STUDENTS BEFORE PROFITS
REGULATING FOR-PROFIT POST-SECONDARY SCHOOLS AND PROGRAMS IN NEW JERSEY

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NEW JERSEY CITIZEN ACTION
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EXECUTIVE SUMMARY

New Jersey continues to rank among the states with the highest numbers of people enrolling in post-secondary education. In 2017, New Jersey ranked seventh among all states for postsecondary attainment. Since the 1970s, an increasing number of high school graduates and adults are choosing to embrace the American ethos that an education and technical training are the keys to advancing one’s economic standing and to building middle class wealth for themselves and their families. New Jerseyans know that the ability to earn good living salaries and wages requires a post-secondary education.

On the surface this trend should be good news for New Jersey. However, this statistic does not tell the whole story. There are other numbers that paint a much bleaker picture of the education landscape in the United States and in New Jersey. It turns out that there is a devastating crisis which has many of these aspirational and hardworking students trapped in exorbitant and insurmountable debt. There are 44 million Americans who owe $1.5 trillion in student loan debt. There are 1.1 million New Jersey residents who collectively owe $43.2 billion in student loans, or an average of $38,798 per student loan borrower. At the root of the student debt crisis is the rising cost of tuition. A decline in states’ investment in public higher education, combined with the fallout from the Great Recession that began in 2008, has exacerbated the rising costs of higher education tuition. The result has been that students and their families borrow more to cover the cost of their education and then struggle to repay that debt.

Since the end of the 20th century, for-profit post-secondary schools and colleges have grown and expanded their role across the higher education landscape. These schools, driven by their profit motive, have high price tags for their tuition and fees. Their marketing and recruitment practices are aggressive, and they target vulnerable populations, promising results that too often do not pan out. The cost of these schools is rarely commensurate with the job placement and salary outcomes for their students. Many of these schools steer their students into high cost loans and financing to pay their tuition, fees and costs. For-profit program credits are often not transferable, and degrees or certificates are often not accepted by potential employers. For-profit schools also have a disproportionate number of students who drop out of college with indebtedness. According to the Hechinger Report, twenty-three percent of all the indebted dropouts in 2015 and 2016 attended for-profit schools, even though their students made up only 10 percent of all undergraduate students. Students who attend for-profit colleges are also more likely to default on their loans. Moreover, in 2017, the Department of Education found that for-profit post-secondary career and postsecondary programs did not provide students with a reasonable return for their investment in relation to employment and salary outcomes, or a reasonable expectation for “gainful employment.”

This policy brief will outline some of the key impacts that for-profit schools have on the student debt crisis and on the debt of women, minorities and low- moderate income students in New Jersey.
It will make policy recommendations for how to implement oversight of the for-profit post-secondary and career training school industry in order to stop unfair, deceptive and abusive practices that leave too many New Jersey students without the education credentials they were promised and with extraordinary debt.

**WHAT ARE FOR-PROFIT POST-SECONDARY SCHOOLS?**

For-profit post-secondary schools, just like all corporations, are in businesses to make a profit for their shareholders. For-profit universities and schools provide associate’s, bachelor’s, and master’s degrees. Some are brick and mortar campuses, some are all online, and some have both online classes and physical locations. Many for profit schools are career, vocational or trade schools that provide education and training in technical fields, such as nursing, auto mechanics, dental assistance, IT, or air conditioning repair; and usually have physical campuses or locations. They are not directly publicly supported by state or local taxes. However, most of their revenue is earned through student grants and loans provided by the federal and state governments.

For-profit post-secondary programs in New Jersey include 4 year degrees and 2 year associate programs, and non-degree certificate career and technical training programs. For-profit post-secondary schools and programs often have alternative formats and structures for learning, which, unlike traditional higher education institutions, offer flexible schedules, flexible course completion time frames and remote learning options. Most for-profit schools do not require anything more than a high school diploma or a GED to enter their programs.x

Although only four of the for-profit colleges offering degrees in New Jersey are currently eligible for state Tuition Assistant Grants, (TAG), almost all of the other for-profit post-secondary schools in New Jersey, degree and non-degree, have students who receive PELL grants and federal student loans. xi Generally, for-profit post-secondary programs depend on the fact that students can pay the high cost of their tuition through a variety of sources including tax dollar supported financing and grants, private loans and veterans’ benefits.xii

