Testimony to the House Appropriations Committee

March 12, 2019

Thank you for the opportunity to testify today. My name is Kevin Carey, and I am the vice president of education policy and knowledge management at New America, a nonpartisan research organization.

America has the most diverse and vibrant higher education system in the world. Student grants and loans provided through the federal Higher Education Act are the single largest source of college funding, providing over $130 billion per year. But while there are both exemplary and troublesome institutions throughout higher education, one sector in particular represents an outsized risk to students and taxpayers: for-profit colleges.

According to the National Center for Education Statistics, while for-profit colleges enroll only six percent of all students,[1] they are responsible for 34 percent of federal student loan defaults.[2] At the recent peak of for-profit enrollment during the Great Recession, proprietary schools enrolled 9 percent of students and accounted for nearly half of all defaults.[3] American taxpayers bear the cost of this bad debt, which amount to tens of billions of dollars.

What accounts for this enormous imbalance? To start, for-profit programs are often much more expensive than public programs, making for-profit students much more likely to take out loans. A recent National Bureau of Economic Research study comparing students enrolled in certificate programs found that 83 percent of for-profit enrollees borrowed, compared with 24 percent of comparable students at public community colleges.[4]

For-profit students are also much more likely to default on their loans, or have trouble paying them down. Three years after for-profit borrowers left college in 2011 and 2012, only one-third had paid down even $1 in principal on their loans, compared with nearly half at community colleges and nearly two-thirds at four-year public and private non-profit institutions.[5]

Why can't many for-profit students pay their loans back? Because their loans are larger, and because the degrees those loans finance are often worth little in the labor market. The NBER study found that, even though average for-profit tuition was more than ten times greater than at community colleges, for-profit students earned less money in jobs. The authors found that "weak performance of the for-profit sector is not limited to a few poor-performing institutions, rather the majority of schools appear to have negligible average earnings effects."[6]

The burden of this failure falls disproportionately on students of color, particularly Black students. A Brookings Institution study of students who started college in 2004 found that 47 percent of for-profit borrowers defaulted on their loans, compared with less than 15 percent of students in other sectors.[7] While thirty-eight percent of Black borrowers defaulted, the default rate for white borrowers was only 12 percent. In another Brookings Institution study, the author projects 58 percent of Black borrowers who ever attended a for-profit college will default on their loans within 20 years of leaving school.[8] Disparities persist even after statistically adjusting for student background, academic performance, institutional selectivity, and the amounts borrowed.[9] A Center for American Progress study found that among Black borrowers who dropped out of a for-profit college, the default rate is 75 percent.[10]

Unsurprisingly, given how much debt their students take on, for-profit colleges are unusually dependent on federal financial aid. Federal law currently prohibits colleges from receiving more than 90 percent of revenue from U.S. Department of Education aid. The Department estimates that more than 200 for-profit schools are within five percentage points of that threshold. If student financial aid provided by the Department of Veteran affairs were included, that number would increase to over 500 schools, which collectively receive over $12 billion in federal aid. According to the Congressional Budget Office, the majority of for-profits receive at least 70 percent of their revenue from federal Title IV sources.[11]

As a result, when for-profit colleges go bankrupt, the cost to taxpayer is huge. As of September 30, 2018, the Department has received over 200,000 claims under the "borrower defense" provision of the Higher Education Act, which allows students who have been deceived by their college to have their federal debt discharged.[12] The vast majority of these claims, which amount to billions of dollars, are against for-profit schools. Tens of thousands of students from for-profit colleges, with billions of dollars in loan debt, may also receive closed school loan discharges. It will be taxpayers, not the schools' owners, who pay those bills.

