2010. <http://www.nytimes.com/2010/12/09/education/09colleges.html?ref=forprofitschools>.

¹² Reed, Charlie. "DOD to tighten scrutiny of for-profit, online colleges." *Stars and Stripes*. September 24, 2010. <http://www.stripes.com/news/dod-to-tighten-scrutiny-of-for-profit-online-colleges-1.119391>.

¹³ Golden, Dan. "Marine Can't Recall His Lessons at For-Profit College." *Bloomberg*. December 15, 2009. <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=al8HttoCG.ps>.

¹⁴ National Consumer Law Center, *Paying the Price: the High Cost of Private Student Loans and the Dangers for Student Borrowers*, March 2008. http://www.studentloanborrowerassistance.org/blogs/wp-content/www.studentloanborrowerassistance.org/uploads/File/Report_PrivateLoans.pdf

received about \$8 billion in private student loans.¹⁵ College-level data on private loan borrowing are not currently available, but national and state-level U.S. Department of Education survey data show that students attending for-profit colleges are at particular risk.

These federal data show that almost half (49 percent) of undergraduates at California for-profit colleges had private loans in 2007-08, compared to 3 percent of undergraduates at California public colleges and 26 percent of undergraduates at California private nonprofit colleges.¹⁶

Private student loan borrowers do not have access to the important deferment, repayment, or forgiveness options that come with federal student loans. This leaves most private loan borrowers at the mercy of the lender if they face financial distress due to unemployment, disability, illness or military deployment, or when a school shuts down before they can finish their certificate or degree. Experts agree that private student loans should only be used as a last resort.

Most private loan dollars come from banks and other lenders, like Sallie Mae, but some colleges – including Corinthian Colleges, ITT Educational Services, and Career Education Corporation – also offer or arrange for private loans for their students. While for-profit colleges are not the only colleges to offer institutional loans to their students, other colleges have scaled back their institutional lending in recent years while the for-profit industry has stepped it up.¹⁷

In many cases, for-profit colleges offer these loans knowing that most of the students will not be able to repay them – Corinthian Colleges, for example, has previously written off 55 percent of them – but making the loans can be profitable for the schools regardless.¹⁸ Currently, colleges are able to count institutional loans towards the 10 percent of revenues required by the federal 90/10 rule when the loans are made, rather than only counting them as revenue if and when they are repaid.¹⁹ The students with the loans, however, are still left with private loan debt.

Students who are pushed into private loans they cannot afford, whether the loan was from their school or an outside lender, are stuck with the debt even in bankruptcy, while the lenders can simply write off the bad debt and move on. Since 2005, bankruptcy law has treated private student loans much more harshly than other types of unsecured consumer debt, such as credit card debt and even gambling debt. Bills in

¹⁵ College Board, *Trends in Student Aid*, 2011. http://trends.collegeboard.org/downloads/Student_Aid_2011.pdf

¹⁶ Calculations by TICAS on data from U.S. Department of Education, NCES, NPSAS, 2007-08.

¹⁷ College Board, *Trends in Student Aid*, 2011. http://trends.collegeboard.org/downloads/Student_Aid_2011.pdf

¹⁸ Corinthian Colleges Q3 2011 conference call. May 3, 2011.

<http://newsroom.cci.edu/eventdetail.cfm?eventid=93960>; Career Education Corporation Q1 2009 Earnings Call Transcript. May 7, 2009. <http://seekingalpha.com/article/136209-career-education-corporation-q1-2009-earnings-call-transcript?page=-1>;

“For-Profit Schools Face Detention Not Expulsion.” Wall Street Journal. August 20, 2010; ITT Educational Services Q1 2011 Earnings Call. April 21, 2011.

<http://www.ittesi.com/phoenix.zhtml?c=94519&p=irol-eventDetails&EventId=3923596>.

¹⁹ “For loans made to students by the institution from July 1, 2008, but before July 1, 2012, the net present value of the loans made during a fiscal year if the loans are evidenced by promissory notes, issued at intervals related to the institution’s enrollment periods, and are subject to regular loan repayments and collections. For loans made on or after July 1, 2012, only the amount of loan repayments the institution receives during a fiscal year, excluding repayment on any loans for which the institution previously used the net present value in its 90/10 calculation.” From U.S. Department of Education, “Dear Colleague” letter summarizing the Higher Education Opportunity Act (DCL ID: GEN-08-12 FP-08-10). December 2010.

the U.S. Senate (S. 1102) and House of Representatives (H.R. 2028) would restore fair treatment to private student loan borrowers in severe financial distress.

