The Education Trust
Closing the gaps in opportunity and achievement, pre-k through college.

Comments of The Education Trust
Docket ID ED-2014-OPE-0039

Below please find The Education Trust's comments on the U.S. Department of Education's proposed program integrity rule.

We appreciate the Department's efforts to continue to improve the cost and quality of higher education for students and taxpayers. We especially applaud the Department's willingness to move forward in the face of strong resistance from those interests that would prefer not to have a minimum bar established for quality or affordability.

The twofold intent of the draft rule is to:

> 1) Prompt institutions — whether they are for-profit career college companies, public or private nonprofit colleges — to help ensure that any career education programs they offer actually prepare students to be gainfully employed upon graduation; and
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> 2) Prevent federal student aid from flowing to programs that fail to prepare students not just for jobs, but for careers that allow them to repay their student loan debt, thus protecting the financial interests of students and taxpayers.

These interrelated goals of quality and affordability are critical to ensuring that students receive — and taxpayers fund — postsecondary experiences that hold value in the labor market, thereby helping graduates achieve fiscal viability. We believe the proposed rule takes steps in the right direction to accomplish these goals.

We nevertheless believe the rule needs to be strengthened to adequately 1) protect students from predatory schools that saddle them with debilitating debt and a meaningless credential and 2) ensure federal dollars are spent responsibly. Specifically, we would strengthen the rule by:

- Providing financial relief to students in programs that lose eligibility
- Limiting enrollment in poorly performing programs until they improve
- Including a metric to effectively prevent programs with high borrowing and high dropout rates from receiving federal funding

- Protecting low-cost programs where most graduates don't borrow.

These improvements are needed to ensure quality experiences that enable students to get a strong foothold in the labor market and to rein in costs across all sectors. However, the data reveal that one sector — for-profit college companies — warrants additional scrutiny and oversight because of its dismal record of serving students, many of whom are low-income students or students of color.

> *"I attended college like I was told. … I got all the grants available to me as an underprivileged student, and the rest went under loans. I am now drowning under the pressure since I could not find a job after the scam of a college I attended was done using me. Almost everyone I went to school with is having the same problem."*
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> *—Katherine T., Art Institute of Pittsburgh*

A Survey of the Data

Enrollment

For-profit college companies enroll a disproportionate number of low-income students and underrepresented students of color. For example, African American and Hispanic students together comprise 30 percent of total undergraduates, but represent 42 percent of undergraduates at for-profit college companies.[1]

The overrepresentation of students of color at for-profit institutions is not by happenstance. The failure of public and private nonprofit institutions to serve adequately the chronically underserved — and the allure of public subsidies in the form of federal student aid — has created a formidable market for the for-profit college sector. Before our nation's economic downturn, for-profit college companies pounced on the opportunity to enroll students who had been historically shut out of traditional institutions of higher education. Their aggressive marketing and recruiting efforts successfully generated a large consumer base. Between 2004 and 2009, African American enrollment in for-profit college bachelor's degree programs increased by 218 percent, compared with a 24 percent increase in public four-year university programs.[2] Currently, 1 out of 5 African American undergraduates begin their postsecondary education at for-profit colleges.[3] Similarly, a disproportionately large number of Pell grant recipients attend for-profit colleges. Of total Pell recipients, 20 percent begin at for-profit colleges, compared with 8 percent of non-Pell recipients.[4] These students, most of whom have family incomes below $40,000 per year, make up 41 percent of all undergraduates. But they represent nearly two-thirds — 63 percent — of undergraduates at for-profit colleges.[5]

Exorbitant Cost for Matriculation

Proponents of for-profit college companies' career education programs claim that, in our overburdened higher education system, they serve as an outlet for a segment of students who wouldn't have a chance to receive an education at another institution. The incredibly high cost of attendance at for-profit institutions of all sorts— four-year, two-year, and less than two-year colleges — casts doubts on the sector's true commitment to accessibility, especially when coupled with the significant "profit" these companies are extracting from their largely government-provided revenues.