Fraud and discharge claims against for-profits are common in part because for-profit and nonprofit colleges tend to behave very differently when they experience financial distress. When, for example, Newbury College in Massachusetts announced last December that it was closing, it gave six months' notice, teaching through the end of the Spring 2019 semester and allowing students the chance to make plans and transfer. The next month, Green Mountain College in Vermont did the same.[13]

By contrast, last week, on March 6th, the for-profit Art Institute of Seattle gave students two *days*' notice, closing on March 8th, two weeks before the end of the winter term, leaving hundreds of students in the lurch.[14] Meanwhile, for-profit Argosy University is currently embroiled in litigation over the whereabouts of over $16 million in federal aid it unaccountably failed to disburse to students while it, too, was in the process of shutting down.[15] When for-profit colleges close, the financial interests of their owners come first.

These recent disturbing incidents highlight two facts the committee may wish to consider.

First, while the for-profit industry has undergone a major contraction, large pockets of risk to students and taxpayers remain. Although the U.S. Department of Education has chosen to pull back from regulating the for-profit sector, numerous investigations by state regulators and other federal agencies are still ongoing. Within the last 18 months, the California attorney general sued Bridgepoint Education for false promises and illegal debt collection, American Military University reached a settlement with Massachusetts over predatory enrollment tactics, and 49 state attorneys general reached a $493 million settlement with Career Education Corporation over predatory recruitment practices.[16]

Second, the premise of this hearing is that for-profit colleges are identifiable as for-profit colleges. That is increasingly untrue.

Both the collapsing Art Institutes and Argosy chains are technically owned by a non-profit foundation. This is a new trend in for-profit higher education.

For example, in the 2017-18 academic year, Grand Canyon University received over $750 million from federal student loan programs, more than any other college in the nation.[17]

Grand Canyon University is a publicly-traded corporation with a market capitalization of over $5 billion, run by a former University of Phoenix executive named Brian Mueller.[18]

Grand Canyon University is also an IRS-approved tax-exempt non-profit organization, run by a former University of Phoenix executive named Brian Mueller.

How can both of these statements be true? Because Grand Canyon University, the corporation, set up Grand Canyon University, the non-profit, as a conduit through which federal financial aid now flows, immunizing the company from federal rules governing for-profit colleges. Other for-profit colleges have completed or are contemplating such so-called “conversions.”[19]

There is also a growing, multi-billion-dollar industry of Online Program Managers, private for-profit companies that contract with public and non-profit colleges to support and facilitate the creation of online programs. Some OPMs receive up to 80 percent of tuition revenue, most of it government-financed, in exchange. OPMs are concentrated in the graduate sector, where students can borrow the full cost of tuition, fees, and living expenses from the federal Grad PLUS loan program.

The federal government has been providing student financial aid in different forms since the end of World War II. There are lessons in that history. For-profit colleges work from a fundamentally different set of incentives and imperatives than public and non-profit schools. Without strong guardrails protecting students and taxpayers, there is a high likelihood of waste and exploitation.

Given that, Congress should do at least three things.[20]

First, improve data for all programs, public, private, or for-profit. Students and families choosing colleges have virtually none of the information that matters most, such as whether specific college programs will give them a good chance of graduating and finding a job that pays well enough to comfortably pay down their debts. While the risk is greatest in the for-profit sector, lawmakers should pass legislation like the College Transparency Act to ensure that all programs at all colleges have transparent outcomes for students making choices and policymakers conducting oversight.

Second, I strongly urge Congress to maintain existing critical—if insufficient—student protection measures. The 2014 gainful employment rule made important progress to hold colleges accountable when they fail to offer programs of value to their students. Lawmakers should strengthen that policy through legislative action, and ensure the Department of Education enforces that rule while it remains on the books. Especially as Congress considers financing everything from risky short-term programs through expensive graduate degrees through the federal aid programs, accountability for actual outcomes has never been more important.

Finally, Congress should strengthen rules preventing institutions from paying to recruit students; ensure students have access to fair, timely relief from loans if their institutions lied to them; and ensure the Education Department places the interests of students and taxpayers above those of colleges.

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[20] For more recommendations on improving accountability in higher education, visit newamerica.org/HEA.