California’s College Graduates

Across all types of institutions, California colleges awarded almost half a million degrees and certificates in 2009-10, ranging from short-term undergraduate certificates to doctoral degrees. About one in five (22 percent) of the credentials awarded by California colleges came from for-profit colleges, and the type of credentials they awarded varied in important ways from other types of colleges (Tables 1 and 2). Most notably, more than two-thirds of the credentials awarded at California for-profit colleges are undergraduate certificates. The largest share of credentials awarded (43 percent) were of less than one year in length (Table 2), which research has shown to be of questionable value in the workforce.²⁰

Table 1: California College Credentials Awarded by College Type, 2009-10²¹

College Type	Number of Credentials Awarded	Share of Credentials Awarded
Public Colleges	295,687	60%
Nonprofit Colleges	88,940	18%
For-Profit Colleges	106,484	22%
All Colleges	491,111	100%

Table 2: Distribution of California College Credentials Awarded by College Type and Award Type, 2009-10²²

College Type	Undergraduate certificates, less than one year in length	Undergraduate certificates of one year or more	Undergraduate degrees	Graduate degrees and certificates	Total*
Public Colleges	10%	7%	69%	13%	100%
Nonprofit Colleges	7%	4%	37%	52%	100%
For-Profit Colleges	43%	25%	27%	5%	100%
All Colleges	17%	11%	54%	19%	100%

* When rounded, percentages may not add up to 100%.

²⁰ Complete College America, “Executive Summary: Certificates Count: An Analysis of Sub-baccalaureate Certificates,” September 2010. Excerpt from p. iii: “Most of the national-level research based on those longitudinal surveys finds consistent and significant returns to a minimum of one year of postsecondary coursework with or without certificates (somewhat better with) but negligible returns to short postsecondary training programs [shorter than one year] with or without certificate completion.”

http://dl.dropbox.com/u/8316737/Certificates_Count_Exec_Summ.pdf

²¹ Calculations by TICAS on data from the U.S. Department of Education, IPEDS, Completions Survey, 2009-10.

²² Ibid.

What Cohort Default Rates Are and Mean

The U.S. Department of Education calculates a ‘cohort default rate’ or CDR for colleges offering federal student loans. For a given federal fiscal year, a CDR measures the share of borrowers who entered repayment and defaulted quickly thereafter. Students are considered to have defaulted after at least 270 days of nonpayment. Currently the Department calculates two CDRs for each college each year, one that includes defaults that occur within a two-year window of time (a two-year CDR) and another that includes defaults that occur within a three-year window of time (a three-year CDR).

The Department uses colleges’ CDRs to assess their continuing eligibility for federal grants and loans. Colleges with consistently high CDRs for three years, or a very high CDR for one year, may lose their ability to offer federal aid in future years.

The federal government makes student loans widely available with the expectation that the student will be able to use the education and skills gained to secure a job with sufficient earnings to cover the loan payments. Student defaults are a clear indication (though certainly not an all-encompassing one) that there are leaks in that pipeline of expected outcomes – perhaps students dropped out, or perhaps they graduated with a worthless credential. As such, for colleges where a sizeable share of students borrows federal loans, CDRs are a way of measuring student outcomes that is more comprehensive – and less easily manipulated by schools – than other available measures.

Understanding the share of students at a college that borrows is a critical component of interpreting CDRs. For instance, a CDR is much more telling at a college where all students borrow federal loans, as every student will be included in the CDR calculation after they leave the school. On the other hand, colleges where very few students borrow have CDRs that represent only a small fraction of their former students. The Department of Education accounts for this in their sanctioning of colleges, giving special allowances to colleges with low borrowing rates.

Higher Federal Loan Default Rates at For-Profit Colleges

Students who attend for-profit colleges face much higher odds of defaulting on a federal student loan than students who attend other types of schools.

