

High cost, high debt, high risk:

Why for-profit universities are a poor deal for students and taxpayers

In this briefing we explain:

- how the White Paper on higher education would benefit for-profit providers;
- the dangers of replicating the conditions that allowed the growth of the US for-profit sector, including dependence on public subsidies and light regulation;
- how the US for-profit sector exploits students, saddling them with massive debts, leaving most with either no qualification or ones of dubious quality;
- how these companies are looking to expand into the UK.

Finally, we argue that the lessons of the US experience show the for-profit sector is a potentially high-risk option. For-profit higher education represents a gamble too far with the futures of UK students and we suggest that it must be regulated accordingly.

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How does the White Paper help for-profit providers?

The Government's White Paper is creating a space for the growth of for-profit higher education at the expense of traditional universities and FE colleges, both public and private.

- The Government proposes to take away an initial 20,000 student places from the allocation to traditional universities and open them up to 'alternative providers' to bid for, providing they can offer them for less than £7,500 per annum. That means that for-profit providers now have access to the government-subsidised student loan system. The Government has said that it wants this pool to grow every year, while the overall number of student places remains the same.
- Currently, institutions that want to award degrees or call themselves universities must demonstrate to regulators the consistently high standard of their provision in higher education over a period of time. Ministers now propose to deregulate the market, making it easier for any willing provider to award degrees and call itself a university.
- Currently, there are safeguards in place requiring for-profit providers to have their degree-awarding powers renewed every six years. The Government wants to replace this with a 'risk-based' approach that would operate on the assumption that all willing providers are of the same, acceptable standard unless proven otherwise. In this new regime, it seems, institutions will only be inspected if something can be shown to have gone wrong.

Fundamentally, the White Paper makes it easier for for-profit companies to access

public subsidies in the form of the new student loans, while lightening the regulation to which they are subject.

The White Paper threatens to create similar conditions to those that enabled the dramatic expansion of for-profit HE in the US, and which have ultimately caused a public and political scandal.

Fast growth, big profits, big subsidies

The US for-profit sector has grown rapidly over the last 25 years. In 1986, it enrolled 300,000 students, or 2.4 per cent of the total. In 2008, that figure was 1.8 million and in 2010, for-profit colleges accounted for 12 per cent of all students in US higher education.¹

The rates of profit in this sector seem to add to this success story. In 2009, the four largest firms, Apollo, ITT, DeVry and Strayer Education, showed profit margins ranging from 11 to 23 per cent. The for-profit industry's stock index more than doubled between 2006 and 2010, while Standard and Poor's 500 index fell 3.4 per cent in the same period.²

These profits have been dependent on tapping into vast quantities of federal subsidies in the form of student loans.

- A recent Senate report showed that for-profit colleges are dependent on federal grants and loans for on average 85% of their income.
- Because the colleges target poorer students, they disproportionately consume federal loans. They enrol 12 per cent of students, but account for 24 per cent of all federal support to universities and colleges.
- In 2008-9, the US taxpayer paid out almost \$24billion to for-profit colleges in the form of grants and loans.³

¹ For-Profit Higher Education, Center for College Affordability and Productivity Report: http://www.centerforcollegeaffordability.org/uploads/ForProfit_HigherEd.pdf, p.10.

² For-Profit Higher Education, Center for College Affordability and Productivity Report: http://www.centerforcollegeaffordability.org/uploads/ForProfit_HigherEd.pdf, p.20; 'Big Short Eisman vies with Goldman over For-Profits', Bloomberg News, 24 January 2011: <http://www.bloomberg.com/news/2011-01-24/big-short-eisman-vies-with-goldman-sachs-in-value-faceoff-over-for-profits.html>.

³ Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education, US Senate Health, Education, Labor and Pensions Committee report, 24 June 2010: <http://harkin.senate.gov/documents/pdf/4c23515814dca.pdf>, pp.3-4. See also *The Return on the Federal Investment in For-Profit Education: Debt Without a Diploma*, US Senate Health, Education, Labor and Pensions Committee report, 30 September 2010: <http://tinyurl.com/6bm5hu6>.

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'Marketing machines masquerading as universities'

- In order to keep the flow of students coming in, the for-profit institutions spend a huge amount of money on aggressive marketing, employing thousands of recruiters in call centres. On average, the biggest companies spend 32 per cent of their expenditure on marketing.
- Leading investor Steve Eisman has dubbed these colleges 'marketing machines masquerading as universities'.⁴
- For-profit companies such as Apollo, Kaplan, Education Management Corp and Career Education Corp, have all been accused of aggressively mis-selling courses and defrauding the government in their drive to enrol students.

A bad deal for students

The evidence from the US shows that for-profit education is not delivering a fair return for this investment. It is generally expensive, often of low quality and saddles poorer students with huge debts.

