For-Profit Postsecondary Sector Trends and Changes

Forum for the Future of Higher Education
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The Sector at a Glance: 2010-11

INSTITUTIONS
- Of 3,369 PS (private sector in lieu of “for-profit”) institutions with an IPEDS UNITID 654 awarded bachelor’s and/or higher degrees
- These 654 can be consolidated to 221 unique PS institutions, of which 64 are unduplicated, regionally accredited schools
- Therefore, 64 regionally accredited colleges and universities account for nearly 41% of all FTES in PS institutions with UNITIDs

STUDENTS
- Of the 1.43 million FTES at 2- and 4-year PS colleges and universities, 1.04 million (72.8%) attended bachelor’s or higher degree granting PS institutions
- Of these 1.04 million, approximately 70% attend regionally accredited institutions
- The 1.43 million FTES attending 2- and 4-year PS schools represent 10.9% of all such students in the U.S.

GROWTH
- Of 4.4 million new students enrolled in American IHEs between 2000 and 2009, 27% enrolled in a PS institutions. A decade before, only 7% of new students enrolled in that sector.
- Since 2000, 418% increase in bachelor’s granted*
- Between 2009 and 2011 FTES enrollment in 2- and 4-year PS schools increased by 2.7% (2.18 million to 2.24 million)

SUCCESS
- Completion rates at PS schools are:
  - Comparable to less-than-2-year awards at public institutions
  - Higher for 2-year degrees than at public or non-profit institutions
  - Lower for bachelor’s degrees than at public or non-profit institutions

The Sector In Transition: Causes

POLITICS

- FEDERAL ACTIVISM (REGULATION)
  - Financial aid and new funding
  - Affordability

- CONGRESSIONAL ACTIVISM (LEGISLATION)
  - Defense of consumers and taxpayers
  - Debt and default
  - Employability
  - Accountability

REGULATIONS

- From the 5/26/09 Federal Register Negotiated Regulations (NegReg) notice on program integrity issues
- To the 2/16/12 introduction of legislation by Sen. Tom Carper to modify the 90/10 financial aid formula to include in the 90% VA and TA benefits

MEDIA

- Extensive, often unflattering, media coverage of sector
Effect of Political & Regulatory Events on Pricing Trends: 2009-12

(5) 9/21/09: GAO report - Proprietary schools (Hinojosa)—Unqualified students risk defaulting
(6) 10/27/09: APOL announces SEC inquiry into revenue accounting practices
(11) 1/27/10: DOE holds ground on Gainful Employment - Session 3
(19) 4/21/10: Duncan article on G.E. / CCA impact analysis sent to Duncan
(22) 5/26/10: Ira Sohn Conference / Eisman—student debt analogous to subprime mortgages
(29) 8/4/10: Senate hearing: GAO/recruiting practices
(34) 10/13/10: APOL 4Q10 earnings report—enrollment decline, prior guidance withdrawn
(36) 1/7/11: STRA - 2011 business model update / winter enrollment
(40) 3/2/11: Senate hearing – Military Tuition Assistance program
(45) 6/1/11: GE Final rule released in p.m.
(48) 7/21/11: Senate HELP Roundtable - Improving For-profit
(59) 1/23/12: Durbin legislation: 85/15 incl. VA and TA

The Sector In Transition: Causes

COMPETITION

WITHIN THE PS

- Dot-com bubble (2001) to Great Recession (2008), 5 postsecondary education companies listed in U.S. stock exchanges, 4 more listed since then
- Until 2011 all experienced substantial growth

BEYOND THE PS SECTOR

- Mainstreaming of online education (favoring strong brands, high differentiation and lowest tuitions)
- Emergence of aggressive marketing among public and independent IHEs

EMERGENCE OF LOW-COST DISRUPTIVE PROVIDERS

- WGU (faculty-less, competency-based, all-you-can-study fixed tuition, non-profit)
- StraighterLine (“$99 a month plus a $39 per course registration fee” for as many general education courses as desired)
- New Charter University ($199 a month tuition for all the online courses one can finish)

EMERGENCE OF FREE OR LOW-COST ONLINE COURSES

- Massive Open Online Courses (MOOCs)—Coursera (Stanford, Princeton, Penn, Michigan), Udacity ($100 Master’s?)
- Free/cheap content providers—edX (MIT and Harvard), Khan Academy, iTunes University, etc.

GROWTH OF CERTIFICATES AND THE POPULARIZATION OF BADGES

- Growing popularity of non-degree programs (in 2008, 500K certificates completed, today “certificates make up 22% of all college awards, up from 6 percent in 1980” [IHE, 6/6/12])
- Growing employer acceptance of “badges” (i.e., indicators of accomplishment, skill, or quality), which may slow completion agenda, challenge monopoly of degree-granting institutions (Mozilla’s Open Badges Initiative)
Badges and Certificates Instead of Degrees?
The Sector In Transition: Causes

THE ECONOMY

THE GREAT RECESSION AND ITS WEAK “RECOVERY”
- Effect: high unemployment, selective employment, and limited job opportunities for graduates
- Soft job market encourages more to attend college (impacting capacity and tuitions)

DECLINE IN PUBLIC FUNDING OF PUBLIC INSTITUTIONS
- Shifting cost to students/parents: state funding, which continues to decline, fell by 4% in 2010—that is, a drop of 23% since 2000.