Nationally, nearly half of all federal student loan borrowers who entered repayment in 2008 and defaulted by 2010 attended for-profit colleges (47 percent), even though only about 10 percent of all students attended these schools. California for-profit colleges enroll about the same share of students, but the disproportionality of defaults is even more pronounced, with *two-thirds* (67 percent) of student loan defaulters having attended for-profit colleges.²³

²³ Calculations by TICAS on data from U.S. Department of Education, FY 2008 Cohort Default Rates, April 22, 2011, and U.S. Department of Education, NCEES, IPEDS, <http://nces.ed.gov/ipeds>.

The average 2-year default rate for federal loan borrowers at California for-profit colleges (13.4 percent) is more than triple the average rate at California private nonprofit colleges (3.9 percent) and more than double the rate at California public colleges (5.2 percent).²⁴

The average 3-year default rate at California for-profit colleges is 24.2 percent, *more than five times* the average rate at California private nonprofit colleges and almost *four times* the rate at California public colleges (4.8 percent and 6.5 percent, respectively).²⁵

It is important to understand that, because of the way CDRs are reported, *this is likely an understatement* of the for-profit share of California's defaults. CDRs are reported by institution, in the state where it is based. In some cases, colleges that enroll students nationally or with campuses in multiple states have only one CDRs calculated, so there is no way of knowing how many of those colleges' defaulters are located in any given state. For instance, students from the University of Phoenix who default are all reported to be in Arizona, and students who default from DeVry University are all reported to be in Illinois. California does not host any such large for-profit colleges, but Californians do enroll in them. That means that the count of student loan defaulters in California understates the actual number, because California defaulters enrolled in those colleges are not considered as being in California.

Across all California-based colleges, about 29,000 student loan borrowers who entered repayment in 2008 had defaulted by 2010. About 19,500, or two-thirds of them, had attended for-profit colleges. During that same time frame, about 28,000 former University of Phoenix students defaulted on their loans nationwide. Given that California is the state in which the University of Phoenix does the most business by revenue,²⁶ it would suggest that a sizeable number of these 28,000 defaulters are California residents. Exactly how many, however, is unknown.

Questions of Completion

A key factor behind the higher default rates at for-profit colleges is the sector's lower completion rates. Completion rates vary considerably both across and within different types of schools.²⁷ Some schools offer more support than others to help students succeed and do a better job of matching students with programs suited to them, and students can face all kinds of obstacles to completing their course of study, from financial challenges to family health crises.

Graduation rates are much lower at for-profit colleges than at other types of colleges for students seeking bachelor's degrees, as documented by a report issued last year by the College Board.

²⁴ Calculations by TICAS on data from U.S. Department of Education, FY 2009 Cohort Default Rates, September 12, 2011.

²⁵ Calculations by TICAS on data from U.S. Department of Education, FY 2008 Cohort Default Rates, April 22, 2011.

²⁶ Apollo Group, Inc. Form 10-K Filed October 20, 2011:

<http://www.sec.gov/Archives/edgar/data/929887/000144530511003026/apol-aug312011x10xk.htm>

²⁷ See, for example: Haycock, Kati, Lynch, M., and Engle, J. *Opportunity Adrift: Our Flagship Universities are Straying from their Public Mission*. The Education Trust. January 2010.

<http://www.edtrust.org/sites/edtrust.org/files/publications/files/Opportunity%20Adrift%28%29.pdf>. Hess, Frederick, et al. *Diplomas and Dropouts: Which Colleges Actually Graduate their Students (and Which Don't)*. American Enterprise Institute. June 2009. <http://www.aei.org/docLib/Diplomas%20and%20Dropouts%20final.pdf>. Miller, Ben, and Ly, P. "College Dropout Factories." *Washington Monthly*. August 23, 2010.

http://www.washingtonmonthly.com/college_guide/feature/college_dropout_factories.php?page=all.

- The six-year graduation rate for first-time, full-time bachelor's degree students is just 22 percent at 4-year for-profit colleges, less than half the rate at public 4-year colleges (55 percent) and only a third of the rate at nonprofit 4-year colleges (65 percent).²⁸
- This rate is lowest for African-American students at for-profit colleges (16 percent), much lower than for African-American students at public 4-year colleges (39 percent) or nonprofit colleges (45 percent). For-profit colleges also have the widest gap between bachelor's degree completion rates for African-American students and for White and Asian students.²⁹

The Education Trust also found that college admissions policies do not explain the low graduation rates at for-profit colleges.

