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Before the New York
Senate Finance Committee and
Assembly Ways and Means Committee

On Article VII Budget Legislation (S.1506/A.2006),
Part E, "For-Profit College Accountability Act"

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Chairs Krueger, Weinstein, and members of the joint committees, thank you for allowing me to submit this testimony for today's hearing.

The Center for Responsible Lending (CRL) is a nonprofit, nonpartisan research and policy organization which is dedicated to protecting homeownership and family assets by working to eliminate abusive financial practices. We strive to promote responsible lending and access to fair terms of credit for low-wealth families. CRL is an affiliate of Self-Help Credit Union, which is the nation's largest community development financial institution with a mission of helping underserved people and communities build wealth and assets.

To that end, over the past few years we have worked on student lending issues, particularly as they relate to for-profit schools. This written testimony will focus on three key areas of concern: 1) for-profit schools result in less favorable outcomes and higher debt loads for New York students; 2) New York for-profit schools deepen the racial wealth gap and disproportionately harm low-income families and women; and 3) the federal rollback of existing protections bolsters the need for state action.

For-profit schools target students of color, low-income students, women, and veterans for enrollment, while failing to provide a quality education enabling students to obtain gainful employment. As is described below, New York for-profit students are more likely to have higher debt loads, lower graduation rates, and higher default rates than other students in the state. Consequently, an inordinate number of low-income students, students of color, and women in New York are left with large loans that they cannot repay and very little to no educational benefit in return. The state can and must act to fill the void left by multiple rollbacks at the federal level to ensure that New York students and the state's taxpayers are protected from predatory for-profit colleges. Part E of the Education, Labor and Family Assistance Article VII Budget Legislation (S.1506/A.2006), the "For-Profit College Accountability Act", is New York's answer to those federal rollbacks.

1. For-profit schools result in less favorable outcomes and higher debt loads for New York students.

For-profit colleges are nothing new. In fact, one of the first for-profit schools was a secretarial and typing school during the Industrial Revolution, which prepared students for office jobs that got them off the farm and assembly line. What is new, however, is the explosive growth that these schools have seen since the financial crisis of the mid-2000s, coupled with Wall Street's increasing role in the for-profit industry.

In the wake of that explosive growth came fraud. Abuses by for-profit schools are well-documented. These predatory practices include misrepresentations of graduation rates, job placement rates, and likely earnings, all the while engaging in high-pressure sales tactics in attempts to enroll as many students as possible in order to gain access to as much federal, and even state, financial aid dollars as possible.[1] In light of their business model driven by enrollment rather than instruction, for-profits typically spend significantly more on marketing, recruiting, and stockpiling profits than on actual instruction of students.[2] In New York, for every $1 of tuition received, for-profit schools spent just $.41 on instruction, compared to $.85 spent on instruction at private nonprofit colleges and $2.15 at public schools.[3]

The cost to attend a for-profit school is significantly higher than the cost of local community colleges or other public schools. As a result, the majority of students resort to student loans to pay for their tuition, and a majority of students leave school without a degree or with a degree that is worthless.[4] Students are thus burdened with substantial debt, often without a degree or any measurable benefit or greater earnings.[5] CRL research shows that among New York for-profit schools offering four-year degree programs, 65.7% of New York for-profit students borrow to attend school, graduating with almost $28,568 in debt, compared to 41.3% of the students who borrow to attend the state's public schools and who graduate with $16,665 in debt.[6] Similarly, New York's for-profit students are less likely to graduate – 40.8% of for-profit students graduate within six years, compared to 54.8% of the state's public students.[7]

Because of the schools' poor quality – and often fraudulent – offerings, students are typically unable to obtain employment that will enable them to repay their loans when they leave. Among New York for-profit colleges, 38% leave a majority of their students earning less than a typical high school graduate.[8] None of the state's public universities leave students worse off financially, and only 13% of the state's private nonprofit schools do so.[9] In large part because of this fact, New York students who attend for-profit schools are more likely to default on their student loans – 10.1% default within 3 years (compared to 4.7% of public and nonprofit students, each)[10] – and almost half (47%) of students who start at a New York for-profit school default within 12 years, a rate more than four times those at the state's public and nonprofit schools.[11]

