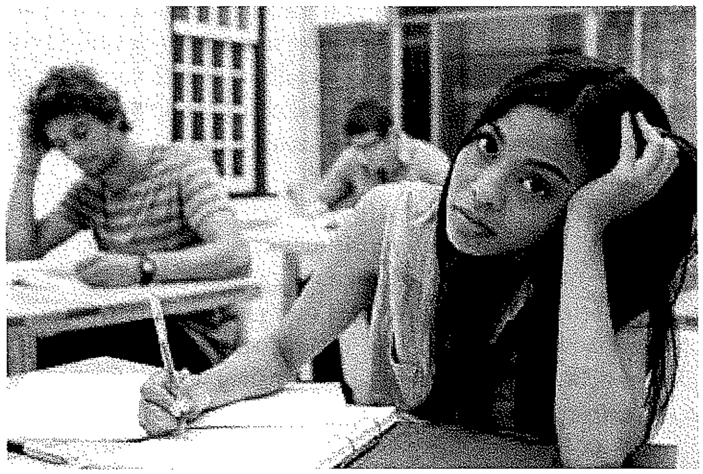

Do Students of Color Profit from For-Profit College?

Poor Outcomes and High Debt Hamper Attendees' Futures

EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

A post-secondary education is increasingly necessary to obtain a high-quality job and a lifetime of financial security and wealth-building opportunities. Many students finance their education through student loans because they see its value as an investment in their future.

The for-profit college sector claims to help meet the rising demand for post-secondary education, especially among non-traditional students who might not otherwise attend college. The sector has experienced high enrollment growth recently, especially at institutions that offer bachelor's degrees alongside the more traditional associate's degrees and certificates traditionally offered by this sector. Students of color, such as African Americans and Latinos, disproportionately enroll at these institutions compared with their white counterparts.

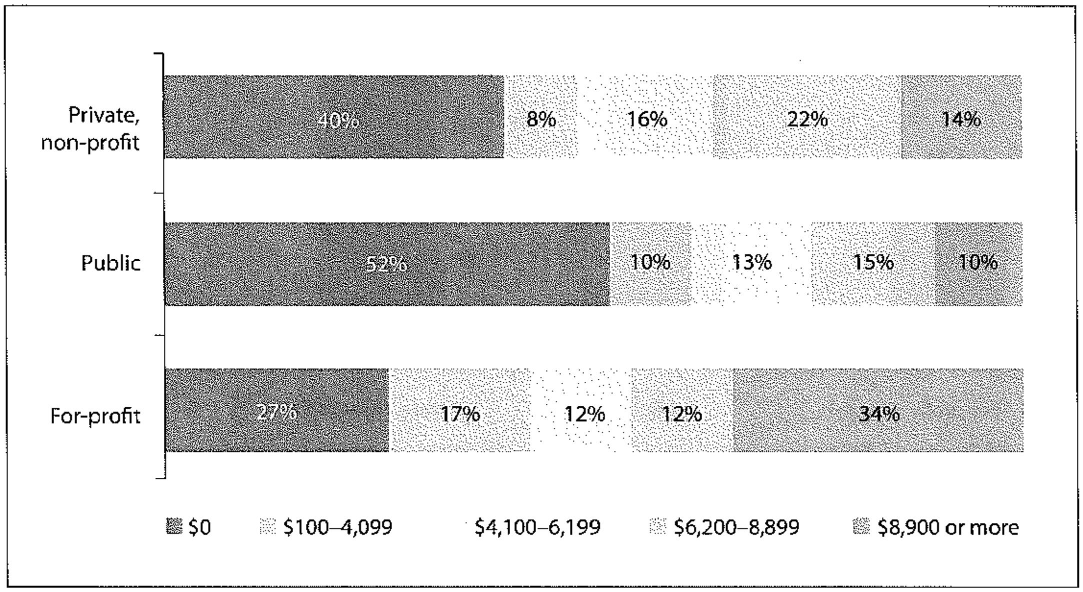
However, regulators and policymakers are increasingly concerned that the access for-profit colleges provide does not translate into greater job opportunities and earnings. Rather, the high debt burdens taken on by borrowers to attend these institutions may make them financially worse off than they would have been if they had never enrolled. In this paper, we examine the extent to which for-profit college students take on debt, and the degree to which they benefit from that investment, with a particular focus on students of color.

