Department of Education Data Shows Increased Targeting of Veterans and Servicemembers, Highlighting Urgency of Closing 90/10 Loophole

Walter Ochinko
Research Director
November 2017

I. Summary

For several years, the media has reported on the declining enrollment in the for-profit sector.[1] However, our analysis of federal revenue flowing to the for-profit sector from the Departments of Veterans Affairs (VA), and Defense (DOD) highlights the heavy and growing reliance of proprietary schools on such educational benefits and suggests that the sector's targeting of veterans and servicemembers has helped to soften the impact of its overall enrollment decreases. This increased targeting of veterans and servicemembers highlights the importance of closing the 90/10 loophole in federal law in order to protect student veterans, servicemembers, and taxpayers from predatory schools.

First, an overview of the 90/10 rule provides important background on this long-standing consumer protection and demonstrates how a statutory loophole undermines the law's intent by encouraging aggressive, predatory and deceptive marketing and recruitment of veterans and servicemembers.

Second, we closely examine estimates generated by the Department of Education (ED) in 2014 and 2016 on schools' reliance on ED, VA, and DOD funds, and find that the for-profit sector has continued to recruit and enroll ever-larger numbers of veterans and servicemembers and collect their hard-earned benefits.[2] ED's estimates are based on for-profit sector revenue for two time periods—FY 2011-12 and FY-2013-14. Indeed, we find a growing reliance on VA and DOD dollars as enrollment of Title IV students has declined in recent years. Specifically, ED's data demonstrate that the sector's dependence on the federal revenue stream from veterans and servicemembers has increased by almost 60 percent—growing from $727 million in FY 2011-12 to $1.15 billion in FY 2013-14 for schools that received more than 90 percent of their revenue from federal sources. Just two publicly traded for-profit chains, the Apollo Education Group (owner of the University of Phoenix) and Bridgepoint Education (Ashford University), accounted for almost half of this increase and experienced a 20 percent and 77 percent VA and DOD revenue increase, respectively.[3] Two other chains—ITT Tech, which is now closed, and American Public University System—each received twice as much revenue from veteran and servicemember education benefits in FY 2013-14 as Bridgepoint. Hundreds of for-profit schools are almost entirely dependent on federal revenue and, if the 90-10 loophole were closed, they would thus fail the law's quality proxy—the requirement that at least 10 percent of their revenue come from non-public sources, to prove market viability.

We then take a closer look at some of the largest for-profit institutions, which were profiled in a 2012 Senate Health, Education, Labor and Pensions (HELP) Committee report, and demonstrate that the size of the target put on the back of veterans and servicemembers by these schools has grown over time, as the sector has sought to benefit from the generous GI Bill benefits and the Tuition Assistance Program.[4]

---

[1] https://www.insidehighered.com/quicktakes/2016/07/15/profit-college-sector-continues-shrink
http://fortune.com/2016/12/19/college-enrollment-decline/
http://www.chicagotribune.com/business/ct-college-enrollment-decline-1220-biz-20161219-story.html
https://www.minneapolisfed.org/publications/fedgazette/the-rise-and-fall-of-career-college-enrollment
http://money.cnn.com/2016/05/20/news/economy/college-enrollment-down/

[2] https://www.documentcloud.org/documents/1311324-ed-90-10-analysis-1-133-additional-schools-that.html and https://www.ed.gov/news/press-releases/new-analysis-finds-many-profits-skirt-federal-funding-limits

[3] Apollo was purchased by investors in 2017 and is no longer a publicly traded company.

[4] https://www.gpo.gov/fdsys/pkg/CPRT-112SPRT74931/pdf/CPRT-112SPRT74931.pdf

Third, we closely examine ED's methodology in its 2014 and 2016 analyses of 90/10 and find that ED actually underestimated for-profits education companies' reliance on federal educational assistance programs because ED excluded key VA and DOD education revenue streams from the ED calculations. We believe these funding streams must be counted in future estimates.

Finally, we conclude that the increased dependence of for-profit schools on VA and DOD educational benefits underscores the importance of closing the 90/10 loophole in order to remove the implicit incentive for aggressive and misleading recruiting, as proposed by numerous Members of Congress as well as by the Obama administration.[5]

In September 2016, DeVry announced that it would voluntarily limit its federal revenue to 85 percent, in effect closing the 90/10 loophole.[6] DeVry received significant praise for its announcement from organizations that have long advocated for removing the target from the backs of veterans and servicemembers. The data support DeVry's commitment, showing DeVry had already reduced its reliance on federal revenue at the time of its announcement. DeVry's overall reliance on federal revenue for its DeVry University brand dropped from 89 percent in FY 2011-12 to 71 percent in FY 2013-14, and revenue from VA and DOD programs declined by 87 percent, falling from about $137 million to $17 million. [7] DeVry's decreased dependence on federal revenue suggests that other for-profit chains can adjust their business model to comply with an 85 percent federal revenue cap that includes VA and DOD education benefits.

