Grand Canyon Education, Inc.

Introduction

Grand Canyon Education, Inc. ("Grand Canyon") was created as the result of the purchase of a small religious college in 2003, and now offers primarily online 4-year and graduate degrees. Like many for-profit education companies, Grand Canyon has experienced steady growth in student enrollment, Federal funds collected and profit realized in recent years. While the company has relatively low rates of student loan defaults, Grand Canyon Bachelor's students withdraw at a higher rate than many others the committee examined. In many ways similar to both Apollo and Bridgepoint, the company offers relatively few student services and provides no career planning assistance to its students.

The proportion of the company's students who default is far lower than the sector average and the company does not appear to focus on putting former students in deferment and forbearance instead of providing them with the means to repay their loans.

Company Overview

Grand Canyon Education, Inc. is a publicly traded, for-profit education company based in Phoenix, AZ. Grand Canyon Education, Inc. was formed in 2003 in order to acquire the assets of Grand Canyon University, a private, religious, non-profit college, founded in 1949. The university was acquired and converted into a for-profit education company in 2004 and went public on the NASDAQ stock exchange in 2008. In its initial public offering (IPO), the company raised about $230 million.[1925]

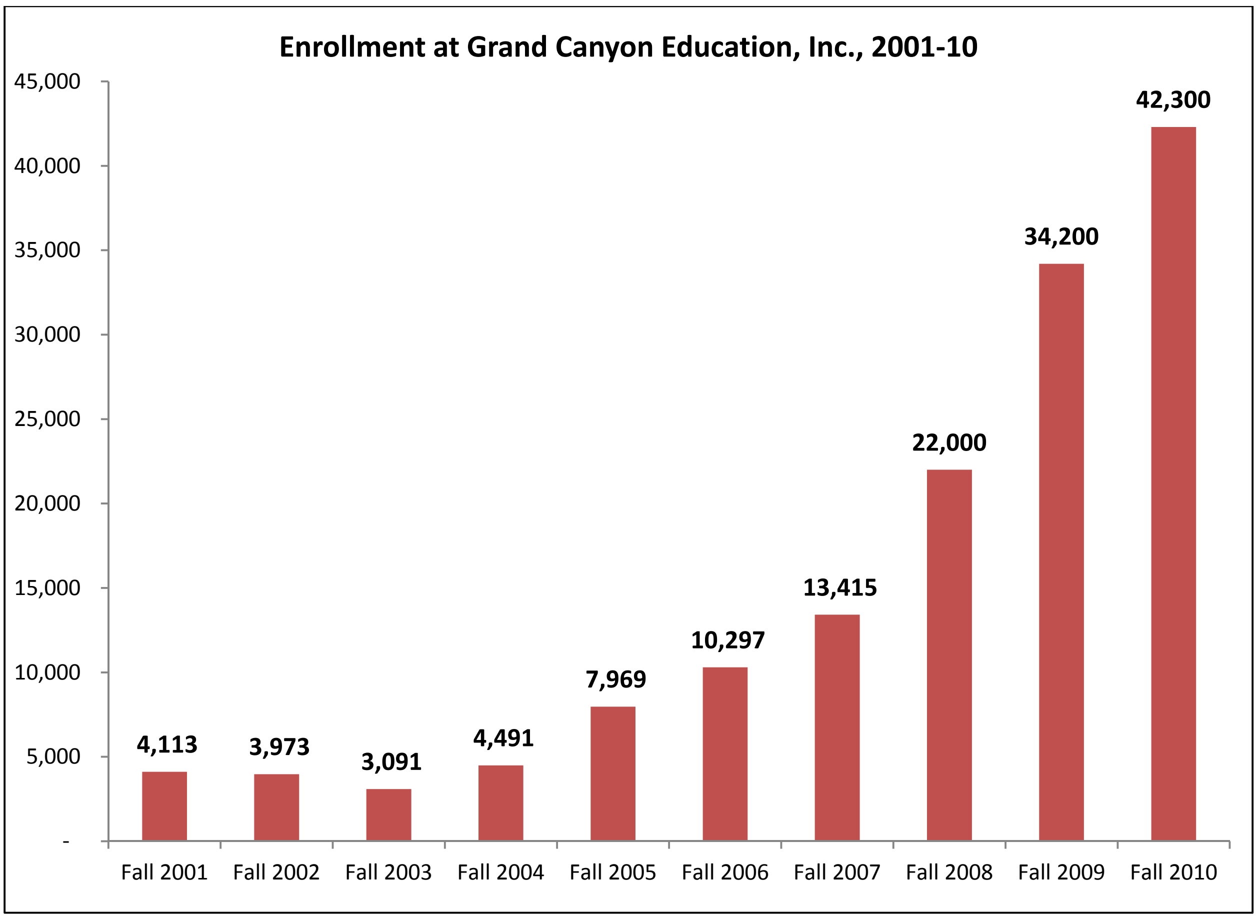
Grand Canyon offers Doctoral, Master's, and Bachelor's degrees in the fields of business administration, education, health care administration, nursing, and public administration, among other subjects. While Grand Canyon operates a physical campus in Phoenix, the vast majority of its students are enrolled in online programs. Approximately 89 percent of Grand Canyon students are enrolled online.[1926] Grand Canyon plans on growing its ground campus to 12,000 students by 2015.[1927]

Like more than half of the regionally accredited brands the committee examined, Grand Canyon University is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools ("HLC"). The current chief executive officer (CEO) of Grand Canyon is Brian Mueller. Immediately prior to joining Grand Canyon, Mueller was president and a director of Apollo Group, Inc., operator of the University of Phoenix. He also served in a variety of positions with the University of Phoenix Online, including CEO, chief operating officer, and senior vice president. Under his leadership, online enrollment at the University of Phoenix grew from 3,500 to 340,000. Executive vice president Stan Meyer and Chief Financial Officer Dan Bacchus were also with the Apollo Group prior to joining Grand Canyon.