While New York supports higher education accessibility through multiple scholarships and grants made possible by the state, the state also financially supports through these funds the same for-profit schools that are leaving New Yorkers worse off financially and educationally. In fact, no state sends more state financial aid dollars to for-profit schools than New York does – more than $58 million of state dollars in the 2016-17 academic year went to for-profit schools.[12] The state's significant financial support of for-profit schools that fail to provide the promised education and leave students worse off is particularly concerning. According to a recent report, of the state funds that went to for-profit schools in 2015-16, $31 million went to schools where more than two-thirds of students were not able to make even one payment on their federal student loans three years after leaving school.[13]

2. *New York for-profit schools deepen the racial wealth gap and disproportionately harm low-income families and women.*

The outcomes previously mentioned are particularly concerning given the well-documented targeting by for-profit schools of lower-income, largely non-traditional students because they qualify for substantial federal and state grant and loan aid.[14] These predatory practices disproportionately impact communities of color, veterans, and female heads of households, contributing to the very inequalities in our economy that these schools purport to address.[15]

In New York, undergraduate enrollment at for-profit colleges are more likely to be students that are African-American (29%), low-income (61.2%), and women (67.7%) compared to enrollment at New York's public and private nonprofit institutions.[16] As previously mentioned, New York for-profit students are also more likely to have higher debt loads, lower graduation rates, and higher default rates than other students in the state.[17] Unfortunately, this means that an inordinate number of low-income students, students of color, and women are left with large loans that they cannot repay, and very little to no educational benefit in return. In fact, according to one recent report, 72% of African American students who enrolled in New York for-profit colleges default within 12 years of leaving the school.[18]

Students of color, low-income students, and female students face additional barriers in repaying their student debt due to structural inequities in family wealth, education, and employment. For generations, government-sanctioned policies kept African-American families from accumulating wealth through such practices as redlining, restrictive covenants, lending discrimination, and encouraging neighborhood segregation.[19] With less wealth than their white peers, Black students are more likely than other racial groups to borrow and to borrow more for their education[20] and to graduate with greater debt loads.[21] Unfortunately, these disparities only widen after graduation, in no small part due to discrimination in the labor market.[22]

Approximately 34% of all women and 57% of Black women who were repaying student loans reported that they had been unable to meet essential expenses within the past year.[23] Women graduate, on average, with $2,700 more in student loan debt, and because they earn about 26% less, paying off their debt takes significantly longer.[24] This is especially true for women of color, who face even greater income disparities. Black women have the greatest average amount of student loan debt.[25]

Far from helping students of color, low-income students, and female heads of household advance economically by expanding educational and professional opportunities, for-profit schools instead contribute to the structural economic inequities that exist in New York and the United States.

3. Federal rollback of existing protections bolsters the need for state action.

Despite the well-documented numerous problems and concerns with for-profit colleges, the U.S. Department of Education is currently taking steps to roll back existing protections against student loan servicing abuses. For the past two years, the Department has engaged in multiple efforts to protect industry interests at the expense of harmed students by undoing or weakening federal regulations that protect students from predatory for-profit colleges.[26]

In light of the federal government's failure to meet its obligation to protect students, states can and must take action to fill the void. Indeed, states have long played a critical role in the oversight and authorization of programs and schools offering postsecondary education and the protection of students from predatory practices by for-profit schools.[27] As a bipartisan group of thirty state Attorneys General, led by the New York Attorney General's Office, wrote to Members of Congress last year:

> *Given the states' experience and history in protecting their residents from all manner of fraudulent and unfair conduct, they play an essential role in consumer protection in student loans and education. States are uniquely situated to hear of, understand, confront, and ultimately, resolve the abuses their residents face in consumer marketplace. Abuses in connection with schools or student loans are no different. As with other issues facing their citizens, state regulators bring a specialized focus to, and appreciation for, the daily challenges experienced by students and borrowers. Far from interfering with the Department and other federal efforts to rein in abuses, the record overwhelmingly demonstrates that state laws and state enforcement complement and amplify this important work.*[28]

Part E of the Education, Labor and Family Assistance Article VII Budget Legislation (S.1506/A.2006), the "For-Profit College Accountability Act", is a strong step in the right direction by ensuring that the for-profit schools operating within New York's borders meet minimum quality standards for education. States such as New York are well-positioned to play a critical role in ensuring the integrity of the education of for-profit college students. This is important particularly in light of the fact that a vast majority of for-profit schools rely on taxpayer money, fueling their efforts to enroll students with little concern about the ultimate outcome.