> *"The excessive tuition Kaplan has charged me ate up my financial aid and here it is, I have no financial aid left and I still need to complete my degree. I've only been there three years and they have maxed out my loans."*
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> *—Syreeta D., Kaplan University-Davenport Campus*

First, tuition and fees at for-profit colleges are twice what they are for equivalent programs at less-than-two-year public colleges and four times what they are for equivalent programs at two-year public institutions.[6] For the 2012-2013 academic year, the average tuition and required fees at a public two-year for-profit institution was $14,331, compared with only

$3,521 at similar public institutions. At four-year for-profit colleges, the average tuition and required fees were $15,386, compared with $7,526 at a four-year public college.

Second, even after taking grant aid into account, the out-of-pocket cost — or unmet need — for low-income students is considerably higher at for-profit schools than at both public and private nonprofit colleges and universities. For example, low-income students at two-year for-profit colleges in 2011 had to find a way to finance, on average, $24,223, compared with $7,663 for students at two-year public colleges.[7] Even less-than-two-year programs, which generally are specialized career education programs that train students for careers requiring trade licensure or certification (e.g., cosmetology or auto mechanics), are quite costly and unaffordable for many students. In 2011, students enrolled in these programs had to find a way to finance an average of $22,521 [8] after all grant aid was figured in.

The high cost of attendance in tandem with high levels of unmet need typical among students at for-profit college companies virtually ensure that an alarming number of students who attend *must* borrow. In 2011-2012, for example, 86 percent of the students who earned professional certificates from for-profit companies took out loans, compared with 35 percent of students who earned certificates from public two-year colleges. For associate degree completers attending for-profit college companies, the median loan amount is $23,590 compared with $10,000 for students who received their degrees from public two-year colleges.[9]

Moreover, although most students attending for-profit colleges are more likely to borrow, this issue is particularly problematic for many of the underrepresented minority students attending these institutions.

- In 2011-12, for example, 86 percent of the African American students attending for-profit colleges had to take out loans to finance their education. Of these students, 74 percent borrowed federal student loans compared with 43 percent attending other colleges. Moreover, 12 percent of black students at for-profit colleges took out private loans compared with 5 percent of those attending other colleges.[10]
- The data are not much better for Hispanic students. Also in 2011-12, 88 percent of the Hispanic students attending for-profit colleges borrowed money for school. Most of the Hispanic borrowers took out federal student loans — 72 percent, compared with 27 percent at other colleges — and 16 percent used private loans compared with 4 percent at other colleges.[11]

High Default Rates

Saddled with an unmanageable debt load, many students who attend for-profit colleges default on their federal student loans. In 2010, Stafford loan borrowers attending for-profit colleges were almost twice as likely to default as their counterparts attending public colleges and almost three times as likely to default as student borrowers attending nonprofit private colleges.[12] Of the students who attended for-profit colleges, close to 22 percent who entered repayment in 2010 defaulted in their first three years of repayment, compared with 13 percent of students who attended public colleges and 8 percent who attended nonprofit private colleges.[13]

The consequences for students who default are severe. Student loan debt is not dischargeable in bankruptcy, so it can follow students for life, preventing them from buying a home, saving for retirement, or taking out loans to pay for their children's education. The stories of students whose lives have been ruined by enrolling in unscrupulous career education programs that did not prepare them for employment after graduation are horrifying. These young people give painful accounts of struggling to finish school; being unable to obtain employment that pays them enough to support themselves; and having their wages garnished, income tax refunds intercepted, and Social Security payments withheld. Currently, there are 115,000 people in this country whose Social Security payments are being garnished for non-payment of student loans.

But it's not just student defaulters who suffer the consequences of poor-quality career education programs. Taxpayers do as well. In FY2013, taxpayers financed $137.6 billion in federal student aid, including loans.[14] Currently, the federal government's outstanding student loan balance is $95.9 billion. Close to 7 million borrowers are in default and the average amount in default is a little over $14,000.[15] Moreover, though students in for-profit colleges are only 13 percent of enrollment, 46 percent of those student loan defaults are from students who attended for-profit career colleges. That's a substantial loss of revenue for the government. More important, it's a huge waste of taxpayer dollars that are meant to be invested in advancing the education and occupational training of our young people — not enriching stockholders.