High cost

- It costs more than twice as much to enroll in a for-profit college as it does in a public institution. Average tuition costs for four-year courses in 2009-10 were \$15,715 per annum, compared with \$6,393 for a public college.

High debt

- Students at for-profit colleges have to borrow more money, over and above their federal loans and grants, to cover the high costs of tuition. In 2007 the average student at a for-profit institution on a four-year course had to find an extra \$24,957, compared with \$8,588 for those at public institutions and \$16,574 for private not-for-profit institutions.

- Students have to find this money through private borrowing, often through arrangements between banks and for-profit companies. In 2008, 46 per cent of students studying on four-year courses had to take out private loans, compared with 14 per cent at public institutions and 25 per cent at private not-for-profit institutions.
- A student at a for-profit college can expect to graduate with far higher debts than those at other institutions. Median debt at graduation for students at for-profit colleges is \$31,190, compared with \$7,960 at public and \$17,040 at private non-profit institutions. With high commercial interest rates, this debt can double over ten years.

Low quality

- In return for these debts, the evidence suggests that students are getting a poor product.
- Only 22 per cent of students graduate from four-year degree courses at for-profit institutions, compared with 55 per cent at public universities and colleges and 65 per cent at private not-for-profit universities.
- For those who do finish, the future is not secure. Almost 10 per cent of students at for-profit colleges default on their federal loans within two years of finishing their courses, while almost 20 per cent default within three years. That is around double the rate seen at public community colleges.⁵

According to the US Education Trust, which promotes high academic achievement for all students at all levels, this indicates that:

'for-profit schools do not provide students with the education necessary to secure employment at a level that allows them to repay the hefty loans they must borrow.'⁶

⁴ 'Big Short Eisman vies with Goldman over For-Profits', Bloomberg News, 24 January 2011: <http://www.bloomberg.com/news/2011-01-24/big-short-eisman-vies-with-goldman-sachs-in-value-faceoff-over-for-profits.html>.

⁵ *Subprime Opportunity: The Unfulfilled Promise of For-Profit Colleges and Universities*, Education Trust report, November 2010: http://www.edtrust.org/sites/edtrust.org/files/publications/files/Subprime_report_1.pdf, pp.3-6.

⁶ *Subprime Opportunity: The Unfulfilled Promise of For-Profit Colleges and Universities*, Education Trust report, November 2010: http://www.edtrust.org/sites/edtrust.org/files/publications/files/Subprime_report_1.pdf, p.6.

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Heading up a Senate investigation into the for-profit industry, Senator Tom Harkin said: **'for students attending a for-profit school a degree is a possibility, but debt without a diploma is far more likely.'**⁷

The short-seller Steve Eisman, who predicted the subprime mortgage crash, has drawn parallels with the for-profit higher education industry: **'I thought that there would never again be an opportunity to be involved with an industry as socially destructive and morally bankrupt as the sub-prime mortgage industry. I was wrong. The for-profit education industry has proven equal to the task.'**⁸

CASE STUDY:

Apollo's University of Phoenix

The biggest for-profit university in the US is the University of Phoenix, which is owned by Apollo.

The University of Phoenix enrolls more than **400,000** students across the US. Phoenix's completion rate is unbelievably low. In 2008, **only 9 per cent of its students graduated from a full-time undergraduate course in six years.**⁹

Phoenix has paid out \$85 million to the Department of Education to settle two law suits brought by whistle-blowers who accused it of **knowingly violating federal law** by paying its recruiters by results.

It is now being sued again for **'blatant and systematic fraud'** and is also being investigated by attorneys acting for the state of Massachusetts.¹⁰

It couldn't happen here...could it?

The for-profit sector in the UK is currently small, but it is increasingly owned by the same US companies that dominate the market in the US and they are ambitious about expanding.

In 2009, Apollo bought BPP Holdings, which owns BPP University College. BPP University College already has degree-awarding powers but now wants easier access to the title of 'University' and to the government-backed student loans.

In addition, the head of Kaplan UK has said his company would be interested in applying for degree-awarding powers and buying up struggling universities, while the British online provider RDI was recently bought by US education company Capella with the new parent promising a bonus if RDI won degree-awarding powers.¹¹

Phoenix UK?

Our concern is that, if ministers are seduced by the superficial attractions of liberalising and deregulating the market for higher education, a US-style scandal will result. Big US companies are already moving in, looking for fast results, so there is every reason to believe that for-profit companies in the UK would quickly come to resemble universities like Phoenix.

At BPP, for example, the signs are beginning to show.