Far from forcing schools to shut down or limiting access to education, these standards will help to ensure that schools are in fact offering students an education that will help them achieve gainful employment. New York has the opportunity to stem the tide of for-profit school abuses and student loan debt.

Once again, thank you for the opportunity to provide these written comments and for your attention to this matter. Should you have additional questions, please contact Lisa Stifler, Deputy Director of State Policy, at 919-313-8551 or lisa.stifler@responsiblelending.org.

[1] See, e.g., N.Y. Office of the Attorney General, Press Release, "A.G. Schneiderman Announces $102.8 Million Settlement with EDMC to Forgive Student Loans and Reform Recruiting and Enrollment Practices," https://ag.ny.gov/press-release/ag-schneiderman-announces-1028-million-settlement-edmc-forgive-student-loans-and; U.S. Senate Committee on Health, Education, Labor, and Pensions, For Profit Higher Education: Failure to Safeguard the Federal Investment and Ensure Student Success (July 30, 2012), https://www.help.senate.gov/imo/media/for_profit_report/PartI.pdf..

[2] U.S. Senate Committee on Health, Education, Labor, and Pensions, For Profit Higher Education: Failure to Safeguard the Federal Investment and Ensure Student Success (July 30, 2012), http://www.help.senate.gov/imo/media/for_profit_report/Contents.pdf. The report found that for-profit schools spent about 17% of all revenue on instruction compared to at least 40% on marketing, recruiting, and profit. These figures do not include the additional funds spent on executive compensation.

[3] Yan Cao, Grading New York's Colleges (Mar. 2018), https://tcf.org/content/report/grading-new-yorks-colleges/.

[4] Id. See also, Robin Howarth and Robert Lang, Debt and Disillusionment: Stories of Former For-Profit College Students as Shared in Florida Focus Groups (Aug. 2018), https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-florida-debt-disillusionment-l-aug2018.pdf; Robin Howarth, Whitney Barkley, and Robert Lang, A Bitter Pill: Gainful Employment and Credentialism in Healthcare Support Fields (June 2018), https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-bitter-pill-jun2018.pdf.

[5] See, e.g, Robin Howarth and Robert Lang, Debt and Disillusionment: Stories of Former For-Profit College Students as Shared in Florida Focus Groups (Aug. 2018), https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-florida-debt-disillusionment-l-aug2018.pdf; Yan Cao, Grading New York's Colleges (Mar. 2018), https://tcf.org/content/report/grading-new-yorks-colleges/. See also, Complaint for Permanent Injunction and Other Relief, Consumer Financial Protection Bureau v. Corinthian Colleges, Inc., Case No. 14-7194 (N.D. Ill., Sept. 2014), http://files.consumerfinance.gov/f/201409_cfpb_complaint_corinthian.pdf (alleging that Corinthian induced student enrollment with false representations on employment prospects and financial costs, aggressive sales tactics, and falsified job placement rates and in doing so steered students into high-cost private student loans).

[6] Center for Responsible Lending, State of For-Profit Colleges: New York (Jan. 2019), https://www.responsiblelending.org/map/pdf/ny.pdf. 42.4% of New York students attending nonprofit schools borrow to attend school, graduating with $23,621 in debt.

[7] Id. 59% of New York students attending nonprofit schools graduate within six years.

[8] Yan Cao, Grading New York's Colleges (Mar. 2018), https://tcf.org/content/report/grading-new-yorks-colleges/.

[9] Id.

[10] Center for Responsible Lending, State of For-Profit Colleges: New York (Jan. 2019), https://www.responsiblelending.org/map/pdf/ny.pdf.

[11] Yan Cao, Grading New York's Colleges (Mar. 2018), https://tcf.org/content/report/grading-new-yorks-colleges/.

