Career Education Corporation

Introduction

Career Education Corporation ("CEC") is one of the largest for-profit education companies offering many types of programs from certificate to Bachelor's degrees. Like many for-profit education companies, in recent years CEC has experienced significant growth in student enrollment, Federal funds collected, and profit realized. At the same time, the company has been under near constant scrutiny from accreditors and law enforcement entities. Most recently, after inquiries from the New York attorney general, the company admitted that placement data for multiple campuses had been falsified. The student withdrawal rate for the Associate program is among the highest analyzed by the committee staff and the company also has unusually high rates of students defaulting on student loans. It is unclear that CEC delivers an educational product worth the rapidly growing Federal investment taxpayers and students are making in the company.

Company Overview

CEC is a publicly traded, for-profit education company headquartered in Schaumburg, IL. Founded in 1994 by John M. Larson, CEC grew quickly by acquiring established schools and making them profitable. The company's initial focus was on institutions offering business studies, visual design and information technology programs. The first purchases made by CEC were the Al Collins Graphic Design School in Tempe, AZ, and Brooks College in California.[1322] In 2003, CEC merged with competitor Whitman Education Group, Inc., gaining control over Sanford-Brown Colleges, Ultrasound Diagnostic Schools (now known as the Sanford-Brown Institute) and Colorado Technical Universities.

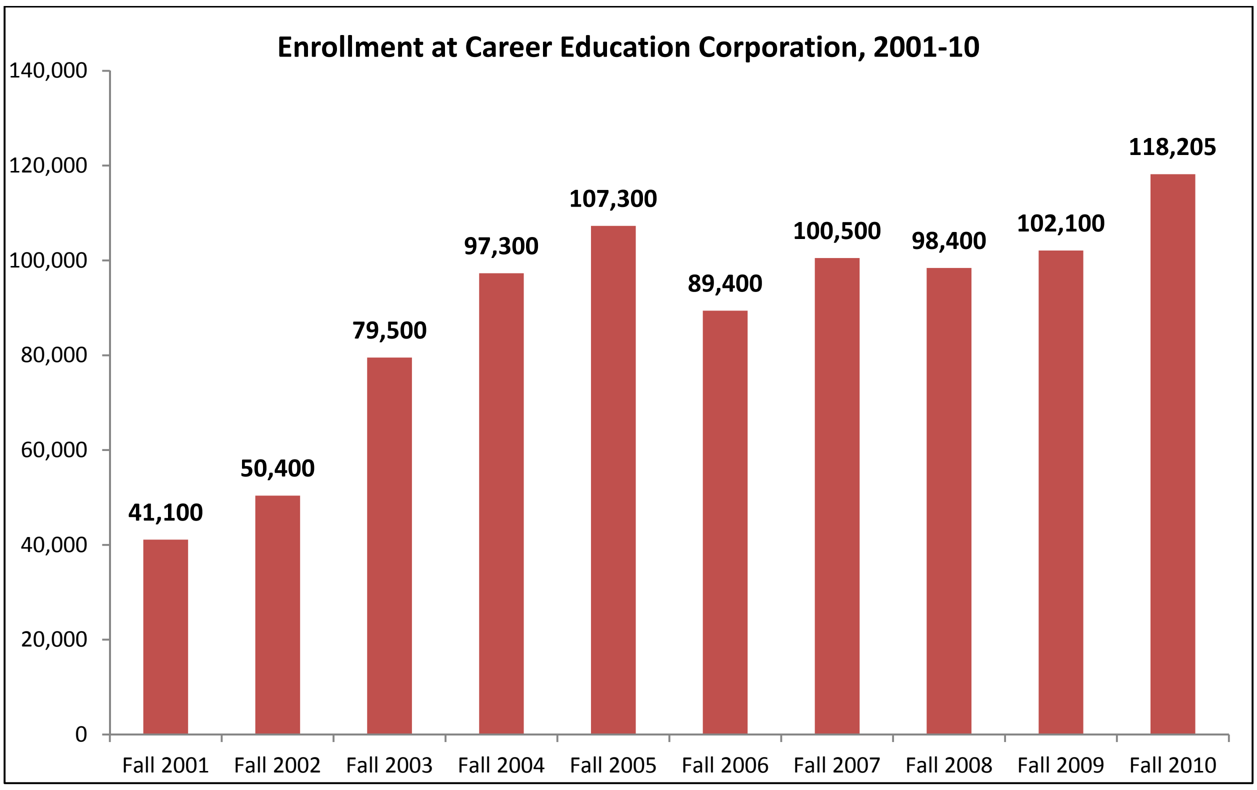
Today, CEC is the fourth largest for-profit higher education company in the country and has 83 campuses located across the United States.[1323] CEC schools offer Certificates as well as Associate, Bachelor's, Master's, and Doctoral degrees in areas including visual communication and design, culinary arts, information technology, business studies and health education. According to CEC, nearly 40 percent of its students attend one of its online programs.

[1322] After facing accreditation problems and coming under scrutiny by the U.S. Department of Education, CEC ceased enrolling students at Brooks College in 2007 and closed the Sunnyvale campus in September 2008 and the Long Beach campus in March 2009. Goldie Blumestyk, "Career Education Corp. Will Close 3 Colleges it has Tried to Sell," June 29, 2007, *The Chonicale of Higher Education*, http://chronicle.com/article/Career-Education-Corp-Will/39138 (accessed June 14, 2012).

[1323] Career Education Corporation, Form 10-K For periode December 31, 2011.

Brands	Focus
American Intercontinental University	Online graduate programs in various fields
Briarcliffe College	Undergraduate programs in various fields
Brooks Institute	Programs in arts and technological design fields
Brown College	Programs in arts and technological design fields
Collins College	Programs in arts and technological design fields
Colorado Technical University	Online graduate programs in various fields
Harrington College of Design	Programs in arts and technological design fields
International Academy of Design & Technology	Programs in arts and technological design fields
Le Cordon Bleu	Culinary Programs
Missouri College	Undergraduate programs in various fields
Sanford-Brown	Certificate and undergraduate programs in allied health

Steven H. Lesnik, former chairman of the Illinois Board of Education, was appointed president and CEO of CEC in November 2011, and has served as chairman of the board of directors since 2008. Lesnik assumed his leadership role upon the resignation of Gary E. McCullough after widespread misreporting of career placement rates and declining profits.



In the fall of 2010, 118,205 students were enrolled at CEC.[1324] Enrollment has nearly tripled over the last decade, up from 41,100 in 2001. The growth in enrollment has led to growth in revenue. Over the past 4 years, revenue has increased from $1.7 billion in 2007 to $2.1 billion in 2010.[1325]

[1324] Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.

Accreditation

American InterContinental University (AIU), Colorado Technical University (CTU), Harrington College of Design, and Le Cordon Bleu College in Chicago are regionally accredited by HLC.[1326] Briarcliffe College, which provides undergraduate programs in various fields, is regionally accredited by the Commission on Higher Education of the Middle States Association of Colleges and Schools (MSA).

All other CEC brands are nationally accredited. National accreditors include the Accrediting Commission of Career Schools and Colleges (ACCSC) and the Accrediting Council for Independent Colleges and Schools (ACICS). ACICS accredits 71 campuses, all of which are subject to by a show cause order issued by ACICS as the result of the false career placement statistics. Other campuses are accredited by ACCSC, including some Brown College, Le Cordon Bleu, and Sanford-Brown campuses. In June 2012, Career Education said the Accrediting Commission of Career Schools and Colleges (ACCSC) voted to direct 10 of its institutions to show cause as to why their accreditation should not be withdrawn.

