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Greater State Scrutiny Needed for For-Profit Colleges

By Victoria Jackson

Due to the COVID-19 pandemic, undergraduate enrollment has fallen dramatically at traditional two- and four-year colleges (both public and private) but only slightly at for-profit institutions, continuing a shift in recent enrollment patterns that raises serious concerns.[1] For-profit colleges have been shown to be less effective at providing students with good employment opportunities after graduation and generally saddle them with greater levels of debt, particularly relative to their earnings. This is particularly true for students who have low incomes or are over age 24, Black, Latinx, parents, or veterans — groups that are more likely to attend for-profit institutions. State policymakers should strengthen regulation of the for-profit sector to better protect students and restrict the use of state financial aid at for-profit colleges. States also should improve support for public colleges, which face the largest recent enrollment declines and deep cuts in state funding.[2]

Enrollment Declines Much Smaller at For-Profit Colleges

Nationally, across institutional sectors undergraduate enrollment was down 4.4 percent for the fall 2020 semester compared to fall 2019. Enrollment fell by 9.5 percent at public two-year colleges, 1.9 percent at public four-year colleges, 2.1 percent at private nonprofit four-year colleges, and just 0.1 percent at four-year for-profit colleges.[3]

Enrollment among first-time, first-year undergraduates (meaning those who hadn't previously enrolled in higher education) declined sharply, by 13 percent. (See Figure 1.) Public two-year colleges had the greatest losses, which were concentrated among Native American, Black, and Latinx students; enrollment fell by over 25 percent for all three groups.[4]

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[1] National Center for Education Statistics, "Undergraduate Enrollment," updated May 2020, https://nces.ed.gov/programs/coe/indicator_cha.asp.

[2] For details, see Victoria Jackson and Matt Saenz, "States Can Choose Better Path for Higher Education Funding in COVID-19 Recession," CBPP, February 17, 2021, https://www.cbpp.org/research/state-budget-and-tax/states-can-choose-better-path-for-higher-education-funding-in-covid.

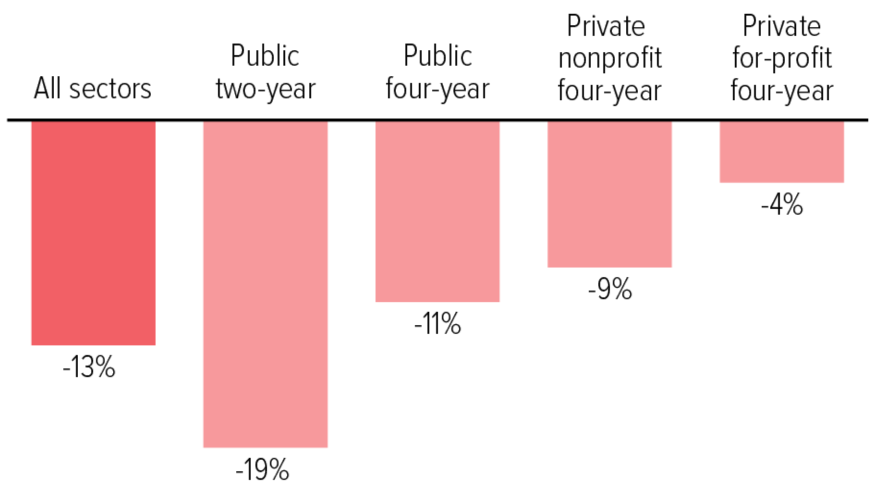
[3] National Student Clearinghouse Research Center, "COVID-19: Stay Informed," accessed February 4, 2021, https://nscresearchcenter.org/stay-informed/.

[4] *Ibid.*

FIGURE 1

Undergraduate Enrollment Has Declined Sharply

Enrollment change from fall 2019 to fall 2020 for first-time, first-year undergraduate students



Source: CBPP analysis based on National Student Clearinghouse Research Center's Monthly Update on Higher Education Enrollment, November 12, 2020

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Due to lax federal and state regulation, significant spending on advertising, and an existing model for delivering instruction online, for-profit colleges are better positioned to recruit students in an era of social distancing.[5] Prior to COVID-19, 72 percent of students at four-year for-profit institutions were attending completely online, compared to only 12 percent of students at public four-year institutions.[6]

These enrollment trends are concerning because of the negative outcomes for many students from attending for-profit institutions.

More Debt, Worse Job Outcomes for Students Attending For-Profit Colleges

For-profit institutions have lured a growing number of students in recent years by advertising widely and often using misleading claims about job placement rates, but they have a well-

[5] Alejandro Vazquez-Martinez and Michael Hansen, "For-Profit Colleges Drastically Outspend Competing Institutions on Advertising," Brookings Institution, May 19, 2020, https://www.brookings.edu/blog/brown-center-chalkboard/2020/05/19/for-profit-colleges-advertising/.