[12] National Association of State Student Grant and Aid Programs, 48th Annual Survey Report on State-Sponsored Student Financial Aid: 2016-2017 Academic Year, (2018), https://www.nassgapsurvey.com/survey_reports/2016-2017-48th.pdf. Notably, state dollars to New York for-profit schools decreased by about $10 million from 2015-16 to 2016-17.

[13] Tom Hilliard, Keeping New York's For-Profits on Track (Apr. 2018), https://nycfuture.org/research/keeping-new-yorks-for-profit-colleges-on-track.

[14] See Jillian Berman, Plagued by Scandal, For-Profit Colleges Target Single Mothers, Marketwatch (Sept. 11, 2017), https://www.marketwatch.com/story/plagued-by-scandal-for-profit-colleges-target-singlemothers-2017-09-07.

[15] Center for Responsible Lending, State of For-Profit Colleges (Jan. 2019), http://www.responsiblelending.org/research-publication/state-profit-colleges.

[16] Id.

[17] Id. See also Yan Cao, Grading New York's Colleges (Mar. 2018), https://tcf.org/content/report/grading-new-yorks-colleges/.

[18] Yan Cao, Grading New York's Colleges (Mar. 2018), https://tcf.org/content/report/grading-new-yorks-colleges/.

[19] See, e.g., Amy Traub, Laura Sullivan, Tatjana Meschede, and Tom Shapiro, The Asset Value of Whiteness: Understanding the Racial Wealth Gap, Demos (2017), http://www.demos.org/publication/asset-value-whiteness-understanding-racial-wealth-gap; Katie Nodjimbadem, The Racial Segregation of American Cities Was Anything but Accidental, Smithsonian (2017), https://www.smithsonianmag.com/history/how-federal-government-intentionallyracially-segregated-american-cities-180963494/.

[20] Mark Huelsman, The Debt Divide: The Racial and Class Bias Behind the "New Normal" of Student Borrowing, Demos (2015), https://www.demos.org/publication/debt-divide-racial-andclass-bias-behind-new-normal-student-borrowing.

[21] Judith Scott-Clayton and Jing Li, Black-White Disparity in Student Loan Debt More than Triples After Graduation, The Brookings Institute (Oct. 2016), https://www.brookings.edu/research/black-white-disparity-in-student-loan-debt-more-thantriples-after-graduation/.

[22] Jason N. Houle & Fenaba Addo, Racial Disparities in Student Loan Debt and the Reproduction of The Fragile Black Middle Class, CDE Working Paper No. 2018-02 (Feb. 2018), https://www.ssc.wisc.edu/cde/cdewp/2018-02.pdf.

[23] American Association of University Women, Women's Student Debt Crisis in the United States (May 2018),https://www.aauw.org/research/deeper-in-debt/.

[24] Id.

[25] Id.

[26] See, e.g., N.Y. Office of the Attorney General, "Attorney General Underwood: Secretary DeVos Puts Predatory For-Profit Schools Ahead of Defrauded Students with Proposed Borrower Defense Regulations," (Aug. 30, 2018), https://ag.ny.gov/press-release/attorney-general-underwood-secretary-devos-puts-predatory-profit-schools-ahead; Andrew Kreighbaum, Winners and Losers from DeVos Approach, Inside Higher Ed, (Aug. 7, 2018), https://www.insidehighered.com/news/2018/08/07/devos-regulatory-framework-means-less-pressure-colleges-tougher-standard-student; Letter from Lisa Madigan, et al. to The Honorable Betsy DeVos, et al. (Feb. 22, 2017), https://ag.ny.gov/sites/default/files/multistate_ag_letter_on_for-profit_schools_feb_2017.pdf.

[27] See, e.g., Robyn Smith, Ensuring Educational Integrity: 10 Steps to Improve State Oversight of For-Profit Schools (2014), https://www.nclc.org/images/pdf/pr-reports/for-profit-report.pdf.

[28] Letter from Eric T. Schneiderman, et al. to The Honorable Betsy DeVos (Oct. 23, 2017), https://ag.ny.gov/sites/default/files/devos_letter.pdf.