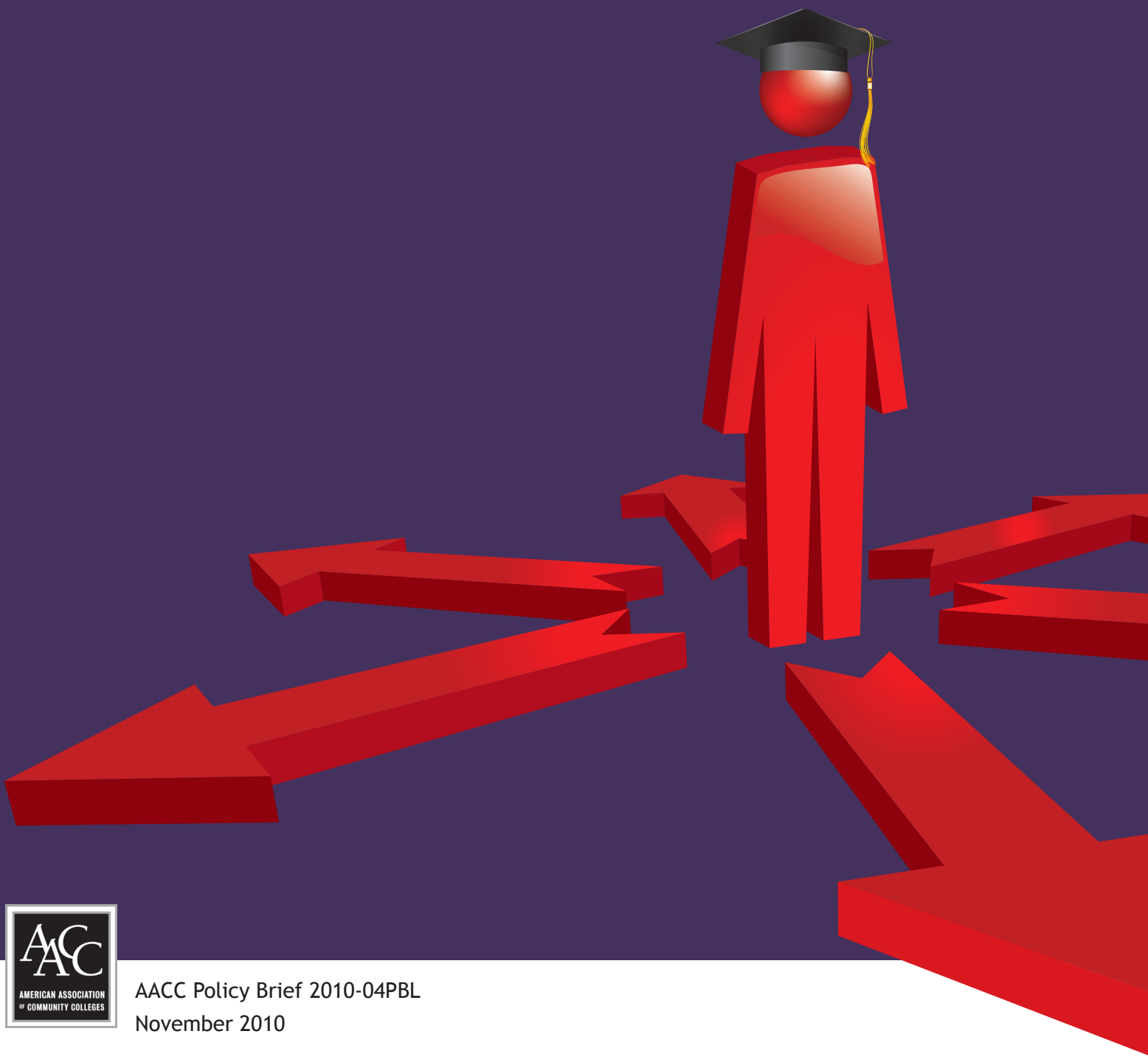


# Just How Similar?

## Community Colleges and the For-Profit Sector

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Christopher M. Mullin



AACC Policy Brief 2010-04PBL  
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I appreciate the input I received on earlier versions of the manuscript. I take responsibility for the final product, however; any errors are my own.

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# Just How Similar? Community Colleges and the For-Profit Sector

## EXECUTIVE SUMMARY

Whereas community colleges and for-profit institutions both provide postsecondary educational opportunities, they are different in a host of dimensions. This brief describes some of those differences—not to win a debate or suggest public policy, but to show why comparisons made between the community colleges and for-profit institutions are more limited than some may suggest.

This brief presents data for community colleges and, where possible, at each level (4-year, 2-year, less-than-2-year) of for-profit institutions to discuss distinctions that exist in terms of oversight, service, and financing. Some of the differences, but not all, are the following.

### Oversight

Community colleges are public institutions. They receive public funding and operate under the supervision of established public oversight entities to ensure they are responding to educational, workforce, and community needs.

For-profit institutions are owned by people or corporations. In the case of publicly traded companies, institutional managers operate from the guiding principle that they act as agents on behalf of those individuals they represent—that is, the shareholders.

### Service

Community colleges educate 44% of all undergraduates: 7.3 million students, roughly, were enrolled for credit in the fall of 2008. For-profit sector educated 1.5 million undergraduates. More than half of all Hispanic students and more than 40% of Black, Native American or Alaskan Native, and multiracial students choose to attend a community college.

About 89% of students at 2-year for-profit, 86% at less-than-2-year for-profit, and 73% at 4-year for-profit institutions enroll full time, compared with about 40% of students at community colleges. This fundamental difference in enrollment intensity, in addition to the many short-term programs offered at for-profit institutions, substantially increases for-profits' completion rates.