II. Background on the 90/10 Rule and Loophole

An 85 percent cap on revenue at for-profit schools from federal student aid funds (Title IV) was enacted in 1992 to address significant default rates by students attending such institutions.[8] In 1998, the cap was raised to 90 percent, resulting in the so-called 90/10 rule. The idea behind the Title IV revenue cap was a market viability test: that taxpayers should not prop up low-quality schools that could not survive in the open market. Institutions offering a quality education at a competitive price should be able to attract at least 10 percent of their revenue from employers, scholarship providers, or students who are willing to pay the tuition.[9]

In 2009, Congressional staff told Bloomberg News that GI Bill and DOD funds were not included by Congressional staff in the 1992 cap on Title IV revenue because there was no generous GI Bill at the

---

[5]https://www.durbin.senate.gov/newsroom/press-releases/durbin-reed-blumenthal-warren-congress-should-end-loophole-that-encourages-for-profit-colleges-to-target-veterans-and-servicemembers and
https://www2.ed.gov/about/overview/budget/budget17/justifications/n-sao.pdf
https://ed.gov/about/overview/budget/budget16/justifications/o-sao.pdf
[6]https://www.insidehighered.com/news/2016/09/20/devry-university-plans-adopt-financial-reform-favored-profit-critics
[7]Bridgepoint's 20 percent increase is based on VA and DOD revenue received by its Ashford brand. Bridgepoint also owns University of the Rockies, which is treated as a separate entity for purposes of 90/10 reporting. Its VA and DOD revenue was only 2.3 percent of that received by Ashford.
[8]The cap was included in the Higher Education Amendment of 1992. http://www.finaid.org/loans/90-10-rule.phtml
[9]State student aid and private student loans also count on the 15 percent side of the 85/15 equation. See http://www.chronicle.com/article/Colleges-Scramble-to-Avoid/126986/ According to lawsuits filed by the Consumer Financial Protection Bureau, both Corinthian and ITT Tech raised tuition to the point that federal student aid no longer covered tuition and fees, forcing students to take out private loans with significantly higher interest rates in order to continue classes. See http://files.consumerfinance.gov/f/201409_cfpb_complaint_corinthian.pdf and http://www.consumerfinance.gov/about-us/newsroom/cfpb-sues-for-profit-college-chain-itt-for-predatory-lending/

time and, as a result, for-profit colleges were not yet aggressively targeting military students. In short, it was a simple oversight.[10] They also told Bloomberg News that "Counting Defense Dept. funding for servicemen's education as part of the money that's supposed to come out of consumers' pockets violates the purpose of the original legislation." Thus, the legislative history shows that an inadvertent exclusion of GI Bill and DOD funds created what is now referred to as the 90/10 loophole.

Historically, For-Profit Schools Have Targeted Veterans

The 85 percent cap on Title IV revenue enacted in 1992, which subsequently became a 90 percent cap, was modeled after the 85/15 requirement enacted by the 1952 Korean War era GI Bill. While the 1992 rule focused on revenue, the Korean War requirement limited non-veterans to 15 percent of *student*s enrolled in a GI Bill-approved degree program. As chronicled in a recent Century Foundation report, VA's 85/15 rule was a response to the repeated targeting of veterans by proprietary schools using aggressive and deceptive recruiting tactics.[11]

Following the enactment of the post-WWII GI Bill, "fly-by-night" proprietary schools proliferated. In a special message to Congress in 1950, President Truman noted that "[I]n a good many instances veterans have been trained for occupations for which they are not suited or for occupations in which they will be unable to find jobs when they finish their training."[12] Truman's statement followed a 200-page report by VA which found "irregularity or questionable practices" at the majority of proprietary schools receiving GI Bill funds. Two other reports released in 1952 reached similar conclusions. First, the U.S. General Accounting Office found that proprietary schools were targeting veterans with "extensive advertising campaigns, which were often misleading and laden with extravagant, unjustifiable claims . . . conducted for the express purpose of attracting veterans." Second, a House Select Committee report concluded that "exploitation by private schools has been widespread" and that there was "no doubt that hundreds of millions of dollars [had] been frittered away on worthless training."[13]

Impact of the 90/10 Loophole

Because of the 90/10 loophole, many for-profit colleges target veterans and service members with aggressive and deceptive recruiting to collect as much GI Bill and DOD revenue as possible. For every dollar a for-profit school receives from the GI Bill or DOD, that school can receive $9 more from ED student aid funds. In 2011, Holly Petraeus, then the Assistant Director for Service Member Affairs at the Consumer Financial Protection Bureau (CFPB), wrote that this loophole "gives for-profit colleges an incentive to see service members as nothing more than dollar signs in uniform, and to use aggressive marketing to draw them in."[14] As one for-profit college campus president-turned-whistleblower told veterans' organizations and federal officials last summer, "We cleaned up all our materials, but, behind closed doors, our recruiters will do anything and say anything to get the GI Bill."

---

[10]Daniel Golden, "For Profit Colleges Target the Military," *Bloomberg News* (Dec. 30, 2009), available at https://www.bloomberg.com/news/articles/2009-12-30/for-profit-colleges-target-the-military.

[11]The Century Foundation, "Truman, Eisenhower, and the First GI Bill Scandal" (2017) available at https://tcf.org/content/report/truman-eisenhower-first-gi-bill-scandal/

[12]Ibid.

[13]Ibid.

[14] Hollister Petraeus, "For-Profit Colleges, Vulnerable GIs," the *New York Times* (Sept. 22, 2011), available at http://www.nytimes.com/2011/09/22/opinion/for-profit-colleges-vulnerable-gis.html

Evasion Tactics Used to Ensure Compliance

For-profit schools very rarely violate the 90 percent threshold on federal student aid 2-years in a row and thus hardly ever lose eligibility under the Title IV program.[15] Once schools exceed the threshold, some reportedly resort to evasion tactics to ensure compliance the following year.[16] Tactics include (1) delaying disbursement of aid to a different 90/10 reporting period, (2) combining campuses that exceed the 90 percent cap with those which are below the cap, and (3) converting from for-profit to non-profit status to evade the cap and other ED regulations intended to protect students.[17]

Support for Closing the Loophole

The 2012 Senate HELP Committee report highlighted the importance of closing the 90/10 loophole. The report found that the number of veterans using the new, more generous Post-9/11 GI Bill presented an appealing target for proprietary schools, whose aggressive and misleading recruiting tactics were thoroughly documented in the report: (1) use of lead generators to identify potential students; (2) relentless calls and emails; (3) reliance on "pain-points" (vulnerabilities) to induce enrollment; (4) obfuscating key facts, such as the tuition, by using methods that the schools referred to as "overcoming objections" (e.g., "You don't need to worry about cost because the GI Bill is going to pay your tuition"); and (5) dissemination of misleading information about costs, quality, accreditation, transfer of credits, job placement assistance and job placement rates.[18] Since 2012, ten for-profit chains have settled allegations of misleading advertising and recruiting with federal agencies or state Attorneys General, paying fines totaling $411 million (see Appendix I).