STUDENT DEBT
- Therefore, more borrowing needed to pay for college (reducing borrowing for other purposes like mortgages, cars, credit cards)
  - By March 2012, $904 billion owed in student loans, almost 8% more than in 2011 Vs. $679 billion owed on credit cards (Federal Reserve Bank of New York, Q1 2012 report on consumer credit)
- Consequently, more pressing debt: 9% of the total dollar amount of student loans is 90 days or more behind on a payment (WSJ 5/31/12)
- Meanwhile, the weak economic recovery and high unemployment rates are discouraging many from taking loans to enroll in colleges—contributing to the high dropout rates

BUT EMPLOYERS ARE CALLING FOR BETTER-EDUCATED GRADUATES
## The Sector In Transition: Red Ink Effects

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<td>24,745</td>
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<td>$933</td>
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<td>$2.14</td>
<td>$3.02</td>
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<td>-6.0%</td>
<td>$426</td>
<td>$430</td>
<td>$420</td>
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<td>n/a</td>
<td>n/a</td>
<td>$2,124</td>
<td>$1,885</td>
<td>$1,597</td>
<td>$3.01</td>
<td>$2.16</td>
<td>$0.48</td>
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<td>Corinthian Colleges</td>
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<td>$1,944</td>
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<td>$2,757</td>
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<td>Grand Canyon Education</td>
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<td>n/a</td>
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<td>$427</td>
<td>$483</td>
<td>$0.89</td>
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<td>n/a</td>
<td>$1,597</td>
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<td>$639</td>
<td>$513</td>
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<td>National American University Holdings</td>
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<td>n/a</td>
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<td>25.8%</td>
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<td>$112</td>
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<td>30,389</td>
<td>-5.8%</td>
<td>$637</td>
<td>$627</td>
<td>$572</td>
<td>$9.70</td>
<td>$8.88</td>
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<td>Universal Technical Institute</td>
<td>16,300</td>
<td>-1,858</td>
<td>3,400</td>
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<td>n/a</td>
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<td>$443</td>
<td>$418</td>
<td>$1.21</td>
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<td><strong>TOTAL</strong></td>
<td><strong>1,258,495</strong></td>
<td><strong>-69,214</strong></td>
<td><strong>3,400</strong></td>
<td><strong>-5.6%</strong></td>
<td><strong>n/a</strong></td>
<td><strong>n/a</strong></td>
<td>$19,042B</td>
<td>$18,456B</td>
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<td><strong>$2.13</strong></td>
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<td><strong>$520</strong></td>
</tr>
</tbody>
</table>

The Sector In Transition: Effects on Operations

RESPONSES TO REGULATORY CHANGES

- Tightening of admission standards (with accompanying loss of access for thousands and enrollment declines affecting revenue growth and earnings)
- Elimination of incentive compensation (transformation of the recruitment and advisement process)
- Unprecedented focus on retention, progression, and completion (e.g., Kaplan Commitment and UOPX UNIV 101)
- Increased transparency on pricing, financial aid, and student performance (2011’s net tuition price calculator; Financial Consumer Protection Bureau's, "Know Before You Owe," loan disclosure/FA shopping sheet project)
- Effect of “Gainful Employment”: Introduction of emphasis on programs with better potential employment outcomes for students
- 90/10 Rule: Diversification of revenue streams to initiatives that do not rely on federal financial aid or focus on international markets and/or services businesses (DeVry Brasil’s Faculdades Nordeste—Fanor)
- Low completion rates: acquisition of content and/or technology to improve results and favorably differentiate institutions

RESPONSES TO ECONOMIC CHANGES

- Competition and increasing price sensitivity: limiting tuition increases, promoting accelerated offerings, and introducing low-cost options (Grand Canyon reduced online courses)
- Development of closer relations with local and national corporations (UOPX Workforce Solutions initiative)
- Development of explicit career pathways and employment readiness programs
- Significant layoffs due to declining enrollments (faculty and staff)
- Belt tightening measures (closing of underperforming campuses and programs; reductions in general and administrative overhead)
EXAMPLES OF NET RESULTS

- **Innovation in Technology**: New digitally augmented learning platforms, increased use of data analytics to improve performance (adaptive learning/assessment, big data data mining, social networking, curriculum content matched to learning style)

- **Outsourcing of student learning performance**: McGraw-Hill/WGU and Pearson Education (paid on basis of student performance)

- **Emulation of Community Colleges**: Renewed focus on workforce training over professional career preparation (distancing from the liberal arts)

- **Reverse transfer initiatives**: granting of associate degrees by four-year institutions, sometimes for previously earned credits; transfer students finish associate degree at a four-year college or receive skipped degree at 2-yr college where credits were earned; return to 2-year after 4-year degree in another field

- **Common metrics initiatives to improve transparency and self-improvement**: B&M Gates Foundation, Complete College America, Nexus

- **Maturing of the PS as a fundamental and integral part of the higher education community**