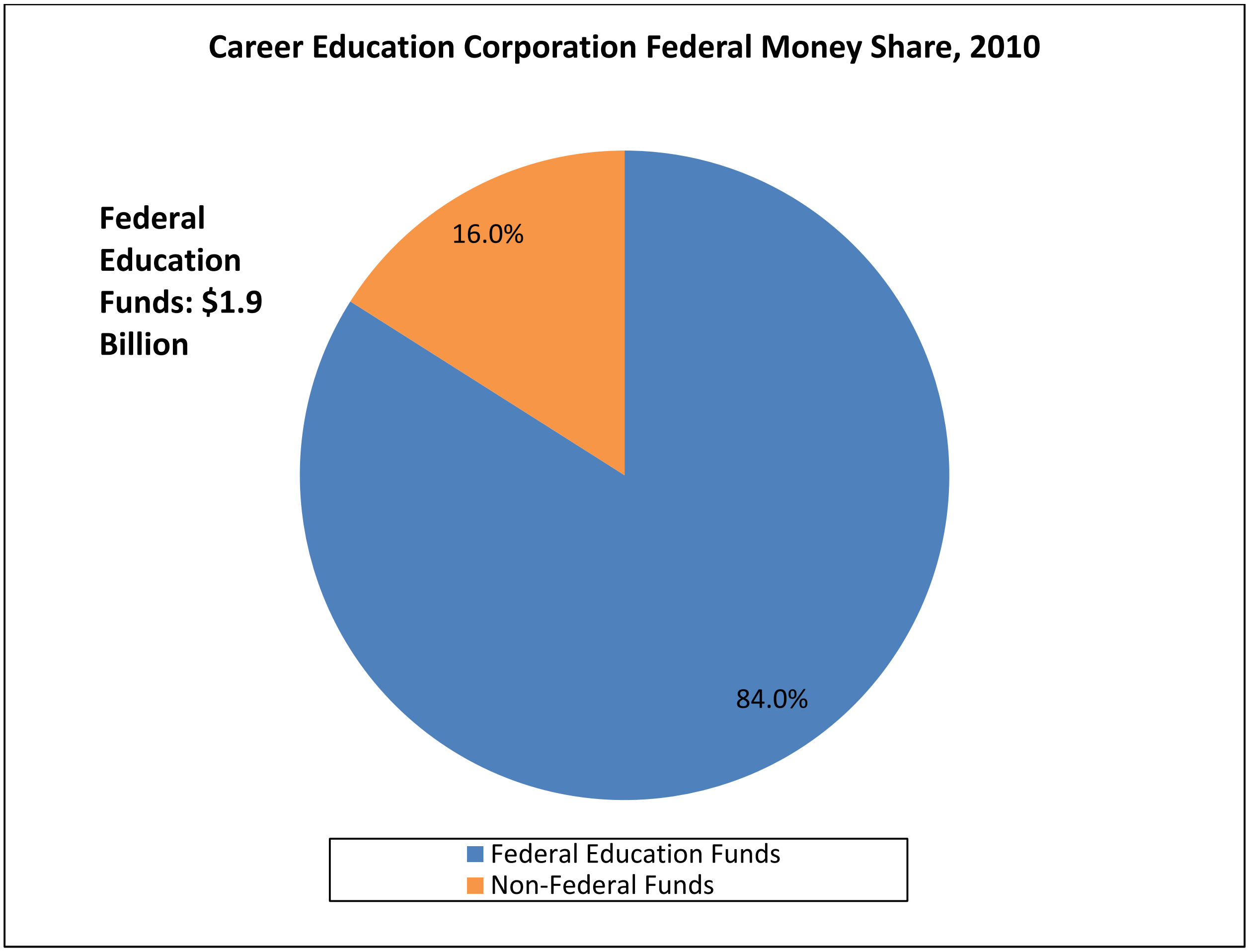
Federal Revenue

Nearly all for-profit education companies derive the majority of their revenue from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1327] Together, the 30 companies the committee examined derived 79 percent of their revenue from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1328]

In 2010, CEC reported 81.5 percent of revenue from title IV Federal financial aid programs. However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.[1329] Department of Defense Tuition Assistance and post-9/11

[1325] The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.
[1326] More than half of the regionally accredited brands at the 30 companies examined by the committee are accredited by the HLC.
[1327] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education. "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 USC §1070 et seq.
[1328] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 15, 2011. See Appendix 9.
[1329] This amount also does not include revenue CEC was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA). The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010.

GI bill funds accounted for approximately 3.8 percent of CEC's revenue, or $71.5 million.[1330] With these funds included, 85.3 percent of CEC's total revenue was comprised of Federal education funds.[1331]



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[1332] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for

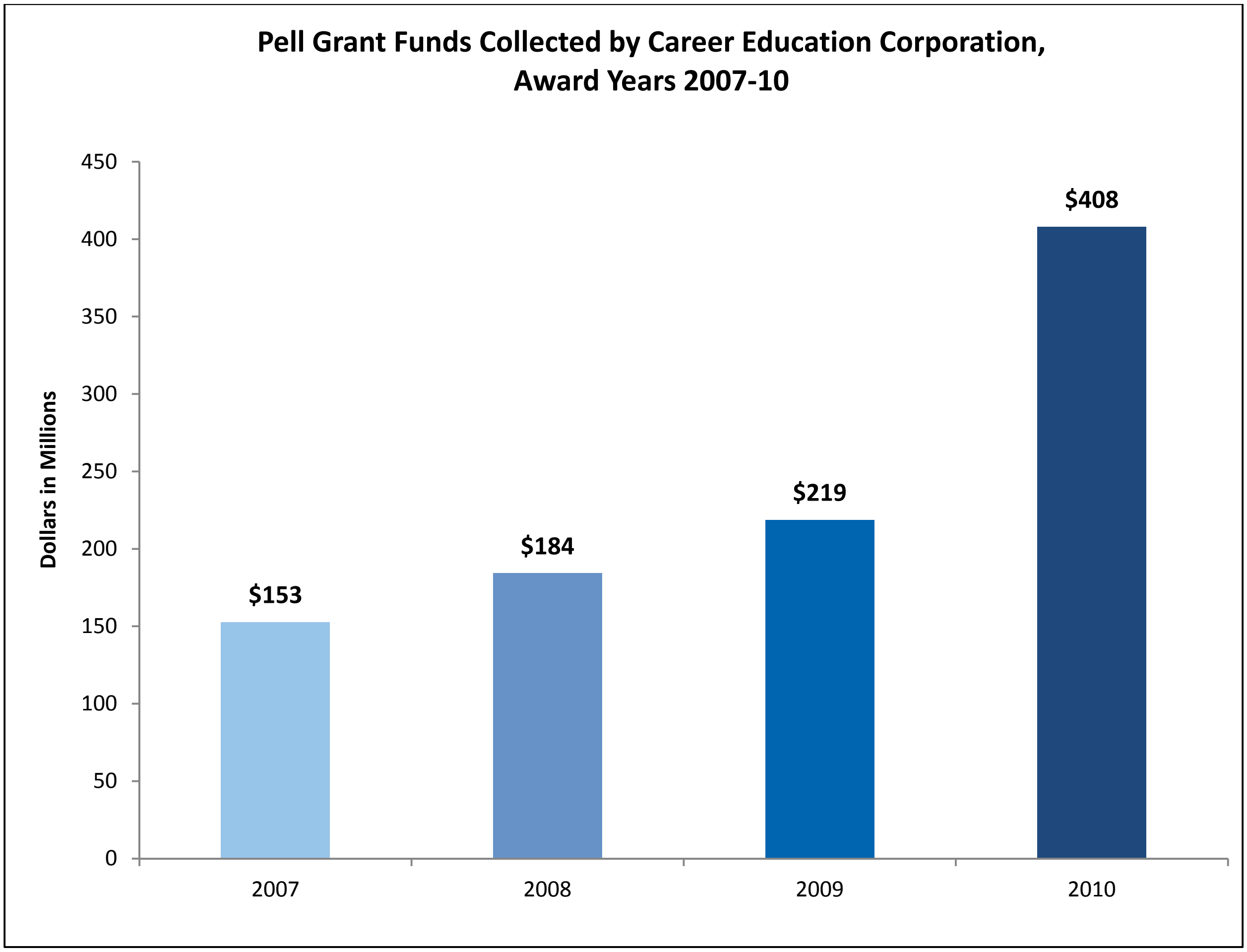
---

[1330] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[1331] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs, and where available Federal financial aid funds permissibly excluded pursuant to the Ensuring Continued Access to Student Loan Act of 2008 (ECASLA). See Appendix 10.

[1332] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.

the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.



CEC increased the amount of Pell grant funds it collects by 167 percent, from $152.7 million in 2007 to $407.9 million in 2010.[1333]

