From: Paul Klier <Redacted by HELP Committee>
Sent: Saturday, November 28, 2009 3:13 PM (GMT)
To: Lionel Lenz <Redacted by HELP Committee>
Cc: Redacted by HELP Committee
Subject: RE: KU CDR Original Loan Amount and Default Rate

Lionel,
This does provide us with insight. The key elements are:

1. 97% of KU defaulters "drop" rather than graduate
2. GED students have a 28% default rate
3. 55% of KU defaulters have a EFC of zero
4. Term 1 Drop students default at 27%
5. Term 1 Drops students default at 33% for IT, 31% for HS, and 28% for JC
6. A student's geographical location (zip code) does correlate with defaults (Area 1 students default at 13% while Area 4 students default at 20%)

__Summary__
Dropped students are not successful.

- They did not accomplish their academic goals
- They are in debt to KU
- They almost always have debt resulting from financial aid
- The value proposition does not exist for a Dropped Student. The value they gave (indebtedness to KU and financial aid lenders) is greater that the value received (an incomplete education). So they default

In the short run, KU must either:

- Prevent students with a high probability of dropping from attending, or
- Must modify the value proposition so that Dropped Students do not cause such extensive harm to themselves and KU

In the end, KU must admit students with a high probability of completing their academic goals and paying their bills so that their value proposition remains intact and they pay their obligations.

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__**Recommendation**__

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- __Short term:__
  - KU should consider modifying how it charges new students tuition for their first term with Kaplan. Consider the following:
    - Having KU raise first term tuition to the point that it requires students to incur out of pocket costs to pay for tuition. (KU can accomplish this through increased first term fees and assessments.)

        - Establish student payment plans that require all students to pay in full by the end of the semester for which they are enrolling
        - Block (force into a drop status) any student falling behind in their first semester payment plan with Kaplan
        - Prepare FA packages for funding in accordance with the goals established by the Financial Aid Project team
        - Submit FA packages for funding only upon both: (1) The student completing their first semester; and, (2) The student satisfying their financial obligations to KU
        - KU could market this as a "Try Kaplan on Us". All students can attend their first semester to try out Kaplan with the ability to "break the contract" during the first semester and owe no tuition expense. If they complete the semester then they have earned the 10 credit hours and owe the tuition. (The tuition being "out of pocket" costs incurred and "financial aid" indebtedness incurred). The value proposition remains intact. If a student drops during the first semester then KU "forgives" the student's tuition, the student owes KU nothing, and the KU does not submit the FA package for funding. Again, the value proposition remains intact.
    - Impact
        - **Positive**
            - Zero EFC Students would self identify by not being able to make the out of pocket costs and would exclude themselves from the student population by not enrolling. (They make up 55% of KU's CDR defaulting students.)
            - Students who fail to make all payments to KU in accordance with the First semester payment schedule would again self-identify. KU would (drop these students) and not submit the FA packages to the DoE. This would further eliminate students who have self-identified as having a high probability of defaulting on student loans.
            - This approach would eliminate stipends for first term students because there would be no excess federal funding to use as living expenses
            - Eliminate the possibility of KU running afoul of CDR requirements
            - Eliminate the possibility of KU running afoul of the 90 / 10 requirements
            - KU's bad debt expense would shrink exponentially
        - **Negative**
            - KU's student population would shrink considerably because so many of our students have 0 EFC
            - KU's revenue would shrink considerable
            - This would result in a one-time, one semester deferral of cash flows from the DoE to KU
            - KU would have a "double hit" to 2010 Operating Income (OI). The first "hit" is the continuing write-off of 2009 revenue that is recognized as bad debt. The second "hit" to OI is the elimination of revenue through this New Student first term program outlined above.
            - This would increase the complexity of KU's revenue accounting
- Long Term:

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    - Augment the "try Kaplan on Us" program with a student risk score based program. This will allow Kaplan to admit 0 EFC students with sufficiently high-risk scores
    - Impact
        - **Positive**
            - Student population will recover to a degree because KU will admit zero EFC Students with significantly favorable risk scores.

    - Students who fail to make all payments to KU in accordance with the First semester payment schedule would continue to self-identify. KU would (drop these students) and not submit the FA packages to the DoE.
    - This approach would continue the eliminate stipends for first term students because there would be no excess federal funding to use as living expenses
    - Continue to eliminate the possibility of KU running afoul of CDR requirements
    - Continue to eliminate the possibility of KU running afoul of the 90 / 10 requirements
    - KU's bad debt expense would remain much lower relative to prior years
- **<u>Negative</u>**
    - Although KU's student population would grow relative to the "try Kaplan on Us" program identified as a probable short term solution, it will still shrink considerably relative to 2009 levels because so many of our students have 0 EFC
    - Although KU's revenue would grow relative to the "try Kaplan on Us" program, it will shrink considerably relative to 2009 levels because so many of our students have 0EFC
    - KU would continue to have a "double hit" to 2010 Operating Income (OI). The first "hit" is the continuing write-off of 2009 revenue that is recognized as bad debt. The second "hit" to OI is the elimination of revenue through this New Student first term program outlined above.