Specifically, we find:

1. For-profit colleges' high costs cause students to rely heavily on borrowing. Students tend to bear higher costs when they enroll in for-profit college programs compared with public and private, non-profit schools, particularly when looking beyond advertised cost to the actual "net price" students pay on average for tuition after grants and scholarships are taken into account. A student enrolling in a for-profit four-year degree program could pay over $40,000 more than a similar program would cost at a public institution.

Because of the higher cost, students are more likely to borrow and—when they borrow—take on significantly more debt than their peers at public or private, non-profit colleges.

Figure 1: Distribution of amount borrowed in federal student loans by all attendees for the 2011–2012 academic year, by sector, at four-year institutions

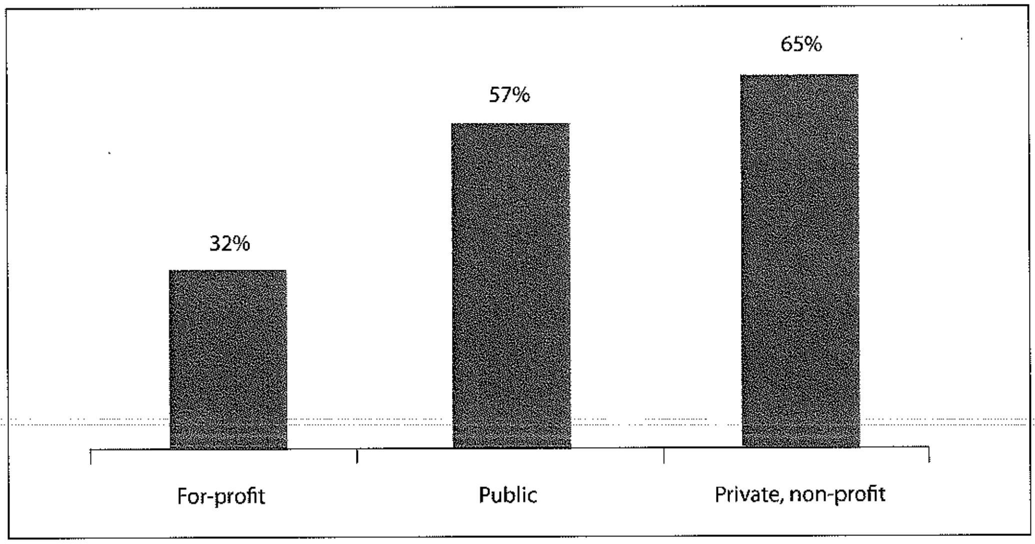


Source: CRL calculation of 2012 NPSAS data of total federal loans taken by students in 2011–2012 school year. This excludes any Parent PLUS loans.

2. For-profit college students are more likely to experience worse educational outcomes and a higher incidence of default. Lower completion rates, higher rates of default on student loans within a few years of repayment, and weaker employment prospects are some of the risks of attending for-profit colleges.

Students attending public and private, non-profit four-year colleges are about twice as likely to graduate within 150% of normal time as those attending for-profit colleges.

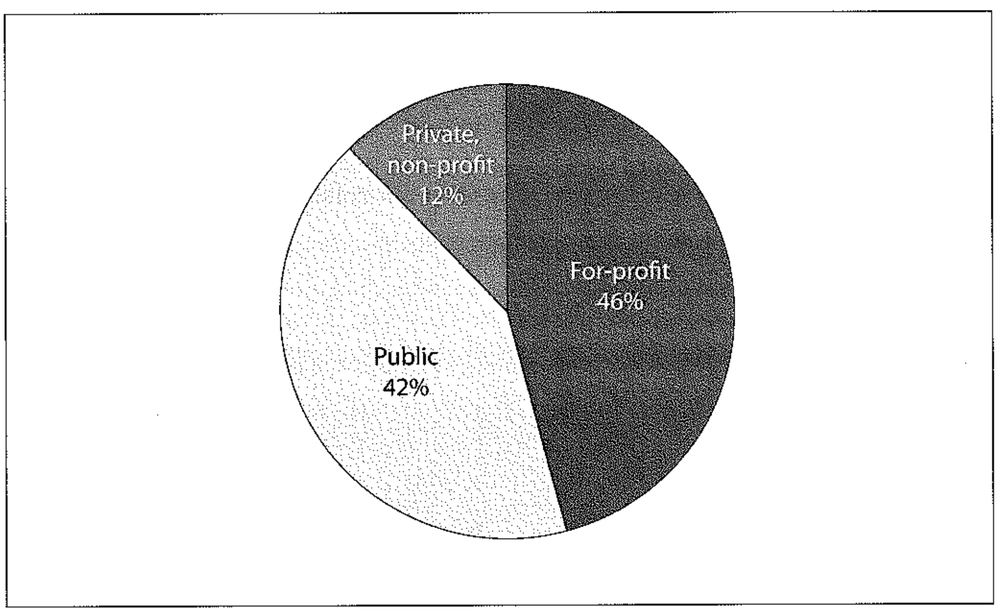
Figure 2: Graduation at 4-year institutions within 150% of normal time by sector, 2012



