



## **Do Students of Color Profit from For-Profit College? Poor Outcomes and High Debt Hamper Attendees' Futures**

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October 2014



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## ACKNOWLEDGEMENTS

The authors would like to thank  
Debbie Cochrane of The Institute for  
College Access and Success (TICAS) for  
her feedback on our research. The findings  
and recommendations of this paper are  
the work of CRL alone.

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## INTRODUCTION

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A post-secondary education is increasingly necessary in order to obtain a high-quality job and a lifetime of financial security and wealth-building opportunities. Many students finance their education through student loans because they see its value as an investment in their future. However, the value of that investment is questionable for those students enrolled in for-profit colleges. Although historically students almost exclusively attended public and private, non-profit two- or four-year institutions, in the past forty years—and especially over the last decade—more and more students have enrolled in for-profit colleges. The for-profit college industry argues that they provide access to higher education for students that cannot be absorbed by other institutions with more limited capacity and that they are also able to quickly develop programs that are responsive to the changing demands of employers.

This paper examines the central question of whether the additional access provided by for-profit colleges actually translates into increased opportunity and financial security for these students. We are interested not only in overall outcomes for for-profit college attendees, but also particularly in the outcomes of African-American and Latino students who enroll in these schools. Students of color face significant barriers to achieving educational parity (and thus, to a great extent, income and wealth parity) with white students. College application, acceptance, matriculation, and graduation rates for African-American and Latino students lag those of white students (Aud et al., 2010). For-profit colleges have positioned themselves as a means for traditionally underserved students of color to achieve educational success and thus to increase their ability to earn higher incomes and build wealth. If these schools do not engender better outcomes for their students and instead merely saddle students with debt, then the access these schools provide could prove to widen existing income and wealth gaps, rather than to narrow them.

Predatory lending can take many forms. In recent years, predatory loan features or terms have caused harm to many consumers. For example, many unscrupulous mortgage lenders granted loans without regard to the borrower's ability to repay over the full loan term. Another form of predatory lending occurs, however, when loans are used to finance a product that lacks value. The federal government provides much of the student loan financing necessary for a student to attend college, and thus in the context of for-profit colleges, the terms of the loans, such as interest rates and repayment schedules, are not the issue. Rather, the problem arises when the school itself does not provide enough value to justify taking on student loan debt, regardless of the terms of the loan itself. Indeed, the school plays a significant role in setting the cost of education and facilitates the student's financial aid package—including the extent to which a student takes on debt—to pay for educational expenses.

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***The problem arises when the school itself does not provide enough value to justify having taken on student loan debt.***

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Although students may not be able to demonstrate the ability to repay loans when they enroll, the policy goal underlying federal student loans is that their education will translate into greater job opportunities and earnings that will allow them to repay their loans once they graduate. Thus, the extent to which an institution provides an education that results in these expected outcomes is important for judging whether the borrower is ultimately better off after having taken on this debt. In this paper, we examine the extent to which for-profit college students take on debt and the degree to which they benefit from that investment. We focus in particular on students of color, who are disproportionately enrolled at for-profit institutions, comparing those who attend for-profit colleges with their peers at public or private, non-profit schools.

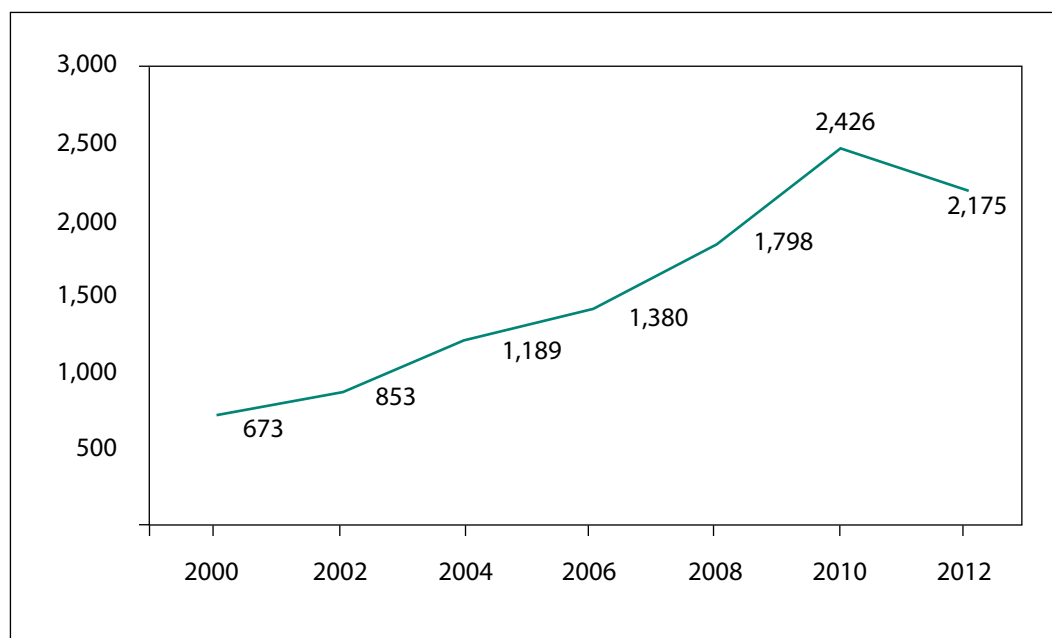
We begin by providing an overview of the for-profit college sector, including recent trends and policy developments that have affected its growth. We then present evidence of the educational and financial outcomes for students attending for-profit colleges. As part of this analysis of outcomes, we focus on the outcomes for African-American and Latino students who attend for-profit colleges relative to those who attend public or private, non-profit schools. We find that students who attend for-profit colleges are more likely to need to borrow for their education and tend to borrow more than their peers at public or private, non-profit schools. Unfortunately, this financial investment does not appear to pay off for many for-profit students, who graduate at lower rates, are more likely to default on their loans, and may face poor employment outcomes. African Americans and Latinos are at greater risk of the high debt burdens and poor outcomes caused by for-profit colleges because they are more likely to attend these schools than their white peers. To address these problems and bring more accountability to the for-profit sector, we conclude with policy recommendations to help ensure that students—and particularly those of color—are not left with high student loan debts that they are unable to repay as a result of their poor educational experience.

## OVERVIEW OF THE FOR-PROFIT COLLEGE SECTOR

For-profit colleges have experienced tremendous enrollment growth in the 21st century. Although these programs have a long history in the United States, the sector has undergone dramatic changes in recent years. As recently as 15–20 years ago, for-profit schools were primarily focused on shorter-term or non-degree career training programs (U.S. Senate, 2012). In contrast, two-thirds of students enrolled in for-profit colleges today are now enrolled in four-year institutions, which also offer bachelor's or even graduate degrees (NCES, 2013).

These trends are illustrated in the Figures below. Figure 1 shows that between 2000 and 2012, enrollment at for-profit colleges increased by 223%. In contrast, during this same time period, enrollment across all institutions increased by just 35%.<sup>1</sup>

**Figure 1: Change in total enrollment at for-profit institutions (in thousands of students)**

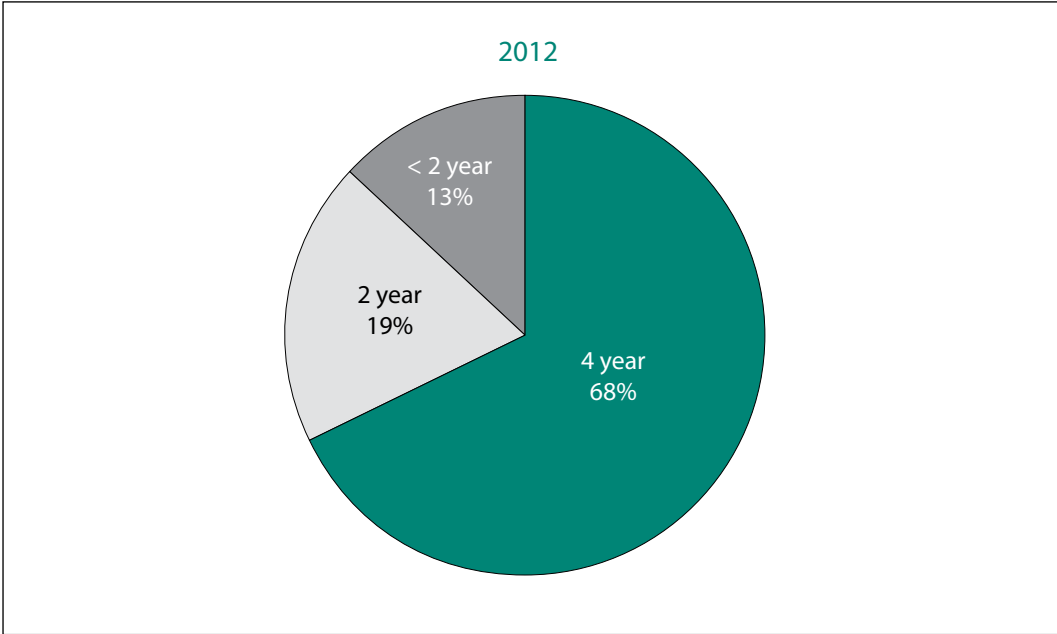
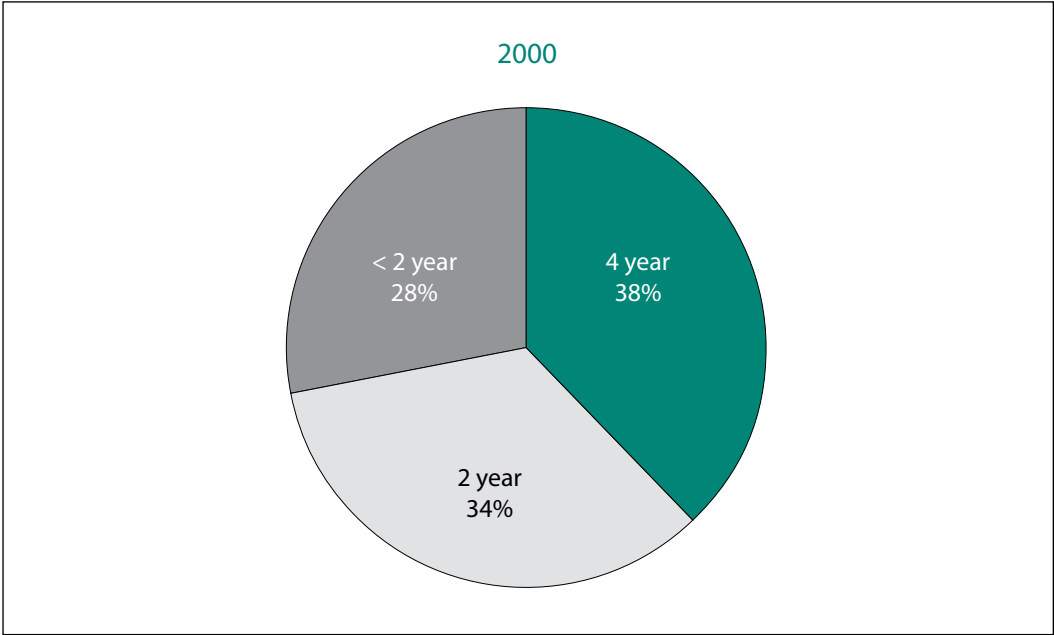


Source: NCES annual fall enrollment data by sector

While enrollment in all types of for-profit colleges (less-than-two-year, two-year, and four-year) has generally increased over time, Figure 2 highlights the dramatic growth that has occurred at four-year institutions in particular. Four-year schools are those that offer bachelor's degrees in addition to the two-year associate's degrees and shorter certificate programs that other institutions offer. Although fewer than 40% of students attending for-profit colleges in 2000 enrolled in four-year institutions, nearly 70% attended these types of schools in 2012. This represents a 469% increase in enrollment in for-profit schools that offer bachelor's and even graduate degrees, compared with a 44% increase in enrollment across all four-year post-secondary institutions over the same time period.

<sup>1</sup> CRL calculations from annual National Center for Education fall enrollment figures, 2000–2012.

**Figure 2: Distribution of enrollment by for-profit college institution level, 2000 vs. 2012**



Source: CRL calculations of NCES fall enrollment data, by sector and program length

## Growth Factors

The ability of students attending for-profit colleges to receive federal financial aid programs, such as Pell Grants and student loans that are authorized by Title IV of the Higher Education Act (typically called “Title IV programs”), has helped to fuel growth of the for-profit sector. Access to federal financial aid funds was dramatically expanded for the sector in 1972 (Halperin, 2014). This aid serves as the bulk of all revenue that for-profit colleges use for their operations, including marketing, employee compensation, and educational instruction.