Nearly two-dozen state Attorneys General have called on Congress to close the loophole because it violates the clear intent of the law.[19] Both the Senate and House introduced legislation during the 114th Congress (S. 1664, H.R. 3988) that would include GI Bill and DOD educational benefits in the current 90 percent cap on federal revenue. Similar legislation was introduced in both the 114th (S. 2272, H.R. 4101) and 115th (S. 2037) Congress that would both close the loophole and reset the cap to its original 85/15 ratio. The Obama Administration also supported closing the loophole and restoring the cap to 85/15.[20]

Post-9/11 GI Bill

The 2008 enactment of the new Post-9/11 GI Bill and its implementation a year later provided for-profit schools with an additional incentive to recruit veterans: Rather than the flat monthly amount paid directly to veterans under the Montgomery GI Bill, the new, more generous GI Bill pays tuition and fees directly to schools, and separate housing and book stipends to veterans. Ironically, making

---

15 https://studentaid.ed.gov/sa/about/data-center/school/proprietary

16 http://ticas.org/sites/default/files/pub_files/ticas_dtr_neg_reg_comments.pdf

17 See http://ticas.org/sites/default/files/pub_files/ticas_dtr_neg_reg_comments.pdf and The Century Foundation, *Five Reasons For-Profit Owners Want to Claim Nonprofit Status,* March 22, 2016.

18 U.S. Senate Health, Education, Labor, and Pensions Committee, *For-Profit Education: The Failure to Safeguard the Federal Investment and Ensure Student Success,* July 2012. https://static1.squarespace.com/static/556718b2e4b02e470eb1b186/t/56112334e4b09e1a44ef8bbb/1443963700714/ExecutiveSummary.pdf

19 https://www.iowaattorneygeneral.gov/media/cms/Schools_4_profit_924BF51B5599F.pdf

20 https://www.ed.gov/news/press-releases/open-letter-service-members-and-veterans-us-under-secretary-education-ted-mitchell-our-service-members-and-veterans

payments directly to colleges, rather than to the veterans, had been identified as a major source of the fraud after WWII.[21]

The Post-9/11 GI Bill covers in-state tuition at public colleges and up to an inflation-adjusted cap, currently about $22,000, at for-profit and non-profit institutions. Many for- and non-profit schools also participate in the Yellow Ribbon Program, which allows institutions and VA to split the cost of some or all of any gap between tuition and GI Bill coverage.[22] The housing stipend is essential to many veterans because they are usually non-traditional students who are older and often have family obligations. According to VA, Post-9/11 GI Bill expenditures for tuition and fees for beneficiaries attending for-profit schools totaled $8.1 billion from August 2009 through September 30, 2014, representing 40.3 percent of all Post-9/11 GI Bill tuition and fee payments.[23]

DOD Educational Benefits

The Defense Department (DOD) provides educational benefits to servicemembers through its Tuition Assistance program. The program pays up to $4,500 annually in tuition for courses that are approved by each military service's education officer. In FY 2015, DOD expenditures on Tuition Assistance totaled $518 million, 46 percent of which went to for-profit institutions.[24] In addition, eligible military spouses can participate in the Military Spouse Career Advancement Account (MyCAA) Scholarship program, which provides up to $4,000 of tuition assistance.[25] The Senate HELP Committee found that nearly 60 percent of MyCAA funds went to for-profit colleges, including an online "animal behavior" college that was one of the top recipients.

III. Education Department's Calculations Show For-Profit Schools' Growing Reliance on Veterans and Servicemembers

ED reports annually on for-profit schools' reliance on Title IV revenue, but the extent of these schools' dependency on military educational benefits has long been a matter of uncertainty.[26] In 2014 and again in 2016, ED estimated the extent of for-profit school dependence on all three major sources of federal revenue: Title IV + VA + DOD educational benefits.[27]

---

[21]The Century Foundation, op.cit. The 1952 House Select Committee concluded, "Under the policies of the Veterans' Administration… schools were allowed to virtually write their own charges against the Treasurer of the United States without regard to the amount, type, and quality of service rendered." The 1952 Korean GI Bill statute had a strict rule that the money should flow to veterans, themselves, and not to schools, and this was adhered to strictly for several decades, with the longtime House Veterans Affairs Chairman beating back three efforts in Congress to renew direct tuition payments, and, in 1972, Senator Strom Thurmond (R-SC) would tell an advocate of restoring direct payments to schools: "That was tried . . . in 1944, and it was on the books until 1951, and there were so many abuses that it had to be changed to the present system of just allotting so much for a student."

[22]The Yellow Ribbon Program is only available to veterans who served 3 years or more after September 10, 2001, about 70 percent of those who qualify for the Post-9/11 GI Bill.

[23]Not all GI Bill beneficiaries are veterans because (1) benefits can be transferred to dependents, and (2) survivors are also eligible for the GI Bill. In this report, we use the term veteran to encompass all GI Bill beneficiaries.

[24]DOD briefing slides on Tuition Assistance Program, June 27, 2016.

[25] http://www.military.com/education/money-for-school/military-spouse-career-advancement-accounts-financial-aid.html

[26]The most recent report covers July 1, 2014 through June 30, 2015. See https://studentaid.ed.gov/about/data-center/school/proprietary.