When transfer rates are included in graduation rate analyses, community colleges and 2-year for-profit institutions have completion rates of 40% and 61%, respectively. This differs substantially from the comparative rates often utilized in this context. Congress has recognized that federal graduation rates do not reflect success at 2-year institutions and has directed the U.S.

Department of Education to study the issue and amend the current calculations accordingly.

### Financing

Community colleges and for-profit institutions operate with the assistance of public funds. Community colleges are publicly funded by a partnership of federal, state, and, in some cases, local governments. They receive roughly 60% of their funding from state and local sources. In 2009–2010, \$7.5 billion of federal student aid was used to pay for education at for-profit institutions. Due to differences in accounting standards that treat federal student aid as tuition and fee revenue, this fact has been overlooked in comparative analysis that examines the amount of taxpayer support across sectors of higher education. Additionally, in 2009 77% of the revenues at the largest five for-profit publicly traded corporations came from Title IV programs.

All levels of for-profit institutions have tuition and fees significantly higher than those of community colleges, often requiring students to take out loans: Those of about 90% compared to just over 10%. For-profit institutions continue to have the highest default rates in higher education. The implications, especially on low-income students, of defaulting on loans are substantial, especially since student loans are not dischargeable in bankruptcy.

Some for-profit institutions make considerable profits, while community colleges are nonprofit public entities whose revenues are applied to providing program support. Sixteen companies with for-profit colleges investigated by the U.S. Senate Committee on Health, Education, Labor and Pensions were found to have made \$2.7 billion in profits in 2009. These profits could have funded the entire 2008–2009 state contribution to community systems in Florida, Illinois, Michigan, New York, and Ohio combined. Put another way, if those profits had been applied to community colleges, each student enrolled at a community college in fall 2009 could have received \$321—enough to pay for a three-credit course with nearly \$65 left over for books.

### Moving Forward

This brief examines some of the differences between community colleges and for-profit institutions. Although they have some similar educational offerings, these two sectors are far from being close kin.

# Just How Similar? Community Colleges and the For-Profit Sector

## Introduction

Community colleges have become frequent targets of the public relations and sponsored research arms of the for-profit college industry. To a limited extent, these attacks have diverted attention from a raft of government, media, and former student criticisms of the for-profit higher education industry. As the German military theorist Carl von Clausewitz put it, “the best defense is a good offense,” and this seems to part of the for-profit sector’s strategy.

Community college CEOs are put off at the thought of a distracting sideshow debate with for-profit colleges over the relative merits of the two sectors. First, it wastes limited resources. Second and more importantly, analysis of the sectors reveals more differences than similarities, including their educational offerings.

This policy brief examines some of the variables that differentiate community colleges from for-profit institutions—not to win a debate or to suggest public policies that might logically emanate from those differences, but to show why commonly drawn comparisons between community colleges and for-profit institutions are far less meaningful than some

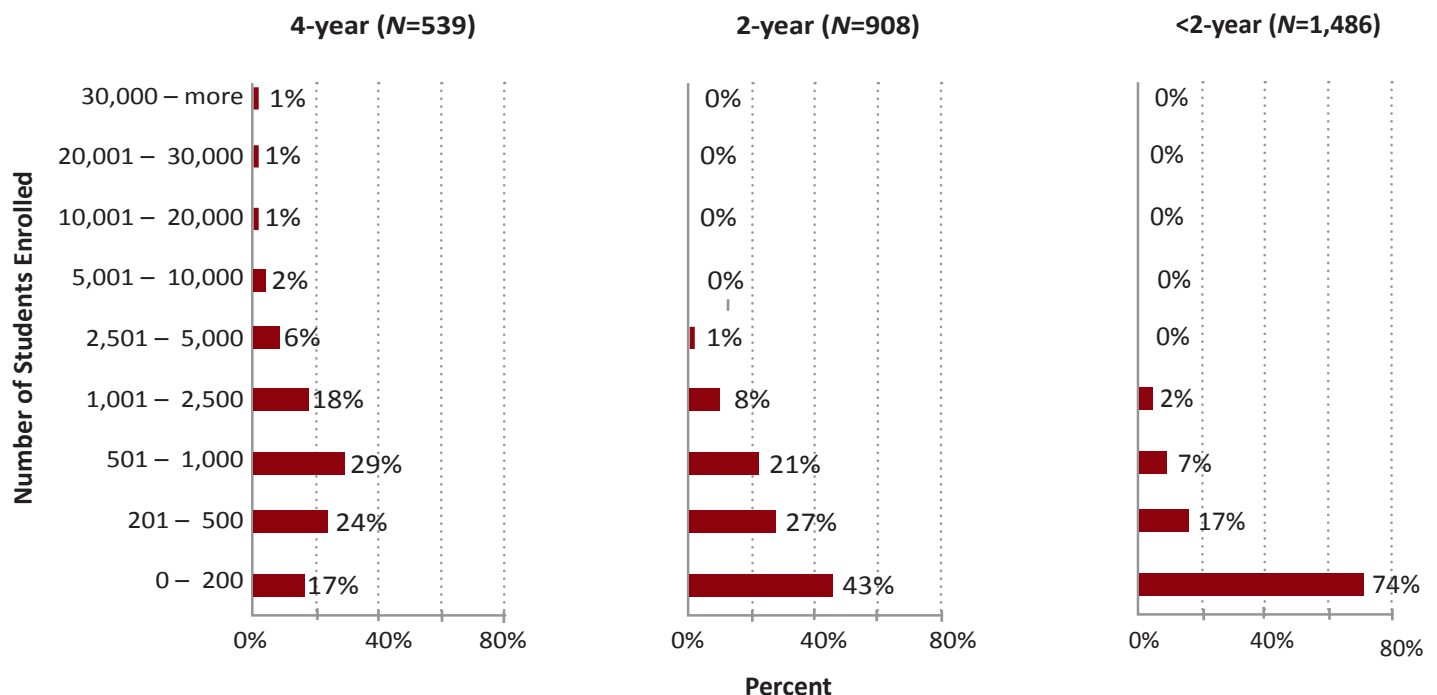
might suggest. The distinctions are drawn in terms of oversight, service, and financing.