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***A disproportionate share of federal financial aid funds is put toward for-profit education.***

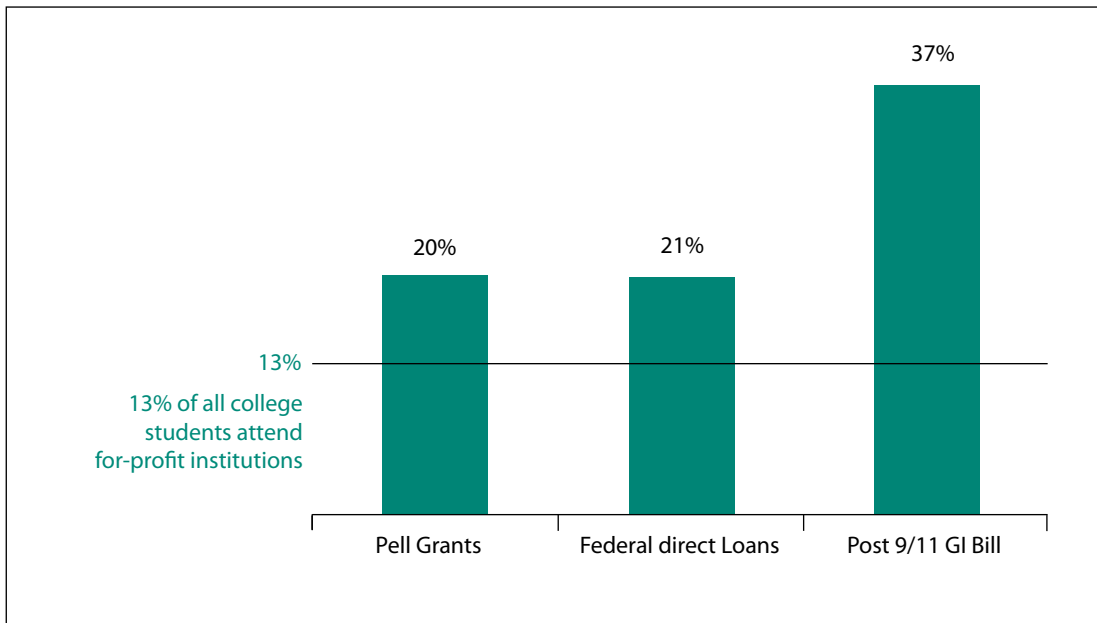
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A disproportionate share of federal financial aid funds is put toward for-profit education. Eighty percent of undergraduates attending for-profit colleges received Title IV aid in the 2011–2012 school year, compared with 57% of undergraduates enrolled in post-secondary education generally (ASPCU, n.d.). This disproportionate aid is not only in the form of loans, but grants as well. Although only about 13% of all students attend a for-profit college, students enrolled in these schools receive 20% of all Pell Grant funds and 21% of direct loans to students (College Board, 2013). This amounts to around \$33 billion of Title IV aid flowing to the sector each year (Halperin, 2014). For-profit students also receive nearly two-fifths (37%) of all grants from the Post-9/11 GI Bill for those who have served in the military (College Board, 2013).

Currently, for-profit colleges can receive no more than 90% of their total revenues from Title IV sources; this means that students must turn to other options, such as obtaining other grants or loans or using their own income or savings to pay for at least a portion of their education. This constraint, referred to as the “90/10 rule,” was put into place with the rationale that programs of sufficient quality should be able to attract students willing to invest some of their own funds towards their education (Halperin, 2014). However, aid received by recent veterans as part of the new Post-9/11 GI bill does not count towards the 90% limitation on federal aid, since it is not a Title IV program. As a result, for-profit colleges target their recruitment efforts toward current and former members of the military, whose additional grant aid can be counted towards the 10% of funds that are intended to come from private sources.



**Figure 3: Share of federal aid going to the for-profit college sector, 2012–2013 academic year**



Source: CRL calculation of for-profit attendees from IPEDS data and financial aid from College Board, 2013

For-profit colleges spend much of the revenues received through federal financial aid funds on expenses other than those related to educating students and providing counseling and job placement services. For-profit institutions spend nearly one-quarter (23%) of their revenue on marketing and recruiting, while spending just 17% on actual instruction (U.S. Senate, 2012).

Growth of the for-profit higher education sector is also due to changes in the way for-profits are regulated and structured, as well as how they deliver education to students. The liberalization of two types of regulations affecting for-profits in recent years allowed companies to quickly ramp up enrollment.

First, in 2002, The Department of Education promulgated regulations that eased recruiting practices, which allowed for-profit schools to use more aggressive tactics to enroll as many students as possible (Halperin, 2014). Before, the Higher Education Act of 1992 barred colleges from providing incentive compensation to employees based on the number of students they could enroll. In 2002, the Department of Education adopted several “safe harbors” that limited the scope of this restriction (U.S. Senate, 2012). These “safe harbors” were reversed in mid-2011, when the Department returned to tightened incentive compensation rules (U.S. Senate, 2012).

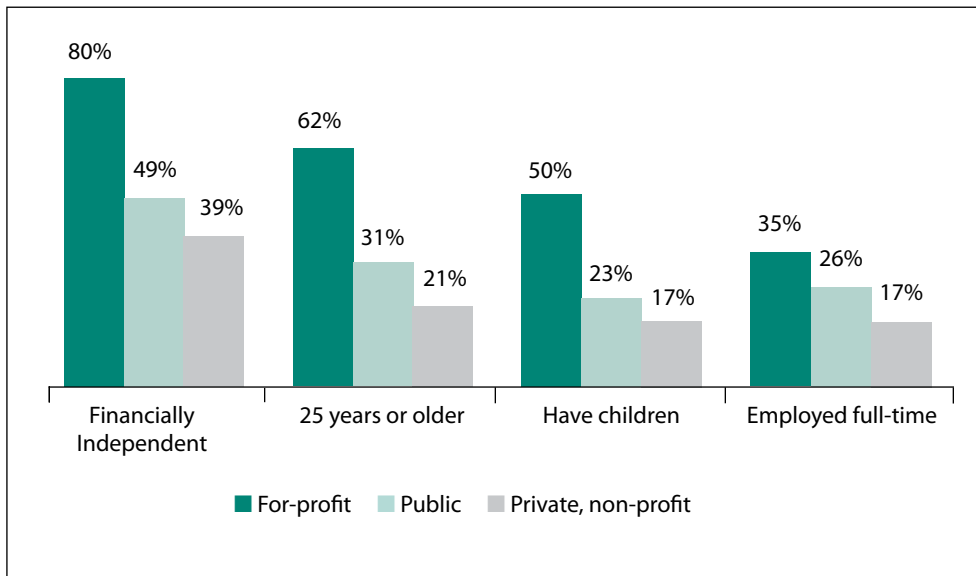
Second, a 2006 change allowed federal financial aid to be used for programs offered entirely online (Halperin, 2014). Before 2006, at least half of students and programs were required to be campus-based (U.S. Senate, 2012). The change allowed colleges to expand their reach dramatically without the need for an increased building footprint (U.S. Senate, 2012). A 2012 Senate investigation revealed that at least six for-profit colleges—four of which were large, publicly-traded firms—conduct substantially all of their programs online. One analysis found that as much as 90% of the recent growth in enrollment at for-profit colleges was the result of the explosion of online offerings (Deming et al., 2012).

Today, a relatively small number of for-profit colleges dominate the market, most of which are publicly-traded and thus under pressure from their investors to continue to increase enrollments and deliver greater financial returns<sup>2</sup> (Halperin, 2014). An exhaustive Senate committee report (2012) on for-profit colleges concludes that “[T]he combination of investments made by investors seeking quick returns, exponential enrollment increases, new distance-education models, and the weakening of regulations has rendered the sector almost unrecognizable in scope and impact when compared to the late 1980s.”

## Attendees

The for-profit education model is touted to be an attractive and convenient option for non-traditional students, such as working adults. For example, APSCU (n.d.) reports that attendees of for-profit colleges are more likely to be independent adults with children, to be older, and to have served in the military.

**Figure 4: Characteristics of for-profit college students, as compared with students in other sectors, 2011–2012 academic year**



Source: APSCU, n.d.

2 A listing of many of the largest for-profit schools is provided in the Appendix.

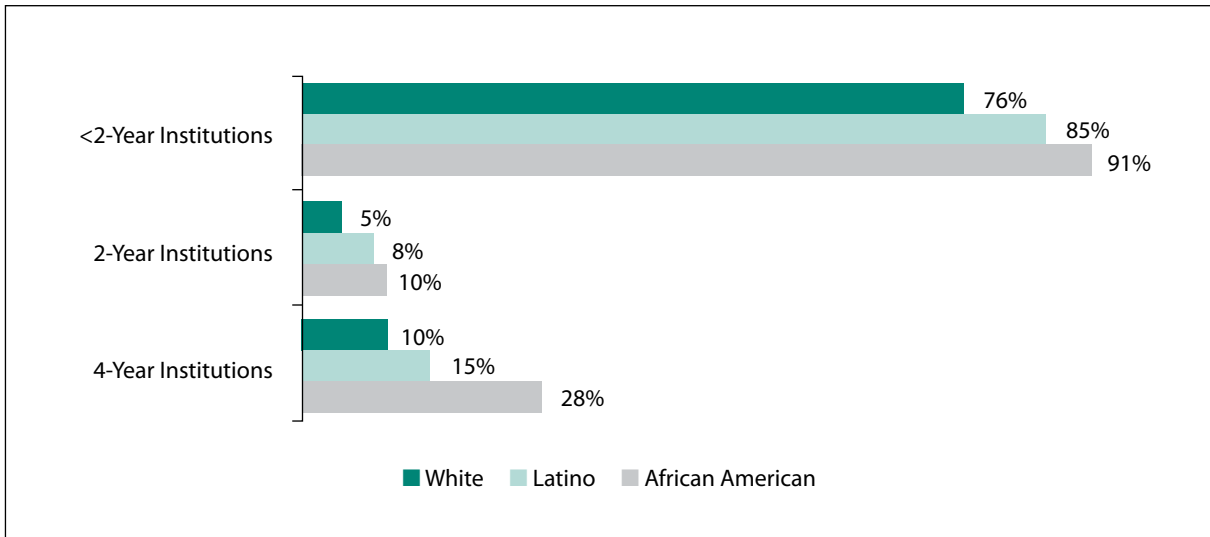
As noted previously, one focus of this paper is the impact of for-profit colleges and the debt generated to attend these institutions on students of color. Although all races and ethnicities are more likely to attend either a public or private, non-profit school, African-American and Latino students make up a relatively large portion of students at for-profit colleges. For example, over one-quarter (28%) of African Americans enrolled in a four-year institution attend a for-profit college, compared with just 10% of whites. To a lesser degree, Latino students are also more likely to attend a for-profit institution than a public or private, non-profit school relative to whites. This disparity is present for two-year and less-than-two-year colleges as well.

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**Figure 5: Share of all post-secondary students that attend a for-profit college, by race and ethnicity, 2011–2012 academic year**



Source: CRL calculation of IPEDS total enrollment data, 2011-2012

Because of the disproportionate share of African Americans and Latinos in the for-profit sector, the problems in this sector have a disproportionate impact on communities of color.

## FINDINGS

Using several data sources from the Department of Education and a review of academic research, we report on the performance, outcomes, and costs associated with for-profit colleges and compare those results with their public and private, non-profit counterparts. Although most of our findings shed light on the outcomes of all students attending for-profit colleges, we also focus specifically on African-American and Latino students, who are more likely to enroll in for-profit institutions than whites. The most relevant findings are presented here, with additional data available in the Appendix.

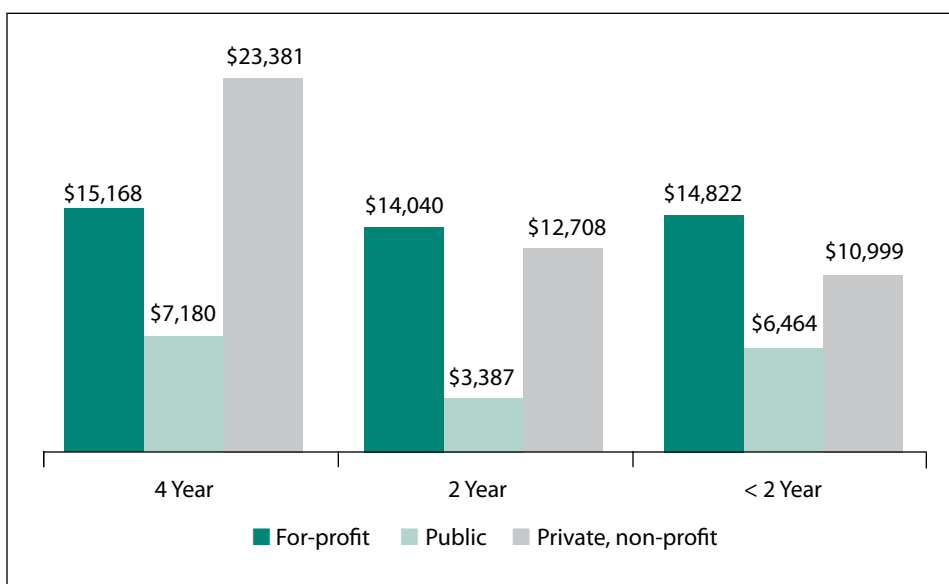
### FINDING 1: For-profit colleges' high costs cause students to rely heavily on borrowing.

Students tend to bear higher costs when they enroll in for-profit college programs compared with public and private, non-profit schools, particularly when looking beyond the advertised cost to the actual price students pay on average for tuition. This, in turn, is one reason that for-profit college attendees are more likely to need to borrow to attend school and often do so in higher amounts. A substantially greater share of students at for-profit schools borrow to pay for higher education, and they can pay over \$40,000 more than they would pay at a public institution.