[1925] Angela Gonzales, "Grand Canyon Education Looks to Raise $151M," *Phoenix Business Journal*, September 3, 2009, http://www.significantfederation.com/blog/news/grand-canyon-education-looks-to-raise-151m.html (accessed June 14, 2012).
[1926] Grand Canyon University, "Grand Canyon Education, Inc. Reports Third Quarter 2011 Results," Press Release, November 7, 2011, http://investors.gcu.edu (accessed June 14, 2012).
[1927] Grand Canyon University, 2011, Q3 Investor Call.

Grand Canyon was formed by investor Michael Clifford, who was also involved in the formation of Bridgepoint Education, Inc. Clifford has since been involved in more transactions involving the conversion of Christian non-profit colleges into for-profit educational companies. The conversion of Grand Canyon, a small college with a strong religious mission, into a for-profit company caused consternation among the school's faculty. The Dean of the Christian Studies department, who was fired in 2005, said that while he had hoped the new managers would pay attention to the core values and mission of the college, he eventually realized, "when it came down to it they were not going to make decisions based on our mission, our values, and our history. They were going to make them for one reason. Profit. Period. So why keep calling yourself Christian?" [1928] The former dean expressed his opinion that the company kept the religious label for strategic marketing purposes.

Grand Canyon has grown significantly since its conversion, with enrollment increasing from 4,491 students in the fall of 2004 to 42,300 in the fall of 2010.[1929] Enrollment has nearly doubled since the company's IPO in 2008.



The growth in enrollment has led to growth in revenue. Revenue at Grand Canyon has grown more than five-fold from $72.1 million in 2006 to $385.6 million in 2010 and has more than doubled since the company's 2008 IPO. [1930]

[1928] Elizabeth Redden, "For-Profit, For-God." *Inside Higher Ed.*, August 3, 2009 http://www.insidehighered.com/news/2009/08/03/christian (accessed June 14, 2012).
[1929] Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues 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.[1931] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1932]

In 2010, Grand Canyon reported 84.9 percent of revenue came from title IV Federal financial aid programs.[1933] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs.[1934] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 2.2 percent of Grand Canyon's revenue, or $7.3 million.[1935] With these funds included, 87.1 percent of Grand Canyon's total revenue was comprised of Federal education funds.[1936]

1930 Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

1931 "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.

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.

1932 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 14, 2011. See Appendix 9.

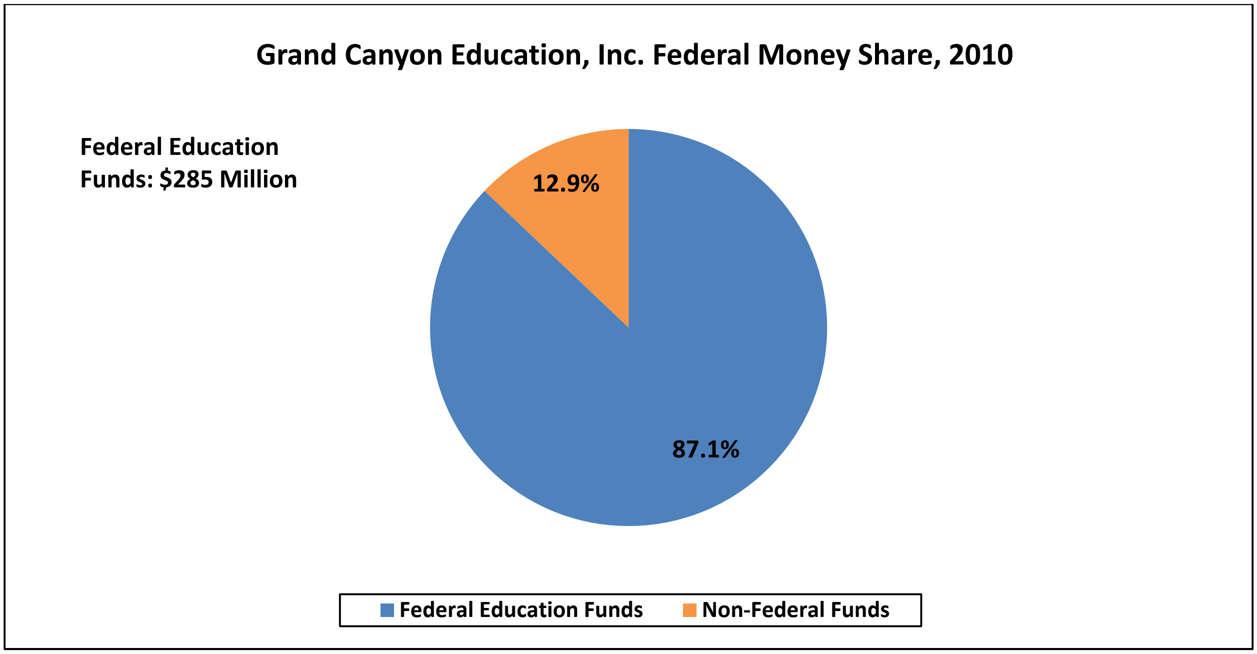
1933 Senate HELP Committee staff analysis of fiscal year 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

1934 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. However, ECASLA calculations for Grand Canyon could not be extrapolated from the data the company provided to the committee.

1935 As explained in Appendix 11 and 12, data provided by the Department of Defense and the Department of Veterans Affairs was provided on an award year basis for both 2009-10 and 2010-11. Committee staff calculated the average monthly amount of benefits collected from DOD and VA for each company, and estimated the amount of benefits received during the company's 2010 fiscal year.