- At open admission colleges, where all applicants are admitted, the graduation rate at 4-year for-profit colleges (11 percent) was about three times lower than the rates at public and nonprofit 4-year colleges (31 and 36 percent, respectively).³⁰
- At the most selective colleges, which admit less than 50 percent of applicants, for-profit colleges still had the lowest graduation rates: 43 percent, compared to 62 percent at public colleges and 78 percent at nonprofit colleges.³¹

These graduation rates, which all colleges report annually to the U.S. Department of Education, paint an incomplete picture because they only capture full-time students who complete a degree or certificate from the college where they first enrolled. However, recently released persistence and completion data from a national longitudinal study that includes part-time and transfer students reveal the same trends, not only for students pursuing bachelor's degrees, but for those pursuing associate's degrees and certificates as well.

Taking into account part-time and transfer students, students at for-profit colleges still have the least favorable outcomes. Students who started at for-profit colleges in 2003-04 were much less likely to complete a credential or stay enrolled than those who started at other types of colleges.³² In other words, students who started at for-profit colleges were more likely to drop out without a degree or certificate.

- More than three-quarters of students starting at public and nonprofit 4-year colleges persist or complete (78 and 81 percent, respectively), compared to less than half of students who first enroll at 4-year for-profit colleges (45 percent).³³
- Students starting at public and nonprofit 2-year colleges have roughly comparable persistence and completion rates as those starting at 2-year for-profit colleges, but they are more likely to complete credentials with higher value. Twelve percent of students starting at community

²⁸ Baum, Sandy, Ma, J., and Payea, K. *Education Pays: The Benefits of Higher Education for Individuals and Society*. The College Board. September 2010. http://trends.collegeboard.org/downloads/Education_Pays_2010.pdf.

²⁹ Ibid.

³⁰ The Education Trust. *Subprime Opportunity: The Unfulfilled Promise of For-Profit Colleges and Universities*. November 2010. http://www.edtrust.org/sites/edtrust.org/files/publications/files/Subprime_report_1.pdf. The study measured six-year graduation rates at 4-year colleges.

³¹ Ibid.

³² *Persistence and Attainment of 2003-04 Beginning Postsecondary Students: After 6 Years*. December 2010. U.S. Department of Education, National Center for Education Statistics. <http://nces.ed.gov/pubs2011/2011151.pdf>

³³ Ibid.

colleges ended up completing a bachelor's degree within six years, compared to almost no students (0 percent) at 2-year for-profit colleges.

Questions of Quality

While college completion, in general, leaves students better off, a worthless or grossly overpriced credential can be worse than no credential at all, especially if the graduate borrowed to pay for it. Our analysis of national data found that students who complete a degree or certificate at a for-profit college are at much greater risk of defaulting than students who graduate from other types of schools. Among students who started in 2003-04 and completed an associate's degree or certificate by 2006, those who attended for-profit colleges were *four times* more likely to be in default in 2009 than those who attended public or nonprofit colleges (12 vs. 3 percent, respectively).³⁴ In fact, *completers* at for-profit colleges were much more likely to be in default than students who *dropped out* of public and nonprofit colleges.

The associate's degree and certificate completers from for-profit colleges were also almost *twice* as likely to be unemployed. Forty-one percent of students completing associate's degrees or certificates at for-profit colleges by 2006 experienced three months or more of unemployment since their graduation, compared to 22 percent of students graduating from public and nonprofit colleges.³⁵

Questions of Student Demographics

For-profit colleges often claim that their high default rates are the result of the types of students they enroll. While student demographics play a role, the evidence is clear that demographics are by no means the sole explanation for the sector's high default rates. Schools play an important role as well.

- The Career College Association's own study concludes that even after accounting for differences in student demographics, students attending for-profit colleges are at least twice as likely to default as students at other types of colleges.³⁶
- Lenders report that the school attended affects a student's chance of default. In its private student loan business, Sallie Mae expects to see a 30 percent difference in default rates for a borrower with a FICO score greater than 700, "depending on the school that borrower attends."³⁷
- For-profit college industry executives regularly tell investors that they can lower their default rates. For example, Corinthian Colleges recently told the San Francisco Chronicle that the company "invested tens of millions of dollars" to keep their default rates under cutoffs for federal and state aid eligibility.³⁸
- A 2010 Education Sector report also documents the role schools can play in lowering default rates: "[T]he experience of the Texas HBCUs, along with a new statistical analysis of cohort default rates, suggests that dangerously high default rates for institutions that serve at-risk

³⁴ Ibid.