College costs can be viewed in two ways: (1) the advertised “sticker” price or (2) the “net price” that a student is actually likely to pay. As shown in the tables below, the sticker price to attend a for-profit college is, on average, higher than the cost of an in-state public school and private two-year and less-than-two-year institutions. In fact, public schools consistently average less than half the cost of for-profit schools.

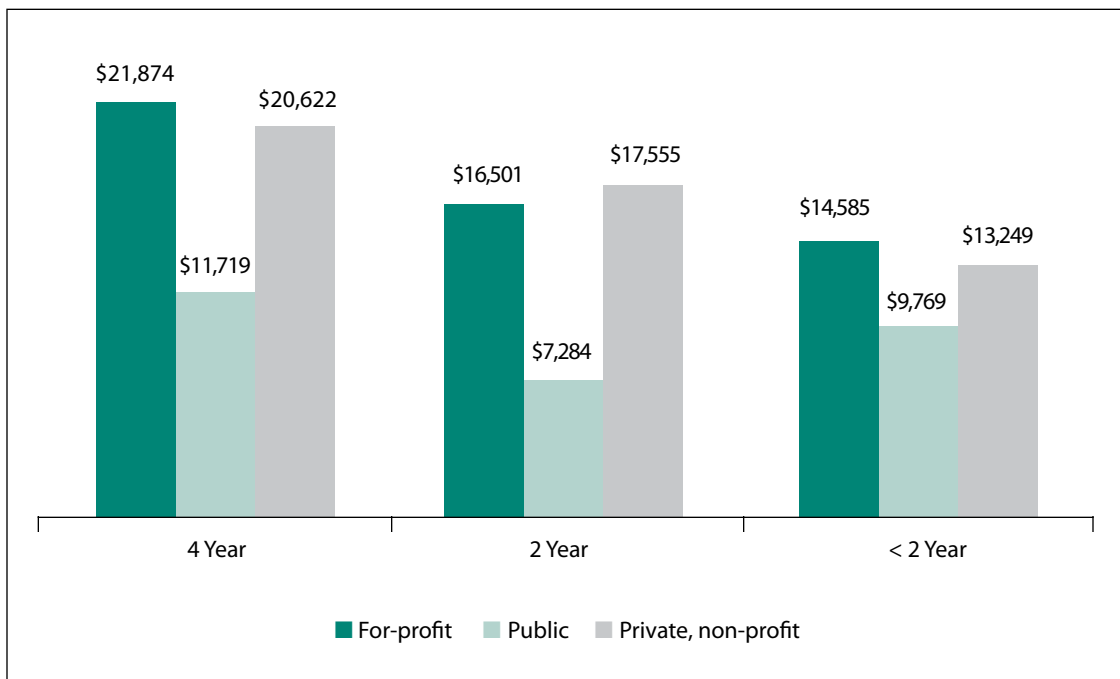
The average advertised sticker price of a private, non-profit college education at a four-year school may make it seem more expensive than attending a for-profit college. However, the average net price paid—the total after grants and scholarships are considered—highlights that for-profit programs are, on average, more expensive than other alternatives.

**Figure 6: Average full tuition and fees by institution type and sector, 2011–2012 academic year**



Source: CRL calculation of IPEDS data

**Figure 7: Average net price for students receiving grant or scholarship aid, 2011–2012 academic year**



Source: CRL calculation of IPEDS data

Students at the lowest income levels (under \$30,000 annually) experience an even greater disparity in costs to attend a four-year for-profit college, compared with colleges in other sectors. These data are reported in Appendix 2.

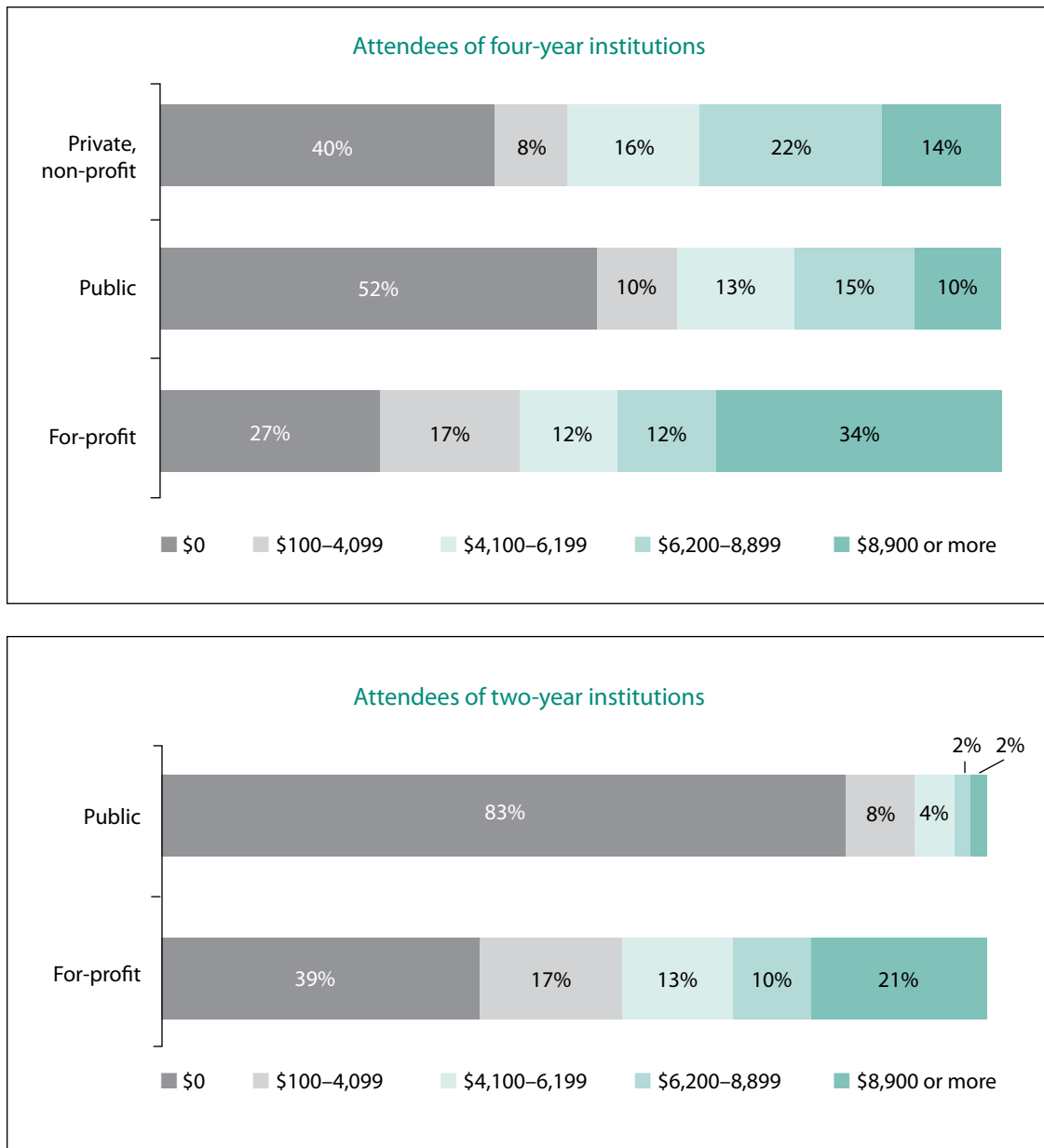
The relatively high net cost of for-profit programs is one reason that attendees are more likely to take out loans and—when they borrow—become more deeply indebted. For example, over 70% of four-year for-profit college attendees borrow, while only 48% and 60% of four-year public and private, non-profit attendees do so, respectively. Among those who borrow at four-year institutions, over one-third of for-profit students take out \$8,900 or more in a single year, compared with just 10% and 14% of students attending public and private, non-profit schools, respectively. This disparity is even more pronounced at two-year institutions, with very few public college attendees taking on any debt.

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**Figure 8: Distribution of amount borrowed in federal student loans by all attendees for the 2011–2012 academic year, by sector and institution type<sup>3</sup>**



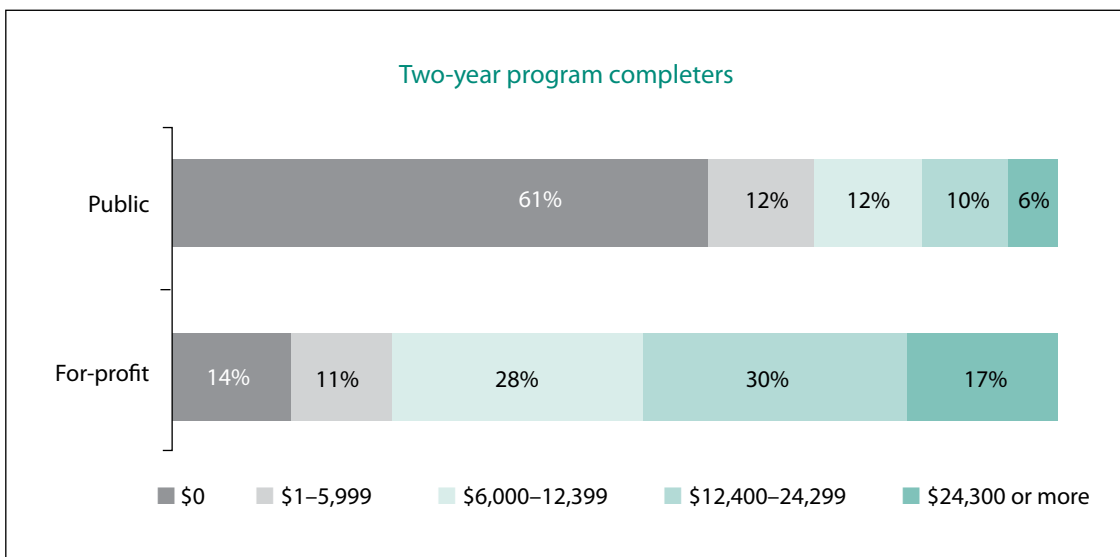
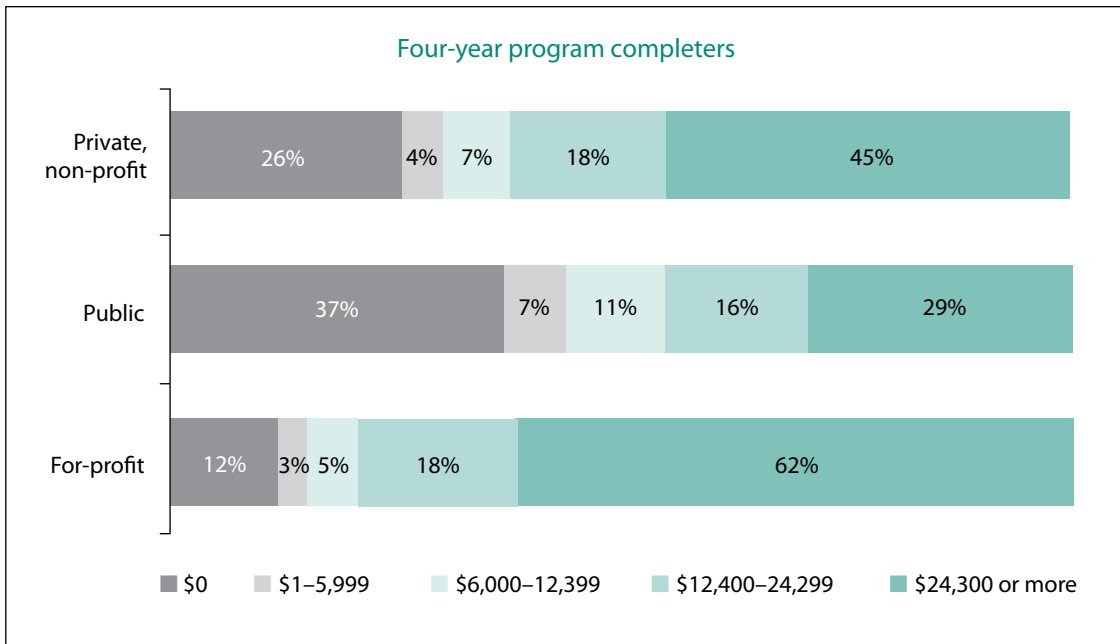
Source: CRL calculation of 2012 NPSAS data of total federal loans taken by students in 2011–2012 school year. This excludes any Parent PLUS loans.

This greater amount of borrowing is not explained by differences in the incomes of students or their families. As we detail in Appendices 3 and 4, for-profit college students whose parents earn \$50,000 or less per year rely more heavily on borrowing and borrow larger amounts than their peers in other sectors. Likewise, for-profit independent students with \$30,000 or less in annual income also borrow more.

<sup>3</sup> CRL calculations of NPSAS data by sector in this table and elsewhere use custom categories for public and private, non-profit sector schools. Our four-year public and private, non-profit institution categories combine doctorate-granting and non-doctorate-granting schools.

Borrowing patterns are similar when we observe total borrowing across all years of attendance for graduating students. Figure 9 shows that over 60% of graduates of for-profit, four-year institutions borrow over \$24,300, compared with under one-third of public school four-year graduates. The contrast is even starker at two-year institutions, where borrowing any funds is rare for public-sector attendees but quite common for those at for-profit institutions.