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<u>NOTES</u>

<u>Item 1 – Drop Students:</u>
We do not know if dropping causes defaulting or if dropping merely correlates with defaulting. (I suspect that dropping correlates with rather than causes defaults.)

This provides two potential courses of action with Term 1 students. They are:

- Prevent "highly probable" Term 1 droppers from attending
- Prevent "highly probable" Term 1 droppers from incurring a federal loan or debts payable to KU if they do attend

<u>Item 2 – GED Students:</u>
This insight brings to the forefront a policy questions.

- Does KU stop admitting GED students (28% default rate and 9% of KU student repayment volume.) This would improve KU's CDR by about 1%. However, this, in itself, is not enough to resolve KU's CDR issue.

This approach would decrease KU's revenue and student population

<u>Item 3 – 0 EFC Students:</u>
Since 55% of KU defaulters have 0 EFC, KU has two options. They are:

- Increase Term 1 fees and charges so that 0 EFC student self identify by not paying the increased fees and, therefore, do not attend. This will eliminate them from both the numerator and denominator when computing the CDR. (This option would only work if KU could prevent students from obtaining student loans to pay these increased fees.)
- Charge no tuition for Term 1 students. This solution would only work if students were not able to acquire federal loans to cover "living expenses" while attending KU. The Term 1 students would still drop. However, these dropping students would be included in the CDR numerator and denominator.

These two approaches have significant issues, including:

- Decreasing student population

- Decreasing revenue

Items 4 and 5 - Term 1 Drop Students:
Because Term 1 drop student default at 27% (with even higher rates for IT, HS, and CJ Term 1 students) we are again facing the Term 1 student Drop issue discussed in Item 3 (above). The potential solution is once again:

- Charge no tuition for Term 1 students. This solution would only work if students were not able to acquire federal loans to cover "living expenses" while attending KU. The Term 1 students would still drop. However, the DoE would not include these students from the CDR numerator and denominator.

This approach, once again, has significant issues, including:

- Decreasing student population
- Decreasing revenue

Items 6 – (Zip Codes):
Zip codes are really a surrogate for a student's propensity to pay their obligations

- The long-term solution outlined above using credit bureau data will augment, if not replace, the current 4 area approach.

From: Lionel Lenz
Sent: Wednesday, November 25, 2009 11:52 AM
To: [redacted] Matt Seelye
Cc: [redacted]
Subject: RE: KU CDR Orginal Loan Amount and Default Rate

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I am not sure where this leads us in modifying our admissions and targeting strategy. What are your recommendations, and why? Should we stop certain degrees or programs?

What else can you tell us that would allow for a better screening of leads?

I am not sure how to interpret the data.......most of the CDr relate to first term defaults, but most of the CDRs also have default balances between 2,500 and 4,000? Does this mean first term defaulters rack up student loans of 4,000?

Do we have any additional, demographic or behavioral clues that would allow for better screening. Do we have certain zip codes we want to block? How about Fico or bankruptcy scores? How about test scores? GED or high school GPA? By type of class taken in the first term. (Shoe size) (I am kidding on the shoe size but the point is we need more insights)

We need better analysis and interpretation.

KAPLAN HIGHER EDUCATION

Lionel Lenz
Chief Financial Officer

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From: Redacted by HELP Comm
Sent: Tuesday, November 24, 2009 3:15 PM
To: Redacted by HELP Committee; Matt Seelye
Cc: Lionel Lenz; Redacted by HELP Comm
Subject: KU CDR Orginal Loan Amount and Default Rate

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From: Redacted by HELP Committee
Sent: Tuesday, November 24, 2009 2:49 PM
To: Redacted by HELP Com; Matt Seelye
Cc: Redacted by HELP Co; Lionel Lenz
Subject: Re: KU CDR

Redacted by HELP Committee

From: Redacted by HELP Committee
Date: Tue, 24 Nov 2009 14:34:07 -0500
To: Matt Seelye Redacted by HELP Committee
Cc: Redacted by HELP Committee Lionel Lenz <Redacted by HELP Committee
Subject: KU CDR

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