## Classification

Often, for-profit institutions and community colleges are defined in ways that limit apples-to-apples comparisons. For starters, the for-profit sector represents “the full gamut of postsecondary education: from short-term certificate and diploma programs, to two- and four-year associate and baccalaureate degrees, to masters [sic] and doctoral programs” (Association of Private Sector Colleges and Universities [APSCU], 2010a). The classification of levels (4-year, 2-year, and less-than-2-year) is derived from definitions used by the National Center for Education Statistics (NCES), which catalogues institutions according to the types of programs offered (NCES, 2010a). To the extent possible, this brief will present data for all levels of education provided by for-profit institutions, with the for-profit, 2-year institutions being the most like public community colleges by definition.<sup>1</sup> As illustrated in Figure 1, there are three times as many for-profit less-than-2-year institutions (74% of which had enrollments fewer than 200 students) than 4-year institutions.

Figure 1

Percent distribution of degree granting for-profit institutions, by type of institution and enrollment size: Fall 2008. From NCES (2010c).



## Oversight

### Governance

Community colleges are governed by publicly elected or appointed boards of trustees. Governance structures vary significantly—some boards are local, others are at the state level, and some operate under both local and state control (Tollefson, Garrett, & Ingram, 1999). Also, in a few states community colleges and 4-year institutions operate under the same board. The unifying purpose of the governing boards is to ensure that an institution is meeting its mandated mission and responding to local educational, workforce, and community needs.

For-profit institutions have different governance structures. They are owned either by individuals, partnerships, or collaboratives or are corporations that may be publicly traded. In the case of large companies, members of the management team act as agents on behalf of the corporation with a guiding principle, “decisions should not be based on the needs and desires of the agents [institutional managers] but rather on the interests of those individuals whom the agents represent [shareholders]” (Halloran & Lanser, 1985, p. 5). The product provided—in this case, education—is necessarily secondary to the fundamental focus of the shareholders. This model of governance structure has become increasingly common in higher education. Publicly traded for-profit institutions have grown in size and prominence and begun to dominate the sector. In fact, 10 leading publicly traded for-profits enrolled 804,806 students, which equates to 50% of all for-profit students in the fall of 2008 (see Table 1).

### Accreditation

Accreditation plays an essential role throughout higher education. Because it is the primary means by which the federal government ensures a minimum level of quality in higher education, it has received enormous attention from policymakers. However, the public policy discussion of accreditation often loses sight of the fact that the regional accrediting agencies existed for more than 80 years before the enactment of the 1965 Higher Education Act (Harclerod, 1980) and that these agencies were designed for institutional self-evaluation and improvement, as well as to signal to other institutions that they shared common standards. Alternatively, the major accrediting associations dedicated to for-profit institutions were an outgrowth of the Higher Education Act of 1965 and a need for those colleges to qualify for aid.

## Service

### Who We Serve

Community colleges enroll the largest number of students of any sector of higher education. In fall 2008, credit enrollments in community colleges were 7.3 million students. This represents approximately 44% of all undergraduate students in higher education (including students at for-profit institutions) and does not include an estimated more than 6 million noncredit students (American Association of Community Colleges [AACC], 2010). For-profit institutions have witnessed substantial growth: As of

**Table 1**

**Fall 2008 Enrollments, by Publicly Traded Company Name and Institution Name**

| Publicly Traded Company Name    | Institution Name                             | Fall 2008 Enrollment |
|---------------------------------|----------------------------------------------|----------------------|
| Bridgepoint Education, Inc.     | Ashford University                           | 25,605               |
|                                 | University of the Rockies                    | 141                  |
| Apollo Group, Inc.              | University of Phoenix                        | 392,460              |
| ITT Educational Services, Inc.  | ITT Institutes                               | 60,890               |
|                                 | Daniel Webster College                       | —                    |
| Strayer Education, Inc.         | Strayer University                           | 45,491               |
| Career Education Corporation    | Colorado Technical University                | 30,480               |
|                                 | International Academy of Design & Technology | 9,134                |
|                                 | Le Courdon Bleu North America                | 4,305                |
|                                 | Sandford-Brown Institutes & Colleges         | 17,662               |
| Corinthian Colleges, Inc.       | Everest Colleges                             | 68,880               |
|                                 | Heald College                                | 10,367               |
|                                 | Wyo-Tech                                     | 6,168                |
| DeVry, Inc.                     | DeVry University                             | 61,021               |
|                                 | Keller Graduate School of Management         | —                    |
|                                 | Chamberlain College of Nursing               | 3,203                |
| Capella Education Company       | Capella University                           | 25,245               |
| Grand Canyon Education, Inc.    | Grand Canyon University                      | 22,025               |
| American Public Education, Inc. | American Public University                   | 21,729               |
|                                 | American Military University                 | —                    |
| <b>TOTAL</b>                    |                                              | <b>804,806</b>       |

Note. From NCES (2010c).

fall 2008, 1,566,410 undergraduate students were enrolled in credit-bearing courses: 942,306 at 4-year, 361,091 at 2-year, and 263,013 at less-than-2-year institutions (Knapp, Kelly-Reid, & Ginder, 2010). By comparison, for-profit institutions enrolled 334,070 undergraduate students in fall 1998 (Morgan, 2002).