**Figure 9: Distribution of total amount borrowed by 2012 completers, by sector and institution type**



Source: CRL calculation of 2012 NPSAS data of total cumulative loans taken by students who completed a program in 2011–2012 school year. This excludes any Parent PLUS loans.

The figures above understate the higher total indebtedness of attendees of for-profit colleges because the data represent only the amount borrowed, not the total amount borrowers must ultimately repay including interest. In addition, as discussed in the next section, for-profit students may also have to pay additional fees and other penalties, since they are more likely to experience distress in paying back their loans.

**FINDING 2: For-profit college students are more likely to experience worse educational outcomes and a higher incidence of default.**

A key consideration of post-secondary educational access is the notion of *valuable access*, i.e., how well for-profit schools educate students and provide them with the means to repay their student loans and become financially secure. We examine how well for-profit schools perform, as measured by program completion, loan defaults, employment prospects, and other related outcomes.

### Completion Rates

Attendees of four-year for-profit colleges are far less likely to graduate than their peers attending schools in other sectors. In addition, for-profit college students enrolled in all types of institutions—less-than-two-year, two-year, and four-year—are more likely to have left school without any kind of degree or certification within six years of enrollment.

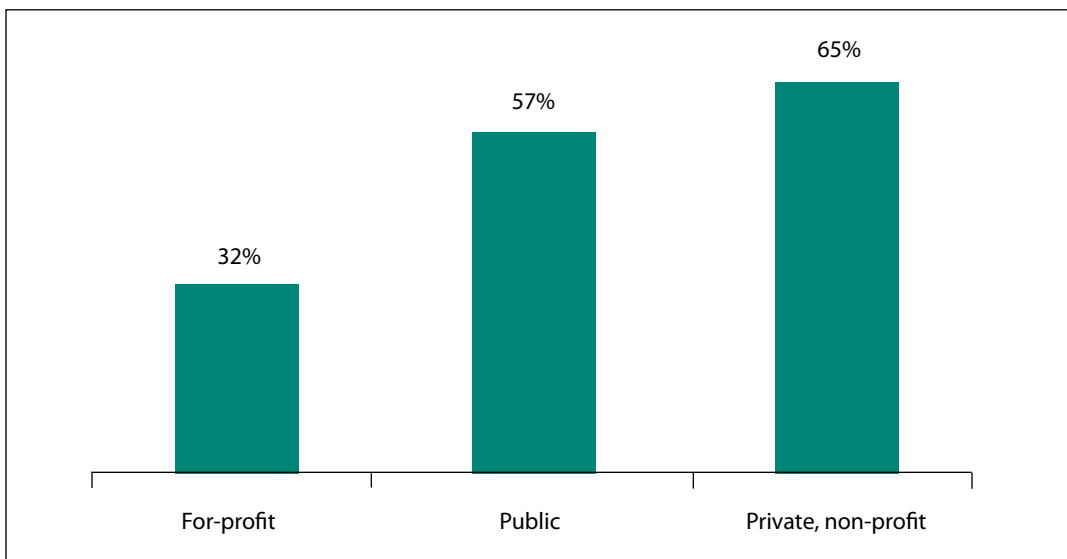
The Department of Education reports graduation rates for first-time students attending school full-time at the school in which they initially enrolled. Figure 10 compares these graduation rates for degree-seeking students in four-year colleges, which is the most common type of institution in which for-profit students enroll. Students attending public and private four-year colleges are about twice as likely to graduate within 150% of normal time as those attending for-profit colleges.

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**Figure 10: Graduation at four-year institutions within 150% of normal time by sector, 2012**



Source: CRL calculation of IPEDS graduation rate data

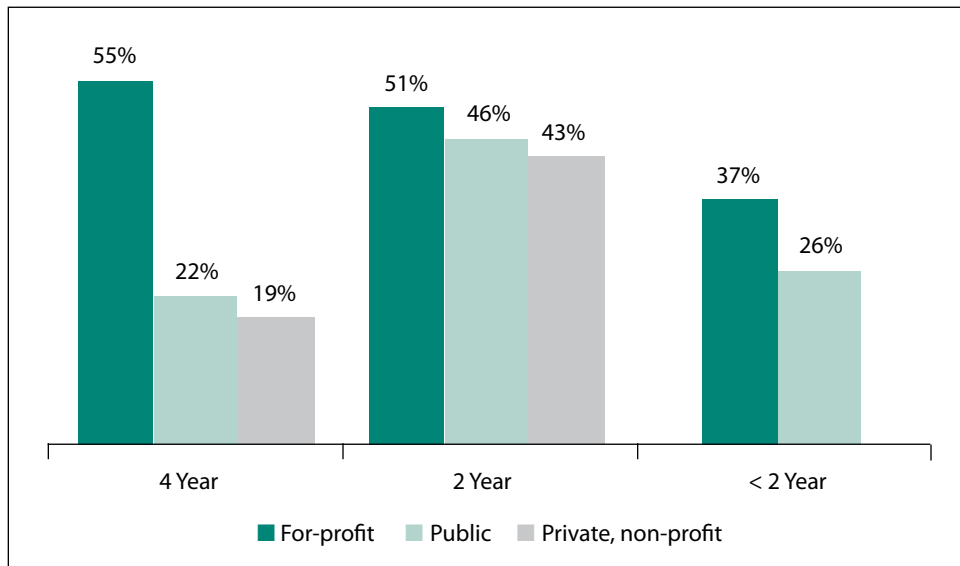


This picture is somewhat different for two-year colleges, where for-profit schools report higher graduation rates than public schools, and in less-than-two-year colleges, where for-profits have only slightly lower graduation rates. The Department’s IPEDS data report a two-year college graduation rate of 63% for for-profit colleges compared with a 21% graduation rate for similar public programs. Data for two-year colleges in particular, however, should be viewed with extreme caution; official graduation rates do not count students who enroll on a part-time basis or transfer to another school (such as a four-year university) to graduate with a bachelor’s degree, which means that many successful students are not counted.<sup>4</sup>

To account for these serious limitations, the National Student Clearinghouse provides an estimate of the share of students who graduate from any institution, whether the one at which they first enrolled or another they ultimately transferred to, as well as the share of students who are still pursuing their education six years after enrollment. The most recent national report finds that 13% of students in public two-year colleges transferred to other institutions where they then graduated, while another 19% are still completing their education (Shapiro et. al., 2013). Only 5% of students in two-year for-profit colleges transferred (Shapiro et. al., 2013). When looking at this fuller picture, the performance gap between for-profit and public two-year institutions narrows considerably.

An older, but perhaps the most comprehensive, analysis was completed for the Department of Education that examined outcomes as of 2009 for all students who enrolled in the 2003–2004 school year by each program length and sector. This study found that, six years after enrollment, more than half of for-profit students in both two- and four-year colleges failed to obtain a degree of any kind and were no longer enrolled in post-secondary education. Also, more than one-third of students in colleges shorter than two years did not finish their program.

**Figure 11: Share of students enrolled in 2003–2004 academic year that had not completed and were no longer enrolled in 2009, by institution type**

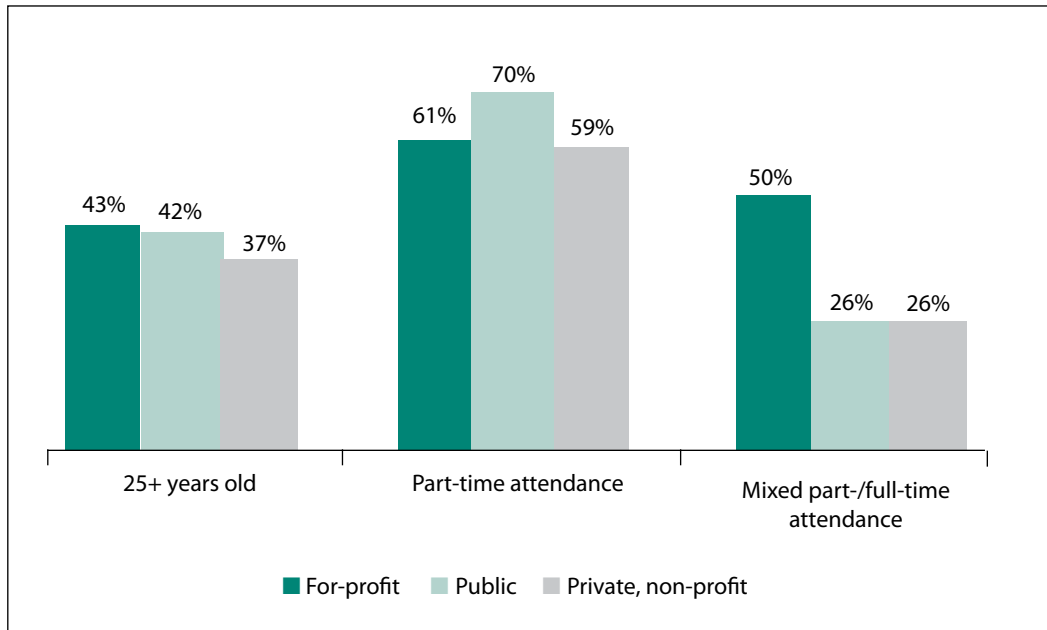


Source: Radford et. al., 2010

<sup>4</sup> For example, an advisory panel commissioned by the Department of Education concluded, "The current federal graduation rate measure is incomplete and does not adequately convey the wide range of student outcomes at two-year institutions" (Committee on Measures of Student Success, 2011). In addition, the American Council of Education reports that less than 10% of the student bodies at certain two-year public colleges are included in the official graduation rates metric (Cook & Pullaro, 2010).

One possible explanation for the low graduate rates at for-profit colleges is that they enroll greater shares of non-traditional students, such as older students or those who are not enrolled full-time for the duration of their program. One study, however, suggests that this disparity cannot be explained merely by differences in student characteristics. Figure 12 uses data from this study to compare the outcomes of certain types of non-traditional students: those who attend school part-time (or a mix of part- and full-time throughout their tenures) and those who are 25 years of age or older at enrollment (Shapiro, 2013).

**Figure 12: Share of non-traditional students at four-year institutions that did not graduate and are no longer enrolled after six years, by sector**



Source: Shapiro et. al., 2013

Even when students at for-profit colleges obtain a degree or other certification, it may be of limited value given that credits earned at for-profit colleges often do not transfer to other institutions. Thus, graduates of two-year for-profit programs may have to start all over again if they decide to pursue a four-year degree (U.S. Senate, 2012).<sup>5</sup> In addition, graduates of for-profit institutions may not be able to enter some fields that require licensures or certifications, such as teaching, public safety, or healthcare, since for-profit programs often lack proper accreditations or have other issues impacting eligibility (U.S. Senate, 2012).

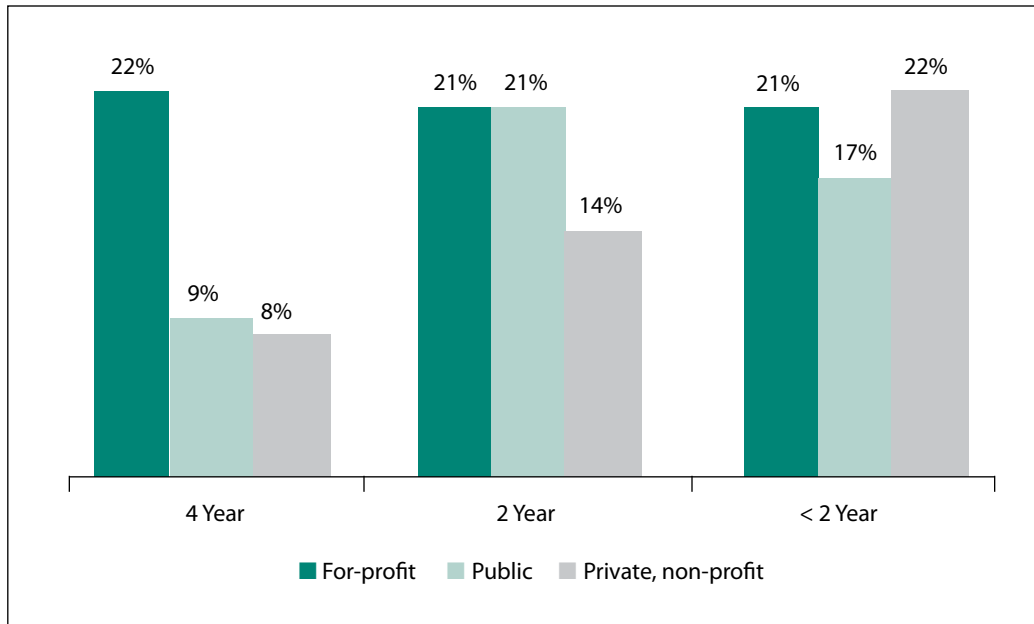
***Even when students at for-profit colleges obtain a degree or other certification, it may be of limited value.***

<sup>5</sup> Likewise, the many students who drop out of for-profit colleges generally cannot transfer those credits if they decide to start over at a public or private, non-profit school. For example, credits at for-profit college programs that are nationally accredited will typically not transfer to public or private, non-profit schools, which are regionally accredited. In addition, even when for-profit schools have programs that are regionally-accredited, many institutions from other sectors still will not accept credits.

