Education Management Corporation

Summary: 2012 U.S. Senate Committee Findings + 2015 Update

Overview

- Education Management Corporation (EDMC), a publicly traded company, is one of the largest for-profit companies in the sector, operating under 5 brand names—Argosy, Brown Mackie, South University, Art Institutes, and Western State University College of Law
- Operates 107 campuses in 32 states plus an online division, offering Associate, Bachelor's, Certificate, Master's, and PhD's in media arts, health sciences, design, behavioral sciences, culinary, and business
- From 2001 to 2010, enrollment increased four-fold to about 158,000
- 3 private equity firms own a controlling interest in EDMC
- Cost of many programs is fairly substantial, and the company boasts some of the highest withdrawal rates of any company examined

Tuition

- Tuition for a Bachelor's Degree in Fashion and Retail Management at Art Institute of Pittsburgh is $94,765
- Associate's Degree in Web Design and Interactive Media at the Art Institute of Pittsburgh costs $47,410 but only $6,800 at a nearby community college
- School employees have raised concerns about tuition increases at Art Institute campus; one employee suggested that recently enrolled students would see the tuition increases as "bait and switch" and deceptive marketing about costs
- Because tuition increases forced some students to seek alternative financing in addition to federal student aid, EDMC created an institutional loan program with interest rates higher than federal loans; the loan program helped the school maintain compliance with the requirement that no more than 90% of a schools revenue could come from federal student aid
- Employed numerous other tactics to maintain compliance with the 90% cap on revenue from federal student aid, including delaying federal aid disbursements, requiring students to make cash payments, and offering scholarships that were purportedly not provided by EDMC but in fact were

Federal Revenue

- 80% of its revenue ($1.8 billion) was derived from federal student aid plus military and veterans educational benefits in 2010

Expenditure Priorities

- 21.6% ($435 million) of revenue allocated to marketing and recruiting and 15.9% ($319 million) to profit in 2009
- Paid CEO $1.8 million in 2009 – over twice as much as Penn State University System president
- Per student expenditures on instruction in 2009 totaled $3,460 but it spent $4,158 on marketing and $3,460 on profit; instruction expenditures were among the highest for publicly traded for-profits

Recruiting Tactics

- Prior to a 2011 federal, it had recruiting quotas that it pressured staff to meet; it offered prizes for meeting such quotas, such as paid vacations
- Former recruiter revealed training called for recruiters to "…find a weakness...take all that failure and all those bad decisions, and you spin it around and put it right back in their face as guilt…"
- Internal documents highlighted interest in recruiting military, veterans, and their spouses because their educational benefits helped reduce the extent of EDMC's reliance on revenue from federal student aid
- Standard enrollment agreement includes binding arbitration clause that prevents students from pursuing legal recourse over complaints

Academic Quality and Student Outcomes

- Its per student expenditure of $3,460 on instruction in 2009 was significantly less than the $16,507 spent by Penn State or the $38,974 spent by the University of Pennsylvania
- 71% of it faculty were part time in 2010, close to the industry average of 80% at the 30 schools surveyed; the high proportion of part time faculty raises questions about academic independence
- EDMC student withdrawal rates are the fourth highest of all companies examined, with 62.1% of students

withdrawing after a median of 4 months

- Student loan default rates increased from 11.7% for students entering repayment in 2005 to 16% in 2008, lower than rates at other for-profit schools surveyed; the default rate at some campuses, however, was as high as 33%
- Hired a contractor to help manage (lower) its default rate by encouraging those at risk of default to enter forbearance or deferment (during which interest continues to accrue), undermining the validity of the default rate indicator
- It employed 1 recruiter for every 28 students but each career counselor was responsible for 493 students and each student services staffer was responsible for 133 students
- Like recruiters, career counselors also had quotas and pressured students to sign documentation that they were employed in their field of study even though they were working as waiters or gas station attendants
- Several State Attorneys General are investigating EDMC for alleged financial aid misrepresentations, and deceptive practices regarding recruitment, enrollment, accreditation, and graduation rates

2015 Update

- According to a 2014 Senate HELP Committee report, 50% of its programs of study fail or at risk of failing the new 2014 Department of Education proposed Gainful Employment regulations
- The same report found that, from 2009 through 2013, it received $487 million in Post-9/11 benefits, the 3rd highest of any for-profit institution
- In January 2014, EDMC revealed it had received enquiries from 12 state attorneys general about its recruiting practices, job placement statistics, certification and licensing results for graduates, student lending activities, and other matters
- In June 2014, its California based Art Institutes reached a $4.4 million settlement with the City Attorney of San Francisco over allegations it had used illegal marketing practices that involved the provision of misleading data on placement rates, actual or average salaries, graduation and completion rates, etc.
- In December 2013, EDMC reached a $3.3 million settlement with the Colorado Attorney General's Office over allegations that it provided misleading information involving accreditation of its Argosy University psychology program and the ability of graduates to become licensed psychologists
- EDMCs New England Institute of Art received a civil investigative demand from the Massachusetts Attorney General regarding school practices with respect to marketing, advertising, job placement, student outcomes, recruitment, and financing