Source: CRL calculation of IPEDS graduation rate data

While for-profit colleges only enroll about 13% of all students, they generate nearly half of all student loan defaults.

Figure 3: Distribution of defaults by sector, borrowers entering repayment in FY 2010

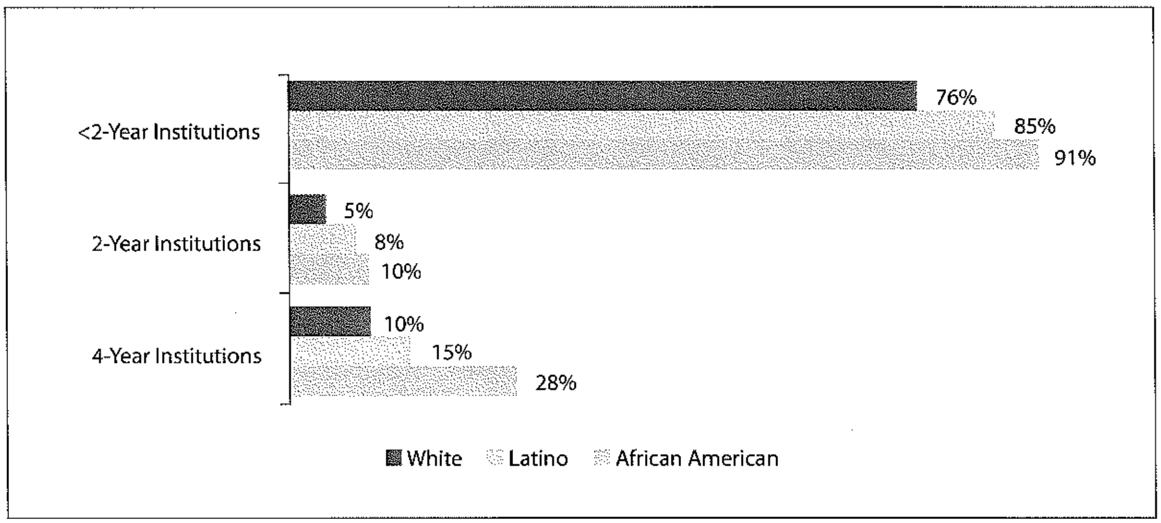


Source: Department of Education three-year FY 2010 cohort default rates

In addition to the low graduation and high default rates, researchers have found that attendees of for-profit colleges are more likely to be dissatisfied with their education and that any growth in wages is more than offset by the high cost of attendance.

3. Students of color are at particular risk of harm from for-profit colleges. While all races and ethnicities are more likely to attend either a public or private, non-profit school, African-American and Latino students make up a relatively large portion of students at for-profit colleges. For example, over one-quarter (28%) of African Americans enrolled in a four-year institution attend a for-profit college, compared with just 10% of whites. To a lesser degree, Latino students are also more likely to attend a for-profit institution than a public or private, non-profit school relative to whites. This disparity is present for two-year and less-than-two-year colleges as well.