## Loan Defaults

The Department of Education reports a three-year cohort default rate that measures the share of borrowers who default on a federal student loan within three years of entering repayment. As shown in the graph below, default rates for borrowers who attend for-profit institutions are as high or higher than schools in other sectors. Once again, the statistics for four-year institutions are quite significantly worse for for-profits, with over one in five borrowers defaulting in the initial years of loan repayment.

**Figure 13: Three-year cohort default rate by sector, FY 2010 cohort**



Source: Department of Education

Importantly, even when default rates at for-profits are similar to other sectors (as is the case for two-year and less-than-two-year schools), the overall level of harm is still greater at for-profit colleges because students are far more likely to finance their education. For example, looking at two-year institutions, about one in five borrowers defaults in both the for-profit and public sectors. However, since for-profit sector students are far more likely to borrow, the one in five defaulters in that group makes up a much greater share of all enrollees than in the public sector. Thus, the default rates reported in Figure 13 above do not fully demonstrate the magnitude of the default problem in this manner.

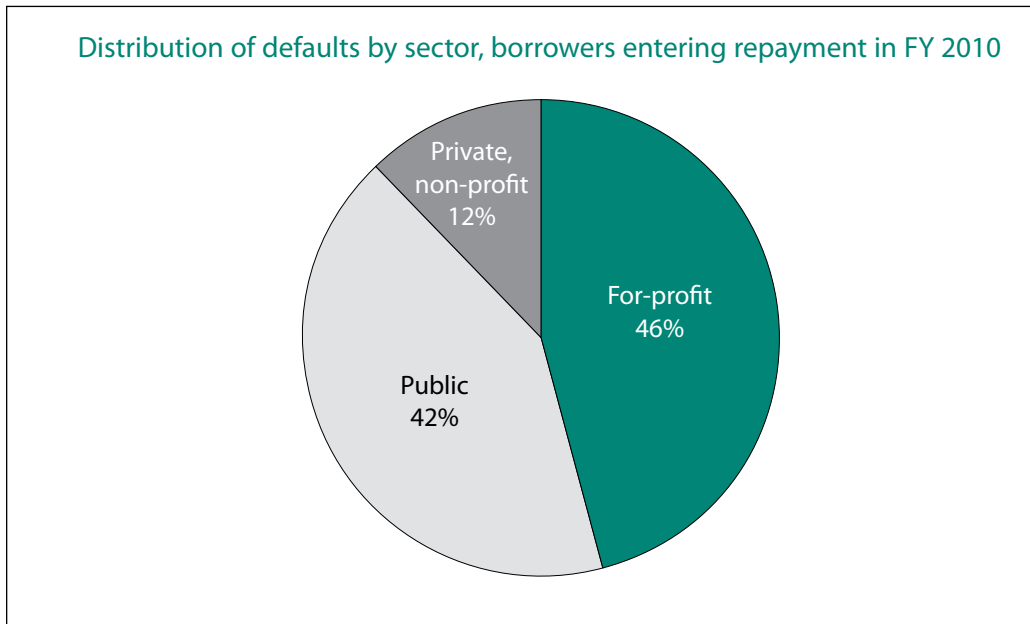
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***The for-profit sector generates nearly half of all defaults while enrolling only about 13% of all students.***

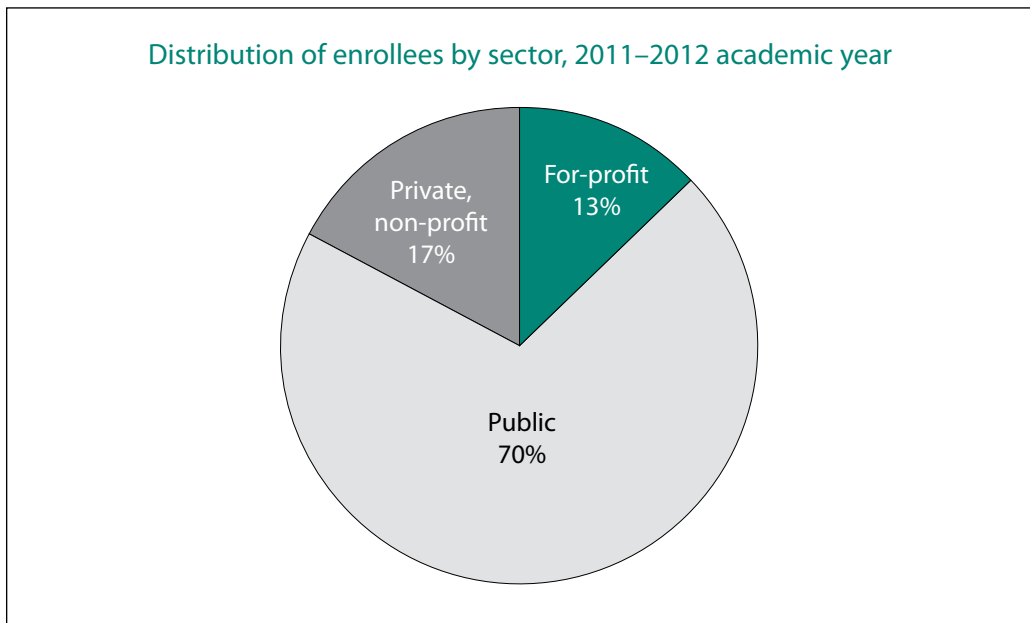
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To better understand the overall impact of each sector, Figure 14 below compares the distribution of defaults relative to the distribution of enrollees by sector. Overall, the for-profit sector generates nearly half of all defaults while enrolling only about 13% of all students.

**Figure 14: Comparison of the distribution of defaults and enrollment by sector**



Source: Department of Education



Source: CRL calculation of IPEDS total enrollment data

Defaulting on a student loan has wide-ranging negative consequences for a borrower that can affect his or her finances for many years. Unlike most other kinds of debt, student loans cannot be discharged through the bankruptcy process except in very limited circumstances. Instead, borrowers having difficulty repaying student loans may have tax refunds or federal benefits—such as Social Security income—seized, or they may have their wages garnished. Further, borrowers who have defaulted may not be able to receive further federal financial aid, which may be necessary to obtain education or training to seek a better-paying job. Finally, student loan defaults are reported to the major credit bureaus and thus may also limit access to credit in the future.

It is not only defaults that are a concern; many more borrowers fall short of defaulting but do become delinquent one or more times during loan repayment. Delinquency, like default, is reported to credit bureaus and thus can negatively affect a person’s ability to secure further credit. A five-year analysis of borrowers entering repayment in 2005 found that borrowers were more likely to become delinquent or default on a loan if they were unable to complete their program or attended a for-profit school (Cunningham and Kienzel, 2011).<sup>6</sup> The figure below shows a marked difference in delinquency and default between those who attended for-profits and other schools. Nearly two-thirds (64%) of those who did not graduate from four-year, for-profit institutions and borrowed money for their education showed signs of distress in repaying this debt, compared with 36% at private, non-profit schools and 45% at public schools.

**Figure 15: Share of borrowers who attended a four-year institution with a delinquency or default, by sector**

	% of graduates with a delinquency or default	% of non-graduates with a delinquency or default
Public	19%	45%
Private, non-profit	18%	38%
For-profit	35%	64%

Source: Cunningham and Kienzel, 2011

<sup>6</sup> Interestingly, the authors of this study did not find that borrowers taking out larger amount of debts were necessarily more at risk of default. Rather, consumers who borrowed a bit less were more likely to have cut their education short and left before graduating, which was a better predictor of repayment hardship.

## Employment and Other Outcomes

Several studies compare student satisfaction, earnings, and employment in the for-profit sector with those outcomes in the public and private, non-profit sectors. For example, Deming, Goldin, & Katz (2012) control for a wide range of demographic and other factors<sup>7</sup> and still find that students at for-profit colleges fare worse than those at public and private, non-profit institutions. The study finds that, all else being equal, those who attend for-profit colleges are:

- less satisfied with their major or concentration and—among those who do not complete—are less satisfied with their education;
- less likely to report that their student loan debt is a worthwhile investment;
- less likely to be satisfied with their job; and
- more likely to be unemployed than those who attend public and private, non-profit schools.

Similarly, another study looks at the different labor market experiences students have who attend for-profit colleges. Controlling for some of the challenges for-profit students may experience at greater rates, such as less college preparation and larger obstacles to achievement, along with a similar list of basic student characteristics similar to that used by Deming, et al. (2012), the authors find that obtaining a degree or certificate from a for-profit school is less advantageous than doing so from a public or private, non-profit school (Lang & Weinstein, 2012).

Finally a study by Cellini and Chaudhary (2012) measures the before-and-after wage differences between two-year associate's degree enrollees at for-profit and public colleges. The authors find that students who enroll in for-profit associate's degree programs experience lower wage growth relative to community college students (Cellini and Chaudhary, 2012).

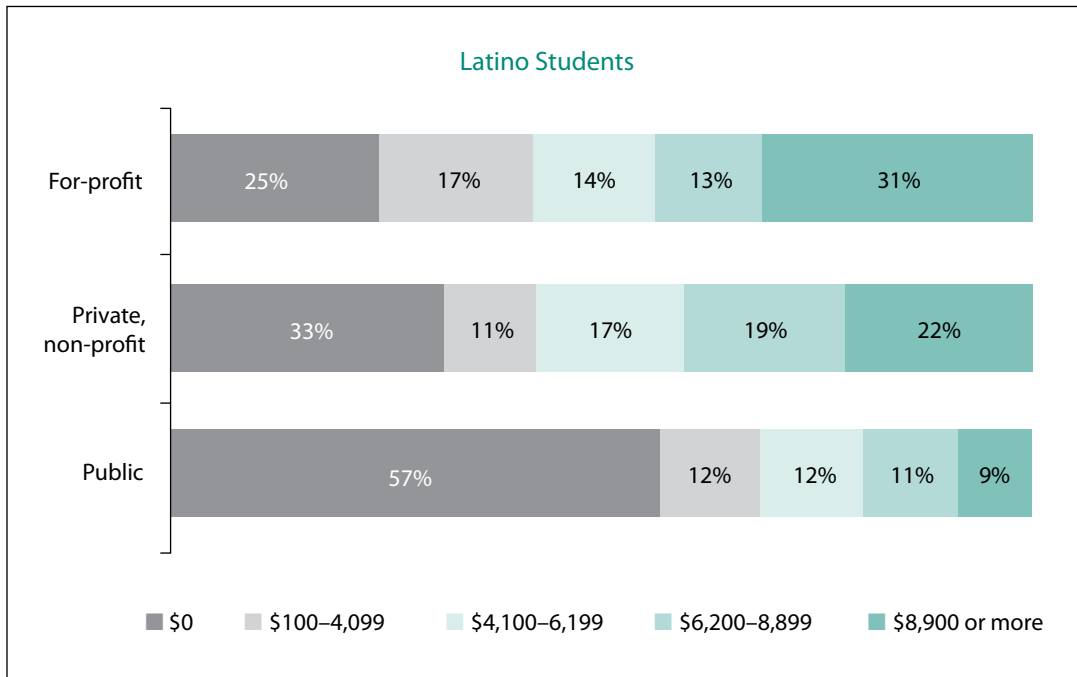
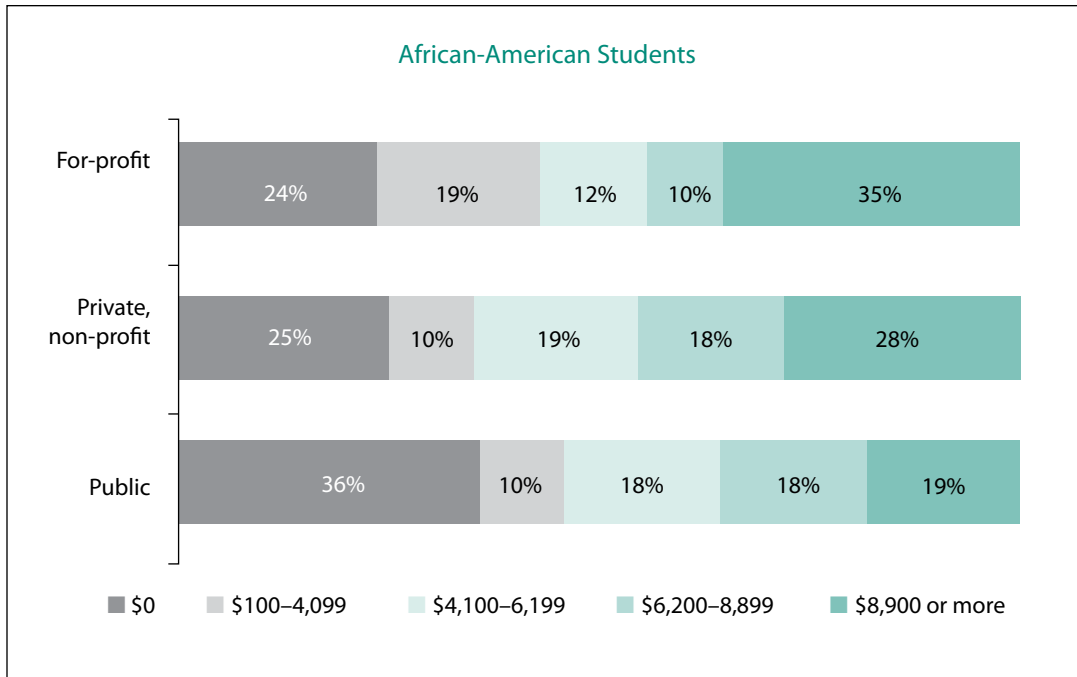
### FINDING 3: Students of color are at particular risk of harm from for-profit colleges.