[27]For another recently published analysis of the ED 90/10 estimates for FY 2013-14 see: Robert Kelchen, *How Much Do For-Profit Colleges Rely on Federal Funds?* https://www.brookings.edu/blog/brown-center-chalkboard/2017/01/11/how-much-do-for-profit-colleges-rely-on-federal-funds/

In 2014, ED estimated for-profit school revenue to evaluate the impact of including both VA and DOD education benefits in the cap on Title IV revenue. Although the estimates were shared with the Senate HELP Committee staff, ED never published the data. The Center for Investigative Reporting obtained and reported on the estimates in October 2014.[28]

ED's analysis was based on an examination of schools' FY 2011-12 revenue. ED found that 133 of the approximately 2,000 for-profit schools that participated in Title IV received more than 90 percent of their revenue—$9.5 billion—from federal sources, including VA and DOD educational benefits. If VA and DOD funds had been counted, these schools would have violated the 90/10 rule and could have faced loss of Title IV funds had they failed to come into compliance. Because of the loophole, only about 30 schools exceeded the 90 percent threshold when military benefits are excluded from the calculation. And, if the threshold on federal revenue included VA and DOD educational funds and was lowered to 85 percent, as it originally stood, 325 schools would have exceeded the cap. Overall, federal revenue for these 325 schools totaled $15.6 billion.

A new ED analysis, released in December 2016, shows that the number of schools highly dependent on federal revenue has grown since FY 2011-12, even as total federal revenue has declined (see table 1).

ED's new analysis estimated the sector's total federal revenue for the FY 2013-14 school year, and found that 192 of the approximately 2,000 for-profit schools that participate in Title IV received more than 90 percent of their revenue totaling $7.9 billion from Title IV + VA + DOD programs, representing a decline of about $1.5 billion from FY 2011-12.[29] These 192 schools would have been in violation of the 90/10 rule if the loophole had been closed and all federal funds had been counted when assessing compliance with the 90 percent cap. However, because the revenue cap only applied to Title IV revenue, only about 17 schools exceeded the 90 percent threshold. If the cap included all federal revenue and was set at 85 percent, as it originally stood, 566 schools would have exceeded this threshold in FY 2013-14; these 566 schools received $12.6 billion—a decline of $3 billion compared to FY 2011-12 federal revenue. While Title IV revenue accounted for most of the decline in federal revenue, it was partially offset by increased revenue from VA and DOD beneficiaries.

Most importantly, schools that exceeded the 90 percent cap on federal revenue saw an almost 60 percent increase in revenue solely from VA and DOD programs—from $727 million in FY 2011-12 to $1.15 billion in FY 2013-14. In effect, for-profit schools replaced declining Title IV revenue with more federal revenue from VA and DOD educational benefits. Two for-profit chains—Apollo and Bridgepoint—accounted for almost 50 percent of this increase.

It is important to emphasize that the increase in revenue from GI Bill and DOD programs is *understated* because three of the five GI Bill benefit programs, as well as DOD's MyCAA program, are excluded from ED's estimates, a methodology flaw discussed later in Sec. IV.

---

[28] http://cironline.org/reports/taxpayer-funds-are-lifeline-for-more-than-100-for-profit-schools/

[29] U.S. Department of Education, New Analysis Finds Many For-Profits Skirt Federal Funding Limits, Dec. 21, 2016 press release. https://www.ed.gov/news/press-releases/new-analysis-finds-many-profits-skirt-federal-funding-limits

Table 1: Sector Dependence on Federal Revenue, FY 2011-12 Compared to FY 2013-14

90/10 category	Number of schools	Title IV revenue	VA + DOD revenue	Total revenue
			(dollars)	
		FY 2011-12		
Over 90 percent	133	8,767,255,508	727,118,948	9,494,374,456
85 percent or more	325	14,419,443,752	1,173,645,213	15,593,088,965
		FY 2013-14		
Over 90 percent	192	6,796,882,145	1,150,366,955	7,947,249,100
85 percent or more	566	11,203,901,514	1,427,156,046	12,631,057,560

Source: Center for Investigative Reporting publication of ED estimates for FY 2011-12 and ED's published estimates for FY 2013-14.

Note: ED's Dec. 21, 2016, press release indicated that 563 schools exceeded the 85 percent threshold but the excel dataset indicates that the total was actually 566.

For-profit schools depend more on revenue from the GI Bill than from DOD Tuition Assistance (see table 2). Of the 566 schools that received 85 percent or more of their revenue from ED + VA + DOD programs in FY 2013-14, only 14 percent received DOD Tuition Assistance revenue, while 74 percent received GI Bill revenue.

Table 2: Number of the 566 Schools Receiving VA and DOD Education Benefits in FY 2013-14 Whose Federal Revenue Is 85 Percent or Higher

Type of benefit	Number of schools with federal revenue exceeding 85 percent receiving DOD or VA revenue
DOD Tuition Assistance	79
VA education benefits	420[a]

Source: VES analysis of ED estimates.

[a]Of the 566 schools, twenty-three of the for-profit chains profiled by the 2012 Senate HELP Committee report received from $5 million to $424 million in revenue from VA and DOD educational programs.

Note: The 79 schools that received Tuition Assistance also received VA education benefits. Totals do not add to 566 because some schools that received more than 85 percent of their revenue from Title IV had no revenue from DOD and VA educational programs.

A. A Closer Look: For-Profit School Chains Profiled in the 2012 Senate HELP Report Received More than Two-Thirds of Total Federal Revenue

During the FY 2013-14 school year, just 60 chain-owned schools (11 percent) accounted for $8.5 billion of the $12.6 billion in total federal revenue (67 percent) received by the 566 schools that collected 85 percent or more of their revenue from taxpayer dollars (see table 3). These 60 chain-owned schools were among the 30 publicly-traded and privately held for-profit education companies profiled in the 2012 U.S. Senate HELP Committee report.[30] Apollo, which owns the University of Phoenix, received 25 percent of the $12.6 billion in total federal revenue and over one-third of VA + DOD revenue.