[6] National Center for Education Statistics, Table 311.15. Number and percentage of students enrolled in degree-granting postsecondary institutions, by distance education participation, location of student, level of enrollment, and control and level of institution: Fall 2017 and fall 2018 (prepared December 2019), https://nces.ed.gov/programs/digest/d19/tables/dt19_311.15.asp.

documented history of waste, fraud, and abuse.[7] Students attending them borrow more for college and have a harder time repaying their debt, and often the degrees or credentials they earn have little value in the job market or for pursing further education.[8] Students who attend for-profit colleges have worse employment and earning outcomes than students in other sectors.[9] Also, the high-profile closures of Corinthian Colleges, ITT Technical Institute, and Argosy University provide examples of for-profit colleges defrauding students, misusing public funds, and using misleading advertising.[10]

The Obama Administration responded to these poor outcomes and abuses by strengthening regulation of for-profit colleges.[11] But the Trump Administration rolled back the Obama-era regulations, reducing these institutions' accountability for predatory behavior.[12]

For-profit colleges target students who are eligible for federal and state financial aid and are looking for greater economic mobility. Students who are Black, over 24, women, veterans, low income, or single mothers are all overrepresented.[13] Despite only enrolling about 8 percent of all students, for-profit colleges receive 12 percent of all federal financial aid, nearly 33 percent of GI Bill funds, and 40 percent of other military aid to students.[14] Veterans' benefits are appealing to for-

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[7] Robert Shireman, "The For-Profit College Story: Scandal, Regulate, Forget, Repeat" Century Foundation, January 24, 2017, https://tcf.org/content/report/profit-college-story-scandal-regulate-forget-repeat/.

[8] Sandy Baum *et al.,* "Trends in Student Aid 2019," College Board, November 2019, https://research.collegeboard.org/pdf/trends-student-aid-2019-full-report.pdf.

[9] Stephanie Riegg Cellini and Cory Koedel, "The Case for Limiting Federal Student Aid to For-Profit Colleges," *Journal of Policy Analysis and Management,* Vol. 36, No. 4, 2017, https://doi.org/10.1002/pam.22008.

[10] Danielle Douglas-Gabriel, "Feds found widespread fraud at Corinthian Colleges. Why are students still paying the price?" *Washington Post*, September 29, 2016, https://www.washingtonpost.com/news/grade-point/wp/2016/09/29/feds-found-widespread-fraud-at-corinthian-colleges-why-are-students-still-paying-the-price/; Rowan Moore-Gerety, "What Former Employees Say ITT Tech Did To Scam Its Students," NPR.org, December 7, 2016, https://www.npr.org/sections/ed/2016/12/07/502601724/what-former-employees-say-itt-tech-did-to-scam-its-students; Danielle Douglas-Gabriel, "Argosy University closes its doors; students scramble to transfer," *Washington Post*, March 10, 2019, https://www.washingtonpost.com/education/2019/03/09/argosy-university-closes-its-doors-students-scramble-transfer/.

[11] U.S. Department of Education, "Fact Sheet: Obama Administration Increases Accountability for Low-Performing For-Profit Institutions," July 1, 2015, https://www.ed.gov/news/press-releases/fact-sheet-obama-administration-increases-accountability-low-performing-profit-institutions.

[12] Erica L. Green, "DeVos Repeals Obama-Era Rule Cracking Down on For-Profit Colleges," *New York Times*, June 28, 2019, https://www.nytimes.com/2019/06/28/us/politics/betsy-devos-for-profit-colleges.html.

[13] Robin Howarth and Lisa Stifler, "The Failings of Online For-Profit Colleges: Findings from Student Borrower Focus Groups," Brooking Economic Studies Program, March 2019, https://www.brookings.edu/wp-content/uploads/2019/03/The-Failings-of-Online-For-profit-Colleges.pdf; Kimberly Hefling, "Vets to Congress: Cut off for-profit colleges' incentive to recruit student veterans," Politico, March 29, 2019, https://politi.co/2FIqqlQ; Julie Anderson, Lindsey Reichlin Cruse, and Barbara Gault, "Single Mothers Overrepresented at For-Profit Colleges," Institute for Women's Policy Research, September 6, 2017, https://iwpr.org/iwpr-general/single-mothers-overrepresented-at-for-profit-colleges/.