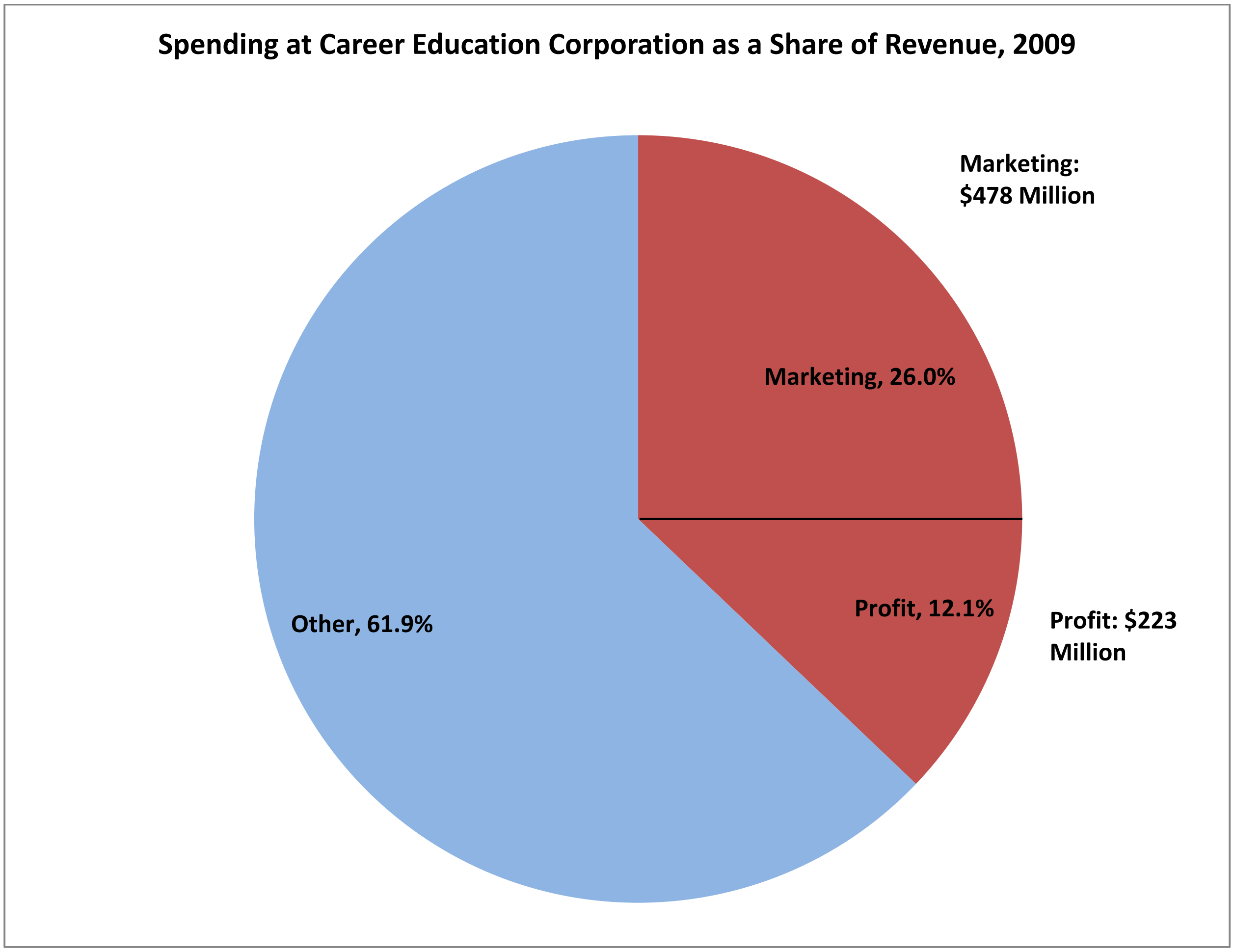
Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students, and to profit.   On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009. During the same period, the companies spent 22.6 percent of revenues, $3.7 billion, on marketing and recruiting

[1333] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

and 19.7 percent, $3.2 billion, on profit.[1334] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

In 2009, CEC allocated 12.1 percent of its revenue, $222.6 million, to profit, and 26.0 percent, $477.9 million, to marketing and recruiting.[1335]



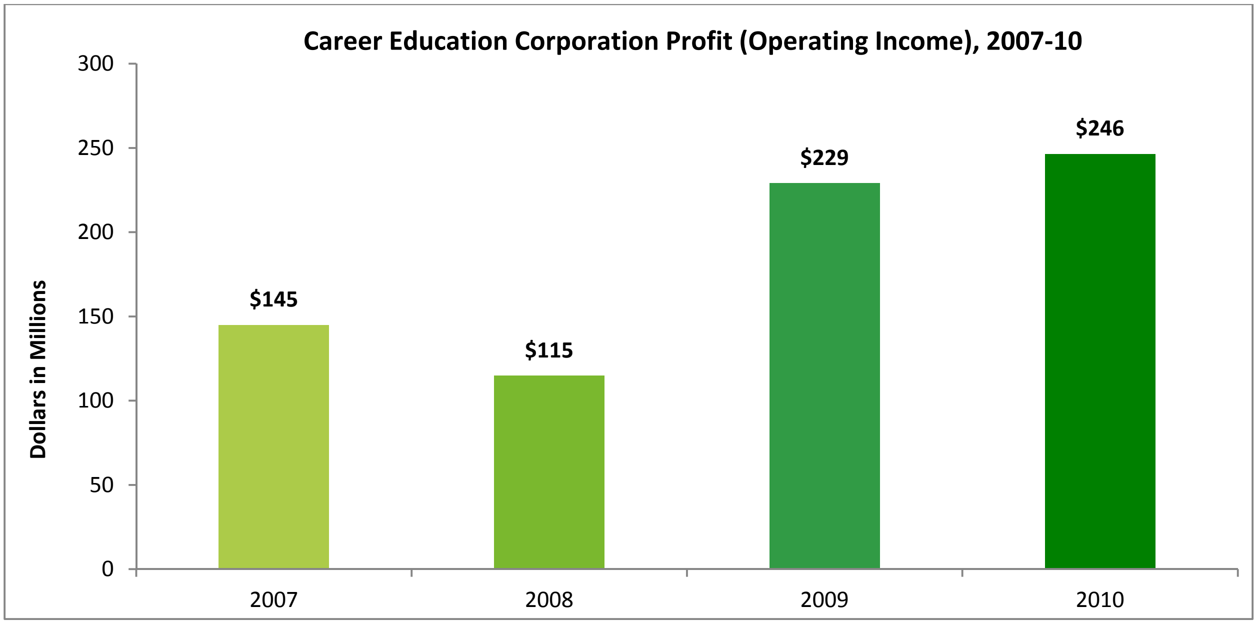
CEC devoted a total of $692 million to marketing, recruiting and profit in fiscal year 2009.[1336] The amount of profit generated by CEC has also risen in recent years. In 2007, CEC reported a profit of $144.8 million; by 2010 that profit increased by 70 percent to $246.4 million although these figures declined dramatically following revelations regarding the placement related issues.[1337]

[1334] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.

[1335] Id. "Other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.

[1336] Id.

[1337] Senate HELP Committee staff analysis. See Appendix 18. Following a drop of enrollment and revenue in 2011, profit fell to $39 million in the same year. See Career Education Corporation, 2011 10-K.



Executive Compensation

Executives at CEC, like most for-profit executives, are also more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[1338] In 2009, CEC President and CEO Gary E. McCullough received $4.6 million in compensation, more than 33 times as much as the president of the University of Illinois at Urbana-Champaign, who received $137,850 in total compensation for 2009-10.[1339] After McCullough's resignation, in the wake of the placement statistics revelations, the company provided him with a severance package worth an additional $5 million dollars over 2 years.[1340]

Executive	Title	2009 Compensation	2010 Compensation
Gary E. McCullough	President and Chief Executive Officer	$4,576,923	$4,923,791
Michael J. Graham	Executive Vice President and Chief Financial Officer	$1,633,227	$1,751,315
Jeffery D. Ayers	Senior Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	$1,156,416	$1,374,454
Deborah L. Lenart	Senior Vice President, Sanford-Brown University	$1,793,900	$1,278,029
George K. Grayeb	Senior Vice President, Health Education	$1,145,306	$1,121,574
Total[1341]		$11,557,882	$10,717,520

1338 Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and Chief Executive salary surveys published by the Chronicle of Higher Education for the 2008-09 school year. See Appendix 17a and Appendix 17b.
1339 Daily Illini, *Salary Guide*, http://data.illinimedia.com/salaries/index/2009/cu/ (accessed June 14, 2012).
1340 Career Education Corporation, Form 8-K November 22, 2011.
1341 Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.

The chief executive officers of the large publicly-traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[1342]

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at some CEC-owned brands. Associate degrees at CEC are significantly more expensive. However, a Bachelor's degree at CEC's American InterContinental University is competitively priced.

An Associate degree in Business Administration and Management at CEC's American InterContinental University in Atlanta costs $30,659,[1343] over 250 percent more than an Associate degree in Management at the College of DuPage, which costs $8,704.[1344] CEC owned Sanford Brown charges $28,737 for a Certificate in Medical Assisting.[1345] The same degree from the College of DuPage costs $5,858.[1346] However, a Bachelor's degree in Business Administration at CEC's American InterContinental University in Illinois costs $67,819,[1347] while the same degree at the University of Illinois at Urbana Champagne costs $84,320.[1348]

[1342] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

[1343] See Appendix 14; see also, American InterContinental University, *2012 Tuition Schedule*, http://catalog.careered.com/~/media/Catalogs/39/Fees.ashx (accessed June 14, 2012).