[30]Op. Cit.

Table 3: Overall Sector Dependence versus Senate HELP Profiled Schools' Dependence on Federal Revenue in FY 2013-14

	Number of schools	Title IV revenue	VA + DOD revenue	Total federal revenue
		(dollars)		
90 percent or more				
ED estimates	192	6,796,882,145	1,150,366,955	7,947,249,100
Senate HELP profiled schools	34	4,957,089,812	942,301,135	5,899,390,947
85 percent or more				
ED estimates	566	11,203,901,514	1,427,156,046	12,631,057,560
Senate HELP profiled schools	60	7,317,735,594	1,176,373,604	8,499,109,198

Source: VES calculations of ED estimates. Of the 60 schools owned by some of the 30 for-profit chains profiled by the 2012 Senate HELP report, 19 exceeded the 85 percent or 90 percent thresholds in FY 2013-14.

On average, VA and DOD educational benefits accounted for about 16 percent of the revenue received by these 60 chain-owned schools (see table 4).

Table 4: Dependence on Federal Revenue for Schools Profiled by 2012 Senate HELP Report, FY2013-14

90/10 category	Number of schools	Title IV revenue	VA/DOD revenue	Percent of revenue from VA/DOD
More than 90 percent	34	$4,957,089,812	$942,301,135	19.0
85 percent or more	60	$7,317,735,594	$1,176,373,604	16.1

Source: VES analysis of ED's 90/10 calculations.

B. Changes in Schools' Dependence on Federal Revenue: FY 2011-12 to FY 2013-14

We also analyzed changes in schools' Title IV + VA + DOD dependence on a percentage basis from FY 2011-12 to FY 2013-14 for the for-profit institutions profiled in the 2012 Senate HELP report (see Table 5). We identified 20 profiled, for-profit chains whose total federal revenue was 85 percent or greater. Because schools can aggregate multiple campuses under a single ED identification number or use separate identification numbers for campuses, the data do not show the full extent of these for-profit chains' dependence on federal revenue.

While 12 of the 20 Senate profiled chains we identified in the ED estimates use a single ED identification number for all or most of the schools they own, the remaining chains have multiple identification numbers.[31] As a result, ED's calculations cannot be used to estimate the overall dependence on federal revenue for the remaining 8 chains. In addition, not all chains that exceeded the 85 percent or the more than 90 percent thresholds in FY 2013-14 did so in FY 2012-13.

[31]Chains using multiple ED identification numbers included Alta, Career Education Corporation, Corinthian, Drake, Education Management Corporation, Kaplan, Lincoln, and Vatterott. DeVry operates DeVry University under one identification number but owns several other brands which have their own ED identification numbers. Corinthian and Drake closed after the FY 2013-14 school year. Corinthian reached an agreement with ED in June 2014 to sell itself or close in return for a continuation of federal student aid. ECMC, a debt collector with no previous educational experience, purchased more than 50 of Corinthian's campuses in February 2015. In April 2015, Corinthian declared bankruptcy after the Department of Education levied a $30 million fine for falsification of job placement rates. In December 2015, Alta, which operated under the Westwood brand, announced that it would stop enrolling new students after reaching a settlement with the Illinois Attorney General over deceptive marketing and recruiting (see App. I).

We found that not all of the five chains for which ED reported data for both time periods increased their dependence on federal revenue. Two chains (Bridgepoint and Apollo) increased their dependence on federal revenue on a percentage basis.[32] Three others (Strayer, DeVry, and ECPI) experienced a decline in their dependence (see table 5).[33] Seven chains only had data for FY 2013-14 and three exceeded the 90 percent cap (ITT, National American University, and American Public University System) and four did not (Rasmussen, American Career Colleges, Universal Technical Institute, and Herzing).

Table 5: Change in Dependence on Federal Revenue from FY 2011-12 to FY 2013-14 for Chains Profiled by the Senate HELP Committee that Report All Campuses Under a Single ED School Identification Number

For-profit chains	FY 2011-12			FY 2013-14		
	Federal student aid	VA and DOD benefits	Total federal revenue	Federal Student Aid	VA and DOD benefits	Total federal revenue
	Dollars		Percent	Dollars		Percent
ITT Tech			N/A	770,728,000	189,939,700	103.0
Bridgepoint						
Ashford	698,519,005	68,328,099	95.31	546,796,000	81,859,427	98.4
University of the Rockies	23,414,174	1,945,039	92.05	22,346,000	1,853,544	94.8
Apollo	3,461,259,000	238,781,167	92.05	2,582,111,000	423,731,945	96.2
Strayer	458,500,000	94,565,961	91.66	361,656,000	76,218,032	90.0
Nat. Am. U.			N/A	107,332,755	8,559,290	96.4
APUS[a]			N/A	154,307,870	160,163,280	93.4
UTI[b]			N/A	78,536,000	25,864,867	87.9
Rasmussen			N/A	32,033,236	0	87.4
Herzing			N/A	79,166,880	2,051,613	85.3
Am. Career Colleges			N/A	46,877,999	551,255	85.0
ECPI	116,745,761	45,919,458	91.97	109,835,805	28,216,935	76.8
DeVry[c]	772,822,000	137,001,366	88.82	472,352,000	17,351,785	70.7

Source: VES analysis of Center for Investigative Reporting publication of ED estimates for FY 2011-12 and ED's published estimates for FY 2013-14.
NA = data not available
[a]American Public University System.
[b]Universal Technical Institute.
[c]DeVry operates schools under several brand names, including three Caribbean-based medical schools, Carrington College, Chamberlin University, and DeVry University. DeVry only includes data for DeVry University.

