

For-profit Colleges and the CWU Client Experience



BACKGROUND

The for-profit college industry (also known as proprietary schools)¹ has been described as “marketing machines masquerading as universities.”² For-profit colleges are educational institutions that are run by private, profit-seeking companies or organizations. Despite the criticism, the for-profit college industry continues to expand more rapidly than other areas of higher education.

From 1998 to 2008, for-profit college enrollment grew by 225%.³ According to the Institute for College Access and Success, an astounding 44% of the student population enrolled in for-profit colleges default on their student loans.⁴ Students who attend for-profit colleges are more than twice as likely to default on their federal student loans as students enrolled at nonprofit institutions. For individuals two years into repayment, the national default rate was 11.9 % at for-profit colleges, 6.2% at private nonprofit four-year institutions, and 4.1% at public four-year institutions.⁵

Moreover, for-profit colleges receive a substantial amount of assistance from the federal government. The American Recovery and Reinvestment Act of 2009 (ARRA) increased funding for Pell grants for low-income students. In 2009, for-profit colleges received nearly 25% (\$4.3 billion in Pell Grants) of the \$17.1 billion allocated for the Pell grant program. According to U.S. Department of Education data, for-profit colleges educate less than 10% of the student population, but receive 25% of the available federal stimulus funds.⁶

In recent months, the fast-growing for-profit college industry has faced increased scrutiny from the Obama Administration and Congressional members. In the first of a series of Congressional hearings, Senator Tom Harkin (D-Iowa), chairman of the Senate Health, Education, Labor, and Pensions Committee, heard testimony from witnesses on the abusive practices at for-profit colleges. Issues now under investigation by the Government Accountability Office include questionable recruitment practices, student debt loads leading to high numbers of default, and low graduation and job placement rates.

¹ For the purposes of this study, the Crittenton Women's Union (CWU) has defined a for-profit college as a privately owned and operated post-secondary school that is organized as a profit making venture.

² “Battle Lines Drawn Over For-Profit Colleges”. *The New York Times*. Tamara Lewin. June 23, 2010.

³ United States Senate, Health, Education, Labor, and Pensions Committee, June 24, 2010.

⁴ United States Senate, Health, Education, Labor, and Pensions Committee, June 24, 2010.

⁵ U.S. Department of Education, Direct Loan and Federal Education Loan Programs

⁶ Emerging Risk: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education, United States Senate, Health, Education, Labor, and Pensions Committee, June 24, 2010.

CWU EXPERIENCE

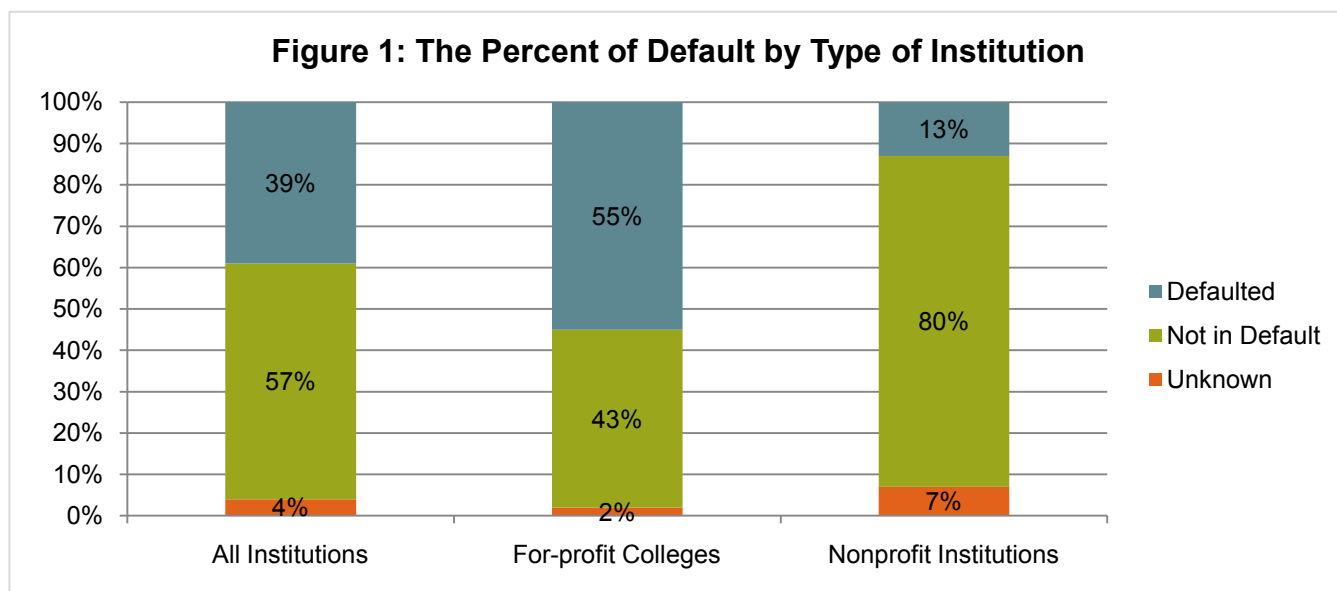
At least fifty-three participants in Crittenton Women’s Union (CWU) programs are known to be struggling with student loan repayment. Between September 2009 and July 2010, these former students sought help at CWU’s Student Debt Legal Assistance program. **Seventy-nine percent of these CWU program participants attended at least one for-profit college. Fifty-five percent of the loans taken out by students who were enrolled in at least one for-profit college were in default and less than half of these participants completed their program.** Most of the students in default on their loans owe less than \$10,000, yet their personal circumstances make it impossible to meet their monthly obligations. The majority of CWU clients who have sought help with their student debt are either homeless or living in public or subsidized housing in Boston.