**WHAT IS THE PROBLEM WITH FOR-PROFIT POST-SECONDARY SCHOOLS?**

According to the National Bureau of Economic Research, “students at for-profit institutions take on more educational debt, have worse labor market outcomes, and are more likely to default than students attending similarly-selective public schools.” xiii We know that for-profit post-secondary schools:

- Use aggressive recruitment tactics and spend more on marketing and advertisement than on their education programs xv
- Generally, cost much more than public institutions xvi
- Provide credits are not transferrable to other schools, public or private schools xvii
- Earn less than students who attend public colleges xviii
- Take on more debt than students who attend public colleges xix
• Students disproportionately default on their public and private loans
• Schools shut down abruptly leaving students without promised credentials and in debt

**Increasing default rates**

This chart shows the percent (%) of students who defaulted on their federal student loans within three years of leaving school, broken down by school type.

- **Private Non-profit**
  - 2014: 5.8
  - 2015: 5.77
  - 2016: 6.43

- **For-profit**
  - 2014: 12.91
  - 2015: 13.13
  - 2016: 14.53

- **Public**
  - 2014: 7.73
  - 2015: 7.48
  - 2016: 7.74

*The above chart was published by Advanced Media in November of 2019 and indicates the percentage of students who left New Jersey higher education schools in 2014, 2015 and 2016 defaulted on their loans within three years of leaving school. [Source](https://www.nj.com/data/2019/11/more-nj-students-are-defaulting-on-college-loans-see-how-your-school-stacks-up.html)*

In New Jersey, for-profit institutions have particularly high default rates. In 2019, the U.S. Department of Education found that students leaving for-profit post-secondary schools in 2014, 2015 and 2016 were more than twice as likely to default on their student loans as their counterparts in public or non-profit schools.

Too many students in New Jersey enroll in for-profit post-secondary education degree, certificate, and career training programs that are marketed as pathways to gainful employment in recognized occupations, only to find out that the full cost of tuition and fees for the program do not commensurate with the prevailing salary ranges associated with those occupations, their degrees and credentials are not transferrable or accepted by employers; and their debt to earning ratio is too high. Although some for-profit post-secondary schools provide some marketable training and education, New Jersey students enrolled in certificate programs too often earn less than the average earnings of high school students.
WHO IS MOST IMPACTED BY FOR-PROFIT POST-SECONDARY SCHOOLS AND THEIR POOR OUTCOMES?

In New Jersey, undergraduate students enrolled at for-profit colleges are most likely to be students that are low-income (64%), African American (30%), and women (65%). College and career training programs are particularly important to women and minorities who wish to obtain the skills the workforce demands and which they need to overcome the persistent gender, race, and ethnicity wage gaps. But many of these students decide to pursue post-secondary education long after graduating from high school or after obtaining a GED, when they no longer have access to academic advisement. Many are first-generation college or career training students and may not have family support in navigating complex admission processes. Too often these students are not aware of the opportunities available to them to attend more affordable public institutions and are vulnerable to the high-pressure marketing and recruitment tactics of the for-profit post-secondary school industry.

"The for-profit sector disproportionately serves older students, women, African-Americans, Hispanics, and those with low incomes."

- Tressie McMillan Cottom
Author of Lower Ed: The Troubling Rise of For-Profit Colleges in the New Economy

Older Americans are among the fastest growing demographic for student loan debt. Some of that debt comes from co-signing loans for children and grandchildren. But many older Americans decide to go back to school to pursue higher education and training they need to be more competitive in the current job market. For-profit colleges and post-secondary training and career training schools enroll a lot of older Americans, and debt and earnings data show that for-profit students generally take on more debt and earn less than other students.