As noted previously, African-American and Latino students make up a relatively large portion of students at for-profit colleges. This disproportionate concentration means that the issues present in this sector have a higher impact on students of color. In the previous sections, we have noted the high debt levels and poor outcomes that many for-profit students experience. These experiences are also consistently poorer for African-American and Latino students who attend for-profit colleges. In this section, we compare the outcomes for African Americans and Latinos who attend for-profit colleges to African Americans and Latinos at public and non-profit schools.

Figure 16 shows that African Americans and Latinos at for-profit schools borrow more than their peers attending public or private, non-profit schools. As shown in Appendices 3 and 4, African Americans and Latinos at for-profit colleges are found to borrow more even when we compare borrowers of similar income levels attending schools in other sectors.

<sup>7</sup> The factors controlled for in this study include: race, sex, citizenship, being born in the United States, having parents born in the United States, speaking English as a native language, household size, distance of school from home, living with parents, marital status, and single parenthood.

**Figure 16: Distribution of amount borrowed in federal student loans by African-American and Latino attendees for the 2011–2012 academic year at 4-year institutions, by sector**



Source: CRL calculations of NPSAS 2012 data

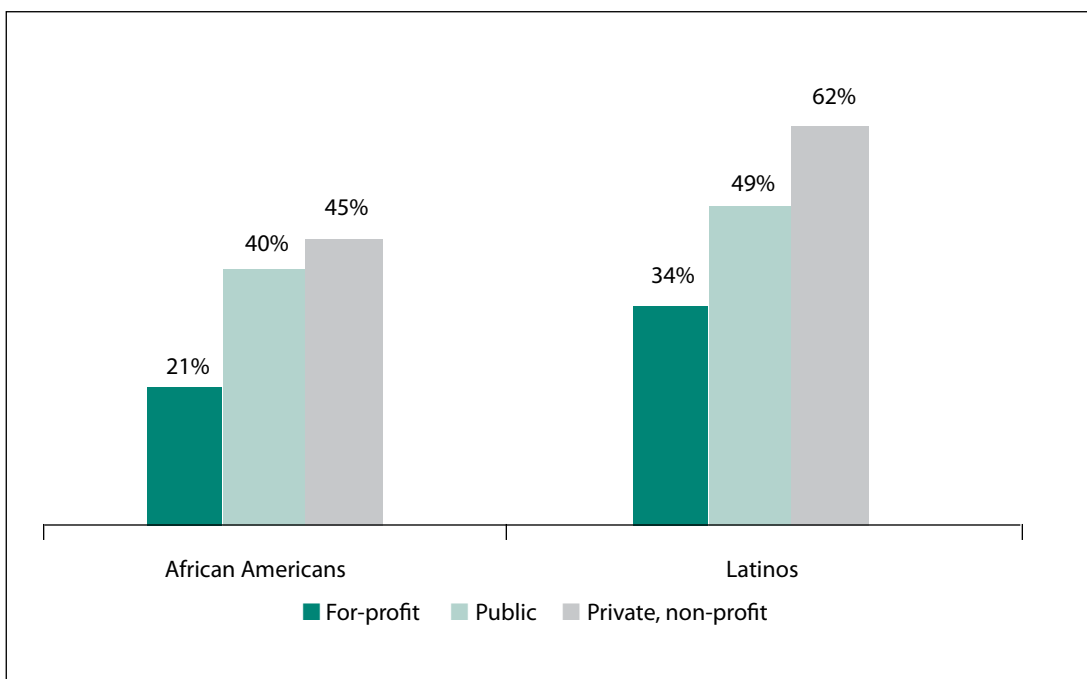
African Americans and Latinos attending for-profit colleges are far less likely to graduate than their peers at other schools. Nearly 80% of African-American and two-thirds of Latino students do not complete for-profit programs. Default rate data are not reported by race or ethnicity, so we cannot observe variations in cohort default rates for students of color. However, because one of the predictors of delinquency and default is whether the student is able to complete their program, it is likely that African Americans and Latinos attending for-profit colleges are more likely to experience distress in paying back their loans than those who borrowed to attend other schools.

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**Nearly 80% of African-American and two-thirds of Latino students do not complete for-profit programs.**

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**Figure 17: Graduation within 150% of normal time, 4-year institutions, by sector**



Source: CRL calculation of IPEDS 2012 graduation rate data



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## CONCLUSIONS AND POLICY RECOMMENDATIONS

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As our data demonstrate, attendees of for-profit colleges are more likely to take on debt for their education. Because many of these students will not complete their education or—if they do graduate—will have poor employment prospects, default is more likely. Because students of color disproportionately attend for-profit colleges, borrow more, and have lower graduation rates, they may be at greater risk and experience disproportionate harm as a result of insufficient quality and high costs associated with attending for-profit schools. Furthermore, as a recent study by the Federal Reserve Bank of New York finds, student loan debt may hamper first-time homebuying (Brown and Caldwell, 2013). This further diminishes the opportunity of people of color to build wealth.

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***Because students of color disproportionately attend for-profit colleges, borrow more, and have lower graduation rates, they may be at greater risk and experience disproportionate harm.***

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For-profit colleges argue that these poor results should be excused because they enroll students of color, who have a higher risk of default (Devaney, 2014). But a consumer's pre-existing risk level does not justify predatory lending behavior—quite the opposite.

In other consumer credit contexts examined by the Center for Responsible Lending, lenders have likewise tried to justify their poor outcomes as a necessary feature of serving “subprime,” risky consumers. For example, credit card issuers argued that practices like surprise penalty fees and rate increases were appropriate risk management measures. But a CRL study found that these practices actually *increased* defaults (Frank, 2012). Similarly, payday lenders argue that subprime consumers need their product, since certain consumers have limited credit options, and that default rates reflect a high-risk borrowing population. But CRL found that payday loans actually cause financial instability for borrowers, while payday lenders recoup their costs many times over (Montezemolo, 2013). Similarly, CRL found that predatory mortgage terms caused extreme harm to communities of color, rather than fulfilling their promise of building wealth (Center for Responsible Lending, 2013). In contrast, research has found that responsible loans made to people of color can help them to build wealth.<sup>8</sup>

In each case, lenders justified their outcomes as the natural result of doing business with risky borrowers. But higher education institutions can do much better for students of color than accepting student loan defaults and high debt burdens as inevitable. Since there are, appropriately, few formal underwriting standards for student loans, colleges and regulators must take strong steps to ensure that students enroll in safe programs that do not leave them overly indebted.

Congress, states, and regulators must identify and end the practices leading to unacceptably high default rates and other poor outcomes found at for-profit colleges:

- The Department of Education should issue and enforce a strong “Gainful Employment” rule. A gainful employment rule would set minimum performance standards for career-focused programs, many of which are offered by for-profit institutions. These standards measure the ability of borrowers who attended such programs to repay their loans. If large numbers of borrowers are found to have high or unsustainable debt burdens, this serves as a signal that the career program may not be preparing students for employment as promised and thus should not be eligible for federal

<sup>8</sup> See, for example, a study of mortgage lending outcomes for low-income neighborhoods (Quercia, et al., 2011).

financial aid funds. In addition to cutting off aid to ineffective programs, the Department's rule should also provide relief to affected borrowers.<sup>9</sup>

- The Department of Education should use its administrative and enforcement powers to address misrepresentation of educational quality and outcomes at for-profit colleges, including misleading job placement and salary claims. The Consumer Financial Protection Bureau (CFPB) and Federal Trade Commission (FTC) should share their consumer protection expertise with the Department of Education to assist it in enforcing its regulations regarding misrepresentation. These agencies should together identify and remedy the weak points that allow schools to deploy inappropriate high-pressure tactics and misrepresentations.
- The CFPB, FTC, Department of Justice, Securities and Exchange Commission, state Attorneys General, and state higher education regulators should continue to investigate and bring enforcement actions in court against for-profit colleges for their role in unfair, deceptive, or abusive practices and violations of the Equal Credit Opportunities Act.
- The FTC and state Attorneys General should take action against for-profit college lead generators that mislead prospective students researching schools online.
- State legislators and regulators should enact or broaden existing legislation and regulation to prohibit misrepresentations by for-profit colleges, including those regarding student loans, educational quality, job placement, and expected earnings or salary and prohibit abusive high-pressure tactics used in recruiting and enrolling students. States should ensure that these reforms apply to all for-profit schools, whether they have a physical location in the state or not, and should ensure that the Attorney General (and/or designated for-profit school regulator) has robust enforcement powers. States should also give students a private right of action to seek redress for non-compliance or law violations.
- **Congress should enact reforms to protect students from exploitation, to include:**
  - enhancing the Department of Education's investigation and enforcement power over for-profit colleges;
  - limiting arbitration and non-disclosure agreements in higher education;
  - ensuring that the G.I Bill and other military benefits are treated the same as Title IV federal financial aid so that no more than 90% of revenues at for-profit colleges are generated from any kind of federal funds to ease the aggressive targeting of military servicemembers and veterans;
  - placing limits on the use of federal financial aid funds for marketing purposes;
  - forgiving student loan debt for students exploited by for-profit colleges, especially in cases where regulators find evidence of unfair, deceptive, or abusive practices or when programs are closed or sold;
  - improving data collection so that student outcomes can be tracked in more detail; and
  - exploring new ways to provide safe, affordable programs to low-income students and students of color. This could include assisting minority-serving institutions such as historically black colleges and universities (HBCUs) to expand access and reduce debt and defaults; exploring apprenticeship programs; improving the affordability and quality of public two- and four-year colleges; and identifying high-performing for-profit programs.

<sup>9</sup>The Center for Responsible Lending filed a comment with the Department of Education on its proposed gainful employment rule, which is available at <http://www.responsiblelending.org/student-loans/research-policy/Final-Center-for-Responsible-Lending-Comments-on-Proposed-Gainful-Employment-Rule.pdf>

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## APPENDICES

### Appendix1: Largest for-profit schools by corporate ownership

Company name	Name of schools
<i>Publicly-traded</i>	
American Public Education	American Military University, American Public University
Apollo Group	University of Phoenix
Bridgepoint Education	Ashford University , University of the Rockies
Capella Education Company	Capella University
Career Education Corporation	American International University, Briarcliff College, Brooke Institute, Brown College, Collins College, Colorado Technical University, Harrington College of Design, International Academy of Design & Technology, Le Cordon Bleu, Missouri College, Sanford-Brown
Corinthian Colleges	Everest, Heald College, Wyotech
DeVry	DeVry University, Carrington College, Chamberlain College of Nursing, Keller Graduate School of Management
Education Management Corporation	Argosy University, the Art Institutes, Brown Mackie College, South University, Western State University College of Law
Grand Canyon Education	Grand Canyon University
ITT Educational Services	ITT Technical Institute, Daniel Webster
Kaplan	Kaplan Career Institute, College, and University; Bauder College, CHI Institute, Concord Law School, Hesser College, Texas School of Business, TESST College of Technology
Lincoln Education Services Corporation	Euphoria Institute, Lincoln College of Technology, Lincoln College of New England, Lincoln Culinary Institute, Lincoln Technical Institute, Nashville Auto-Diesel College, Southwestern College
National American University Holdings	National American University
Strayer Education	Strayer University
Universal Technical Institute	Universal Technical Institute, Motorcycle Mechanics Institute, Marine Mechanics Institute, NASCAR Technical Institute
<i>Private equity</i>	
Alta Colleges	Westwood College, Redstone College
Rasmussen College	Rasmussen College
Walden University	Walden University
<i>Private, closely-held</i>	
ECPI Colleges	ECPI College
Education America	Remington College
The Keiser School	Keiser University, Keiser Career College

Source: U.S. Senate, 2012

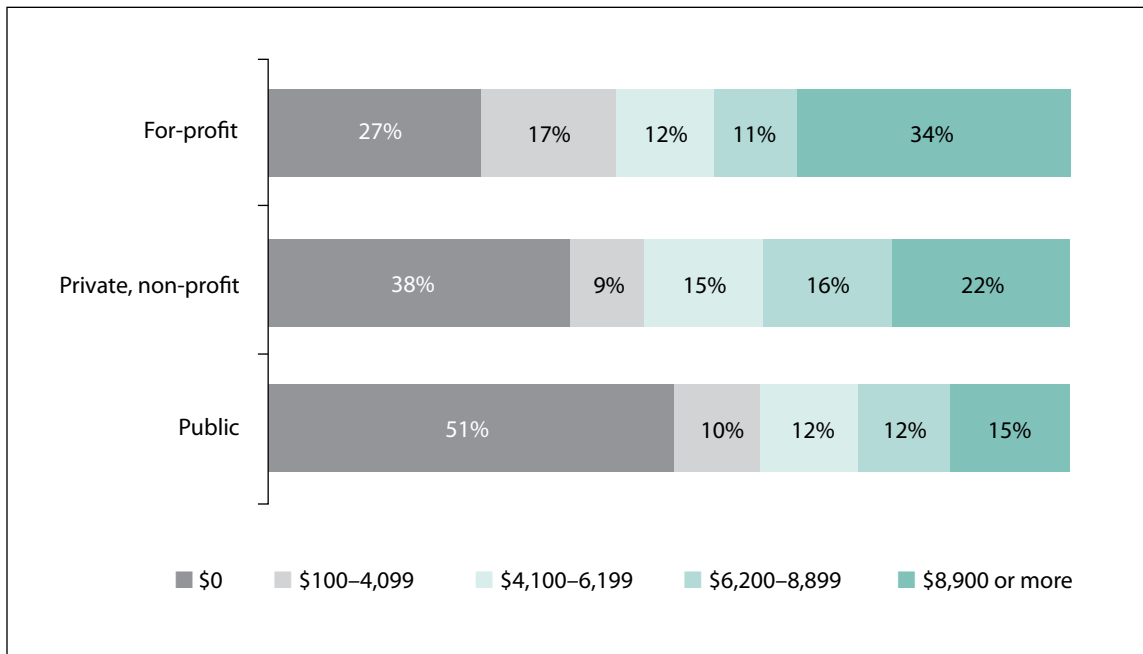
## Appendix 2. Net price by institution level and sector, 2011–2012

