Maryland Consumer Rights Coalition

For-Profit School Reform in Maryland – 2019

I.) Nonprofit/For-Profit School Bogus Conversions (HB 461/SB 400)

The Problem:

In recent years, for-profit colleges and career schools have come under scrutiny for poor student outcomes and high debt for graduates relative to earnings.

In 2016, the Maryland Consumer Rights Coalition released a research report called *Making the Grade: an Analysis of For-Profit Colleges and Career Schools in Maryland*.[1] Our report found:

- For-profit schools cost three to five times more, on average, than their public counterparts. For example, the report found that, on average, Maryland students pay $3,786.35 for a public school's Pharmacy Technician program and $15,813 at a similar for-profit school program.
- Only 33% of students pursuing bachelor's degrees at for-profits reached graduation.
- Only 58% of students in for-profit schools in Maryland who managed to graduate found employment.
- In Maryland, of the total number of African-Americans enrolled in post-secondary education, 62% were enrolled at for-profit and private career schools, even though African-Americans only comprise 30% of the population in Maryland. In communities where wealth building is most critical, predatory for-profit schools are building a legacy of debt.

In the past few years, Maryland has done a lot to protect students from predatory for-profit schools. In 2016 and 2018, legislation was passed (supported by MCRC) to create stronger regulations around for-profit schools and private career schools. Our legislation required stronger preenrollment disclosures for students (to better illustrate expected cost, post-graduation income outcomes, etc.), enforced more consumer protections for enrollees, and created a Guaranty Fund for defrauded students to recoup some of their tuition.

As states, like Maryland, begin to regulate for-profits, these schools are finding surreptitious ways to avoid adhering to the new laws and facing the bad reputation of their industry. One of the ways these schools are approaching this challenge is to change their tax status to nonprofit (since most state regulations only apply to for-profits). However, these "bogus" conversions usually do not change any of the bad behaviors of the schools, because they remain contracted with a for-profit entity with a financial stake in the school's performance.

As more and more schools take this route to avoid state regulations, advocates across the country are searching for ways to continue to protect learners at converted for-profit schools.

The Legislation – Addressing Nonprofit/For-Profit "Bogus Conversions"

The policy initiative we are proposing would change the definition of a "for-profit" and "nonprofit" school in Maryland. By reworking these definitions, Maryland make sure that all schools receiving the benefits of a nonprofit status do not have a financial stake in exploiting students through aggressive enrollment for high-cost programs.

[1] http://marylandconsumers.org/penn_station/folders/about/test_2/For-Profit_School_Report_-_for_website.pdf

Not only does this policy initiative protect all students and taxpayers, it has an especially large impact on women throughout our state. Because for-profit schools target vulnerable women and disproportionately affect women in general, bogus nonprofit conversions that allow predatory institutions to avoid state regulations lead to bad outcomes for female students throughout our state. By ensuring that nonprofit schools are truly not for profit, this legislation creates stronger protections for women trying to improve their lives through the promise of higher education and career training.

II.) The 90/10 Rule (HB 464/SB 399)

The Problem:

The 90-10 Rule is a federal law barring for-profit colleges from receiving more than 90% of their revenues from Department of Education Title IV federal student aid, which includes student loans and grants. It is modeled on the Department of Veterans Affairs' long-standing 85-15 Rule, which prohibits more than 85% of a program's students from receiving VA funding.

This rule is crucial to educational integrity because for-profit colleges should not be funded solely by federal taxpayers, and federal taxpayers should not be propping up low-quality schools. If a college offers a quality education at a competitive price, someone other than the federal government, such as employers, scholarship providers or students, will be willing to pay for attendance at the school. One publicly traded for-profit recently affirmed the significance of employer investment, calling it an "indicator of our educational quality."[2]

Since the rule was first enacted with strong bipartisan support in 1992 as the 85/15 Rule, Congress has watered down the rule to make it today's weak 90/10 Rule. And through a loophole, GI Bill funds, foster care youth vouchers, and Department of Defense (DoD) Tuition Assistance are counted as private dollars on the 10% side. This has put a dollar sign on the backs of veterans, service members, their families, and foster youth, and led unscrupulous for-profit colleges to aggressively and deceptively recruit veterans, service members, their families, and foster youth to enroll in high-priced, low-quality programs.

The Legislation:

In 2019, legislation will be introduced to create a state-level 85-15 rule for all non-SARA schools enrolling students in Maryland. We will clarify that the 15% of non-Title IV funds with which schools finance themselves do NOT include GI Bill Benefits, foster youth tuition vouchers, and DoD Tuition Assistance, so that schools are not incentivized to recruit veterans, service members, their families, and/or foster youth.

By returning to an 85-15 rule, we will also be disincentivizing predatory for-profit schools from specifically targeting low-income students and students of color who qualify for the most Title IV funds.

[2] Career Education Corp's second quarter 2014 earnings call. August 7, 2014. http://bit.ly/1zeWKBb.