



For-Profit Colleges Saddle African-American and Latino Students with Crushing Debt and Poor Employment Prospects

April 2014

Leslie Parrish and Peter Smith

Many for-profit colleges—which serve a disproportionate number of African American and Latino students—have failed to deliver on the promise of improving students’ economic lives through higher education.

A post-secondary education can serve as an asset that enables graduates to secure good jobs with steady incomes, enabling further accumulation of other assets in the future such as a home, business, and secure retirement. Taking on debt for an education can be a helpful investment. Unfortunately, for-profits often fail to provide a quality education for students, leaving many with a dangerous level of debt and little improvement in earning potential.

Why are for-profit colleges a concern for African American and Latino Students?

- African American and Latino students enroll more frequently in for-profit colleges than white students.
- For-profit colleges are more expensive to attend than other schools. As a result, African American and Latino students that attend for-profits become more heavily indebted than their peers at other schools
- The return on investment for attendees of for-profit colleges is troubling. A greater share of borrowers who attended for-profit schools default within their first few years of repayment than their peers from other types of schools.
- Serious concerns about for-profits such as high-pressure sales tactics, predatory lending, and misleading job placement rates have been raised by Congress and state and federal regulators.¹

How can for-profit colleges be improved for African American and Latino students?

- The Department of Education’s recently proposed Gainful Employment rule directed at career education programs aims to curb some of the worst abuses in this sector that lead to unmanageable debt.²
- The rule needs to be strengthened to fully protect students from abuses in the for-profit college sector.

¹ See, for example, the Senate HELP committee report on for-profit colleges here:

<http://www.harkin.senate.gov/help/forprofitcolleges.cfm>, the CFPB’s lawsuit against ITT here:

<http://www.consumerfinance.gov/newsroom/cfpb-sues-for-profit-college-chain-itt-for-predatory-lending/> and an article detailing efforts by Attorneys General here: <http://chronicle.com/article/State-Attorneys-General-Open/144255/>.

² The text of the proposed rule and accompanying press release are available at

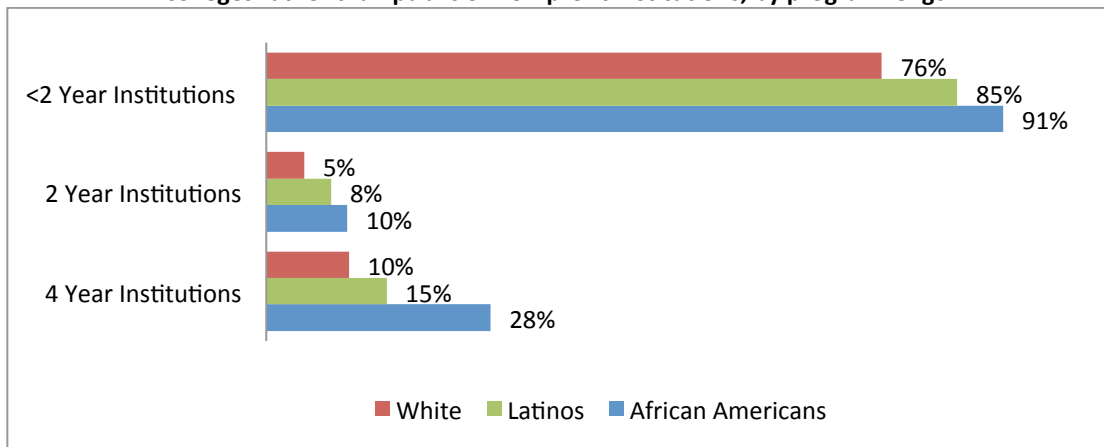
<http://www2.ed.gov/policy/highered/reg/hearulemaking/2012/gainfulemployment.html>.

- The Department should lower acceptable debt-to-income ratios, close loopholes that allow schools to manipulate default rates, provide relief to students enrolled in failing programs, and more rigorously screen programs in advance to ensure they prepare students for employment.³

African Americans and Latinos enroll more frequently in for-profit colleges for their post-secondary education than white students.

- Over a quarter (28%) of African Americans and 15% of Latinos attending four-year institutions enroll in a for-profit college, compared to 10% of whites selecting among four-year programs. This disparity is present for two-year and less-than-two-year programs as well.

Figure 1: Share of all African American and Latino attendees who enroll in for-profit colleges rather than public or non-profit institutions, by program length