Nearly 60% of all community college students are enrolled part time (see Figure 2), and approximately 84% of those students under the age of 24 work (Orozco & Cauthen, 2009). Encouraging more students to enroll and to work fewer hours while in college are two ways of increasing graduation rates (King, 2006). As Figure 2 makes clear, all levels of the for-profit sector primarily serve full-time students. This fact, and the large number of short-term in which students enroll, serves to substantially increase for-profit completion rates, a fact to be discussed later.



Community colleges serve the majority of underrepresented undergraduate students in the United States (see Table 2). This includes more than half of all Hispanic students and more than 40% of all American Indian, Alaskan Native, and Black students, as well as students who identify with more than one race. For-profit institutions also serve large percentages of underrepresented students, with some variance by level (i.e., 4-year, 2-year, and less-than-2-year institutions).

How We Serve

It is the institutional mission of community colleges that differentiates them most sharply from for-profit institutions. Community colleges are creations of their local publics and were

established to respond to that public's needs. A variety of funding and governance structures have been created to ensure that there is a tight fit between community and institutional priorities. For example, in Illinois, each of the 48 public community colleges is governed by a locally elected board of trustees and receives one third of its operating funds from local sources. Neighboring Indiana has a centralized community college system that receives no fiscal support from local tax appropriations.

Along with their local orientation, a hallmark of community colleges is their emphasis on serving all who have the need and desire to participate in postsecondary education (AACC, 2006; Gleazer, 1980). The institutions have evolved organically over time and typically offer an extraordinary range of programs through a variety of modalities, including, but not limited to, remedial education, English as a second language, career and technical education programs, traditional transfer programs, noncredit workforce training, and various permutations of these (Cohen & Brawer, 2008). The colleges also offer a range of nonacademic programs and services designed to benefit the community at large. It could be said that community colleges do not choose to offer programs but rather that needed programs essentially choose the colleges.

For-profit institutions have no public mandate to meet a defined set of articulated needs and therefore can offer programs as they like, with an eye on the bottom line. They have the advantage of being more specialized than community colleges, although there are some comprehensive for-profit institutions. Ideally, market forces work to ensure that these programs provide needed opportunities, but many observers believe there is erratic public oversight to ensure that this is the case.

The phenomenal increase in the growth of the for-profit industry has been driven by online education. To an increasing extent, for-profit higher education is distance education. This is especially true at large for-profit institutions such as the University of Phoenix or Colorado Technical University, where online enrollments constitute 77% and 85% of enrollments, respectively.<sup>2</sup> It is hard to imagine that brick-and-mortar campuses could have accommodated the tremendous increase in students in the past five years without providing a majority of those programs through distance education. This explosion was fostered through the elimination of the Higher Education Act's 50% rule in 2006. This legislation limited the percentage of an institution's programs that could be provided via distance education if the institution wanted to retain eligibility for federal student aid. The long-term implications of this change have yet to be seen, but they are clearly dramatic.

Outcomes of Service

The scope of this brief does not allow for a thorough discussion of the difference between completion outcomes at community colleges and for-profit institutions. However, a few points should be noted. First, the most accurate comparisons may be made in terms of subbaccalaureate completions. A recent study by the U.S. Department of Education (Horn & Li, 2009) depicts the current status of subbaccalaureate awards at 2-year institutions. In 2007, students at community colleges earned 852,133 subbaccalaureate awards: 60.5% of these awards were associate degrees, 23.0% were certificates less than a year in duration, 15.2% were awards 1 to 2 years in duration, and 1.2% were for programs longer than 2 years in duration. The magnitude and prevalence for programs of various

Figure 2  
Undergraduate enrollment at for-profit Title IV institutions and public 2-year institutions, by attendance status: Fall 2008.  
Adapted from Knapp et al. (2010, Table 1).

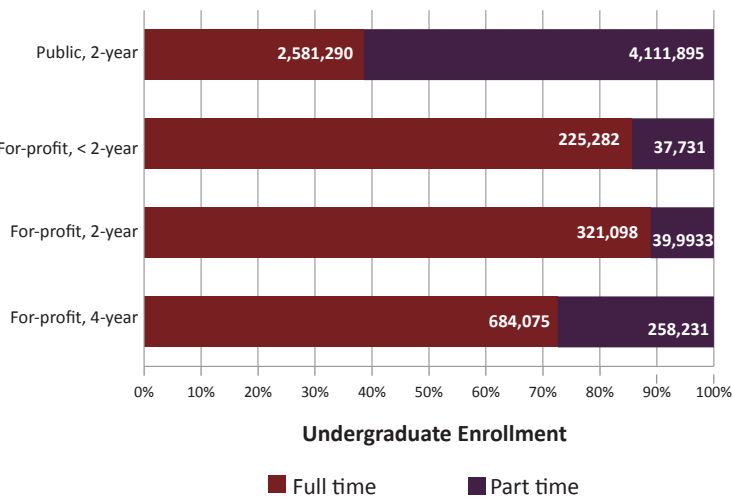


Table 2  
Undergraduate Enrollment at For-Profit Title IV Institutions and Public Two-Year Institutions, by Race/Ethnicity: Fall 2008

| Race/Ethnicity                               | Type of Institution |                   |                     |               | # of Undergraduates |
|----------------------------------------------|---------------------|-------------------|---------------------|---------------|---------------------|
|                                              | For-profit 4-year   | For-profit 2-year | For-profit < 2-year | Public 2-year |                     |
| American Indian, Alaskan Native              | 4.8%                | 2.0%              | 0.9%                | 45.5%         | 169,471             |
| Asian, Native Hawai'ian, or Pacific Islander | 0.0%                | 0.2%              | 0.2%                | 7.0%          | 1,014,690           |
| Black or African American                    | 8.7%                | 3.9%              | 3.2%                | 40.4%         | 2,201,165           |
| Hispanic                                     | 4.6%                | 2.9%              | 3.0%                | 51.4%         | 2,041,453           |
| White                                        | 3.9%                | 1.7%              | 1.0%                | 38.0%         | 9,763,242           |
| Two or more                                  | 3.2%                | 6.5%              | 5.2%                | 47.3%         | 15,640              |
| Unknown                                      | 18.0%               | 2.9%              | 1.9%                | 33.9%         | 1,268,117           |
| Nonresident alien                            | 4.6%                | 0.4%              | 0.8%                | 28.2%         | 363,509             |

