# Statement of Senator Tom Harkin (D-IA), Chairman of the Committee on Health, Education, Labor and Pensions

At the Homeland Security and Government Affairs Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security Hearing "Preventing Abuse of the Military's Tuition Assistance Program."

Chairman Carper, Ranking Member Brown, members of the Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, thank you for your attention to the important issue of safeguarding our federal investment in higher education, and for your invitation to be here today.

More than 75 years ago, the Federal Government embarked on an ambitious plan to provide education support to service members returning from World War II. The GI Bill was a spectacular success, helping to usher in a new era of American prosperity. Since that time, we have expanded our support beyond veterans, to also include active-duty service members and all Americans who seek to better themselves through higher education. On the whole, this has been a wise investment in our people and in our nation.

As Congress continues to invest in support for higher education, the question is: How do we ensure that students and taxpayers get what they deserve from institutions of higher education? Last summer, following growing media scrutiny about abuses at for-profit colleges, I began an investigation in the Health, Education, Labor and Pensions Committee to ensure our students are being well served, and that our taxpayer investment is resulting in the intended educational success and economic advancement.

While we call these schools "for-profits" to distinguish them from public community colleges and four-year colleges and the non-profit universities, they are largely funded through student loans, grants, and military benefits. As a group, publicly traded companies receive at least 85.6 percent of their revenue from Federal money of one sort or another.

For-profit colleges have long played a role in our diverse system of higher education. The question before Congress is not whether for-profit colleges should exist, but how to make sure that they are doing their utmost to serve students and to give taxpayers good value for the dollar.

Over the past eight months, my Committee has been compiling a comprehensive picture of this industry, and we have been documenting some of the widespread practices used by many of its largest schools. The Committee has uncovered some troubling facts that I think should guide your inquiry into the Department of Defense Tuition Assistance Program used by many members of our military and their families to advance their educations.

For-profit colleges have existed in our country for over a hundred years, primarily offering professional training and short-term degrees and certificates. The GI Bill marked the first time for-profit schools were made eligible to receive significant Federal subsidies. With this new source of revenue, for-profit schools set their tuition rates to the maximum amount of aid a GI was eligible for. There was significant growth in the for-profit industry as a result of the GI Bill, and the schools began to aggressively market their programs to veterans, in order to maximize revenue from the Federal Government. In the early 1970s, we would see schools repeat this behavior when Congress made for-profit colleges eligible to receive student loans and Pell grants.

Unfortunately, the availability of Federal aid spawned widespread abuses throughout the 1980s, leading to a year-long series of bipartisan hearings into fly-by-night schools, chaired by former Senator Sam Nunn. The combination of public scrutiny, and new laws passed in the wake of the Nunn hearings, was meant to put an end to abuses in this sector. Unfortunately, many of the same problems identified by those bipartisan hearings 20 years ago have returned with a vengeance.

Over the past two decades, the for-profit higher education industry has grown and evolved, bringing innovation to postsecondary education and expanding the number of students enrolled. In 2008, nearly two million students were enrolled in for-profit institutions to pursue everything from technical certificates to graduate degrees. Enrollment has grown by 225 percent over the past 10 years, and there have been tremendous increases in the numbers of students taking classes online.

The growth of for-profit colleges has been entirely dependent on generous Federal subsidies, including Pell grants, and Federal student loans, as well as military and veterans' benefits. And while the for-profit share of enrollment has grown significantly, the sector's share of Federal student aid dollars has grown even larger. In 2008, the sector enrolled approximately 10 percent of students but received approximately 23 percent of all Federal Pell grants and student loans – more than $23 billion.

The potential for rapid growth, combined with a large available pool of Federal subsidies, has made for-profit colleges an attractive prospect for investors. Currently, 15 companies enrolling 1.3 million students are publicly traded, while many smaller schools with enrollment up to 20,000 have been purchased by private equity companies. The challenge for these companies is how to satisfy their legal obligation to maximize profits for shareholders while still serving students. Unfortunately, some companies have prioritized enrollment growth over student success.

For-profit colleges must spend a large percentage of their Federal dollars on aggressive marketing campaigns and sales staff to grow. There have been dozens of articles and news reports about deceptive marketing by schools, and there is an abundance of evidence that schools are more focused on enrolling students than making sure the students are prepared to succeed. These stories were corroborated by the Government Accountability Office, which visited 15 campuses of 12 companies and found misleading, deceptive, overly aggressive or fraudulent practices at every one of those campuses. Students were lied to about the cost of the program, about what they could expect to earn, about how many students graduated, about whether their credits would transfer, and about whether the program was accredited.