Bridgepoint and Apollo

Bridgepoint (Ashford) and Apollo (Phoenix) experienced an increased dependence on federal revenue of three and four percentage points, respectively. Both chains, however, showed a significant

[32]Bridgepoint operates two brands, which report Title IV revenue separately—Ashford and University of the Rockies. Most students are enrolled in the former, which is primarily an online school. The increase reported here is for the Ashford brand.
[33]DeVry only includes data for DeVry University. DeVry also operates schools under several other brand names. In 2017, DeVry changed its name to Adtalem.

increase in revenue for VA and DOD educational benefits. Bridgepoint's VA and DOD revenue increased by 20 percent and Phoenix's increased by 77 percent. These increases helped to offset declines in Title IV revenue at both chains.

Strayer and DeVry

On a percentage basis, Strayer and DeVry were less dependent on federal revenue in FY 2013-14 compared to FY 2011-12. Strayer's dependence decreased by less than two percentage points and may be attributable to an increased focus on securing partnerships with businesses to provide employee training (and such revenue counts on the 10 percent side of the 90/10 equation).[34] DeVry's overall dependence on federal revenue for its DeVry University brand declined from 89 percent to 71 percent, consisting of a 39 percent drop in Title IV revenue and an 87 percent decrease in VA/DOD revenue. These declines are consistent with DeVry's September 2016 commitment to receive no more than 85 percent of its revenue from Title IV + VA + DOD programs and suggests that the chain has already made good on this pledge.[35] In November 2017, DeVry (know known as Adtalem) self-reported 90/10 compliance for FY 2017 showing that DeVry University received 82 percent of its revenue from federal sources.[36]

ITT Tech and American Public University System

Two chains, which did not exceed the 90 percent threshold on Title IV + VA + DOD revenue in FY 2011-12, did so in FY 2013-14: ITT Tech and American Military University/American Public University System (APUS). Both schools deserve comment. ITT Tech received more than 100 percent of its revenue from federal programs in FY 2013-14, which helps to explain why the chain declared bankruptcy and closed in September 2016, shortly after the ED cut off new enrollment for student receiving Title IV funds and imposed a significant increase in the school's letter of credit requirement.[37]

APUS (owner of American Military University) received 93 percent of its revenue from federal sources in FY 2013-14. In 2016, the school lobbied the Senate Armed Services Committee to include a provision in the National Defense Authorization Act that would have given for-profit recruiters unfettered access to military bases, including overseas bases; the provision sought to override DOD's rules governing base access as outlined in its Tuition Assistance MOU's.[38] DOD's rules were necessitated by aggressive and misleading recruiting on military installations by for-profit schools, including inside military hospitals caring for brain-injured servicemembers. The school was unable to provide any evidence that base access under its MOU with DOD had been impaired or had prevented the school from providing counseling to existing military students. DOD opposed the provision and it was not included in the final bill reported out of the Senate and House Conference Committee. APUS is already the largest recipient of revenue from DOD's Tuition Assistance Program and approximately one-third of the $314 million that APUS received from VA and DOD programs in FY 2013-14 came from Tuition Assistance.

---

[34] https://www.washingtonpost.com/news/grade-point/wp/2015/12/22/how-strayer-universitys-new-president-plans-to-move-the-for-profit-college-ahead/?utm_term=.c81311d31e73

[35] https://www.insidehighered.com/news/2016/09/20/devry-university-plans-adopt-financial-reform-favored-profit-critics

[36] The data are based on unaudited financials. Auditing of FY 2017 baseline 90/10 data will not occur until fall 2018. http://viewpoints.adtalem.com/wp-content/uploads/2017/09/ATGE-Student-Commitments.pdf

[37] http://www.ed.gov/news/press-releases/department-education-bans-itt-enrolling-new-title-iv-students-adds-tough-new-financial-oversight

[38] See www.dodmou.com

Career Education Corporation

Table 5 does not include Career Education Corporation because it has separate ED identification numbers for each campus. However, it is in the process of closing all but two of its brands: Colorado Technical University and American Intercontinental University.[39] Both Colorado Technical University (86 percent) and American Intercontinental University (96 percent) exceeded the 85 percent and 90 percent thresholds, respectively in FY 2013-14.

IV. Education Department Data Understates For-Profits' Reliance on Revenue from VA and DOD Educational Programs

We identified a flaw in the Education Department's analyses: ED undercounted for-profit schools' revenue from VA and DOD educational benefits in its 2014 (2011-12 academic year) and 2016 (2013-14 academic year) reports. While ED acknowledges that its estimates may over-or-understate schools' reliance on federal revenue, the Department provides no details on the VA and DOD benefits programs that were excluded from the analysis. ED's "technical description" of its 90/10 estimates states:

- *Overstatement* could occur because Title IV funds are deemed to cover tuition and fees, regardless of whether the funds are credited to the student's account to pay institutional charges or are, instead, paid directly to the student to cover living expenses. The federal revenue that counts against the 90 percent cap is limited to institutional charges, that is, tuition and fees, but not to living expenses.

- *Understatement* could occur because the amounts paid directly to students by VA were not used in the calculation and potentially some of these funds could have been used to offset tuition and fees.

Thus, ED attributes any understatement to VA's payments for living expenses (book and housing allowance stipends), which are sent directly to veterans. However, there is a more significant source of understatement: ED counted, as VA funds, only the two GI Bill programs that pay tuition and fees directly to the *school*—the Post 9/11 GI Bill and Vocational Rehabilitation and Employment Program—and omitted three other GI Bill programs, which pay a monthly stipend directly to the *veteran* that can be used for both tuition and living expenses—the Montgomery GI Bill, the Survivors and Dependents Educational Assistance Program (DEA), and the Reserve Educational Assistance Program (REAP).[40] Because the payment goes directly to the beneficiary, VA doesn't know the proportion devoted to tuition versus living expenses and therefore these three programs were omitted entirely from EDs estimates.