Note. Due to how data are organized by NCES, community colleges offering bachelor's degrees are not counted in this analysis. Adapted from Knapp et al. (2010, Table 1).

subbaccalaureate awards at for-profit institutions are quantified in Table 3. Two-year for-profit colleges primarily award certificates.

Second, it is widely acknowledged that the federal graduation rate applied to two-year public colleges does not capture the true performance of community colleges. For example, graduation rates for certificate and degree-seeking students are 22% at community colleges and 59.7% at for-profit, 2-year institutions (see Table 4). However, these rates exclude reported transfer rates, which, when included, result in completion rates of 40% and 61% respectively. Further, when looking at the data, it is clear that success at for-profit 2-year institutions comes primarily from programs less than 2 years in length. In the words of Miller (2010), “to belittle their [community college] graduation figures through a comparison to much shorter credentials is misleading. It’s like comparing

runner times in a 10K to those in a 5K and then declaring the latter group much faster.” Fortunately, the U.S. Department of Education (2010) is now undertaking a review of this rate, as mandated by the Higher Education Opportunity Act of 2008. In collaboration with their public and private partners, community colleges are rebalancing their mission to increase their focus on completion (Mullin, 2010b). Given the academic preparedness of the students they attempt to teach—roughly 60% of all community college students need remediation—a number of innovative practices such as the Do Math! program at Chattanooga State College, the I-BEST program in Washington State, and the Achieving the Dream initiative are making strides to improve student success. AACC is leading an effort to recognize student and institutional success, which is neither easily nor historically quantified, through the Voluntary Framework of Accountability.

**Table 3**  
**Subbaccalaureate Awards Conferred by Select Title IV Postsecondary Institutions in 2007**

| Awards Conferred                    | Community Colleges |       | For-Profit |       |         |       |         |       |
|-------------------------------------|--------------------|-------|------------|-------|---------|-------|---------|-------|
|                                     |                    |       | 4-year     |       | 2-year  |       | <2-year |       |
|                                     | #                  | %     | #          | %     | #       | %     | #       | %     |
| Associate degrees                   | 515,231            | 60.5% | 58,378     | 79.2% | 59,372  | 35.8% | 0       | 0%    |
| Certificates: < 1-year programs     | 196,687            | 23.1% | 6,181      | 8.4%  | 36,548  | 22.1% | 100,557 | 54.8% |
| Certificates: 1- to 2-year programs | 129,818            | 15.2% | 8,912      | 12.1% | 55,567  | 33.5% | 82,680  | 45.1% |
| Certificates: 2- to 4-year programs | 10,397             | 1.2%  | 282        | .4%   | 14,161  | 8.5%  | 314     | .2%   |
| Total awards                        | 852,133            | 100%  | 73,753     | 100%  | 165,648 | 100%  | 183,551 | 100%  |

Note. Numbers may not total 100% due to rounding. Adapted from Horn and Li (2009, Table 2).

**Table 4**  
**Graduation, Transfer-Out, and Completion Rates of Degree/Certificate-Seeking Students at Community Colleges and For-Profit, 2-Year Institutions**

| Student Outcome                       | Community College | For-profit, 2-year |
|---------------------------------------|-------------------|--------------------|
| Graduation rate (within 150% of time) | 22.1%             | 59.7%              |
| <2 year programs                      | 6.3%              | 51.8%              |
| 2- to 4-year programs                 | 15.8%             | 7.9%               |
| Transfer-out rate                     | 17.8%             | 0.9%               |
| Completion Rate                       | 39.9%             | 60.6%              |

Note. Due to how data are organized by NCES, community colleges offering bachelor’s degrees are not counted in this analysis. From NCES (2010d).

For-profit institutions at all levels have used a variety of approaches to maximize completion. Students may be encouraged to enroll full time and may enter into contracts with the institutions, giving them a strong incentive to complete their studies. At some for-profit institutions, students enroll in programs, not courses, which limit their academic options. Practices such as these have positive impacts on completion.

Some of the larger for-profit institutions are also providing postentry enrollment, allowing students to attend the institution for a specified initial period before committing to the institution. This action probably will increase completion rates. Research at Rio Salado College (a community college in Arizona engaged completely in online education) has shown that an institution can use predictive modeling to determine within the first few weeks if a student is likely to pass or fail the course based on certain predictors (Kolowich, 2009; Lange & Smith, 2010).

Financing

It is not easy to compare overall funding between public, private nonprofit, and for-profit institutions. This is due largely to the fact that institutional sectors report data to the U.S. Department of Education using the different accounting standards of either the Governmental Accounting Standards Board or the Financial Accounting Standards Board. Understanding this difference is of utmost importance when making comparative analyses and discussing the financing of higher education.