Although the federal government makes every effort to recover student debt, it is not always successful, and the costs associated with collection are passed on to taxpayers. It is unfair to taxpayers to ask them to pay twice — both for the student loans and for the recovery efforts —

for career-related educational services that do not enable their graduates to find meaningful employment in the occupation for which they trained and to repay their debt. Just as students need a stronger rule to ensure that the programs they attend meet minimal standards of quality, at the very least, taxpayers also need a strong rule to make sure they see some value for the billions of dollars these programs and their institutions collect from federal student aid sources.

Recommendations

Career education programs, especially offered by for-profit career companies, which are approved to participate in the federal student aid programs because they promise to prepare graduates for a particular occupation, must be held accountable for delivering on their promises. Those programs that leave students with an insurmountable debt load and few, if any, employable skills need to lose eligibility for federal student aid programs. A strong gainful employment regulation can prompt schools to quickly improve or end weak programs, thereby offering some minimum protections for students and taxpayers alike.

While the proposed rule does set out some minimum protections, it does not go far enough in several respects. We recommend it be strengthened in the following ways:

1. **Provide financial relief for students enrolled in programs that lose eligibility.** Schools with ineffective programs that lose eligibility for federal aid should be required to make whole the students who enrolled in those programs. The current proposed regulation tips the scale toward protecting institutions more than the students whom they claim to be serving. To help rebalance the scale, we recommend that programs that are in danger of becoming ineligible at the end of an academic year be required to post a letter of credit or agree to set aside a portion of their Title IV funds to provide borrower relief to enrolled students. Hardworking students should not waste a semester of aid eligibility because a program has not made the necessary improvements to meet even the lowest threshold for keeping its eligibility. This change creates a greater incentive for schools to quickly improve their programs.

2. **Limit enrollment in poorly performing programs until they improve.**

Under the proposed regulation, poorly performing programs can increase the number of students they enroll, without limit, right up until the day they lose eligibility. Allowing schools to boost the enrollment in shoddy programs puts the bottom line of the institution above the quality of students' educational experience. The rule should, instead, cap the number of students that can enroll or the amount of federal financial aid these programs can receive from the moment they are found lacking until they demonstrably improve.

Students and taxpayers rely on the Department to validate whether a career education program is worth students' investment of time and taxpayers' investment of dollars. Allowing a program to grow that has failed the rule's thresholds multiple times and is about to lose eligibility is both foolish and poor fiscal management. Moreover, giving more money to programs that fail to improve and are likely to both shutter and lose eligibility undermines, indeed contradicts, one of the primary purposes of the regulation — to incentivize such programs to improve.

3. **Include a metric to effectively prevent programs with high student borrowing and high dropout rates from receiving federal funding.**
   A low completion rate reflects one of the ways that programs can fail to prepare students for gainful employment, particularly if they leave school with substantial debt. But a program could still pass the Department's proposed standards even if 99 percent of the students were to drop out with heavy debt that they could not pay down. Although the program-level cohort default rate (pCDR) includes non-completers, this is an insufficient metric to hold accountable programs with high borrowing and high dropout rates. Quite simply, it is too easy to game. Schools can manipulate the metric and keep their default rates artificially low by counseling students into deferment or forbearance during the period when the program is required to meet a minimum standard for how many students should be able to pay back their loans. Then, once that period has passed, schools can abandon their financially risky students, leaving them solely responsible for repaying a loan taken out to pay for a program the school allowed to continue to under-perform.

   To address this problem, we recommend that there be a separate metric that focuses on programs that have high borrowing and high dropout rates. For instance, the Department could collect and report the overall loan repayment rates of these programs and of the institutions that house them. At the very least, students considering enrolling in these programs would have the necessary information to make an informed decision about whether they are likely to be able to repay their loans after graduation.

4. **Protect low-cost programs where most graduates don't borrow.**
   Low-cost programs with few borrowers — many of which are offered by community colleges — should be exempted from the regulation: By definition, these programs do not consistently leave students with unaffordable debts. The final 2011 gainful employment regulation automatically "passed" all low-cost programs where the majority of the graduates did not borrow. The federal district court reviewing the regulations upheld this provision, recognizing that such programs do not consistently leave students with unaffordable debts.[16] The new regulation should do the same.