---

[39]It sold two brands and is teaching out 4 others. The company said that it was an opportunity to "rightsize our corporate overhead, streamline our University operations." https://www.insidehighered.com/news/2015/05/07/profit-chains-announce-new-wave-closures-and-sell-offs

[40]The label in the VA benefits column in ED's excel dataset identifies the two GI Bill programs that are included in the analysis. ED's technical description does not specifically identify the excluded GI Bill programs. The Reserve Educational Assistance Program was repealed by the FY 2016 National Defense Authorization Act. The program stopped enrolling new beneficiaries in November 2015 but those already enrolled in courses will have 4 years to complete their degrees.

Based on VA's annual benefits reports for FY 2012 and FY 2014, we can calculate the total of VA's 5 GI Bill program funds and conclude that ED's calculations excluded 16 percent and 10 percent of GI Bill payments, respectively (see table 6). The percentage of excluded payments declined between these two-time periods because more veterans are using the Post-9/11 GI Bill and fewer veterans are using the Montgomery GI Bill, one of the three excluded programs that pay all benefits directly to the veteran.

Table 6: Montgomery, DEA, and REAP Beneficiaries and Expenditures as a Percent of Total GI Bill Beneficiaries and Expenditures, FY 2012 and FY 2014

	Beneficiaries	Percent of total GI Bill Enrollment	Expenditures	Percent of total GI Bill expenditures
FY 2012	286,423	30	$1,620,759,632	16
FY 2014	245,707	23	$1,231,446,000	10

Source: Annual VA Benefits Reports, FY 2012 and 2014.

In addition, ED's calculations for DOD funds excluded revenue from DOD's Military Spouse Career Advancement Account (MyCAA). MyCAA is a workforce development program available to the spouses of junior service members that allows them to earn licenses, certificates, certifications, or degrees needed to gain employment in high-demand, portable career fields. According to DOD, MyCAA paid up to $4,000 to 36,000 spouses in FY 2012 and 24,644 spouses in FY 2014. The Senate HELP Committee found that more than 60 percent of MyCAA funds flowed to for-profit institutions.[41]

Although there is some ambiguity about how federal revenue is allocated between tuition and living expenses, we believe two factors argue for ED's inclusion of the three additional GI Bill programs and DOD's MyCAA program in its calculations of the extent of for-profit schools' dependence on taxpayer dollars.

First, for-profit schools aggressively push veterans to apply for student loans whether they are needed or not and some schools commit fraud in the process. Veterans frequently complain to Veterans Education Success (VES) about federal loans taken out in their names that they didn't want, need, or authorize. Despite the generous Post-9/11 GI Bill, for-profit schools encourage veterans to fill out the Free Application for Federal Student Aid (FAFSA) and sign the Master Promissory Note (MPN). "If you don't fill out the FAFSA, you won't know if you qualify for a Pell Grant," veterans are told. Unlike loans, Pell Grants are a "gift" that need not be repaid. And, when veterans receive a "refund" from a school, they are frequently told that it is not a federal loan but a Pell Grant, which they are free to spend as they wish.[42] Veterans tell VES, however, that in many cases these refunds are loans, not grants. One whistleblower told VES that schools routinely commit fraud by signing the MPN electronically on behalf of students.

Why do for-profit schools encourage veterans to apply for federal student aid—regardless of whether it is needed? Because Title IV payments are received within days of completing the financial aid paperwork. In contrast, GI Bill payments can take weeks to process and schools do not receive

[41]The Committee found that many of the schools were of questionable quality and did not participate in Title IV, including one school that offered an online animal behavior program. See U.S. Senate Health, Education, Labor, and Pensions Committee, *Department of Defense Data Reveals For-Profit Colleges Are Taking in the Bulk of Military Education Benefits*, February 2012. http://www.protectstudentsandtaxpayers.org/wp-content/uploads/2015/01/CommitteeAnalysis_DoDDataonFor-ProfitsMilitaryBenefits_February2012.pdf

Tuition Assistance payments until the servicemember successfully completes the course. As the bankruptcy of both Corinthian and ITT Tech demonstrated, some for-profit schools face cash flow problems due to declining student enrollment or debt and they depend on timely Title IV payments.

Second, it is clear that some proportion of the stipends paid by the Montgomery GI Bill, the Survivors and Dependents Educational Assistance Program, the Reserve Educational Assistance Program, and the MyCAA program are used to cover tuition and end up on the balance sheets of for-profit schools. The Education Department should not discount these VA and DOD educational benefits entirely when calculating for-profit schools' dependence on federal revenue.

Conclusion

With the release of ED's estimates on for-profit schools' revenue from all federal dollars, it has become clear that the sector's dependence on revenue from VA and DOD educational benefits has grown significantly, and more so if the full array of VA and DOD education programs were to be counted, including the Montgomery GI Bill, Survivors and Dependents Education Assistance, Reserve Education Assistance, and Military Spouse Career Advancement Accounts. All of these educational benefits programs were excluded in ED's analysis. For-profit schools' dependence on revenue from VA and DOD education programs underscores the importance of closing the 90/10 loophole.

For several years, the media has reported on the decline in for-profit enrollment. Missing in these articles are data on a key subset of students who are specifically targeted by for-profits: military-connected students using their VA and DOD benefits. Our comparison of ED estimates for FY 2011-12 and FY 2013-14, provides important insights on military benefit enrollment trends over this time period: for-profit schools have partially offset decreased Title IV revenue with increased revenue from VA + DOD programs. In short, the data suggest that enrollment *decreases* among all students have been offset by enrollment *increases* among servicemembers and GI Bill beneficiaries. We believe that ED's continued monitoring of for-profit schools' revenue from Title IV + VA + DOD educational benefits is critical because the 90/10 loophole provides an implicit incentive to use aggressive and misleading recruiting to enroll veterans and servicemembers.