Veterans have become another vulnerable target population for the for-profit post-secondary career and technical education industry. The GI Bill guarantees educational benefits for veterans. The Department of Defense also provides some educational benefits for active duty service members. Although for profit schools are limited to receiving 90% of their revenues from federal student aid and assistance, military tuition assistance is exempted. This means that many for-profit post-secondary schools work hard to enroll veterans and active duty military personnel to complete the last 10% of their revenue stream with military education benefits.
New Jersey Student Tells Her Story:

Jessica transferred to a for-profit school in 2010 from a community college, eager to earn a bachelor’s degree in multimedia design and development and to land a good paying job in that field. She pushed through every obstacle in her way, working as a receptionist to support herself while in school. Jessica took out federal and state loans to cover tuition of $10,000 per year for what she had been told would be a two-year program. Jessica believes she was steered by school administrators into classes that were not required for her course of study, which ended up making it take three years to complete her degree.

Jessica felt that the teaching was low-quality and that she could have learned most of the skills on YouTube. Nevertheless, Jessica believed that with her degree and with the school’s career services help, she would find the well-paying job promised her when she enrolled. To her disappointment, upon graduation the school encouraged Jessica to take a job that paid only nine dollars an hour, half of what she had been promised, and less even than what she was making as a receptionist. Jessica decided to stick with her job as a receptionist. She currently struggles to pay her student debt, which totals over $40,000 including interest and fees. This total is double what she expected her program to cost. She pays over $1,000 a month in student loans. Jessica regrets having wasted so much time and money on a degree that hasn’t benefited her in any way. She hopes that by sharing her experience it can serve as a warning to other students.
FOR-PROFIT COLLEGES: LESS FAVORABLE OUTCOMES, DEEPER DEBT FOR STUDENTS

NEW JERSEY

NJ for-profit colleges disproportionately HARM:
LOW-INCOME FAMILIES • AFRICAN AMERICANS • WOMEN

Undergraduate enrollment at New Jersey for-profit colleges is:
- 63.2% low-income, compared to 36.8% low-income for all nonprofit undergraduate institutions in the state.
- 29.6% African American, compared to 13.5% African American for all nonprofit undergraduate institutions in the state.
- 66.2% female, compared to 53.4% female for all nonprofit undergraduate institutions in the state.

LESS LIKELY TO GRADUATE
Students at for-profit colleges are LESS LIKELY TO GRADUATE

MORE LIKELY TO BORROW
Students at for-profit colleges are MORE LIKELY to take out STUDENT LOANS

DEEPER IN DEBT
Graduates leave SCHOOL MORE INDEBTED

MORE LIKELY TO DEFAULT
Students at for-profit colleges are MORE LIKELY TO DEFAULT on their college debt, leading to economic instability

NEW JERSEY COMPLETION RATE (IN 6 YEARS)

NEW JERSEY PERCENT OF STUDENTS BORROWING

NEW JERSEY MEDIAN DEBT AT GRADUATION

NEW JERSEY THREE-YEAR COHORT DEFAULT RATE

ALL CALCULATIONS CONTAINED IN THIS FACT SHEET are CRLs using the September 2018 release of College Scorecard (U.S. Department of Education). Enrollment shares for low-income, African-American, and female students sum enrollment for all for-profit undergraduate schools in the state and compare them to the combined sum of enrollment at public and private nonprofit undergraduate schools for each of the three categories. Measures shown in each chart are unweighted averages for all institutions of a certain college type (Public 4-Year, Private 4-Year, For-Profit 4-Year), excluding undergrad institutions with fewer than 100 undergrads.

www.responsiblelending.org
INACTION AT THE FEDERAL LEVEL CALLS FOR STRONG ACTION AT THE STATE LEVEL

The current leadership in the United States Department of Education (DOE) and in the Consumer Financial Protection Bureau (CFPB) have rolled back federal protections for students who are victims of abuse by student loan servicers and for-profit higher education schools and colleges. Education Secretary Betsy DeVos has nearly eliminated an entire DOE team that should be investigating fraud and other illegal practices by for-profit colleges. She has also hired several insiders from the for-profit college industry and placed them in positions at the Dept. of Education. Secretary DeVos was recently cited for contempt of court for not implementing the “Borrower Defense Rule” of 1995, which forgives the federal student loans of borrowers who were defrauded by for-profit colleges. Under the Direction of Mick Mulvaney, the Consumer Financial Protection Bureau (CFPB) dismantled its Office of Students and Young Consumers. The office oversaw student loans, issued reports on federal student loan servicing, and filed enforcement actions and lawsuits against unscrupulous student loan servicers and debt collection companies. Before the office was shut down, the CFPB returned $750 million to student loan borrowers and other consumers who had been wronged. Under current direction the CFPB has slowed its investigations and enforcement actions to a halt.