   By contrast, the Department's latest proposal would jeopardize funding for many low-cost programs because the metrics would consider only students receiving Title IV funding without consideration of that number's relationship to the total number of enrollees in such a program, a majority of whom may be non-borrowers. Thus, a small number of students receiving financial aid could skew the assessment of a program's quality and financial risk for taxpayers. As such, this proposed rule may result in the unintended consequence of pushing schools with effective, low-cost programs out of the federal student loan program. We recommend that the final regulation restore a provision contained in previous drafts of the rule exempting programs that were able to verify that they were low-cost and low-risk.[17]

Students of color and low-income students who seek postsecondary education are doing their part to advance America's goal to become the most educated country in the world. Some 86 percent of African American and 80 percent of Hispanic high school seniors plan to attend college.[18] Given that these same students often are clustered in K-12 schools where we spend less, expect less, teach them less, and assign them our least effective teachers, this is remarkable. These students are serving their country's interest by trying to become better educated and financially independent. They deserve for the federal government to protect them from harmful career education programs.

We strongly urge you to consider these students, along with the recommendations we submit on their behalf, and strengthen the proposed gainful employment rule.

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[1] Education Trust Analysis of Integrated Postsecondary Data System (IPEDS), Fall Enrollment (by race), 2012 (Washington, D.C.: U.S. Department of Education, National Center for Education Statistics).
[2] Julianne Hing, "Here's How Students of Color Fit into Higher Ed's Shifting Ecosystem," Colorlines, July 17, 2012, http://colorlines.com/archives/2012/07/the_shifting_higher_education_ecosystem_and_how_students_of_color_fit.html.
[3] Education Trust Analysis of Integrated Postsecondary Data System (IPEDS), Fall Enrollment (by race), 2012 (Washington, D.C.: U.S. Department of Education, National Center for Education Statistics).
[4] Education Trust Analysis of IPEDS Student Financial Aid Survey (by Pell recipient status), 2011-12 (Washington, D.C.: U.S. Department of Education, National Center for Education Statistics).
[5] *Ibid*.
[6] U.S. Department of Education, National Center for Education Statistics, "Postsecondary Institutions and Cost of Attendance in 2012-13; Degrees and Other Awards Conferred, 2011-12; and 12-Month Enrollment, 2011-12 (provisional data)," Table 2, (Washington, D.C.: NCES, July 2013).
[7] Education Trust Analysis of National Postsecondary Student Aid Study (NPSAS):12 using PowerStats; Full-time, full-year, one-institution dependent students in the bottom half of the income distribution are included in this analysis. ***Average unmet need for LT 2-Year publics was not available for this population of students in the most recent NPSAS due to small sample size.
[8] *Ibid.*
[9] 79 FR 16434 (March 25, 2014).
[10] Institute for College Access and Success data analysis of 2008 and 2012 National Postsecondary Student Aid Study.
[11] *Ibid.*
[12] Institute for College Access and Success analysis, using U.S. Department of Education, "Comparison of 3-Year FY 2010 Official Cohort Default Rates to Prior Official Calculation," http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdrschooltype3yr.pdf.
[13] *Ibid.*
[14] Education Trust analysis of "Federal Student Aid 2013 Annual Report and Analytical Perspectives: Budget of the U.S. Government, Fiscal Year 2014," (Washington, D.C.: Office of Management and Budget, December 2013).
[15] New America Foundation, Federal Education Budget Project, "Federal Student Loan Default Rates," http://febp.newamerica.net/background-analysis/federal-student-loan-default-rates.
[16] *Association of Private Sector Colleges and Universities v. Duncan*
[17] 76 FR 34386, 34410 (June 13, 2011).
[18] U.S. Department of Education, National Center for Education Statistics, "The Condition of Education 2006" (NCES 2006-07) (Washington, D.C.: U.S. Government Printing Office, 2006), Indicator 23, http:/nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2006071.