APPENDIX I

State Attorneys General and Federal Agency Settlements with Schools

School	Agency	Settlement date	Settlement amount	Findings
Alta *(Westwood College)*	CO-AG	March 2012	$4.5 million	Provided misleading information to students on job placement rates, tuition, and transferability of credits. Veterans were falsely told that their GI Bill benefits would cover the cost of tuition.[a]
Alta *(Westwood College)*	IL-AG	Nov. 2015	$15 million	Misrepresented costs and employment opportunities in its criminal justice program.[b]
Ashworth	FTC	May 2015	$11 million[c]	Many programs did not meet state licensure requirements for those professions, including teachers and massage therapists, and the claims made about credit transfers were often not true.[d]
ATI	Justice	Aug. 2013	$3.7 million	Misleading recruiting practices at campuses in Texas and several other states.[e]
Bridgepoint *(Ashford College)*	IA-AG	May 2014	$7.5 million	Misleading recruiting practices.[f]
Bridgepoint *(Ashford College)*	CFPB	Sept. 2016	$31.5 million	Misleading private student loan interest rates[g]
Career Education Corporation *(Sanford Brown, Briarcliff, American Continental University, Colorado Technical University)*	NY-AG	Aug. 2013	$10.25 million	Significantly inflated job placement rates and provided misleading information about credit transfers.[h]
DeVry	FTC	Dec. 2016	$100 million	Misled prospective students with ads that touted high employment success rates and income levels upon graduation[i]
DeVry	NY-AG	Jan. 2017	$2.75 million	Misled prospective students about post-graduation salaries and the likelihood of finding a job.[j]
DeVry	MA-AG	July 2017	$455,000	Mislead prospective students with deceptive claim that 90 percent of its graduates were employed in their field within 6 months of earning a degree.[k]
EDMC *(Argosy)*	CO-AG	Dec. 2013	$3.3 million	Falsely claimed that PhD graduates could become licensed clinical psychologists

				even though its program was not accredited by the American Psychological Association.[l]
EDMC *(Art Institute)*	SF City Attorney	June 2014	$4.4 million	Used illegal marketing practices, including providing misleading data on placement rates, actual or average salaries, and graduation/completion rates[m]
EDMC	Justice	Nov. 2015	$95.5 million	Violated the Dept. of Education incentive compensation regulations.[n]
EDMC	40 state AGs	Nov. 2015	$103 million	Used misleading and deceptive recruiting practices.[o]
Education Affiliates *(Fortis Institute and numerous other brands)*	Justice	June 2015	$13 million	Misrepresented job placement rates.[p]
Kaplan	FL-AG	June 2014		Misleading recruiting practices.[q]
	Justice	July 2015	$1.3 million	Used unqualified instructors who did not meet minimum Texas standards in its medical assisting program.[r]
Premier Education Group *(Salter College)*	MA-AG	Dec. 2014	$3.75 million	Misrepresented job placement rates and used deceptive enrollment tactics.[s]

Source: VES analysis of federal and state Attorneys General settlements with for-profit, chain-owned schools.

[a]http://www.denverpost.com/smart/ci_20172161/colorado-attorney-general-reaches-settlement-westwood-2-

[b]https://www.cfpbmonitor.com/wp-content/uploads/sites/5/2014/11/IL-AG-second-amended-complaint.pdf

[c]The $11 million fine was waived because of the school's inability to pay.

[d]https://www.ftc.gov/news-events/press-releases/2015/05/ashworth-college-settles-ftc-charges-it-misled-students-about

[e]http://www.justice.gov/opa/pr/2013/August/13-civ-953.html#sthash.fla0snpj.dpuf

[f]http://www.ashfordsettlement.com/faqs.html

[g]http://www.ag.ny.gov/press-release/ag-schneiderman-announces-groundbreaking-1025-million-dollar-settlement-profit

[h] http://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-takes-action-against-bridgepoint-education-inc-illegal-student-lending-practices/

[i]https://www.ftc.gov/news-events/press-releases/2016/12/devry-university-agrees-100-million-settlement-ftc

[j]http://www.nydailynews.com/new-york/education/devry-university-pay-2-75m-false-ads-article-1.2960072

[k]https://www.bostonglobe.com/metro/2017/07/05/devry-university-agrees-settlement-with-office/zpnTrXXjbHJBEbWtIeIpjO/story.html

[l]https://www.coloradoattorneygeneral.gov/press/news/2013/12/05/attorney_general_suthers_announces_consumer_protection_settlement_argosy_unive and http://www.bizjournals.com/denver/news/2013/12/05/argosy-university-pays-colorado-33m.html

[m]http://www.sfgate.com/bayarea/article/SF-wins-4-4M-settlement-with-for-profit-art-5559635.php

[n]http://www.justice.gov/opa/pr/profit-college-company-pay-955-million-settle-claims-illegal-recruiting-consumer-fraud-and

[o]http://kentucky.gov/Pages/Activity-Stream.aspx?viewMode=ViewDetailInNewPage&eventID=%7B15E27858-880A-4479-A5F6-B1966D22274F%7D&activityType=PressReleasej

[p]http://www.justice.gov/opa/pr/profit-education-company-pay-13-million-resolve-several-cases-alleging-submission-false

[q]The Florida AG entered into a voluntary assurance of compliance with Kaplan. http://myfloridalegal.com/webfiles.nsf/WF/JMEE-9L6QDA/$file/KaplanAVC.pdf#sthash.YDI8hEsG.dpuf

[r]http://www.justice.gov/usao-wdtx/pr/profit-college-kaplan-refund-federal-financial-aid-under-settlement-united-states

[s]http://www.mass.gov/ago/news-and-updates/press-releases/2014/2014-12-12-salter-college.html#sthash.fla0snpj.dpuf