



# For-Profit Colleges: Do Your Homework

From the Office of Minnesota Attorney General Lori Swanson

Higher education has long been the way that many Americans have pursued greater economic opportunity and increased earning potential. Many students have turned to for-profit colleges—whose investors make money when students enroll in the schools—for certificates and degrees, some involving online coursework.

For-profit college advertisements are everywhere—on the Internet, television and radio, in newspapers, in your mailbox and over the phone. The advertisements—often aimed at students without much money or who are the first in their family to go to college or who don't have much experience with higher education—may tell about success stories of students who have graduated, how much money a student will make upon graduation, or the ease with which their online programs will fit the student's lifestyle. Because the investors of for-profit colleges make money when students enroll, their recruiters sometimes relentlessly pursue students who have expressed an interest in receiving more information. In the last few years, the tactics of some for-profit colleges have come under scrutiny. In some cases, such colleges have used deceptive sales practices to entice students to enroll in expensive programs that are available at a state college or university at a fraction of the cost. In other cases, students have paid thousands of dollars to enroll in such programs, only to obtain a worthless degree.

If you or your child are considering enrollment in a for-profit college, do your homework to be sure that you get the best value for your money and avoid problems:

## Industry Facts and Figures.

The for-profit college industry is profitable. Over 75 percent of students who attend for-profit colleges are enrolled at colleges owned by Wall Street investors, according to U.S. Senate data.

About 2,000 for-profit colleges nationwide enroll about 11 percent of all higher education students, but they receive nearly 25 percent of all federal financial aid—totaling about \$32.1 billion each year—and account for nearly 50 percent of all loan defaults. On average, the largest 15 for-profit colleges received about 86 percent of their funding from federal, taxpayer-backed student loans and aid programs. If students default on federal loans, taxpayers—not the for-profit colleges—pick up the tab. In other words, taxpayers subsidize the private equity funds and investors who own the for-profit colleges when students who attend them default on their federal student loans.

## Recent Government Reports.

The U.S. Government Accountability Office (GAO) has issued several reports about for-profit colleges. The United States Department of Education has also released data about for-profit colleges. The following are some of the findings from these reports:

### Deceptive Sales Practices.

A GAO investigation found that 15 of 15 for-profit colleges investigated made deceptive or questionable statements to undercover applicants as part of the enrollment process, such as providing false information about the college's accreditation, graduation rates, prospective employment or salary, duration and cost of the program, or financial aid. The GAO found that some schools employed "hard-sell sales and marketing techniques" to encourage students to enroll.

## Aggressive Recruiting Practices.

Many students use the Internet as a research tool. The GAO found that some websites that claim to match students with colleges are really “lead generators” that transfer the data from students who enter their contact information to for-profit colleges, whose recruiters then pursue the prospective student. The GAO found that within minutes of filling out forms online, some prospective students received a barrage of phone calls from colleges. One prospective student received a phone call about enrollment within five minutes of registering and another five phone calls within the first hour. Another received 182 phone calls in the first month of using the websites.

## Costs.

According to a GAO report, “most certificate or associate’s degree programs at the for-profit colleges we tested cost more than similar degrees at public or private nonprofit colleges.” Indeed, the GAO found that “tuition for certificates at for-profit colleges were often significantly more expensive than at a nearby public college.” The GAO reports that, at one for-profit college, an applicant would have paid \$13,945 for a certificate in computer-aided drafting, compared to \$520 at a nearby public college. The GAO report noted that an associate’s degree in respiratory therapy at another for-profit college cost \$38,995, compared to \$2,952 at the nearest public college.

## Graduation Rates.

The nationwide average graduation rate for first-time students in bachelor-level programs is 25 percent at for-profit colleges, compared to 55 percent at public colleges, according to a 2010 U.S. Department of Education report. Some for-profit colleges have been found to misstate their graduation rates.

## Loan Default Rates.

Federal law prohibits colleges from receiving more than 90 percent of their funding from federal student loans and aid for two consecutive fiscal years. Many for-profit colleges receive federal student loan and aid funding at or near this limit. If a student does not make payments

on their federal loans and the loans default, the federal government and taxpayers pick up the tab, meaning that the taxpayers essentially subsidize the private equity funds and investors who own the college. According to the GAO, four years after borrowers started to repay their federal loans, 23.3 percent at for-profit schools defaulted, compared to 9.5 percent at public schools.