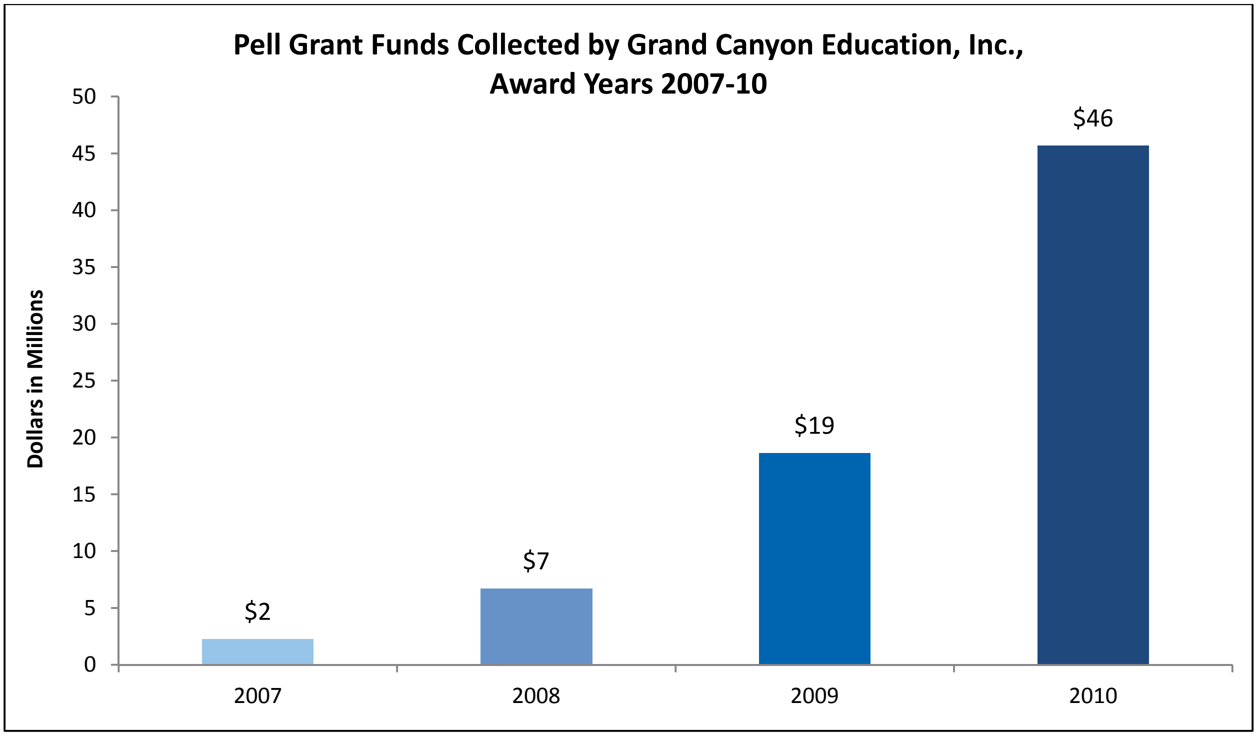
Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department 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.

1936 "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).



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.[1937] 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 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.

[1937] 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.



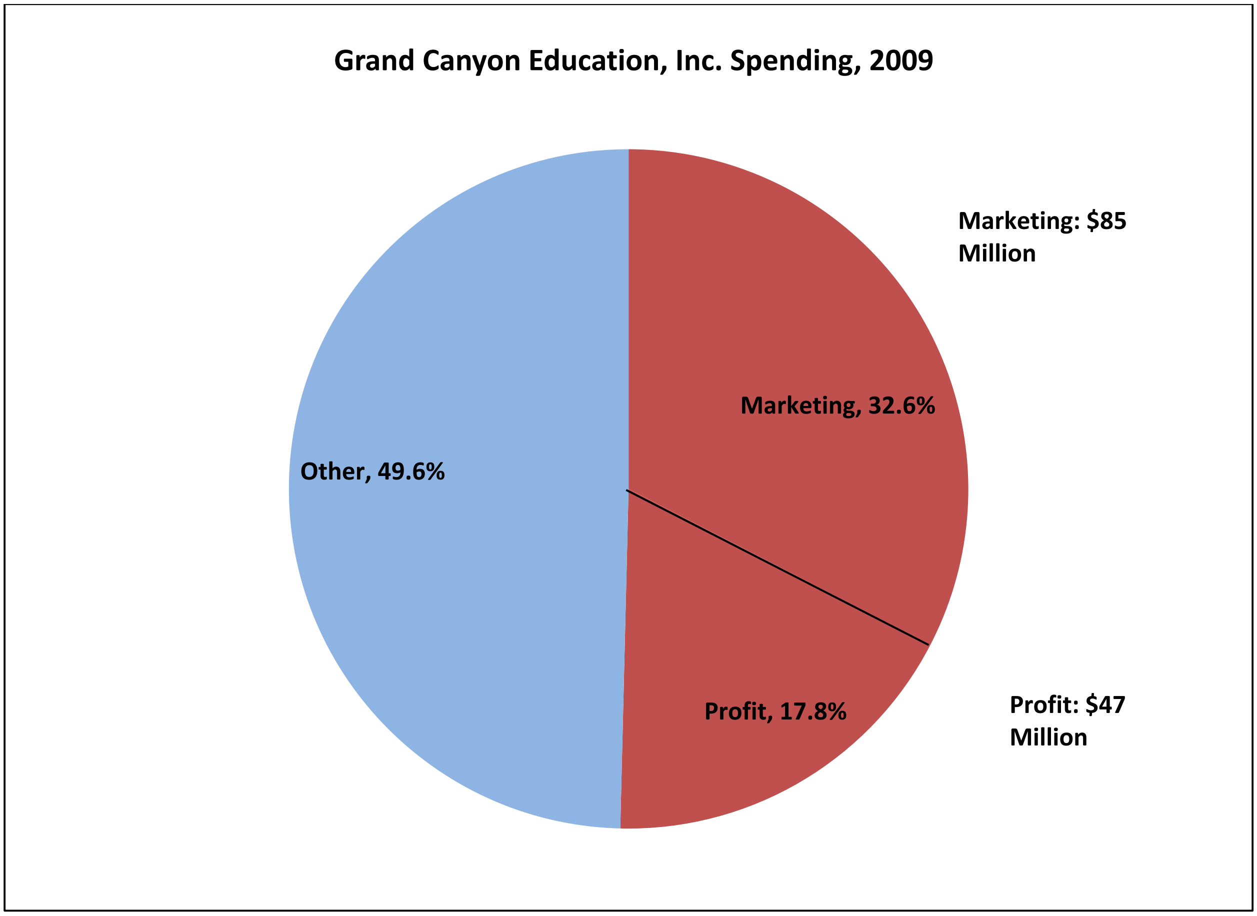
During 2007, Grand Canyon collected $2.3 million in Federal Pell grants.[1938] Just 3 years later, during 2010, the company collected $45.7 million, an increase of over 1,400 percent.[1939] This increase occurred because of the company's new participation in the title IV program and rapid enrollment growth among students who rely on Federal student aid programs.