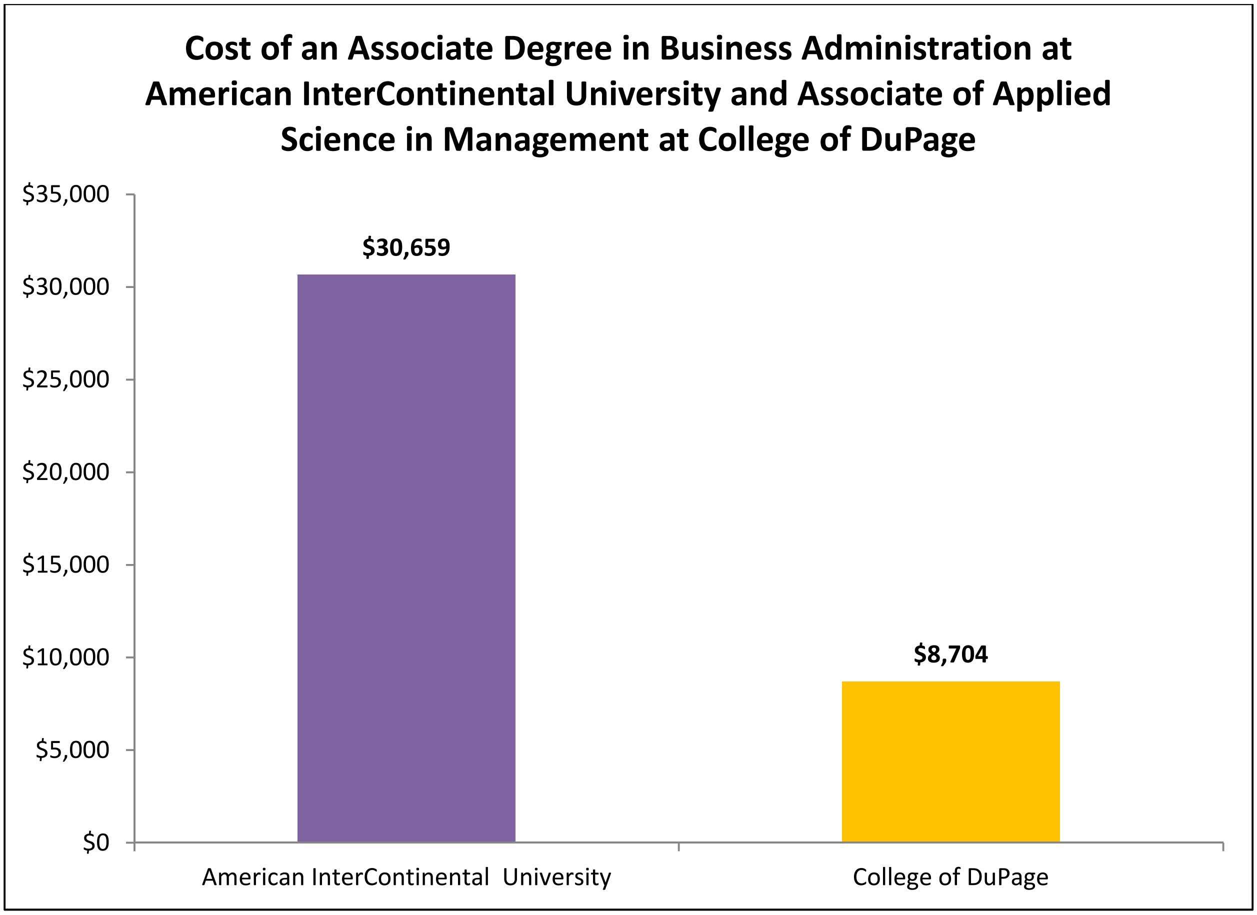
[1344] See Appendix 14; see also, College of DuPage, *College of DuPage*, http://www.cod.edu/ (accessed June 14, 2012).

[1345] Sanford-Brown College, *Tuition, Fees, and Median Loan Debt Disclosure*, http://www.sanfordbrown.edu/~/media/Disclosures/SB/Tinley-Park/Sanford-Brown-College-Tinley-Park-032103-14-Tuition-Debt-Disclosure.ashx (July 13, 2012).

[1346] College of DuPage, *College of DuPage*, http://www.cod.edu/ (accessed June 14, 2012).

[1347] See Appendix 14; see also, Sanford-Brown College, *Tuition, Fees, and Median Loan Debt Disclosure*, http://www.sanfordbrown.edu/~/media/Disclosures/SB/Fenton/Sanford-Brown-College-Fenton-022052-00-Tuition-Debt-Disclosure.ashx (accessed July 12, 2012).

[1348] See Appendix 14; see also, University of Illinois, *University of Illinois at Urbana-Champaign*, http://illinois.edu/ (accessed July 12, 2012).



The higher tuition that CEC charges is reflected in the amount of money that CEC collects for each veteran that it enrolls. From 2009 to 2011, CEC trained 10,045 veterans and received $129.7 million in post-9/11 GI bill benefits, averaging $12,908 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[1349]

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations, for-profit colleges recruit as many students as possible to sign up for their programs.

During the period examined, and prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, documents clearly reflect the pressure on recruiters to meet enrollment targets. In an internal training document, "Telephone Tips," CEC instructs its recruiters to "NOT GIVE TOO MUCH INFORMATION" and "create a sense of urgency" during calls with prospective students [emphasis in original].[1350]

[1349] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[1350] Career Education Corporation, *Telephone Techniques* (CEC000014470, at CEC000014473).

A CEC "Telephone Techniques" manual instructs recruiters to "limit the time frames that you offer to that student [for an in-person appointment] and always express to them how busy your schedule is. . . . If you offer too many time availabilities, it appears as though there is no urgency or demand." [1351]

In 2005, several CEC schools in the New York area were the subject of a CBS news magazine "60 Minutes" report focusing on misrepresentations made by admission representatives to prospective students. A CBS associate producer visited the schools posing as a prospective student and uncovered several instances of misrepresentations by admissions representatives.[1352] At one of the schools, the Katherine Gibbs School,[1353] the producer asked about graduation rates and was told that 89 percent graduated, when, in fact, the school's graduation rate was 29 percent. At another school, a Sanford Brown Institute campus, the undercover producer was told by an admissions representative that the school was highly selective; however the undercover producer was unable to disqualify herself from admission into the medical assistant program. She admitted to low grades, prior drug use and a "problem with blood," and received only 14 of 50 questions on her second attempt at passing the admissions test, but she still she was accepted into the program.

Three former admission counselors at Brooks College told 60 Minutes they were expected to enroll three high school graduates a week, regardless of the student's ability to complete the coursework.[1354] According to these former CEC employees, if they did not meet those quotas, they would lose their jobs. One of the former admission counselors described the aggressive sales tactics that they were required to employ on the job: "we were really sales people … the job was a lot like a used-car lot, because if I couldn't close you, my boss would come in, try to close you." [1355] He also explained how they mislead prospective students: "We're telling you that you're gonna have a 95 percent chance that you are gonna have a job paying $35,000 to $45,000 a year by the time they are done in 18 months. We later found out it's not true at all." [1356] Another commented: "You need three things, you need $50, a pulse, you've got to be able to sign your name. That's about it." [1357]

Although it is easy to get in, students have little opportunity for recourse if the school does not deliver on its promises. CEC, like many other for-profit education companies, includes a binding arbitration clause in its standard enrollment agreement.[1358] This clause severely limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of

[1351] Id. at CEC000014471.
[1352] Rebecca Leung. "For-Profit College: Costly Lesson," *60 Minutes*, February 11, 2009, http://www.cbsnews.com/stories/2005/01/31/60minutes/main670479.shtml.
[1353] In 2008, CEC converted two of the nine campuses in the Gibbs brand, Vienna, Virginia and Melville, New York, to its Sanford-Brown College brand. The remaining seven campuses, including the Katharine Gibbs School in New York City, were scheduled to close in December 2009.
[1354] Rebecca Leung. "For-Profit College: Costly Lesson," *60 Minutes*, February 11, 2009. http://www.cbsnews.com/stories/2005/01/31/60minutes/main670479.shtml.
[1355] Id.
[1356] Id.
[1357] Id.
[1358] Career Education Corporation, *American InterContinental University: Enrollment Agreement* (CEC000018486,at CEC000018488).

students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program, and 96 percent who enroll in a 4-year degree program at a for-profit college take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1359]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll in at CEC are not achieving their educational and career goals.

Retention Rates

Information CEC provided to the committee indicates that, out of 97,393 students who enrolled at CEC in 2008-09, 53.1 percent, or 51,733, withdrew by mid-2010. These withdrawn students were enrolled a median of 4 months.[1360] Overall, CEC's retention rate tracks the sector-wide rate withdrawal rate of 54.1 percent. CEC's Bachelor's degree withdrawal rate of 51.4 percent is the ninth highest of the 30 schools examined. The company's Associate degree withdrawal rate of 61.7 percent is slightly lower that the sector-wide rates of 62.9 percent, and its Certificate program withdrawal rate of 32.9 percent is significantly lower that the sector-wide Certificate withdrawal rate of 38.5 percent.[1361] Still, this data analysis indicates that more than half of the company's students who enrolled in 2008-09 left CEC by mid-2010 without a degree.

Status of Students Enrolled at Career Education Corporation in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	54,553	24.8%	13.6%	61.7%	33,634	122
Bachelor's Degree	21,726	19%	29.6%	51.4%	11,157	143
Certificate	21,114	55.9%	11.2%	32.9%	6,942	127
All	97,393	30.2%	16.6%	53.1%	51,733	127

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

[1359] Patricia Steele & Sandy Baum, "How Much Are College Students Borrowing?" *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 14, 2012).