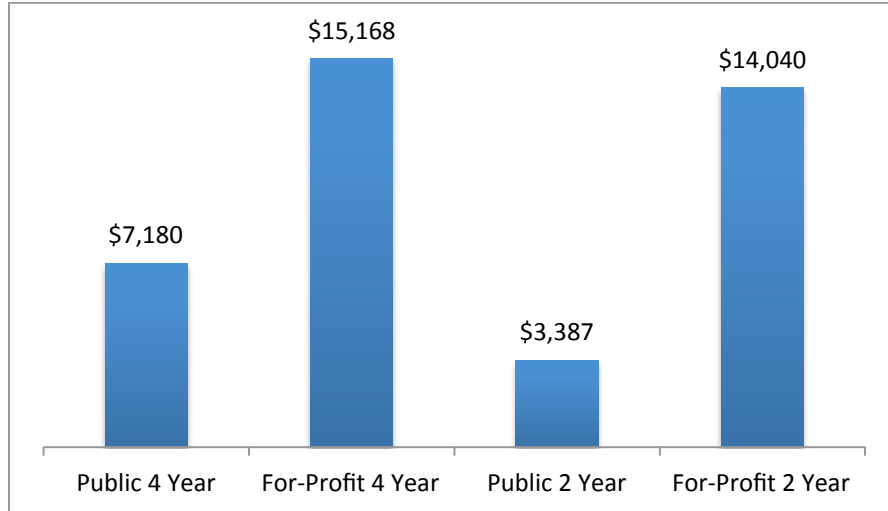
Source: Department of Education, Integrated Post-secondary Education Data System (IPEDS), 12-month enrollment, unduplicated head count, 2011-2012 school year.

African Americans and Latinos attending for-profit colleges are more likely to borrow than those who enroll in other institutions

- African Americans and Latinos attending for-profit colleges are more likely to borrow than those who enroll in other institutions, whether they attend a two- or four-year program.
- One reason for this is that for-profit colleges often have high tuition and fees—for profit colleges cost more than twice as much for a four-year program and four times as much for a two-year program than public institutions.

³ Gainful Employment Rule Gains Little for Students, Center for Responsible Lending (March 14, 2014), available at <http://www.responsiblelending.org/media-center/press-releases/archives/Gainful-Employment-Rule-Gains-Little-for-Students.html>.

Figure 2: Average tuition and fees for for-profit and public institutions, by program length, 2011-2012 school year



Source: Department of Education, Integrated Post-secondary Education Data System (IPEDS), Published tuition and fees, 2011-2012 school year. Public school costs are for in-state residents.

Figure 3: Share of African Americans and Latinos taking out student loans and median amount borrowed, by sector and program length

		% who borrow		Median amount borrowed, 2011-2012 school year (among those who borrowed)	
		African Americans	Latinos	African Americans	Latinos
Four Year Program	Public	65%	45%	\$6,500	\$5,750
	Private	76%	69%	\$7,500	\$7,500
	For-Profit	78%	79%	\$8,558	\$8,019
Two Year Program	Public	23%	10%	\$4,439	\$3,500
	For-Profit	66%	68%	\$6,334	\$7,257

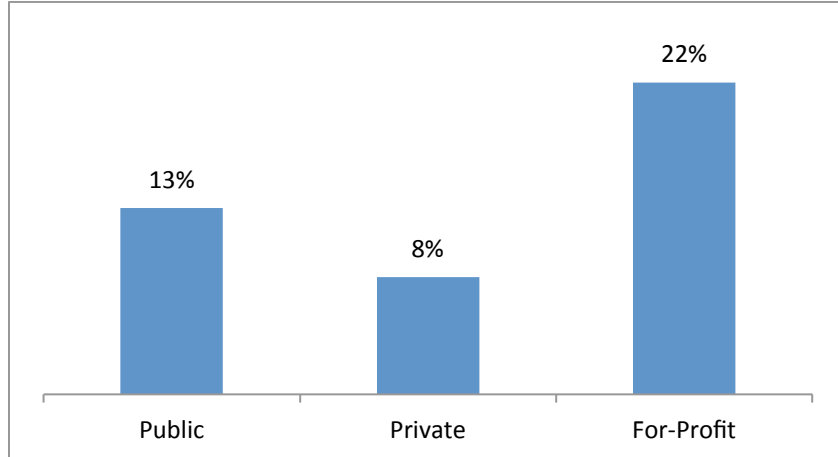
Source: U.S. Department of Education, National Center for Education Statistics, 2011-12 National Postsecondary Student Aid Study. Includes all taken by the student in 2011-2012; does not include Parent PLUS loans.

For-profit colleges linked to greater default rates

- Ultimately, borrowers that attend for-profit colleges are much more likely to default on their student loans shortly after entering repayment, suggesting that for-profit colleges do not adequately prepare attendees for jobs with adequate salaries.

- In fact, many attendees of for-profit colleges do not even graduate—leaving the programs with debt and no credential.⁴
- A two-year investigation of for-profit colleges by the Senate Health, Education, Labor, and Pensions Committee found that a majority of students were unable to complete their programs and that the schools often misled students about their ability to secure a job in their field after graduation or to transfer to another institution to continue their studies.⁵

Figure 4: Share of borrowers who default in first 3 years of repayment, by sector



Source: Department of Education FY 2010 Three Year Official Cohort Default Rates

⁴ An analysis done by The Education Trust finds completion rates of 22% within 6 years for students attending 4 year for-profit institutions compared to completion rates of over 50% at their private and public sector counterparts. See Mamie Lynch, Jennifer Engle, and Jose Cruz, *Subprime Opportunity: The Unfulfilled Promise of For-Profit Colleges and Universities*, The Education Trust (November 2010).

⁵ *For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success*, Senate Health, Education, Labor and Pensions Committee (July 2012).