The struggle to make ends meet while carrying unmanageable student debt presents a barrier to those trying to enter the middle class; particularly adults who discover they need to return to school for further education or training in order to improve their families’ economic conditions. Individuals who default on student loans face significant personal and financial road-blocks. They are ineligible for federal and state financial aid for further education and may have their wages garnished and tax refunds seized by the government in repayment for past-due loans. Their negative credit records can also pose obstacles to renting an apartment or getting a job. For CWU homeless clients, this creates a barrier to moving out of shelter and into permanent housing.

Large numbers of low-income adults enroll in expensive training programs each year in the hope of improving their lives. Often students discover they are ill-prepared to complete their programs and, even if they complete the programs, they find they can’t earn enough to repay their loans and/or can’t get hired in their fields of study.

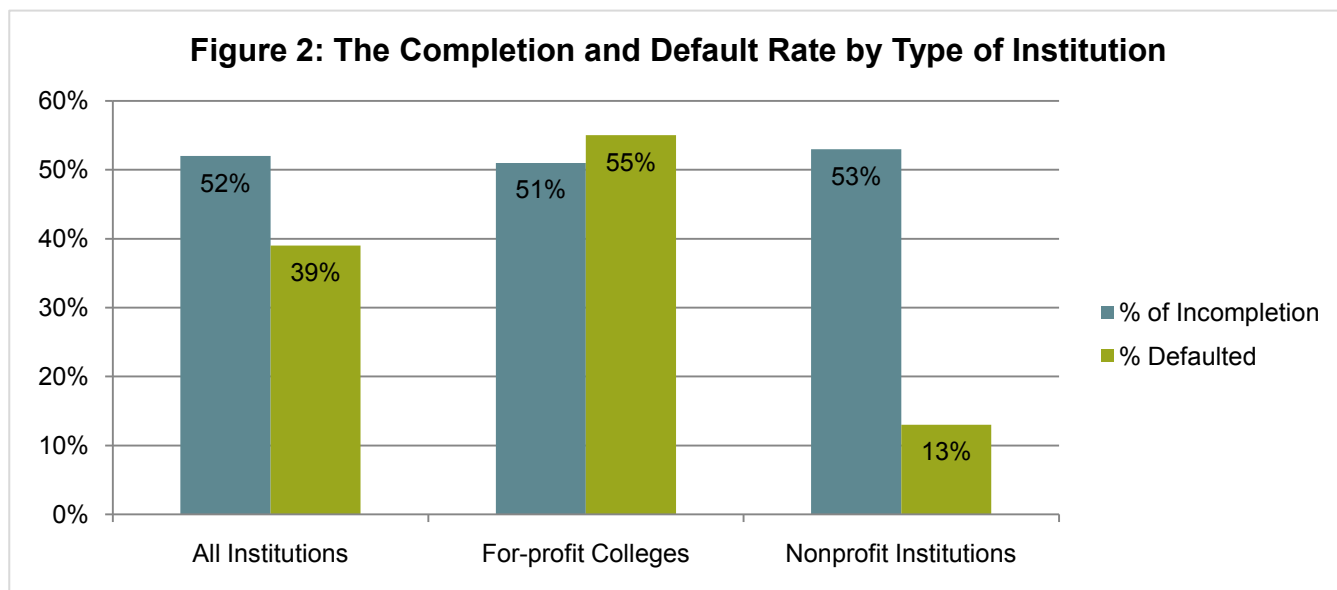
Default Rate and Completion Rate

- **55% of the loans taken out by students who were enrolled in at least one for-profit college were in default, while only 13% of the loans taken out by students enrolled only in nonprofit institutions were in default.**
- **Students who enrolled at for-profit colleges were more than four times as likely to default on their student loans in comparison to students who enrolled in nonprofit institutions (Figure 1).**



While the program completion rate for all students seeking help from CWU was low (48% completion rate) the combined problems of unmanageable debt and inability to successfully complete the academic program are significantly more damaging to clients who attended for-profit colleges (**Figure 2**).

- Nearly one in every two students that attended at least one for-profit college both defaulted on their loans and did not complete their program.



The range of student debt CWU clients manage is extreme.

- Student debt ranged from \$100 to \$81,000
- The average total debt for all students is \$11,451
- Some participants defaulted with outstanding loan amounts as small as \$124

CLIENT STORIES

(Names have been changed for purposes of confidentiality.)

Rebecca is a 25-year-old single mother with two children. Rebecca contacted one of the vocational schools she saw advertised on television to pursue a medical assistant certificate. After her initial call, Rebecca received calls from the school's recruitment officers daily, encouraging her to apply. Although the recruiter spoke about job placement, he did not inform Rebecca that individuals with certain criminal records would not be eligible