³⁵ Ibid.

³⁶ Charles River Associates for the Career College Association. *Report on Gainful Employment*. April 2010. http://www.whitehouse.gov/sites/default/files/omb/assets/oira_1840/1840_04232010-h.pdf.

³⁷ Student Lending Analytics. *Highlights of Sallie Mae Investor Meeting at Credit Suisse Conference*. February 12, 2010. http://studentlendinganalytics.typepad.com/student_lending_analytics/2010/02/highlights-of-sallie-mae-investor-meeting-at-credit-suisse-conference.html.

³⁸ "Some for-profit colleges booted from Cal Grants," *San Francisco Chronicle*, February 6, 2012. <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2012/02/06/MNU11N1V83.DTL>

students are not inevitable...Their [the Texas HBCUs] success is not only applicable to other similar institutions, but to all schools that serve those students most at risk for default and who are committed to helping them succeed.”³⁹

Of course, students are only at risk of defaulting on their student loans if they borrow student loans. While underrepresented students are more likely to attend for-profit colleges which have the highest default rates, it is also important to understand that the majority of students who are low-income, underrepresented minorities, and/or adults working full-time *do not take out student loans to pay for college*.⁴⁰ However, those who attend for-profit colleges are much more likely to borrow – and borrow more – than their counterparts at other types of schools. The data clearly show that across comparable levels of income and categories of race/ethnicity, for-profit college students borrow more than those who attend elsewhere.

- At for-profit colleges, low-income and minority undergraduates are about three times more likely to borrow federal student loans – and four times more likely to borrow private student loans – as their counterparts at public or nonprofit colleges.⁴¹
- Due at least in part to their over-representation at for-profit colleges, 17 percent of African-American undergraduates took out a private student loan in 2007-08, making them the most likely to borrow these risky products among all racial and ethnic groups. Their rate of private loan borrowing has also risen the most steeply, quadrupling from 2003-04 to 2007-08.⁴²
- At for-profit colleges, adults working full-time are almost five times more likely to borrow federal student loans – and over six times more likely to borrow private student loans – than their counterparts at public or nonprofit colleges.⁴³
- Pell Grant recipients who graduate from 4-year colleges are more likely to have debt – and to have high debt – if they attended a for-profit college. Most Pell Grant recipients have family incomes below \$40,000. Among graduating seniors in 2008, 23 percent of Pell Grant recipients from for-profit colleges carried at least \$40,000 in student loans, compared to 14 percent at all other colleges.⁴⁴

The Consequences of Default for Students

While student loans can help students acquire valuable skills and credentials, they do carry real risks for borrowers. High student loan debt, and even low debt when paired with low earnings, can leave students with unmanageable payments that can jeopardize their families’ basic needs and lead to delinquency and default. Leaving college with burdensome debt can also prevent or delay borrowers from taking

³⁹ Dillon, Erin and Smiles, Robert. *Lowering Student Loan Default Rates: What One Consortium of Historically Black Institutions Did to Succeed*. Education Sector. February 2010.

http://www.educationsector.org/usr_doc/Default_Rates_HBCU.pdf

⁴⁰ Calculations by TICAS on data from the U.S. Department of Education, NCES, NPSAS, 2007-08.

⁴¹ Ibid.

⁴² TICAS, *Private Loans: Facts and Trends*, August 2009. Note that “private loans” here refers to bank and lender-originated private student loans, not all nonfederal student loans.

⁴³ Calculations by TICAS on data from the U.S. Department of Education, NCES, NPSAS, 2007-08.

⁴⁴ TICAS, *High Hopes, Big Debts (Class of 2008)*, May 2010.

important steps that benefit not only individuals, but also our society and economy as a whole. These include starting a business, buying a home, marrying, having children, saving for retirement and saving for their own children's education.

Defaulting on a student loan has severe and long-lasting consequences. It can devastate a borrower's credit, making it difficult to rent an apartment or buy a car and, increasingly, to get a job. Borrowers may be hounded by collectors, and debt can balloon because of default and collection fees. Borrowers who default on federal student loans cannot get federal grants or loans to return to school, and the government can garnish wages, seize tax refunds and eventually dock Social Security payments. The debt can literally follow borrowers to the grave.

