Wendy Macias
U.S. Department of Education
1990 K Street, NW, Room 8017
Washington, DC 20006

Docket #: ED-2012-OPE-0008

Re: Written Testimony of Rory O'Sullivan Regarding Upcoming Department of Education Negotiated Rulemaking Process

Dear Ms. Macias:

Young Invincibles is a leading youth advocacy organization whose mission is to expand economic opportunity for young adults across the country. We are submitting testimony on two major issues affecting our generation: regulation of predatory behavior by many for-profit colleges and universities, and the Department of Education's Parent Plus loan underwriting standards. We support additional oversight of for-profit colleges because too many of these schools charge more than public and non-profit universities and saddle students with debt while delivering degrees that often have little value.[1] We are also pleased to see credit standards for Parent PLUS loans on the agenda, and are hopeful that students and consumers have strong representation during the negotiation of all of these issues. Specifically, we urge the Department to:

1. Adopt a strong Gainful Employment rule to provide protection to students who end up at expensive schools offering subpar educations;
2. Take action to curb manipulation of the 90/10 rule and cohort default rates.
3. Strike a balance between credit standards and preserving access to education for all communities when reevaluating the Parent PLUS loan underwriting standards; and
4. Reserve an adequate number of slots for student representatives to ensure student and consumer voices are heard in the negotiated rulemaking process.

Taking these actions will help students and their families access quality education and expand economic opportunity for a generation of students for whom a meaningful degree is often the only path to financial security.

1. Adopt a strong Gainful Employment rule to provide protection to students who end up at expensive schools offering subpar educations.

[1] Patrick A. Denice, *Does It Pay to Attend a For-Profit College? Horizontal Stratification in Higher Education* 32, 2012, https://digital.lib.washington.edu/researchworks/bitstream/handle/1773/22519/Denice_washington_0250O_11155.pdf?sequence=1 (accessed May 28, 2013).

We urge the Department to adopt a Gainful Employment standard that eliminates federal student aid eligibility for poorly performing for-profit institutions. From 2001 to 2010, the number of students attending for-profit colleges in this country tripled, from 766,000 to 2.4 million.[2] By contrast, in the same timeframe, the number of students at all higher education institutions increased by only 31 percent.[3] For-profit colleges on average cost far more than local community colleges for an associate's degree.[4] To afford tuition, around 96 percent of students who attend for-profit colleges take out student loans, while just over half of students at non-profits do so.[5] Students are often lured into making costly educational choices by an army of over 35,000 recruiters in the for-profit education industry - [6] approximately one recruiter for every 49 students.[7]

Young Invincibles occasionally surveys our online membership, including questions about their experiences with financial aid and paying back loan debt. Our most recent survey garnered approximately 9,500 respondents. Of these, about 12 percent had attended or currently attend a for-profit institution, and many experienced financial pain after attending. For example, one woman told us that she accumulated over $150,000 in debt at a for-profit school in Denver, Colorado that defrauded its students. They advertised and promised that they had a practicum and internships in place but this turned out to be a lie, so she had to switch to another university. She is concerned about her financial future and the potential financial devastation caused by the actions of the for-profit university.

She also noted that she had been denied a mortgage due to her crushing student loan debt - illustrating how the ongoing financial burden can have a broad economic impact. In addition to putting off large purchases until their loans are under control, borrowers may be unable to receive further credit.[8] Students leaving school with bad credit and a large debtload face personal struggle. Increasing numbers of individuals in this situation can slow down economic growth in sectors such as the housing or auto markets as well.

<u>Moreover, many for-profit institutions are not only wasting the money, time, and resources of their students – they are wasting taxpayer dollars</u>. For-profits have just over 10 percent of total nationwide student enrollment, but take 25 percent of Pell Grants and Stafford Loan dollars and account for 50 percent of the nation's federal student loan defaults.[9] They also take 38 percent of GI Bill dollars, costing taxpayers twice as much to educate each veteran as

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[2] Suevon Lee, *The Telling Numbers That For-Profit Colleges Can't Defend*, <u>The Atlantic Wire</u> (August 9, 2012), http://news.yahoo.com/telling-numbers-profit-colleges-cant-defend-164223522--finance.html
[3] *Id.*
[4] U.S. Senate Health, Education, Labor and Pensions Committee, *For Profit Education: The Failure to Safeguard the Federal Investment and Ensure Student Success* 36 (July 30, 2012), http://www.help.senate.gov/imo/media/for_profit_report/PartI.pdf.
[5] *The Telling Numbers That For-Profit Colleges Can't Defend.*
[6] *Id*.
[7] *Id*.
[8] Joe Valenti, Sarah Edelman, & Tobin Van Ostern, *Student-Loan Debt Has a Rippling Negative Effect on the Broader Economy*, <u>Center for American Progress</u> (April 10, 2013), http://www.americanprogress.org/issues/higher-education/news/2013/04/10/60173/student-loan-debt-has-a-rippling-negative-effect-on-the-broader-economy/.
[9] Anne Johnson, Tobin Van Ostern, & Abraham White, *The Student Debt Crisis*. <u>Center for American Progress</u> 15 (October 25, 2012), http://www.americanprogress.org/wp-content/uploads/2012/10/WhiteStudentDebt-3.pdf.

public universities and community colleges.[10] Due to this high cost, students who earn bachelor's degrees at for-profits graduate with far higher debt levels than students at public universities and non-profit private colleges.[11] More than one in five students who attend a for-profit default on their loans within three years of entering their repayment period, [12] compared to just over 10 percent of students at public colleges and only 7.5 percent of students at non-profit private colleges.[13]

The problem is not with the for-profit system itself, but that the current incentives promote enrollment rather than student success. In theory, for-profit institutions could meet the changing needs of today's non-traditional student, offering online courses, nearby campuses, and a high degree of scheduling flexibility. However, current industry incentives value recruitment of students that qualify for federal aid over actually educating students. A real Gainful Employment standard would weed out the worst offenders by making sure that these institutions no longer qualify for federal student aid.