The lack of oversight of student loan servicers and the for-profit higher education schools and colleges by the DOE and the CFPB amount to a complete abdication of responsibility on the part of the federal government to protect students from unfair and deceptive abusive practice in these industries. This absence of federal oversight and accountability have prompted many states to step in and implement oversight policies of their own. New Jersey has been in the forefront of enacting state level legislation and administrative policies to protect students from financial harm.

The New Jersey legislature and administration took action in 2018 and 2019 to protect students from unfair and abusive practices. New laws now require student loan servicers operating in New Jersey to be licensed by the Department of Banking and Insurance (DOBI). Legislation also created the office of a student loan ombudsman within DOBI to respond to problems reported by student loan borrowers. The legislature codified into law Higher Education Assistance Authority, (HESAA) reforms to repayment options for state NJ Class loan borrowers.

The New Jersey Office of Secretary of Higher Education, HESAA and the New Jersey legislature are also taking steps to make college more affordable by expanding the Community College Opportunity Grant to all community colleges which will make college free for thousands of students. Legislation was also passed that requires a “shopping sheet” for prospective college students that explains in clear terms, before they enroll in a post-secondary school, exactly what grants and loans they will receive and exactly how much the student will be obligated to pay. These policy changes are significant progress but there is much more for New Jersey to do to fight the student debt crisis.

New Jersey Attorney General Gurbir S. Grewal has taken an active role in holding for-profit schools accountable in the state. He joined forty-eight other attorneys general to take enforcement action against for-profit conglomerate Career Education Corporation for inappropriate marketing and recruitment practices, which ended in a settlement that provided over $19.6 million in relief...
The New Jersey Division of Consumer Affairs also issued a warning to the for-profit chain, Harris School of Business, to cease false advertising practices that claimed the school was eligible for state student assistance and aid.

What can be done at the state level to protect students from problems with for-profit post-secondary schools?

Governor Phil Murphy’s administration, the state legislature, and the Attorney General’s office have all taken strong actions to fight the student debt crisis and to provide oversight of industries that have practices that make the debt crisis worse. Moving forward they must use the full authority of their offices to do much more to protect students.

The New Jersey Office of the Secretary of Higher Education (OSHE), Department of Labor and Workforce Development (LWD), and the Division of Consumer Affairs (DCA) within the Department of Law and Public Safety in the office of the New Jersey Attorney General all oversee licensing for various types of institutions offering post-secondary degree, certification and career training programs. These state agencies are also delegated authority under the federal Higher Education Act of 1965, as amended (HEA) to approve institutions’ participation in federally funded HEA Title IV financial aid grants and loans. In certain cases, licensure and approval of postsecondary education programs by these state agencies is needed to permit students to receive federal and state workforce development funding available through the federal Workforce Innovation and Opportunity Act (WIOA) and other programs such as the state Workforce Development Partnership Program (WDPP). The institutional licensure and approval is also required for students to receive state-funded financial assistance administered by the NJ Higher Education Student Assistance Authority (HESAA) in the form of grants (e.g., TAG) and NJCLASS loans.

The New Jersey OSHE, HESAA, LWD, and DCA must use their licensing oversight powers and their authority under HEA to approve, or not, participation in federally-funded HEA Title IV financial aid grants and loans, and their authority to license and approve programs for federal WIOA and state WDPP funding, to ensure that for-profit schools are delivering the programs they advertise and ensure they are providing students with the skills, credentials and earning they are promised without leaving them in insurmountable debt. The above state agencies must set standards in the categories listed below when determining eligibility for state and federal financial tuition aid and assistance:

- **Fairness of Program Tuition and Total Costs**

  The total cost of the tuition and fees for programs must not exceed an amount that can be reasonably paid with average salaries in the program industry. A “reasonable and fair” standard for program cost should be set. This standard should be based on NJ Department of Labor and Workforce Development (LWD) data and any available federal data on prevailing salary ranges for the specific degrees and certifications obtained in programs that claim to lead to gainful employment in any recognized
occupations. The state must establish a “program cost to potential earnings ratio” and use the standard to determine whether it will approve eligibility for Title IV aid and assistance. The state must require annual reporting of this information, take action to expand its capability to obtain and analyze the information submitted and make it public.