However, federal student loans provide a variety of tools and consumer protections that can help borrowers manage their debt and avoid default. For instance, TICAS developed the policy framework for what is now the Income-Based Repayment (IBR) program. IBR caps federal student loan payments at a reasonable percentage of the borrower's income and forgives any remaining debt after 25 years of responsible payments, or as soon as 10 years for borrowers who work in public service.

As stated earlier, borrowers with private student loans, in contrast, can face much higher costs and have far fewer options when their payments become unmanageable. They are, ultimately, at the mercy of their lenders because private loans lack the important deferment options, affordable repayment plans, loan forgiveness programs and cancellation rights in cases of death, severe disability and school closure that federal student loans provide.

Even borrowers in so much financial distress that they meet the requirements for declaring bankruptcy find it is nearly impossible to have student loan debt discharged, whether for federal or private loans. To put it plainly, it is currently easier to get relief from credit card and gambling debt than from student loan debt.

Costs to the Public of Wasted Subsidy and Student Loan Default

Californians, as both state and federal taxpayers, have a significant stake in how well student aid funds are targeted. When federally funded Pell Grants, state funded Cal Grants, and/or taxpayer-backed student loans subsidize schools that fail to serve California students well, both students and the state's taxpayers are worse off. At for-profit schools that recruit low-income Californians, these resources could add up to as much as \$27,000 in one year alone.⁴⁵

While the high average default rate for federal student loan borrowers at California's for-profit colleges has particularly harsh costs for students, defaults translate into costs to the public as well, and not just the write-off of uncollected loans. When borrowers default, they end up owing far more than they originally borrowed. Paying that even higher debt off, whether voluntarily or through wage garnishment and

⁴⁵ A second-year student could be eligible to receive a \$5,550 Pell Grant, an \$11,259 Cal Grant, and \$10,500 in Stafford loans.

reclaimed tax refunds (and, eventually, part of their Social Security payments), absorbs dollars that could otherwise have been spent in California, supporting our economy and adding to our tax base.

In addition, borrowers who default may not be able to participate in the workforce in ways that meet our state's needs, even if they completed a degree or certificate. As noted above, defaulting on a student loan destroys the borrower's credit rating, making it difficult to rent an apartment, buy a car – which may be necessary to get to work, or even get a job. Those who trained for specific jobs may be prevented from securing or renewing the license needed to practice their trade or profession. They also cannot get additional student aid for the kind of quality training and education that would enable them to earn more and help meet California's projected need for one million more workers with college credentials.⁴⁶ Finally, defaulted borrowers and their families who are unable to meet their basic needs may also have to rely on taxpayer-funded benefits, such as health care or food stamps.

Recent Federal Actions Addressing Low Performance and High Default

Both the U.S. Congress and the U.S. Department of Education have taken important steps in recent years to increase colleges' accountability for federal aid, and to begin to ensure that federal aid dollars support colleges and college programs where students are not being left with debt they are unable to repay.

- To more accurately measure student loan defaults by college, the Higher Education Opportunity Act of 2008 changed the way colleges' cohort default rates (CDRs) are calculated. Previously, the calculation measured the share of a college's borrowers who defaulted within *two* years of entering repayment. The new calculation requires the use of a longer window, one that includes borrowers who default within *three* years of entering repayment rather than within two years. For the purposes of federal aid, the more meaningful "three-year CDRs" will be used to sanction schools that exceed certain thresholds beginning in 2014.
- On June 2, 2011, the U.S. Department of Education issued a final 'gainful employment' rule to enable enforcement of the longstanding federal law requiring any post-secondary career education program receiving federal financial aid to "prepare students for gainful employment in a recognized occupation." The final regulation uses student debt burdens, loan repayment rates, and actual earning to assess individual programs, and applies to all career education programs, whether offered by a public, non-profit or for-profit college.

Both of these actions serve to improve accountability for federal aid dollars, and apply across the board to colleges of all types. Both of these actions also set bare minimum standards for colleges and programs.