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.[1940] During the same period the companies spent 22.6 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[1941]

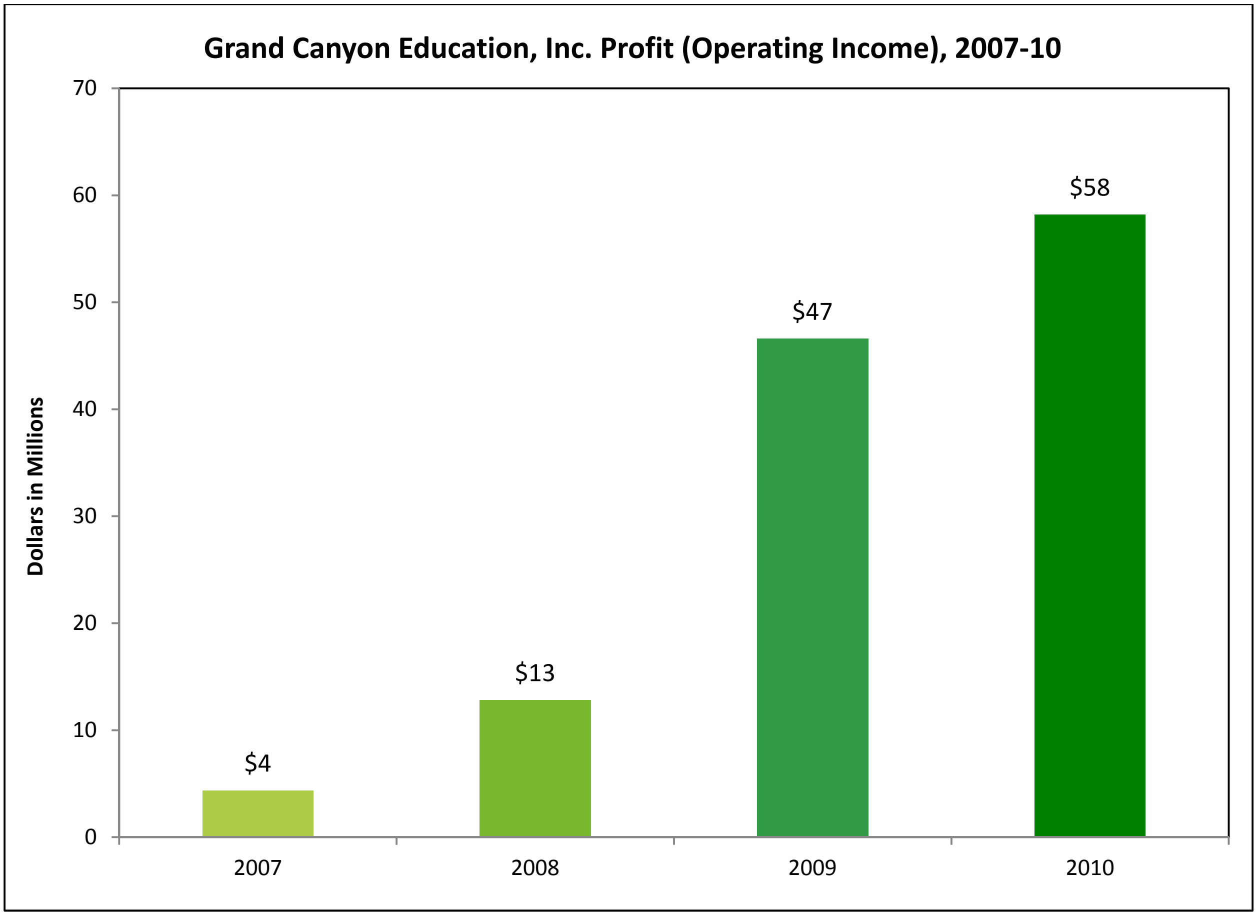
[1938] Pell disbursements are reported according to the Department of Education's student aid "award year," other revenue figures are reported according to the company's fiscal year.
[1939] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 and 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html.
[1940] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.
[1941] 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 is based on operating income.

In 2009, Grand Canyon allocated 17.8 percent, or $47 million, of its revenue to profit and 32.6 percent, or $85 million, to marketing and recruiting.[1942] The percentage of revenue that Grand Canyon devoted to marketing is the second highest of all the companies examined by the committee.



Grand Canyon's profit has grown dramatically since the company's IPO, from $4.3 million in 2007 to $58.1 million in 2010, a 1,250 percent increase.

[1942] "Other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.



Executive Compensation

Executives at Grand Canyon, like most for-profit executives, are 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.[1943] In 2009, Grand Canyon CEO Brian Mueller received $2.2 million in compensation, more than three times as much as the president of the University of Arizona who received $633,206 in total compensation for 2009-10.

[1943] 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 2008-9 school year. See Appendix 17a.