[1360] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

[1361] It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

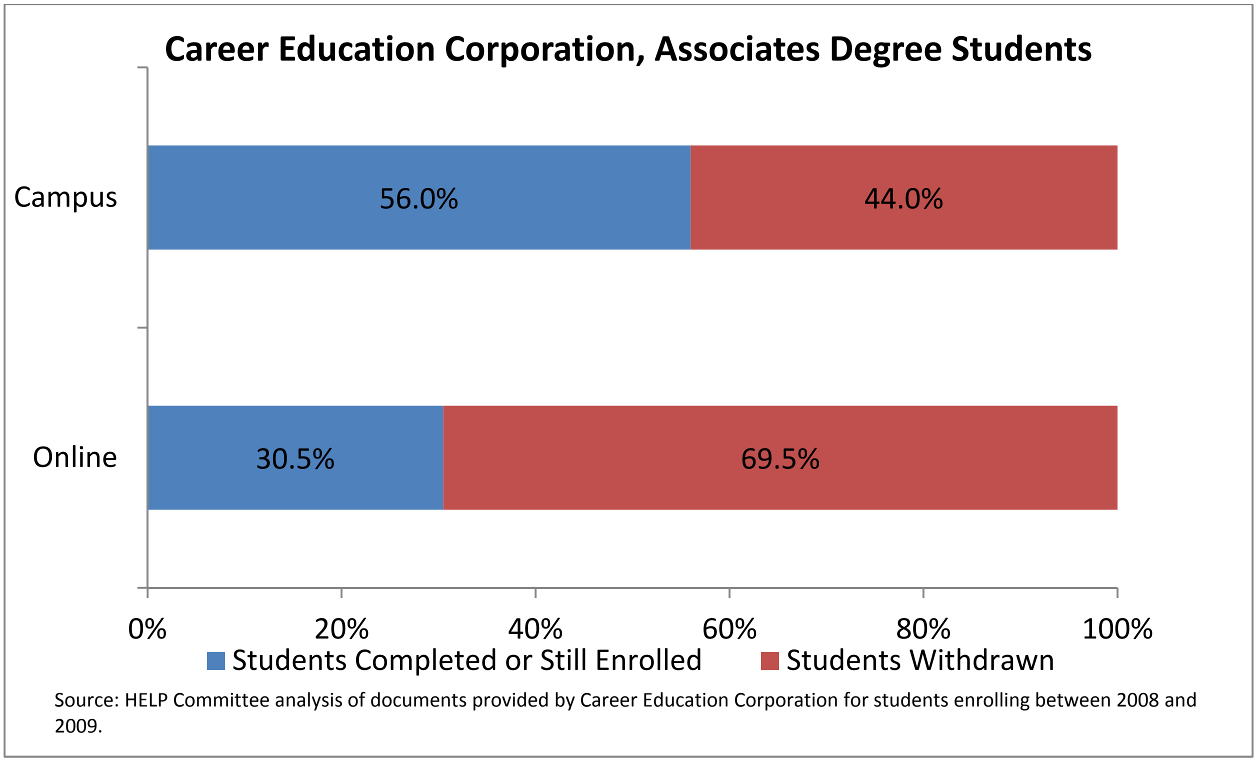
Online v. Brick and Mortar Retention

Status of Bricks & Mortar Students Enrolled at CEC in 2008-9, as of 2010					
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**
Associate Degree	16,803	32.4%	23.6%	44.0%	7,395
Bachelor's Degree	9,338	3.7%	42.6%	53.7%	5,013
All	47,255	25.7%	21.8%	40.9%	19,350

Status of Online Students Enrolled at Career Education Corporation in 2008-9, as of 2010					
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**
Associate Degree	37,750	21.4%	9.1%	69.5%	26,239
Bachelor's Degree	12,388	30.6%	19.8%	49.6%	6,144
All	50,138	23.6%	11.8%	64.6%	32,383

Among the eleven companies that provided data in a way that could be analyzed, students attending online programs had higher withdrawal rates than students attending campus based programs. A comparison of the outcomes for students who attended CEC online and students who attended brick and mortar campuses indicates that online Associate degree students withdrew at a significantly higher rate than their brick and mortar counterparts.[1362]

[1362] CEC does not offer Certificate programs online.



Student Loan Defaults

The number of students leaving CEC with no degree correlates with the rates of student loan defaults by students who attended CEC. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1363]

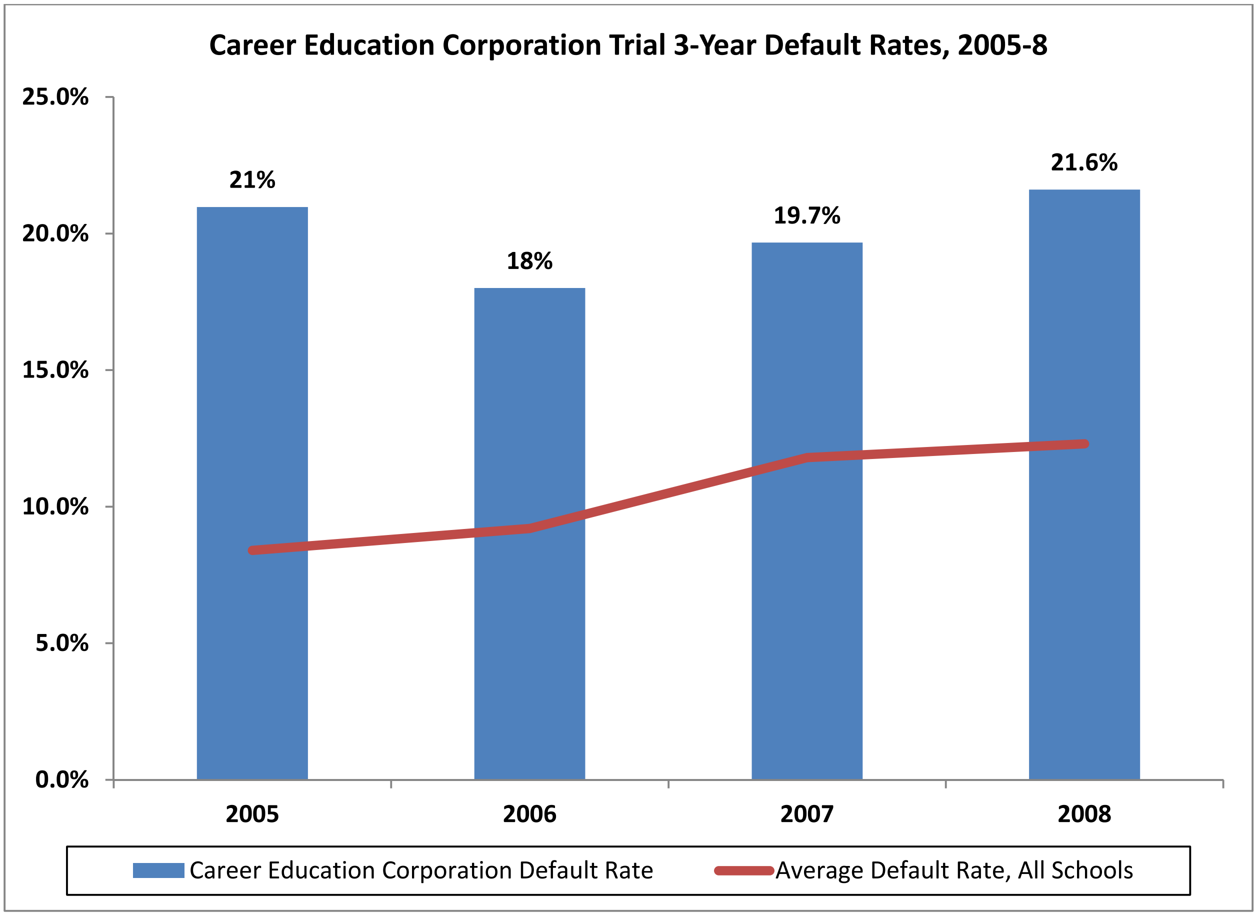
Slightly more than 1 in 5 students who attended a for-profit college, 22 percent, defaulted on a student loan, according to the most recent data.[1364] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1365] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1366] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1367]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent. This change represents a 32.6 percent increase over 4 years.[1368] CEC's 3-year default has fluctuated over the last 4 years, but has gradually increased since 2006,

[1363] Direct Loan default rates, 34 CFR 668.183(c).
[1364] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.

[1365] Id.
[1366] Id.
[1367] Id.
[1368] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.

growing from 18 percent for students entering repayment in 2006 to 21.6 percent for students entering repayment in 2008. CEC's most recent default rate is almost double the average rate for all colleges.



The default rate at some CEC's campuses is even higher. Thirty-one percent of students who entered repayment in 2008, after attending CEC's Sanford-Brown Institute in Rhode Island, had defaulted within 3 years. Other Sanford Brown College campuses also rank among the highest; 27.3 percent students at the Texas campus who entered repayment in 2008 defaulted within three years, and 28.5 percent of students at the Connecticut campus defaulted. At Gibbs College in Massachusetts, a school CEC has since closed, 27.4 percent of students who entered repayment in 2008 defaulted within 3 years.

Default Management

CEC has focused significant resources on finding ways to eliminate students from its reported default rates. Helping get delinquent students into repayment, deferment, or forbearance prior to default is encouraged by the Department of Education. However, many for-profit colleges appear to be investing in aggressive tactics for the sole purpose of ensuring that borrowers do not default within the 3 year regulatory window.

