Opening Statement
Chairman Tom Harkin
HELP Committee Hearing March 10, 2011

This is the Committee's fourth hearing focusing on the federal investment in for-profit higher education companies, and whether our $26 billion annual investment in this sector is a good value for students and taxpayers.

We have previously taken a look at specific aspects of this sector, including recruiting practices, placement, accreditation issues, student outcomes, and, most recently, the for-profit industry's targeting of veterans and GI educational benefits.

Today's hearing is our first opportunity to bring all of these pieces together with a case study of a single for-profit education company, Bridgepoint Education, Inc. This will give us a window into the key elements of the for-profit education business model, and the implications of that model for students and taxpayers.

Today's hearing will examine not only Bridgepoint, but also the regulatory environment that allowed a school of just 300 students to grow into big business with a student body of 78,000 students, capturing more than $600 million in federal subsidies annually.

All institutions of higher education that receive federal student aid are regulated by at least three distinct entities: the federal government, the state in which the institution operates, and an accrediting body recognized by the Secretary of Education. Together, these three bodies are referred to as "the triad," and are collectively tasked with ensuring that the schools are meeting basic guarantees of academic quality and fiscal soundness, and are complying with pertinent state and federal laws.

With us, today, are representatives from each of the three bodies with responsibility for regulatory oversight of Bridgepoint. On our first panel is Kathleen Tighe, the Inspector General of the Department of Education. The Department of Education enforces basic federal standards for schools that participate in the federal student aid programs. These standards range from prohibitions on paying recruiters on a per student basis, to prohibitions on having more than 30 percent of a school's loan recipients defaulting within three years of leaving college. The Inspector General's office recently found Bridgepoint in violation of several of these rules.

On our second panel, we will hear from Sylvia Manning, executive director of the Higher Learning Commission of the North Central Association of Colleges and

Schools – HLC, for short. HLC is the accreditor of Bridgepoint's two colleges: Ashford University and the University of the Rockies.

Institutions that want to receive federal student aid must be accredited by one of 19 organizations recognized by the Secretary of Education. Accreditors are private, non-profit organizations of schools that organize peer reviews of institutions of higher education, conducted by volunteers within its membership. The organizations are funded by membership fees.

The role of accreditors is to evaluate the academic quality of institutions of higher education. The process has existed for more than 100 years as a way to help colleges to improve their academic quality. For more than 50 years, the federal government has relied on the judgment of accreditors to ensure that schools eligible for taxpayer support meet minimum standards of quality.

The third part of the triad is state governments, which provide colleges with the legal authorization to operate within their borders. The state authorization role is very clear when it comes to public, state-run institutions like Iowa State. These institutions have public boards of trustees, receive large amounts of state dollars, and have corresponding state scrutiny. However, very few states provide serious scrutiny of for-profit colleges operating within their borders. Many allow these institutions to operate with only a basic business license. That is a missed opportunity for oversight because state regulators have the best knowledge of local communities and are closest to the for-profit institutions that have a significant impact on their citizens.

We will hear today from Arlie Willems, recently retired from the Iowa Department of Education, about her review of the Bridgepoint teaching programs.

Bridgepoint Education, Inc. is run by Andrew Clark. I had of course invited Mr. Clark here today to provide his company an opportunity to be part of the hearing, and had even moved the hearing date to accommodate concerns his company raised, but Mr. Clark has decided not to join us. I think he could have provided valuable perspective but I also think the story we will tell here stands on its own.

In 2005, Bridgepoint Education, Inc., a newly formed corporation, run by at least four executives formerly with the University of Phoenix, received seed money from Wall Street private equity giant Warburg Pincus. They used the money to purchase a regionally accredited but struggling religious school which had already been approved to offer some distance learning programs. The small religious non-profit school, Mount St. Clare College, of Clinton, Iowa, had an enrollment of just 332 students. Between 2005 and 2010, Bridgepoint grew enrollment into a 77,892-student behemoth, with 99 percent of students taking classes exclusively online. [CHART] Despite this radical reinvention as a giant, for-profit, overwhelmingly online institution, Bridgepoint – which is 65 percent owned by Warburg Pincus – prefers to market itself as a long-standing, traditional 4-year institution. It gave this description to US News and World Report: "Founded in 1918, Ashford University is committed to providing accessible, affordable, innovative, high quality degree programs to its campus, online, and accelerated students."