for some health care jobs. This information was critical as Rebecca had a criminal record that would limit her access to jobs in health care. The recruiter also did not mention that most health care facilities would not hire an applicant without a high school diploma or GED. Rebecca had neither. Because she did not have a high school diploma, Rebecca was required to take an aptitude test, which she failed. On Rebecca's second attempt, the proctor assisted her and other potential enrollees by providing correct answers to exam questions. Having passed the aptitude test, Rebecca enrolled in the school and was assisted with completing the financial aid application including an application for student loans.

With only four courses remaining and an internship to complete, Rebecca was having trouble passing some of her required tests. She was counseled to re-enroll in classes she already had taken. Discouraged with her progress, Rebecca eventually dropped out of the program and was left with student loans and no hope of holding a job that would support monthly payments. A year later, Rebecca continues to struggle with her monthly payments for loans that total close to \$6,000. Saddled with poor credit and outstanding student loans, Rebecca is unable to pursue additional higher education.

Martina is a 28-year-old single mother. Nearly 10 years ago, she was a high school drop-out, employed at low-wages and struggling to support herself and her child. Martina wanted to go back to school to become a nurse and saw a program advertised on television that seemed like a perfect fit. She contacted the school and expressed her hesitation in starting a medical assistant program without a high school diploma or GED. However, recruitment officers assured Martina that the school offered the academic services and supports to assist her in obtaining her GED. Unfortunately, the supports and services were not provided, and Martina did not earn her GED. She completed the program and received her certificate as a medical assistant. However, without her high school diploma or GED, she was never hired in the medical field.

Without a job and owing nearly \$10,000, Martina defaulted on her student loans. Her loan default has prevented her from enrolling in community college because she is prohibited from applying for federal financial aid.

With assistance from CWU's Student Legal Assistance program, Martina recently consolidated her student loans into more affordable payments and is no longer in default on her loan. She has also since completed her GED and would like to continue to pursue further education. Unfortunately, she cannot apply any of the credits she took at the vocational school toward a degree at a four-year college. ■



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