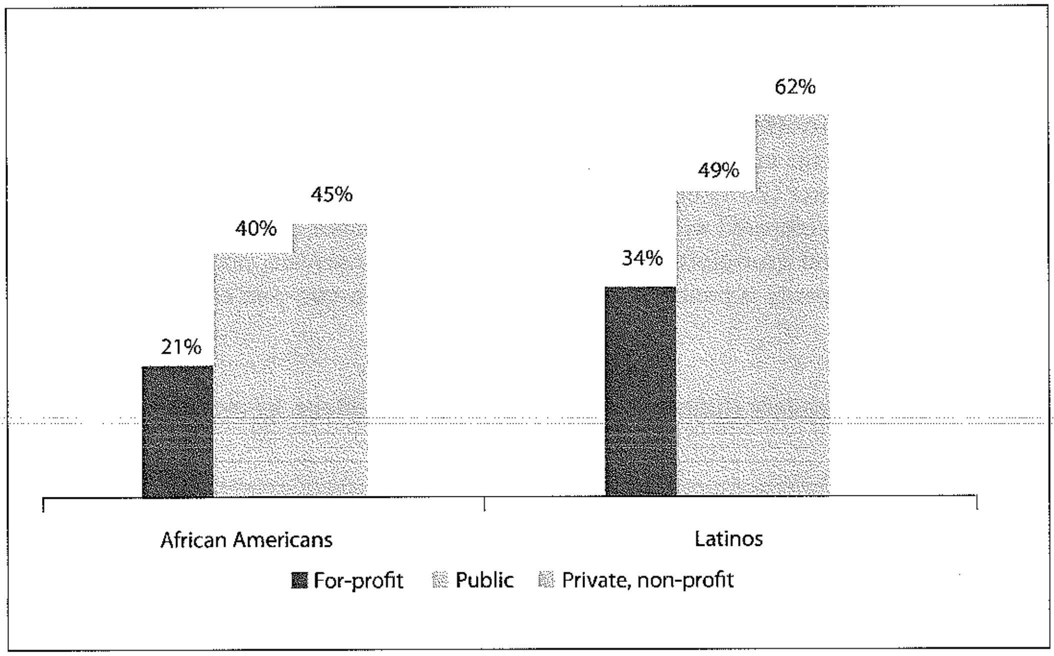
Figure 4: Share of all post-secondary students that attend a for-profit college, by race and ethnicity, 2011–2012 academic year



Source: CRL calculation of IPEDS total enrollment data, 2011–2012

African Americans and Latinos attending for-profit colleges take on higher levels of debt and are less likely to graduate than their counterparts at public and private, non-profit schools.

Figure 5: Graduation at 4-year institutions within 150% of normal time, by sector



Source: CRL calculation of IPEDS 2012 graduation rate data

Congress, states, and regulators must identify and end the practices leading to unacceptably high default rates and other poor outcomes found at for-profit colleges.

- The Department of Education should issue and enforce a strong "Gainful Employment" rule that sets minimum performance standards for career-focused programs, many of which are offered by for-profit institutions.
- The Department of Education should use its administrative and enforcement powers to address misrepresentation of educational quality and outcomes at for-profit colleges, including misleading job placement and salary claims.
- Enforcement agencies—including the CFPB, FTC, Department of Justice, Securities and Exchange Commission, state Attorneys General, and state higher education regulators—should continue to investigate and bring enforcement actions in court against for-profit colleges for their role in unfair, deceptive, or abusive acts and practices. The FTC and state Attorneys General should also take action against for-profit college lead generators that mislead prospective students researching schools online.
- Congress should enact reforms to protect students from exploitation, including:
  - enhancing the Department of Education's investigation and enforcement power over for-profit colleges;
  - limiting arbitration and non-disclosure agreements in higher education;
  - ensuring that the G.I. Bill and other military benefits are treated the same as Title IV federal financial aid so that no more than 90% of revenues at for-profit colleges are generated from any kind of federal funds to ease the aggressive targeting of military servicemembers and veterans;
  - placing limits on the use of federal financial aid funds for marketing purposes;
  - forgiving student loan debt for students exploited by for-profit colleges, especially in cases where regulators find evidence of unfair, deceptive, or abusive practices or when programs are closed or sold;
  - improving data collection so that student outcomes can be tracked in more detail; and
  - exploring new ways to provide safe, affordable programs to low-income students and students of color, such as assisting minority-serving institutions to expand access and reduce debt and defaults; exploring apprenticeship programs; improving the affordability and quality of public two- and four-year colleges; and identifying high-performing for-profit programs.

About the Center for Responsible Lending

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

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