- **Performance Outcomes and Legitimacy of Credentials**

  One main problem with for-profit schools and colleges is that far too many students do not complete the programs in which they enroll. The state must require transparency through annual reporting of information, including cost of attendance, the graduation rates and completion rates of students. The data must be made public and the state must revoke the licenses of any proprietary school that fails to meet the minimum graduation rate or the maximum student loan default rate standards established by the Secretary of Education or relevant departments and agencies. The legislature must move forward with proposed legislation to require this data from for-profit schools (A5140/S3614xxxvii). The state must also take action to expand its capability to obtain and analyze independent data on post-secondary school outcomes.

- **Debt Prevention Standards**

  Too many for-profit college and career and technical school students end up in jobs that do not pay enough in salary or wages for them to repay their loans. The state must require these for-profit colleges and career and technical programs to annually report job earnings data, and loan default rates for their students and tighten eligibility for state aid tuition assistance. The NJ legislature must move forward with proposed legislation to require this data reporting from for-profit schools (A5140/S3614xxxviii).

- **The 90/10 Loophole Rule**

  Too many veterans and active-service members are being targeted by for-profit schools for their educational benefits. The state must move to close the 90/10 loophole and consider strengthening the rule by instituting an 85/15 rule. No proprietary school should be encouraged to build their business models to depend on 100% of tuition paid for by taxpayer dollars.

- **For-Profit School Closings**

  Too many students are still left without degrees and with enormous debt after schools abruptly close. The NJ legislature must move forward with proposed legislation, (A5141/S3902xxxix) which would require for-profit schools to obtain performance bonds payable to the state. The bond money would be held in a state fund that would be used to reimburse students who are enrolled in a school, have paid tuition, but are unable to complete their course of study because the school closed.
There are a host of new problems with for-profit schools that are cause for concern and require attention from New Jersey officials. There is a trend among for-profit schools in creating non-profit entities to funnel public money to their for-profit entities.\textsuperscript{x} For-profit schools are inserting forced arbitration clauses in the contracts with students, which limit the legal rights if students have complaints about or grievances against a school.\textsuperscript{xi} There are also many questions about the benefits and risks of “income sharing agreements” touted as a solution to paying off student loans. Students sign over a portion of their future income in exchange for money to pay for college. But the terms for these arrangements are often murky and unclear at best.\textsuperscript{xiii}

CONCLUSION

The student debt crisis in the United States in a looming economic disaster. The diminished purchasing power and inability to participate fully in the economy of the 44 million student loan borrowers in debt nationally, 1.1 million in New Jersey, could trigger another recession. New Jersey has begun to attack the problem from many angles, but the legislature and administration need to act fast and more aggressively to protect students from low-quality for-profit institutions of higher education that leave them without the education they were promised and with insurmountable debt.

According to a recent article and study by the Brookings Institute:

\textit{“Public sector students outperform for-profit students on nearly every measure, suggesting that the overwhelming majority of for-profit students would be better off attending a public institution. But what if attending a public community college is not an option? Our results suggest that many for-profit students would be better off not attending college at all. On average, for-profit certificate students do not generate enough earnings gains to offset the debt they incur.”}\textsuperscript{xliii}

New Jersey must take steps to ensure that students are protected from predatory and abusive practices in the for-profit higher education landscape. The state must do all that it can to prevent tax dollars from being used to support companies for which profits are more important than the wellbeing of their students. It is time for New Jersey to put students before profits.

\begin{itemize}
\item \textsuperscript{i} https://www.state.nj.us/highereducation/documents/pdf/StateEducationplan.pdf
\item \textsuperscript{iii} https://cdn.americanprogress.org/wp-content/uploads/2014/10/PublicCollege-report.pdf
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\item \textsuperscript{vi} https://thenewpress.com/books/lower-ed
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12