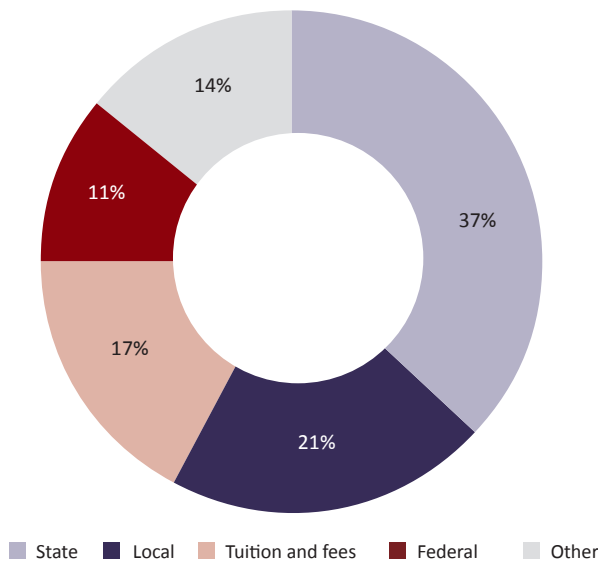
Public Revenues

Both community colleges and for-profit institutions receive revenues from public sources, but those revenues are accounted for differently. Community colleges are funded from a variety of sources, including private funds (see Figure 3), but they are fundamentally public institutions, which carries with it a huge edifice of public oversight and accountability that for-profit institutions do not have. In 2008–2009, it is estimated that community colleges received roughly \$16.2 billion in state tax appropriations and \$8.5 billion in local support (Palmer, 2010).



**Figure 3**

**Revenue sources for community colleges. These are only averages; revenue streams vary tremendously across institutions and, particularly, across states. From AACC (2010).**



In total, they received 27% of all public support provided to higher education, while serving nearly half of all undergraduates (Mullin, 2010a).

Due to differences in how publicly funded student financial aid is classified for accounting purposes, public revenues at for-profits institutions are difficult to identify. One reason is that taxpayer-supported student financial aid may be counted as tuition and fee revenue. I rely on the U.S. Department of Education for clarification:

Different institutions may classify certain funds differently as a scholarship or fellowship or as a pass-through. One common area of differences is Pell grants. Private institutions (and a few public institutions) operate under accounting standards adopted by the Financial Accounting Standards Board (FASB). The vast majority of public institutions use accounting standards adopted by the Governmental Accounting Standards Board (GASB). Public institutions using current GASB accounting standards are required to treat Pell grants as scholarships, using the logic that the institution is involved in the administration of the program (as evidenced by the administrative allowance paid to the institution). *FASB standards give private institutions the option to treat Pell grants as scholarships or as pass-through transactions, using the logic that the federal government determines who is eligible for the grant, not the institution.* Because of this difference in requirements, public institutions will report Pell grants as federal revenues and as allowances (reducing tuition revenues), whereas FASB institutions may do this as well or (as seems to be the majority) treat Pell grants as pass-through transactions. *The result is that in the case where a FASB institution and GASB institution each receive the same amount of Pell grants on behalf of their students, the GASB institution will appear to have less tuition and more federal revenues, whereas the FASB institution treating Pell as pass-through will appear to have more tuition and less federal revenues [emphasis added].* (NCES, 2010b)

This difference is critically important. A widely distributed study commissioned by The Coalition for Educational Success (a group including leading for-profit institutions; see Cornell & Cheng, 2010) attempted to determine the total costs to taxpayers by sector. In the study, government funding was defined as including “all financial funding provided by the federal, state and local governments” (Cornell & Cheng, p. 2); however, the analysis did not include all \$7.5 billion in federal student financial aid funds students received to pay for attendance at for-profit institutions, such as the Pell Grant (\$7.3 billion in 2009–2010 from the Pell Grant program and an additional \$234.5 million from other grant programs).<sup>3</sup> This is due to the fact that these funds are considered tuition and fee revenue in accounting practices at for-profit institutions and not as separate government funding. As a result of this technicality, the calculation of taxpayer contributions and the results of the analysis related to taxpayer expense were misleading. For-profit institutions do receive some public funds not related to student financial aid; however, the importance of federal student financial aid funds to for-profit institutions is more clearly described in the next section.

### Tuition and Fees

Community colleges continue to offer the lowest tuition in higher education as a basic part of their access strategy. According to the College Board (2010b), as of fall 2010, the average tuition for a full-time, full-year community college student was \$2,713. Community college tuition and fees regularly spike upwards when public funding is reduced, and for the 2010–2011 academic year, in the midst of devastating budget cuts across the country, community college tuitions rose by 6%. In real terms, the dollar increase was slightly more than \$15 per course, or \$155 for an academic year.

For-profit schools have substantially higher tuitions than do community colleges. In fall 2010, according to the College Board (2010b), the average tuition at a for-profit school was \$13,395.<sup>4</sup> Over time, the average tuition at a for-profit institution has been about six times higher than the average community college tuition and roughly twice the average tuition at public 4-year institutions. This fact is curiously unrecognized, given the enormous public anxiety over affordability and college costs (Immerwahr, Johnson, Ott, & Rockkind, 2010).