People may access these GAO reports online:

1. “Undercover Testing Finds Colleges Encouraged Fraud and Engaged In Deceptive and Questionable Marketing Practices,” August 4, 2010;
2. “Stronger Department of Education Oversight Needed to Help Ensure Only Eligible Students Receive Federal Student Aid,” August, 2009;
3. “Stronger Federal Oversight Needed to Enforce Ban on Incentive Payments to School Recruiters,” October, 2010.

## Do Your Homework Before You Enroll.

Students and their families may wish to consider the following suggestions to avoid problems:

### Question the marketing pitches.

For-profit colleges are owned by investors who make money when the colleges enroll new students. Their recruiters may be very aggressive in calling students and pressuring them to enroll, sometimes by falsely touting graduation rates or exaggerating job placement rates or a student’s likely earnings upon graduation. Never rely on the word of mouth of the recruiter; rather, look behind the recruiter’s figures and promises and consider:

- **Graduation rates.** Federal law requires for-profit colleges to disclose their graduation rates to applicants upon request. Ask for this information in writing. If an institution refuses to comply, report it to the Minnesota Office of Higher Education and the U.S. Department of Education.

- **Job placement rates.** Some for-profit colleges may exaggerate a student’s employability after graduation. Ask for written proof of the college’s post-graduation rate in your field of study.
- **Future earning potential.** Some for-profit colleges may inflate a student’s future earnings upon graduation. You can independently check the projected earnings of a future career by accessing U.S. Department of Labor statistics online at [www.bls.gov/oco/oooh\\_index.htm](http://www.bls.gov/oco/oooh_index.htm).
- **Does the accreditation mean anything?** For-profit colleges can usually claim some type of “accreditation,” but some degree or certificate programs may cost thousands of dollars and not be the type of “accreditation” that meets the standards for the profession in which you plan to work. The Attorney General’s Office has heard from students who have spent thousands of dollars to obtain a certificate offered by a for-profit program, only to find that employers will not hire people based on this certificate. Find out whether employers in the area hire students with the type of degree offered by the for-profit college, perhaps by speaking with employers or local community or technical colleges or public universities in the area.

### Will the credits transfer?

Some credits earned at for-profit colleges will not transfer to other institutions. If you are thinking of taking a few courses at a for-profit college and then transferring to another school, be sure to ask both the for-profit college and the school to which you plan to transfer whether the credits will transfer.

### What are the withdrawal periods?

Some for-profit colleges have strict withdrawal deadlines, in which to receive a full refund for the courses you began to take. If you withdraw after the deadline, the college may be required to return a portion of your student loans to the lender, leaving you potentially personally liable to pay back the college for a portion of the classes you attended. Ask for a copy of the withdrawal policy in writing.

### Compare costs.

In some cases, you may be able to get the same or better degree elsewhere, such as at a community or technical college or state university, for a fraction of the cost. The recruiters at for-profit colleges may pressure you to enroll, but take time to comparison shop. Make sure the cost quoted by the for-profit college aligns with the length of time you plan to attend courses; for example, if you plan to attend school 12 months out of the year, make sure the college quotes you the cost for attending 12 months of classes. Also, stop by or call your local public college to find out what it charges for the same or similar program.

### Loans must be paid back.

As noted above, some for-profit colleges get almost all of their revenue from federal student loans and aid programs. Some recruiters may minimize the expense of attending a for-profit college by telling you that you can pay for college with federal student loans. You should review all of the expenses you will have when attending college, including your cost of living and room and board. You should review whether these loans and other funding sources will cover all your expenses and, if not, think through how you will make up the difference. You should verify the amount and type of financial aid you qualify for and make sure you are comfortable with the amount of loans you will be responsible to pay back. Remember, you must pay back a loan. If you default on a student loan, you can ruin your credit history and ultimately face collection efforts, including wage garnishment.

For more information or to file a complaint, contact these agencies:

**U.S. Department of Education**

400 Maryland Ave. SW  
Washington, D.C. 20202  
800-872-5327  
TTY: 800-437-0833  
[www.ed.gov](http://www.ed.gov)

**Minnesota Office of Higher Education**

1450 Energy Park Drive, Suite 350  
St. Paul, MN 55108  
651-642-0567 or 800-657-3866  
TTY: 800-627-3529  
[www.ohe.state.mn.us](http://www.ohe.state.mn.us)

**Office of Minnesota Attorney General**

**Lori Swanson**

445 Minnesota Street, Suite 1400  
St. Paul, MN 55101  
651-296-3353 or 800-657-3787  
TTY: 651-297-7206 or 800-366-4812  
[www.ag.state.mn.us](http://www.ag.state.mn.us)