Default management is primarily accomplished by putting students who have not made payments on their student loans into temporary deferments or forbearances. While the use of deferment and forbearance is fairly widespread throughout the sector, documents produced indicate that a number of companies, including CEC, also pursue default management strategies that include loan counseling, education, and alternative repayment options. Unlike many companies, CEC's manuals and contracts typically begin by addressing "repayment obstacles" and informing students of alternative repayment plans including income-based repayment.[1369]

This is particularly important because forbearances may not always be in the best interest of the student. This is because during forbearance of Federal loans, as well as during deferment of unsubsidized loans, interest still accrues. The additional interest accrued during the period of forbearance is added to the principal loan balance at the end of the forbearance, with the result that interest then accrues on an even larger balance. Thus, some students will end up paying much more over the life of their loan after a forbearance or deferment.

However, CEC's 2009 "Cohort Default Management Guide" shows an aggressive approach to contacting students. The guide counsels that a student should be contacted an average of 46 times by phone, plus 12 times by letters and emails, once that student's loans entered repayment.[1370] Another internal training document, CEC's "skip tracing guide to locating students," sets out recommendations and procedures to track down students for which the school does not have a valid phone number or address.[1371]

The guide also recommends calling relatives to get to the student: "When talking to a relative or reference you want to try to make them your best friend" in order to get them to tell the employee the students contact information. After relatives, the guide tells employees to call "associates" and neighbors of the student. The guide recommends not allowing a third party to ask questions about why the school is calling: "If they start to ask questions they are more likely to put their guard up and not help you contact the student." Finally, the guide suggests calling the student's place of employment, if any.[1372]

Calling a student's employer to inform them of overdue loans could be disruptive and potentially damage the student's reputation at work. For other kinds of personal debt, the Fair Debt Collection Practices Act prohibits debt collectors from contacting a person's place of employment if the debt collector knows the employer disapproves. Nonetheless, the guide instructs: "in the event that they will not give you the department [the student works for] you should ask the Human Resources or Payroll representative if they can relay a message to the student for you."

These practices are troubling. The cohort default rate is designed not just as a sanction but also as a key indicator of a school's ability to serve its students and help them secure jobs. If schools actively work to place students in forbearance and deferment, that means taxpayers and policymakers fail to get an accurate assessment of repayment and default rates. A school that has large numbers of its students defaulting on their loans indicates problems with program quality, retention, student services, career services, and reputation in the employer community. Aggressive default management undermines the validity of the default rate indicator by masking the true number of students who end up defaulting on their loans. Critically, schools that would otherwise face penalties—including loss of access to further taxpayer funds—continue to operate because they are able to manipulate their default statistics.

1369 Career Education Corporation, March 23, 2009, *Cohort Default Management Plan* (CEC000012944, at CEC000012949).
1370 Id. at CEC000012950. Even with such repeated student contacts, CEC had a consolidated default rate of 21.6 percent, the rate at one campus exceeded 31 percent, and another three surpassed 25 percent.
1371 Career Education Corporation, A skip tracing guide to location Students (CEC000012813).
1372 Id.

Instruction and Academics

The quality of any college's academics is difficult to measure. However, the amount that a school spends on instruction per student compared to other spending is a useful indicator. CEC spent $1,521 per student on instruction in 2009, compared to $3,142 per student on marketing and $1,505 per student on profit.[1373] The amount that publicly traded for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. In contrast, public and non-profit schools generally spend a higher amount per student on instruction, while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other Illinois-based colleges spent, on a per student basis, $11,776 at the University of Illinois at Champagne, $10,018 at DePaul University and $4,603 at College of DuPage.[1374]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee examined, 80 percent of the faculty is part-time, higher in some companies.[1375] In 2010, CEC employed 1,867 full-time and 5,005 part-time faculty.[1376]

Programmatic Accreditation

Institutions that offer programs that lack programmatic accreditation are highly inconsistent in how they disclose this lack of programmatic accreditation. Some make a note on the programs' Web pages, albeit rarely in a prominent location. Others bury the disclosure deep in their Web sites or in the fine print within pages of enrollment agreements, while framing the disclosure in terms that prevent students from recognizing the gravity of this issue. The committee discovered multiple examples of students who were recruited into non-accredited programs under the mistaken belief that their investment of time and money would lead to a valuable credential and access to a job in the field.

Yasmine Issa, who testified before the committee on June 24, 2010, attended CEC's Sanford-Brown College in New York.[1377] Ms. Issa enrolled in the 18-month sonography program with the goal of securing employment performing ultrasounds in an obstetrical office. She completed the program in 2008 at a cost of $32,000. Only after completing the program did she learn from prospective employers

---

[1373] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students. Denominator is IPEDS "full-time equivalent" enrollment. Due to deficiencies in the data, it is unclear as to whether this instructional figure includes American Military University students.

[1374] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

[1375] Senate HELP Committee staff analysis of information provided to the committee by the companies pursuant to the committee document request of August 5, 2010. See Appendix 24.

[1376] Id.

[1377] Yasmine Issa, *Emerging Risk? Federal Spending on For-Profit Education*, Hearings Before the Senate Committee on Health, Educucation, Labor, and Pensions, 112th Congress (2010) (testimony of Yasmine Issa), available at http://help.senate.gov/imo/media/doc/Issa.pdf.

that in order to be employable she needed to be certified by the American Registry for Diagnostic Medical Sonographers (ARDMS). She also learned that because the CEC program she completed was not programmatically accredited, she could not sit for the certification exam until she completed a year of work in the field.[1378] However, she was unable to complete this requirement because, absent a license, no employer would hire her.

It was not until after completing the sonography program that Ms. Issa learned of the program's lack of programmatic accreditation. She could have taken the certification exam without work experience had her degree program been programmatically accredited. Because CEC failed to openly disclose the programmatic accreditation status, Ms. Issa was stuck with a functionally useless degree. As she put it, "I thought that going to school to learn a marketable skill would allow me to provide for my family. Instead, it has left me more than $20,000 in debt and unable to be hired in the field I trained for."

Sanford-Brown's Programmatic Accreditation Disclosures

Committee staff examined three programs at Sanford-Brown, the CEC school Ms. Issa attended, for which programmatic accreditations are important: surgical technology, dialysis technology and veterinary technology. A review of program information provided by Sanford-Brown's Web site demonstrates that the company is not forthright in its presentation of its degree programs' programmatic accreditation status. Programmatic accreditation information is buried deep within the site, presented in difficult-to-read paragraphs, and fails to note those campuses that lack accreditation. Further, the page's discussion of accreditation minimizes the relationship between accreditation and graduates' prospects for professional success.

Programmatic Accreditation and Employment for the Three Fields

The three programs the committee examined vary somewhat in terms of how strictly programmatic accreditation is required to find work in the field. Surgical technologists regularly seek certification from the National Board of Surgical Technology and Surgical Assisting (NBSTSA). While certification from the NBSTSA is not an absolute requirement for employment, the Bureau of Labor Statistics reports that most employers seek to hire certified surgical technologists.[1379] Students may sit for the certification exam if they graduated from a program accredited by the Commission on Accreditation of Allied Health Education Programs (CAAHEP). While an alternate path to certification exists for students from unaccredited programs, it requires that students accumulate years of on-the-job training or work experience.

As with the surgical technology program, accreditation in the field of dialysis technology impacts the professional success of program graduates. Many employers and some States require that dialysis technicians be certified. Indeed, under regulations promulgated by the Centers for Medicare & Medicaid Services (CMS) in 2008, clinics must demonstrate that all technicians have passed either a national certification exam or state-sanctioned test that meets the basic conditions outlined by CMS.[1380] In order to sit for one of the national certification exams, applicants must either graduate from an

[1378] ARDMS is not itself a programmatic accrediting agency, rather it allows students to sit for examination who graduate from programs accredited by the Commission on Accreditation of Allied Health Education Programs (CAAHEP). The program Ms. Issa attended is not accredited by CAAHEP.
[1379] See U.S. Department of Labor, Bureau of Labor Statistics, *Occupational Outlook Handbook, 2010-11 Edition: Surgical Technologists*, http://www.bls.gov/oco/ocos106.htm (accessed Oct. 31, 2011).
[1380] Id.

accredited program or from a program that provides students with hands-on, clinical training.[1381] Despite these requirements, Sanford-Brown claims that "graduates who have diligently attended class and their externship, studied, and practiced their skills should have the skills to seek entry-level employment as dialysis technicians."[1382]

Finally, certification is especially important in the field of veterinary technology. Most States require that veterinary technicians pass a credentialing examination, and even in those States that do not, most employers strongly prefer to hire certified technicians.[1383] The majority of jurisdictions rely on the Veterinary Technician National Examination (VTNE) as a means of evaluating applicants' suitability for practice and eligibility to be credentialed.[1384] Although an independent credentialing body determines the format of the VTNE, the State Boards of Veterinary Examiners or other State agencies tasked with regulating the exam typically require that VTNE candidates graduate from a training program that is accredited by either the American or Canadian Veterinary Medical Association.[1385]

Misleading Disclosures

Sanford-Brown offers programs in surgical technology at 10 campuses, including three that are not programmatically accredited. Yet the online promotional materials detailing the three programs that lack programmatic accreditation do not mention the programs' status. Sanford-Brown does publish information about the accreditation and licensure of its training programs online, but only discloses accreditation status in a single location on its Web site.[1386] Prospective students investigating the suitability of a program or campus will not find such accreditation information on the pages describing the program itself. Rather, they would have to select a particular campus,[1387] read through the curricular information provided for the surgical technology program available at that location, and then click the link titled "For accreditation and certification information and disclosures for this and other Sanford-Brown programs and campuses, please click here." [1388] That, in turn, would take the student to a page providing an extensive list of the credentials and licenses issued to each Sanford-Brown campus and program. Even after navigating that long list, however, a student would only see a list of the programs and campuses that have achieved accreditation, not locations that continue to offer training but lack programmatic accreditation.