Along with changing the CDR calculation, HEOA changed the threshold at which colleges may be sanctioned to 30 percent for three consecutive years or 40 percent for one single year. CDRs are important and useful, but they represent only the tip of the iceberg when it comes to borrower distress. They include only the students who have failed to make any payments for at least 270 days within the

⁴⁶ Public Policy Institute of California, *Closing the Gap: Meeting California's Need for College Graduates*, April 2009. <http://www.ppic.org/main/publication.asp?i=835>

first three years of repayment, and leave out the arguably more prevalent problems of students struggling to make consistent payments, falling a few months behind, going into forbearance, or even defaulting after the CDR window of time has closed.

In the case of gainful employment, for instance, a broad coalition of student, consumer, and civil rights groups had urged the Department throughout the long rulemaking process to promulgate a strong rule with meaningful standards. In the face of unprecedented lobbying by the for-profit college industry, the rule was diluted rather than strengthened.⁴⁷ The final rule creates three ‘tests’ for career education programs, and only programs that *fail all three tests in three years out of four* will lose eligibility for federal aid.

Recent Change to Strengthen Cal Grants

In 2011, the California Legislature took an important step in increasing accountability for state grant dollars by adding a new requirement to colleges participating in the Cal Grant program. Colleges where at least 40 percent of students took out federal loans had to have a three-year CDR below 24.6 percent to be eligible to receive new Cal Grant awards for 2011-12. Colleges with CDRs above that cutoff could not offer new Cal Grants, and existing Cal Grant recipients at the college saw the value of their awards reduced.

Much like the recent federal actions, the new Cal Grant requirement applies equally to all colleges, and helps the state to target available dollars where students are being better served. Also, despite the fact that for-profit colleges were more likely than other colleges to have CDRs above the 2011-12 threshold, the majority of for-profit colleges participating in the Cal Grant program met the standard.

Recent media coverage of the provision makes clear that the new requirement has already had important effects. As noted earlier, the *San Francisco Chronicle* reports that Corinthian Colleges, a publicly traded company which owns a number of affected colleges, is investing additional resources to reduce the number of their former students who default. Privately held Empire College in Santa Rosa reported taking a similar approach, stepping up communications with their former students to keep them in good standing on their loans.⁴⁸

The CDR requirement has clearly benefited the state by better targeting limited aid dollars and by incenting colleges to serve Californians better. However, current statute would loosen the CDR requirement next year, so that colleges with CDRs up to 30 percent would remain fully eligible for Cal Grants. This would reduce or even eliminate the incentive for colleges to improve outcomes for their California students, and allow state grant aid dollars to flow to colleges where more than one in four of their borrowers default.

⁴⁷ “With lobbying blitz, for-profit colleges diluted new rules,” *New York Times*, December 9, 2011. <http://www.nytimes.com/2011/12/10/us/politics/for-profit-college-rules-scaled-back-after-lobbying.html?pagewanted=all>

⁴⁸ “Some for-profit colleges booted from Cal Grants,” *San Francisco Chronicle*, February 6, 2012. <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2012/02/06/MNU11N1V83.DTL>

Importantly, in his 2012-13 budget proposal, Governor Jerry Brown proposed keeping the CDR threshold for Cal Grants at 24.6 percent.⁴⁹ The state Legislative Analyst supports this change.⁵⁰

Conclusion

In California, the combination of relatively weak oversight – including virtually no oversight for a few recent years – and an unusually generous state grant program have made the state an attractive place for for-profit colleges to do business. As in any type of college or business, quality and outcomes vary substantially, and aggregate data can mask these important variations. However, the available data on defaults and completions suggest that the problems of poor outcomes and unmanageable debt are particularly prevalent in the for-profit college sector, both nationally and within the state, and our oversight structures must be strengthened to adequately protect both students and taxpayers.

Thank you for inviting me to speak with you today, and I welcome your questions.

⁴⁹ Governor’s Budget Summary 2012-13. Sacramento, CA: Office of Governor Edmund G. Brown Jr. <http://www.ebudget.ca.gov/pdf/BudgetSummary/FullBudgetSummary.pdf>

⁵⁰ California Legislative Analyst’s Office. The 2012-13 Budget: Analysis of the Governor's Higher Education Proposal (Feb 8, 2012) <http://www.lao.ca.gov/analysis/2012/highered/higher-ed-020812.pdf>.