■ In the two quarters leading up to February 2011, Apollo wiped more than £220 million off the value of BPP because its accountancy and law businesses were losing money, prompting the company to shed 90 jobs.¹²

⁷ *The Return on the Federal Investment in For-Profit Education: Debt Without a Diploma*, US Senate Health, Education, Labor and Pensions Committee report, 30 September 2010: <http://tinyurl.com/6bm5hu6>, p.11.

⁸ 'Big Short Eisman vies with Goldman', Bloomberg News, 24 January 2011: <http://www.bloomberg.com/news/2011-01-24/big-short-eisman-vies-with-goldman-sachs-in-value-faceoff-over-for-profits.html>.

⁹ *Subprime Opportunity: The Unfulfilled Promise of For-Profit Colleges and Universities*, Education Trust report, November 2010: http://www.edtrust.org/sites/edtrust.org/files/publications/files/Subprime_report_1.pdf, p.4.

¹⁰ 'U. of Phoenix Hit With New Whistle-Blower Lawsuit Over Recruiting Practices', Chronicle of Higher Education, May 27, 2011: <http://chronicle.com/article/U-of-Phoenix-Hit-With-New/127714>.

¹¹ 'Boom time for private universities', *The Guardian*, 26 October 2010: <http://www.guardian.co.uk/education/2010/oct/26/higher-education-private-university-boom>; 'Acquisition Establishes Global Platform for Capella', 15 July 2011, RDI press release: <http://www.rdi.co.uk/landing-pages/acquisition-establishes-global-platform-for-capella.html>.

¹² 'BPP write-down raises penetrative questions', *Times Higher Education*, 2 June 2011: <http://bit.ly/10zZaD>.

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- In June this year, Apollo's CEO reassured nervous investors that growing BPP's business was a priority for the company: 'the priority initially is to focus on BPP and our other assets that already exist within Apollo Global. To enhance them, to improve them, to grow them, to take advantage of their position within the world.'¹³
- In July this year, BPP announced that it was doubling the ratio of students to staff and could envisage ratios of **30:1** in the near future, far higher than those at traditional universities.¹⁴

Higher education in this country has a superb reputation in the world, for which it is heavily subsidised by the taxpayer, increasingly through the student loans system. The proposals in the White Paper would wreck that reputation at a stroke and reward those responsible with taxpayers' money.

Growing concern

It's not just UCU which is concerned about the for-profit sector. There is growing concern across the sector.

- A survey of 500 senior academics showed that 81 per cent believed that for-profit education would damage the reputation of UK higher education.¹⁵
- Universities UK has warned that 'many believe the quality of provision among the for-profit providers in the US has been poor and the costs have been high, particularly in terms of the costs to students and to the state.'¹⁶
- HEFCE, the Government's own funding council which is to be the lead regulator under the White Paper, has warned that

the for-profits sector's short and long-term goals may not match the national interest and could lead, as in the case of Australia, to international reputational damage'.¹⁷

How can we safeguard students and UK HE?

- While UK higher education has always had a mix of public and private elements, within a framework of public regulation, UCU thinks for-profit higher education is a step too far.
- We think that the risk to students, to the taxpayer and to the reputation of UK higher education is too great to allow any repetition of the mistakes made in the US.
- If the government wants to see more 'alternative providers', it must treat the for-profit sector as a special case, because of its particular obligations to its shareholders.
- If we are to move to a risk-based approach to regulation, as the Government wants, then this must involve explicitly recognising the for-profit sector as very high risk—almost, we would suggest, toxic.
- That must mean that for-profit companies should have no accelerated or eased access either to degree-awarding powers or University Title and any applications for such should be treated with extreme caution by regulatory bodies.
- It must also mean that as recipients of public subsidies, in the form of student loans, they should be subject to more intensive, further-reaching and more regular quality assurance and financial sustainability inspection than not-for-profit institutions.

¹³ Apollo Group Investor conference call, June 30, 2011: <http://www.apollogrp.edu/investor/Transcripts/APOL-Transcript-Q32011.pdf>, p.21.

¹⁴ 'More places, along with more students per lecturer, figure in BPP's plans', *Times Higher Education*, 28 July 2011: <http://www.timeshighereducation.co.uk/story.asp?sectioncode=26&storycode=416946&c=1>.

¹⁵ 'For-profits unwelcome, UCU academic poll finds', *Times Higher Education*, 16 June 2011: <http://www.timeshighereducation.co.uk/story.asp?storyCode=416518§ioncode=26>.

¹⁶ 'Universities fear private colleges will 'cherry pick' lucrative degrees', *The Guardian*, 13 April 2011: <http://bit.ly/hD1UXQ>.

¹⁷ *Diverse Provision in higher education: options and challenges*, HEFCE, July 2010, pp.41-4: <http://bit.ly/m7jUSx>.