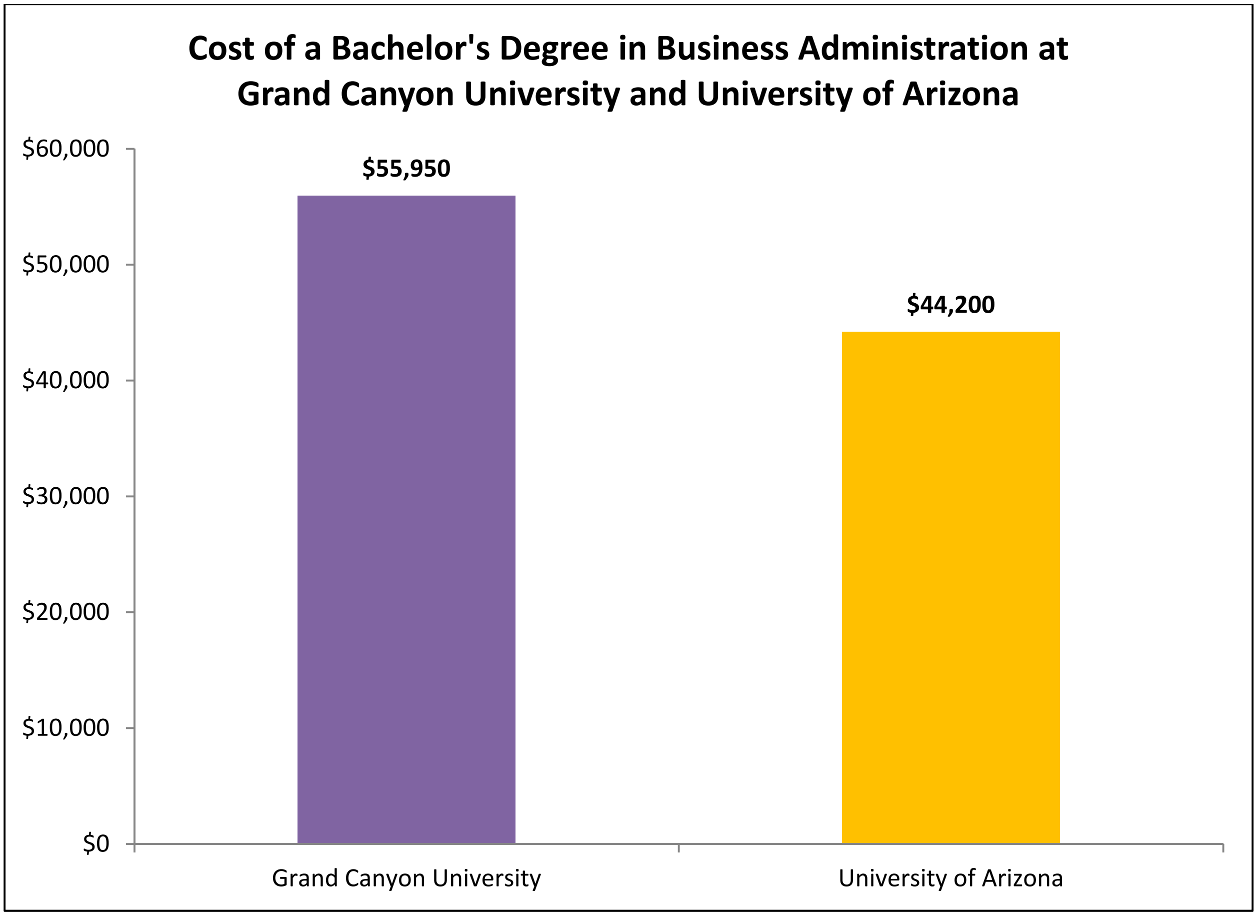
Executive	Title	2008 Compensation	2009 Compensation	2010 Compensation
Brian E. Mueller	CEO & Director	$1,965,023	$2,167,364	$1,028,705
Dr. W. Stan Meyer	Executive VP	$282,365	$991,256	$457,941
Daniel E. Bachus	CFO	$254,667	$981,058	$415,161
Joseph N. Mildenhall	Chief Information Officer	Not Available for 2008	$705,313	$720,968
Dr. Kathy Player	President	$455,514	$664,535	$420,184
Christopher C. Richardson	General Counsel & Director	$323,250	$434,497	$379,019
Brent D. Richardson	Executive Chairman	$345,038	$337,508	$340,333
Total[1944]			**$6,281,531**	**$3,762,311**

The chief executive officers of the large publicly traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[1945] Mueller's $2.2 million compensation package for 2009 is slightly less than one-fourth the average for publicly traded education companies. However, it is still noteworthy given that 60 percent of the company's students who enrolled that year left by mid-2010.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Grand Canyon University. A Bachelor's of Science in Business Administration at Grand Canyon University costs $55,950.[1946] The same degree at University of Arizona costs approximately $44,200.[1947]

[1944] 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.
[1945] 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.
[1946] See Appendix 14; and see, Grand Canyon University, *Degree Programs*, http://www.gcu.edu/degree-programs/?name=Bachelor+of+Science+in+Business+Administration (accessed July 12, 2012). Grand Canyon estimates the cost of this program as between $55,950–$69,350, including books and supplies.
[1947] See Appendix 14; and see, University of Arizona, *University of Arizona*, www.arizona.edu (accessed July 12, 2012).



These tuition disparities persist despite statements from representatives of the school that tuition would be competitive with local public universities due to the large influx of investor money following the company's IPO in 2008.[1948]

The higher tuition that Grand Canyon charges is reflected in the amount of money that Grand Canyon collects for each veteran that it enrolls. From 2009-11, Grand Canyon trained 1,788 veterans and received $10 million in VA benefits ($5,817 per veteran). In contrast, public institutions, on average, took in $4,642 per veteran trained.[1949]

If potential students object that Grand Canyon is too expensive, a Grand Canyon training instructs recruiters to respond:

> Is price a deciding factor for you when comparing colleges. How much were you expecting to pay for college? Many people have thought the same thing about our programs, but after researching the competitors you'll see we are very reasonable. In addition, can you afford not to go back to school? With the recent research on how much

[1948] "University of Phoenix, Grand Canyon University Prosper in Recession," *Significant Federation*, February 20, 2009, http://www.significantfederation.com/blog/significantfederation/university-of-phoenix-grand-canyon-university-prosper-in-recession.html (accessed June 14, 2012).
[1949] 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.