	Average net price for all students after grant and scholarship aid	Average net price for students with incomes up to \$30,000 receiving Title IV aid
Four-year institutions		
Public	\$11,719	\$9,297
Private, non-profit	\$20,622	\$16,620
For-profit	\$21,874	\$21,503
Two-year institutions		
Public	\$7,284	\$6,518
Private, non-profit	\$17,555	\$16,770
For-profit	\$16,501	\$16,364
Less-than-two-year institutions		
Public	\$9,769	\$9,587
Private, non-profit	\$13,249	\$13,746
For-profit	\$14,585	\$14,605

Source: CRL calculation of 2011–2012 IPEDS data

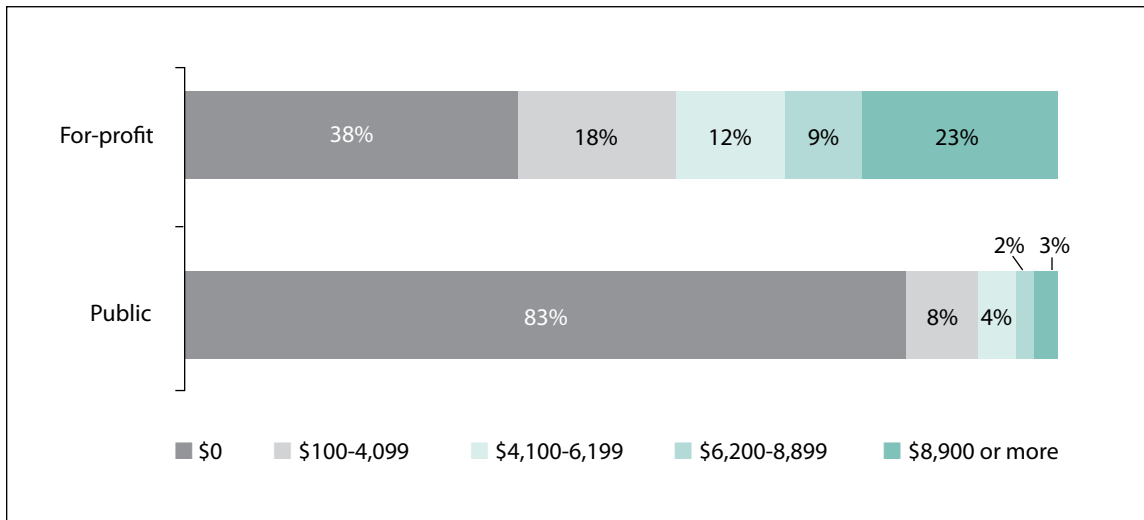
## Appendix 3. Total annual federal student loan borrowing by dependent students with parental household income of \$50,000 or less, by institution level and sector

### a. All dependent borrowers at four-year institutions



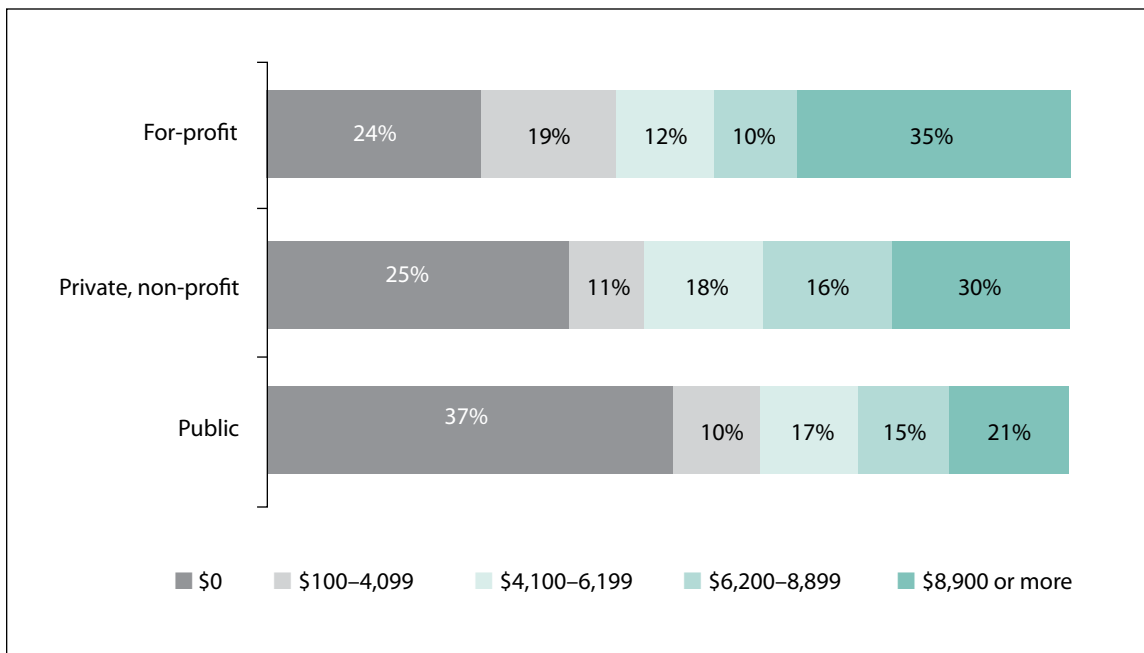
Source: CRL calculation of NPSAS 2012 data

**b. All dependent borrowers at two-year institutions**



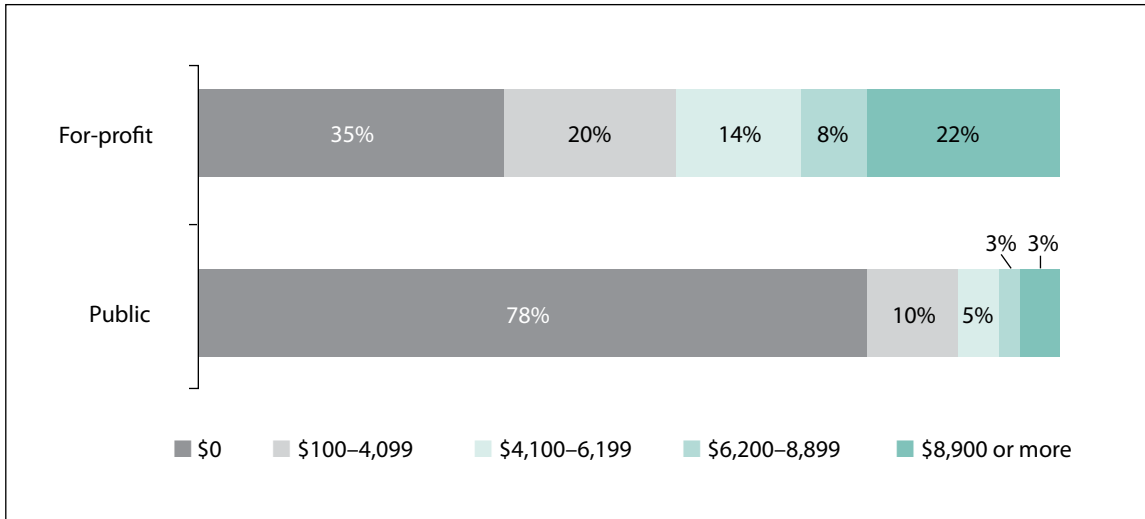
Source: CRL calculation of NPSAS 2012 data

**c. African American dependent borrowers at four-year institutions**



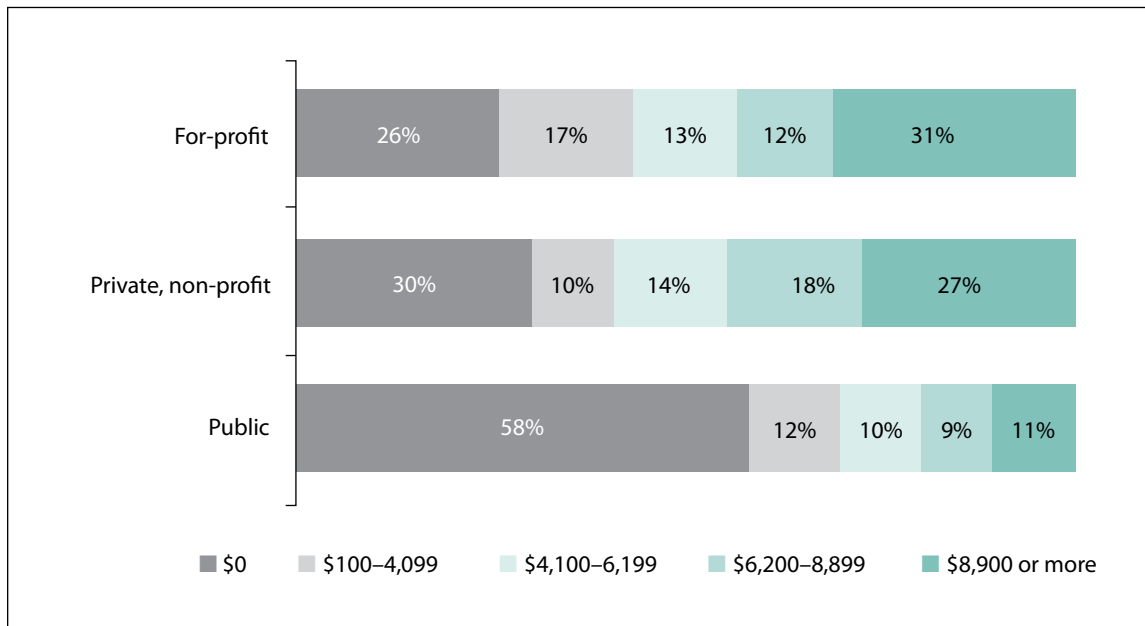
Source: CRL calculation of NPSAS 2012 data

**d. African American dependent borrowers at two-year institutions**



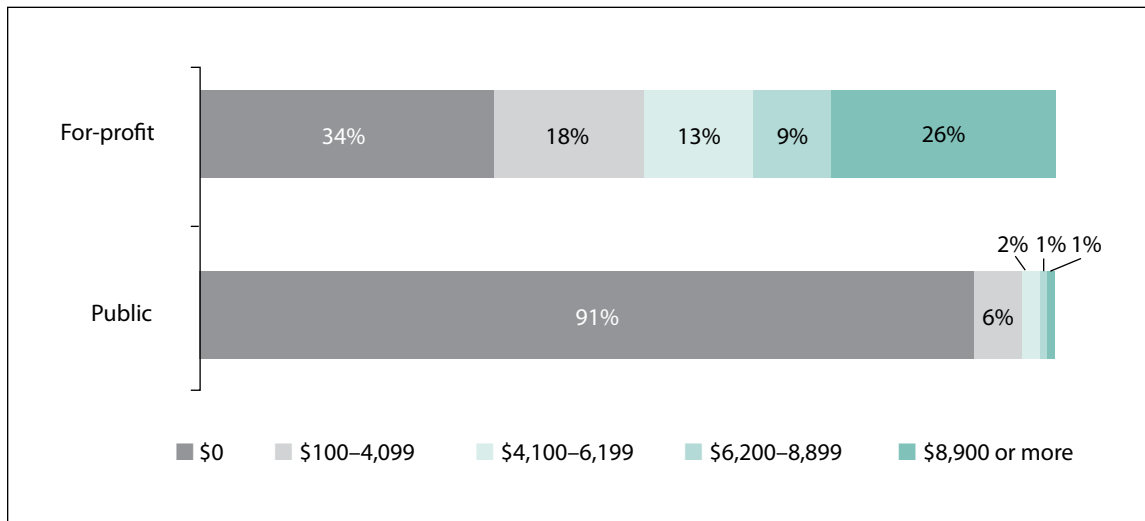
Source: CRL calculation of NPSAS 2012 data