At the time of the purchase of Mount St. Clare College from the Sisters of St. Francis, Andrew Clark said: "Bridgepoint Education and the Sisters of St. Francis have much in common. We believe in quality academic training and in service to others." Quality academic training indeed. Maybe for a few students but not for many since this Committee's analysis of records provided by Bridgepoint, is that for students who enrolled in 2008-2009, as of September 2010, 84 percent of two-year students and 63 percent of four-year students had already dropped out of the school. Of the 48,797 students who enrolled, all but 16,208 had withdrawn by the summer of 2010. [2 CHARTS].

These dismal outcomes are deeply disturbing to me – and should be deeply disturbing to American taxpayers. But, remarkably, the withdrawal of nearly two-thirds of its students in less than two years doesn't seem to trouble Bridgepoint's executives in the least. Instead, they are basking in the applause of Wall Street for growing the company's student enrollment and increasing profits from $81 million in 2009 to $216 million in 2010. [CHART] In the world of for-profit higher education, spectacular business success is possible despite an equally spectacular record of student failure. [CHART].

Here's why Bridgepoint's record is a matter of necessary and urgent concern to this Committee: [CHART] In 2009, this company received 86.5 percent of its revenues directly from the federal government, including $4.15 million in military educational benefits, and not including an additional half a million from the state of Iowa. Bridgepoint is a private company, but it is almost entirely dependent upon *public* funds. The profits from this enterprise go into private pockets, but the losses are borne by the public – by students, who leave with a mountain of debt but no degree, and by taxpayers, whose investment is often squandered.

To understand how Bridgepoint has been able to grow so fast, let's take a look at how it spends the revenue brought in from various federal and state sources.

[CHART]. In 2010, Bridgepoint retained 30 percent of revenues as profit – that's $216 million, as we just saw. The company spent another 30 percent on selling and recruiting. That includes advertising, paying for names of prospective students, called "leads," and paying the salaries of the extensive staff of salespeople know as "enrollment advisors." That left just 40% of revenues for spending on everything else -- instructional expenses, student services, faculty salaries, administrative expenses, and of course executive compensation, which ate up another $36.7 million just to the top 5 executives! Meanwhile, students pay at least $46,000 for tuition and fees.

Of course if you don't actually provide much in the way of student services, the actual education piece doesn't cost your company very much. [CHART] As you can see, while Bridgepoint employs 1,703 recruitment sales staff, with plans to add at least 500 more this year, the company employs just one person charged with job placement for all 77,892 students. As Mr. Clark himself told an interviewer: "We don't provide them with job placement. They're using education to further their career within the company they are working for." This statement would come as a surprise to the many students at Bridgepoint who are unemployed or looking to enter a totally new field.

Given what we know about the withdrawal rates and the lack of quality education services, I guess it shouldn't come as a surprise to see what has happened to instructional costs per student as Bridgepoint has rapidly grown the student body at Ashford University. [CHART]

This is what Bridgepoint spends on "instruction" on a per student basis. As you can see it, went from $5,000 per student before the purchase of Mount St. Clare College to just $700 per student in 2009. [CHART] In fact, internal Bridgepoint documents show that spending on faculty costs alone plummeted from $1,133 per student in early 2007 to $377 at the end of $2008.

I asked Committee staff to compare this to per student spending at other Iowa schools. [CHART] Here are the comparisons with the University of Iowa, Iowa State University, and Kirkwood Community College for the same period. I think this chart speaks for itself.

As I said, last year, Bridgepoint's top five executives took home combined salaries of $36.7 million. The CEO, alone, received a salary of $20.5 million in 2009 – that's more than 20 times the compensation of the president of Harvard University. That would be just fine if Bridgepoint were not leaving in its wake tens of thousands of drop-outs burdened with a mountain of debt. It would be just fine if this company were not receiving more than 86 percent of its revenue from the American taxpayer.

But that is not the case. Data reviewed by this Committee paints a picture of a company – and perhaps an industry – that is premised on aggressively recruiting largely low-income, disadvantaged students . . . collecting their federal grants and loans even as the vast majority of students drop out . . . and lavishly rewarding executives and shareholders with mostly taxpayer dollars.

From a strictly business perspective, this is a highly successful model. But, I must say, from an educational perspective – and, frankly, from an ethical perspective – it is deeply disturbing model.

I would like to take this opportunity to introduce into the record a number of documents provided to the Committee by Bridgepoint and by the Higher Learning Commission that we will be using today. I'd also like to take this opportunity to introduce into the record over 700 student complaints received by Bridgepoint. We will hear more about these complaints later in the hearing but let me just say they paint a grim picture of the student experience at Ashford University.