[1381] U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, Conditions for Coverage for End-Stage Renal Disease Facilities Final Rule, 42 CFR §§ 405, 410, 413 et al. (2008), http://www.cms.gov/CFCsAndCoPs/downloads/ESRDfinalrule0415.pdf (accessed June 14, 2012).

[1382] Sanford-Brown, *Certificate Program in Dialysis Technology*, http://www.sanfordbrown.edu/Areas-Of-Study/Allied-Health-Technicians-And-Therapists/Dialysis-Technology/Certificate-Program-In-Dialysis-Technology (accessed Nov. 22, 2011).

[1383] See U.S. Department of Labor, Bureau of Labor Statistics, *Occupational Outlook Handbook, 2010-11 Edition*: *Veterinary Technologists and Technicians*, http://www.bls.gov/oco/ocos183.htm (accessed Nov. 22, 2011).

[1384] See American Association of Veterinary State Boards, *Veterinary Technician National Exam*, http://www.aavsb.org/VTNE (accessed Nov. 22, 2011).

[1385] See American Association of Veterinary State Boards, *Eligibility for First Timers*, http://www.aavsb.org/VTNE/eligibility for first timers (accessed Nov. 22, 2011).

[1386] See Sanford-Brown, *Accreditation & Licensure*, http://www.sanfordbrown.edu/About-Us/Accreditation-And-Certification (accessed Oct. 31, 2011).

[1387] See Sanford-Brown, *Surgical Technology*, http://www.sanfordbrown.edu/Areas-Of-Study/Allied-Health-Technicians-And-Therapists/Surgical-Technology (accessed Oct. 31, 2011) (providing a list of every Sanford-Brown campus at which a surgical technology program is available).

[1388] See Sanford-Brown, *Associate of Applied Science Degree Program in Surgical Technology*, http://www.sanfordbrown.edu/Areas-of-Study/allied-health-technicians-and-therapists/surgical-technology/Associate-of-Applied-Science-Degree-Program-in-Surgical-Technology (accessed Oct. 31, 2011) (describing the associate degree program available at the St. Peters, Missouri, location).

Thus, Sanford-Brown's surgical technology programs at campuses in New York City, Skokie, IL, and St. Peters, MO, do not appear on the "Accreditation & Licensure" page, as each currently lacks programmatic accreditation. Similarly, the six campuses that lack programmatic accreditation for dialysis technology and the four campuses that lack accreditation for veterinary studies are all omitted from the disclosures. However, the locations do remain listed among the campuses offering those degree programs, and no mention is made of the fact that the programs lack accreditation.

In addition to obfuscating the accreditation status of individual Sanford-Brown programs, the page on which the accreditation and licensure information is published downplays the role of accreditation. The Sanford-Brown Web site states that "accreditation is a voluntary process which may be undertaken by schools to demonstrate compliance with specific standards designed to indicate a level of education quality." [1389]

The online program description for the veterinary technology program offered at Sanford-Brown's Portland, OR, campus claims that "graduates who have diligently attended class and their clinical, studied, and practiced their skills should have the skills to seek entry-level employment as veterinary technicians." [1390] In truth, the program has not been accredited by the AVMA. And, the Oregon Veterinary Medical Examining Board (OVMEB) demands that VTNE applicants graduate from an AVMA-accredited program. Applicants with solely on-the-job experience are not allowed to sit for the test.[1391] While graduates of the program may be able to move to other States to gain entry in the field, this would present an untenable burden for many people.

In sum, the company diminishes the significance of programmatic accreditation in its disclosures and sometimes fails to inform prospective students that the lack of accreditation can stand as a barrier to professional success following graduation.

Staffing

While for-profit education companies employed large numbers of recruiters to enroll new students, some companies frequently employee far fewer staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 118,205 students, CEC employed 2,668 recruiters, 293 career services employees and 865 student services employees.[1392] Each career counselor was responsible for 403 students and each student services staffer was responsible for 137 students, but the company employed one recruiter for every 44 students.

Regulatory Strategies

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenues come from title IV Federal financial aid programs, and that no more than 25 percent of students default within 2 years of entering loan repayment. As discussed above, some companies lower their reported default rates by placing students in forbearances and deferments to delay

[1389] Id.
[1390] See Sanford-Brown, *Accreditation & Licensure*, http://www.sanfordbrown.edu/About-Us/Accreditation-And-Certification (accessed Oct. 31, 2011).
[1391] Oregon Veterinary Medical Examining Board, *Veterinary Applications*, http://www.oregon.gov/OVMEB/applications.shtml (accessed Oct. 31, 2011).
[1392] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.

default. Moreover, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of their revenues come from title IV Federal financial aid programs.

In addition to pursuing military servicemembers and veterans, which is discussed above, other 90/10 tactics CEC employs include delaying disbursement of funds students borrow to pay living expenses while attending school. A senior student finance executive at Sanford-Brown relayed this strategy in a 2008 internal company email:

> just had a call with the campus President's to discuss stipend requests and their impact on the 90/10 calculations [sic]. As has been discussed on our calls, these requests have a largely negative impact on our cash figure for the 90/10, and this year they are REALLY hurting us! As such, from today going forward, we are instituting a 2 to 3 week turn around time on cutting stipends—this means that the student will not receive their until 2 to 3 weeks from the date of their request … students will need to be told that due to the influx of requests due to the end of the year, the processing time has been delayed, and we cannot guarantee their funds by the Christmas holiday. I apologize for the inconvenience this may cause … currently our 90/10 is 89.82% so we are very close to being over, which we cannot afford [emphasis in original].[1393]

An August 2009 email from the same Sanford-Brown student finance executive outlines another strategy employed "to mitigate the 90/10 current percentage for the SBC Fenton OPEID:" [1394]

> 1) We will begin holding PELL GRANT for AUGUST STARTS ONLY beginning today, 8/18/09 until further notice for the SBC Fenton and SBC St. Peters campuses 2) Today we are at 90.2% so are very close to being below 90%, but not there yet—unlike last year, it will take a minimal affect to move the number 3)[1395]

Notably, in an exchange in this same email chain, another CEC executive questions the "guidance" information CEC financial aid employees were instructed to use to answer student questions regarding the reason for holding back their financial aid:

> Last year during this time, the [Central Processing Center] started to receive several calls in regards to this issue and students questioning why they were not able to receive their disbursements. I think the below guidance may be a root cause to the call that are directed our way. Can you provide any insight as to why this is the SBU guidance?
>
> Question: Didn't this happen last year? Is there a problem with the financial aid department?
>
> Answer: During the fall of 2007, the campus switched to a Central Processing Center for financial aid accounting. At that time, we did experience several challenges to our database and records management. Currently, as part of our management improvement process, we are holding back funds until such time that we are certain that have met all the federal guidelines.[1396]

[1393] Career Education Corporation, Internal E-mail, December 2008, *FW:Stipend Request* (CEC000026550, at CEC000026551).
[1394] Career Education Corporation, Internal E-mail, August 2009, *FW:SBC 90/10 - Hold Pell* (CEC000026555, at CEC000026556).
[1395] Id.
[1396] Id.

In response, the senior student finance executive explains the rationale for the misinformation employees were instructed to relate to students:

> This document was prepared by the Corp PR team a few years ago when we first began holding back funds … I believe the original intent of this section was to provide an operational reason that we holding [sic] funds as opposed to explaining the exact details on 90/10 to the students.[1397]

Student Lawsuits

Over the last few years, many former Sanford–Brown students have sued the school for its practice of misleading recruiting.[1398] In 2007, 12 former students filed a lawsuit against Sanford-Brown College and CEC alleging that Sanford-Brown engaged in aggressive and misleading recruiting tactics and misled them about the transferability of Sanford-Brown's credits and the nature of its curriculum, training, and faculty.[1399] One year later, four nursing students filed a class action lawsuit alleging that the college "fraudulently induced them and the class to join a medical assistant program through a number of deceptive acts." [1400] In late 2010, this lawsuit was granted class action status.[1401]

Since 2010, at least 18 lawsuits have been filed against Sanford-Brown College and CEC in Illinois by students alleging that the college and its owner engaged in an "ongoing pattern and practice of deceptive conduct." [1402] The students claim that the representations made to them by Sanford-Brown sales representatives amount to fraud. These students spent thousands of dollars in exchange for what was sold to them as highly-specialized career training with promises of gainful employment, however they later learned that there were no opportunities for employment in their fields and that their course credits would not transfer to other colleges. An attorney for some the students, Gary Burger, explains: "This is not just a function of the bad economy. It's been true for a long time … The way they get these people to sign up as students is with high-pressure sales reps. They have quotas. And they're instructed to play on people's emotions to get them hooked in—and to get them to apply for student loans."[1403]