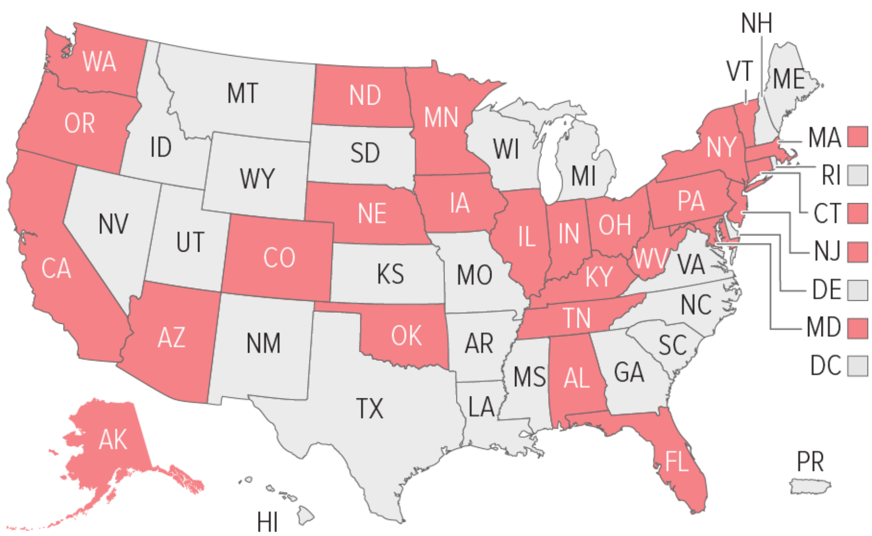
[14] Stephanie Hall, Ramond Curtis, and Carrie Wofford, "What States Can Do to Protect Students from Predatory For-Profit Colleges," Century Foundation, May 26, 2020, https://tcf.org/content/report/states-can-protect-students-predatory-profit-colleges/.

profit colleges because they don't count toward the federal "90/10 rule,"[15] which stipulates that no more than 90 percent of a for-profit college's revenue can come from federal financial aid.[16]

State policies have also enabled the for-profit sector, through both lax regulation and state financial aid policies. Twenty-six states allow the use of need-based aid at for-profit colleges. (See Figure 2.)[17]

FIGURE 2

26 States Allow Use of Need-Based Aid at For-Profit Colleges and Universities



Source: Data are for 2018. CBPP analysis based on National Association of State Student Grant and Aid Programs Annual Survey

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One example is the Ohio College Opportunity Grant, Ohio's only need-based aid for students.[18] In fact, students attending for-profit colleges in Ohio are eligible for a higher maximum grant than students attending community colleges, four-year public college satellite campuses, or Central State University (the state's only public Historically Black College and University) because for-profit

[15] The American Rescue Plan now being considered by the U.S. House of Representatives would provide $40 billion in relief funding for institutions of higher education and would address the 90/10 loophole related to veterans' educational benefits.

[16] Vivien Lee and Adam Looney, "Understanding the 90/10 Rule: How Reliant Are Public, Private, and For-Profit Institutions on Federal Aid?" Brookings Institution, January 2019, https://www.brookings.edu/wp-content/uploads/2019/01/ES_20190116_Looney-90-10.pdf.

[17] National Association of State Student Grant & Aid Programs, "NASSGAP Annual Survey," accessed February 16, 2021, https://www.nassgapsurvey.com/.

[18] Ohio Department of Education, "Ohio College Opportunity Grant (OCOG)," accessed February 16, 2021, https://www.ohiohighered.org/ocog.

colleges charge higher tuition.[19] Allowing the use of need-based aid at for-profit institutions signals to students that for-profit institutions provide a similar quality of education to other sectors despite significant evidence that they do not.

States Can Do More to Protect Students

Some states have taken steps to regulate the for-profit college sector. Maryland has enacted laws to protect veterans from exploitation by for-profit colleges, protect students financially if they are defrauded by failed colleges, and prevent for-profit colleges from converting to nonprofit status while still sending most of their revenue to their former owners.[20] Maine enacted a law requiring for-profit institutions to devote at least 50 percent of their total spending to instruction.[21] The Biden Administration will likely seek stronger regulation of for-profit institutions at the federal level, but states, too, should protect students from predatory for-profit institutions,[22] such as by:

- Prohibiting the use of state financial aid at for-profit colleges;
- Limiting the percentage of revenue that for-profit colleges can spend on advertising;
- Requiring for-profit colleges to devote at least 50 percent of their spending to instruction;
- Implementing a state-level 90/10 rule that requires for-profit colleges to show they do not receive more than 90 percent of their tuition revenue from federal funds including veterans' benefits;
- Providing higher education governing boards with more regulatory authority over for-profit colleges.

[19] Victoria Jackson, "Building better need-based aid in Ohio," Policy Matters Ohio, May 10, 2019, https://www.policymattersohio.org/research-policy/quality-ohio/education-training/higher-education/building-better-need-based-aid-in-ohio.

[20] Hall, Curtis, and Wofford, *op. cit.*

[21] *Ibid.*

[22] The Century Foundation has a comprehensive set of steps states can take to protect students from predatory for-profit colleges. For the detailed list of recommendations, see Hall, Curtis, and Wofford, *op. cit.*