**e. Latino dependent borrowers at four-year institutions**



Source: CRL calculation of NPSAS 2012 data

**f. Latino dependent borrowers at two-year institutions**

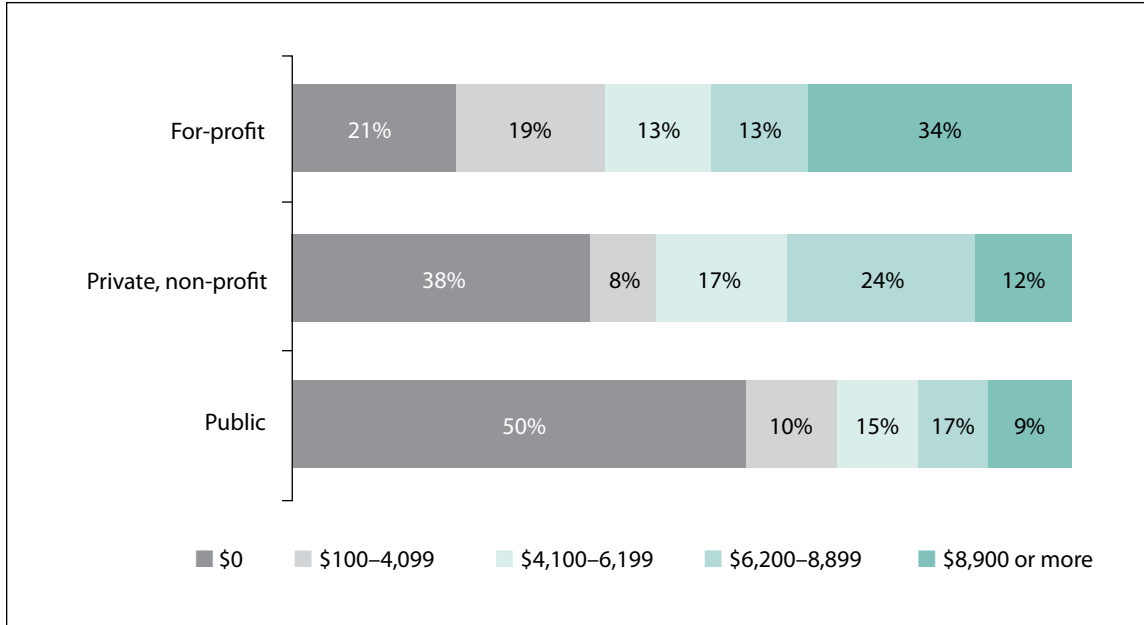


Source: CRL calculation of NPSAS 2012 data



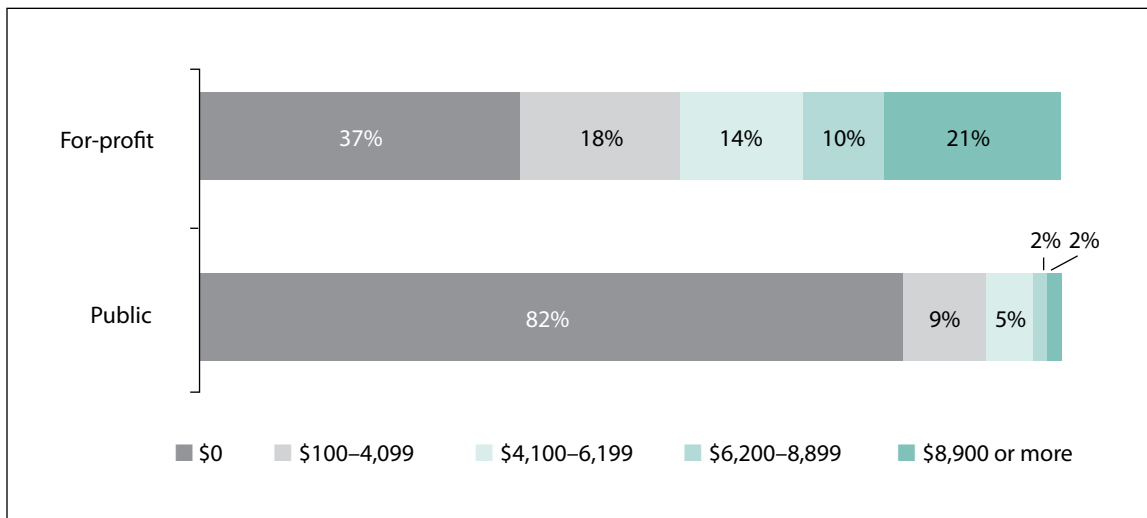
**Appendix 4. Total annual federal student loan borrowing by independent students with household income of \$30,000 or less, by institution level and sector, 2011–2012 academic year**

**a. All independent borrowers at four-year institutions**



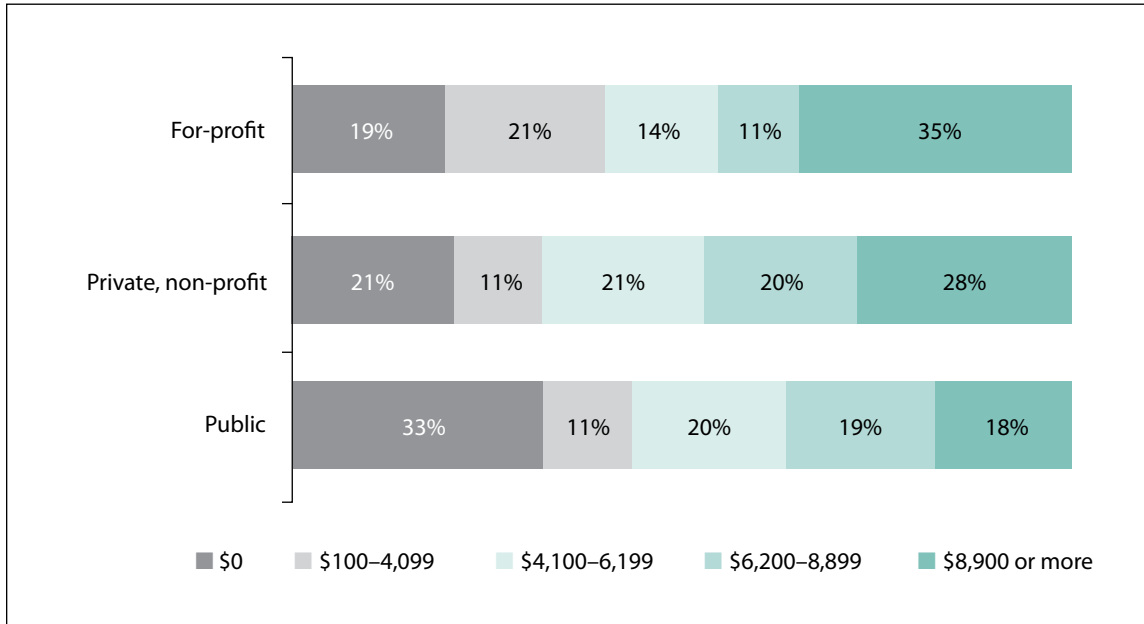
Source: CRL calculation of NPSAS 2012 data

**b. All independent borrowers at two-year institutions**



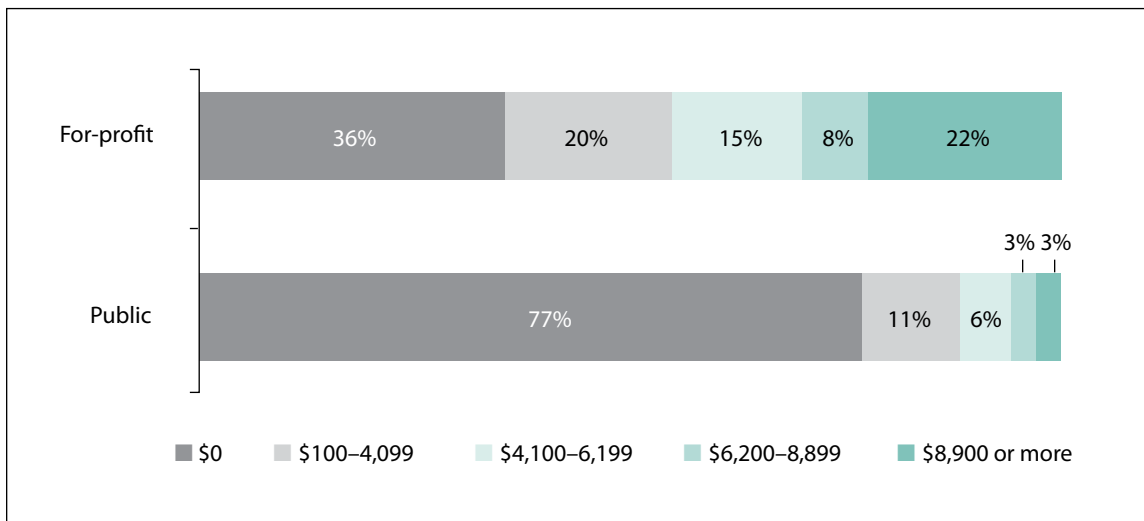
Source: CRL calculation of NPSAS 2012 data

**c. African American independent borrowers at four-year institutions**



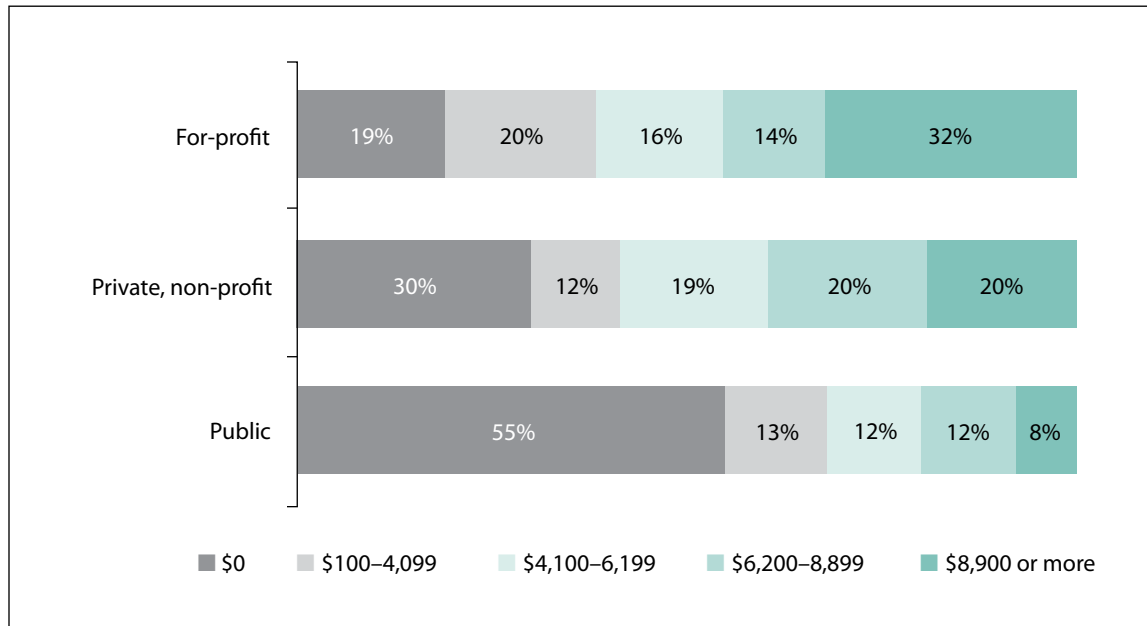
Source: CRL calculation of NPSAS 2012 data

**d. African American independent borrowers at two-year institutions**



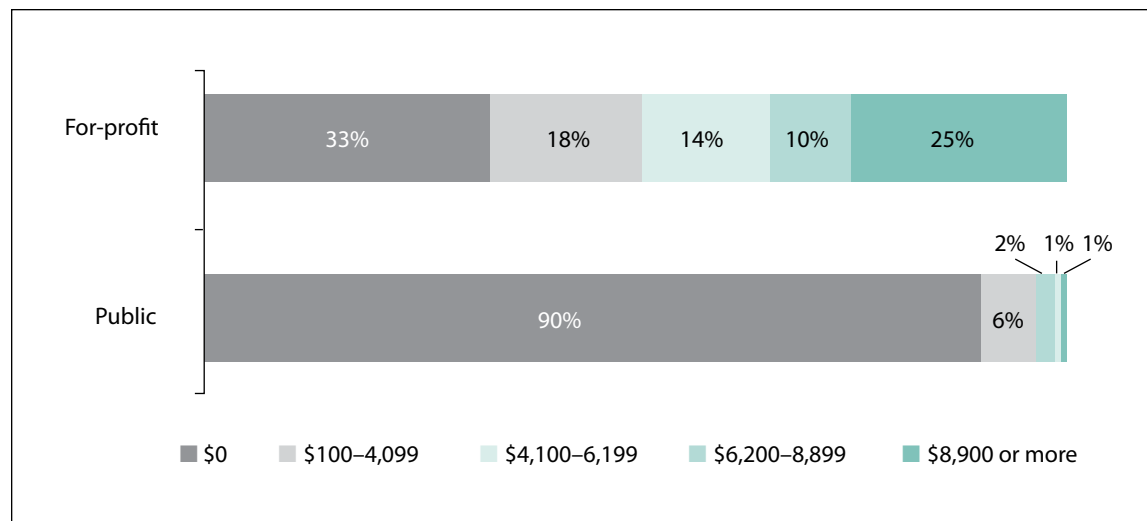
Source: CRL calculation of NPSAS 2012 data

**e. Latino independent borrowers at four-year institutions**



Source: CRL calculation of NPSAS 2012 data

**f. Latino independent borrowers at two-year institutions**



Source: CRL calculation of NPSAS 2012 data

Please Note: Percentages throughout the report may not add up to exactly 100% due to rounding.

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## ***About the Center for Responsible Lending***

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

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