One student, who spent $15,000 on a Medical Coding and Billing degree and was assured by a Sanford-Brown sales representative that the college would find her a job, was unable to find full-time employment or transfer any of her Sanford-Brown credits to the local community college after graduating.[1404] According to her lawsuit, the former president of the Sanford-Brown College in Hazelwood, IL, testified that the company's "concern over finances seemed to force admissions people not to tell the truth about what the outcomes were going to be for the students and what they could

---

[1397] Id.
[1398] Angela Riley,"Students Sue Sanford Brown College in Missouri for Fraud," *St. Louis Daily Record & St. Louis Countian*, January 6, 2009.
[1399] Leisa Zigman, "Students File Suit Against Sanford-Brown College," *KSDK News Channel*, August 2, 2007, http://www.ksdk.com/news/story.aspx?storyid=125898.
[1400] Steve Gonzalez, "Class action: Sanford Brown students duped into med assistant program," *The Madison County Record*, February 13, 2008, http://www.madisonrecord.com/news/207882-class-action-sanford-brown-students-duped-into-med-assistant-program.
[1401] Tim Barker, "For-Profit Colleges Under Fire in Lawsuits," *STLToday.com*, March 14, 2011, http://www.stltoday.com/news/local/education/article_3c4cb200-9ea1-5656-aa18-8dac41ddfa3f.html.
[1402] Sarah Fenske, "Sanford-Brown College Slapped With Dozen-Plus Lawsuits," *Riverfront Times*, October 12, 2011, http://blogs.riverfronttimes.com/dailyrft/2011/10/sanford-brown_college__career_education_corporation.php.
[1403] Id.
[1404] Id.

expect upon graduation" and that "admissions advisors were sales persons with tremendous pressure placed on them to get prospective students to enroll." [1405]

In 2011, CEC agreed to pay $40 million to settle a class action lawsuit involving another of one its subsidiaries, the California Culinary Academy in San Francisco.[1406] In that case, former students allege that the college's admissions representatives and catalog boasted a job placement rate of 97 percent, but that the college did not tell applicants that the statistics included graduates working as baristas, prep cooks, line cooks and waiters, jobs for which no degree was necessary. The complaint also contends that wages for a "substantial majority" of the jobs included in the statistics paid $12 an hour or less.[1407] Additionally, the college personnel allegedly made up fake job placements and listed graduates as working at certain business who had never worked there.[1408]

In yet another lawsuit, former students at CEC's Le Cordon Bleu College of Culinary Arts in Los Angeles alleged similar fraudulent job placement claims. In that case, Le Cordon Bleu allegedly advertised job placement rates of up to 96 percent for its culinary arts program and 75 percent for its patisserie and baking program.[1409]

State and Federal Investigations

In 2005, following media coverage of whistleblower and student allegations about the company's admissions practices, State agencies in New Jersey and Pennsylvania investigated the recruiting and financial-aid practices of two Sanford Brown Institute campuses and the State consumer agency in California restricted the license of another CEC owned college. [1410] That same year, the Securities and Exchange Commission and the U.S. Department of Justice launched investigations of CEC. CEC revealed that it was being investigated by the civil division of the Justice Department as a result of a lawsuit under the False Claims Act alleging that some CEC colleges made false statements to the government in order to obtain Federal funds for which they were not entitled. The Justice Department also sought documents relating to information CEC gave prospective students about job-placement rates and tuition costs.

Also in 2005, the U.S. Department of Education put a freeze on CEC's expansion while investigators examined the company's financial records and compliance with Federal financial-aid regulations.[1411] In a letter to CEC, the Education Department said it was concerned by the company's "history of noncompliance" with Federal laws governing Federal financial-aid funds.[1412] The department said it also "had some concerns about misrepresentations" by company staff to prospective students at

[1405] Id.
[1406] Erica Perez, "For-profit education company inflated job placement rates," *Californiawatch.org*, August 10, 2011, http://californiawatch.org/dailyreport/profit-education-company-inflated-job-placement-rates-11987 (accessed June 14, 2012).
[1407] Id
[1408] Id.
[1409] Shannon Rasberry, "For-Profit College Co. Encouraged Students with False Job Placement Data," *Student Loans Blog*, http://studentloansblog.nextstudent.com/2011/08/11/for-profit-college-co-encouraged-student-loans-with-false-job-placement-data/ (accessed June 14, 2012).
[1410] Eric Wills, "2 More States Open Investigations Into Colleges Owned by Career Education Corp.," *The Chronicle of Higher Education*, August 3, 2005, http://chronicle.com/article/2-More-States-Open/120885/ (accessed June 14, 2012).
[1411] Stephen Burd. "Promises and Profit," *The Chronicle of Higher Education* January 13, 2006, http://chronicle.com/article/PromisesProfits/12779/ (accessed June 14, 2012).
[1412] Goldie Blumenstyk "The Chronicle Index of For-Profit Higher Education," The Chronicle of Hight Education, August, 11, 2006, http://chronicle.com/article/The-Chronicle-Index-of/12758.

its Brooks College.[1413] In January 2007, the U.S. Department of Education lifted its restrictions on the company opening new schools or acquiring existing ones.[1414]

As of 2012, the attorney general of Florida is investigating Sanford-Brown to "determine whether they have violated Florida law prohibiting deceptive or unfair business practices," and the attorney general of New York is investigating CEC for "possible violations of New York's securities, finance and other laws." [1415]

Career Placement Investigation

In 2011, after receiving a subpoena from the New York attorney general's office requesting information about its career placement statistics, CEC hired outside legal counsel to conduct an extensive audit and subsequently revised 2010 placement rates for 49 of its campuses to correct "irregularities."[1416] The 2010 job placement rates at all 49 campuses were incorrect, and 36 of those campuses' newly revised job placement rates were below the campus accreditor's minimum threshold of 65 percent job placement.[1417] The CEO of CEC, Gary McCullough, resigned when these widespread misrepresentations were uncovered.[1418]

These recent revelations of systematic misreporting by CEC also indicate the weaknesses of its accreditors' verification of placement rates. These 49 campuses are accredited by the largest national accreditor, the Accrediting Council for Independent Colleges and Schools (ACICS). ACICS has stated that it independently verifies each program's job placement rates. However, significant doubt is cast on this assertion given the broad scope of CEC's falsification. Moreover, ACICS typically verifies job placement rate data only during the years when a campus is due for a site visit.[1419] As of May 5, 2012, ACICS placed 4 of these 49 campuses on probation due to job placement rates that did not meet its expectations.[1420]

At the time of publication, the placement rate audit CEC performed following the scandal was not yet public. The company's Securities and Exchange Commission filings note that improper practices were discovered as part of a third-party review of all its domestic campuses, which number 83 in total. The company had only announced information about the audit's progress regarding the first 49 campuses.[1421]

[1413] Id.
[1414] "Career Education Announces the U.S. Department of Education Lifts Growth Restrictions," *Reuters*, January 22, 2007, http://www.reuters.com/article/2007/01/22/idUSIN20070122070908CECO20070122 (accessed June 14, 2012).
[1415] California Watch, *State Attorney's General Investigating For-Profit Colleges*, http://californiawatch.org/data/state-attorneys-general-investigating-profit-colleges.
[1416] Career Education Corporation, Form 10-Q For period ending September 30, 2011.
[1417] Id. As discussed above, in 2005, an investigation by "60 Minutes" also found significant discrepancies in the job placement promises made to prospective students at a CEC campus. In response to the news report, CEC expressed disappointment that the news outlet "opted to paint us … with a broad brush based on a few allegations." See Business Wire, *Career Education Corporation Comments on "60 Minutes" Story*, January 31, 2005, http://www.businesswire.com/news/home/20050130005030/en/Career-Education-Corporation-Comments-60-Minutes-Story (accessed December 18, 2011).
[1418] Id.
[1419] ACICS requires schools to report placement rates every year.
[1420] The campuses ACICS placed on probation include: the online campus of International Academy of Design and Technology, the Sanford-Brown Institute Landover, MD campus, Sanford-Brown College Indianapolis, IN campus and the Sanford-Brown College West Allis, WI campus.
[1421] Career Education Corporation, Form 10-Q for period ending September 30, 2011.

Conclusion

Career Education Corporation is one of the most diverse for-profit education companies operating at least six different brands. Overall students attending CEC brand colleges have withdrawal close to the average of all companies examined with 51 percent of Bachelor's and 61 percent of Associate students withdrawing but given the size of the company that translates to over 50,000 students leaving the company's colleges with no Certificate or degree. The company appears to offer little in the way of student support services, and has struggled to address allegations of misleading and deceptive recruiting tactics as well as misrepresentations in its job placement rates. Moreover, the company has a high rate of student loan default, with 21.6 percent of students defaulting within 3 years. This likely reflects an inability on the part of some students to find jobs that allow them to repay the debt they incur. Taken together, these issues cast serious doubt on the notion that CEC's students are receiving an education that affords them adequate value relative to the cost. It is unclear whether taxpayers or students are obtaining value from the $1.9 billion investment that taxpayers made in CEC in 2010.