> more money you're apt to make after you earn your degree, isn't it time to get started now.[1950]

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, prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, internal documents from Grand Canyon reflect an aggressive recruiting posture. Recruiters at Grand Canyon were expected to make 80-89 phone calls a day to prospective students.[1951] They were encouraged to create a sense of urgency and "assume that **NOW** is a good time to talk with the student." [1952] Grand Canyon counseled recruiters to "use the FERN [Frustrations, Effects, Rewards, and Next Steps] technique to uncover a student['s] motivation, the need for earning the degree and paint a picture of two futures: with a degree and without a degree." [1953] Like many other for-profit colleges, Grand Canyon recruiting documents taught methods to uncover prospective students' pain and pleasure points.[1954] "The strongest, most basic force is avoiding or overcoming a threat or pain," one training presentation tells employees, "For a prospective student to need a solution, this need must be propelled by the desire to avoid or overcome an existing problem." [1955] The training encouraged asking "probing questions, which slowly peel away pain layers." [1956]

Unlike many other for-profit colleges, Grand Canyon's enrollment agreement does not include a binding arbitration clause.[1957]

Recruiting Efforts at Wounded Warrior Centers and Veterans' Hospitals

The committee found some companies' pursuit of military benefits led them to recruit from the most vulnerable military populations, sometimes recruiting directly from wounded warrior centers and veterans hospitals. A recruiter at Grand Canyon University sent a superior the following note regarding her recruiting event for a wounded warrior unit:

> We were a big hit[.] I consolidated our position with the Army National Guard at this event…I also made many contacts with the wounded warrior unit that I had not been able to make in the past (the post has a non-solicitation policy)…I also gained 5 solid leads that will turn into applications this next week. Here is the receipt.[1958]

[1950] Grand Canyon University, January 29, 2010, *Overcoming Objections Phase 4* (GCUHELP006343, at GCUHELP006355); See also Grand Canyon University, 2009, *GCU Student Services Training: Chapter 11: Enrollment Strategies* (GCUHELP003958).
[1951] Grand Canyon University, *Enrollment Manager, What is Your Role?* (GCUHELP006204 at GCUHELP006214).
[1952] Grand Canyon University, March 31, 2010, *GROW your Prospects* (GCUHELP011957).
[1953] Grand Canyon University, 2009, *GCU Student Services Training: Chapter 11: Enrollment Strategies* (GCUHELP003958 at GCUHELP003962); See also Grand Canyon University, 2005, *Chapter V. Selling* (GCUHELP004306).
[1954] Grand Canyon University, January 29, 2010, *Overcoming Objections Phase 4* (GCUHELP006343, at GCUHELP006349).
[1955] Id. at GCUHELP006345.
[1956] Id.
[1957] Grand Canyon University, *Enrollment Agreement* (GCUHELP004756).
[1958] Grand Canyon University Internal Email, April 1, 2010, re: *Pizza Receipt* (GCUHELP 019907).

Grand Canyon states that a small proportion of the company's revenues come from military program funds and that the company does not "target" military and former military students.

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 students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1959]

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." These metrics indicate that many students who enroll at Grand Canyon are not achieving their educational and career goals.

Retention Rates

Information Grand Canyon provided to the committee indicates that out of 17,643 students who enrolled at Grand Canyon in 2008-9, 58.5 percent, or 10,212 students, withdrew by mid-2010. Compared to the average withdrawal rate of 54.1 percent for the 30 schools the committee examined, Grand Canyon's withdrawal rate was slightly higher. However, Grand Canyon enrolls a significant portion of Master's degree students, who withdrew at a lower rate.

Status of Students Enrolled in Grand Canyon Education, Inc. in 2008-9, as of 2010						
Degree Type	Enrollment	Percent Completed	Percent Still Enrolled	Students Withdrawn	Withdrawn	Median Days Attended
Bachelor's	17,463	3.2%	38.3%	10,212	58.5%	125
Master's	9,960	12.2%	45.3%	4,227	42.4%	132
All	27,423	6.5%	40.9%	14,439	52.7%	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.

Online vs. *Brick and Mortar Outcomes*

An analysis of withdrawal rates among the 11 companies that provided disaggregated data indicates that students enrolled in online programs had higher withdrawal rates than students enrolled in campus based programs. A comparison of the outcomes for students who attended Grand Canyon online and students who attended the brick and mortar campus indicates that online Bachelor's degree students withdrew at a significantly higher rate, 59.6 percent, compared with their brick and mortar counterparts who withdrew at a rate of 37.9 percent.

[1959] Patricia Steele and 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).

Status of Online Students Enrolled in Grand Canyon in 2008-9, as of 2010							
Degree Type	Enrollment	Students Completed	Percent Completed	Still Enrolled	Percent Still Enrolled	Students Withdrawn	Withdrawn
Bachelor's	16,581	456	2.8%	6,247	37.7%	9,878	59.6%

Status of Brick and Mortar Students Enrolled in Grand Canyon in 2008-9, as of 2010							
Degree Type	Enrollment	Students Completed	Completed	Still Enrolled	Percent Still Enrolled	Students Withdrawn	Withdrawn
Bachelor's	882	105	11.9%	443	50.2%	334	37.9%