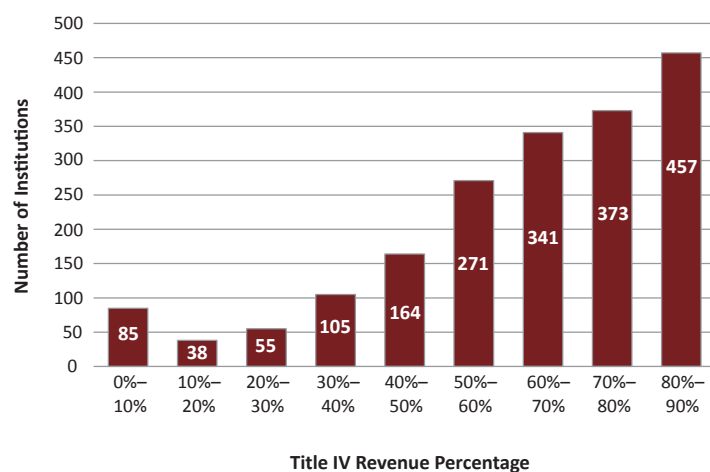
For-profit institutions are heavily dependent on tuition. This tuition is overwhelmingly paid for by the federal Title IV student aid programs. Of the 1,889 for-profit institutions that received Title IV revenue, 62% received more than 60% of revenues from Title IV programs (see Figure 4). At the largest five for-profit publicly traded corporations, 77% of their revenues came from Title IV programs (U.S. Senate, 2010a). This reliance on Title IV funds is so extreme that a top—if not the top—public policy priority of for-profit institutions has been eliminating or at least weakening the current federal requirement that 10% of the revenues of for-profit institutions come from sources other than Title IV programs (APSCU, 2010b).

### Student Aid

More than 3 million Pell Grant recipients will attend community colleges in the 2010–2011 award year, receiving close to 35% of all program funds (Federal Student Aid, 2010d). In keeping with the astonishing growth of their numbers, for-profit students now

**Figure 4**

**Proprietary school 90/10 revenue percentages from financial statements with FY ending dates between July 1, 2007, and June 30, 2008. Adapted from Madzelan (2010).**



receive 25% of all Pell Grant funds, a number that continues to grow (Federal Student Aid, 2010d). A much higher percentage of proprietary school students receive Pell Grants than do students at community colleges, a result both of lower incomes and higher application rates (Kantrowitz, 2009). The relatively low application rate for federal aid by community college students is regrettable, a reality AACC is working to change (College Board, 2010a). Community college students and for-profit students receive relatively small amounts of the campus-based program funds (federal work-study, Supplemental Educational Opportunity Grants, and Perkins Loans), because allocation formulas are biased against institutions that did not begin participation in the programs' early years (Wolanin, 1998).

### Student Loans and Loan Defaults

As has been widely reported, for-profit students take on the highest debts in higher education, which is necessary given the high tuitions and low incomes of their students. According to the latest data available (NCES, 2009a), 57% of bachelor's degree earners at for-profit colleges had debts at graduation of more than \$30,000—far more than students attending independent colleges, even though tuitions at those colleges are much higher. This is partially because the nation's nonprofit, private colleges provide massive amounts of their own student aid. Institutional aid at these colleges, for the lowest-income students, ranged between 61% and 79% of total tuition and fees (College Board, 2009). Only 10% of community colleges students took out federal loans in 2007–2008, compared with 88% at for-profit institutions (College Board, 2009).

In addition to having the highest percentage of students relying on loans to finance their education, for-profit institutions have the highest default rates in all of postsecondary education. The most recent cohort default rates, for FY 2008, show a 10.1% default rate at 2- to 3-year public institutions, compared with 12.6% at 2- to 3-year for-profit schools (see Table 5). Lifetime default rates are much higher (Federal Student Aid, 2009).

**Table 5**

#### Student Loan Default Rates: FY 2008

| Institution Type  | # of Schools | Borrower Default Rate | # of Borrowers Defaulted | # of Borrowers Entered Repayment |
|-------------------|--------------|-----------------------|--------------------------|----------------------------------|
| <b>Public</b>     | <b>1,618</b> | <b>6.0%</b>           | <b>104,292</b>           | <b>1,720,664</b>                 |
| 2–3 years         | 848          | 10.1%                 | 49,331                   | 487,436                          |
| <b>For-profit</b> | <b>2,118</b> | <b>11.6%</b>          | <b>103,764</b>           | <b>889,034</b>                   |
| < 2-years         | 1,105        | 12.4%                 | 15,418                   | 123,454                          |
| 2–3 years         | 723          | 12.6%                 | 34,538                   | 272,215                          |
| 4+ years          | 290          | 10.9%                 | 53,808                   | 493,365                          |

Note. Adapted from Federal Student Aid (2010a).

In the FY 2008 cohort, 103,764 for-profit students defaulted on their federal loans—these defaults were just 500 fewer than the student loan defaults in all of U.S. public higher education, while they represented fewer than one fifth the number of students (see Figure 5). One finds similar results when comparing community colleges with for-profit 2-year institutions, except that for-profit 2-year institutions serve just over one 20th the number of students.

It has been argued that student loans are not a net loss to taxpayers.<sup>5</sup> This is a very short-sighted way of looking at student defaults. Student loans are not dischargeable through bankruptcy, the defaulter may have to pay additional collection costs, 15% of the defaulter's disposable income may be garnished, legal action and associated costs of lawyers may have to be paid, and the defaulter's credit rating will suffer dramatically, making it less likely for that person to obtain favorable financial terms in the future (Federal Student Aid, 2010b). Furthermore, receiving additional federal student aid is generally impossible. Research has shown that, unfortunately, default rates are much higher for Black and Hispanic students than they are for White students (Dillon, 2007).