In addition, my Committee has reviewed recruitment training manuals from several different campuses and they all have one thing in common: manipulation. They encourage their sales staff to identify the emotional weaknesses of prospective students and to exploit what they call the student's "pain" in order to motivate them to enroll. In my testimony, I provided some of these documents to the Committee.

Unfortunately, our military bases are by no means safe havens from these types of aggressive and misleading recruitment practices. According to a Bloomberg article on for-profit colleges and service members, some of the schools are recruiting on base without permission, circumventing the education coordinator. In one instance, a for-profit recruiter met in the barracks for wounded Marines after the education coordinator gave permission only to meet with students at the base's education center.

For-profit colleges tend to be more expensive than their peer public institutions offering similar degrees. As a result, nearly every student who attends a for-profit school borrows to pay the tuition. In 2008, while only 16 percent of community college students took out loans, 95 percent of for-profit students at two-year schools took out loans.

Unfortunately, students are far more likely to take out a student loan at a for-profit college than they are to receive a diploma. At the HELP Committee's third hearing on for-profits, in September, we sought to answer the question: What is happening to all the students that these schools are pushing so hard to bring in the door? Unfortunately, according to information provided by the 30 schools and analyzed by the HELP Committee, it appears that these students are not faring well. Of the 30 companies we analyzed, 54 percent of students who came in the door in the 2008-2009 school year had left without a degree by the following year. For some schools and programs, the withdrawal rate was as high as 84 percent of students. This is not even the total amount of students dropping out; it is just the students withdrawing within one year of enrolling.

One consequence of high tuition combined with high withdrawal rates is a rapid increase in loan defaults. According to data released last month by the U.S. Department of Education, students taking loans to attend for-profit colleges now account for 46.6 percent – nearly half – of all student loan defaults.

Despite this disturbing record of dropouts and defaults by for-profit students, Congress has acted to increase educational benefits available to active duty troops and families and to veterans of Iraq and Afghanistan. In December, I released a report into these two programs and found that revenue from DoD educational programs at 18 for-profit education companies increased from $40 million in 2006 to an unexpected $175.1 million in 2010, a 337 percent increase. Revenue from VA educational programs for the same 18 for-profit education companies increased from $26.3 million in 2006 to an unexpected $285.8 million for 2010, including a fivefold increase between 2009 and 2010.

Revenues from military education benefits at 20 for-profit education companies increased more rapidly than overall revenues in every year between 2006 and 2010. Finally, in the first year of Post-9/11 GI Bill implementation, the VA spent comparable amounts on tuition for students attending public schools and students attending for-profit schools, but the VA funded 200,000 students at public schools compared to just 75,000 at for-profits. This growth is fine if service members and veterans are receiving good value for their education. However, Tuition Assistance and GI Bill benefits are finite. And if schools are misleading students and serving them poorly, they are encouraging students to waste hard-earned benefits.

In sum, because of the high costs, high withdrawal rates, and high default rates among the general student population, combined with troubling stories I have heard from veterans, I am deeply concerned that that there is inadequate oversight of our nearly $30 billion in Federal aid to for-profit schools. I applaud this Committee for turning its attention to this issue as it pertains to the Department of Defense.

After an in-depth examination of the for-profit college sector, spanning nearly a year, my central concern is that a company can be very profitable even when its students are suffering and being shortchanged by every available measure. This dynamic does not exist in other industries. If an airline charges four times its rivals for the same flight, it loses passengers. If a restaurant serves bad food, it loses diners. In the for-profit higher education sector, a company can have two-thirds of its students withdraw within a year of entering, and have 30 percent of its students default on government loans within three years of leaving school, yet still post a 14 percent profit.

That's not a hypothetical. Those are the statistics of an actual company -- a company that, by my Committee's calculations, receives 85 percent of its revenue from taxpayer dollars.  Let me repeat those numbers.  Two-thirds of students withdraw within a year, a 30 percent default within three years of leaving, a 14 percent profit, and an 85 percent federal subsidy.  We can and should expect better.

I believe this disconnect between student success and corporate success is the sad consequence of extending vast sums of Federal aid without adequate incentives to safeguard the interests of taxpayers and students.  The challenge that Congress faces now is this:  In the wake of these deeply disturbing revelations about taxpayer waste and student failure, how do we ensure that the companies the Federal Government subsidizes are profitable only when their students are successful.  I believe your hearing is pursuing answers to very similar questions, and I look forward to the results of your inquiry.  Thank you again for the invitation to speak before you today.