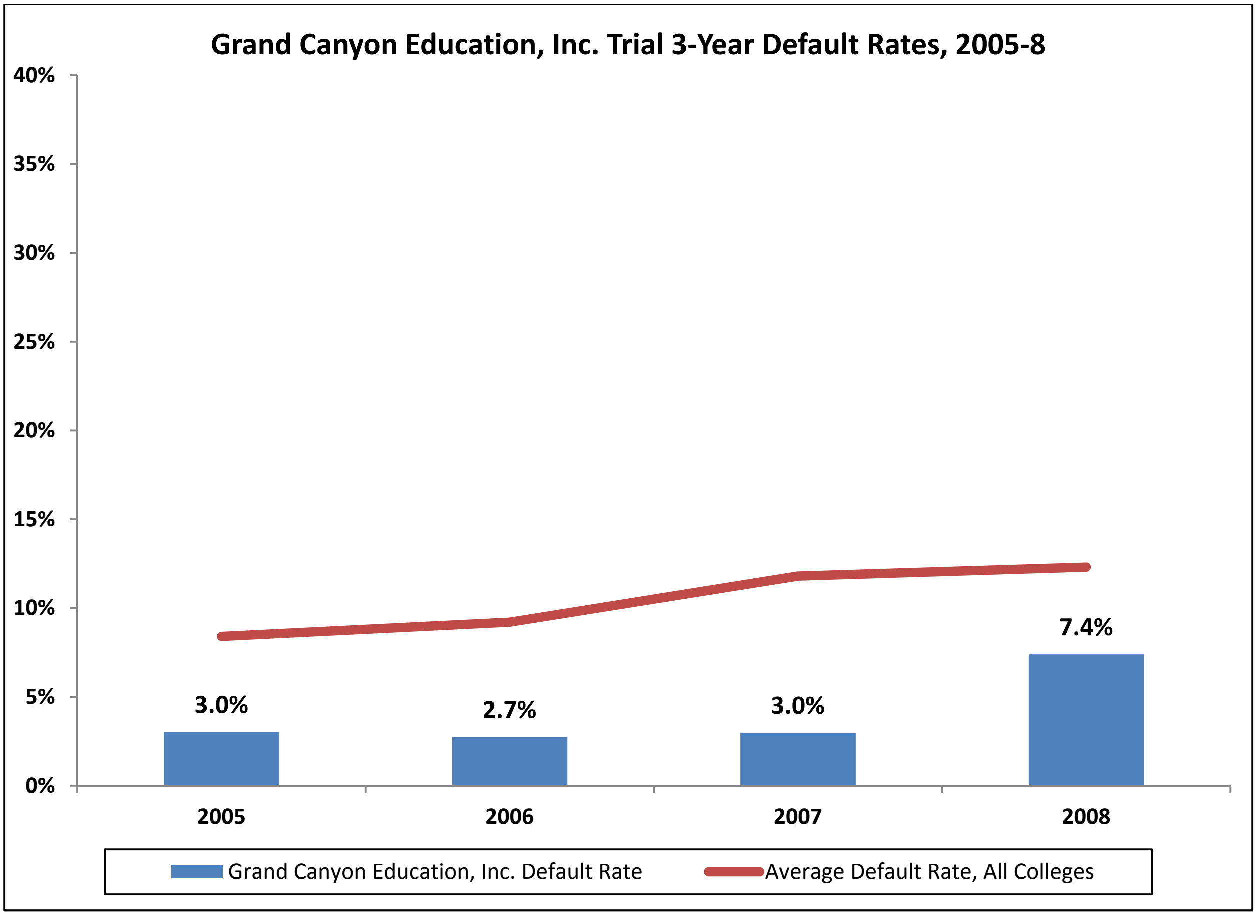
Student Loan Defaults

The number of students leaving Grand Canyon without degrees does not correlate with the low rate of student loan defaults by students who attended Grand Canyon. 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.[1960]

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.[1961] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1962] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1963] 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.[1964]

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.[1965] While the 3-year default rate at Grand Canyon has gradually increased, growing from 3.0 percent for students entering repayment in 2005 to 7.4 percent for students entering repayment in 2008, its default rate is significantly below the average 3-year default rate for the for-profit education sector and one of the lowest rates among the 30 schools examined by the committee.

[1960] Direct Loan Default Rates, 34 CFR § 668.183(c).
[1961] 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.
[1962] Id.
[1963] Id.
[1964] Id.
[1965] U.S. Department of Education 3-year cohort default rate, for students entering repayment in fiscal years 2005, 2006, 2007 and 2008. Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal years 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.



However, since the default rate is a lagging indicator – for instance, most of the students in the 2008 cohort who eventually graduated entered Grand Canyon in 2003 or 2004 when the college's enrollment was much lower and the school had not embarked on its online-focused high-growth path – it almost certainly underrepresents the current default picture. The company estimates that its 3-year default rate will increase to between 14 and 15 percent.[1966]

It is likely that some companies' reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Moreover, when a student is in forbearance their loan balances continue to grow as the result of accumulating interest but default is averted both for the student and the company. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

Documents produced by Grand Canyon indicate that the company has *not* aggressively pursued forbearance and deferment over loan counseling, education, and alternative repayment options, as some companies have done. Company executives, however, expressed keen interest in the shift to a 3-year cohort default rate window. Just before 3-year cohort data was officially released, the chief financial officer of the company asked a newly-hired default management specialist "why adding a third year causes such a spike in CDR?" [1967] The employee responded that "Schools figured out how to keep students in deferments and forbearances just long enough to stay out of the two year cohorts," and "Students at a certain point run out of options and are no longer able to apply for forbearances and

[1966] Grand Canyon University, Q4 2011, Call with Investors.
[1967] Grand Canyon University Internal Email, September 4, 2009, re: *2008 Default Rate Projections* (GCUHELP019302).

such. They realize the payments are too high and they don't pay anything." [1968] He also cited the bad economy as a factor.[1969] He indicated that in order to keep the 3-year default rates low he would take the positive step of "build[ing] relationships with students while they are in school that will carry for a long time after graduation or withdrawal" [1970]

While some for-profit institutions retain the services of third-party default management companies to reduce default rates, Grand Canyon tasks internal company staff with reaching out to students on the verge of delinquency. The school's "Default Aversion Team" contacts delinquent borrowers in concert with the loan service and collection agencies.[1971] The team succeeded in "averting" 412 former students from default in December 2009 through May 2010; it is not clear from the documents provided how many of these students were placed in forbearance and deferment or were able to make payments on their loans. [1972] An internal email indicates that the team planned "to focus more on proactive measures such as: grace letters, grace phone calls, and a Borrower Education Webpage" and to educate students "as much as possible before withdrawing or graduating.[1973]

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.