We need to track the rates at which students are repaying their loans, as well as the level of debt students incur in relation to the income they receive after leaving the school. Schools that do not perform do not deserve taxpayer dollars and should not be allowed to subject students to the financial harm described above. While a federal judge recently overturned the minimal Gainful Employment standards instituted by the Department, in doing so he confirmed the Department's authority to develop such standards. The ruling stated: "Concerned about inadequate programs and unscrupulous institutions, the Department has gone looking for rats in ratholes — as the statute empowers it to do" and also "the Department has set out to address a serious policy problem, regulating pursuant to a reasonable interpretation of its statutory authority."[14] The court's legal objections to the regulation can be easily remedied. Therefore, we urge the Department to include strong new Gainful Employment standards as a part of the upcoming negotiated rulemaking.

2. Take action to curb manipulation of the 90/10 rule and cohort default rates.

Current regulations have sometimes failed to curb abuses of the 90/10 rule and cohort default rates by for-profit institutions, and the Department should also consider fixes to end these abuses. The so-called "90-10 Rule" limits a school from getting more than 90 percent of its funding from Title IV federal aid.[15] However, an investigation by the Senate Health, Education, Labor, and Pensions (HELP) Committee discovered that some for-profit schools were delaying giving their students needed aid solely to ensure they would fall below the 90-10 threshold.[16]

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[10] U.S. Senate Health, Education, Labor, and Pensions Committee, *Senator Harkin's Findings Regarding Veterans and For-Profit Colleges* 4, http://www.harkin.senate.gov/documents/pdf/4f9ac62292704.pdf.
[11] *The Telling Numbers That For-Profit Colleges Can't Defend.*
[12] *For Profit Education: The Failure to Safeguard the Federal Investment and Ensure Student Success* at 8.
[13] *First Official Three-Year Student Loan Default Rates Published,* U.S. Department of Education (September 28, 2012), http://www.ed.gov/news/press-releases/first-official-three-year-student-loan-default-rates-published
[14] *Ass'n of Private Sector Colleges and Univ. v. Arne Duncan*, Civil Action No. 11-1314 (RC), (D.D.C. June 30, 2012), http://big.assets.huffingtonpost.com/judgeordergainful.pdf.
[15] *For Profit Education: The Failure to Safeguard the Federal Investment and Ensure Student Success* at 137.
[16] *Id.* at 139.

Some schools unilaterally increased tuition to create a larger gap between the level of federal funding and the actual cost of attendance.[17]

Reports have also shown manipulations of Cohort Default Rates. For example, some institutions placed their students in forbearance or deferment whether it was in the best interests of the students or not, while others combined campuses solely for reporting purposes.[18] The Department's own investigation even discovered that students were being offered McDonald's gift cards if they put their loans into deferment.[19] Modifying regulations to address these manipulations would bring greater protections students.

3. Strike a balance between credit standards required and preserving access to education for all communities when reevaluating the Parent PLUS loan underwriting standards.

We are also pleased to see Parent PLUS loans on the agenda for the upcoming rulemaking. Hundreds of students are dropping out of Historically Black Colleges and Universities (HBCUs) after the recent tightening of underwriting standards on these loans, and we appreciate the opportunity to negotiate publicly on these standards. The new standards disqualify borrowers with unpaid debts over the past five years that have been referred to collection agencies or ruled as uncollectable.[20]

The effect of the new standard has been keenly felt by the nation's HBCUs, as these institutions are proportionally more likely to receive PLUS loans. At South Carolina State University, more than half of the students come from families with an annual income of less than $30,000 per year.[21] After the new rule went into effect, enrollment at the school dropped by 750 students in a year.[22] At the same time, Winston-Salem State University saw its enrollment drop by over 15% in a year.[23] We urge the department to find a balance between credit standards required and expanding educational opportunities during the rulemaking session.

4. Reserve an adequate number of slots for student representatives to ensure student and consumer voices are heard in the negotiated rulemaking process.

Including the perspectives of both students and consumers in these negotiations is also key. Negotiations often include representatives from different types of schools, different voices within schools, and many other groups. The student and debtor population is similarly diverse, and we request that you reserve adequate slots for negotiators representing students of all types of backgrounds. Students are the ones with their futures on the line in this rulemaking process,

[17] *Id*. at 141.
[18] *Id.* at 152.
[19] *Id*. at 157.
[20] Renee Schoof, *Loan Program Change Leads to Drops in Enrollment at Historically Black Colleges*, The Washington Post (May 25, 2013), http://www.washingtonpost.com/national/loan-program-change-leads-to-drops-in-enrollment-at-historically-black-colleges/2013/05/23/fd4b8afa-b669-11e2-92f3-f291801936b8_story.html.
[21] *Id*.
[22] *Id*.
[23] *Id*.

and debtors are the ones experiencing the consequences of a subpar educational experience; they deserve a substantial number of seats at the table.

Young Invincibles looks forward to working with the Department to adopt a strong Gainful Employment rule in order to prevent federal funds from going to the worst offenders among for-profit colleges, and to avoid manipulations to existing standards like the 90/10 rule and cohort default rates. We also are pleased to see underwriting rules for Parent PLUS loans on the agenda for the upcoming Rulemaking session, and urge you to allow students a representative voice during these negotiations. If you have any questions please do not hesitate to contact me at rory.osullivan@younginvincibles.org.

Sincerely,

Rory O'Sullivan
Policy and Research Director
Young Invincibles