### Profits

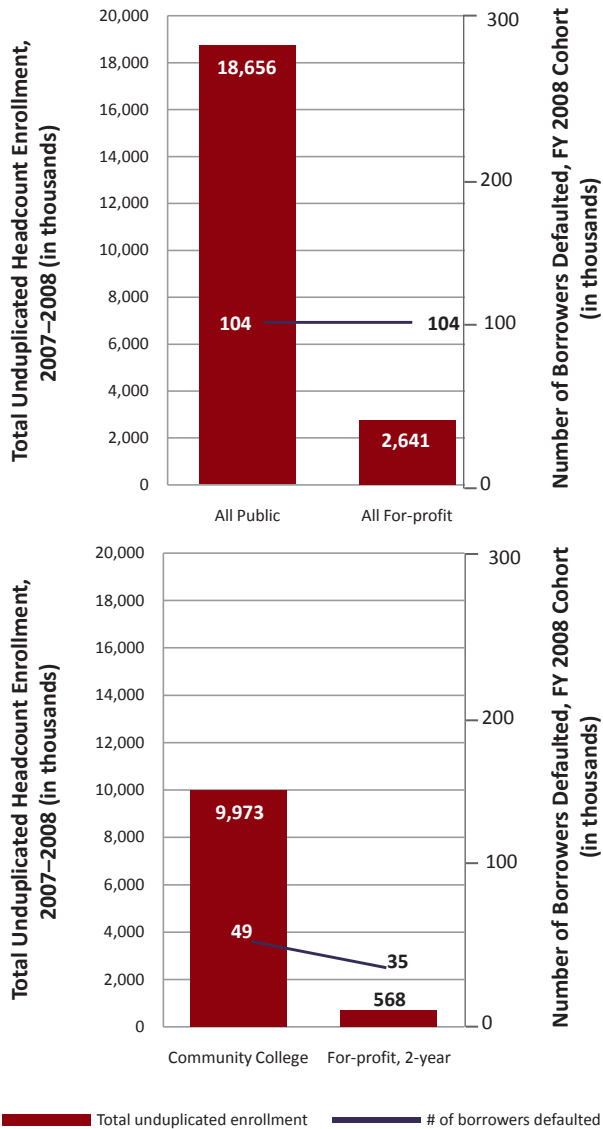
Community colleges are nonprofit institutions and, therefore, by law, must be devoted to a public purpose. Any revenues that exceed expenditures are retained to provide future services. As discussed previously, for-profit colleges must generate profits for their owners. A study of 16 companies by the U.S. Senate Committee on Health, Education, Labor and Pensions (2010b) revealed profits of \$2.7 billion in 2009. The profits amassed by these 16 companies could have funded the entire 2008–2009 state share of community college systems in Florida, Illinois, Michigan, New York, and Ohio combined (Palmer, 2010). They could have provided \$321 in funding for each and every student who enrolled in a community college in fall 2009.<sup>6</sup> To put it another way, if those profits had been applied to community colleges, every student enrolled at a community college could have received one free course with nearly \$65 left over for books.<sup>7</sup>

### Advertising

In an informal survey of large urban campuses, AACC found that community colleges spend less than 3% of their revenues on advertising and recruiting.<sup>8</sup> This low amount is partially due to

Figure 5

Total unduplicated headcount and total number of borrowers defaulting, by control and level. Adapted from Federal Student Aid (2009) and NCES (2009b).



their serving the local area and generally being well known in their communities. However, since most community colleges are funded at least partially on the basis of enrollment (Mullin & Honeyman, 2007), they have an interest in ensuring that there is consistency and usually modest growth with regard to enrollment numbers.

For-profit institutions have a direct financial incentive in ever-increasing enrollments, assuming they can accommodate a greater number of students, which becomes easier as online education becomes the norm. The laws of the stock market generally compel publicly traded companies to continually expand. As a result, continuous and prominent advertising is a top priority of for-profit colleges. According to one study, 31% of expenditures were directed toward recruiting and marketing (U.S. Senate, 2010a).

For the purposes of integrated postsecondary education data system (IPEDS) accounting, public relations expenditures are included in the institutional support category. When presented by NCES (Snyder & Dillow, 2010), institutional support is aggregated with student services (which includes expenses for admissions) and academic support to reflect 67% of expenses at 4-year for-profit institutions and 56% at 2-year for-profit institutions in 2006–2007. Because of this, comparing this funding to that of public institutions is really comparing apples to oranges.

## Moving Forward

This brief described some of the differences between community colleges and for-profit institutions. As this document shows, although the for-profit sector and community colleges both provide educational opportunities, some of them similar, the colleges are far from close kin.

# Notes and References

## Notes

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<sup>1</sup> It is also important to note that some community colleges offer a 4-year degree program and are classified by NCES as 4-year institutions. Aside from instances where AACC is cited as the source, data for community colleges are representative of public 2-year institutions as defined by NCES (2010a).

<sup>2</sup> AACC analysis of NCES (2010c).

<sup>3</sup> Including \$16.7 million in academic competitiveness grants, \$26.2 million in SMART grants, \$5.8 million in TEACH grants, \$58.6 million in federal work-study, and \$127.2 million in state educational opportunity grants funds for a grand total of \$234.5 million in 2009–2010 (see Federal Student Aid, 2010c, 2010d). The numbers expressed here are for 2009–2010; the analysis by Cornell and Cheng was conducted with 2007–2008 data.

<sup>4</sup> College Board data are utilized here, because they are the most current. Unfortunately, for-profit tuition and fee rates are not disaggregated by level. According to NCES (2010e), in 2009–2010, tuition and fees were \$15,574 at for-profit 4-year institutions, \$14,088 at for-profit 2-year institutions, \$11,177 at for-profit less-than-2-year institutions, and \$2,955 at community colleges.

<sup>5</sup> Cornell and Cheng (2010) suggested that the federal government fully recovers the loan principal and an extra \$0.11 in interest for every dollar loaned in the direct loan program.

<sup>6</sup> AACC estimates 8.4 million students.

<sup>7</sup> Average academic year tuition and fees equaled \$2,544 (College Board, 2009). This amount divided by 30 (number of credits for full-time) equals \$84.80 a credit. One three-credit course would then cost \$254.40, leaving nearly \$65 for books.

<sup>8</sup> Statistic derived from an informal survey of 12 campuses, July and August 2010.

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