Grand Canyon spent $2,177 per student on instruction in 2009, compared to $3,389 per student on marketing and $1,848 per student on profit.[1974] 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 4-year colleges and universities, 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 Arizona-based colleges spent, on a per student basis, $10,336 at University of Arizona, $10,219 at Midwestern University, and $4,305 at Phoenix College, a local community college.[1975]

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

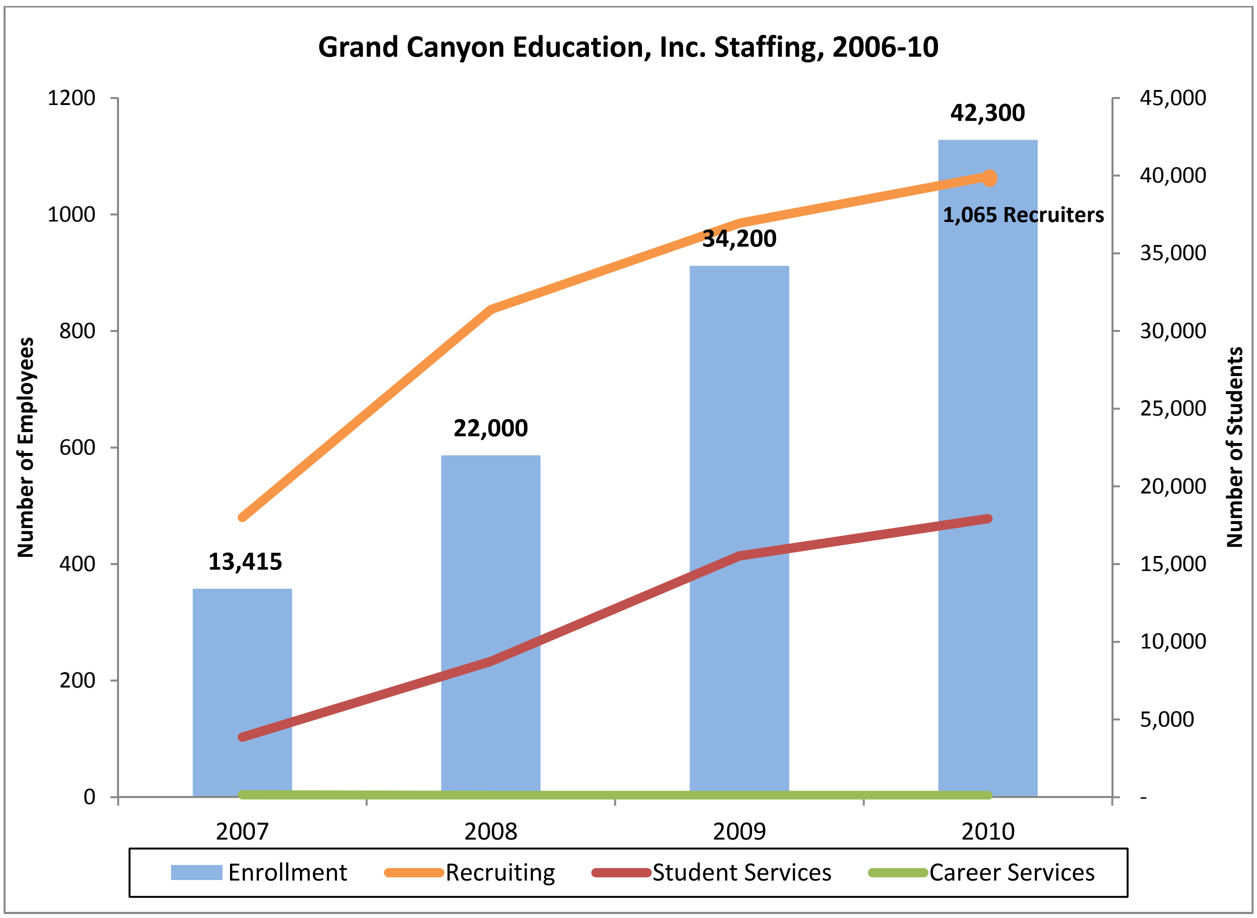
[1968] Grand Canyon University Internal Email, September 4, 2009, re: *2008 Default Rate Projections* (GCUHELP019302).
[1969] Id.
[1970] Id.
[1971] Grand Canyon University Internal Email, June 17, 2010; re: *June 2010 CDR Projections* (GCUHELP019938).
[1972] Grand Canyon University Internal Email, June 17, 2010; re: *June 2010 CDR Projections* (GCUHELP019938).
[1973] Grand Canyon University Internal Email, March 11, 2010, re: *2009 Default Rate Forecaster-March* (GCUHELP019937).
[1974] 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." Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from 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.
[1975] 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.

percent of the faculty is part-time, higher in some companies.[1976] Grand Canyon has one of the highest proportions of part-time faculty. In 2010, the company employed 99 full-time and 2,442 part-time faculty.[1977] The company fired 17 full-time professors in 2005 that had been with the college before its conversion to a for-profit company.[1978]

Staffing

While for-profit education companies employed large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 42,300 students, Grand Canyon employed 1,065 recruiters, 3 career services employees and 478 student services employees.[1979]

That means each career counselor was responsible for 14,100 students and each student services staffer was responsible for 88 students, but the company employed one recruiter for every 40 students.



[1976] 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 24.
[1977] Id.
[1978] Elizabeth Redden, "For-Profit For God," *Inside Higher Ed*, August 3, 2009, http://www.insidehighered.com/news/2009/08/03/christian (accessed June 14, 2012).
[1979] Id. See Appendix 7 and Appendix 24.

Enforcement Actions

In August 2008, the Inspector General of the Department of Education started an investigation and served an administrative subpoena on Grand Canyon Education requiring it to provide certain records and information related to performance reviews and salary adjustments for all of its enrollment counselors and managers from January 1, 2004 to August 2008. On September 11, 2008, Grand Canyon Education was served with a lawsuit that charged that it violated the ban on recruiter incentive compensation. The case was settled on August 18, 2010, for $5.2 million.[1980]

Conclusion

Grand Canyon Bachelor's students withdraw at a higher rate than many others the committee examined. However, the company's low default rate does not reflect the high proportion of students leaving Grand Canyon with student debt but no college degree. This default rate is a lagging indicator, as many of the students who entered repayment in 2008 enrolled in Grand Canyon in 2003 or 2004 when the school's enrollment was much lower and before its online-program enrollment grew. As the company continues to grow, it is likely that its default rate will increase. Moreover, the high percentage of its revenue Grand Canyon spends on marketing relative to instruction and the low number of career services employees also present areas of particular concern.

[1980] Megha Mandavia, "Grand Canyon settles False Claims Act case for $5.2 mln," *Reuters*, August 18, 2010, http://www.reuters.com/article/2010/08/18/grandcanyoneducation-idUSSGE67H0JC20100818 (accessed July 7, 2012).